NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2024 Proceedings of the

National Association of Insurance Commissioners

2024 Summer National Meeting
August 12–15, 2024

Held at the
Hyatt Regency McCormick Place
& McCormick Place Convention Center
Chicago, Illinois

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

The NAIC is the authoritative source for insurance industry information. Our expert solutions support the efforts of regulators, insurers and researchers by providing detailed and comprehensive insurance information. The NAIC offers a wide range of publications in the following categories:

Accounting & Reporting
Information about statutory accounting principles and the procedures necessary for filing financial annual statements and conducting risk-based capital calculations.

Consumer Information
Important answers to common questions about auto, home, health and life insurance — as well as buyer's guides on annuities, long-term care insurance and Medicare supplement plans.

Financial Regulation
Useful handbooks, compliance guides and reports on financial analysis, company licensing, state audit requirements and receiverships.

Legal
Comprehensive collection of NAIC model laws, regulations and guidelines; state laws on insurance topics; and other regulatory guidance on antifraud and consumer privacy.

Market Regulation
Regulatory and industry guidance on market-related issues, including antifraud, product filing requirements, producer licensing and market analysis.

NAIC Activities
NAIC member directories, in-depth reporting of state regulatory activities and official historical records of NAIC national meetings and other activities.

Special Studies
Studies, reports, handbooks and regulatory research conducted by NAIC members on a variety of insurance related topics.

Statistical Reports
Valuable and in-demand insurance industry-wide statistical data for various lines of business, including auto, home, health and life insurance.

Supplementary Products
Guidance manuals, handbooks, surveys and research on a wide variety of issues.

Capital Markets & Investment Analysis
Information regarding portfolio values and procedures for complying with NAIC reporting requirements.

White Papers
Relevant studies, guidance and NAIC policy positions on a variety of insurance topics.

For more information about NAIC publications, visit us at:

http://www.naic.org//prod_serv_home.htm

© 2024 National Association of Insurance Commissioners. All rights reserved.

ISBN: 978-1-64179-329-2

Printed in the United States of America

No part of this book may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or any storage or retrieval system, without written permission from the NAIC.

NAIC Executive Office
1101 K Street NW
Suite 650
Washington, DC 20005
202.471.3990

NAIC Central Office
1100 Walnut Street
Suite 1500
Kansas City, MO 64106
816.842.3600

NAIC Capital Markets
& Investment Analysis Office
One New York Plaza, Suite 4210
New York, NY 10004
212.398.9000

TABLE OF CONTENTS

Certificate of Incorporation of National Association of Insurance Commissioners—
A Nonstock Corporation i

Bylaws of the National Association of Insurance Commissioners v

NAIC Policy Statement on Open Meetings xvi

NAIC Committee Structure xvii

List of Appointed, Renamed, and Disbanded Committee Groups xix

NAIC Members by Zones xx

NAIC Executive (EX) Committee xxi

NAIC Committee, Subcommittee, and Task Force Membership xxii

NAIC Members by State c

NAIC Member Tenure List ci

NAIC Meeting Record cli

Model Law Listing clx

OPENING SESSION 1-1

SYNOPSIS 2-1

EXECUTIVE (EX) COMMITTEE AND PLENARY 3-1

EXECUTIVE (EX) COMMITTEE 4-1
- Climate and Resiliency (EX) Task Force 4-17
- Government Relations (EX) Leadership Council 4-23
- Special (EX) Committee on Race and Insurance 4-24

LIFE INSURANCE AND ANNUITIES (A) COMMITTEE 5-1
- Life Actuarial (A) Task Force 5-82

HEALTH INSURANCE AND MANAGED CARE (B) COMMITTEE 6-1
- Health Actuarial (B) Task Force 6-25
- Long-Term Care Insurance (B) Task Force 6-92
- Regulatory Framework (B) Task Force 6-162
- Senior Issues (B) Task Force 6-225

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE....7-1
Casualty Actuarial and Statistical (C) Task Force....7-63
Surplus Lines (C) Task Force....7-125
Title Insurance (C) Task Force....7-152
Workers' Compensation (C) Task Force....7-158

MARKET REGULATION AND CONSUMER AFFAIRS (D) COMMITTEE....8-1
Antifraud (D) Task Force....8-51
Market Information Systems (D) Task Force....8-57
Producer Licensing (D) Task Force....8-61

FINANCIAL CONDITION (E) COMMITTEE....9-1
Accounting Practices and Procedures (E) Task Force....9-135
Capital Adequacy (E) Task Force....9-526
Examination Oversight (E) Task Force....9-932
Financial Stability (E) Task Force....9-956
Receivership and Insolvency (E) Task Force....9-964
Reinsurance (E) Task Force....9-978
Risk Retention Group (E) Task Force....9-988
Valuation of Securities (E) Task Force....9-993

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE....10-1

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE....11-1

INNOVATION, CYBERSECURITY, AND TECHNOLOGY (H) COMMITTEE....12-1
Third-Party Data and Models (H) Task Force....12-63

NAIC/CONSUMER LIAISON COMMITTEE....13-1

CERTIFICATE OF INCORPORATION OF
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
a Nonstock Corporation

I. Name

The name of the Corporation is: **National Association of Insurance Commissioners** (NAIC).

II. Duration

The period of duration of the NAIC is perpetual.

III. Registered Office and Agent

The NAIC's Registered Office in the State of Delaware is to be located at: 1209 Orange St., in the City of Wilmington, Zip Code 19801. The registered agent in charge thereof is The Corporation Trust Company.

IV. Authority to Issue Stock

The NAIC shall have no authority to issue capital stock.

V. Incorporators

The name and address of the incorporator are as follows:

Catherine J. Weatherford
National Association of Insurance Commissioners
120 W. 12th St., Suite 1100
Kansas City, MO 64106

VI. Purpose

The NAIC is organized exclusively for charitable and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue law), including without limitation, to assist state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient and cost-effective manner, consistent with the wishes of its members:

(a) Protect the public interest, promote competitive markets and facilitate the fair and equitable treatment of insurance consumers.

(b) Promote, in the public interest, the reliability, solvency and financial solidity of insurance institutions.

(c) Support and improve state regulation of insurance.

VII. Restrictions

A. No substantial part of the activities of the Corporation shall be the carrying of propaganda, or otherwise attempting to influence legislation except as otherwise permitted by Section 501(h) of the Code and in any corresponding laws of the State of Delaware, and the Corporation shall not participate in or intervene

© 2024 National Association of Insurance Commissioners

in including the publishing or distribution of statements concerning any political campaign on behalf of or in opposition to any candidate for public office.

B. For any period for which the Corporation may be considered a private foundation, as defined in Section 509(a), the Corporation shall be subject to the following restrictions and prohibitions:

1. The Corporation shall not engage in any act of self-dealing as defined in section 4941(d) of the Code.

2. The Corporations shall make distributions for each taxable year at such time and in such manner so as not to become subject to the tax on undistributed income imposed by section 4942 of the Code.

3. The Corporation shall not retain any excess business holdings as defined in section 4943(c) of the Code.

4. The Corporation shall not make any investments in such manner as to subject it to tax under section 4944 of the Code.

5. The Corporation shall not make any taxable expenditures as defined in section 4945(d) of the Code.

VIII. Membership

The NAIC shall have one class of members consisting of the Commissioners, Directors, Superintendents, or other officials who by law are charged with the principal responsibility of supervising the business of insurance within each State, territory, or insular possession of the United States. Members only shall be eligible to hold office in and serve on the Executive Committee, Committees and Subcommittees of the NAIC. However, a member may be represented on a Committee or Subcommittee by the member's duly authorized representative as defined in the Bylaws. Only one official from each State, territory or insular possession shall be a member and each member shall be limited to one vote. Any insurance supervisory official of a foreign government or any subdivision thereof, which has been diplomatically recognized by the United States government, may attend and participate in all meetings of this Congress but shall not be a member and shall not have the power to vote.

IX. Activities

The NAIC is a nonprofit charitable and educational organization and no part of the net earnings or property for the corporation will inure to the benefit of, or be distributable to its members, directors, officers or other private individuals, except that the NAIC shall be authorized and empowered to pay reasonable compensation for services rendered by employees and contractors, and to make payments and distributions in furtherance of the purposes set forth in Article VI hereof.

X. Powers

The NAIC shall have all of the powers conferred by the Delaware General Corporation Law for non-profit corporations, except that, any other provision of the Certificate to the contrary notwithstanding, the NAIC shall neither have nor exercise any power, nor carry on any other activities not permitted: (a) by a corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue law); or (b) by a corporation contributions to which are deductible under Section 170(c)(2) of the Internal Revenue Code of 1986, as amended, (or the corresponding provision of any future United States Internal Revenue law).

© 2024 National Association of Insurance Commissioners

XI. Immunity

All officers and members of the Executive Committee shall be immune from personal liability for any civil damages arising from acts performed in their official capacity, and shall not be compensated for their services as an officer or member of the Executive Committee on a salary or a prorated equivalent basis. The immunity shall extend to such actions for which the member of the Executive Committee or officer would not otherwise be liable, but for the Executive Committee member's or officer's affiliation with the NAIC. This immunity shall not apply to intentional conduct, wanton or willful conduct or gross negligence. Nothing herein shall be construed to create or abolish an immunity in favor of the NAIC itself. Nothing herein shall be construed to abolish any immunities held by the state officials pursuant to their individual state's law.

XII. Exculpation and Indemnification

A member of the Executive Committee shall not be liable to the NAIC or its members for monetary damages for breach of fiduciary duty as a member of the Executive Committee, provided that this provision shall not eliminate or limit the liability of a member of the Executive Committee for any breach of the duty of loyalty to the NAIC or its members, for acts or omissions not in good faith, or which involve intentional misconduct or a knowing violation of law, or for any transaction from which the member of the Executive Committee involved derived an improper personal benefit. Any amendment, modification or repeal of the foregoing sentence shall not adversely affect any right or protection of a member of the Executive Committee of the Corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification, or repeal. If the Delaware General Corporation Law hereafter is amended to authorize the further elimination or limitation of the liability of the members of the Executive Committee, then the liability of a member of the Executive Committee, in addition to the limitation provided herein, shall be limited to the fullest extent permitted by the amended Delaware General Corporation Law.

The NAIC shall indemnify to the full extent authorized or permitted by the laws of the State of Delaware, as now in effect or as hereafter amended, any person made or threatened to be made a party to any threatened, pending or completed action, suit or proceeding (whether civil, criminal, administrative or investigative, including an action by or in the right of the NAIC) by reason of the fact that the person is or was a member of the Executive Committee, officer, member, committee member, employee or agent of the NAIC or serves any other enterprise as such at the request of the NAIC.

The foregoing right of indemnification shall not be deemed exclusive of any other rights to which such person may be entitled apart from this Article XII. The foregoing right of indemnification shall continue as to a person who has ceased to be a member of the Executive Committee, officer, member, committee member, employee or agent and shall inure to the benefit of the heirs, the executors and administrators of such a person.

XIII. Dissolution

In the event of the dissolution of the NAIC, the Executive Committee shall, after paying or making provision for the payment of all of the liabilities of the NAIC, dispose of all the assets of the NAIC equitably to any state government which is represented as a member of the NAIC at the time of dissolution, provided that the assets are distributed upon the condition that they be used primarily and effectively to implement the public purpose of the NAIC, or to one or more such organizations organized and operated exclusively for religious, charitable, education, scientific, or literary purposes or similar purposes as shall at the time qualify: (a) as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue law); and (b) as an organization contributions to which are deductible under Section 170(c) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue law), as the Executive Committee shall determine.

© 2024 National Association of Insurance Commissioners

XIV. Bylaws

The Bylaws of the NAIC may prescribe the powers and duties of the several officers, members of the Executive Committee and members and such rules as may be necessary for the work of the NAIC provided they are in conformity with the Certificate of Incorporation.

XV. Amendments

This Certificate of Incorporation may be altered or amended at any meeting of the full membership (Plenary Session) of the NAIC by an affirmative vote of two-thirds of the members qualified to vote, or their authorized representatives, provided that previous notice of the proposed amendment has been mailed to all members by direction of the Executive Committee at least thirty (30) days prior to the meeting.

IN WITNESS WHEREOF, this Certificate of Incorporation has been signed this 4th day of October 1999.

/signature/
Catherine J. Weatherford, Incorporator

ADOPTED 1999, Proc. Third Quarter

© 2024 National Association of Insurance Commissioners

Adopted October 1999 *Bylaws of the NAIC, a Delaware Non-Profit Corporation*
Amended November 2002
Amended June 2003
Amended March 2004
Amended December 2004
Amended March 2009
Amended September 2009
Amended October 2011
Amended December 2015
Amended December 2021

BYLAWS OF THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

ARTICLE I

Name, Organization and Location

The name of this corporation is **NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS** (NAIC). The NAIC is organized under the General Corporation Law of the State of Delaware. The NAIC may have one (1) or more office locations within or without the State of Delaware as the Executive Committee may from time to time determine.

ARTICLE II

Membership

The Membership of the NAIC shall be comprised of those persons designated as members in the Certificate of Incorporation. Each member of the NAIC shall have the power to vote and otherwise participate in the affairs of the NAIC as set forth herein or as required by applicable law. This power may be exercised through a duly authorized representative who shallbe a person officially affiliated with the member's department and who is wholly or principally employed by said department.

The organization may charge members an annual assessment, the amount of which shall be determined by the Executive Committee. Members failing to pay all NAIC assessments on a timely basis shall be placed in an inactive status. Members in an inactive status shall not have any voting rights and shall be denied membership on NAIC committees and task forces, accessto mailings and services of the NAIC Offices, as well as access to zone examination processes and other benefits of membership in the NAIC.

The NAIC's receipt of full payment from the inactive member of all current and past due assessments shall serve to immediately remove them from inactive status.

The Membership of the NAIC shall be subject to a conflict of interest policy and disclosure form as adopted by the members.

The Executive Committee is empowered to reinstate, in part or in whole, an inactive member's participation on the committees and task forces, access to mailings and services of the NAIC Offices and satellite offices, as well as access to zone examination processes, and other benefits of membership in the NAIC upon good cause shown as determined by the Executive Committee.

© 2024 National Association of Insurance Commissioners

ARTICLE III

Officers

The officers of the NAIC shall be a President, a President-Elect, a Vice President, and a Secretary-Treasurer. Annual officer elections shall be held at the last regular National Meeting of each calendar year or at such other plenary session as agreed to by the members. The voting membership, by secret ballot, shall elect officers as provided in these Bylaws. Officers' terms shall be for one year, beginning on January 1 following their election. The officers shall hold office until their death, resignation, removal or the election and qualification of their successors, whichever occurs first. Any Officer may resign at any time by giving notice thereof in writing tothe President of the NAIC. Any such resignation will take effect upon delivery if no date is specified, or as of its date, unless some other date is specified therein, in which event it will be effective as of that date. The acceptance of that resignation will not be necessary to make it effective.

If an interim vacancy occurs in the office of President, the President-Elect shall cease to hold his or her office effective immediately and shall assume the office of President. If an interim vacancy occurs in any one or more of the other officer positions, an interim election shallbe held to fill the vacancy. No member may hold any office for more than two consecutive years. Notwithstanding the foregoing, at no time shall more than two officer positions be filled by members of the same Zone during the same term. Any officer may be removed from office by the affirmative vote of two-thirds (2/3) of the members, but only after a resolution forremoval is adopted by two-thirds (2/3) of the Executive Committee whenever, in their judgment, the best interests of the NAIC would be served thereby.

The President shall serve as Chairman of the Executive Committee and shall preside at allspecial and regular meetings of the members. The President shall serve as the leader of the organization and its principal spokesperson. The President shall work closely with the Executive Committee to establish and achieve the strategic, business and operational goals of the organization; ensure appropriate policies and procedures for the organization are implemented and followed; and protect the integrity as well as the resources of the organization. After a member completes his or her term or terms as President, he or she shall not be able to hold another officer position for a period of twelve (12) months from the date such member completeshis or her term or terms as President, which shall be referred to as a "waiting period"; provided however, the Executive Committee may waive the twelve month waiting period if warranted by exigent circumstances.

The President-Elect shall serve as Vice-Chairman of the Executive Committee. In the absence of the President at a duly convened meeting of the Executive Committee or at a regular or special meeting of the members, the President-Elect shall preside over such meeting to the extent of the President's absence. The President-Elect shall perform such other duties and tasks as may be assigned by the President. Where the President does not run for re-election, the President-Elect shall become President at the conclusion of the President's term of office.

The Vice President, in the absence of the President and President-Elect at a duly convened meeting of the Executive Committee or at a regular or special meeting of the members,shall preside over such meeting to the extent of the President's and the President-Elect's absence;and shall perform such other duties as may be assigned by the President or President-Elect, or in the absence thereof, by the Executive Committee.

The Secretary-Treasurer shall assist the President and, as applicable, the President-Elect or the Vice President in the conduct of meetings of the Executive Committee and members. For member meetings, the Secretary-Treasurer shall call the roll of the membership and certify the presence of a quorum and shall receive, validate and maintain all proxies for elections held at member meetings. The Secretary-Treasurer shall also recommend to the Executive Committee such policies and procedures to maintain the history and continuity of the NAIC. The Secretary-Treasurer shall also assist the President and President-Elect in all matters relating to the budget,

© 2024 National Association of Insurance Commissioners

accounting, expenditure and revenue practices of the NAIC; including, but not limited to reviewing the financial information of the organization and consulting with NAIC management, independent auditors, and other necessary parties regarding the financial operations and condition of the organization.

ARTICLE IV

Executive Committee

The business and affairs of the NAIC shall be managed by and under the direction of the Executive Committee. The Executive Committee shall be made up entirely of members of the NAIC. The Executive Committee shall consist of the following members: the officers of the NAIC; the most recent past president; the twelve (12) members of the zones as provided for in Article V of these Bylaws. The members of the Executive Committee shall be subject to a conflict of interest policy as adopted by the members. Any Executive Committee member may resign at any time by giving notice thereof in writing to the members of the NAIC. Resignation as an Executive Committee member also operates as resignation as a Zone officer. Any such resignation will take effect upon delivery if no date is specified, or as of its date, unless some other date is specified therein, in which event it will be effective as of that date. The acceptance of that resignation will not be necessary to make it effective.

1. The Executive Committee shall have the authority and responsibility to:

   (a) manage the affairs of the NAIC in a manner consistent with the Certificate ofIncorporation and Bylaws.

   (b) make recommendations to achieve the goals of the NAIC based upon either its own initiative or the recommendations of the Standing Committees or Subcommittees reporting to it, for consideration and action by the members at any NAIC Plenary Session.

   (c) create and terminate one or more Task Forces reporting to it to the extent needed and appropriate.

   (d) establish and allocate, from time to time, functions and responsibilities to be performed by each Zone.

   (e) to the extent needed and appropriate, oversee NAIC Offices to assist the NAIC and the individual members in achieving the goals of the NAIC.

   (f) submit to the NAIC at each National Meeting, during which a Plenary Session is held, its report and recommendations concerning the reports of the Standing Committees. All Standing Committee reports shall be included as part of the Executive Committee report.

   (g) plan, implement and coordinate communications and activities with other state, federal and local government organizations in order to advance the goals of the NAIC and promote understanding of state insurance regulation.

2. Duties and Operations of the Executive Committee.

   (a) The Executive Committee shall hold at least two (2) regular meetings annually ata designated time and place. Special meetings may be held when called by the President, or by at least three (3) members of the Executive Committee in writing. In any case, the Executive Committee shall meet at least once per calendar month. At least five (5) days notice shall be given of all regular and special meetings. Meetings may be held in person or by means of conference telephone or other communication equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting

© 2024 National Association of Insurance Commissioners

shall constitute presence in person at such meeting in accordance with applicable laws. The presiding member of the Executive Committee shall only cast his or her vote in order to break a tie vote.In addition, the Executive Committee may act by written consent as provided by law.

(b) The Executive Committee may, with the concurrence of two-thirds of the members of the Executive Committee, establish rules for its conduct that shall not conflict with the Certificate of Incorporation and Bylaws. Such rules may be changed only by a concurrence of two-thirds of the members of the Executive Committee after twenty-four (24) hours notice to all members of the Executive Committee.

(c) Any action required or permitted to be taken at any meeting of the Executive Committee or any committee thereof may be taken without a meeting if all members of the Executive Committee or such committee, as the case may be, consent thereto in writing in accordance with applicable law.

(d) The Executive Committee shall cause to be kept minutes of its meeting and have information of any action of a general character taken by it published to members qualified to vote.

(e) NAIC OFFICES

(i) The Executive Committee shall oversee an Executive Office and a Central Office with management and staff personnel and appropriate resources for performance of duties and assigned responsibilities. Additional satellite offices may be established as needed. The Executive Committee shall have the authority to select, employ and terminate a Chief Executive Officer who shall not be a member of the NAIC and who shall have the primary responsibilityfor the internal management and functioning of the NAIC Offices within the direction of the Executive Committee, as well as other duties assigned by the Executive Committee through execution of an Employment Agreement or other authorization. The Chief Executive Officer appointed by the Executive Committee pursuant to this section shall not be considered an officer for purposes of Article III hereof and shall not be a member of the Executive Committee. The Executive Committee, through the Internal Administration (EX1) Subcommittee, shall provide oversight and direction to the Chief Executive Officer regarding Office operations.

(ii) Consistent with the purposes of the NAIC, the role of the NAIC Offices is to: (1) provide services to the NAIC through support to the NAIC Committees, Subcommittees, Task Forces or otherwise; (2) provide services to individual State insurance departments; and (3) develop recommendations for consideration as to NAIC policy and administrative decisions of the NAIC.

(iii) In performing its role, subject to the oversight and direction specified in (paragraph i) the NAIC Offices may engage in a variety of functions including but not limited to the following: research; analysis; information gathering and dissemination; library services; data collection; data base building and maintenance; report generation and dissemination; government liaison; non-regulatory liaison; securities valuation; administration; litigation; legislative and regulatory drafting; and educational development.

(iv) The Chief Executive Officer shall prepare an annual budget, related to the priorities of the NAIC, for the NAIC Offices to be submitted through the EX1 Subcommittee to the Executive Committee, which shall make its recommendations to the members of the NAIC for action at the next Plenary Session of the NAIC.

© 2024 National Association of Insurance Commissioners

3. Internal Administration (EX1) Subcommittee

The Internal Administration (EX1) Subcommittee shall be a Subcommittee reporting to the Executive Committee. Appointments of the Chair and Vice Chair of the Executive Subcommittee and members other than those specifically designated herein shall be made by the President and President-Elect.

This Subcommittee shall be comprised of the President, President-Elect, Vice President, the Secretary-Treasurer, the most recent past President, and three (3) other members of the Executive Committee. The presiding member of the Subcommittee shall only cast his or her vote in order to break a tie vote.

The Internal Administration (EX1) Subcommittee shall:

(a) Exercise such powers and authority as may be delegated to it by the Executive Committee.

(b) Generally oversee the NAIC Offices including, without limitation: (i) periodicallymonitor operations of the NAIC Offices, (ii) review and revise the budget of the NAIC, hold an annual hearing to receive public comments on the budget of the NAIC, and submit the revised budget to the Executive Committee, (iii) approve emergency expenditures which vary from the adopted budget and promptly certify its action in writing to the Executive Committee, (iv) evaluate the Chief Executive Officer and make appropriate recommendations to the Executive Committee, (v) assist the Chief Executive Officer in resolving competing demands for NAIC resources, (vi) review compensation of all senior management and (vii) quarterly prepare a reportcontaining the current budget and expenditures which the Secretary-Treasurer shall present to theExecutive Committee.

4. Audit Committee

The Executive Committee shall appoint an Audit Committee made up of at least four (4)members of the NAIC, including at least one member from each zone, in addition to the NAIC Secretary-Treasurer. The NAIC Secretary-Treasurer shall chair the Audit Committee. The Audit Committee shall report to the Executive Committee without any NAIC employees being present. The Audit Committee shall be directly responsible for the appointment, compensation, and oversight of the independent certified public accountant employed to conduct the audit. The Audit Committee shall also have the power, to the extent permitted by law, to: (i) initiate or review the results of an audit or investigation into the business affairs of the NAIC; (ii) reviewthe NAIC's financial accounts and reports; (iii) conduct pre-audit and post-audit reviews with NAIC staff, members and independent auditors; and (iv) exercise such other powers and authority as delegated to it by the Executive Committee.

ARTICLE V

Zones

To accomplish the purposes of the NAIC in a timely and efficient manner, the United States, its territories and insular possessions shall be divided into four Zones. Each Zone shall consist of a group of at least eight States, located in the same geographical area, with each State being contiguous to at least one other State in the group so far as practicable, plus any territory orinsular possession that may be deemed expedient, all as determined by majority of the Executive Committee. Members of each Zone shall annually elect a Chairman, a Vice Chairman and a Secretary from among themselves prior to or during the last regular National Meeting of each calendar year or at such time as agreed to by the Zone members. The Chairman, Vice Chairman and Secretary of each Zone shall be members of the Executive Committee with terms of office corresponding to that of the officers. Each Zone

© 2024 National Association of Insurance Commissioners

shall perform such functions as are designated by the Executive Committee of the NAIC or by the members of the NAIC as a whole or by the members of the Zone. Each Zone may hold Zone Meetings for such purposes as may be deemed appropriate by members of the Zone.

ARTICLE VI

Standing Committees and Task Forces

1. General

The Standing Committees shall not be subcommittees of the Executive Committee and shall have no power or authority for the management of the business and affairs of the NAIC. Each Standing Committee shall be composed of not more than 15 members, including a Chair and one or more Vice Chairs, appointed by the President and President-Elect, and such appointments shall remain effective until the succeeding President and President-Elect appoint members for the following year. Standing Committees shall meet at least twice a year at National Meetings and may meet more often at the call of the Chair as required to complete its assignments from the Executive Committee in a timely manner.

The Executive Committee shall make all assignments of subject matter to the Standing Committees and shall require coordination between Committees and Task Forces of the subject matter if more than one Committee or Task Force is affected. The format of the Committee reports shall be prescribed by the Executive Committee. All appointments or elections ofmembers of the NAIC to any office or Committee of the NAIC shall be deemed the appointment or election of a particular member and shall not automatically pass to a successor in office.

2. Specific Duties

The Standing Committees of the NAIC, their duties and responsibilities shall be as follows:

(a) Life Insurance and Annuities (A) Committee: This Standing Committee shall consider issues relating to life insurance and annuities.

(b) Health Insurance and Managed Care (B) Committee: This Standing Committee shall consider issues relating to health and accident insurance and managed care.

(c) Property and Casualty Insurance (C) Committee: This Standing Committee shall consider issues relating to personal and commercial lines of property and casualty insurance, worker's compensation insurance, statistical information, surplus lines, and casualty actuarial matters.

(d) Market Regulation and Consumer Affairs (D) Committee: This Standing Committee shall consider issues involving market conduct in the insurance industry; competitionin insurance markets; the qualifications and conduct of agents and brokers; market conduct examination practices; the control and management of insurance institutions; consumer services of State insurance departments; and consumer participation in NAIC activities.

(e) Financial Condition (E) Committee: This Standing Committee shall consider both administrative and substantive issues as they relate to accounting practices and procedures; blanks; valuation of securities; the Insurance Regulatory Information System (IRIS), as it relates to solvency and profitability; the call, monitoring and concluding report of Zone Examinations; and financial examinations and examiner training.

© 2024 National Association of Insurance Commissioners

(f) Financial Regulation Standards and Accreditation (F) Committee: This Standing Committee shall consider both administrative and substantive issues as they relate to administration and enforcement of the NAIC Accreditation Program, including without limitation, consideration of standards and revisions of standards for accreditation, interpretation of standards, evaluation and interpretation of states' laws and regulations, and departments' practices, procedures and organizations as they relate to compliance with standards, examination of members for compliance with standards, development and oversight of procedures for examination of members for compliance with standards, qualification and selection of individuals to perform the examination of members for compliance with standards, and decisions regarding whether to accredit members.

(g) International Insurance Relations (G) Committee. This Standing Committee shallhave the responsibility for issues relating to international insurance.

(h) Innovation, Cybersecurity and Technology (H) Committee. This Standing Committee shall consider issues related to cybersecurity, innovation, data security and privacy, and emerging technology issues.

3. Task Forces

The Executive Committee, its Subcommittee and the Standing Committees may establish one or more Task Forces, subject to approval of the Executive Committee. The parent Committee or Subcommittee, subject to approval of the Executive Committee, may vote to discontinue a Task Force once its charge has been completed.

Vacancies in the positions of Chair or Vice Chair of any Task Force shall be filled by the parent Committee or Subcommittee from within or outside the present Task Force membership; provided, however, that the chief insurance regulatory official of the state of the former Chair or Vice Chair shall become a member of the Task Force. A vacancy in the position of member shall be filled by the chief insurance regulatory official of the vacating member's state.

If an existing Task Force is dealing with insurance issues that require continuing study, the Executive Committee may adopt the recommendation of the parent Committee or Subcommittee that the Task Force be designated a Standing Task Force. A Standing Task Forceshall continue in effect until terminated by the Executive Committee.

ARTICLE VII

Meetings of the Membership

1. Regular Meetings

The NAIC shall hold at least two (2) regular meetings of the members ("National Meetings") each calendar year. Notice, stating the place, day and hour and any special purposes of the National Meeting, shall be delivered by the Executive Committee not less than ten (10) calendar days nor more than sixty (60) calendar days before the date on which the National Meeting is to be held, either personally, by mail or by other lawful means, to each member entitled to be present and vote at such meeting.

2. Special Meetings

Special meetings of the members may be called by any five (5) members of the ExecutiveCommittee by giving all members notice of such meeting at least ten (10) but not more than sixty (60) days prior thereto, or by any twenty (20) members of the NAIC by giving all membersnotice of such meeting at least thirty (30) but not more than sixty (60) days prior thereto. Notice of the special meeting shall state the place, day and hour of the special

© 2024 National Association of Insurance Commissioners

meeting and the purpose or purposes for which the special meeting is called, and shall be delivered by the persons calling the meeting within the applicable time period set forth herein, either personally, by mail or by other lawful means, to each member entitled to be present and vote at such meeting.

3. Waiver of Notice; Postponement

Member meetings may be held without notice if all members entitled to notice are present(except when members entitled to notice attend the meeting for the express purpose of objecting, at the beginning of the meeting, because the meeting is allegedly not lawfully called or convened), or if notice is waived by those not present. Any previously scheduled meeting of the members may be postponed by the Executive Committee (or members calling a special meeting, as the case may be) upon notice to members, in person or writing, given at least two (2) days prior to the date previously scheduled for such meeting.

4. Quorum

Except as otherwise provided by law or by the Certificate of Incorporation, the presence, by person or proxy, of a majority of the members shall constitute a quorum at a member meeting,a meeting of a Standing Committee, Task Force or a working group. The chairman of the meeting may adjourn the meeting from time to time, whether or not there is such a quorum. The members present at a duly called member meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough members to leaveless than a quorum.

5. Any meeting of the NAIC may be held in executive session as defined in the NAIC policy on open meetings. Any member may attend and participate in any meeting of the NAIC or any meeting of a Standing Committee or Task Force whether or not such member has the right to vote. All National Meetings shall provide for a Plenary Session of the NAIC as a whole in order to consider and take action upon the matters submitted to the NAIC.

ARTICLE VIII

Elections

1. The election of officers of the NAIC shall be scheduled for the plenary session of the last National Meeting of the calendar year or at such other plenary session as agreed to by the members.

2. At the beginning of such Plenary Session, the Secretary-Treasurer shall ascertain and announce the presence of a quorum.

3. Upon the determination of a quorum, the chair shall briefly review the provisions of the Certificate of Incorporation and Bylaws in regard to voting.

4. The President shall ask for and announce all proxies. Proxies shall be held by the Secretary-Treasurer or a designee throughout the election session. Proxies shall be valid, subjectto their term, until superseded by the member and shall be governed by ARTICLE IX of the Bylaws.

5. Every individual voting by proxy must meet the requirements of Article II of the Bylaws of the NAIC which requires that such a person be "...officially affiliated with the member's (the member delegating authority to vote) department, and is wholly or principally employed by said department."

6. Prior to opening the nominations for office, the Chair shall appoint three (3) members of the NAIC to act as

© 2024 National Association of Insurance Commissioners

voting inspectors. The voting inspectors shall distribute, collect, count and/orverify ballots, and report their findings to the Secretary-Treasurer. If a voting inspector is nominated for an office and does not withdraw as a candidate, he or she shall not be a voting inspector for the election of the office to which he or she is nominated and the chair shall appointanother voting inspector in his or her place.

7. The Chair shall announce the opening of nominations for offices in the following order:

   (a) President. Provided, however, where the President does not run for re-election, the President-Elect shall become President at the conclusion of the President's term of office. In those cases where the President runs for re-election or where a vacancy exists because the President–Elect fails or is otherwise unable to assume the Presidency, this office will be subjectto an election.

   (b) President-Elect.

   (c) Vice President.

   (d) Secretary-Treasurer.

8. Only members or duly authorized proxyholders may make nominations.

9. One nominating speech, not to exceed three (3) minutes in duration, shall be allowed for each nominee.

10. After nominations are closed for each office, each nominee must indicate whether he or she accepts the nomination and, if he or she accepts, shall be permitted to address the membership for a period of up to seven (7) minutes. Such addresses shall be given in the order by which the nominations were made.

11. The votes of members, in person or by proxy, constituting a majority of the quorum present at the meeting shall be necessary for election to such office. If no candidate receives a majority, the two candidates with the most votes will participate in a run-off election. The candidate with the most votes in the run-off election shall win such election.

12. Voting need not be by written ballot, unless otherwise required by these Bylaws, the Certificate of Incorporation, or applicable law.

ARTICLE IX

Proxies; Waiver of Notice

Where the delegation of power to vote or participate in the membership of the NAIC is required by ARTICLE II of these Bylaws to be in writing, such delegation must be effected by proxy. All proxies must be dated, give specific authority to a named individual who meets the requirements of ARTICLE II for duly authorized representatives, and meet any other applicable legal requirement. Documents such as electronic transmission, telegrams, mailgrams, etc. are acceptable as proxies if they otherwise meet the requirements contained herein and applicable law. Proxies should be maintained by NAIC Central Office staff. Notwithstanding the foregoing, a member may not vote by proxy in a meeting of the Executive Committee, Financial Regulation Standards and Accreditation (F) Committee in a vote concerning a state-specificitem, Government Relations Leadership Council, or International Insurance Relations LeadershipGroup, or any respective subcommittees.

Whenever any notice is required to be given to any member (for a meeting of members orthe Executive Committee) under the provisions of the Certificate of Incorporation, these Bylaws or applicable law, a written

© 2024 National Association of Insurance Commissioners

waiver, signed by the person entitled to notice, or a waiver by electronic transmission by person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of the members or any committee, subcommittee or task force need be specified in any waiver of notice of suchmeeting.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, Members may participate in a meeting by means of conference telephone or by any means by which all persons participating in the meeting are able to communicate with one another, and such participation shall constitute presence in person at the meeting.

Any notice required under these Bylaws may be provided by mail, facsimile, or electronic transmission.

ARTICLE X

Procedures; Books and Records

The Executive Committee shall adopt policies and procedures for the conduct of meetings. In the event such policies and procedures conflict with the NAIC's Certificate of Incorporation or Bylaws, the Certificate of Incorporation and Bylaws shall govern.

The books and records of the NAIC may be kept outside the State of Delaware at such place or places as may from time to time be designated by the Internal Administration Subcommittee (EX1) of the Executive Committee.

ARTICLE XI

Amendments

These Bylaws may be altered or repealed and new Bylaws may be adopted at any regular or special meeting of the members by an affirmative vote, in person or by proxy, of a majority of the members entitled to vote at such meeting; provided, however, that any proposed alteration (except to correct typographical or grammatical errors or article, section or paragraph cross- references caused by other alterations, repeals, or adoptions) or repeal of, or the adoption of any Bylaw inconsistent with, Article II [Membership], Article VII, Paragraph 2 [Special Meetings of Members] and Paragraph 4 [Quorum], Article VIII [Elections], or this Article XI [Amendments] of these Bylaws (the "Supermajority Bylaws") by the members shall require the affirmative vote,in person or by proxy, of at least two-thirds (2/3) of the members entitled to vote at such meetingand provided, further, that in the case of any such member action at a special meeting of members, notice of the proposed alteration, repeal or adoption of the new Bylaw or Bylaws must be contained in the notice of such special meeting. Corrections for typographical or grammaticalerrors or to article, section or paragraph cross-references caused by other alterations, repeals or adoption, shall only be made if approved by the affirmative vote of at least two-thirds (2/3) of theExecutive Committee.

Adopted October 1999, see 1999 Proc., Third Quarter page 7
Amended November 2002, see 2002 Proc., Fourth Quarter page 25
Amended June 2003, see 2003 Proc., Second Quarter page 28
Amended March 2004, see 2004 Proc., First Quarter page 119
Amended December 2004, see 2004 Proc., Fourth Quarter page 58
Amended March 2009, see 2009 Proc., First Quarter page 3–67
Amended September 2009, see 2009 Proc., Third Quarter
Amended October 2011, see Proc., Summer 2011
Amended December 2015, see Proc., Spring 2016
Amended December 2021, see Proc., Spring 2022

© 2024 National Association of Insurance Commissioners

NAIC Policy Statement on Open Meetings
Revised: April 1, 2014

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators of the 50 states, the District of Columbia and five U.S. territories. NAIC members are the elected and appointed state government officials who, along with their departments and staff, regulate the conduct of insurance companies and agents in their respective state or territory. The NAIC is committed to conducting its business openly. This policy statement applies to meetings of NAIC committees, subcommittees, task forces and working groups. It does not apply to Roundtable discussions, zone meetings, commissioners' conferences, and other like meetings of the members. Applicable meetings will be open unless the discussion or action contemplated will include:

1. Potential or pending litigation or administrative proceedings which may involve the NAIC, any NAIC member, or their staffs, in any capacity involving their official or prescribed duties, requests for briefs of amicus curiae, or legal advice.

2. Pending investigations which may involve either the NAIC or any member in any capacity.

3. Specific companies, entities or individuals, including, but not limited to, collaborative financial and market conduct examinations and analysis.

4. Internal or administrative matters of the NAIC or any NAIC member, including budget, personnel and contractual matters, and including consideration of internal administration of the NAIC, including, but not limited to, by the Internal Administration (EX1) Subcommittee or any subgroup appointed thereunder.

5. Voting on the election of officers of the NAIC.

6. Consultations with NAIC staff members related to NAIC technical guidance, including, but not limited to, Annual and Quarterly Statement Blanks and Instructions, the Accounting Practices and Procedures Manual, and similar materials.

7. Consideration of individual state insurance department's compliance with NAIC financial regulation standards by the Financial Regulation Standards and Accreditation (F) Committee or any subgroup appointed thereunder.

8. Consideration of strategic planning issues relating to federal legislative and regulatory matters or international regulatory matters.

9. Any other subject required to be kept confidential under any Memorandum of Understanding or other agreement, state or federal law or under any judicial or administrative order.

Because not all situations requiring a regulator to regulator discussion can be anticipated at the time a meeting is scheduled, a meeting convened in open session can move into regulator to regulator session on motion by the chair or other member approved by a majority of the members present. Public notice will be provided of all applicable meetings. The reason for holding a meeting in regulator only session will be announced when the meeting notice is published, at the beginning of any regulator only session, and when an open meeting goes into regulator only session.

This revised policy statement shall take effect upon adoption by the membership.

© 2024 National Association of Insurance Commissioners

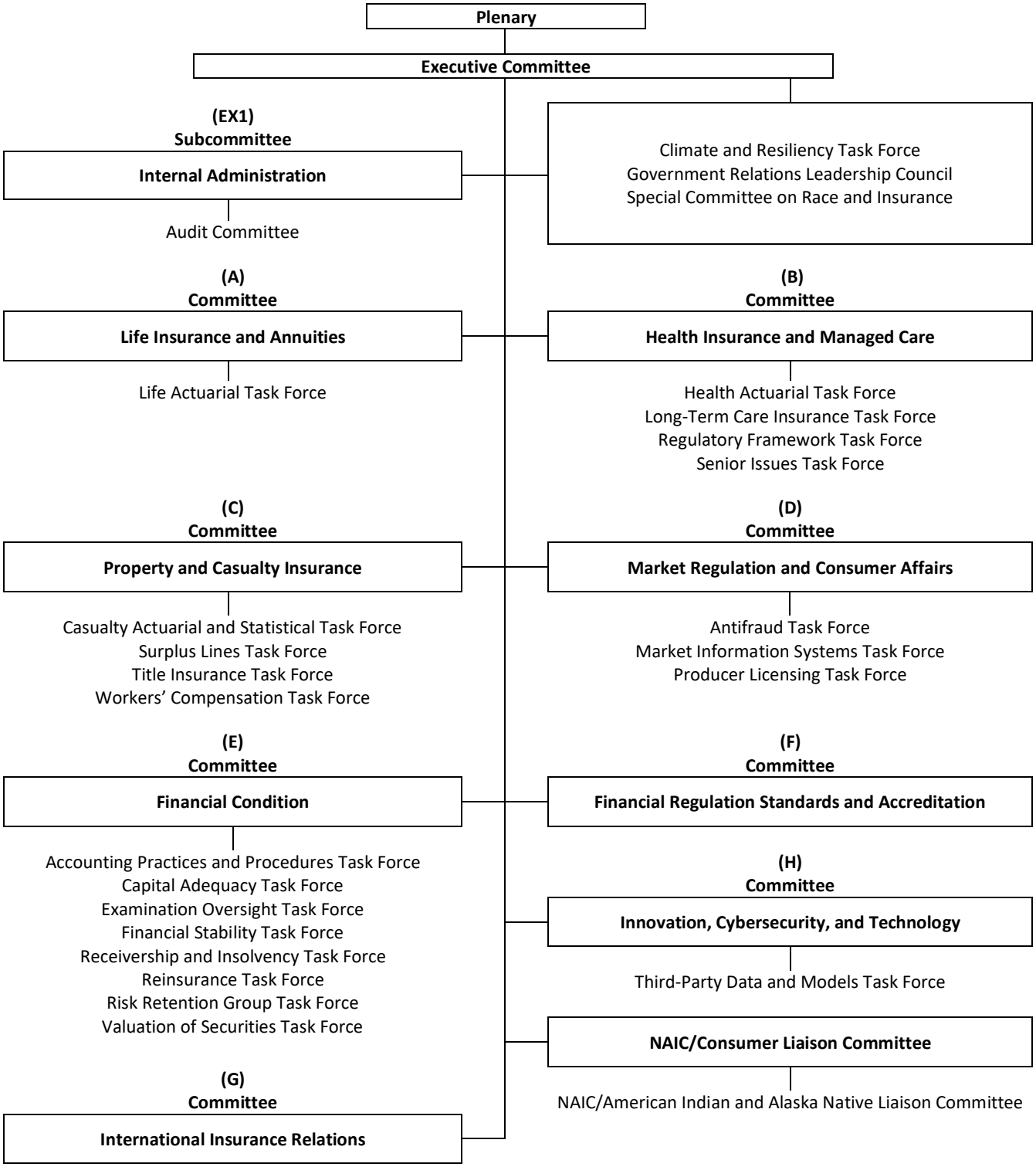
[NOTE: (Effective Jan. 1, 1996, conference call meetings are included in the application of the policy statement, by action of the NAIC on June 4, 1995). This policy statement was originally adopted by the NAIC membership during the 1994 Fall National Meeting in Minneapolis, Minnesota, Sept. 18–20, 1994.]

Revisions Adopted by the NAIC Membership, April 1, 2014

W:\LEGAL\Bylaws\Open Meetings Policy revised 2014.doc

© 2024 National Association of Insurance Commissioners

2024 COMMITTEE AND TASK FORCE STRUCTURE



© 2024 National Association of Insurance Commissioners

APPOINTED AND DISBANDED
Current and Previous Year

APPOINTED SINCE JANUARY 2024	Effective Date	NAIC Support Staff
Public Adjuster Licensing (D) Working Group	12/03/2023	Tim Mullen
Third-Party Data and Models (H) Task Force	11/16/2023	Kris DeFrain

RENAMED SINCE JANUARY 2024	Effective Date	NAIC Support Staff
Long-Term Care Insurance (B) Task Force (f.k.a. Long-Term Care Insurance (EX) Task Force)	12/04/2023	Jane Koenigsman
Pharmaceutical Benefit Management Regulatory Issues (B) Working Group (f.k.a. Pharmacy Benefit Manager Regulatory Issues (B) Subgroup	07/26/2024	Jolie Matthews
Technology, Innovation, and InsurTech (H) Working Group (f.k.a. Innovation in Technology and Regulation (H) Working Group)	11/16/2023	Libby Crews

DISBANDED SINCE JANUARY 2024	Effective Date	NAIC Support Staff

DISBANDED IN 2023	Effective Date	NAIC Support Staff
Index-Linked Variable Annuity (A) Subgroup	08/16/2023	Jim Stinson
Long-Term Care Pricing (B) Subgroup	03/25/2023	Eric King
Long-Term Care Valuation (B) Subgroup	03/25/2023	Eric King
Mortgage Guaranty Insurance (E) Working Group	12/04/2023	Andy Daleo
Receiver's Handbook (E) Subgroup	12/04/2023	Sherry Flippo
Restructuring Mechanisms (E) Subgroup	03/25/2023	Robin Marcotte

© 2024 National Association of Insurance Commissioners

2024 MEMBERS BY ZONE

Northeast Zone

Trinidad Navarro, Chair	Delaware
Kevin Gaffney, Vice Chair	Vermont
Michael Humphreys, Secretary	Pennsylvania
Andrew N. Mais	Connecticut
Karima M. Woods	District of Columbia
Robert L. Carey	Maine
Joy Y. Hatchette	Maryland
Kevin P. Beagan	Massachusetts
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Adrienne A. Harris	New York
Elizabeth Kelleher Dwyer	Rhode Island

Southeast Zone

Carter Lawrence, Chair	Tennessee
Sharon P. Clark, Vice Chair	Kentucky
Alan McClain, Secretary	Arkansas
Mark Fowler	Alabama
Michael Yaworsky	Florida
John F. King	Georgia
Timothy J. Temple	Louisiana
Mike Chaney	Mississippi
Mike Causey	North Carolina
Alexander S. Adams Vega	Puerto Rico
Michael Wise	South Carolina
Tregenza A. Roach	U.S. Virgin Islands
Scott A. White	Virginia
Allan L. McVey	West Virginia

Midwest Zone

Anita G. Fox, Chair	Michigan
Vicki Schmidt, Vice Chair	Kansas
Eric Dunning, Secretary	Nebraska
Ann Gillespie	Illinois
Amy L. Beard	Indiana
Doug Ommen	Iowa
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
Jon Godfread	North Dakota
Judith L. French	Ohio
Glen Mulready	Oklahoma
Larry D. Deiter	South Dakota
Nathan Houdek	Wisconsin

Western Zone

Michael Conway, Chair	Colorado
Andrew R. Stolfi, Vice Chair	Oregon
Cassie Brown, Secretary	Texas
Lori K. Wing-Heier	Alaska
Peni Itula Sapini Teo	American Samoa
Barbara D. Richardson	Arizona
Ricardo Lara	California
Michelle B. Santos	Guam
Gordon I. Ito	Hawaii
Dean L. Cameron	Idaho
Troy Downing	Montana
Remedio C. Mafnas	N. Mariana Islands
Scott Kipper	Nevada
Alice T. Kane	New Mexico
Jon Pike	Utah
Mike Kreidler	Washington
Jeff Rude	Wyoming

Updated July 1, 2024

© 2024 National Association of Insurance Commissioners

2024 EXECUTIVE (EX) COMMITTEE

Andrew N. Mais, President	Connecticut
Jon Godfread, President-Elect	North Dakota
Scott A. White, Vice President	Virginia
Elizabeth Kelleher Dwyer, Secretary-Treasurer	Rhode Island
Most Recent Past President:	
Chlora Lindley-Myers	Missouri

Northeast Zone

Trinidad Navarro, Chair	Delaware
Kevin Gaffney, Vice Chair	Vermont
Michael Humphreys, Secretary	Pennsylvania

Southeast Zone

Carter Lawrence, Chair	Tennessee
Sharon P. Clark, Vice Chair	Kentucky
Alan McClain, Secretary	Arkansas

Midwest Zone

Anita G. Fox, Chair	Michigan
Vicki Schmidt, Vice Chair	Kansas
Eric Dunning, Secretary	Nebraska

Western Zone

Michael Conway, Chair	Colorado
Andrew R. Stolfi, Vice Chair	Oregon
Cassie Brown, Secretary	Texas

NAIC Support Staff: Andrew J. Beal/Kay Noonan

Updated April 8, 2024

© 2024 National Association of Insurance Commissioners

CLIMATE AND RESILIENCY (EX) TASK FORCE

of the Executive (EX) Committee

Lori K. Wing-Heier, Co-Chair	Alaska	Grace Arnold	Minnesota
Ricardo Lara, Co-Chair	California	Mike Chaney	Mississippi
Andrew R. Stolfi, Co-Vice Chair	Oregon	Chlora Lindley-Myers	Missouri
Jeff Rude, Co-Vice Chair	Wyoming	Eric Dunning	Nebraska
Mark Fowler	Alabama	Scott Kipper	Nevada
Peni Itula Sapini Teo	American Samoa	D.J. Bettencourt	New Hampshire
Barbara D. Richardson	Arizona	Justin Zimmerman	New Jersey
Alan McClain	Arkansas	Alice T. Kane	New Mexico
Michael Conway	Colorado	Adrienne A. Harris	New York
Andrew N. Mais	Connecticut	Mike Causey	North Carolina
Trinidad Navarro	Delaware	Jon Godfread	North Dakota
Karima M. Woods	District of Columbia	Judith L. French	Ohio
Michael Yaworsky	Florida	Glen Mulready	Oklahoma
Gordon I. Ito	Hawaii	Michael Humphreys	Pennsylvania
Ann Gillespie	Illinois	Alexander S. Adams Vega	Puerto Rico
Doug Ommen	Iowa	Elizabeth Kelleher Dwyer	Rhode Island
Vicki Schmidt	Kansas	Michael Wise	South Carolina
Sharon P. Clark	Kentucky	Tregenza A. Roach	U.S. Virgin Islands
Timothy J. Temple	Louisiana	Kevin Gaffney	Vermont
Robert L. Carey	Maine	Scott A. White	Virginia
Joy Y. Hatchette	Maryland	Mike Kreidler	Washington
Kevin P. Beagan	Massachusetts	Nathan Houdek	Wisconsin
Anita G. Fox	Michigan		

NAIC Support Staff: Aaron Brandenburg/Libby Crews

© 2024 National Association of Insurance Commissioners

GOVERNMENT RELATIONS (EX) LEADERSHIP COUNCIL

of the Executive (EX) Committee

Andrew N. Mais, Chair	Connecticut
Jon Godfread, Vice Chair	North Dakota
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Trinidad Navarro	Delaware
John F. King	Georgia
Doug Ommen	Iowa
Chlora Lindley-Myers	Missouri
Troy Downing	Montana
Glen Mulready	Oklahoma
Elizabeth Kelleher Dwyer	Rhode Island
Jon Pike	Utah
Kevin Gaffney	Vermont
Scott A. White	Virginia
Mike Kreidler	Washington
Allan L. McVey	West Virginia

NAIC Support Staff: Ethan Sonnichsen/Brian R. Webb

© 2024 National Association of Insurance Commissioners

SPECIAL (EX) COMMITTEE ON RACE AND INSURANCE

of the Executive (EX) Committee

Andrew N. Mais, Co-Chair	Connecticut	Kevin P. Beagan	Massachusetts
Jon Godfread, Co-Chair	North Dakota	Anita G. Fox	Michigan
Elizabeth Kelleher Dwyer, Co-Vice Chair	Rhode Island	Grace Arnold	Minnesota
Scott A. White, Co-Vice Chair	Virginia	Chlora Lindley-Myers	Missouri
Mark Fowler	Alabama	Eric Dunning	Nebraska
Lori K. Wing-Heier	Alaska	Scott Kipper	Nevada
Peni Itula Sapini Teo	American Samoa	Justin Zimmerman	New Jersey
Barbara D. Richardson	Arizona	Mike Causey	North Carolina
Alan McClain	Arkansas	Judith L. French	Ohio
Ricardo Lara	California	Glen Mulready	Oklahoma
Michael Conway	Colorado	Andrew R. Stolfi	Oregon
Karima M. Woods	District of Columbia	Michael Humphreys	Pennsylvania
Ann Gillespie	Illinois	Michael Wise	South Carolina
Amy L. Beard	Indiana	Cassie Brown	Texas
Doug Ommen	Iowa	Kevin Gaffney	Vermont
Timothy J. Temple	Louisiana	Mike Kreidler	Washington
Robert L. Carey	Maine	Nathan Houdek	Wisconsin
Joy Y. Hatchette	Maryland	Jeff Rude	Wyoming

NAIC Support Staff: Andrew J. Beal/Kay Noonan

© 2024 National Association of Insurance Commissioners

INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE

Andrew N. Mais, Chair	Connecticut
Jon Godfread, Vice Chair	North Dakota
Sharon P. Clark	Kentucky
Chlora Lindley-Myers	Missouri
Andrew R. Stolfi	Oregon
Elizabeth Kelleher Dwyer	Rhode Island
Kevin Gaffney	Vermont
Scott A. White	Virginia

NAIC Support Staff: Andrew J. Beal/Kay Noonan/Jim Woody

AUDIT COMMITTEE

of the Internal Administration (EX1) Subcommittee

Elizabeth Kelleher Dwyer, Chair	Rhode Island
Barbara D. Richardson	Arizona
Andrew N. Mais	Connecticut
Dean L. Cameron	Idaho
Sharon P. Clark	Kentucky
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
Scott Kipper	Nevada
Jon Godfread	North Dakota
Andrew R. Stolfi	Oregon
Larry D. Deiter	South Dakota
Carter Lawrence	Tennessee
Scott A. White	Virginia

NAIC Support Staff: Jim Woody

© 2024 National Association of Insurance Commissioners

LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

Judith L. French, Chair	Ohio
Doug Ommen, Co-Vice Chair	Iowa
Carter Lawrence, Co-Vice Chair	Tennessee
Mark Fowler	Alabama
Peni Itula Sapini Teo	American Samoa
Barbara D. Richardson	Arizona
Karima M. Woods	District of Columbia
Grace Arnold	Minnesota
Remedio C. Mafnas	N. Mariana Islands
Justin Zimmerman	New Jersey
Adrienne A. Harris	New York
Glen Mulready	Oklahoma
Elizabeth Kelleher Dwyer	Rhode Island
Scott A. White	Virginia
Nathan Houdek	Wisconsin

NAIC Support Staff: Jennifer R. Cook/Jolie H. Matthews

Accelerated Underwriting (A) Working Group

of the Life Insurance and Annuities (A) Committee

Nathan Houdek, Chair	Wisconsin
Grace Arnold, Vice Chair	Minnesota
Jason Lapham	Colorado
Russ Gibson	Iowa
Cynthia Amann	Missouri
Maggie Reinert/Megan VanAusdall	Nebraska
Ross Hartley	North Dakota
Daniel Bradford	Ohio
Matt Gendron	Rhode Island
David Hippen	Washington

NAIC Support Staff: Jennifer R. Cook

© 2024 National Association of Insurance Commissioners

Annuity Suitability (A) Working Group

of the Life Insurance and Annuities (A) Committee

Doug Ommen, Chair	Iowa
Craig VanAalst, Vice Chair	Kansas
Yada Horace	Alabama
Jodi Lerner	California
Jessica Luff	Delaware
Dean L. Cameron	Idaho
Renee Campbell	Michigan
Eric Dunning	Nebraska
Keith Nyhan	New Hampshire
Daniel Bradford	Ohio
Andrew Schallhorn	Oklahoma
Matt Gendron	Rhode Island
Lauren Van Buren	Wisconsin

NAIC Support Staff: Jolie H. Matthews

LIFE ACTUARIAL (A) TASK FORCE

of the Life Insurance and Annuities (A) Committee

Cassie Brown, Chair	Texas
Scott A. White, Vice Chair	Virginia
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Peni Itula Sapini Teo	American Samoa
Ricardo Lara	California
Andrew N. Mais	Connecticut
Ann Gillespie	Illinois
Amy L. Beard	Indiana
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Robert L. Carey	Maine
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Adrienne A. Harris	New York
Judith L. French	Ohio
Glen Mulready	Oklahoma
Michael Humphreys	Pennsylvania
Jon Pike	Utah

NAIC Support Staff: Scott O'Neal/Jennifer Frasier

© 2024 National Association of Insurance Commissioners

Experience Reporting (A) Subgroup

of the Life Actuarial (A) Task Force

Fred Andersen, Chair	Minnesota
Ahmad Kamil	California
Wanchin Chou	Connecticut
Nicole Boyd	Kansas
Seong-min Eom	New Jersey
Bill Carmello	New York
Rachel Hemphill	Texas

NAIC Support Staff: Angela McNabb

Generator of Economic Scenarios (GOES) (E/A) Subgroup

of the Life Risk-Based Capital (E) Working Group and Life Actuarial (A) Task Force

Mike Yanacheak, Chair	Iowa
Peter Weber, Vice Chair	Ohio
Ted Chang	California
Wanchin Chou	Connecticut
Philip Barlow	District of Columbia
Scott Shover	Indiana
Ben Slutsker	Minnesota
William Leung	Missouri
Seong-min Eom	New Jersey
Bill Carmello	New York
Rachel Hemphill	Texas
Craig Chupp	Virginia

NAIC Support Staff: Scott O'Neal

© 2024 National Association of Insurance Commissioners

Indexed Universal Life (IUL) Illustration (A) Subgroup

of the Life Actuarial (A) Task Force

Fred Andersen, Chair	Minnesota
Ted Chang	California
Manny Hidalgo	Connecticut
Vincent Tsang	Illinois
Scott Shover	Indiana
Mike Yanacheak	Iowa
Bill Carmello	New York
Peter Weber	Ohio
Maribel Castillo/Darlene Plyler/Heike Ulrich	Texas
Tomasz Serbinowski	Utah
Craig Chupp	Virginia

NAIC Support Staff: Jennifer Frasier

Longevity Risk (E/A) Subgroup

of the Life Risk-Based Capital (E) Working Group and Life Actuarial (A) Task Force

Seong-min Eom, Chair	New Jersey
Lei Rao-Knight	Connecticut
Mike Yanacheak	Iowa
Ben Slutsker	Minnesota
Bill Carmello	New York
Peter Weber	Ohio
Rachel Hemphill	Texas
Tomasz Serbinowski	Utah

NAIC Support Staff: Dave Fleming

© 2024 National Association of Insurance Commissioners

Valuation Manual (VM)-22 (A) Subgroup

of the Life Actuarial (A) Task Force

Ben Slutsker, Chair	Minnesota
Elaine Lam, Vice Chair	California
Lei Rao-Knight	Connecticut
Vincent Tsang	Illinois
Mike Yanacheak	Iowa
Nicole Boyd	Kansas
William Leung	Missouri
Seong-min Eom	New Jersey
Bill Carmello	New York
Rachel Hemphill	Texas
Tomasz Serbinowski	Utah
Craig Chupp	Virginia

NAIC Support Staff: Amy Fitzpatrick/Scott O'Neal

Variable Annuities Capital and Reserve (E/A) Subgroup

of the Life Risk-Based Capital (E) Working Group and Life Actuarial (A) Task Force

Peter Weber, Chair	Ohio
Thomas Reedy	California
Philip Barlow	District of Columbia
Nicole Boyd	Kansas
Fred Andersen	Minnesota
William Leung	Missouri
Seong-min Eom	New Jersey
Bill Carmello	New York
Rachel Hemphill	Texas

NAIC Support Staff: Dave Fleming/Jim Stinson

© 2024 National Association of Insurance Commissioners

HEALTH INSURANCE AND MANAGED CARE (B) COMMITTEE

Anita G. Fox, Chair	Michigan
Grace Arnold, Co-Vice Chair	Minnesota
Glen Mulready, Co-Vice Chair	Oklahoma
Trinidad Navarro	Delaware
John F. King	Georgia
Dean L. Cameron	Idaho
Joy Y, Hatchette	Maryland
D.J. Bettencourt	New Hampshire
Alice T. Kane	New Mexico
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Alexander S. Adams Vega	Puerto Rico
Jon Pike	Utah
Mike Kreidler	Washington
Allan L. McVey	West Virginia

NAIC Support Staff: Jolie H. Matthews/Brian R. Webb/Jennifer R. Cook

Consumer Information (B) Subgroup

of the Health Insurance and Managed Care (B) Committee

David Buono, Chair	Pennsylvania
T.J. Patton, Vice Chair	Minnesota
Anthony L. Williams	Alabama
Debra Judy	Colorado
Randy Pipal	Idaho
Michelle Baldock	Illinois
Alex Peck	Indiana
Terri Smith	Maryland
Jeana Thomas	Missouri
Charlette C. Borja	N. Mariana Islands
Cynthia Cisneros	New Mexico
Hadiya Swann	North Carolina
Donna Dorr	Oklahoma
Jill Kruger	South Dakota
Vickie Trice/Jennifer Ramcharan	Tennessee
Shelley Wiseman/Michelle White	Utah
Todd Dixon/Jane Beyer	Washington
Christina Keeley	Wisconsin

NAIC Support Staff: Joe Touschner

© 2024 National Association of Insurance Commissioners

HEALTH ACTUARIAL (B) TASK FORCE

of the Health Insurance and Managed Care (B) Committee

Anita G. Fox, Chair	Michigan
Jon Pike, Vice Chair	Utah
Mark Fowler	Alabama
Ricardo Lara	California
Michael Conway	Colorado
Andrew N. Mais	Connecticut
Michael Yaworsky	Florida
Gordon I. Ito	Hawaii
Dean L. Cameron	Idaho
Amy L. Beard	Indiana
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Robert L. Carey	Maine
Joy Y. Hatchette	Maryland
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Judith L. French	Ohio
Glen Mulready	Oklahoma
Michael Humphreys	Pennsylvania
Alexander S. Adams Vega	Puerto Rico
Cassie Brown	Texas
Scott A. White	Virginia
Mike Kreidler	Washington

NAIC Support Staff: Eric King

© 2024 National Association of Insurance Commissioners

Health Innovations (B) Working Group

of the Health Insurance and Managed Care (B) Committee

Nathan Houdek, Chair	Wisconsin
Amy Hoyt, Vice Chair	Missouri
Anthony L. Williams	Alabama
Sarah Bailey/Jeanne Murray	Alaska
Debra Judy	Colorado
Howard Liebers	District of Columbia
Alex Peck	Indiana
Andria Seip	Iowa
Julie Holmes	Kansas
Robert Wake	Maine
Jamie Sexton	Maryland
Anita G. Fox	Michigan
Glenn Shippey	Nevada
Viara Ianakieva/Margaret Pena	New Mexico
Chrystal Bartuska	North Dakota
Daniel Bradford	Ohio
Andrew R. Stolfi	Oregon
Carlos Vallés	Puerto Rico
Rachel Bowden/R. Michael Markham	Texas
Tanji J. Northrup	Utah
Ned Gaines	Washington
Joylynn Fix	West Virginia

NAIC Support Staff: Joe Touschner

© 2024 National Association of Insurance Commissioners

LONG-TERM CARE INSURANCE (B) TASK FORCE

of the Health Insurance and Managed Care (B) Committee

Andrew N. Mais, Chair	Connecticut	D.J. Bettencourt	New Hampshire
Grace Arnold, Vice Chair	Minnesota	Justin Zimmerman	New Jersey
Mark Fowler	Alabama	Alice T. Kane	New Mexico
Lori K. Wing-Heier	Alaska	Mike Causey	North Carolina
Barbara D. Richardson	Arizona	Jon Godfread	North Dakota
Ricardo Lara	California	Judith L. French	Ohio
Michael Conway	Colorado	Glen Mulready	Oklahoma
Trinidad Navarro	Delaware	Andrew R. Stolfi	Oregon
Karima M. Woods	District of Columbia	Michael Humphreys	Pennsylvania
Gordon I. Ito	Hawaii	Elizabeth Kelleher Dwyer	Rhode Island
Dean L. Cameron	Idaho	Michael Wise	South Carolina
Amy L. Beard	Indiana	Larry D. Deiter	South Dakota
Doug Ommen	Iowa	Carter Lawrence	Tennessee
Sharon P. Clark	Kentucky	Cassie Brown	Texas
Timothy J. Temple	Louisiana	Jon Pike	Utah
Robert L. Carey	Maine	Kevin Gaffney	Vermont
Joy Y. Hatchette	Maryland	Scott A. White	Virginia
Kevin P. Beagan	Massachusetts	Mike Kreidler	Washington
Chlora Lindley-Myers	Missouri	Allan L. McVey	West Virginia
Eric Dunning	Nebraska	Nathan Houdek	Wisconsin
Scott Kipper	Nevada	Jeff Rude	Wyoming

NAIC Support Staff: Jeffrey C. Johnston/Jane Koenigsman

© 2024 National Association of Insurance Commissioners

Long-Term Care Actuarial (B) Working Group

of the Long-Term Care Insurance (B) Task Force

Paul Lombardo, Co-Chair	Connecticut
Fred Andersen, Co-Chair	Minnesota
Sanjeev Chaudhuri	Alabama
Sarah Bailey	Alaska
Ahmad Kamil/Thomas Reedy	California
Stephen Flick	District of Columbia
Lilyan Zhang	Florida
Weston Trexler	Idaho
Scott Shover	Indiana
Nicole Boyd	Kansas
Marti Hooper	Maine
Kevin Dyke	Michigan
William Leung	Missouri
Margaret Garrison	Nebraska
Jennifer Li	New Hampshire
Bill Carmello/Neil Gerritt	New York
David Yetter	North Carolina
Craig Kalman	Ohio
Andrew Schallhorn	Oklahoma
Timothy Hinkel/Andrew Bux	Oregon
Jim Laverty	Pennsylvania
Carlos Vallés	Puerto Rico
Aaron Hodges/R. Michael Markham	Texas
Tomasz Serbinowski	Utah
Joylynn Fix	West Virginia
Rebecca Rebholz	Wisconsin

NAIC Support Staff: Eric King

© 2024 National Association of Insurance Commissioners

REGULATORY FRAMEWORK (B) TASK FORCE

of the Health Insurance and Managed Care (B) Committee

Glen Mulready, Chair	Oklahoma
Ann Gillespie, Vice Chair	Illinois
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Peni Itula Sapini Teo	American Samoa
Ricardo Lara	California
Michael Conway	Colorado
Andrew N. Mais	Connecticut
Karima M. Woods	District of Columbia
Dean L. Cameron	Idaho
Amy L. Beard	Indiana
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Robert L. Carey	Maine
Kevin P. Beagan	Massachusetts
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
Scott Kipper	Nevada
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Mike Causey	North Carolina
Jon Godfread	North Dakota
Judith L. French	Ohio
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Larry D. Deiter	South Dakota
Cassie Brown	Texas
Jon Pike	Utah
Scott A. White	Virginia
Mike Kreidler	Washington
Allan L. McVey	West Virginia
Nathan Houdek	Wisconsin

NAIC Support Staff: Jolie H. Matthews/Jennifer R. Cook

© 2024 National Association of Insurance Commissioners

Accident and Sickness Insurance Minimum Standards (B) Subgroup

of the Regulatory Framework (B) Task Force

Andrew Schallhorn, Co-Chair	Oklahoma
Rachel Bowden, Co-Chair	Texas
Howard Liebers	District of Columbia
Christina Jackson	Florida
Frank Opelka	Louisiana
Robert Wake	Maine
Camille Anderson-Weddle	Missouri
Martin Swanson	Nebraska
Shari Miles	South Carolina
Shelley Wiseman	Utah
Anna Van Fleet	Vermont
Ned Gaines	Washington

NAIC Support Staff: Jolie H. Matthews

Employee Retirement Income Security Act (ERISA) (B) Working Group

of the Regulatory Framework (B) Task Force

Robert Wake, Chair	Maine
Yada Horace/Anthony Williams	Alabama
Sara Farris/Crystal Phelps	Arkansas
Sydney Sloan	Colorado
Howard Liebers	District of Columbia
Alexis Bakofsky/James Dunn	Florida
Andria Seip	Iowa
Julie Holmes	Kansas
Frank Opelka	Louisiana
Jeana Thomas	Missouri
Michael Anderson/Martin Swanson	Nebraska
Jeremy Christensen/Stephanie Canter	Nevada
Ted Hamby	North Carolina
Laura Miller	Ohio
Andrew Schallhorn	Oklahoma
Jill Kruger	South Dakota
Tanji J. Northrup	Utah
Mary Ashby	Virginia
Jane Beyer/Charles Malone	Washington
Jennifer Stegall	Wisconsin

NAIC Support Staff: Jennifer R. Cook

© 2024 National Association of Insurance Commissioners

Mental Health Parity and Addiction Equity Act (MHPAEA) (B) Working Group

of the Regulatory Framework (B) Task Force

Erica Weyhenmeyer, Chair	Illinois
Jane Beyer, Vice Chair	Washington
Leanette Henagan	Arizona
Jimmy Harris	Arkansas
Kayte Fisher	California
Cara Cheevers/Kate Harris	Colorado
Kurt Swan	Connecticut
Howard Liebers	District of Columbia
Elizabeth Nunes/Simone Edmonson	Georgia
Andria Seip	Iowa
Julie Holmes	Kansas
Mary Kwei	Maryland
Candace Gergen	Minnesota
Cynthia Amann/Amy Hoyt	Missouri
David Dachs	Montana
Sarah Cahn/Maureen Belanger	New Hampshire
Ralph Boeckman/Erin Porter	New Jersey
Viara Ianakieva/Margaret Pena	New Mexico
Sylvia Lawson	New York
Ted Hamby	North Carolina
Chrystal Bartuska	North Dakota
Kyla Dembowski	Ohio
Ashley Scott/Landon Hubbart	Oklahoma
Lindsi Swartz	Pennsylvania
Glynda Daniels	South Carolina
Jill Kruger	South Dakota
Rachel Bowden	Texas
Tanji J. Northrup	Utah
Brant Lyons	Virginia
Tim Sigman/Joylynn Fix	West Virginia
Barbara Belling	Wisconsin
Tana Howard/Jill Reinking	Wyoming

NAIC Support Staff: Joe Touschner/Brian Webb

© 2024 National Association of Insurance Commissioners

Pharmaceutical Benefit Management Regulatory Issues (B) Working Group

of the Regulatory Framework (B) Task Force

Joylynn Fix, Chair	West Virginia
Ashley Scott, Vice Chair	Oklahoma
Steve Dozier	Alabama
Lori K. Wing-Heier/Kayla Erickson/Sarah Bailey	Alaska
Amy Seale/Crystal Phelps	Arkansas
Paul Lombardo/Michael Shanahan	Connecticut
Howard Liebers	District of Columbia
Sheryl Parker/Samantha Heyn	Florida
Erica Weyhenmeyer	Illinois
Andria Seip	Iowa
Vicki Schmidt	Kansas
Daniel McIlwain	Kentucky
Frank Opelka	Louisiana
Chad Arnold/Joe Stoddard	Michigan
Norman Barrett Wiik/T.J. Patton	Minnesota
Chlora Lindley-Myers/Amy Hoyt/Cynthia Amann	Missouri
David Dachs	Montana
Cheryl Wolff	Nebraska
Ralph Boeckman/Erin Porter	New Jersey
Renee Blechner	New Mexico
Alice McKenney	New York
Robert Croom/Ted Hamby	North Carolina
TK Keen	Oregon
Jodi Frantz	Pennsylvania
Carlos Vallés	Puerto Rico
Scott McAnally	Tennessee
Tanji J. Northrup	Utah
Jennifer Kreitler/Ned Gaines	Washington
Nathan Houdek/Jennifer Stegall	Wisconsin
Jill Reinking	Wyoming

NAIC Support Staff: Jolie H. Matthews

© 2024 National Association of Insurance Commissioners

SENIOR ISSUES (B) TASK FORCE

of the Health Insurance and Managed Care (B) Committee

Scott Kipper, Chair	Nevada
Peni Itula Sapini Teo, Vice Chair	American Samoa
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Ricardo Lara	California
Andrew N. Mais	Connecticut
Trinidad Navarro	Delaware
Karima M. Woods	District of Columbia
Michael Yaworsky	Florida
Dean L. Cameron	Idaho
Amy L. Beard	Indiana
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Timothy J. Temple	Louisiana
Robert L. Carey	Maine
Joy Y. Hatchette	Maryland
Kevin P. Beagan	Massachusetts
Anita G. Fox	Michigan
Grace Arnold	Minnesota
Mike Chaney	Mississippi
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Alice T. Kane	New Mexico
Mike Causey	North Carolina
Jon Godfread	North Dakota
Judith L. French	Ohio
Glen Mulready	Oklahoma
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Alexander S. Adams Vega	Puerto Rico
Larry D. Deiter	South Dakota
Carter Lawrence	Tennessee
Cassie Brown	Texas
Tregenza A. Roach	U.S. Virgin Islands
Jon Pike	Utah
Kevin Gaffney	Vermont
Scott A. White	Virginia
Mike Kreidler	Washington
Allan L. McVey	West Virginia
Nathan Houdek	Wisconsin

NAIC Support Staff: David Torian

© 2024 National Association of Insurance Commissioners

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE

Alan McClain, Chair	Arkansas
Michael Conway, Co-Vice Chair	Colorado
Michael Yaworsky, Co-Vice Chair	Florida
Mark Fowler	Alabama
Andrew N. Mais	Connecticut
Amy L. Beard	Indiana
Vicki Schmidt	Kansas
Mike Chaney	Mississippi
Scott Kipper	Nevada
D.J. Bettencourt	New Hampshire
Alice T. Kane	New Mexico
Andrew R. Stolfi	Oregon
Larry D. Deiter	South Dakota
Tregenza A. Roach	U.S. Virgin Islands
Kevin Gaffney	Vermont

NAIC Support Staff: Aaron Brandenburg

Cannabis Insurance (C) Working Group

of the Property and Casualty Insurance (C) Committee

Ricardo Lara/Katey Piciucco, Chair	California
Andrew R. Stolfi/TK Keen, Vice Chair	Oregon
Nathan Hall	Alaska
Jimmy Harris	Arkansas
Catherine Reaves	Delaware
Angela King	District of Columbia
C.J. Metcalf	Illinois
Ryan Blakeney	Mississippi
Gennady Stolyarov	Nevada
Justin Zimmerman	New Jersey
Melissa Robertson/Ursula Almada	New Mexico
Glen Mulready	Oklahoma
Michael Humphreys/Sebastian Conforto	Pennsylvania
Carlos Vallés	Puerto Rico
Beth Vollucci	Rhode Island
Karla Nuissl	Vermont
Michael Walker	Washington

NAIC Support Staff: Anne Obersteadt/Aaron Brandenburg

© 2024 National Association of Insurance Commissioners

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

of the Property and Casualty Insurance (C) Committee

D.J. Bettencourt, Chair	New Hampshire
Chlora Lindley-Myers, Vice Chair	Missouri
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Barbara D. Richardson	Arizona
Ricardo Lara	California
Andrew N. Mais	Connecticut
Karima M. Woods	District of Columbia
Michael Yaworsky	Florida
Gordon I. Ito	Hawaii
Amy L. Beard	Indiana
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Timothy J. Temple	Louisiana
Robert L. Carey	Maine
Joy Y. Hatchette	Maryland
Anita G. Fox	Michigan
Grace Arnold	Minnesota
Eric Dunning	Nebraska
Justin Zimmerman	New Jersey
Alice T. Kane	New Mexico
Judith L. French	Ohio
Glen Mulready	Oklahoma
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Alexander S. Adams Vega	Puerto Rico
Michael Wise	South Carolina
Cassie Brown	Texas
Kevin Gaffney	Vermont
Mike Kreidler	Washington
Allan L. McVey	West Virginia

NAIC Support Staff: Kris DeFrain/Roberto Perez

© 2024 National Association of Insurance Commissioners

Actuarial Opinion (C) Working Group

of the Casualty Actuarial and Statistical (C) Task Force

Miriam Fisk, Chair	Texas
Julie Lederer, Vice Chair	Missouri
Susan Gozzo Andrews	Connecticut
David Christhilf	District of Columbia
Chantel Long	Illinois
Sandra Darby	Maine
Tom Botsko	Ohio
Andrew Schallhorn	Oklahoma
James DiSanto	Pennsylvania

NAIC Support Staff: Kris DeFrain/Roberto Perez

Statistical Data (C) Working Group

of the Casualty Actuarial and Statistical (C) Task Force

Sandra Darby, Chair	Maine
Qing He, Vice-Chair	Connecticut
Charles Hale	Alabama
David Christhilf	District of Columbia
Arthur Schwartz	Louisiana
Cynthia Amann	Missouri
Christian Citarella	New Hampshire
Alexander Vajda	New York
Tom Botsko	Ohio
Andrew Schallhorn	Oklahoma
David Dahl	Oregon
Nicole Elliott	Texas

NAIC Support Staff: Libby Crews

© 2024 National Association of Insurance Commissioners

Catastrophe Insurance (C) Working Group

of the Property and Casualty Insurance (C) Committee

Chlora Lindley-Myers, Chair	Missouri
Mike Causey, Vice Chair	North Carolina
Jimmy Gunn/Travis Taylor	Alabama
Chad Bennett	Alaska
Jimmy Harris	Arkansas
Lucy Jabourian/Mitra Sanadajifar	California
George Bradner	Connecticut
NuDasha Fludd	District of Columbia
Richie Frederick	Florida
Gordon I. Ito/Kathleen Nakasone	Hawaii
Travis Grassel	Iowa
Julie Holmes	Kansas
Timothy J. Temple	Louisiana
Joy Y. Hatchette	Maryland
Jackie Horigan/Matthew Mancini	Massachusetts
Mike Chaney	Mississippi
Melissa Robertson/Elouisa Macias	New Mexico
Tom Botsko	Ohio
Cuc Nguyen	Oklahoma
David Dahl/Ying Liu/Raven Collins	Oregon
David Buono	Pennsylvania
Glorimar Santiago	Puerto Rico
Beth Vollucci	Rhode Island
Will Davis	South Carolina
Stephanie Cope	Tennessee
Mark Worman/J'ne Byckovski	Texas
David Forte	Washington
Allan L. McVey	West Virginia

NAIC Support Staff: Sara Robben

NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group

of the Catastrophe Insurance (C) Working Group

Glen Mulready, Chair	Oklahoma
Carter Lawrence, Vice Chair	Tennessee
Travis Taylor	Alabama
Shauna Nickel	Alaska
Lucy Jabourian/Deborah Halberstadt	California
George Bradner	Connecticut
Virginia Christy	Florida
Travis Grassel	Iowa
Julie Holmes	Kansas
Timothy J. Temple	Louisiana
Joy Y. Hatchette	Maryland
Andy Case	Mississippi
Jo LeDuc	Missouri
Elouisa Macias/Tim Vigil	New Mexico
Alex Cheng	Oregon
Beth Vollucci	Rhode Island
Larry D. Deiter	South Dakota
Marly Santoro	Virginia
Matt Stoutenburg	Washington
Allan L. McVey	West Virginia

NAIC Support Staff: Aaron Brandenburg/Sara Robben

SURPLUS LINES (C) TASK FORCE

of the Property and Casualty Insurance (C) Committee

Larry D. Deiter, Chair	South Dakota
Cassie Brown, Vice Chair	Texas
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Ricardo Lara	California
Michael Conway	Colorado
Karima M. Woods	District of Columbia
Michael Yaworsky	Florida
John F. King	Georgia
Michelle B. Santos	Guam
Gordon I. Ito	Hawaii
Dean L. Cameron	Idaho
Ann Gillespie	Illinois
Amy L. Beard	Indiana
Vicki Schmidt	Kansas
Timothy J. Temple	Louisiana
Joy Y. Hatchette	Maryland
Kevin P. Beagan	Massachusetts
Grace Arnold	Minnesota
Mike Chaney	Mississippi
Remedio C. Mafnas	N. Mariana Islands
Scott Kipper	Nevada
Justin Zimmerman	New Jersey
Mike Causey	North Carolina
Glen Mulready	Oklahoma
Michael Humphreys	Pennsylvania
Michael Wise	South Carolina
Carter Lawrence	Tennessee
Tregenza A. Roach	U.S. Virgin Islands
Mike Kreidler	Washington

NAIC Support Staff: Andy Daleo

Surplus Lines (C) Working Group

of the Surplus Lines (C) Task Force

Eli Snowbarger, Chair	Oklahoma
Scott Sanders, Vice Chair	Georgia
David Phifer	Alaska
Michelle Lo	California
Rolf Kaumann	Colorado
Sheryl Parker	Florida
Marcy Savage	Illinois
Bill Werner	Louisiana
John Turchi	Massachusetts
William Leach	New Jersey
Jose Joseph	New York
Amy Garcia	Texas
Steve Drutz	Washington

NAIC Support Staff: Bree Wilson/Andy Daleo

Terrorism Insurance Implementation (C) Working Group

of the Property and Casualty Insurance (C) Committee

Martha Lees, Chair	New York
Chad Bennett	Alaska
Monica Macaluso	California
Rolf Kaumann	Colorado
Paul Lombardo/George Bradner	Connecticut
Angela King	District of Columbia
Jane Nelson	Florida
Reid McClintock	Illinois
Julie Holmes	Kansas
Matthew Mancini	Massachusetts
Chlora Lindley-Myers/Jeana Thomas	Missouri
Tim Vigil	New Mexico
Glen Mulready/Cuc Nguyen	Oklahoma
Jan Vitus/Raven Collins	Oregon
Beth Vollucci	Rhode Island
Mark Worman	Texas
Dan Petterson/Heidi Rabtoy	Vermont
Rebecca Nichols	Virginia

NAIC Support Staff: Aaron Brandenburg

© 2024 National Association of Insurance Commissioners

TITLE INSURANCE (C) TASK FORCE

of the Property and Casualty Insurance (C) Committee

Eric Dunning, Chair	Nebraska
Kevin Gaffney, Vice Chair	Vermont
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Barbara D. Richardson	Arizona
Karima M. Woods	District of Columbia
Michael Yaworsky	Florida
Gordon I. Ito	Hawaii
Dean L. Cameron	Idaho
Amy L. Beard	Indiana
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Timothy J. Temple	Louisiana
Joy Y. Hatchette	Maryland
Grace Arnold	Minnesota
Scott Kipper	Nevada
Alice T. Kane	New Mexico
Mike Causey	North Carolina
Jon Godfread	North Dakota
Judith L. French	Ohio
Glen Mulready	Oklahoma
Michael Humphreys	Pennsylvania
Elizabeth Kelleher Dwyer	Rhode Island
Michael Wise	South Carolina
Larry D. Deiter	South Dakota
Scott A. White	Virginia

NAIC Support Staff: Anne Obersteadt/Aaron Brandenburg

© 2024 National Association of Insurance Commissioners

Transparency and Readability of Consumer Information (C) Working Group

of the Property and Casualty Insurance (C) Committee

George Bradner, Chair	Connecticut
Jimmy Gunn	Alabama
Elizabeth Merrill	Alaska
Ken Allen	California
Michael Conway/Bobbie Baca	Colorado
Angela King	District of Columbia
Julie Rachford	Illinois
Amy L. Beard	Indiana
Julie Holmes	Kansas
Ron Henderson	Louisiana
Daniel Bryden	Minnesota
Jeana Thomas	Missouri
Elouisa Macias	New Mexico
Angela Hatchell	North Carolina
John Arnold	North Dakota
Cuc Nguyen	Oklahoma
Tricia Goldsmith	Oregon
David Buono	Pennsylvania
Doris Diaz	Puerto Rico
Rachel Chester	Rhode Island
Vickie Trice/Jennifer Ramcharan	Tennessee
Mark Worman/Marianne Baker	Texas
Mike Kemlock	West Virginia

NAIC Support Staff: Anne Obersteadt

© 2024 National Association of Insurance Commissioners

I

WORKERS' COMPENSATION (C) TASK FORCE

of the Property and Casualty Insurance (C) Committee

Alan McClain, Chair	Arkansas
John F. King, Vice Chair	Georgia
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Barbara D. Richardson	Arizona
Ricardo Lara	California
Andrew N. Mais	Connecticut
Karima M. Woods	District of Columbia
Gordon I. Ito	Hawaii
Dean L. Cameron	Idaho
Amy L. Beard	Indiana
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Timothy J. Temple	Louisiana
Robert L. Carey	Maine
Kevin P. Beagan	Massachusetts
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
Remedio C. Mafnas	N. Mariana Islands
Scott Kipper	Nevada
Glen Mulready	Oklahoma
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Elizabeth Kelleher Dwyer	Rhode Island
Michael Wise	South Carolina
Larry D. Deiter	South Dakota
Kevin Gaffney	Vermont

NAIC Support Staff: Sara Robben/Aaron Brandenburg

© 2024 National Association of Insurance Commissioners

NAIC/International Association of Industrial Accident Boards and Commissions (IAIABC) Joint (C) Working Group

of the Workers' Compensation (C) Task Force

Robert Wake, Chair	Maine
Alan McClain/Jimmy Harris	Arkansas
Mitra Sanandajifar	California
George Bradner	Connecticut
Virginia Christy	Florida
Julie Holmes	Kansas
Tammy Lohmann	Minnesota
Patrick Lennon	Missouri
Gennady Stolyarov	Nevada
Cuc Nguyen/Andrew Schallhorn	Oklahoma
Beth Vollucci	Rhode Island
Tracy Klausmeier	Utah
Kevin Gaffney	Vermont

NAIC Support Staff: Sara Robben/Aaron Brandenburg

© 2024 National Association of Insurance Commissioners

MARKET REGULATION AND CONSUMER AFFAIRS (D) COMMITTEE

Jon Pike, Chair	Utah
Barbara D. Richardson, Co-Vice Chair	Arizona
Trinidad Navarro, Co-Vice Chair	Delaware
Karima M. Woods	District of Columbia
Dean L. Cameron	Idaho
Sharon P. Clark	Kentucky
Timothy J. Temple	Louisiana
Robert L. Carey	Maine
Chlora Lindley-Myers	Missouri
Troy Downing	Montana
Scott Kipper	Nevada
Mike Causey	North Carolina
Jon Godfread	North Dakota
Michael Humphreys	Pennsylvania
Cassie Brown	Texas

NAIC Support Staff: Tim Mullen/Randy Helder

Advisory Organization (D) Working Group

of the Market Regulation and Consumer Affairs (D) Committee

Erica Weyhenmeyer, Chair	Illinois
Rebecca Nichols, Vice Chair	Virginia
Teri Ann Mecca	Arkansas
Kurt Swan	Connecticut
N. Kevin Brown	District of Columbia
Sheryl Parker/Alex May	Florida
Shannon Hohl	Idaho
Johanna Nagel	Iowa
Charles Thomas/Philip Michael	Kansas
Win Nickens/Teresa Kroll	Missouri
Connie Van Slyke	Nebraska
James Fox	New Hampshire
Ralph Boeckman/Erin Porter	New Jersey
Tyler Erickson	North Dakota
David Dahl	Oregon
Matt Gendron/Brett Bache	Rhode Island
Tony Dorschner	South Dakota

NAIC Support Staff: Paul Santillanes/Randy Helder

© 2024 National Association of Insurance Commissioners

ANTIFRAUD (D) TASK FORCE

of the Market Regulation and Consumer Affairs (D) Committee

John F. King, Chair	Georgia
Trinidad Navarro, Vice Chair	Delaware
Lori K. Wing-Heier	Alaska
Barbara D. Richardson	Arizona
Alan McClain	Arkansas
Ricardo Lara	California
Andrew N. Mais	Connecticut
Karima M. Woods	District of Columbia
Michael Yaworsky	Florida
Gordon I. Ito	Hawaii
Dean L. Cameron	Idaho
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Timothy J. Temple	Louisiana
Joy Y. Hatchette	Maryland
Grace Arnold	Minnesota
Mike Chaney	Mississippi
Eric Dunning	Nebraska
Scott Kipper	Nevada
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Alice T. Kane	New Mexico
Mike Causey	North Carolina
Jon Godfread	North Dakota
Glen Mulready	Oklahoma
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Elizabeth Kelleher Dwyer	Rhode Island
Michael Wise	South Carolina
Larry D. Deiter	South Dakota
Cassie Brown	Texas
Jon Pike	Utah
Scott A. White	Virginia
Nathan Houdek	Wisconsin

NAIC Support Staff: Greg Welker/Lois E. Alexander

© 2024 National Association of Insurance Commissioners

Antifraud Technology (D) Working Group

of the Antifraud (D) Task Force

Armand Glick, Chair	Utah
Paul Keller/Russ Galbraith	Arkansas
Eric Charlick	California
Simon Blank	Florida
Tony Ofstead	Minnesota
Roberta Baca	New Mexico
David Barney	Ohio
Christopher Davis/Kyson Johnson	Texas
Richard Tozer	Virginia

NAIC Support Staff: Greg Welker/Lois E. Alexander

Improper Marketing of Health Insurance (D) Working Group

of the Antifraud (D) Task Force

Martin Swanson, Chair	Nebraska
Maria Ailor	Arizona
Teri Ann Mecca	Arkansas
Kurt Swan	Connecticut
Trinidad Navarro	Delaware
Erica Weyhenmeyer	Illinois
Andria Seip	Iowa
Craig VanAalst	Kansas
Joseph Garcia	Michigan
Cam Jenkins	Minnesota
Cynthia Amann	Missouri
Jeanne Massey	Montana
Michael Fissel/David Buono	Pennsylvania
Carlos Vallés	Puerto Rico
Patrick Smock	Rhode Island
Jill Kruger/Travis Jordan	South Dakota
Matthew Tarpley	Texas
Randi Osberg/Tyler Robbins	Washington
Bryan Stevens	Wyoming

NAIC Support Staff: Greg Welker/Lois E. Alexander

© 2024 National Association of Insurance Commissioners

Market Actions (D) Working Group

of the Market Regulation and Consumer Affairs (D) Committee

Erica Weyhenmeyer, Chair	Illinois
Pam O'Connell, Vice Chair	California
Maria Ailor	Arizona
Kurt Swan	Connecticut
Susan Jennette	Delaware
Victoria Hastings	Indiana
Johanna Nagel	Iowa
Martin Swanson	Nebraska
Mark McLeod	New York
Tracy Biehn	North Carolina
Johnny Palsgraaf	North Dakota
David Buono	Pennsylvania
Matt Gendron	Rhode Island
Matthew Tarpley	Texas
Karla Nuissl	Vermont
Julie Fairbanks	Virginia
John Kelcher	Washington
Rebecca Rebholz	Wisconsin

NAIC Support Staff: Paul Santillanes/Randy Helder

© 2024 National Association of Insurance Commissioners

Market Analysis Procedures (D) Working Group

of the Market Regulation and Consumer Affairs (D) Committee

Jo LeDuc, Chair	Missouri
John Haworth, Vice Chair	Washington
Maria Ailor	Arizona
Crystal Phelps	Arkansas
Don McKinley	California
Tracy Garceau	Colorado
Steve DeAngelis	Connecticut
Susan Jennette	Delaware
Sharon Shipp/Cheryl Wade/Pratima Lele	District of Columbia
Sheryl Parker	Florida
Erica Weyhenmeyer	Illinois
Charles Thomas	Kansas
Sandra Stumbo/Lori Cunningham	Kentucky
Lisa Fullington	Louisiana
Timothy N. Schott	Maine
Raymond Guzman	Maryland
Mary Lou Moran	Massachusetts
Jeff Hayden	Michigan
Bryce Wang/T.J. Patton	Minnesota
David Dachs/Troy Smith	Montana
Martin Swanson/Robert McCullough	Nebraska
Peggy Willard-Ross	Nevada
Maureen Belanger/Douglas Rees	New Hampshire
Ralph Boeckman	New Jersey
Alma Tapia	New Mexico
Larry Wertel	New York
Todd Oberholtzer	Ohio
Landon Hubbart	Oklahoma
Karen Veronikis	Pennsylvania
Brett Bache/Matt Gendron	Rhode Island
Gwendolyn McGriff/Rachel Moore	South Carolina
Tanji J. Northrup	Utah
Kevin Gaffney	Vermont
Melissa Gerachis	Virginia
Tom Whitener	West Virginia
Rebecca Rebholz	Wisconsin

NAIC Support Staff: Teresa Cooper/Randy Helder

© 2024 National Association of Insurance Commissioners

Market Conduct Annual Statement Blanks (D) Working Group

of the Market Regulation and Consumer Affairs (D) Committee

Rebecca Rebholz, Chair	Wisconsin
Tolanda Coker, Vice Chair	Arizona
Teri Ann Mecca/Jake Windley	Arkansas
Sheryl Parker	Florida
Elizabeth Nunes/Paula Shamburger	Georgia
Erica Weyhenmeyer	Illinois
Charles Thomas	Kansas
Lori Cunningham	Kentucky
Raymond Guzman	Maryland
Mary Lou Moran	Massachusetts
Jeff Hayden	Michigan
John Fritzberg-Glover/T.J. Patton	Minnesota
Julie Hesser/Jo LeDuc	Missouri
Martin Swanson	Nebraska
Hermoliva Abejar	Nevada
Alma Tapia	New Mexico
Guy Self	Ohio
Gary Jones/Karen Veronikis/August Hall	Pennsylvania
Gwendolyn McGriff/Rachel Moore	South Carolina
Larry D. Deiter	South Dakota
Shelli Isiminger	Tennessee
Shelley Wiseman	Utah
Melissa Gerachis/Will Felvey	Virginia
John Haworth/John Kelcher	Washington
Letha Tate	West Virginia

NAIC Support Staff: Teresa Cooper/Hal Marsh

© 2024 National Association of Insurance Commissioners

Market Conduct Examination Guidelines (D) Working Group

of the Market Regulation and Consumer Affairs (D) Committee

Matthew Tarpley, Chair	Texas
Brett Bache, Vice Chair	Rhode Island
Maria Ailor	Arizona
Teri Ann Mecca	Arkansas
Nick Gill	Connecticut
Sharon Shipp	District of Columbia
Elizabeth Nunes/Paula Shamburger	Georgia
Erica Weyhenmeyer	Illinois
Doug Ommen	Iowa
Mary Lou Moran	Massachusetts
Jeff Hayden	Michigan
T.J. Patton/Bryce Wang	Minnesota
Teresa Kroll/Jo LeDuc	Missouri
Peggy Willard-Ross/Hermoliva Abejar	Nevada
Maureen Belanger/Ellen Wilkins	New Hampshire
Ralph Boeckman	New Jersey
Alma Tapia	New Mexico
Sylvia Lawson	New York
Teresa Knowles	North Carolina
Rodney Beetch	Ohio
Landon Hubbart	Oklahoma
Tashia Sizemore	Oregon
Gary Jones/Paul Towsen	Pennsylvania
Karla Nuissl	Vermont
Bryan Wachter	Virginia
John Kelcher	Washington
Desiree Mauller	West Virginia
Rebecca Rebholz/Darcy Paskey	Wisconsin

NAIC Support Staff: Petra Wallace/Lois E. Alexander

© 2024 National Association of Insurance Commissioners

MARKET INFORMATION SYSTEMS (D) TASK FORCE

of the Market Regulation and Consumer Affairs (D) Committee

Chlora Lindley-Myers, Chair	Missouri
Timothy J. Temple, Vice Chair	Louisiana
Mark Fowler	Alabama
Barbara D. Richardson	Arizona
Alan McClain	Arkansas
Ricardo Lara	California
Andrew N. Mais	Connecticut
Trinidad Navarro	Delaware
Michael Yaworsky	Florida
Gordon I. Ito	Hawaii
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Joy Y. Hatchette	Maryland
Grace Arnold	Minnesota
Justin Zimmerman	New Jersey
Glen Mulready	Oklahoma
Cassie Brown	Texas
Nathan Houdek	Wisconsin

NAIC Support Staff: Randy Helder

Market Information Systems Research and Development (D) Working Group

of the Market Information Systems (D) Task Force

Brad Gerling, Chair	Missouri
John Haworth, Vice Chair	Washington
Chelsy Maller	Alaska
Cheryl Hawley	Arizona
Don McKinley/Pam O'Connell	California
Erica Weyhenmeyer	Illinois
Charles Thomas	Kansas
Raymond Guzman	Maryland
Martin Swanson/Robert McCullough	Nebraska
Todd Oberholtzer/Rodney Beetch	Ohio
TK Keen	Oregon
Rachel Cloyd/Matthew Tarpley	Texas
Jeannie Tincher	West Virginia
Mark Prodoehl	Wisconsin

NAIC Support Staff: Randy Helder

© 2024 National Association of Insurance Commissioners

Market Regulation Certification (D) Working Group

of the Market Regulation and Consumer Affairs (D) Committee

John Haworth, Chair	Washington
Bryan Stevens, Vice Chair	Wyoming
Chelsy Maller	Alaska
Alan McClain	Arkansas
Erica Weyhenmeyer	Illinois
Doug Ommen/Jared Kirby	Iowa
Mary Kwei	Maryland
Mary Lou Moran	Massachusetts
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
Martin Swanson/Robert McCullough	Nebraska
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Alice Kane	New Mexico
Mike Causey	North Carolina
Judith L. French	Ohio
Glen Mulready	Oklahoma
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Michael Wise	South Carolina
Tanji J. Northrup	Utah
Kevin Gaffney	Vermont
Andrea Baytop	Virginia
Allan L. McVey	West Virginia

NAIC Support Staff: Randy Helder/Tim Mullen

PRODUCER LICENSING (D) TASK FORCE

of the Market Regulation and Consumer Affairs (D) Committee

Larry D. Deiter, Chair	South Dakota
Glen Mulready, Vice Chair	Oklahoma
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Ricardo Lara	California
Trinidad Navarro	Delaware
Karima M. Woods	District of Columbia
Michelle B. Santos	Guam
Dean L. Cameron	Idaho
Amy L. Beard	Indiana
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Timothy J. Temple	Louisiana
Joy Y. Hatchette	Maryland
Grace Arnold	Minnesota
Mike Chaney	Mississippi
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
D.J. Bettencourt	New Hampshire
Alice T. Kane	New Mexico
Mike Causey	North Carolina
Jon Godfread	North Dakota
Judith L. French	Ohio
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Elizabeth Kelleher Dwyer	Rhode Island
Cassie Brown	Texas
Jon Pike	Utah
Kevin Gaffney	Vermont
Scott A. White	Virginia
Mike Kreidler	Washington
Allan L. McVey	West Virginia
Nathan Houdek	Wisconsin

NAIC Support Staff: Tim Mullen/Greg Welker

© 2024 National Association of Insurance Commissioners

Adjuster Licensing (D) Working Group

of the Producer Licensing (D) Task Force

Rachel Chester, Chair	Rhode Island
Peggy Dunlap	Arkansas
Charlene Ferguson	California
Matt Tamplin	Florida
Lee Ellen Webb	Kentucky
Lorie Gasior	Louisiana
Jill Huisken	Michigan
Vanessa DeJesus	New Mexico
Courtney Khodabakhsh	Oklahoma
Michael Fissel	Pennsylvania
Jodie Delgado	Texas
Randy Overstreet	Utah
Richard Tozer	Virginia
Jeff Baughman	Washington
Lisa Hastings	Wyoming

NAIC Support Staff: Greg Welker/Tim Mullen

Producer Licensing Uniformity (D) Working Group

of the Producer Licensing (D) Task Force

Courtney Khodabakhsh, Chair	Oklahoma
Monicka Richmeier, Vice Chair	Kansas
Russ Galbraith	Arkansas
Charlene Ferguson	California
Matt Tamplin	Florida
Eric Fletcher/Lori Thomason	Idaho
Shelley Taylor-Barnes	Maryland
Michele Riddering	Michigan
Kevin Schlautman	Nebraska
David Cassetty	Nevada
Victoria Baca	New Mexico
Janelle Middlestead	North Dakota
Karen Vourvopoulos	Ohio
Rachel Chester	Rhode Island
Larry D. Deiter	South Dakota
Randy Overstreet	Utah
Richard Tozer	Virginia
Jeff Baughman	Washington
Melody Esquivel	Wisconsin
Lisa Hastings	Wyoming

NAIC Support Staff: Greg Welker/Tim Mullen

© 2024 National Association of Insurance Commissioners

Public Adjuster Licensing (D) Working Group

of the Producer Licensing (D) Task Force

Trinidad Navarro, Chair	Delaware
David Buono, Vice Chair	Pennsylvania
Sharon P. Clark	Kentucky
Matt Gendron/Rachel Chester	Rhode Island
Richard Tozer/Juan Rodriguez Jr.	Virginia
Jeff Baughman	Washington

NAIC Support Staff: Tim Mullen/Greg Welker

Uniform Education (D) Working Group

of the Producer Licensing (D) Task Force

Richard Tozer, Chair	Virginia
Lorelei Brillante, Vice Chair	Maryland
Russ Galbraith	Arkansas
Charlene Ferguson	California
Matt Tamplin	Florida
Vanessa Miller	Mississippi
Victoria Baca	New Mexico
Tynesia Dorsey/Karen Vourvopoulos	Ohio
Lindsay Piatt	Oklahoma
Larry D. Deiter	South Dakota
Christopher Davis	Texas
Jeff Baughman	Washington

NAIC Support Staff: Greg Welker/Tim Mullen

© 2024 National Association of Insurance Commissioners

Speed to Market (D) Working Group

of the Market Regulation and Consumer Affairs (D) Committee

Rebecca Nichols, Chair	Virginia
Maureen Motter, Vice Chair	Ohio
Jimmy Gunn	Alabama
Sian Ng-Ashcraft	Alaska
Jimmy Harris	Arkansas
Mary Grover	Colorado
Trinidad Navarro	Delaware
Robert Nkojo	District of Columbia
Dean L. Cameron	Idaho
Julie Rachford	Illinois
Craig VanAalst	Kansas
Tammy Lohmann	Minnesota
Camille Anderson-Weddle	Missouri
Remedio C. Mafnas	N. Mariana Islands
LuAnne J. King	New Hampshire
Alice Kane	New Mexico
Ted Hamby	North Carolina
Jon Godfread	North Dakota
Cuc Nguyen/Glen Mulready	Oklahoma
Andrew R. Stolfi	Oregon
Mark Worman/Debra Diaz-Lara	Texas
Tanji J. Northrup	Utah
Lichiou Lee	Washington
Allan L. McVey	West Virginia
Barry Haney	Wisconsin
Lela Ladd	Wyoming

NAIC Support Staff: Randy Helder
NAIC Technical Support: Renee Brownfield/Alex Rogers

FINANCIAL CONDITION (E) COMMITTEE

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

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

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

of the Financial Condition (E) Committee

Cassie Brown, Chair	Texas
Mike Causey, Vice Chair	North Carolina
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Alan McClain	Arkansas
Ricardo Lara	California
Andrew N. Mais	Connecticut
Trinidad Navarro	Delaware
Karima M. Woods	District of Columbia
Michael Yaworsky	Florida
Michelle B. Santos	Guam
Dean L. Cameron	Idaho
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Timothy J. Temple	Louisiana
Robert L. Carey	Maine
Kevin P. Beagan	Massachusetts
Anita G. Fox	Michigan
Grace Arnold	Minnesota
Mike Chaney	Mississippi
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Adrienne A. Harris	New York
Jon Godfread	North Dakota
Judith L. French	Ohio
Glen Mulready	Oklahoma
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Michael Wise	South Carolina
Larry D. Deiter	South Dakota
Carter Lawrence	Tennessee
Jon Pike	Utah
Kevin Gaffney	Vermont
Scott A. White	Virginia
Mike Kreidler	Washington
Nathan Houdek	Wisconsin

NAIC Support Staff: Robin Marcotte

© 2024 National Association of Insurance Commissioners

Blanks (E) Working Group

of the Accounting Practices and Procedures (E) Task Force

Debbie Doggett, Chair	Missouri
Steve Drutz, Vice Chair	Washington
Kevin Richard	Alaska
Kim Hudson	California
Wayne Shepherd	Connecticut
Nicole Brittingham	Delaware
N. Kevin Brown	District of Columbia
Nicole Crockett/Carly Wagoner	Florida
Roy Eft	Indiana
Daniel Mathis	Iowa
Kristin Hynes/Jason Tippett	Michigan
Tadd Wegner	Nebraska
Paul Lupo/Amal Mechaiel	New Jersey
Tracy Snow	Ohio
Diane Carter	Oklahoma
Ryan Keeling	Oregon
Diana Sherman	Pennsylvania
Shawn Frederick	Texas
Jake Garn	Utah
Mary Jo Lewis	West Virginia
Adrian Jaramillo	Wisconsin

NAIC Support Staff: Mary Caswell/Jill Youtsey/Julie Gann

Statutory Accounting Principles (E) Working Group

of the Accounting Practices and Procedures (E) Task Force

Dale Bruggeman, Chair	Ohio
Kevin Clark, Vice Chair	Iowa
Sheila Travis/Richard Russell	Alabama
Kim Hudson	California
William Arfanis/Michael Estabrook	Connecticut
Rylynn Brown	Delaware
Cindy Andersen	Illinois
Melissa Gibson/Bill Werner	Louisiana
Judy Weaver/Steve Mayhew	Michigan
Doug Bartlett	New Hampshire
Bob Kasinow	New York
Diana Sherman	Pennsylvania
Jamie Walker	Texas
Doug Stolte/Jennifer Blizzard	Virginia
Amy Malm/Elena Vetrina	Wisconsin

NAIC Support Staff: Julie Gann/Robin Marcotte/Jake Stultz/Jason Farr/
William Oden

© 2024 National Association of Insurance Commissioners

CAPITAL ADEQUACY (E) TASK FORCE

of the Financial Condition (E) Committee

Judith L. French, Chair	Ohio
Doug Ommen, Vice Chair	Iowa
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Ricardo Lara	California
Michael Conway	Colorado
Andrew N. Mais	Connecticut
Karima M. Woods	District of Columbia
Michael Yaworsky	Florida
Ann Gillespie	Illinois
Amy L. Beard	Indiana
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Joy Y. Hatchette	Maryland
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
Scott Kipper	Nevada
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Mike Causey	North Carolina
Jon Godfread	North Dakota
Glen Mulready	Oklahoma
Michael Wise	South Carolina
Cassie Brown	Texas
Mike Kreidler	Washington
Nathan Houdek	Wisconsin

NAIC Support Staff: Eva Yeung

Health Risk-Based Capital (E) Working Group

of the Capital Adequacy (E) Task Force

Steve Drutz, Chair	Washington
Matthew Richard, Vice Chair	Texas
Wanchin Chou	Connecticut
Kyle Collins	Florida
Tish Becker	Kansas
Danielle Smith/Debbie Doggett	Missouri
Margaret Garrison	Nebraska
Michel Laverdiere	New York
Diana Sherman	Pennsylvania

NAIC Support Staff: Maggie Chang

© 2024 National Association of Insurance Commissioners

Life Risk-Based Capital (E) Working Group

of the Capital Adequacy (E) Task Force

Philip Barlow, Chair	District of Columbia
Ben Slutsker, Vice Chair	Minnesota
Sheila Travis	Alabama
Thomas Reedy	California
Wanchin Chou	Connecticut
Dalora Schafer	Florida
Vincent Tsang	Illinois
Mike Yanacheak	Iowa
William Leung	Missouri
Margaret Garrison	Nebraska
Jennifer Li	New Hampshire
Seong-min Eom	New Jersey
Bill Carmello	New York
Andrew Schallhorn	Oklahoma
Rachel Hemphill	Texas
Tomasz Serbinowski	Utah

NAIC Support Staff: Dave Fleming

Generator of Economic Scenarios (GOES) (E/A) Subgroup

of the Life Risk-Based Capital (E) Working Group and Life Actuarial (A) Task Force

Mike Yanacheak, Chair	Iowa
Peter Weber, Vice Chair	Ohio
Ted Chang	California
Wanchin Chou	Connecticut
Philip Barlow	District of Columbia
Scott Shover	Indiana
Ben Slutsker	Minnesota
William Leung	Missouri
Seong-min Eom	New Jersey
Bill Carmello	New York
Rachel Hemphill	Texas
Craig Chupp	Virginia

NAIC Support Staff: Scott O'Neal

© 2024 National Association of Insurance Commissioners

Longevity Risk (E/A) Subgroup

of the Life Risk-Based Capital (E) Working Group and Life Actuarial (A) Task Force

Seong-min Eom, Chair	New Jersey
Lei Rao-Knight	Connecticut
Mike Yanacheak	Iowa
Ben Slutsker	Minnesota
Bill Carmello	New York
Peter Weber	Ohio
Rachel Hemphill	Texas
Tomasz Serbinowski	Utah

NAIC Support Staff: Dave Fleming

Variable Annuities Capital and Reserve (E/A) Subgroup

of the Life Risk-Based Capital (E) Working Group and Life Actuarial (A) Task Force

Peter Weber, Chair	Ohio
Thomas Reedy	California
Philip Barlow	District of Columbia
Nicole Boyd	Kansas
Fred Andersen	Minnesota
William Leung	Missouri
Seong-min Eom	New Jersey
Bill Carmello	New York
Rachel Hemphill	Texas

NAIC Support Staff: Dave Fleming/Jim Stinson

Property and Casualty Risk-Based Capital (E) Working Group

of the Capital Adequacy (E) Task Force

Tom Botsko, Chair	Ohio
Wanchin Chou, Vice Chair	Connecticut
Charles Hale	Alabama
Rolf Kaumann/Eric Unger	Colorado
Virginia Christy	Florida
Sandra Darby	Maine
Melissa Robertson	New Mexico
Ni Qin	New York
Will Davis	South Carolina
Miriam Fisk	Texas
Adrian Jaramillo	Wisconsin

NAIC Support Staff: Eva Yeung

Catastrophe Risk (E) Subgroup

of the Property and Casualty Risk-Based Capital (E) Working Group

Wanchin Chou, Chair	Connecticut
Virginia Christy, Vice Chair	Florida
Rolf Kaumann/Eric Unger	Colorado
Travis Grassel	Iowa
Sandra Darby	Maine
Melissa Robertson	New Mexico
Alexander Vajda	New York
Tom Botsko	Ohio
Andrew Schallhorn	Oklahoma
Will Davis	South Carolina
Miriam Fisk	Texas

NAIC Support Staff: Eva Yeung

Risk-Based Capital Investment Risk and Evaluation (E) Working Group

of the Capital Adequacy (E) Task Force

Philip Barlow, Chair	District of Columbia
Thomas Reedy, Vice Chair	California
Wanchin Chou	Connecticut
Ray Spudeck/Carolyn Morgan	Florida
Vincent Tsang	Illinois
Roy Eft	Indiana
Carrie Mears/Kevin Clark	Iowa
Fred Andersen	Minnesota
William Leung/Debbie Doggett	Missouri
Tadd Wegner	Nebraska
Jennifer Li	New Hampshire
Bob Kasinow/Bill Carmello	New York
Dale Bruggeman/Tom Botsko	Ohio
Rachel Hemphill	Texas
Doug Stolte	Virginia
Steve Drutz/Katy Bardsley	Washington
Amy Malm	Wisconsin

NAIC Support Staff: Dave Fleming/Julie Gann/Charles Therriault/
Linda Phelps/Peter Kelly

© 2024 National Association of Insurance Commissioners

EXAMINATION OVERSIGHT (E) TASK FORCE

of the Financial Condition (E) Committee

Judith L. French, Chair	Ohio
Karima M. Woods, Vice Chair	District of Columbia
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Barbara D. Richardson	Arizona
Ricardo Lara	California
Michael Conway	Colorado
Andrew N. Mais	Connecticut
Trinidad Navarro	Delaware
Michael Yaworsky	Florida
Dean L. Cameron	Idaho
Amy L. Beard	Indiana
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Timothy J. Temple	Louisiana
Kevin P. Beagan	Massachusetts
Anita G. Fox	Michigan
Grace Arnold	Minnesota
Mike Chaney	Mississippi
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
Scott Kipper	Nevada
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Jon Godfread	North Dakota
Glen Mulready	Oklahoma
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Michael Wise	South Carolina
Larry D. Deiter	South Dakota
Carter Lawrence	Tennessee
Cassie Brown	Texas
Scott A. White	Virginia
Mike Kreidler	Washington
Nathan Houdek	Wisconsin

NAIC Support Staff: Bailey Henning

© 2024 National Association of Insurance Commissioners

Electronic Workpaper (E) Working Group

of the Examination Oversight (E) Task Force

Laura Clements, Chair	California
Jesse Alonzo, Vice Chair	Illinois
Blase Abreo	Alabama
William Arfanis/John Loughran	Connecticut
Charles Santana	Delaware
Christine Afolabi	District of Columbia
Daniel Mathis	Iowa
Patrick Tess	Michigan
Kim Dobbs	Missouri
Eileen Fox	New York
Monique Smith	North Carolina
Colton Schulz	North Dakota
Metty Nyangoro	Ohio
Eli Snowbarger	Oklahoma
Shannon Hopkins/Diana Sherman	Pennsylvania
Shawn Frederick	Texas
Ron Pastuch	Washington
Tom Jefferson	Wisconsin

NAIC Support Staff: Bailey Henning/James Portuguez

Financial Analysis Solvency Tools (E) Working Group

of the Examination Oversight (E) Task Force

Greg Chew, Chair	Virginia
Amy Garcia, Vice Chair	Texas
Richard Russell/Todrick Burks	Alabama
Dave Lathrop/Kurt Regner	Arizona
Michelle Lo	California
Jack Broccoli	Connecticut
N. Kevin Brown	District of Columbia
Carolyn Morgan/Nicole Crockett	Florida
Amanda Denton	Indiana
Lynn Beckner	Maryland
Judy Weaver/Kristin Hynes	Michigan
Debbie Doggett	Missouri
Olga Dixon	New Jersey
Victor Agbu	New York
Dwight Radel/Tim Biler	Ohio
Ryan Keeling	Oregon
Liz Ammerman/Ted Hurley	Rhode Island
Kristin Forsberg	Wisconsin

NAIC Support Staff: Rodney Good/Bill Rivers/Ralph Villegas

© 2024 National Association of Insurance Commissioners

Financial Examiners Coordination (E) Working Group

of the Examination Oversight (E) Task Force

William Arfanis, Co-Chair	Connecticut
Cindy Andersen, Co-Chair	Illinois
Blase Abreo	Alabama
Laura Clements	California
Roy Eft	Indiana
Dmitriy Valekha	Maryland
Robert Lamberjack	Michigan
Kathleen Orth	Minnesota
Shannon Schmoeger/Mike Shadowens	Missouri
Andrea Johnson	Nebraska
Nancy Lee Chice	New Jersey
Tracy Snow/David Cook	Ohio
Eli Snowbarger	Oklahoma
Diana Sherman	Pennsylvania
Shawn Frederick	Texas
Tarik Subbagh	Washington
Amy Malm	Wisconsin

NAIC Support Staff: Bailey Henning

Financial Examiners Handbook (E) Technical Group

of the Examination Oversight (E) Task Force

Eli Snowbarger, Co-Chair	Oklahoma
John Litweiler, Co-Chair	Wisconsin
Blase Abreo	Alabama
Laura Clements	California
William Arfanis	Connecticut
N. Kevin Brown	District of Columbia
Cindy Andersen	Illinois
Grace Kelly	Minnesota
Shannon Schmoeger/Sara McNeely	Missouri
Andrea Johnson	Nebraska
Colin Wilkins	New Hampshire
Nancy Lee Chice	New Jersey
Tracy Snow	Ohio
Shannon Hopkins/Diana Sherman	Pennsylvania
Tarik Subbagh	Washington

NAIC Support Staff: Bailey Henning

© 2024 National Association of Insurance Commissioners

Information Technology (IT) Examination (E) Working Group

of the Examination Oversight (E) Task Force

Ber Vang, Chair	California
Shane Mead, Vice Chair	Kansas
Blase Abreo	Alabama
Mel Anderson	Arkansas
Ken Roulier/Michael Shanahan	Connecticut
Ginny Godek	Illinois
Jerry Ehlers	Indiana
Dmitriy Valekha	Maryland
Kim Dobbs/Cynthia Amann	Missouri
Andrea Johnson	Nebraska
Eileen Fox	New York
Colton Schulz	North Dakota
Metty Nyangoro	Ohio
Eli Snowbarger	Oklahoma
Diana Sherman	Pennsylvania

NAIC Support Staff: Bailey Henning/Topher Hughes

Financial Analysis (E) Working Group

of the Financial Condition (E) Committee

Judy Weaver, Chair	Michigan
Greg Chew, Vice Chair	Virginia
Kim Hudson	California
Jack Broccoli	Connecticut
Rylynn Brown	Delaware
Carolyn Morgan/Jane Nelson	Florida
Cindy Andersen	Illinois
Kim Cross	Iowa
Kathleen Orth	Minnesota
Debbie Doggett	Missouri
Tadd Wegner	Nebraska
John Sirovetz	New Jersey
Marc Allen/Mark McLeod	New York
Jackie Obusek	North Carolina
Dale Bruggeman	Ohio
Diana Sherman	Pennsylvania
Amy Garcia	Texas
Amy Malm	Wisconsin

NAIC Support Staff: Bruce Jenson/Andy Daleo/Jane Koenigsman/
Ralph Villegas/Rodney Good/Bill Rivers

FINANCIAL STABILITY (E) TASK FORCE

of the Financial Condition (E) Committee

Justin Zimmerman, Chair	New Jersey
Judith L. French, Vice Chair	Ohio
Mark Fowler	Alabama
Barbara D. Richardson	Arizona
Alan McClain	Arkansas
Andrew N. Mais	Connecticut
Karima M. Woods	District of Columbia
Michael Yaworsky	Florida
Amy L. Beard	Indiana
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Joy Y. Hatchette	Maryland
Kevin P. Beagan	Massachusetts
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
Adrienne A. Harris	New York
Mike Causey	North Carolina
Jon Godfread	North Dakota
Glen Mulready	Oklahoma
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Alexander S. Adams Vega	Puerto Rico
Michael Wise	South Carolina
Cassie Brown	Texas
Scott A. White	Virginia
Nathan Houdek	Wisconsin

NAIC Support Staff: Tim Nauheimer/Todd Sells

© 2024 National Association of Insurance Commissioners

Macroprudential (E) Working Group

of the Financial Stability (E) Task Force

Bob Kasinow, Chair	New York
Carrie Mears, Vice Chair	Iowa
William Arfanis/Kenneth Cotrone	Connecticut
Tom Hudson	Delaware
Philip Barlow	District of Columbia
Ray Spudeck	Florida
Roy Eft	Indiana
Lynn Beckner	Maryland
John Turchi	Massachusetts
Steve Mayhew	Michigan
Fred Andersen	Minnesota
Chlora Lindley-Myers/John Rehagen	Missouri
Anthony Quandt	Nebraska
Jennifer Li	New Hampshire
David Wolf	New Jersey
Diana Sherman	Pennsylvania
Ted Hurley	Rhode Island
Rachel Hemphill/Jamie Walker	Texas
Greg Chew/Dan Bumpus	Virginia
Amy Malm	Wisconsin

NAIC Support Staff: Tim Nauheimer

© 2024 National Association of Insurance Commissioners

Group Capital Calculation (E) Working Group

of the Financial Condition (E) Committee

John Rehagen, Chair	Missouri
Susan Berry, Vice Chair	Illinois
John Loughran	Connecticut
Philip Barlow	District of Columbia
Ray Spudeck	Florida
Roy Eft	Indiana
Kevin Clark	Iowa
John Turchi/Christopher Joyce	Massachusetts
Judy Weaver	Michigan
Barbara Carey	Minnesota
Anthony Quandt	Nebraska
David Wolf	New Jersey
Bob Kasinow	New York
Dale Bruggeman/Tim Biler	Ohio
Kirsten Anderson	Oregon
Diana Sherman	Pennsylvania
Trey Hancock	Tennessee
Jamie Walker	Texas
Doug Stolte/Greg Chew	Virginia
Amy Malm	Wisconsin

NAIC Support Staff: Dan Daveline/Jane Ren

Group Solvency Issues (E) Working Group

of the Financial Condition (E) Committee

Jamie Walker, Chair	Texas
Susan Berry, Vice Chair	Illinois
Kim Hudson/Michelle Lo	California
Jack Broccoli/William Arfanis	Connecticut
Charles Santana	Delaware
Jane Nelson/Carolyn Morgan	Florida
Roy Eft	Indiana
Kim Cross	Iowa
Bob Wake	Maine
John Turchi	Massachusetts
Judy Weaver	Michigan
Debbie Doggett/Shannon Schmoeger	Missouri
Tadd Wegner	Nebraska
David Wolf	New Jersey
Bob Kasinow	New York
Dale Bruggeman/Tim Biler	Ohio
Diana Sherman	Pennsylvania
Ted Hurley	Rhode Island
Doug Stolte/Jennifer Blizzard	Virginia
Amy Malm/Mark McNabb	Wisconsin

NAIC Support Staff: Jane Koenigsman/Bruce Jenson

Own Risk and Solvency Assessment (ORSA) Implementation (E) Subgroup

of the Group Solvency Issues (E) Working Group

William Arfanis/Jack Broccoli, Co-Chair	Connecticut
Mike Yanacheak, Co-Chair	Iowa
Michelle Lo/Laura Clements	California
Nicole Crockett/Carly Wagoner	Florida
Cindy Andersen/Susan Berry	Illinois
Debbie Doggett/Sara McNeely	Missouri
Tadd Wegner	Nebraska
Doug Bartlett	New Hampshire
Victor Agbu	New York
David Cook/Jeff Lehr	Ohio
Diana Sherman	Pennsylvania
Glorimar Santiago/Maria Morcelo	Puerto Rico
Mike Arendall	Texas
Amy Malm	Wisconsin

NAIC Support Staff: Bruce Jenson/Eli Russo

© 2024 National Association of Insurance Commissioners

Mutual Recognition of Jurisdictions (E) Working Group

of the Financial Condition (E) Committee

Robert Wake, Chair	Maine
Monica Macaluso, Vice Chair	California
Rolf Kaumann	Colorado
Jack Broccoli	Connecticut
Virginia Christy	Florida
Elizabeth Nunes/Scott Sanders	Georgia
Tom Travis	Louisiana
Shelley Woods	Missouri
Tadd Wegner	Nebraska
David Wolf	New Jersey
Michael Campanelli	New York
Diana Sherman	Pennsylvania
Ryan Basnett	South Carolina
Amy Garcia	Texas

NAIC Support Staff: Dan Schelp/Jake Stultz

NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group

of the Financial Condition (E) Committee

Doug Stolte, Chair	Virginia
Laura Clements	California
Rylynn Brown	Delaware
Daniel Mathis	Iowa
Judy Weaver	Michigan
Shannon Schmoeger	Missouri
Andrea Johnson	Nebraska
Doug Bartlett	New Hampshire
Dale Bruggeman	Ohio
Ryan Keeling	Oregon
Diana Sherman	Pennsylvania
Johanna Nickelson	South Dakota
Jake Garn	Utah

NAIC Support Staff: Bruce Jenson

© 2024 National Association of Insurance Commissioners

National Treatment and Coordination (E) Working Group

of the Financial Condition (E) Committee

Debbie Doggett/Kelly Hopper, Co-Chair	Missouri
Cameron Piatt, Co-Chair	Ohio
Cindy Hathaway	Colorado
William Mitchell	Connecticut
Sherry Wilson	Delaware
Jennifer Milam	Florida
Matthew Stewart/Lorie Gasior	Louisiana
Kari Leonard	Montana
Ursula Almada	New Mexico
Kirsten Anderson	Oregon
Karen Feather	Pennsylvania
Amy Garcia	Texas
Jay Sueoka	Utah
Ron Pastuch	Washington
Amy Malm/Mark McNabb	Wisconsin
Tracy McEwen	Wyoming

NAIC Support Staff: Jane Barr/Mandy Budgett

RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE

of the Financial Condition (E) Committee

Ann Gillespie, Chair	Illinois
Glen Mulready, Vice Chair	Oklahoma
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Alan McClain	Arkansas
Michael Conway	Colorado
Andrew N. Mais	Connecticut
Karima M. Woods	District of Columbia
Michael Yaworsky	Florida
Gordon I. Ito	Hawaii
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Timothy J. Temple	Louisiana
Robert L. Carey	Maine
Kevin P. Beagan	Massachusetts
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
Scott Kipper	Nevada
Justin Zimmerman	New Jersey
Mike Causey	North Carolina
Jon Godfread	North Dakota
Judith L. French	Ohio
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Elizabeth Kelleher Dwyer	Rhode Island
Michael Wise	South Carolina
Carter Lawrence	Tennessee
Cassie Brown	Texas
Scott A. White	Virginia
Mike Kreidler	Washington
Nathan Houdek	Wisconsin

NAIC Support Staff: Jane Koenigsman

© 2024 National Association of Insurance Commissioners

Receivership Financial Analysis (E) Working Group

of the Receivership and Insolvency (E) Task Force

Donna Wilson, Co-Chair	Oklahoma
Jacob Stuckey, Co-Chair	Illinois
Joe Holloway	California
Lorrie Arterburn/Miriam Victorian	Florida
Kevin Baldwin	Illinois
Kim Cross/Daniel Mathis	Iowa
David Axinn	New York
Laura Lyon Slaymaker /Crystal McDonald	Pennsylvania
Jessica Barta	Texas
Steve Drutz	Washington

NAIC Support Staff: Jane Koenigsman

Receivership Law (E) Working Group

of the Receivership and Insolvency (E) Task Force

Kevin Baldwin, Co-Chair	Illinois
Laura Lyon Slaymaker, Co-Chair	Pennsylvania
Michael Surguine	Arkansas
Joe Holloway/Jack Hom	California
Rolf Kaumann	Colorado
Jane Callanan	Connecticut
Lorrie Arterburn/Yamile Benitez-Torviso	Florida
Kim Cross	Iowa
Tom Travis	Louisiana
Robert Wake	Maine
Christopher Joyce	Massachusetts
Tom Mitchell	Michigan
Shelley Forrest	Missouri
Tadd Wegner	Nebraska
Alexander S. Adams Vega	Puerto Rico
Jessica Barta	Texas
Charles Malone	Washington

NAIC Support Staff: Jane Koenigsman

© 2024 National Association of Insurance Commissioners

REINSURANCE (E) TASK FORCE

of the Financial Condition (E) Committee

Chlora Lindley-Myers, Chair	Missouri
Ricardo Lara, Vice Chair	California
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Peni Itula Sapini Teo	American Samoa
Alan McClain	Arkansas
Michael Conway	Colorado
Andrew N. Mais	Connecticut
Trinidad Navarro	Delaware
Michael Yaworsky	Florida
John F. King	Georgia
Michelle B. Santos	Guam
Gordon I. Ito	Hawaii
Ann Gillespie	Illinois
Amy L. Beard	Indiana
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Timothy J. Temple	Louisiana
Robert L. Carey	Maine
Kevin P. Beagan	Massachusetts
Grace Arnold	Minnesota
Mike Chaney	Mississippi
Eric Dunning	Nebraska
Scott Kipper	Nevada
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Alice T. Kane	New Mexico
Adrienne A. Harris	New York
Mike Causey	North Carolina
Jon Godfread	North Dakota
Judith L. French	Ohio
Glen Mulready	Oklahoma
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Alexander S. Adams Vega	Puerto Rico
Michael Wise	South Carolina
Cassie Brown	Texas
Tregenza A. Roach	U.S. Virgin Islands
Jon Pike	Utah
Scott A. White	Virginia
Nathan Houdek	Wisconsin

NAIC Support Staff: Jake Stultz/Dan Schelp

© 2024 National Association of Insurance Commissioners

Reinsurance Financial Analysis (E) Working Group

of the Reinsurance (E) Task Force

Rolf Kaumann, Chair	Colorado
Amy Garcia, Vice Chair	Texas
Todrick Burks	Alabama
Kurt Regner	Arizona
Michelle Lo	California
Nicole Brittingham	Delaware
Carolyn Morgan/Jane Nelson	Florida
Scott Sanders	Georgia
Junjie Pan	Illinois
Shantell Taylor	Louisiana
Laurie Pleus	Missouri
David Wolf	New Jersey
Bob Kasinow/Roberto Paradis	New York
Diana Sherman	Pennsylvania
Glorimar Santiago	Puerto Rico
Stephen Thomas	Virginia
Mark McNabb	Wisconsin

NAIC Support Staff: Andy Daleo/Dan Schelp

Restructuring Mechanisms (E) Working Group

of the Financial Condition (E) Committee

Glen Mulready/Andrew Schallhorn, Co-Chair	Oklahoma
Elizabeth Kelleher Dwyer/Ted Hurley, Co-Chair	Rhode Island
Russ Galbraith/Mel Anderson	Arkansas
Michael Conway	Colorado
Jared Kosky/Jack Broccoli	Connecticut
Fred Moore/John Street	Illinois
Robert Wake	Maine
Judy Weaver	Michigan
Fred Andersen	Minnesota
John Rehagen/James Le	Missouri
Tadd Wegner	Nebraska
David Wolf	New Jersey
Bob Kasinow	New York
Dale Bruggeman	Ohio
Diana Sherman	Pennsylvania
Michael Wise	South Carolina
Amy Garcia	Texas
Dan Petterson/Heidi Rabtoy	Vermont
Scott A. White/Doug Stolte/Greg Chew	Virginia
Steve Drutz	Washington
Amy Malm	Wisconsin

NAIC Support Staff: Robin Marcotte/Dan Daveline

© 2024 National Association of Insurance Commissioners

Risk-Focused Surveillance (E) Working Group

of the Financial Condition (E) Committee

Amy Malm, Chair	Wisconsin
Johanna Nickelson, Vice Chair	South Dakota
Sheila Travis/Blase Abreo	Alabama
Laura Clements/Michelle Lo	California
Jack Broccoli/William Arfanis	Connecticut
Carolyn Morgan/Jane Nelson	Florida
Cindy Andersen	Illinois
Roy Eft	Indiana
Daniel Mathis	Iowa
Melissa Gibson	Louisiana
Vanessa Sullivan	Maine
Dmitriy Valekha	Maryland
Judy Weaver	Michigan
Debbie Doggett/Shannon Schmoeger	Missouri
Tadd Wegner	Nebraska
John Sirovetz/Paul Lupo	New Jersey
Mark McLeod	New York
Jackie Obusek/Monique Smith	North Carolina
Dwight Radel/Tracy Snow	Ohio
Eli Snowbarger	Oklahoma
Ryan Keeling	Oregon
Diana Sherman	Pennsylvania
John Tudino/Ted Hurley	Rhode Island
Amy Garcia	Texas
Jake Garn	Utah
Dan Petterson	Vermont
Greg Chew/Jennifer Blizzard	Virginia
Tarik Subbagh/Steve Drutz	Washington

NAIC Support Staff: Bruce Jenson/Jane Koenigsman

© 2024 National Association of Insurance Commissioners

RISK RETENTION GROUP (E) TASK FORCE

of the Financial Condition (E) Committee

Kevin Gaffney, Chair	Vermont
Karima M. Woods, Vice Chair	District of Columbia
Mark Fowler	Alabama
Gordon I. Ito	Hawaii
Vicki Schmidt	Kansas
Sharon P. Clark	Kentucky
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
Scott Kipper	Nevada
Justin Zimmerman	New Jersey
Mike Causey	North Carolina
Jon Godfread	North Dakota
Glen Mulready	Oklahoma
Michael Humphreys	Pennsylvania
Michael Wise	South Carolina
Cassie Brown	Texas

NAIC Support Staff: Rodney Good/Andy Daleo

Valuation Analysis (E) Working Group

of the Financial Condition (E) Committee

Fred Andersen, Chair	Minnesota
Rachel Hemphill, Vice Chair	Texas
Sheila Travis	Alabama
Thomas Reedy	California
Wanchin Chou	Connecticut
Carolyn Morgan	Florida
Vincent Tsang	Illinois
Mike Yanacheak	Iowa
Judy Weaver	Michigan
John Rehagen	Missouri
Jennifer Li	New Hampshire
Seong-min Eom	New Jersey
Bill Carmello	New York
Peter Weber	Ohio
Tomasz Serbinowski	Utah
Doug Stolte	Virginia
Amy Malm	Wisconsin

NAIC Support Staff: Jennifer Frasier

© 2024 National Association of Insurance Commissioners

VALUATION OF SECURITIES (E) TASK FORCE

of the Financial Condition (E) Committee

Doug Ommen, Chair	Iowa
Eric Dunning, Vice Chair	Nebraska
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Ricardo Lara	California
Andrew N. Mais	Connecticut
Michael Yaworsky	Florida
Dean L. Cameron	Idaho
Ann Gillespie	Illinois
Vicki Schmidt	Kansas
Timothy J. Temple	Louisiana
Joy Y. Hatchette	Maryland
Kevin P. Beagan	Massachusetts
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
D.J. Bettencourt	New Hampshire
Justin Zimmerman	New Jersey
Adrienne A. Harris	New York
Jon Godfread	North Dakota
Judith L. French	Ohio
Glen Mulready	Oklahoma
Michael Humphreys	Pennsylvania
Cassie Brown	Texas
Jon Pike	Utah
Scott A. White	Virginia
Mike Kreidler	Washington
Nathan Houdek	Wisconsin

NAIC Support Staff: Charles Therriault/Marc Perlman/Eric Kolchinsky

© 2024 National Association of Insurance Commissioners

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Lori K. Wing-Heier, Chair	Alaska
Sharon P. Clark, Co-Vice Chair	Kentucky
Andrew R. Stolfi, Co-Vice Chair	Oregon
Alan McClain	Arkansas
Andrew N. Mais	Connecticut
Robert L. Carey	Maine
Kevin P. Beagan	Massachusetts
Eric Dunning	Nebraska
Mike Causey	North Carolina
Jon Godfread	North Dakota
Elizabeth Kelleher Dwyer	Rhode Island
Michael Wise	South Carolina
Larry D. Deiter	South Dakota
Scott A. White	Virginia
Jeff Rude	Wyoming

NAIC Support Staff: Bailey Henning/Sara Franson/Dan Schelp/Bruce Jenson

© 2024 National Association of Insurance Commissioners

xc

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

Eric Dunning, Chair	Nebraska
Dean L. Cameron, Co-Vice Chair	Idaho
Justin Zimmerman, Co-Vice Chair	New Jersey
Lori K. Wing-Heier	Alaska
Ricardo Lara	California
Andrew N. Mais	Connecticut
Michael Yaworsky	Florida
John F. King	Georgia
Gordon I. Ito	Hawaii
Vicki Schmidt	Kansas
Kevin P. Beagan	Massachusetts
Anita G. Fox	Michigan
Chlora Lindley-Myers	Missouri
Glen Mulready	Oklahoma
Carter Lawrence	Tennessee

NAIC Support Staff: Ryan Workman/Nikhail Nigam

© 2024 National Association of Insurance Commissioners

INNOVATION, CYBERSECURITY, AND TECHNOLOGY (H) COMMITTEE

Kevin Gaffney, Chair	Vermont
Michael Conway, Co-Vice Chair	Colorado
Chlora Lindley-Myers, Co-Vice Chair	Missouri
Ricardo Lara	California
Karima M. Woods	District of Columbia
Michael Yaworsky	Florida
Gordon I. Ito	Hawaii
Ann Gillespie	Illinois
Doug Ommen	Iowa
Joy Y. Hatchette	Maryland
Troy Downing	Montana
Jon Godfread	North Dakota
Judith L. French	Ohio
Michael Humphreys	Pennsylvania
Alexander S. Adams Vega	Puerto Rico

NAIC Support Staff: Miguel Romero/Scott Morris/Scott Sobel

© 2024 National Association of Insurance Commissioners

Big Data and Artificial Intelligence (H) Working Group

of the Innovation, Cybersecurity, and Technology (H) Committee

Michael Humphreys, Chair	Pennsylvania
Kevin Gaffney, Vice Chair	Vermont
Jimmy Gunn	Alabama
Alex Romero	Alaska
Tom Zuppan	Arizona
Ken Allen	California
Michael Conway/Debra Judy/Jason Lapham	Colorado
Andrew N. Mais	Connecticut
Karima M. Woods	District of Columbia
Rebecca Smid	Florida
Weston Trexler	Idaho
Erica Weyhenmeyer	Illinois
Amy L. Beard	Indiana
Doug Ommen	Iowa
Satish Akula	Kentucky
Tom Travis	Louisiana
Sandra Darby	Maine
Raymond Guzman	Maryland
Caleb Huntington	Massachusetts
Jeff Hayden	Michigan
Jacqueline Olson/Phil Vigliaturo	Minnesota
Cynthia Amann	Missouri
Connie Van Slyke	Nebraska
Scott Kipper	Nevada
Christian Citarella	New Hampshire
Justin Zimmerman	New Jersey
Adrienne A. Harris	New York
John Harrison	North Carolina
Jon Godfread/Colton Schulz	North Dakota
Judith L. French/Matt Walsh	Ohio
Teresa Green	Oklahoma
Andrew R. Stolfi	Oregon
Elizabeth Kelleher Dwyer	Rhode Island
Michael Wise	South Carolina
Travis Jordan	South Dakota
Carter Lawrence	Tennessee
J'ne Byckovski/Rachel Cloyd	Texas
Scott A. White/Eric Lowe/Michael Peterson	Virginia
Bryon Welch	Washington
Allan L. McVey/Joylynn Fix	West Virginia
Nathan Houdek	Wisconsin
Bryan Stevens/Lela Ladd	Wyoming

NAIC Support Staff: Miguel Romero/Scott Sobel

Cybersecurity (H) Working Group

of the Innovation, Cybersecurity, and Technology (H) Committee

Cynthia Amann, Chair	Missouri
Michael Peterson, Vice Chair	Virginia
Julia Jette	Alaska
Bud Leiner/Deian Ousounov	Arizona
Mel Anderson	Arkansas
Damon Diederich	California
Wanchin Chou	Connecticut
Tim Li	Delaware
Matt Kilgallen	Georgia
Lance Hirano	Hawaii
C.J. Metcalf	Illinois
Daniel Mathis	Iowa
Shane Mead	Kansas
Mary Kwei	Maryland
Jake Martin	Michigan
T.J. Patton	Minnesota
Troy Smith	Montana
Martin Swanson	Nebraska
Scott Kipper	Nevada
D.J. Bettencourt	New Hampshire
Gille Ann Rabbin	New York
John Harrison	North Carolina
Colton Schulz	North Dakota
Don Layson/Matt Walsh	Ohio
David Buono	Pennsylvania
John Haworth	Washington
Andrea Davenport	Wisconsin
Lela Ladd	Wyoming

NAIC Support Staff: Miguel Romero

© 2024 National Association of Insurance Commissioners

E-Commerce (H) Working Group

of the Innovation, Cybersecurity, and Technology (H) Committee

Troy Downing, Co-Chair	Montana
Judith L. French, Co-Chair	Ohio
Alex Romero	Alaska
Jully Pae	California
Andrew N. Mais/George Bradner	Connecticut
Dana Sheppard	District of Columbia
Johanna Nagel	Iowa
Craig VanAalst	Kansas
Tom Travis	Louisiana
Chlora Lindley-Myers/Cynthia Amann	Missouri
Martin Swanson	Nebraska
Colton Schulz	North Dakota
Elizabeth Kelleher Dwyer/Matt Gendron	Rhode Island
Travis Jordan	South Dakota
Justin Baisch/Charles Malone	Washington

NAIC Support Staff: Olivea Myers

Privacy Protections (H) Working Group

of the Innovation, Cybersecurity, and Technology (H) Committee

Amy L. Beard, Chair	Indiana
Erica Weyhenmeyer, Vice Chair	Illinois
Richard Fiore	Alabama
Chelsy Maller	Alaska
Gio Espinosa/Catherine O'Neil	Arizona
Damon Diederich/Jennifer Bender	California
George Bradner/Kristin Fabian	Connecticut
Doug Ommen/Johanna Nagel	Iowa
Robert Wake/Stacy Bergendahl	Maine
Van Dorsey	Maryland
Jeff Hayden	Michigan
T.J. Patton	Minnesota
Cynthia Amann	Missouri
Molly Plummer	Montana
Martin Swanson	Nebraska
Santana Edison	North Dakota
Seth Coldiron	Oklahoma
Raven Collins	Oregon
Richard Hendrickson/Gary Jones	Pennsylvania
Patrick Smock	Rhode Island
Frank Marnell	South Dakota
Katie Johnson	Virginia
Todd Dixon	Washington
Lauren Van Buren/Timothy Cornelius/ Andrea Davenport	Wisconsin
Bryan Stevens	Wyoming

NAIC Support Staff: Lois E. Alexander/Jennifer Neuerburg

Technology, Innovation, and InsurTech (H) Working Group

of the Innovation, Cybersecurity, and Technology (H) Committee

Eric Dunning, Chair	Nebraska
C.J. Metcalf, Co-Vice Chair	Illinois
Matt Walsh, Co-Vice Chair	Ohio
Erick Wright	Alabama
Sarah Bailey	Alaska
Letty Hardee	Arkansas
Lucy Jabourian	California
Michael Conway/Jason Lapham	Colorado
George Bradner	Connecticut
Tim Li	Delaware
Karima M. Woods/Dana Sheppard	District of Columbia
Gordon I. Ito	Hawaii
Dean L. Cameron/Weston Trexler	Idaho
Jared Kirby/Chance McElhaney	Iowa
Charles Thomas	Kansas
Satish Akula	Kentucky
Sandra Darby	Maine
Kory Boone	Maryland
Kevin P. Beagan	Massachusetts
Chad Arnold	Michigan
Andy Case/Ryan Blakeney	Mississippi
Chlora Lindley-Myers/Cynthia Amann	Missouri
D.J. Bettencourt	New Hampshire
Alice Kane	New Mexico
Colton Schulz	North Dakota
Brian Downs	Oklahoma
TK Keen	Oregon
Shannen Logue	Pennsylvania
Joe McElrath	Texas
Eric Lowe	Virginia
Ned Gaines	Washington
Juanita Wimmer	West Virginia
Nathan Houdek/Jennifer Stegall/Timothy Cornelius	Wisconsin
Lela Ladd	Wyoming

NAIC Support Staff: Libby Crews/Miguel Romero

THIRD-PARTY DATA AND MODELS (H) TASK FORCE

of the Innovation, Cybersecurity, and Technology (H) Committee

Michael Conway, Chair	Colorado
Michael Yaworsky, Vice Chair	Florida
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Barbara D. Richardson	Arizona
Ricardo Lara	California
Andrew N. Mais	Connecticut
Gordon I. Ito	Hawaii
Dean L. Cameron	Idaho
Ann Gillespie	Illinois
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Timothy J. Temple	Louisiana
Robert L. Carey	Maine
Joy Y. Hatchette	Maryland
Kevin P. Beagan	Massachusetts
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
Scott Kipper	Nevada
D.J. Bettencourt	New Hampshire
Adrienne A. Harris	New York
Jon Godfread	North Dakota
Judith L. French	Ohio
Michael Humphreys	Pennsylvania
Elizabeth Kelleher Dwyer	Rhode Island
Michael Wise	South Carolina
Cassie Brown	Texas
Kevin Gaffney	Vermont
Nathan Houdek	Wisconsin

NAIC Support Staff: Kris DeFrain/Scott Sobel

© 2024 National Association of Insurance Commissioners

NAIC/CONSUMER LIAISON COMMITTEE

Grace Arnold, Chair	Minnesota
D.J. Bettencourt, Vice Chair	New Hampshire
Mark Fowler	Alabama
Lori K. Wing-Heier	Alaska
Peni Itula Sapini Teo	American Samoa
Alan McClain	Arkansas
Ricardo Lara	California
Michael Conway	Colorado
Andrew N. Mais	Connecticut
Trinidad Navarro	Delaware
Karima M. Woods	District of Columbia
Dean L. Cameron	Idaho
Ann Gillespie	Illinois
Doug Ommen	Iowa
Vicki Schmidt	Kansas
Timothy J. Temple	Louisiana
Joy Y. Hatchette	Maryland
Anita G. Fox	Michigan
Mike Chaney	Mississippi
Chlora Lindley-Myers	Missouri
Eric Dunning	Nebraska
Scott Kipper	Nevada
Justin Zimmerman	New Jersey
Alice T. Kane	New Mexico
Adrienne A. Harris	New York
Mike Causey	North Carolina
Jon Godfread	North Dakota
Judith L. French	Ohio
Glen Mulready	Oklahoma
Andrew R. Stolfi	Oregon
Michael Humphreys	Pennsylvania
Alexander S. Adams Vega	Puerto Rico
Cassie Brown	Texas
Jon Pike	Utah
Scott A. White	Virginia
Mike Kreidler	Washington
Allan L. McVey	West Virginia
Nathan Houdek	Wisconsin

NAIC Support Staff: Lois E. Alexander

© 2024 National Association of Insurance Commissioners

NAIC/AMERICAN INDIAN AND ALASKA NATIVE LIAISON COMMITTEE

of the NAIC/Consumer Liaison Committee

Glen Mulready, Chair	Oklahoma
Trinidad Navarro, Vice Chair	Delaware
Lori K. Wing-Heier	Alaska
Peni Itula Sapini Teo	American Samoa
Barbara D. Richardson	Arizona
Dean L. Cameron	Idaho
Grace Arnold	Minnesota
Chlora Lindley-Myers	Missouri
Scott Kipper	Nevada
Alice T. Kane	New Mexico
Mike Causey	North Carolina
Jon Godfread	North Dakota
Andrew R. Stolfi	Oregon
Larry D. Deiter	South Dakota
Jon Pike	Utah
Mike Kreidler	Washington
Nathan Houdek	Wisconsin
Jeff Rude	Wyoming

NAIC Support Staff: Lois E. Alexander

© 2024 National Association of Insurance Commissioners

MEMBERS OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Updated: 08/08/2024

Alabama Commissioner
Mark Fowler — Montgomery 36130

Alaska Director
Lori K. Wing-Heier — Anchorage 99501

American Samoa Commissioner
Peni Itula Sapini Teo — Pago Pago 96799

Arizona Director
Barbara D. Richardson — Phoenix 85018

Arkansas Commissioner
Alan McClain — Little Rock 72202

California Commissioner
Ricardo Lara — Oakland 94612

Colorado Commissioner
Michael Conway — Denver 80202

Connecticut Commissioner
Andrew N. Mais — Hartford 06103

Delaware Commissioner
Trinidad Navarro — Dover 19904

District of Columbia Commissioner
Karima M. Woods — Washington 20002

Florida Commissioner
Michael Yaworsky — Tallahassee 32399

Georgia Commissioner
John F. King — Atlanta 30334

Guam Commissioner
Michelle B. Santos — Barrigada 96913

Hawaii Commissioner
Gordon I. Ito — Honolulu 96813

Idaho Director
Dean L. Cameron — Boise 83720

Illinois Acting Director
Ann Gillespie — Springfield 62767

Indiana Commissioner
Amy L. Beard — Indianapolis 46204

Iowa Commissioner
Doug Ommen — Des Moines 50319

Kansas Commissioner
Vicki Schmidt — Topeka 66612

Kentucky Commissioner
Sharon P. Clark — Frankfort 40601

Louisiana Commissioner
Timothy J. Temple — Baton Rouge 70802

Maine Superintendent
Robert L. Carey — Augusta 04333

Maryland Interim Commissioner
Joy Y. Hatchette — Baltimore 21202

Massachusetts Acting Commissioner
Kevin P. Beagan — Boston 02118

Michigan Director
Anita G. Fox — Lansing 48933

Minnesota Commissioner
Grace Arnold — St. Paul 55101

Mississippi Commissioner
Mike Chaney — Jackson 39201

Missouri Director
Chlora Lindley-Myers — Jefferson City 65101

Montana Commissioner/State Auditor
Troy Downing — Helena 59601

Nebraska Director
Eric Dunning — Lincoln 68501

Nevada Commissioner
Scott Kipper — Carson City 89706

New Hampshire Commissioner
D.J. Bettencourt — Concord 03301

New Jersey Acting Commissioner
Justin Zimmerman — Trenton 08625

New Mexico Superintendent
Alice T. Kane — Santa Fe 87501

New York Superintendent
Adrienne A. Harris — New York 10004

North Carolina Commissioner
Mike Causey — Raleigh 27603

North Dakota Commissioner
Jon Godfread — Bismarck 58505

N. Mariana Islands Secretary of Commerce
Remedio C. Mafnas — Saipan 96950

Ohio Director
Judith L. French — Columbus 43215

Oklahoma Commissioner
Glen Mulready — Oklahoma City 73112

Oregon Commissioner
Andrew R. Stolfi — Salem 97301

Pennsylvania Commissioner
Michael Humphreys — Harrisburg 17120

Puerto Rico Commissioner
Alexander S. Adams Vega — Guaynabo 00968

Rhode Island Superintendent
Elizabeth Kelleher Dwyer — Cranston 02920

South Carolina Director
Michael Wise — Columbia 29201

South Dakota Director
Larry D. Deiter — Pierre 57501

Tennessee Commissioner
Carter Lawrence — Nashville 37243

Texas Commissioner
Cassie Brown — Austin 78701

Utah Commissioner
Jon Pike — Salt Lake City 84114

Vermont Commissioner
Kevin Gaffney — Montpelier 05620

Virgin Islands Lt. Governor/Commissioner
Tregenza A. Roach — St. Thomas 00802

Virginia Commissioner
Scott A. White — Richmond 23219

Washington Commissioner
Mike Kreidler — Olympia 98504

West Virginia Commissioner
Allan L. McVey — Charleston 25301

Wisconsin Commissioner
Nathan Houdek — Madison 53703

Wyoming Commissioner
Jeff Rude — Cheyenne 82002

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
ALABAMA—*Appointed, at the pleasure of the Governor; term concurrent with that of the Governor by whom appointed or for the unexpired portion of the term*					
Insurance Commissioner	Mark Fowler	1/16/2023		incumbent	
Acting Insurance Commissioner	Mark Fowler	7/1/2022	1/16/2023	0	6
Insurance Commissioner	Jim L. Ridling (*Appointed Sept. 15, 2008; Reappointed Jan. 17, 2011; Reappointed November 2017*)	9/15/2008	6/30/2022	9	3
Acting Insurance Commissioner	D. David Parsons	9/1/2008	9/15/2008	0	1
Insurance Commissioner	Walter A. Bell*	1/21/2003	8/31/2008	5	7
Insurance Commissioner	D. David Parsons	12/1/2000	1/21/2003	2	1
Acting Insurance Commissioner	D. David Parsons	1/20/1999	12/1/2000	1	11
Insurance Commissioner	Richard H. Cater	2/1/1998	1/19/1999	0	11
Insurance Commissioner	Michael 'Mickey' DeBellis	3/6/1996	1/31/1998	1	11
Acting Insurance Commissioner	Michael 'Mickey' DeBellis	1/16/1995	3/6/1996	1	2
Insurance Commissioner	James H. 'Jimmy' Dill	5/5/1993	1/16/1995	1	8
Insurance Commissioner	Michael C. 'Mike' Weaver	8/16/1988	5/5/1993	4	9
Insurance Commissioner	John S. Greeno	2/6/1987	8/16/1988	1	6
Insurance Commissioner	Michael 'Mickey' DeBellis	1/1/1986	1/19/1987	1	0
Insurance Commissioner	Tharpe Forrester	6/8/1984	1/1/1986	1	7
Insurance Commissioner	Joseph R. 'Joe' Holt	5/21/1984	6/5/1984	0	1
Insurance Commissioner	William G. 'Bill' Ward, Jr.	1/17/1983	5/21/1984	1	4
Insurance Commissioner	Tharpe Forrester, Jr.	5/19/1980	1/17/1983	2	8
Insurance Commissioner	Haskell H. Sumrall, Jr.	8/15/1979	5/19/1980	0	9
Acting Insurance Commissioner	Albert Jackson 'Jack' Winfield	2/2/1979	8/15/1979	0	6
Insurance Commissioner	Charles H. Payne	1/20/1975	2/2/1979	4	0
Insurance Commissioner	John G. Bookout	1/1/1972	1/20/975	3	0
Superintendent of Insurance	John G. Bookout	1/18/1971	1/1/1972	1	0
Superintendent of Insurance	R. Frank Ussery (*Died Nov. 13, 2021*)	12/14/1968	1/18/1971	2	1
Superintendent of Insurance	Walter S. Houseal	1/15/1963	12/14/1968	5	11
Superintendent of Insurance	William D. Page	5/23/1961	1/15/1963	1	8
Superintendent of Insurance	Edmon L. Rinehart	1/19/1959	5/23/1961	2	4
Superintendent of Insurance	James H. Horn	10/3/1956	1/19/1959	2	3
Superintendent of Insurance	Leslie Lee Gwaltney, Jr.	1/18/1955	10/3/1956	1	9
Superintendent of Insurance	Herman A. Longshore	1/16/1951	1/18/1955	4	0
Superintendent of Insurance	Leslie Lee Gwaltney, Jr.	1/31/1947	1/16/1951	4	0
Director of Commerce/Superintendent of Insurance	Addie Lee Farish	12/1/1944	1/31/1947	2	1
Superintendent of Insurance	Frank N. Julian* (*Died Nov. 30, 1944*)	2/1/1935	11/30/1944	9	10
Superintendent of Insurance	Charles C. Greer	2/1/1931	2/1/1935	4	0
Superintendent of Insurance	George H. Thigpen	10/1/1927	2/1/1931	3	4
Superintendent of Insurance	Frank N. Julian* (*Died Nov. 30, 1944*)	9/30/1923	10/1/1927	4	0
Commissioner of Insurance	Frank N. Julian* (*Died Nov. 30, 1944*)	3/1/1923	9/30/1923	0	7
Commissioner of Insurance	Russell B. Coleman	11/2/1922	3/1/1923	0	4
Commissioner of Insurance	Albert Walter Briscoe	10/1/1919	11/2/1922	3	1
Commissioner of Insurance	Leonard Y. Dean	7/1/1919	10/1/1919	0	3
Commissioner of Insurance	C. Brooks Smith	10/1/1915	7/1/1919	3	9
Secretary of State	John Purifoy	1/19/1915	10/1/1915	0	9

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
ALABAMA—*Continued*					
Secretary of State	Cyrus B. Brown	10/5/1910	1/19/1915	4	3
Secretary of State	Frank N. Julian* (*Died Nov. 30, 1944*)	1/14/1907	10/5/1910	3	10
Secretary of State	Edmund R. 'Ned' McDavid	5/1/1904	1/14/1907	2	8
Secretary of State	J. Thomas Heflin	1/22/1903	5/1/1904	1	4
Secretary of State	Robert P. McDavid	12/1/1898	1/22/1903	4	1
Secretary of State	James K. Jackson	2/18/1897	12/1/1898	1	10
State Auditor	Walter S. White	12/1/1896	2/18/1897	0	2
State Auditor	John Purifoy	6/5/1892	12/1/1896	3	3
State Auditor	Cyrus D. Hogue (*Died June 4, 1892*)	12/1/1888	6/4/1892	3	6
State Auditor	Malcolm C. Burke	11/3/1884	11/30/1888	4	0
State Auditor	Jesse M. Carmichael	11/9/1880	11/2/1884	4	0
State Auditor	Willis Brewer	11/25/1876	11/9/1880	4	0
State Auditor	Robert T. Smith	11/26/1872	11/25/1876	4	0
State Auditor	Robert M. Reynolds	5/24/1871	11/25/1872	0	6
ALASKA—*Appointed, at the pleasure of the Commissioner of Commerce, Community, and Economic Development*					
Insurance Director	Lori K. Wing-Heier	2/25/2014		incumbent	
Acting Insurance Director	Marty Hester	12/20/2013	2/25/2014	0	2
Insurance Director	Bret S. Kolb	5/30/2012	11/30/2013	1	6
Insurance Director	Linda S. Hall	3/3/2003	5/29/2012	9	2
Acting Insurance Director	Stan Ridgeway	1/1/2003	3/3/2003	0	2
Insurance Director	Robert A. 'Bob' Lohr	8/11/1999	1/1/2003	3	5
Insurance Director	John Ference	7/1/1999	8/11/1999	0	1
Insurance Director	Marianne K. Burke	3/1/1995	7/1/1999	4	4
Acting Insurance Director	Thelma Walker	1/1/1995	3/1/1995	0	2
Insurance Director	David J. Walsh*	2/15/1990	1/1/1995	4	11
Acting Insurance Director	Dick Monkman	2/1/1990	2/15/1990	0	1
Acting Insurance Director	James Jordan	9/1/1989	2/1/1990	0	5
Insurance Director	Paul Roller	4/1/1988	9/1/1989	1	5
Insurance Director	John George	11/1/1984	4/1/1988	3	5
Acting Insurance Director	John George	7/1/1984	11/1/1984	0	4
Insurance Director	Kenneth C. Moore	2/28/1979	7/1/1984	5	5
Insurance Director	Richard L. 'Dick' Block	12/7/1975	2/1/1979	3	2
Insurance Director	John J. O'Shea	6/4/1973	6/8/1975	2	0
Insurance Director	Cloyce A. 'Red' Drake	7/1/1971	12/3/1972	1	5
Insurance Director	William W. 'Bill' Fritz	1/1/1967	6/14/1971	4	5
Insurance Director	A. W. Lingle	3/1/1964	12/4/1966	2	9
Director of Insurance	Joseph B. Loonam	6/18/1962	3/1/1964	1	9
Director of Insurance	William M. Scott	5/30/1960	5/29/1962	2	0
Insurance Commissioner	Ross P. Duncan	11/1/1955	12/22/1959	4	1
Insurance Commissioner	Neil Moore	12/4/1950	5/1/1955	4	5
Auditor of Territory	Frank A. Boyle (*Died Dec. 15, 1950*)	4/1/1933	12/4/1950	17	8
Auditor of Territory	Cash Cole	12/16/1929	4/1/1933	3	4
Secretary of Territory	Karl Theile	7/22/1921	12/16/1929	8	5
Secretary of Territory	Robert J. Sommers	9/25/1919	7/22/1921	1	10
Secretary of Territory	Charles E. 'Chas' Davidson (*Died Aug. 8, 1919*)	10/18/1913	8/8/1919	5	10

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
ALASKA—*Continued*					
Surveyor-General/Secretary	William L. Distin	8/7/1897	10/18/1913	16	2
AMERICAN SAMOA—*Appointed, at the pleasure of the Governor*					
Insurance Commissioner	Peni 'Ben' Itula Sapini Teo	2/15/2022		incumbent	
Acting Insurance Commissioner	Elizabeth S. Perri	8/5/2021	2/14/2022	0	6
Insurance Commissioner	Peni 'Ben' Itula Sapini Teo	1/3/2021	8/4/2021	0	7
Acting Insurance Commissioner	Elizabeth S. Perri	10/23/2019	1/3/2021	1	3
Insurance Commissioner	Peteru M. 'Peter' Fuimaono	2/12/2019	10/23/2019	0	8
Acting Insurance Commissioner	Elizabeth S. Perri	7/26/2018	2/12/2019	0	7
Insurance Commissioner	Peteru M. 'Peter' Fuimaono	1/16/2017	7/26/2018	1	6
Insurance Commissioner	Tau Fati Tanuvasa	11/25/2013	1/16/2017	3	2
Insurance Commissioner	*Position Vacant*	2/1/2013	11/25/2013	0	9
Insurance Commissioner	Aoomalo Manupo Turituri	4/28/2010	1/31/2013	2	9
Insurance Commissioner	Fiaigoa A. Paogofie	2/3/2009	4/28/2010	1	2
Insurance Commissioner	Laloulu Tagoilelagi	1/15/2008	2/3/2009	2	1
Insurance Commissioner	Elisara T. Togiai	6/2/1997	12/2/2007	10	6
Insurance Commissioner	Tauivi Tuinei	1/1/1997	6/2/1997	0	5
Acting Insurance Commissioner	Tafaoata Gaoteote	12/1/1996	1/1/1997	0	1
Insurance Commissioner	Albert Atuatasi	7/1/1996	12/1/1996	0	5
Insurance Commissioner	Moetulu'i T. Iuvale	1/1/1996	7/1/1996	0	6
Insurance Commissioner	Tauivi Tuinei	2/12/1995	1/1/1996	0	11
Insurance Commissioner	Moetulu'i T. Iuvale	3/7/1993	2/12/1995	2	1
Insurance Commissioner	Fanene Su'a Scanlan	6/4/1989	1/1/1993	3	7
Insurance Commissioner	Afa Roberts	6/9/1985	12/11/1988	3	6
Insurance Commissioner	John W. von Cramm	12/4/1983	12/9/1984	1	0
Acting Insurance Commissioner	Lyle L. Richmond	11/28/1982	12/4/1983	1	1
Insurance Commissioner	Patricia G. Trammel	6/15/1980	11/28/1982	2	5
ARIZONA—*Appointed, at the pleasure of the Governor, with the consent of the Arizona State Senate*					
Cabinet Executive Officer, Department of Insurance & Financial Institutions (DIFI)	Barbara D. Richardson	9/25/2023		incumbent	
Director, DIFI	Barbara D. Richardson	3/6/2023	9/24/2023	0	6
Acting Director, DIFI	Shane W. Foster	1/13/2023	3/5/2023	0	2
Director, DIFI	*Position Vacant*	1/7/2023	1/12/2023	0	1
Director, DIFI	Evan G. Daniels	7/18/2020	1/6/2023	2	6
Interim Insurance Director	Christina Corieri	2/15/2020	7/17/2020	0	5
Insurance Director	Keith A. Schraad	12/14/2018	2/14/2020	1	2
Interim Insurance Director	Keith A. Schraad	2/12/2018	12/14/2018	0	10
Acting Insurance Director	Robert D. Charlton	1/29/2018	2/11/2018	0	1
Interim Insurance Director	Leslie R. Hess	2/8/2016	1/26/2018	1	11
Insurance Director	Andrew M. Tobin	10/12/2015	2/1/2016	0	4
Interim Insurance Director	Darren T. Ellingson	8/17/2015	10/11/2015	0	2
Insurance Director	Germaine L. 'Gerrie' Marks	11/27/2012	8/15/2015	2	9
Acting Insurance Director	Germaine L. 'Gerrie' Marks	6/30/2012	11/27/2012	0	5
Insurance Director	Christina Urias	11/3/2003	6/30/2012	8	7
Insurance Director	Charles R. 'Chuck' Cohen	10/10/1998	10/31/2003	5	0
Acting Insurance Director	Charles R. 'Chuck' Cohen	9/16/1998	10/10/1998	0	1
Insurance Director	John A. Greene	1/16/1997	9/16/1998	1	8
Acting Insurance Director	John King	8/1/1996	1/15/1997	0	5

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
ARIZONA—*Continued*					
Insurance Director	Chris Herstam	1/1/1994	8/1/1996	2	7
Insurance Director	Susan Gallinger	5/1/1988	12/31/1993	5	7
Acting Insurance Director	Vern R. Pierson	10/1/1987	5/1/1988	0	7
Insurance Director	S. David Childers	6/18/1984	9/30/1987	3	3
Insurance Director	J. Michael Low	1/1/1980	6/18/1984	4	5
Insurance Director	John N. 'Jack' Trimble	1/1/1976	1/1/1980	4	0
Insurance Director	Thomas Millard Humphrey	1/29/1969	12/31/1975	6	11
Insurance Director	Jerry P. Shea	2/1/1968	1/28/1969	1	0
Acting Insurance Director	George A. Livermore	10/28/1967	1/31/1968	0	3
Insurance Director	George A. Bushnell	12/12/1951	10/27/1967	15	10
Insurance Director	Roy B. Rummage (*Died Dec. 1, 1951*)	1/5/1937	12/1/1951	14	11
Insurance Director	George A. Brown	6/1/1933	1/4/1937	3	7
Insurance Director	Glenn D. Grant	9/17/1929	6/1/1933	3	9
Chair, Corporation Commission	Amos A. Betts	6/27/1921	9/17/1929	8	3
Chair, Corporation Commission	Forest A. Jones	9/1/1917	9/1/1920	3	0
Superintendent of Insurance	Cleveland C. Thompson	9/21/1915	8/28/1917	1	11
Chair, Corporation Commission	William P. Geary	7/29/1913	9/21/1915	2	2
ARKANSAS—*Appointed, at the pleasure of the Governor, with the advice and consent of the Senate*					
Insurance Commissioner	Alan McClain	4/3/2020		incumbent	
Insurance Commissioner	Allen W. Kerr	1/13/2015	3/27/2020	5	2
Insurance Commissioner	Jay Bradford	1/15/2009	1/13/2015	6	0
Interim Insurance Commissioner	Lenita Blasingame	1/1/2009	1/15/2009	0	1
Insurance Commissioner	Julie Benafield Bowman	1/15/2005	12/31/2008	3	11
Insurance Commissioner	J. Michael 'Mike' Pickens*	1/15/1997	1/15/2005	8	0
Insurance Commissioner	Lee Douglass*	12/14/1990	1/15/1997	6	1
Insurance Commissioner	Ron Taylor III	12/23/1988	12/14/1990	2	0
Insurance Commissioner	Robert M. 'Bob' Eubanks III	1/21/1985	12/23/1988	3	11
Insurance Commissioner	Linda N. Garner	1/3/1983	1/21/1985	2	0
Insurance Commissioner	William H. L. Woodyard III*	7/2/1976	12/31/1982	6	6
Insurance Commissioner	Ark Monroe III	10/2/1972	7/2/1976	3	9
Insurance Commissioner	A. Gene Sykes	9/16/1970	10/2/1972	2	1
Acting Insurance Commissioner	Ernest J. W. 'Ernie' Fennell	6/15/1970	9/16/1970	0	3
Insurance Commissioner	Allan W. 'Dick' Horne	2/21/1968	6/15/1970	2	4
Insurance Commissioner	John Norman Harkey	1/30/1967	2/21/1968	1	1
Insurance Commissioner	Harvey G. Combs	4/15/1953	1/30/1967	13	9
Insurance Commissioner	Usco A. Gentry	1/15/1953	4/15/1953	0	3
Insurance Commissioner	J. Herbert Graves	1/11/1949	1/15/1953	4	0
Insurance Commissioner	Jack G. McKenzie	1/15/1945	1/11/1949	4	0
Insurance Commissioner	J. Herbert Graves	1/14/1941	1/15/1945	4	0
Insurance Commissioner	M. J. Harrison	1/15/1937	1/14/1941	4	0
Ins. Cmsr. and State Fire Marshal	Usco A. Gentry	3/4/1933	1/15/1937	3	10
Ins. Cmsr. and State Fire Marshal	Arlander D. DuLaney	3/4/1931	3/4/1933	2	0
Ins. Cmsr. and State Fire Marshal	William E. Floyd	5/23/1929	3/4/1931	1	10
Ins. Cmsr. and State Fire Marshal	John S. Maloney (*Died May 22, 1929*)	3/8/1927	5/22/1929	2	2
Cmsr. of Insurance and Revenue	J. Frank Beasley	2/8/1927	3/8/1927	0	1
Cmsr. of Insurance and Revenue	William E. Floyd	6/11/1925	2/8/1927	1	8
Acting Cmsr. of Ins. and Revenue	J. W. Hatley	5/15/1925	6/11/1925	0	1

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
ARKANSAS—*Continued*					
Insurance Commissioner	M. J. Harrison	1/12/1925	5/15/1925	0	5
Insurance Commissioner	Bruce T. Bullion	3/7/1917	12/31/1924	7	9
State Auditor/Ins. Commissioner	Hogan Oliver	1/10/1917	3/7/1917	0	2
State Auditor/Ins. Commissioner	M. F. Dickinson	3/5/1915	1/10/1917	2	10
State Auditor/Ins. Commissioner	Lafayette L. Coffman	6/23/1913	3/4/1915	1	9
State Auditor/Ins. Commissioner	John M. Oathout (*Died June 20, 1913*)	1/17/1913	6/20/1913	0	5
State Auditor/Ins. Commissioner	John R. Jobe	1/14/1909	1/17/1913	4	0
State Auditor/Ins. Commissioner	Avery E. Moore	1/12/1905	1/14/1909	4	0
State Auditor/Ins. Commissioner	Thomas C. Monroe	1/18/1901	1/12/1905	4	0
State Auditor/Ins. Commissioner	Clay Sloan	1/15/1897	1/18/1901	4	0
State Auditor/Ins. Commissioner	Charles B. Mills	1/14/1893	1/15/1897	4	0
State Auditor/Ins. Commissioner	William S. Dunlop	11/30/1887	1/14/1893	5	2
State Auditor/Ins. Commissioner	William R. Miller (*Died Nov. 29, 1887*)	1/14/1887	11/29/1887	0	10
State Auditor/Ins. Commissioner	A.W. Files	1/11/1883	1/14/1887	4	0
State Auditor/Ins. Commissioner	John Crawford	1/11/1877	1/11/1883	6	0
State Auditor/Ins. Commissioner	William R. Miller	11/12/1874	1/11/1877	2	2
Insurance Commissioner	Lucien J. Barnes	4/29/1873	11/12/1874	1	6
State Auditor	Stephen Wheeler	1/6/1873	4/29/1873	0	3
State Auditor	James R. Berry	5/24/1871	1/6/1873	1	8
CALIFORNIA—*Elected; 4-year term (not to exceed two 4-year terms)*					
Insurance Commissioner	Ricardo Lara *(Elected Nov. 6, 2018; Re-elected Nov. 8, 2022)*	1/7/2019		incumbent	
Insurance Commissioner	David E. 'Dave' Jones *(Elected Nov. 2, 2010; Re-elected Nov. 4, 2014)*	1/3/2011	1/6/2019	8	0
Insurance Commissioner	Steve Poizner	1/8/2007	1/3/2011	4	0
Insurance Commissioner	John R. Garamendi	1/6/2003	1/8/2007	4	0
Insurance Commissioner	Harry W. Low	9/18/2000	1/6/2003	2	4
Acting Insurance Commissioner	J. Clark Kelso	7/10/2000	9/18/2000	0	2
Insurance Commissioner	Charles 'Chuck' Quackenbush	1/2/1995	7/10/2000	5	6
Insurance Commissioner	John R. Garamendi	1/7/1991	1/2/1995	4	0
Insurance Commissioner	Roxani M. Gillespie	1/5/1987	12/31/1990	4	0
Insurance Commissioner	Bruce A. Bunner	3/21/1983	7/1/1986	3	4
Insurance Commissioner	Robert C. Quinn	1/1/1981	3/21/1983	2	2
Insurance Commissioner	Wesley J. Kinder*	3/1/1975	1/1/1981	5	10
Insurance Commissioner	Gleeson L. 'Tige' Payne	11/1/1972	3/1/1975	2	4
Insurance Commissioner	Richards D. 'Dick' Barger*	8/21/1968	11/1/1972	4	3
Insurance Commissioner	Richard S. L. Roddis	1/20/1966	1/1/1969	3	0
Insurance Commissioner	Stafford R. Grady	1/1/1964	1/1/1966	2	0
Insurance Commissioner	F. Britton McConnell	1/1/1955	1/1/1964	9	0
Insurance Commissioner	John R. Maloney	1/1/1951	1/1/1955	4	0
Insurance Commissioner	Wallace K. Downey	2/1/1947	1/1/1951	3	11
Insurance Commissioner	Maynard Garrison	10/1/1943	2/1/1947	3	4
Insurance Commissioner	Anthony J. Caminetti, Jr.	6/28/1939	10/1/1943	4	4
Insurance Commissioner	Rex B. Goodcell	7/15/1938	6/28/1939	0	11
Insurance Commissioner	Samuel L. Carpenter, Jr.	4/4/1935	7/15/1938	3	3

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
CALIFORNIA—*Continued*					
Insurance Commissioner	E. Forrest Mitchell	4/24/1929	4/4/1935	6	0
Insurance Commissioner	Charles R. 'Charlie' Detrick*	1/13/1925	4/24/1929	4	3
Insurance Commissioner	George D. Squires	3/22/1923	1/13/1925	1	10
Acting Insurance Commissioner	Edward C. Cooper	1/1/1923	3/22/1923	0	2
Insurance Commissioner	Alexander L. McCabe	3/15/1917	1/1/1923	5	10
Insurance Commissioner	Joseph E. Phelps	7/1/1914	3/15/1917	2	8
Insurance Commissioner	Edward C. Cooper	6/16/1910	7/1/1914	4	1
Insurance Commissioner	E. Myron Wolf	4/8/1902	4/8/1910	8	0
Insurance Commissioner	Andrew J. Clunie	3/15/1897	4/8/1902	5	1
Insurance Commissioner	M. R. Higgins	4/8/1894	3/15/1897	2	11
Insurance Commissioner	J. N. E. Wilson	4/8/1890	4/8/1894	4	0
Insurance Commissioner	J. C. L. Wadsworth	4/19/1886	4/8/1890	4	0
Insurance Commissioner	George A. Knight	4/8/1882	4/19/1886	4	0
Insurance Commissioner	J. C. Maynard	4/8/1878	4/8/1882	4	0
Insurance Commissioner	John W. Foard	4/1/1872	4/8/1878	6	0
Insurance Commissioner	George W. Mowe	5/24/1871	4/1/1872	0	11
COLORADO—*Appointed, at the pleasure of the Governor; subject to confirmation by the Senate*					
Insurance Commissioner	Michael Conway	1/22/2019		incumbent	
Interim Insurance Commissioner	Michael Conway	1/1/2018	1/21/2019	1	0
Insurance Commissioner	Marguerite Salazar	8/19/2013	12/31/2017	4	4
Interim Insurance Commissioner	Doug Dean	7/8/2013	8/14/2013	0	1
Insurance Commissioner	James L. 'Jim' Riesberg	7/1/2011	7/8/2013	2	0
Interim Insurance Commissioner	John J. Postolowski	12/1/2010	7/1/2011	0	7
Insurance Commissioner	Marcy Morrison	1/9/2007	12/1/2010	3	11
Insurance Commissioner	David Rivera	4/20/2005	1/9/2007	1	9
Insurance Commissioner	Doug Dean	1/7/2003	4/20/2005	2	3
Acting Insurance Commissioner	M. Michael Cooke	8/9/2002	1/7/2003	0	5
Insurance Commissioner	William J. Kirven III	2/26/1999	8/9/2002	3	6
Insurance Commissioner	John B. 'Jack' Ehnes	2/11/1994	2/26/1999	5	0
Insurance Commissioner	*Position Vacant*	1/1/1994	1/31/1994	0	1
Insurance Commissioner	Joanne Hill	10/1/1989	12/31/1993	4	2
Acting Insurance Commissioner	Bruce Smith	7/1/1989	10/1/1989	0	3
Insurance Commissioner	John Kezer	2/5/1985	7/1/1989	4	5
Acting Insurance Commissioner	D. Colaiannia	2/1/1984	2/5/1985	1	0
Insurance Commissioner	J. Richard Barnes	3/23/1964	1/31/1984	19	10
Insurance Commissioner	Sam N. Beery*	1/1/1955	3/1/1964	9	2
Insurance Commissioner	Luke J. Kavanaugh	4/22/1939	12/31/1954	15	8
Insurance Commissioner	Jackson Cochrane	11/1/1921	4/22/1939	17	5
Insurance Commissioner	Earl Wilson	11/5/1920	10/15/1921	0	11
Insurance Commissioner	Claude W. Fairchild*	3/24/1917	11/5/1920	3	8
Acting Insurance Commissioner	Mrs. D. M. Rolph	1/23/1917	3/24/1917	0	2
Insurance Commissioner	Erastus R. Harper	6/14/1915	1/22/1917	1	7
Acting Insurance Commissioner	Mrs. D. M. Rolph	1/16/1915	6/14/1915	0	5
Insurance Commissioner	Saul Epstein	5/10/1913	1/16/1915	1	8
Insurance Commissioner	William L. Clayton	1/31/1909	5/10/1913	4	4
Insurance Commissioner	Elmer E. Rittenhouse	7/1/1907	1/31/1909	1	6
Superintendent of Insurance	Alfred E. Bent	6/1/1905	6/30/1907	2	0
Superintendent of Insurance	John A. Holmberg	6/1/1903	6/1/1905	2	0
Superintendent of Insurance	Charles W. Crouter	6/1/1901	6/1/1903	2	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
COLORADO—*Continued*					
Superintendent of Insurance	George W. Temple	6/1/1899	6/1/1901	2	0
Superintendent of Insurance	John M. Lowell	6/1/1897	6/1/1899	2	0
Superintendent of Insurance	Clifford C. Parks	6/1/1895	6/1/1897	2	0
Superintendent of Insurance	F. M. Goodykoontz	6/1/1893	6/1/1895	2	0
Superintendent of Insurance	John M. Henderson	6/1/1891	6/1/1893	2	0
Auditor of State	Louis B. Schwanbeck	9/1/1889	6/1/1891	1	9
Auditor of State	Darwin P. Kingsley	9/1/1887	9/1/1889	2	0
Superintendent of Insurance	Hiram A. Spruance	9/1/1885	9/1/1887	2	0
Superintendent of Insurance	John C. Abbott	4/1/1883	9/1/1885	2	5
CONNECTICUT—*Appointed, at the pleasure of the Governor with the advice and consent of either house of the General Assembly; 4-year term*					
Insurance Commissioner	Andrew N. 'Andy' Mais* (*Reappointed Jan. 4, 2023*)	3/4/2019		incumbent	
Acting Insurance Commissioner	Paul Lombardo	12/20/2018	3/1/2019	0	3
Insurance Commissioner	Katharine L. 'Katie' Wade	3/24/2015	12/19/2018	3	9
Acting Insurance Commissioner	Anne Melissa Dowling	12/11/2014	3/24/2015	0	3
Insurance Commissioner	Thomas B. Leonardi	2/4/2011	12/11/2014	3	10
Acting Insurance Commissioner	Barbara C. Spear	11/12/2010	2/4/2011	0	3
Insurance Commissioner	Thomas R. Sullivan	4/1/2007	11/12/2010	3	7
Insurance Commissioner	Susan F. Cogswell	6/22/2000	4/1/2007	6	10
Acting Insurance Commissioner	William J. Gilligan	5/8/2000	6/22/2000	0	1
Insurance Commissioner	George M. Reider Jr.*	5/1/1995	5/5/2000	5	0
Acting Insurance Commissioner	William J. Gilligan	6/1/1994	5/1/1995	0	11
Insurance Commissioner	Robert R. Googins	3/1/1991	6/1/1994	3	3
Acting Insurance Commissioner	Robert R. Googins	2/1/1991	3/1/1991	0	1
Insurance Commissioner	Peter F. Kelly	8/17/1988	2/1/1991	2	6
Acting Insurance Commissioner	William J. Gilligan	7/1/1988	8/1/1988	0	1
Insurance Commissioner	Peter W. Gillies	1/5/1983	7/1/1988	5	6
Insurance Commissioner	Joseph C. Mike	6/1/1977	1/1/1983	5	7
Insurance Commissioner	T. F. Gilroy Daly	6/1/1976	6/1/1977	1	0
Insurance Commissioner	Jay W. Jackson	6/1/1975	6/1/1976	1	0
Insurance Commissioner	Thomas C. White	6/1/1973	6/1/1975	2	0
Insurance Commissioner	Paul B. Altermatt	6/1/1971	6/1/1973	2	0
Insurance Commissioner	Robert F. Claffey	1/1/1971	6/1/1971	0	5
Insurance Commissioner	William R. Cotter	7/1/1966	12/31/1970	4	5
Acting Insurance Commissioner	James G. McCabe	6/1/1966	7/1/1966	0	1
Insurance Commissioner	William R. Cotter	5/4/1964	6/1/1966	2	1
Insurance Commissioner	Alfred N. Premo	6/1/1958	5/4/1964	5	11
Insurance Commissioner	Thomas J. Spellacy	6/1/1955	6/1/1958	3	0
Insurance Commissioner	W. Ellery Allyn*	7/1/1943	6/1/1955	11	11
Insurance Commissioner	John C. Blackall*	7/1/1935	7/1/1943	8	0
Insurance Commissioner	Howard P. Dunham	7/1/1923	7/1/1935	12	0
Insurance Commissioner	Burton Mansfield*	7/1/1911	7/1/1923	12	0
Insurance Commissioner	Theodore H. Macdonald	7/1/1907	7/1/1911	4	0
Insurance Commissioner	Theron Upson	6/1/1902	7/1/1907	5	1
Insurance Commissioner	Edwin L. Scofield	7/1/1899	6/1/1902	2	11
Insurance Commissioner	Frederick A. Betts	7/1/1895	7/1/1899	4	0
Insurance Commissioner	Burton Mansfield*	4/11/1893	7/1/1895	2	3
Acting Insurance Commissioner	John S. Seymour	3/3/1893	4/11/1893	0	1

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
CONNECTICUT—*Continued*					
Insurance Commissioner	Orsamus R. Fyler*	7/1/1886	3/3/1893	6	8
Insurance Commissioner	Ephraim Williams	7/1/1883	7/1/1886	3	0
Insurance Commissioner	John W. Brooks	7/27/1880	7/1/1883	3	0
Insurance Commissioner	John W. Steadman	7/27/1874	7/27/1880	6	0
Insurance Commissioner	George S. Miller	7/27/1871	7/27/1874	3	0
Insurance Commissioner	Benjamin Noyes	5/24/1871	7/27/1871	0	2
DELAWARE—*Elected; 4-Year Term*					
Insurance Commissioner	Trinidad Navarro *(Elected Nov. 8, 2016; Re-elected Nov. 3, 2020)*	1/3/2017		incumbent	
Insurance Commissioner	Karen Weldin Stewart	1/6/2009	1/3/2017	8	0
Insurance Commissioner	Matthew Denn	1/4/2005	1/6/2009	4	0
Insurance Commissioner	Donna Lee Williams	1/1/1993	1/4/2005	12	0
Insurance Commissioner	David N. Levinson	1/1/1985	1/1/1993	8	0
Insurance Commissioner	David H. Elliot	1/4/1977	1/1/1985	8	0
Insurance Commissioner	John F. Richardson	4/1/1976	1/4/1977	0	9
Insurance Commissioner	Robert A. Short	1/1/1963	4/1/1976	13	3
Insurance Commissioner	Harry S. Smith	1/1/1955	1/1/1963	8	0
Insurance Commissioner	William R. Murphy	1/1/1951	1/1/1955	4	0
Insurance Commissioner	William J. Swain	1/1/1939	1/1/1951	12	0
Insurance Commissioner	J. Postles Hammond	1/1/1935	1/1/1939	4	0
Insurance Commissioner	James G. Shaw	1/1/1927	1/1/1935	8	0
Insurance Commissioner	Charles M. Hollis	1/1/1923	1/1/1927	4	0
Insurance Commissioner	William J. Swain	7/24/1922	1/1/1923	0	6
Insurance Commissioner	Horace Sudler (*Died July 24, 1922*)	1/1/1921	7/24/1922	1	6
Insurance Commissioner	Thomas R. Wilson	1/1/1917	1/1/1921	4	0
Insurance Commissioner	William R. McCabe	1/1/1913	1/1/1917	4	0
Insurance Commissioner	Charles H. Maull	1/5/1909	1/1/1913	4	0
Insurance Commissioner	George W. Marshall	1/1/1901	1/5/1909	8	0
Insurance Commissioner	Edward D. Fowler	3/23/1897	1/1/1901	3	10
Insurance Commissioner	Peter K. Meredith	3/22/1893	3/23/1897	4	0
Insurance Commissioner	Isaac N. Fooks	3/23/1889	3/22/1893	4	0
Insurance Commissioner	Nathan Pratt	3/21/1885	3/23/1889	4	0
Insurance Commissioner	Henry C. Douglass (*Died Feb. 27, 1885*)	4/21/1883	2/27/1885	1	10
Insurance Commissioner	John R. McFee	4/21/1879	4/21/1883	4	0
Secretary of State	Ignatius C. Grubb	1/18/1875	4/21/1879	4	3
Secretary of State	John H. Paynter	5/24/1871	1/18/1875	3	8
DISTRICT OF COLUMBIA—*Appointed, at the pleasure of the Mayor; confirmed by the Council of District Columbia*					
Commissioner, Dept. of Insurance, Securities & Banking (DISB)	Karima M. Woods	7/28/2020		incumbent	
Acting Commissioner, DISB	Karima M. Woods	1/21/2020	7/28/2020	0	6
Commissioner, DISB	Stephen C. Taylor	11/3/2015	1/20/2020	4	2
Acting Commissioner, DISB	Stephen C. Taylor	6/19/2015	11/3/2015	0	5
Acting Commissioner, DISB	Chester A. McPherson	4/20/2014	6/19/2015	1	2
Interim Commissioner, DISB	Chester A. McPherson	11/15/2013	4/20/2014	0	5
Commissioner, DISB	William P. White	6/7/2011	11/15/2013	2	5

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
DISTRICT OF COLUMBIA—*Continued*					
Acting Commissioner, DISB	William P. White	2/14/2011	6/7/2011	0	4
Commissioner, DISB	Gennet Purcell	11/3/2009	2/14/2011	1	3
Acting Commissioner, DISB	Gennet Purcell	9/2/2009	11/3/2009	0	2
Commissioner, DISB	Thomas E. Hampton	5/9/2006	8/28/2009	3	3
Acting Commissioner, DISB	Thomas E. Hampton	10/1/2005	5/9/2006	0	7
Commissioner, DISB	Lawrence H. 'Larry' Mirel	3/1/2004	9/30/2005	1	7
Commissioner of Ins. & Securities	Lawrence H. 'Larry' Mirel	10/5/1999	3/1/2004	4	5
Acting Cmsr. of Ins. & Securities	Lawrence H. 'Larry' Mirel	7/6/1999	10/5/1999	0	3
Acting Cmsr. of Ins. & Securities	Reginald Berry	1/4/1999	7/12/1999	0	6
Commissioner of Ins. & Securities	Patrick E. Kelly	7/21/1998	1/4/1999	0	6
Interim Cmsr. of Ins. & Securities	Patrick E. Kelly	7/22/1997	7/21/1998	1	0
Interim Commissioner of Insurance	Patrick E. Kelly	1/1/1995	7/22/1997	2	6
Commissioner of Insurance	Robert M. Willis (*Died Oct. 21, 2020*)	8/12/1991	1/1/1995	3	5
Acting Commissioner of Insurance	Patrick E. Kelly	4/1/1991	8/12/1991	0	4
Commissioner of Insurance	Margurite Stokes	4/1/1983	4/1/1991	8	0
Acting Superintendent of Insurance	James R. Montgomery III	11/8/1978	4/1/1983	3	10
Superintendent of Insurance	Maximilian 'Max' Wallach (*Died Nov. 7, 1978*)	11/24/1973	11/7/1978	4	10
Acting Superintendent of Insurance	Maximilian 'Max' Wallach (*Died Nov. 7, 1978*)	9/16/1973	11/24/1973	0	2
Superintendent of Insurance	Edward P. Lombard	3/1/1970	9/14/1973	3	6
Acting Superintendent of Insurance	Edward P. Lombard	1/24/1970	3/1/1970	0	2
Superintendent of Insurance	Albert F. Jordan	8/1/1939	1/23/1970	30	5
Superintendent of Insurance	J. Balch Moor (*Died July 22, 1939*)	3/23/1936	7/22/1939	3	4
Superintendent of Insurance	John A. Marshall	2/19/1934	3/23/1936	2	1
Superintendent of Insurance	Herbert L. Davis	5/1/1931	2/19/1934	2	9
Acting Superintendent of Insurance	Frank B. Bryan, Jr.	4/28/1931	5/1/1931	0	1
Superintendent of Insurance	Thomas M. Baldwin, Jr.	9/16/1924	4/28/1931	7	1
Acting Superintendent of Insurance	Thomas M. Baldwin, Jr.	3/29/1924	9/16/1924	0	6
Superintendent of Insurance	Burt A. Miller	6/22/1922	3/28/1924	1	9
Superintendent of Insurance	Lewis A. Griffith	6/4/1919	6/22/1922	3	0
Superintendent of Insurance	Lee B. Mosher	11/14/1917	5/7/1919	1	6
Acting Superintendent of Insurance	Charles C. Wright	10/22/1917	11/14/1917	0	1
Superintendent of Insurance	Charles F. Nesbit	1/10/1914	10/22/1917	3	9
Superintendent of Insurance	George W. Ingham	11/17/1910	12/22/1913	3	1
Acting Superintendent of Insurance	Daniel E. Curry	7/23/1910	11/17/1910	0	4
Superintendent of Insurance	Thomas E. Drake (*Died July 23, 1910*)	1/1/1902	7/23/1910	8	6
Assessor of the District	Hopewell H. Darnelle	12/1/1899	12/31/1901	1	1
Assessor of the District	Matthew Trimble	3/16/1890	12/1/1899	9	9
Assessor of the District	Roger Williams	3/19/1889	3/16/1890	1	0
Assessor of the District	Roswell A. Fish	5/23/1887	3/19/1889	1	10
Treasurer and Assessor	Robert P. Dodge (*Died May 21, 1887*)	7/11/1876	5/21/1887	10	10
Treasurer of the District	James S. Wilson	12/1/1873	7/11/1876	2	8
Treasurer of the District	John T. Johnson	10/18/1871	11/29/1873	2	1

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
FLORIDA—*Appointed, at the Pleasure of the Financial Services Commission*					
Insurance Commissioner	Michael Yaworsky	3/13/2023		incumbent	
Interim Insurance Commissioner	Michael Yaworsky	2/10/2023	2/13/2023	0	1
Insurance Commissioner	*Position Vacant*	12/29/2022	2/9/2023	0	2
Insurance Commissioner	David Altmaier*	4/29/2016	12/28/2022	6	8
Insurance Commissioner	Kevin M. McCarty*	1/9/2003	4/29/2016	13	0
State Treasurer/Ins. Commissioner	C. Thomas 'Tom' Gallagher	1/3/2001	1/3/2003	2	0
State Treasurer/Ins. Commissioner	C. William 'Bill' Nelson	1/3/1995	1/3/2001	6	0
State Treasurer/Ins. Commissioner	C. Thomas 'Tom' Gallagher	1/3/1989	1/3/1995	6	0
State Treasurer/Ins. Commissioner	William D. 'Bill' Gunter* (*Died April 8, 2024*)	11/9/1976	1/3/1989	12	2
State Treasurer/Ins. Commissioner	Philip F. Ashler	6/3/1975	11/9/1976	1	5
State Treasurer/Ins. Commissioner	Thomas D. O'Malley	1/5/1971	6/3/1975	4	5
State Treasurer/Ins. Commissioner	Broward Williams	1/25/1965	1/5/1971	5	11
State Treasurer/Ins. Commissioner	J. Edwin Larson* (*Died Jan. 24, 1965*)	1/7/1941	1/24/1965	24	0
State Treasurer/Ins. Commissioner	William V. Knott	9/28/1928	1/7/1941	12	3
State Treasurer/Ins. Commissioner	John C. Luning* (*Died Sept. 26, 1928*)	2/19/1912	9/26/1928	16	7
State Treasurer	William V. Knott	3/1/1903	2/19/1912	8	11
State Treasurer	James B. Whitfield	6/19/1897	3/1/1903	5	9
State Treasurer	Clarence B. Collins	1/3/1893	6/19/1897	4	5
State Treasurer	Eduardo J. Triay	12/31/1891	1/3/1893	2	0
State Treasurer	Francis J. Pons (*Died Dec. 24, 1891*)	1/8/1889	12/24/1891	2	11
State Treasurer	Edward S. Crill	2/19/1885	1/8/1889	3	11
State Treasurer	Henry A. L'Engle	2/1/1881	2/19/1885	4	0
State Treasurer	Walter H. Gwynn	1/9/1877	2/1/1881	3	11
State Treasurer	Charles H. Foster	1/16/1873	1/9/1877	4	0
State Treasurer	Simon B. Conover	5/24/1871	1/16/1873	1	4

FLORIDA (Department of Financial Services)—*Elected; 4-Year Term*					
Chief Financial Officer	Jimmy T. Patronis, Jr. (*Appointed June 25, 2017; Elected Nov. 6, 2018; Re-elected Nov. 8, 2022*)	6/30/2017		incumbent	
Chief Financial Officer	Jeffrey H. 'Jeff' Atwater	1/4/2011	6/30/2017	6	6
Chief Financial Officer	Adelaide Alexander 'Alex' Sink	1/2/2007	1/4/2011	4	0
Chief Financial Officer	C. Thomas 'Tom' Gallagher	1/3/2003	1/2/2007	4	0

GEORGIA—*Elected; 4-Year Term*					
Insurance Commissioner	John F. King *(Appointed June 12, 2019; Elected Nov. 8, 2022)*	7/1/2019		incumbent	
Insurance Commissioner	*Position Vacant*	5/17/2019	6/30/2019	0	1
Insurance Commissioner	Jim Beck (*Suspended May 16, 2019*)	1/14/2019	5/16/2019	0	4
Insurance Commissioner	Ralph T. Hudgens	1/10/2011	1/13/2019	8	0
Insurance Commissioner	John Oxendine	1/20/1995	1/1/2011	16	0
Insurance Commissioner	Tim Ryles	1/20/1991	1/20/1995	4	0
Insurance Commissioner	Warren D. Evans	11/1/1985	1/3/1991	5	2
Ins. Commissioner/Comptroller General	Johnnie L. Caldwell*	1/12/1971	11/1/1985	14	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
GEORGIA—*Continued*					
Ins. Commissioner/Comptroller General	James L. Bentley*	1/1/1963	11/1/1971	8	10
Ins. Commissioner/Comptroller General	Zachariah D. 'Zack' Cravey	1/1/1947	1/1/1963	16	0
Ins. Commissioner/Comptroller General	William R. Mitchell	6/25/1946	1/1/1947	0	7
Ins. Commissioner/Comptroller General	Homer C. Parker (*Died June 22, 1946*)	1/14/1941	6/22/1946	5	5
Ins. Commissioner/Comptroller General	C. Downing Musgrove	6/7/1940	1/14/1941	0	7
Ins. Commissioner/Comptroller General	William B. Harrison (*Died June 3, 1940*)	1/12/1937	6/3/1940	3	5
Ins. Commissioner/Comptroller General	Homer C. Parker	6/16/1936	1/12/1937	0	7
Ins. Commissioner/Comptroller General	Glenn B. Carreker	2/24/1936	6/16/1936	0	4
Ins. Commissioner/Comptroller General	William B. Harrison	9/18/1929	2/24/1936	6	5
Ins. Commissioner/Comptroller General	William A. Wright (*Died Sept. 13, 1929*)	9/17/1879	9/13/1929	50	0
Comptroller-General	Washington L. Goldsmith	1/11/1873	9/17/1879	6	8
Comptroller-General	Madison Bell	5/24/1871	1/11/1873	1	8
GUAM—*Appointed, at the pleasure of the Governor*					
Cmsr. of Banking and Insurance	Michelle B. Santos	12/7/2020		incumbent	
Director of Rev. & Taxation/Acting Cmsr. of Banking & Insurance	Dafne M. Shimizu	1/7/2019	12/7/2020	1	11
Director of Rev. & Taxation/Acting Cmsr. of Banking & Insurance	John P. Camacho	2/5/2018	12/31/2018	0	10
Cmsr. of Banking and Insurance	Artemio B. 'Art' Ilagan	5/17/2011	2/5/2018	6	9
Director of Rev. & Taxation/Acting Cmsr. of Banking & Insurance	John P. Camacho	1/3/2011	5/17/2011	0	4
Cmsr. of Banking and Insurance	John P. Camacho	10/29/2008	1/3/2011	2	3
Director of Rev. & Taxation/Acting Cmsr. of Banking & Insurance	Artemio B. 'Art' Ilagan	1/1/2008	10/29/2008	0	9
Cmsr. of Banking and Insurance	John P. Camacho	6/26/2007	1/1/2008	0	7
Director of Rev. & Taxation/Acting Cmsr. of Banking & Insurance	Artemio B. 'Art' Ilagan	3/9/2007	6/26/2007	0	3
Cmsr. of Banking and Insurance	Andreas J. 'Andy' Jordanou	8/27/2004	3/9/2007	2	7
Director of Revenue and Taxation	Artemio B. 'Art' Ilagan	1/6/2003	8/27/2004	1	7
Acting Director of Revenue and Taxation/Acting Insurance Cmsr.	George V. Cruz	9/28/2001	1/6/2003	1	4
Director of Revenue and Taxation/Insurance Commissioner	Joseph T. 'Joey' Duenas	1/1/1995	9/28/2001	6	8
Director of Revenue and Taxation/Insurance Commissioner	Joaquin G. Blaz	1/1/1988	1/1/1995	7	0
Acting Director of Revenue and Taxation/Acting Insurance Cmsr.	J.C. Carr Bettis	1/1/1987	1/1/1988	1	0
Director of Revenue and Taxation/Insurance Commissioner	David J. 'Dave' Santos	1/3/1983	1/1/1987	4	0
Director of Revenue and Taxation/Insurance Commissioner	Jose R. Rivera	1/2/1981	1/3/1983	2	0
Director of Revenue and Taxation/Insurance Commissioner	Ignacio C. Borja	1/2/1979	1/2/1981	2	0
Director of Revenue and Taxation/Insurance Commissioner	Manuel A. Chaco	1/6/1975	1/2/1979	4	0
Director of Revenue and Taxation/Insurance Commissioner	Joaquin G. Blaz	7/20/1969	12/31/1974	4	5

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
GUAM—*Continued*					
Director of Revenue and Taxation/Insurance Commissioner	Joaquin C. Guerrero	10/1/1968	7/20/1969	0	9
Director of Finance/Insurance Commissioner	Joaquin C. Guerrero	1/4/1965	10/1/1968	3	9
Acting Director of Finance/Acting Insurance Commissioner	Segundo C. Aguon	6/1/1964	1/4/1965	0	7
Acting Director of Finance/Acting Insurance Commissioner	Robert A. Smith	1/1/1964	6/1/1964	0	5
Director of Finance/Insurance Commissioner	George W. Ingling (*Died March 26, 1979*)	3/6/1961	1/1/1964	2	10
Director of Finance/Insurance Commissioner	Richard F. 'Dick' Taitano (*Died Jan. 4, 1997*)	6/8/1959	3/6/1961	0	9
HAWAII—*Appointed, at the pleasure of the Director of Commerce and Consumer Affairs; approved by the Governor*					
Insurance Commissioner	Gordon I. Ito	12/16/2022		incumbent	
Insurance Commissioner	Colin M. Hayashida (*Died Feb. 28, 2023*)	1/1/2019	12/16/2022	3	11
Insurance Commissioner	Gordon I. Ito	12/1/2010	12/31/2018	8	0
Acting Insurance Commissioner	Gordon I. Ito	7/20/2010	12/1/2010	0	5
Insurance Commissioner	J. P. Schmidt	2/3/2003	7/1/2010	7	5
Acting Insurance Commissioner	Gordon I. Ito	11/29/2002	2/3/2003	0	3
Insurance Commissioner	Wayne C. Metcalf (Died April 6, 2024)	3/1/1999	11/1/2002	3	8
Insurance Commissioner	Rey Graulty	2/4/1997	3/1/1999	2	1
Insurance Commissioner	Wayne C. Metcalf (Died April 6, 2024)	1/1/1995	2/1/1997	2	1
Insurance Commissioner	Lawrence M. Reifurth	3/1/1994	1/1/1995	0	10
Insurance Commissioner	Linda Chu Takayama	12/16/1991	2/28/1994	2	2
Insurance Commissioner	Robin Campaniano	1/1/1987	12/16/1991	4	11
Insurance Commissioner	Mario R. Ramil	5/1/1984	1/1/1987	2	8
Insurance Commissioner	Susan Kee-Young Park	7/1/1982	5/1/1984	1	10
Insurance Commissioner	Mary G. F. Bitterman	2/1/1981	7/1/1982	1	5
Insurance Commissioner	Tany S. Hong	1/1/1979	2/1/1981	1	11
Insurance Commissioner	Wayne Minami	1/1/1975	1/1/1979	4	0
Insurance Commissioner	Edwin H. Honda	1/8/1968	12/31/1974	6	11
Insurance Commissioner	Sidney I. Hashimoto	1/17/1963	1/1/1968	5	0
Insurance Commissioner	Charles H. Silva	1/1/1960	1/17/1963	3	0
Insurance Commissioner	Raymond Y. C. Ho	1/1/1959	1/1/1960	1	0
Insurance Commissioner	Kam Tai Lee	1/1/1953	1/1/1959	6	0
Insurance Commissioner	Sakae Takahashi	1/1/1952	1/1/1953	1	0
Insurance Commissioner	Howard H. Adams	1/1/1951	1/1/1952	1	0
Insurance Commissioner	William B. Brown	12/15/1947	1/1/1951	3	11
Insurance Commissioner	Walter D. Ackerman, Jr.	2/19/1943	12/15/1947	4	10
Insurance Commissioner	Norman D. Godbold, Jr.	11/7/1940	2/19/1943	2	3
Insurance Commissioner	W. C. McGonagle	6/30/1934	11/7/1940	6	5
Insurance Commissioner	E. S. Smith	7/15/1929	6/30/1934	4	11
Insurance Commissioner	Henry C. Hapai	11/1/1922	7/15/1929	6	8
Insurance Commissioner	A. Lewis, Jr.	12/1/1921	11/1/1922	0	11
Insurance Commissioner	Delbert E. Metzger	6/22/1918	12/1/1921	3	6
Insurance Commissioner	Charles J. McCarthy	10/31/1914	6/22/1918	3	8
Insurance Commissioner	David L. Conkling	7/1/1909	10/31/1914	5	3

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
HAWAII—*Continued*					
Insurance Commissioner	A. J. Campbell	1/1/1907	7/1/1909	2	6
Insurance Commissioner	A. N. Keooikai	1/1/1903	1/1/1907	4	0
IDAHO—*Appointed; 4-year term, subject to earlier removal by the Governor*					
Insurance Director	Dean L. Cameron (*Reappointed March 19, 2019*)	6/15/2015		incumbent	
Acting Insurance Director	Thomas A. 'Tom' Donovan	1/5/2015	6/15/2015	0	5
Insurance Director	William W. 'Bill' Deal	1/2/2007	12/31/2014	7	11
Acting Insurance Director	Shad Priest	7/1/2006	1/1/2007	0	6
Insurance Director	Gary L. Smith	12/1/2004	6/30/2006	1	6
Insurance Director	Mary L. Hartung	1/4/1999	11/30/2004	5	10
Acting Insurance Director	Mary L. Hartung	4/17/1998	1/3/1999	0	9
Insurance Director	James M. Alcorn	3/1/1996	4/17/1998	2	1
Acting Insurance Director	James M. Alcorn	12/1/1995	3/1/1996	0	3
Insurance Director	John Michael 'Mike' Brassey	1/16/1995	12/1/1995	0	11
Acting Insurance Director	James M. Alcorn	6/1/1994	1/16/1995	0	7
Insurance Director	Harry C. Walrath	7/1/1991	6/1/1994	2	11
Acting Insurance Director	George J. Neumayer	3/1/1991	7/1/1991	0	4
Insurance Director	Anthony J. 'Tony' Fagiano	1/5/1987	3/1/1991	4	2
Insurance Director	Wayne L. Soward	5/14/1984	1/5/1987	3	5
Insurance Director	Trent M. Woods	9/12/1980	5/14/1984	3	8
Insurance Director	Monroe C. Gollaher	1/1/1974	9/12/1980	6	8
Acting Insurance Commissioner	Monroe C. Gollaher	8/29/1973	1/1/1974	0	5
Insurance Commissioner	Robert Hay	4/18/1972	8/29/1973	1	4
Insurance Commissioner	John R. Blaine	1/11/1967	4/18/1972	6	3
Insurance Commissioner	Leo O'Connell	7/29/1950	1/11/1967	16	5
Insurance Commissioner	James Hubbard	7/1/1947	7/28/1950	3	0
Insurance Director	Edward B. McMonigle	8/1/1945	7/1/1947	1	11
Acting Insurance Director	Laura E. Dewey	4/5/1945	8/1/1945	0	4
Insurance Director	Howard C. Cullimore	5/21/1944	4/5/1945	0	11
Insurance Director	James A. Dement	4/8/1944	5/21/1944	0	1
Insurance Director	Howard C. Cullimore	1/4/1943	4/8/1944	1	3
Insurance Director	Joel Jenifer	1/7/1941	1/4/1943	2	0
Insurance Director	Ted M. Walrath	3/1/1939	1/7/1941	1	10
Insurance Director	Warren H. Bakes	3/2/1931	3/1/1939	8	0
Insurance Director	David C. Neifert	6/1/1924	3/1/1931	6	9
Insurance Director	Harry D. Smith	12/22/1922	6/1/1924	0	6
Insurance Director	Howard J. Brace	10/18/1919	12/22/1922	3	2
Insurance Director	Willet R. Hyatt	5/15/1917	10/18/1919	1	11
Insurance Commissioner	George F. Steele	7/1/1915	5/15/1917	1	10
Insurance Commissioner	Elmer F. Van Valkenberg	4/1/1913	7/1/1915	2	3
Insurance Commissioner	Isaac C. Hattabaugh	4/1/1911	4/1/1913	2	0
Insurance Commissioner	Charles D. Goaslind	8/24/1909	4/1/1911	1	7
ILLINOIS—*Appointed, at the Pleasure of the Governor*					
Acting Insurance Director	Ann Gillespie	4/15/2024		incumbent	
Insurance Director	Dana Popish Severinghaus (*Reappointed Feb. 3, 2023*)	2/22/2022	4/14/2024	2	2
Acting Insurance Director	Dana Popish Severinghaus	1/19/2021	2/22/2022	1	1
Interim Acting Insurance Director	Shannon Whalen	12/11/2020	1/18/2021	0	1

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
ILLINOIS—*Continued*					
Insurance Director	Robert H. Muriel	5/31/2019	12/11/2020	1	7
Acting Insurance Director	Robert H. Muriel	3/11/2019	5/31/2019	0	2
Acting Insurance Director	Kevin Fry	1/25/2019	3/8/2019	0	2
Acting Insurance Director	Karin Zosel	12/12/2018	1/25/2019	0	1
Insurance Director	Jennifer W. Hammer	2/15/2017	12/10/2018	0	10
Acting Insurance Director	Jennifer W. Hammer	1/17/2017	2/15/2017	0	1
Acting Insurance Director	Anne Melissa Dowling	7/1/2015	1/17/2017	1	6
Acting Insurance Director	James A. Stephens	1/12/2015	7/1/2015	0	6
Insurance Director	Andrew Boron	1/27/2012	1/12/2015	3	0
Acting Insurance Director	Robert E. 'Bob' Wagner	1/1/2012	1/27/2012	0	1
Acting Insurance Director	Andrew R. Stolfi	10/1/2011	12/31/2011	0	2
Acting Insurance Director	Jack Messmore	6/1/2011	10/1/2011	0	4
Insurance Director	Michael T. McRaith	3/21/2005	5/31/2011	6	3
Acting Insurance Director	Deirdre K. Manna	2/17/2004	3/21/2005	1	1
Insurance Director	J. Anthony Clark	3/31/2003	1/31/2004	0	10
Acting Insurance Director	Arnold Dutcher	1/1/2003	3/31/2003	0	2
Insurance Director	Nathaniel S. 'Nat' Shapo	1/19/1999	1/1/2003	4	0
Acting Insurance Director	Arnold Dutcher	2/27/1998	1/19/1999	0	11
Insurance Director	Mark Boozell	7/1/1995	2/27/1998	2	7
Acting Insurance Director	James W. 'Jim' Schacht	2/1/1994	7/1/1995	1	5
Insurance Director	Stephen F. Selcke	9/3/1991	2/1/1994	2	5
Acting Insurance Director	James W. 'Jim' Schacht	2/15/1991	9/3/1991	0	7
Insurance Director	Zachary 'Zack' Stamp	9/14/1989	2/15/1991	1	5
Insurance Director	John E. Washburn*	11/16/1983	9/14/1989	5	10
Acting Insurance Director	James W. 'Jim' Schacht	7/19/1982	11/16/1983	1	4
Insurance Director	Philip R. O'Connor	7/11/1979	7/19/1982	3	0
Insurance Director	Richard L. Mathias	2/2/1977	7/11/1979	2	5
Insurance Director	Michael P. Duncan	7/1/1976	2/2/1977	0	7
Acting Insurance Director	Dennis W. Toivonen	6/14/1976	7/1/1976	0	1
Insurance Director	Robert B. 'Bob' Wilcox	8/13/1974	6/14/1976	1	10
Insurance Director	Fred A. Mauck	1/19/1973	8/13/1974	1	7
Insurance Director	James R. Baylor	1/20/1969	1/19/1973	4	0
Insurance Director	John F. Bolton, Jr.	2/16/1965	1/20/1969	3	11
Insurance Director	Richard G. Hershey	1/29/1963	2/16/1965	2	1
Insurance Director	Joseph S. Gerber	1/11/1957	1/29/1963	6	0
Insurance Director	Justin T. McCarthy	8/30/1954	1/11/1957	2	5
Acting Insurance Director	Laddie T. Pelnar	6/14/1954	8/30/1954	0	2
Insurance Director	Robert E. Barrett (*Died June 14, 1954*)	1/11/1953	6/14/1954	1	5
Insurance Director	J. Edward Day	9/1/1950	1/11/1953	2	4
Insurance Director	Harry B. Hershey	1/17/1949	9/1/1950	1	8
Insurance Director	Nellis P. Parkinson	4/4/1945	1/17/1949	3	9
Acting Insurance Director	Nellis P. Parkinson	4/15/1944	4/4/1945	1	0
Insurance Director	Paul F. Jones	1/15/1941	4/15/1944	3	3
Insurance Director	C. Hayden Davis	11/7/1940	1/15/1941	0	2
Insurance Director	Ernest Palmer*	7/1/1933	11/7/1940	6	4
Insurance Superintendent	Ernest Palmer*	1/23/1933	7/1/1933	0	6
Insurance Superintendent	Harry W. Hanson	7/1/1930	1/23/1933	2	6
Insurance Superintendent	George W. Huskinson	1/26/1927	7/1/1930	3	6
Director of Trade and Commerce	H. U. Bailey	1/27/1926	1/26/1927	1	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
ILLINOIS—*Continued*					
Director of Trade and Commerce	Clifford C. Ireland	11/15/1923	1/27/1926	2	2
Insurance Superintendent	Thomas J. Houston	8/8/1921	11/15/1923	2	3
Insurance Superintendent	Frederick W. 'Fred' Potter*	5/15/1917	8/8/1921	4	3
Insurance Superintendent	Rufus M. Potts	8/11/1913	5/15/1917	3	9
Insurance Superintendent	Frederick W. 'Fred' Potter*	1/1/1907	8/11/1913	6	7
Insurance Superintendent	William R. Vredenburgh	5/2/1903	1/1/1907	3	8
Insurance Superintendent	Henry Yates (*Died May 1, 1903*)	5/6/1901	5/1/1903	2	0
Insurance Superintendent	James R. B. Van Cleave	5/1/1897	5/6/1901	4	0
Insurance Superintendent	Bradford K. Durfee*	7/13/1893	5/1/1897	3	10
Auditor of State	David P. Gore	1/10/1893	7/13/1893	0	6
Auditor of State	Charles W. Pavey	1/14/1889	1/10/1893	4	0
Auditor of State	Charles P. Swigert*	1/10/1881	1/14/1889	8	0
Auditor of State	Thomas B. Needles	1/8/1877	1/10/1881	4	0
Auditor of State	Charles E. Lippencott	5/24/1871	1/8/1877	5	8
INDIANA—*Appointed, at the Pleasure of the Governor*					
Insurance Commissioner	Amy L. Beard	6/2/2021		incumbent	
Insurance Commissioner	Stephen W. 'Steve' Robertson	10/13/2010	6/1/2021	10	8
Acting Insurance Commissioner	Stephen W. 'Steve' Robertson **NOTE**: Robertson began serving as acting commissioner when Cutter went on medical leave in June 2010.	6/14/2010	10/13/2010	0	4
Insurance Commissioner	Carol Cutter (*Died Sept. 6, 2010*)	6/22/2009	9/6/2010	1	3
Insurance Commissioner	James D. 'Jim' Atterholt	2/22/2005	6/22/2009	4	4
Acting Insurance Commissioner	James D. 'Jim' Atterholt	1/10/2005	2/22/2005	0	1
Interim Insurance Commissioner	Amy E. Strati	7/15/2004	1/10/2005	0	6
Insurance Commissioner	Sarah Ann 'Sally' McCarty	6/26/1997	7/15/2004	7	1
Insurance Commissioner	John J. Quinn	4/16/1997	6/26/1997	0	2
Insurance Commissioner	Marjorie Maginn	7/12/1996	4/16/1997	0	9
Insurance Commissioner	Donna D. Bennett	6/24/1994	7/12/1996	2	1
Interim Insurance Commissioner	Donna D. Bennett	2/17/1994	6/24/1994	0	4
Insurance Commissioner	John F. 'Jack' Mortell	9/1/1991	2/16/1994	2	5
Acting Insurance Commissioner	John F. 'Jack' Mortell	7/15/1991	9/1/1991	0	2
Insurance Commissioner	John J. Dillon III	7/3/1989	7/15/1991	2	0
Acting Insurance Commissioner	Bettye L. Foy	1/9/1989	7/3/1989	0	6
Insurance Commissioner	Harry E. Eakin	4/1/1985	1/9/1989	3	9
Insurance Commissioner	Donald H. 'Don' Miller	2/16/1981	4/1/1985	4	2
Insurance Commissioner	H. Peter 'Pete' Hudson*	12/10/1979	2/16/1981	1	2
Acting Insurance Commissioner	Richard S. Baldwin	11/15/1979	12/10/1979	0	1
Insurance Commissioner	H. Peter 'Pete' Hudson*	8/4/1975	11/15/1979	4	3
Insurance Commissioner	Lloyd M. Allen	4/23/1973	8/4/1975	2	4
Insurance Commissioner	Oscar H. Ritz	1/13/1969	4/23/1973	4	4
Insurance Commissioner	Joseph G. Wood, Sr.	2/1/1965	1/13/1969	3	11
Insurance Commissioner	Harry E. McClain	1/10/1961	2/1/1965	4	1
Insurance Commissioner	James K. Ashley	6/15/1960	1/10/1961	0	7
Insurance Commissioner	Alden C. Palmer	1/16/1957	6/15/1960	3	5
Insurance Commissioner	William J. Davey	10/15/1955	1/16/1957	1	3
Insurance Commissioner	Harry E. Wells	1/12/1953	10/15/1955	2	9

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
INDIANA—*Continued*					
Insurance Commissioner	Frank J. Viehmann	1/10/1949	1/12/1953	4	0
Insurance Commissioner	John D. Pearson	1/8/1945	1/10/1949	4	0
Insurance Commissioner	Frank J. Viehmann	3/1/1940	1/8/1945	4	10
Insurance Commissioner	George H. Newbauer	2/1/1937	3/1/1940	3	1
Insurance Commissioner	Harry E. McClain	4/1/1933	2/1/1937	3	10
Insurance Commissioner	John C. Kidd	1/1/1931	4/1/1933	2	3
Insurance Commissioner	Clarence C. Wysong*	10/1/1926	1/1/1931	4	3
Insurance Commissioner	Thomas S. McMurray, Jr.	4/1/1921	10/1/1926	5	6
Insurance Commissioner	Miles Schaeffer	10/1/1920	4/1/1921	0	6
State Auditor	Otto L. Klauss	12/1/1916	10/1/1920	3	10
State Auditor	Dale J. Crittenberger	12/1/1914	12/1/1916	2	0
State Auditor	William H. O'Brien	12/1/1910	12/1/1914	4	0
State Auditor	John C. Billheimer	11/24/1906	12/1/1910	4	0
State Auditor	Warren Bigler	9/14/1905	11/24/1906	1	2
State Auditor	David E. Sherrick	1/26/1903	9/14/1905	1	8
State Auditor	William H. Hart*	1/26/1899	1/26/1903	4	0
State Auditor	Americus C. Dailey	1/26/1895	1/26/1899	4	0
State Auditor	John O. Henderson	1/26/1891	1/26/1895	4	0
State Auditor	Bruce Carr	1/26/1887	1/26/1891	4	0
State Auditor	James H. 'Jim' Rice	1/27/1883	1/26/1887	4	0
State Auditor	Edward H. Wolfe	1/26/1881	1/27/1883	2	0
State Auditor	Mahlon D. Manson	1/27/1879	1/26/1881	2	0
State Auditor	Ebenezer Henderson	1/26/1875	1/27/1879	4	0
State Auditor	James A. Wildman	1/25/1873	1/26/1875	2	0
State Auditor	John C. Shoemaker	5/24/1871	1/25/1873	1	8
IOWA—*Appointed, at the Pleasure of the Governor; 4-Year Term*					
Insurance Commissioner	Douglas M. 'Doug' Ommen	1/30/2017		incumbent	
Interim Insurance Commissioner	Douglas M. 'Doug' Ommen	12/26/2016	1/30/2017	0	1
Insurance Commissioner	Nicholas C. 'Nick' Gerhart	2/1/2013	12/23/2016	3	10
Insurance Commissioner	Susan E. Voss*	1/1/2005	1/31/2013	8	1
Insurance Commissioner	Therese M. 'Terri' Vaughan*	8/1/1994	12/31/2004	10	4
Insurance Commissioner	David J. Lyons	11/21/1990	7/1/1994	3	7
Acting Insurance Commissioner	David J. Lyons	6/1/1990	11/21/1990	0	6
Insurance Commissioner	William D. 'Bill' Hager	7/1/1986	5/31/1990	3	11
Insurance Commissioner	Fred M. Haskins	5/19/1986	6/30/1986	0	1
Insurance Commissioner	Bruce W. Foudree*	2/11/1980	5/19/1986	6	3
Acting Insurance Commissioner	Richard S. Baldwin	10/8/1979	2/11/1980	0	4
Insurance Commissioner	Herbert W. Anderson (*Died Oct. 8, 1979*)	6/17/1976	10/8/1979	3	4
Insurance Commissioner	William H. Huff III*	7/1/1971	6/17/1976	4	11
Insurance Commissioner	Lorne R. Worthington*	1/1/1967	7/1/1971	4	6
Insurance Commissioner	William E. Timmons*	7/1/1959	12/31/1966	7	6
Insurance Commissioner	Oliver P. Bennett	10/12/1955	6/30/1959	3	8
Insurance Commissioner	Charles R. Fischer	7/1/1951	10/12/1955	4	3
Insurance Commissioner	Sterling Alexander	7/1/1947	6/30/1951	4	0
Insurance Commissioner	Charles R. Fischer	2/11/1939	6/30/1947	8	4
Insurance Commissioner	Maurice V. Pew	2/15/1938	2/9/1939	1	0
Insurance Commissioner	Ray Murphy	7/1/1935	2/15/1938	2	7
Insurance Commissioner	Edward W. Clark	6/23/1931	7/1/1935	4	1

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
IOWA—*Continued*					
Insurance Commissioner	Ray A. Yenter	3/1/1926	6/23/1931	5	3
Insurance Commissioner	William R. C. Kendrick*	2/1/1923	3/1/1926	3	1
Insurance Commissioner	Arthur C. Savage	2/3/1919	2/1/1923	4	0
Insurance Commissioner	John F. Taake	1/16/1918	2/3/1919	1	1
Insurance Commissioner	Emory H. English	7/1/1914	1/16/1918	3	7
State Auditor	John L. Bleakley	11/3/1908	7/1/1914	5	8
State Auditor	Beryl F. Carroll	11/4/1902	11/3/1908	6	0
State Auditor	Frank F. Merriam	11/8/1898	11/4/1902	4	0
State Auditor	Cornelius G. McCarthy	11/8/1892	11/8/1898	6	0
State Auditor	James A. Lyons	11/2/1886	11/8/1892	6	0
State Auditor	John L. Brown	7/14/1886	11/2/1886	0	4
State Auditor	Charles Beardsley	4/13/1886	7/14/1886	0	3
State Auditor	John L. Brown	1/23/1886	4/13/1886	0	3
State Auditor	Jonathan W. Cattell	3/19/1885	1/23/1886	0	10
State Auditor	John L. Brown	10/7/1882	3/19/1885	2	5
State Auditor	William V. Lucas	11/2/1880	10/7/1882	1	11
State Auditor	Buren R. Sherman	10/13/1874	11/2/1880	6	1
State Auditor	John Russell	10/18/1871	10/13/1874	3	0
KANSAS—*Elected; 4-Year Term*					
Insurance Commissioner	Vicki Schmidt *(Elected Nov. 6, 2018* *Re-elected Nov. 8, 2022)*	1/14/2019		incumbent	
Insurance Commissioner	Kenneth A. 'Ken' Selzer	1/12/2015	1/14/2019	4	0
Insurance Commissioner	Sandra K. 'Sandy' Praeger*	1/13/2003	1/12/2015	12	0
Insurance Commissioner	Kathleen Sebelius*	1/9/1995	1/13/2003	8	0
Insurance Commissioner	Ronald L. 'Ron' Todd	1/14/1991	1/9/1995	4	0
Insurance Commissioner	W. Fletcher Bell*	1/11/1971	1/14/1991	20	0
Insurance Commissioner	Frank Sullivan*	1/13/1947	1/1/1971	24	0
Insurance Commissioner	Charles F. Hobbs*	1/14/1929	1/13/1947	18	0
Insurance Superintendent	William R. Baker	1/8/1923	1/14/1929	6	0
Insurance Superintendent	Frank L. Travis	1/13/1919	1/8/1923	4	0
Insurance Superintendent	Carey J. Wilson	1/11/1915	1/13/1919	4	0
Insurance Superintendent	Isaac S. 'Ike' Lewis	1/9/1911	1/11/1915	4	0
Insurance Superintendent	Charles W. Barnes	1/1/1907	1/9/1911	4	0
Insurance Superintendent	Charles H. Luling	1/1/1903	1/1/1907	4	0
Insurance Superintendent	Willard V. Church	1/1/1899	1/1/1903	4	0
Insurance Superintendent	Webb McNall	1/1/1897	1/1/1899	2	0
Insurance Superintendent	Alexander P. Riddle	1/1/1896	1/1/1897	1	0
Insurance Superintendent	George Tobey Anthony	1/1/1895	1/1/1896	1	0
Insurance Superintendent	Simon H. Snider	1/1/1893	1/1/1895	2	0
Insurance Superintendent	William H. McBride	1/1/1891	1/1/1893	2	0
Insurance Superintendent	Daniel W. Wilder	1/1/1887	1/1/1891	4	0
Insurance Superintendent	Richard D. Morris	1/1/1883	1/1/1887	4	0
Insurance Superintendent	Orrin T. Welch	1/1/1875	1/1/1883	8	0
Insurance Superintendent	Harrison Clarkson	1/1/1874	1/1/1875	1	0
Insurance Superintendent	Edward Russell	1/1/1873	1/1/1874	1	0
Insurance Superintendent	William C. Webb	5/24/1871	1/1/1873	1	8

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
KENTUCKY—*Appointed, at the Pleasure of the Governor*					
Insurance Commissioner	Sharon P. Clark	1/6/2020		incumbent	
Insurance Commissioner	Nancy G. Atkins	5/1/2017	1/3/2020	2	8
Insurance Commissioner	Brian Maynard	1/12/2016	4/30/2017	1	3
Insurance Commissioner	Sharon P. Clark	6/30/2008	1/11/2016	7	6
Acting Insurance Commissioner	John Burkholder	3/1/2008	6/30/2008	0	4
Acting Insurance Commissioner	Timothy LeDonne	12/1/2007	3/1/2008	0	3
Insurance Commissioner	Julie Mix McPeak*	7/17/2006	12/1/2007	1	5
Executive Director	Glenn Jennings	4/27/2005	7/17/2006	1	3
Executive Director	Martin J. Koetters	7/15/2004	4/27/2005	0	9
Acting Insurance Commissioner	Glenn Jennings	12/1/2003	7/15/2004	0	7
Insurance Commissioner	Janie A. Miller	12/1/2000	12/1/2003	3	0
Insurance Commissioner	George Nichols III*	4/1/1996	12/1/2000	4	8
Insurance Commissioner	Theodore 'Ted' Rich	1/24/1996	4/1/1996	0	3
Acting Insurance Commissioner	Laura Douglas	12/29/1995	1/24/1996	0	1
Acting Insurance Commissioner	Suetta Dickinson	12/8/1995	12/29/1995	0	1
Insurance Commissioner	Donald W. 'Don' Stephens	11/16/1992	12/8/1995	3	1
Insurance Commissioner	Ronnie Moore	12/1/1991	11/16/1992	0	11
Insurance Commissioner	Elizabeth Wright	5/1/1990	12/1/1991	1	7
Insurance Commissioner	Leroy Morgan	3/1/1988	5/1/1990	2	2
Insurance Commissioner	Gill McCarty	12/1/1983	3/1/1988	4	3
Insurance Commissioner	Daniel D. Briscoe	1/1/1980	12/1/1983	3	11
Acting Insurance Commissioner	Donald N. Rhody	12/1/1979	12/31/1979	0	1
Insurance Commissioner	Harold B. McGuffey*	12/8/1971	12/1/1979	8	0
Insurance Commissioner	Robert D. Preston	12/1/1968	12/8/1971	3	0
Acting Insurance Commissioner	Robert D. Preston	1/1/1968	12/1/1968	0	11
Insurance Commissioner	S. Roy Woodall, Jr.	12/1/1966	12/31/1967	1	0
Insurance Commissioner	William E. Bivin	1/1/1965	12/1/1966	1	11
Insurance Commissioner	J. Elliott Flanery	12/1/1963	12/31/1964	1	0
Insurance Commissioner	Lawrence D. Cassady	1/1/1963	12/1/1963	0	11
Insurance Commissioner	William T. Hockensmith	11/1/1960	12/31/1962	2	1
Insurance Commissioner	C. P. Thurman	1/1/1957	11/1/1960	3	10
Insurance Commissioner	S. H. Goebel	6/1/1953	12/31/1956	3	6
Insurance Commissioner	Spaulding Southall	5/1/1949	6/1/1953	4	1
Insurance Commissioner	Cad. P. Thurman	4/1/1948	5/1/1949	1	1
Insurance Commissioner	Harry B. Wilson	5/1/1945	4/1/1948	2	11
Insurance Commissioner	Sherman Goodpaster	6/1/1936	5/1/1945	8	11
Insurance Commissioner	J. Dan Talbott	1/31/1936	6/1/1936	0	5
Acting Insurance Commissioner	Charles I. Brown	1/1/1936	1/31/1936	0	1
Insurance Commissioner	McKay Reed	4/11/1935	1/1/1936	0	9
Insurance Commissioner	Gemill B. Senff	11/1/1932	4/1/1935	2	5
Insurance Commissioner	Bush W. Allin	4/1/1929	11/1/1932	3	7
Insurance Commissioner	Shelton M. Saufley	1/1/1924	4/1/1929	5	3
Insurance Commissioner	A. M. Wash	5/1/1923	1/1/1924	0	8
Insurance Commissioner	James F. Ramey	1/1/1920	5/1/1923	3	4
Insurance Commissioner	Charles F. Thomas	3/1/1916	1/1/1920	3	10
Insurance Commissioner	M. C. Clay	3/1/1912	3/1/1916	4	0
Insurance Commissioner	Charles W. Bell	9/1/1907	3/1/1912	4	6
Insurance Commissioner	Henry R. Prewitt	9/1/1904	9/1/1907	3	0
Insurance Commissioner	John B. Chenault	9/1/1900	9/1/1904	4	0
Insurance Commissioner	Will H. Stone	9/1/1898	9/1/1900	2	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
KENTUCKY—*Continued*					
Insurance Commissioner	David N. Comingore	9/22/1896	9/1/1898	2	0
Insurance Commissioner	Henry F. Duncan	8/1/1890	9/1/1896	6	1
Insurance Commissioner	Leslie C. Norman	9/20/1881	8/1/1890	8	11
Insurance Commissioner	Bedford Leslie	9/18/1877	9/1/1881	4	0
Insurance Commissioner	Gustavus W. Smith	5/24/1871	9/19/1876	5	4
LOUISIANA—*Elected; 4-Year Term*					
Insurance Commissioner	Timothy J. 'Tim' Temple (*Elected Oct. 14, 2023*)	1/8/2024		incumbent	
Insurance Commissioner	James J. 'Jim' Donelon* *(Appointed Feb. 15, 2006; Elected Sept. 30, 2006; Re-elected Oct. 20, 2007; Re-elected Oct. 22, 2011; Re-elected Oct. 24, 2015; Re-elected Oct. 12, 2019)*	2/15/2006	1/8/2024	17	10
Insurance Commissioner	J. Robert 'Robert' Wooley	4/1/2003	2/15/2006	2	10
Acting Insurance Commissioner	J. Robert 'Robert' Wooley	10/1/2000	4/1/2003	2	6
Insurance Commissioner	James H. 'Jim' Brown	12/1/1991	10/1/2000	8	10
Acting Insurance Commissioner	Darrell Cobb	8/1/1991	12/1/1991	0	4
Acting Insurance Commissioner	Hunter O. Wagner, Jr.	3/1/1991	8/1/1991	0	5
Insurance Commissioner	Doug Green	4/1/1988	3/1/1991	2	11
Insurance Commissioner	Sherman A. Bernard	5/1/1972	4/1/1988	15	11
Insurance Commissioner	Dudley A. Guglielmo	5/1/1964	5/1/1972	8	0
Insurance Commissioner	Rufus D. Hayes*	8/1/1956	5/1/1964	7	9
Secretary of State/Insurance Cmsr.	Wade O. Martin, Jr.*	12/4/1944	6/1/1956	11	6
Secretary of State/Insurance Cmsr.	James A. Gremillion	6/24/1940	6/7/1943	3	0
Insurance Commissioner	Eugene A. Conway	6/22/1932	2/19/1940	7	8
Insurance Commissioner	John D. Saint	9/8/1930	5/1/1932	1	8
Insurance Commissioner	James J. Bailey	9/30/1916	12/1/1929	13	3
Insurance Commissioner	William E. Millsaps	9/21/1915	9/29/1916	1	0
Acting Deputy Insurance Commissioner	Richard Flower	3/10/1915	4/1/1915	0	1
Secretary of State/Ins. Commissioner	Alvin E. Hebert (*Died March 9, 1915*)	7/23/1912	3/9/1915	2	8
Deputy Insurance Commissioner	E. J. O'Brien	5/1/1911	5/1/1912	1	0
Deputy Insurance Commissioner	Edward Everett	1/1/1911	5/1/1911	0	4
Assistant Secretary of State/Ins. Commissioner	Eugene J. McGivney	9/29/1903	9/30/1910	7	0
Secretary of State/Ins. Commissioner	*No Record in NAIC Proceedings*	9/13/1898	9/25/1902	4	0
Deputy Insurance Commissioner	Edward Newman	1897	1898	1	
Deputy Insurance Commissioner	John J. McCann	1896	1897	0	
Deputy Insurance Commissioner	John T. Michel	1896	1896	0	
Deputy Insurance Commissioner	W. B. Spencer	10/1/1895	1896	1	
Deputy Insurance Commissioner	George Spencer	10/1/1894	10/1/1895	1	0
Deputy Insurance Commissioner	W. B. Spencer	10/1/1891	10/1/1894	3	0
Deputy Insurance Commissioner	L. F. Mason	10/1/1889	10/1/1891	2	0
Secretary of State	Simeon Toby	8/6/1888	10/1/1891	3	2
Deputy Insurance Commissioner	Oscar Orroyo	10/1/1885	10/1/1889	4	0
Deputy Insurance Commissioner	William A. Strong	9/1/1878	9/25/1884	6	0
Secretary of State	*No Record in NAIC Proceedings*	4/16/1872	8/27/1878	6	4
Secretary of State	Richard Gaines	10/18/1871	4/15/1872	0	6

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
LOUISIANA—*Continued*					
Secretary of State	George E. Bovee	5/24/1871	10/18/1871	0	5
MAINE—*Appointed; 5-Year Term*					
Acting Insurance Superintendent	Robert L. 'Bob' Carey	2/27/2024		incumbent	
Acting Insurance Superintendent	Timothy N. Schott	4/1/2022	2/27/2024	1	10
Insurance Superintendent	Eric A. Cioppa*	9/27/2011	3/31/2022	10	6
Acting Insurance Superintendent	Eric A. Cioppa*	6/1/2011	9/27/2011	0	3
Insurance Superintendent	Mila Kofman	3/1/2008	5/31/2011	3	2
Acting Insurance Superintendent	Eric A. Cioppa*	1/14/2007	2/28/2008	1	1
Insurance Superintendent	Alessandro A. 'Al' Iuppa*	2/4/1998	1/13/2007	8	11
Acting Insurance Superintendent	Alessandro A. 'Al' Iuppa*	8/30/1997	2/4/1998	0	6
Insurance Superintendent	Brian K. Atchinson*	5/20/1992	8/29/1997	5	3
Acting Insurance Superintendent	Richard Johnson	10/22/1991	5/19/1992	0	7
Acting Insurance Superintendent	Jeri E. Brown	9/1/1991	10/21/1991	0	1
Insurance Superintendent	Joseph A. 'Joe' Edwards	6/1/1987	9/1/1991	4	3
Acting Insurance Superintendent	Everard B. Stevens	11/10/1986	6/1/1987	0	7
Insurance Superintendent	Theodore T. 'Ted' Briggs	5/21/1979	11/10/1986	7	6
Insurance Superintendent	Frank M. Hogerty, Jr.	10/3/1973	5/20/1979	5	7
Insurance Commissioner	Frank M. Hogerty, Jr.	11/15/1967	10/3/1973	5	11
Acting Insurance Commissioner	Harold E. Trahey	6/2/1967	11/15/1967	0	5
Insurance Commissioner	George F. Mahoney (*Died June 1, 1967*)	6/18/1951	6/1/1967	16	0
Insurance Commissioner	David B. Soule	6/12/1947	6/18/1951	4	0
Insurance Commissioner	Alfred W. Perkins	1/14/1946	3/5/1947	1	2
Acting Insurance Commissioner	Guy R. Whitten (*Alfred W. Perkins on leave of absence for miliary service*)	1/13/1944	1/13/1946	2	0
Insurance Commissioner	Alfred W. Perkins	5/1/1942	1/12/1944	1	8
Insurance Commissioner	Pearce J. Francis (*Died Feb. 13, 1942*)	12/30/1940	2/13/1942	1	2
Insurance Commissioner	C. Waldo Lovejoy	3/23/1937	11/12/1940	3	8
Insurance Commissioner	Wilbur D. Spencer	5/3/1923	3/22/1937	13	10
Acting Insurance Commissioner	Leon W. Helson	11/26/1922	5/2/1923	0	6
Insurance Commissioner	G. Waldon Smith	4/24/1918	11/25/1922	4	7
Acting Insurance Commissioner	Ivan E. Lang	1/1/1918	4/24/1918	0	3
Insurance Commissioner	Erastus J. Carter	2/1/1915	1/1/1918	2	11
Insurance Commissioner	J. Wallace Blunt	7/1/1913	2/1/1915	1	7
Insurance Commissioner	Andrew P. Havey	12/9/1911	7/1/1913	1	7
Insurance Commissioner	Beecher Putnam	1/1/1909	12/9/1911	2	11
Insurance Commissioner	Stephen W. Carr*	12/26/1893	1/1/1909	15	0
Insurance Commissioner	Joseph O. Smith	1/1/1885	12/26/1893	9	0
Insurance Commissioner	Frank E. Nye	9/1/1884	11/20/1884	0	2
Insurance Commissioner	Oramandal Smith	4/1/1883	9/1/1884	1	5
Insurance Commissioner	Joseph B. Peaks	3/1/1880	4/1/1883	3	1
Insurance Commissioner	William Philbrick	5/5/1879	3/1/1880	0	10
Insurance Commissioner	Joshua Nye	4/26/1873	5/5/1879	6	0
Insurance Commissioner	Albert W. Paine	5/24/1871	4/26/1873	1	11

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
MARYLAND—*Appointed, at the Pleasure of the Governor; 4-Year Term*					
Interim Insurance Commissioner	Joy Y. Hatchette	7/1/2024		incumbent	
Insurance Commissioner	Kathleen A. Birrane	5/18/2020	6/30/2024	4	1
Insurance Commissioner	Alfred W. 'Al' Redmer, Jr.	1/22/2015	5/15/2020	5	4
Insurance Commissioner	Therese M. Goldsmith	6/13/2011	1/21/2015	3	7
Acting Insurance Commissioner	Elizabeth 'Beth' Sammis	1/1/2010	6/13/2011	1	5
Insurance Commissioner	Ralph S. Tyler III	9/1/2007	1/1/2010	2	4
Interim Insurance Commissioner	Peggy J. Watson	6/1/2007	9/1/2007	0	3
Insurance Commissioner	R. Steven 'Steve' Orr	1/1/2006	5/31/2007	1	4
Acting Insurance Commissioner	James V. 'Jim' McMahan	10/1/2005	1/1/2006	0	3
Insurance Commissioner	Alfred W. 'Al' Redmer, Jr.	6/1/2003	10/1/2005	2	4
Insurance Commissioner	Steven B. 'Steve' Larsen	6/16/1997	6/1/2003	6	0
Acting Insurance Commissioner	Charles B. Kelly III	5/1/1997	6/1/1997	0	1
Insurance Commissioner	Dwight K. Bartlett III	5/1/1993	5/1/1997	4	0
Insurance Commissioner	John A. Donaho	5/1/989	5/1/1993	4	0
Insurance Commissioner	E. Susan Kellogg	7/1/1988	5/1/1989	0	10
Acting Insurance Commissioner	Martha Roach	1/1/1988	7/1/1988	0	6
Insurance Commissioner	Edward J. Muhl*	7/1/1982	1/1/1988	5	6
Insurance Commissioner	Edward J. Birrane, Jr.	7/1/1976	7/1/1982	5	0
Insurance Commissioner	Thomas J. Hatem	7/16/1970	7/1/1976	6	0
Insurance Commissioner	Newton I. Steers, Jr.	5/15/1967	7/15/1970	3	2
Insurance Commissioner	Norman Polovoy	12/16/1966	5/15/1967	0	5
Insurance Commissioner	Francis B. 'Bill' Burch	7/15/1965	12/16/1966	1	5
Insurance Commissioner	F. Douglass Sears	5/4/1959	6/24/1965	6	2
Insurance Commissioner	Charles S. Jackson	12/17/1952	5/4/1959	6	5
Acting Insurance Commissioner	John H. Coppage	8/18/1952	12/17/1952	0	4
Insurance Commissioner	Harvey M. Chesney (*Died Aug. 17, 1952*)	5/8/1951	8/17/1952	1	3
Insurance Commissioner	Claude M. Hanley	5/1/1947	5/8/1951	4	0
Insurance Commissioner	Lawrence E. Ensor	9/1/1943	5/1/1947	3	8
Insurance Commissioner	John B. Gontrum	5/1/1939	9/1/1943	4	4
Insurance Commissioner	Wesley S. Hanna	5/1/1935	5/1/1939	4	0
Insurance Commissioner	William C. Walsh	5/1/1931	5/1/1935	4	0
Insurance Commissioner	Harrison Rider	3/1/1929	5/1/1931	2	2
Insurance Commissioner	Carville D. Benson (*Died Feb. 8, 1929*)	8/1/1924	2/8/1929	4	6
Insurance Commissioner	Harvey L. Cooper	9/1/1922	8/1/1924	1	11
Insurance Commissioner	Thomas J. Keating	4/1/1919	9/1/1922	3	5
Insurance Commissioner	William Mason Shehan	2/1/1912	3/1/1919	7	1
Insurance Commissioner	Emerson C. Harrington	11/9/1910	1/31/1912	1	2
Insurance Commissioner	Benjamin F. Crouse* (*Died Nov. 8, 1910*)	12/1/1905	11/8/1910	4	11
Insurance Commissioner	Frank I. Duncan	1/10/1905	10/31/1905	0	10
Insurance Commissioner	Lloyd Wilkinson	9/1/1900	1/9/1905	4	4
Insurance Commissioner	F. Albert Kurtz	3/13/1896	9/1/1900	4	0
Insurance Commissioner	Thomas B. Townsend	12/18/1895	3/13/1896	0	3
Insurance Commissioner	I. Freeman Rasin	1/7/1893	12/14/1895	2	11
Insurance Commissioner	J. Frederick C. Talbott	10/1/1889	1/7/1893	3	3
Insurance Commissioner	Jesse K. Hines *(Died Sept. 20, 1889)*	2/1/1877	9/20/1889	12	7
Insurance Commissioner	John M. Miller	4/29/1876	1/31/1877	0	9

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
MARYLAND—*Continued*					
Insurance Commissioner	*Position Vacant*	1/31/1876	4/29/1876	0	3
Insurance Commissioner	Charles A. Wailes (*Died Jan. 31, 1876*)	1/1/1872	1/31/1876	4	1
Chief Clerk of the Treasury and Superintendent of Insurance	Charles A. Wailes *(Died Jan. 31, 1876)*	5/24/1871	1/1/1872	0	7
MASSACHUSETTS—*Appointed, at the Discretion of the Governor*					
Acting Insurance Commissioner	Kevin P. Beagan	6/10/2024		incumbent	
Acting Insurance Commissioner	Rachel M. Davison	4/15/2024	6/7/2024	0	2
Insurance Commissioner	Gary D. Anderson	10/31/2017	4/14/2024	6	6
Acting Insurance Commissioner	Gary D. Anderson	2/23/2017	10/31/2017	0	8
Insurance Commissioner	Daniel R. Judson	4/1/2015	2/23/2017	1	10
Acting Insurance Commissioner	Gary D. Anderson	12/1/2014	4/1/2015	0	4
Insurance Commissioner	Joseph G. Murphy	2/8/2010	12/1/2014	4	10
Acting Insurance Commissioner	Joseph G. Murphy	9/1/2009	2/8/2010	0	5
Insurance Commissioner	Nonnie S. Burnes (*Died Aug. 14, 2021*)	2/1/2007	9/1/2009	2	7
Acting Insurance Commissioner	Joseph G. Murphy	1/1/2007	2/1/2007	0	1
Insurance Commissioner	Julianne M. 'Julie' Bowler	4/2/2002	1/1/2007	4	9
Insurance Commissioner	Linda L. Ruthardt	8/1/1993	4/2/2002	8	8
Insurance Commissioner	Kay Doughty	7/1/1991	6/30/1993	1	11
Acting Insurance Commissioner	Susan Scott	1/1/1991	7/1/1991	0	6
Insurance Commissioner	Timothy H. Gailey	7/1/1989	1/1/1991	1	6
Insurance Commissioner	Roger M. Singer	7/16/1987	7/1/1989	2	0
Insurance Commissioner	Peter Hiam	4/1/1983	7/16/1987	4	3
Insurance Commissioner	Michael J. Sabbagh	6/1/1979	4/1/1983	3	10
Insurance Commissioner	John G. Ryan	11/1/1971	6/1/1979	7	7
Insurance Commissioner	C. Eugene Farnam	12/1/1962	11/1/1971	8	11
Insurance Commissioner	Otis M. Whitney	1/1/1959	12/1/1962	3	11
Insurance Commissioner	Joseph A. Humphreys	1/1/1954	12/31/1958	4	11
Insurance Commissioner	Edmund S. Cogswell	1/1/1953	12/31/1953	0	11
Insurance Commissioner	Dennis E. Sullivan	1/1/1951	12/31/1952	1	11
Insurance Commissioner	Charles F. J. Harrington*	4/1/1938	12/31/1950	12	8
Insurance Commissioner	Francis J. DeCelles	4/1/1935	4/1/1938	3	0
Insurance Commissioner	Merton L. Brown	12/1/1928	4/1/1935	6	4
Acting Insurance Commissioner	Arthur E. Linnell	9/1/1928	12/1/1928	0	3
Insurance Commissioner	Wesley E. Monk	6/1/1923	9/1/1928	5	3
Insurance Commissioner	Clarence W. Hobbs	3/1/1920	6/1/1923	3	3
Acting Insurance Commissioner	Clarence W. Hobbs	9/1/1919	3/1/1920	0	6
Insurance Commissioner	Frank H. Hardison*	11/1/1907	9/1/1919	11	10
Insurance Commissioner	Frederick L. 'Fred' Cutting*	9/30/1897	11/1/1907	10	1
Insurance Commissioner	George S. Merrill*	9/1/1887	9/30/1897	10	1
Insurance Commissioner	John K. Tarbox* (*Died May 28, 1887*)	4/21/1883	5/28/1887	4	1
Insurance Commissioner	Julius L. Clarke*	5/24/1871	2/14/1883	12	4
MICHIGAN—*Appointed, at the Pleasure of the Governor; 4-Year Term*					
Director, Department of Insurance and Financial Services (DIFS)	Anita G. Fox	1/14/2019		incumbent	
Acting Director, DIFS	Judith A. 'Judy' Weaver	12/28/2018	1/14/2019	0	1

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
MICHIGAN—*Continued*					
Director, DIFS	Patrick M. McPharlin	5/18/2015	12/28/2018	3	7
Director, DIFS	Annette E. Flood	11/1/2013	5/18/2015	1	6
Director, DIFS	R. Kevin Clinton	3/18/2013	11/1/2013	0	7
Commissioner, Office of Financial and Insurance Regulation (OFIR)	R. Kevin Clinton	4/16/2011	3/17/2013	1	11
Commissioner, OFIR	Kenneth 'Ken' Ross	4/6/2008	4/15/2011	3	0
Commissioner, Office of Financial and Insurance Services (OFIS)	Kenneth 'Ken' Ross	2/22/2008	4/5/2008	0	2
Acting Commissioner, OFIS	Kenneth 'Ken' Ross	11/1/2007	2/21/2008	0	3
Commissioner, OFIS	Linda A. Watters	4/11/2003	10/31/2007	4	6
Acting Commissioner, OFIS	Ronald C. Jones, Jr.	2/1/2003	4/11/2003	0	2
Commissioner, OFIS	Frank M. Fitzgerald	4/3/2000	2/1/2003	2	10
Commissioner of Insurance	Frank M. Fitzgerald	1/1/1999	4/2/2000	1	3
Commissioner of Insurance	E. L. Cox	5/4/1998	1/1/1999	0	8
Acting Commissioner of Insurance	Dominic A. D'Annunzio	8/11/1997	5/4/1998	0	9
Commissioner of Insurance	D. Joseph Olson	4/4/1995	8/11/1997	2	4
Acting Commissioner of Insurance	Patrick M. McQueen	1/1/1995	4/4/1995	0	3
Commissioner of Insurance	David J. Dykhouse	4/1/1991	1/1/1995	3	9
Acting Commissioner of Insurance	Dominic A. D'Annunzio	1/1/1991	4/1/1991	0	3
Acting Commissioner of Insurance	Dhiraj N. Shah	10/3/1988	1/1/1991	2	3
Commissioner of Insurance	Herman W. Coleman	9/1/1985	10/3/1988	3	1
Commissioner of Insurance	Nancy A. Baerwaldt	11/1/1980	9/1/1985	4	10
Acting Commissioner of Insurance	Elbert C. Mackey	6/1/1980	11/1/1980	0	5
Commissioner of Insurance	Richard A. Hemmings	12/1/1979	6/1/1980	0	6
Acting Commissioner of Insurance	Jean K. Carlson	1/1/1979	12/1/1979	0	11
Commissioner of Insurance	Thomas C. Jones	12/1/1975	1/1/1979	3	1
Commissioner of Insurance	Daniel J. Demlow	12/1/1973	12/1/1975	2	0
Commissioner of Insurance	Russell E. Van Hooser*	1/27/1969	12/1/1973	4	10
Commissioner of Insurance	David J. Dykhouse	12/1/1966	1/27/1969	2	2
Acting Commissioner of Insurance	John W. Wickstrom	1/1/1966	12/1/1966	0	11
Commissioner of Insurance	Allen L. Mayerson	12/1/1963	1/1/1966	2	1
Commissioner of Insurance	Sherwood Colburn	1/1/1962	12/1/1963	1	11
Commissioner of Insurance	Frank Blackford	1/1/1959	1/1/1962	3	0
Commissioner of Insurance	Joseph A. Navarre*	1/1/1951	1/1/1959	8	0
Commissioner of Insurance	David A. Forbes*	2/16/1943	1/1/1951	7	11
Acting Commissioner of Insurance	Horace B. Corell	1/2/1943	2/16/1943	0	1
Commissioner of Insurance	Eugene P. Berry	1/6/1941	12/31/1942	2	0
Commissioner of Insurance	John G. Emery	4/1/1939	1/6/1941	1	9
Commissioner of Insurance	Charles E. Gauss	1/1/1937	4/1/1939	2	3
Commissioner of Insurance	John C. Ketcham	1/1/1935	1/1/1937	2	0
Commissioner of Insurance	Charles E. Gauss	2/19/1933	1/1/1935	1	11
Commissioner of Insurance	Charles D. Livingston*	1/12/1927	2/19/1933	6	1
Commissioner of Insurance	Leonard T. Hands	5/18/1921	1/12/1927	5	8
Commissioner of Insurance	Frank H. Ellsworth*	7/1/1917	4/30/1921	3	10
Commissioner of Insurance	John T. Winship	7/1/1913	7/1/1917	4	0
Commissioner of Insurance	Calvin A. 'Puss' Palmer*	2/1/1911	7/1/1913	2	5
Commissioner of Insurance	Marion O. Rowland	11/15/1910	2/1/1911	0	3
Commissioner of Insurance	James V. Barry*	1/1/1901	11/15/1910	9	10
Commissioner of Insurance	Harry H. Stevens	7/1/1899	1/1/1901	1	6
Commissioner of Insurance	Milo D. Campbell	7/1/1897	7/1/1899	2	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
MICHIGAN—*Continued*					
Commissioner of Insurance	Theron F. Giddings	7/1/1893	7/1/1897	4	0
Commissioner of Insurance	William E. Magill	7/1/1891	7/1/1893	2	0
Commissioner of Insurance	Henry S. Raymond	1/1/1885	7/1/1891	6	6
Commissioner of Insurance	Eugene Pringle	3/1/1883	1/1/1885	1	10
Commissioner of Insurance	Samuel H. Row*	5/24/1871	3/1/1883	11	10
MINNESOTA—*Appointed, at the Pleasure of the Governor; Confirmed by the Senate*					
Commissioner of Commerce	Grace Arnold (*Reappointed Jan. 2, 2023; Confirmed Feb. 16, 2023*)	4/15/2021		incumbent	
Temporary Cmsr. of Commerce	Grace Arnold	9/11/2020	4/15/2021	0	7
Commissioner of Commerce	Steve Kelley	1/7/2019	9/11/2020	1	8
Commissioner of Commerce	Jessica Looman	11/17/2017	1/7/2019	1	2
Commissioner of Commerce	Michael J. 'Mike' Rothman	1/12/2011	11/17/2017	6	10
Commissioner of Commerce	Glenn Wilson, Jr.	1/6/2003	1/12/2011	8	0
Commissioner of Commerce	James C. 'Jim' Bernstein	7/31/2000	1/6/2003	2	6
Acting Commissioner of Commerce	James C. 'Jim' Bernstein	2/24/2000	7/31/2000	0	5
Commissioner of Commerce	Steve Minn	8/16/1999	2/24/2000	0	6
Acting Commissioner of Commerce	Gary LaVasseur	8/6/1999	8/16/1999	0	1
Commissioner of Commerce	David M. Jennings	1/4/1999	8/6/1999	0	7
Commissioner of Commerce	David B. 'Dave' Gruenes	12/26/1995	1/4/1999	3	0
Commissioner of Commerce	James E. 'Jim' Ulland	9/1/1993	12/26/1995	2	4
Commissioner of Commerce	*Position Vacant*	8/1/1993	9/1/1993	0	1
Commissioner of Commerce	Bert J. McKasy	1/14/1991	8/1/1993	2	7
Acting Commissioner of Commerce	James Miller	1/7/1991	1/14/1991	0	1
Commissioner of Commerce	Thomas H. 'Tom' Borman	1/9/1990	1/7/1991	1	0
Commissioner of Commerce	Michael A. Hatch	7/1/1983	1/9/1990	6	6
Commissioner of Insurance	Reynaud L. Harp	1/3/1983	7/1/1983	0	6
Acting Commissioner of Insurance	Thomas L. O'Malley	7/1/1982	1/3/1983	0	6
Commissioner of Insurance	Michael D. 'Mike' Markman	3/5/1979	7/1/1982	3	4
Commissioner of Insurance	Berton W. Heaton	4/6/1971	3/5/1979	7	11
Acting Commissioner of Insurance	Alfred O. Anderson	8/1/1970	4/6/1971	0	8
Commissioner of Insurance	Thomas C. Hunt	7/15/1967	7/31/1970	3	0
Acting Commissioner of Insurance	L. Edwin Wang	3/13/1967	7/15/1967	0	4
Acting Commissioner of Insurance	Joseph 'Joe' Haveson	11/4/1965	3/9/1967	1	5
Commissioner of Insurance	Cyrus E. Magnusson*	4/15/1959	11/4/1965	6	7
Commissioner of Insurance	Cyril C. Sheehan	2/16/1953	4/15/1959	6	2
Commissioner of Insurance	A. Herbert Nelson	5/15/1951	2/15/1953	1	9
Commissioner of Insurance	Armand W. Harris	12/1/1947	5/15/1951	3	5
Commissioner of Insurance	Newell R. Johnson*	2/1/1941	12/1/1947	6	10
Commissioner of Insurance	Frank Yetka	3/1/1935	2/1/1941	5	11
Commissioner of Insurance	Garfield W. Brown*	10/15/1928	2/29/1935	6	5
Commissioner of Insurance	George W. Wells, Jr.	6/1/1922	10/15/1928	6	4
Commissioner of Insurance	Gustaf Lindquist	7/1/1920	6/1/1922	1	11
Commissioner of Insurance	John B. Sanborn	1/7/1919	7/1/1920	1	6
Commissioner of Insurance	C. Louis Weeks	9/3/1918	1/7/1919	0	4
Commissioner of Insurance	John B. Sanborn	1/7/1917	9/3/1918	1	8
Commissioner of Insurance	Samuel D. Works	1/13/1915	1/7/1917	2	0
Commissioner of Insurance	Ira C. Peterson	1/3/1915	1/13/1915	0	1
Commissioner of Insurance	Jacob A. O. Preus	1/3/1911	1/3/1915	4	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
MINNESOTA—*Continued*					
Commissioner of Insurance	John A. Hartigan*	8/1/1907	1/3/1911	3	5
Commissioner of Insurance	Thomas D. O'Brien	1/12/1905	8/1/1907	2	7
Commissioner of Insurance	Elmer H. Dearth*	1/23/1901	1/12/1905	3	11
Commissioner of Insurance	John A. O'Shaughnessy*	2/27/1899	1/23/1901	2	0
Commissioner of Insurance	Elmer H. Dearth*	1/8/1897	2/27/1899	2	1
Acting Commissioner of Insurance	David C. Lightbourn	6/19/1896	1/8/1897	0	7
Commissioner of Insurance	Christopher H. Smith (*Died June 18, 1896*)	1/5/1891	6/18/1896	5	6
Commissioner of Insurance	Calvin P. Bailey	1/22/1889	1/5/1891	2	0
Commissioner of Insurance	Charles Shandrew	1/6/1887	1/22/1889	2	0
Commissioner of Insurance	Andrew R. McGill*	12/15/1873	1/6/1887	13	1
Commissioner of Insurance	Pennock Pusey	3/1/1872	12/15/1873	1	9
MISSISSIPPI—*Elected; 4-Year Term*					
Commissioner of Insurance	Michael J. 'Mike' Chaney *(Elected Nov. 6, 2007; Re-elected Nov. 8, 2011; Re-elected Nov. 3, 2015; Re-elected Nov. 5, 2019 Re-elected Nov. 7, 2023)*	1/10/2008		incumbent	
Commissioner of Insurance	George Dale	1/1/1976	1/10/2008	32	0
Commissioner of Insurance	Evelyn Gandy	1/1/1972	1/1/1976	4	0
Commissioner of Insurance	Walter D. Davis	6/1/1952	1/1/1972	19	7
Commissioner of Insurance	Jesse L. White	2/2/1944	6/1/1952	8	4
Commissioner of Insurance	John Sharp Williams III* (*Died Jan. 29, 1944*)	1/1/1936	1/29/1944	8	1
Commissioner of Insurance	James H. Johnson	6/18/1935	1/1/1936	0	7
Commissioner of Insurance	George D. Riley (*Died June 18, 1935*)	1/18/1932	6/18/1935	3	5
Commissioner of Insurance	Ben S. Lowry	1/16/1928	1/18/1932	4	0
Commissioner of Insurance	Thomas M. Henry	1/18/1908	1/16/1928	20	0
Commissioner of Insurance	William Q. Cole	1/18/1904	1/18/1908	4	0
Auditor of Public Accounts/Cmsr. of Insurance	William Q. Cole	3/5/1902	1/18/1904	1	10
Auditor of Public Accounts	William Q. Cole	1/15/1900	3/5/1902	2	2
Auditor of Public Accounts	William D. Holder	1/20/1896	1/15/1900	4	0
Auditor of Public Accounts	W. W. Stone	1/1/1886	1/20/1896	10	0
Auditor of Public Accounts	Sylvester Gwin	1/1/1878	1/1/1886	6	4
Auditor of Public Accounts	William H. Gibbs	1/1/1874	1/1/1876	2	0
Auditor of Public Accounts	Henry Musgrove	5/24/1871	1/1/1874	3	8
MISSOURI—*Appointed, at the Pleasure of the Governor; Confirmed by the Senate*					
Director of Insurance	Chlora Lindley-Myers*	4/13/2017		incumbent	
Acting Director of Insurance	Chlora Lindley-Myers*	3/6/2017	4/13/2017	0	1
Acting Director of Insurance	John F. Rehagen	2/7/2017	3/6/2017	0	1
Director of Insurance	John M. Huff*	2/6/2009	2/6/2017	8	0
Acting Director of Insurance	Kip Stetzler	1/10/2009	2/5/2009	0	1
Acting Director of Insurance	Linda Bohrer	6/1/2008	1/1/2009	0	7
Director of Insurance	Douglas M. 'Doug' Ommen	1/2/2007	6/1/2008	1	5
Director of Insurance	W. Dale Finke	1/10/2005	1/2/2007	2	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
Director of Insurance	Scott B. Lakin	3/15/2001	1/10/2005	3	10
MISSOURI—*Continued*					
Director of Insurance	Keith Wenzel	5/10/1999	3/15/2001	1	10
Acting Director of Insurance	A. W. McPherson	10/31/1998	5/10/1999	0	7
Director of Insurance	Jay Angoff	2/16/1993	10/30/1998	5	8
Director of Insurance	Lewis E. Melahn	7/3/1989	2/11/1993	3	7
Acting Director of Insurance	Larry C. Call	5/24/1989	7/1/1989	0	2
Director of Insurance	William A. Bennett	2/28/1989	5/19/1989	0	3
Acting Director of Insurance	Larry C. Call	10/3/1988	2/27/1989	0	4
Director of Insurance	Lewis R. 'Lew' Crist	1/6/1986	10/1/1988	2	9
Acting Director of Insurance	Mary Hall	9/30/1985	1/5/1986	0	4
Director of Insurance	C. Donald Ainsworth	2/18/1981	9/27/1985	4	7
Acting Director of Insurance	William Arthur Jones	9/1/1980	2/17/1981	0	5
Director of Insurance	Richard J. Fredrick	6/1/1979	8/30/1980	1	3
Director of Insurance	Jerry B. Buxton	6/1/1977	5/31/1979	2	0
Superintendent of Insurance	Henry W. Edmiston	6/25/1975	5/31/1977	1	11
Acting Superintendent of Insurance	John Webb	6/1/1975	6/25/1975	0	1
Superintendent of Insurance	Edward G. Farmer, Jr.	4/1/1973	5/31/1975	2	2
Superintendent of Insurance	James P. Dalton	11/1/1972	3/31/1973	0	5
Superintendent of Insurance	William Y. 'Bill' McCaskill	5/22/1969	10/31/1972	3	5
Superintendent of Insurance	Robert D. Scharz	1/11/1965	5/21/1969	4	4
Superintendent of Insurance	Ralph H. Duggins	9/6/1963	1/11/1965	2	2
Superintendent of Insurance	Jack L. Clay	12/8/1961	9/6/1963	1	9
Acting Superintendent of Insurance	Jack L. Clay	11/15/1961	12/8/1961	0	1
Superintendent of Insurance	C. Lawrence Leggett*	11/25/1949	11/15/1961	12	0
Superintendent of Insurance	Owen G. Jackson	11/15/1945	11/24/1949	4	0
Superintendent of Insurance	Edward L. Scheufler	9/29/1941	10/15/1945	4	1
Superintendent of Insurance	Ray B. Lucas	1/10/1939	9/29/1941	2	8
Acting Superintendent of Insurance	F. P. Sizer	1/3/1939	1/9/1939	0	1
Superintendent of Insurance	George A. S. Robertson (*Died Jan. 2, 1939*)	7/1/1937	1/2/1939	1	6
Superintendent of Insurance	Robert Emmett O'Malley	7/1/1933	7/1/1937	4	0
Superintendent of Insurance	Joseph B. Thompson	3/1/1929	7/1/1933	4	4
Superintendent of Insurance	Ben C. Hyde	10/1/1921	3/1/1929	7	5
Superintendent of Insurance	Alfred L. Harty*	5/1/1918	10/1/1921	3	5
Acting Superintendent of Insurance	Claud L. Clark	3/5/1918	5/1/1918	0	2
Superintendent of Insurance	Walter K. Chorn	9/1/1915	3/5/1918	2	6
Superintendent of Insurance	Charles G. Revelle	3/1/1913	9/1/1915	2	6
Superintendent of Insurance	Frank Blake	11/1/1909	3/1/1913	3	4
Superintendent of Insurance	John Kennish	3/1/1909	11/1/1909	0	8
Superintendent of Insurance	W. D. Vandiver	4/1/1905	3/1/1909	3	11
Superintendent of Insurance	Robert G. Yates	11/1/1902	4/1/1905	2	5
Superintendent of Insurance	Edward E. Yates	6/1/1902	11/1/1902	0	5
Superintendent of Insurance	Thomas H. Wagner	8/1/1901	6/1/1902	0	10
Superintendent of Insurance	Edward T. Orear*	3/1/1897	8/1/1901	4	5
Superintendent of Insurance	James R. Waddill*	3/1/1893	3/1/1897	4	0
Superintendent of Insurance	Christopher P. Ellerbe*	3/1/1889	3/1/1893	4	0
Superintendent of Insurance	Alfred Carr	3/1/1885	3/1/1889	4	0
Superintendent of Insurance	John F. Williams	3/1/1881	3/1/1885	4	0
Superintendent of Insurance	William S. Relfe	3/1/1877	3/1/1881	4	0
Superintendent of Insurance	Celsus Price	7/1/1875	3/1/1877	1	8

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
Superintendent of Insurance	Francis P. Blair, Jr.	10/1/1873	7/1/1875	1	9
MISSOURI—*Continued*					
Superintendent of Insurance	William Selby	3/1/1873	10/1/1873	0	7
Superintendent of Insurance	Miles Sells	6/1/1872	3/1/1873	0	9
Superintendent of Insurance	Wyllis King	5/24/1871	6/1/1872	1	1
MONTANA—*Elected; 4-Year Term*					
Cmsr. of Securities and Insurance / State Auditor	Troy Downing *(Elected Nov. 3, 2020)*	1/4/2021		incumbent	
Cmsr. of Securities and Insurance / State Auditor	Matthew M. 'Matt' Rosendale (*Elected Nov. 8, 2016*)	1/2/2017	1/3/2021	4	0
Cmsr. of Securities and Insurance / State Auditor	Monica J. Lindeen* (*Elected Nov. 4, 2008; Re-elected Nov. 6, 2012*)	1/5/2009	1/2/2017	8	0
Cmsr. of Securities and Insurance / State Auditor	John Morrison (*Elected Nov. 7, 2000; Re-elected Nov. 2, 2004*)	1/1/2001	1/5/2009	8	0
Cmsr. of Insurance/State Auditor	Mark D. O'Keefe (*Elected Nov. 3, 1992; Re-elected Nov. 5, 1996*)	1/4/1993	1/1/2001	8	0
Cmsr. of Insurance/State Auditor	Andrea M. 'Andy' Bennett (*Elected Nov. 6, 1984 Re-elected Nov. 8, 1988*)	1/7/1985	1/4/1993	8	0
Cmsr. of Insurance/State Auditor	Elmer V. 'Sonny' Omholt	5/21/1962	1/7/1985	22	8
Cmsr. of Insurance/State Auditor	John J. Holmes (*Died May 12, 1962*)	1/3/1933	5/12/1962	29	4
Cmsr. of Insurance/State Auditor	George P. Porter	1/6/1919	1/3/1933	14	0
Cmsr. of Insurance/State Auditor	Rufus G. Poland	6/28/1917	1/6/1919	1	7
Cmsr. of Insurance/State Auditor	William Keating (*Died June 23, 1917*)	1/6/1913	6/23/1917	4	5
Cmsr. of Insurance/State Auditor	Charles M. McCoy	12/15/1911	1/6/1913	1	1
Cmsr. of Insurance/State Auditor	Henry R. Cunningham	1/1/1905	12/14/1911	6	11
State Auditor	James H. Calderhead	1/7/1901	1/1/1905	4	0
State Auditor	Thomas W. Poindexter, Jr.	1/4/1897	1/7/1901	4	0
State Auditor	Andrew B. Cook	1/2/1893	1/4/1897	4	0
State Auditor	Edwin A. Kenney	6/15/1892	1/2/1893	3	2
NEBRASKA—*Appointed, at the Pleasure of the Governor*					
Director of Insurance	Eric Dunning (*Appointed April 19, 2021; Reappointed Jan. 5, 2023*)	4/19/2021		incumbent	
Director of Insurance	Bruce R. Ramge	11/15/2010	4/18/2021	10	5
Acting Director of Insurance	Bruce R. Ramge	10/30/2010	11/15/2010	0	1
Director of Insurance	Ann M. Frohman	11/28/2007	10/30/2010	2	11
Acting Director of Insurance	Ann M. Frohman	10/10/2007	11/28/2007	0	1
Director of Insurance	L. Timothy 'Tim' Wagner (*Died Oct. 9, 2007*)	1/7/1999	10/9/2007	8	9
Director of Insurance	Timothy J. Hall	1/3/1998	1/7/1999	1	0
Director of Insurance	Robert G. Lange	3/1/1995	1/3/1998	2	10
Acting Director of Insurance	Robert G. Lange	2/1/1994	3/1/1995	1	1
Director of Insurance	William H. 'Bill' McCartney*	3/2/1987	2/1/1994	6	11
Director of Insurance	Michael J. Dugan	3/1/1983	3/2/1987	4	0

*NAIC Past President: This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
Director of Insurance	Walter D. Weaver	2/1/1979	3/1/1983	4	1
NEBRASKA—*Continued*					
Director of Insurance	M. Berri Balka	1/1/1977	2/1/1979	1	1
Director of Insurance	E. Benjamin 'Ben' Nelson	8/15/1975	12/31/1976	1	4
Director of Insurance	James M. Jackson	7/7/1972	8/15/1975	3	1
Director of Insurance	Samuel 'Sam' Van Pelt	1/7/1971	7/7/1972	1	6
Director of Insurance	Benjamin C. 'Ben' Neff, Jr.	7/1/1967	1/7/1971	3	6
Acting Director of Insurance	Benjamin C. 'Ben' Neff, Jr.	1/28/1967	7/1/1967	0	6
Director of Insurance	Frank J. Barrett*	1/5/1961	1/5/1967	6	0
Director of Insurance	William E. Grubbs	1/8/1959	1/5/1961	2	0
Director of Insurance	John H. Binning	7/1/1957	1/8/1959	1	6
Director of Insurance	Thomas R. 'Tom' Pansing	1/8/1953	7/1/1957	5	6
Director of Insurance	Loren H. Laughlin	1/1/1952	12/31/1952	1	0
Director of Insurance	Bernard R. Stone	1/9/1947	12/31/1951	6	0
Director of Insurance	Donald R. 'Don' Hodder	7/1/1946	1/9/1947	0	6
Director of Insurance	Stanley A. Matzke	6/15/1945	7/1/1946	1	0
Director of Insurance	Cecil C. Frazier	1/9/1941	6/15/1945	4	5
Director of Insurance	Charles Smrha	9/9/1935	1/9/1941	5	4
Acting Director of Insurance	John S. Logan	8/5/1935	9/9/1935	0	1
Director of Insurance	Conn W. Moose	1/3/1935	8/5/1935	0	7
Director of Insurance	Robert E. Lee 'Lee' Herdman	4/1/1933	1/3/1935	1	9
Commissioner of Insurance	Robert E. Lee 'Lee' Herdman	6/1/1931	4/1/1933	1	10
Acting Commissioner of Insurance	Joseph L. Kizer	1/3/1931	6/1/1931	0	5
Commissioner of Insurance	Lloyd C. Dort	10/16/1929	1/3/1931	1	3
Acting Commissioner of Insurance	Joseph L. Kizer	2/1/1929	10/16/1929	0	8
Commissioner of Insurance	Charles B. Anderson	1/3/1929	2/1/1929	0	1
Commissioner of Insurance	John R. Dumont	4/10/1925	1/3/1929	3	9
Acting Chief, Bureau of Insurance	Mary A. Fairchild	1/4/1923	4/10/1925	2	3
Chief, Bureau of Insurance	W. Bruce Young	8/23/1919	1/4/1923	3	4
Secretary of Insurance Board /Insurance Commissioner	William B. Eastham	7/23/1915	8/23/1919	4	1
Secretary of Insurance Board /Insurance Commissioner	Lawson G. Brian	7/22/1913	7/23/1915	2	0
State Auditor	William B. Howard	1/9/1913	7/22/1913	0	6
State Auditor	Silas R. Barton	1/7/1909	1/9/1913	4	0
State Auditor	Edward M. Searle, Jr.	1/5/1905	1/7/1909	4	0
State Auditor	Charles E. Weston	1/3/1901	1/5/1905	4	0
State Auditor	John F. Cornell	1/7/1897	1/3/1901	4	0
State Auditor	Eugene Moore	1/13/1893	1/7/1897	4	0
State Auditor	Thomas H. Benton	1/3/1889	1/13/1893	4	0
State Auditor	Heman A. Babcock	1/8/1885	1/3/1889	4	0
State Auditor	John Wallichs	11/12/1880	1/8/1885	4	2
State Auditor	Frederick W. Liedtke	1/9/1879	11/11/1880	1	10
State Auditor	Jefferson B. Weston	1/13/1873	1/9/1879	6	0
State Auditor	John Gillespie	5/24/1871	1/13/1873	1	8

NEVADA—*Appointed, at the Pleasure of the Director of the Department of Business and Industry*					
Insurance Commissioner	Scott J. Kipper	2/27/2023		Incumbent	
Interim Insurance Commissioner	Nick Stosic	1/6/2023	2/26/2023	0	1
Insurance Commissioner	*Position Vacant*	12/31/2022	1/5/2023	0	1
Insurance Commissioner	Barbara D. Richardson	3/7/2016	12/30/2022	6	9

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
Acting Insurance Commissioner	Amy L. Parks	7/7/2015	3/7/2016	0	8
NEVADA—*Continued*					
Insurance Commissioner	Scott J. Kipper	10/24/2011	7/2/2015	3	9
Acting Insurance Commissioner	Amy L. Parks	8/12/2011	10/24/2011	0	2
Insurance Commissioner	Brett J. Barratt	7/7/2010	7/1/2011	1	0
Insurance Commissioner	Scott J. Kipper	12/29/2008	6/30/2010	1	6
Acting Insurance Commissioner	Betty Baker	9/1/2008	12/29/2008	0	3
Insurance Commissioner	Alice Molasky-Arman	1/6/1995	9/1/2008	13	8
Insurance Commissioner	Teresa 'Terry' Froncek Rankin	9/6/1991	12/1/1994	3	3
Acting Insurance Commissioner	Teresa 'Terry' Froncek Rankin	2/1/1991	9/6/1991	0	7
Insurance Commissioner	Alessandro A. 'Al' Iuppa*	1/1/1990	2/1/1991	1	1
Insurance Commissioner	David A. Gates*	7/6/1984	1/1/1990	5	6
Insurance Commissioner	Kevin Sullivan	1/3/1983	7/6/1984	1	6
Insurance Commissioner	Patsy Redmond	5/12/1981	1/3/1983	1	8
Insurance Commissioner	Donald W. 'Don' Heath	1/1/1979	5/12/1981	2	4
Insurance Commissioner	James L. 'Jim' Wadhams	6/1/1978	1/1/1979	0	7
Insurance Commissioner	Richard L. 'Dick' Rottman*	3/11/1971	6/1/1978	7	3
Insurance Commissioner	Louis T. Mastos	6/1/1965	3/11/1970	5	9
Insurance Commissioner	Paul A. Hammel* (*Died April 21, 1965*)	4/1/1951	4/21/1965	14	1
Deputy Controller	Paul A. Hammel* (*Died April 21, 1965*)	1/1/1951	4/1/1951	0	3
State Comptroller	Jerome P. 'Jerry' Donovan	12/1/1947	1/1/1951	3	5
State Comptroller	Henry C. Schmidt	1/8/1935	12/1/1947	12	11
State Comptroller	Edward C. Peterson	1/3/1927	1/8/1935	8	0
State Comptroller	George A. Cole	1/1/1915	1/1/1927	12	0
State Comptroller	Jacob Eggers	1/1/1907	1/1/1915	8	0
State Comptroller	Samuel P. Davis	1/1/1899	1/1/1907	8	0
State Comptroller	C. A. LaGrave	1/1/1895	1/1/1899	4	0
State Comptroller	Robert L. Horton	1/1/1891	1/1/1895	4	0
State Comptroller	James F. Hallock	1/1/1879	1/1/1891	12	0
State Comptroller	William W. Hobart	10/18/1871	1/1/1879	7	3
NEW HAMPSHIRE—*Appointed, 5-Year Term; Nominated by the Governor; Approved by the Executive Council*					
Insurance Commissioner	David J. 'D.J.' Bettencourt	9/20/2023		incumbent	
Acting Insurance Commissioner	David J. 'D.J.' Bettencourt	7/5/2023	9/20/2023	0	2
Insurance Commissioner	Christopher R. 'Chris' Nicolopoulos	2/19/2020	7/4/2023	3	5
Acting Insurance Commissioner	Alexander K. 'Alex' Feldvebel	1/1/2020	2/19/2020	0	1
Insurance Commissioner	John Elias	6/11/2018	12/31/2019	1	6
Insurance Commissioner	Roger A. Sevigny*	8/13/2003	6/9/2018	14	10
Insurance Commissioner	Paula T. Rogers	5/12/1999	8/12/2003	4	3
Insurance Commissioner	Charles N. 'Charlie' Blossom	8/1/1996	5/7/1999	2	9
Insurance Commissioner	Sylvio L. Dupuis	1/1/1994	8/1/1996	2	5
Insurance Commissioner	Louis E. Bergeron	7/28/1983	12/31/1993	10	5
Insurance Commissioner	Francis E. 'Frank' Whaland	3/31/1976	7/28/1983	7	4
Acting Insurance Commissioner	Leo W. Fraser, Jr.	4/11/1975	3/31/1976	1	0
Insurance Commissioner	Francis E. 'Frank' Whaland	6/13/1973	4/11/1975	1	10
Insurance Commissioner	John A. Durkin	7/2/1968	6/13/1973	4	11
Insurance Commissioner	Donald 'Don' Knowlton*	6/9/1943	7/2/1968	25	1
Acting Insurance Commissioner	Simon M. Sheldon	4/30/1943	6/9/1943	0	1
Insurance Commissioner	Arthur J. Rouillard	9/17/1937	4/30/1943	5	7

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
NEW HAMPSHIRE—*Continued*					
Insurance Commissioner	John E. Sullivan (*Died Sept. 6, 1937*)	6/16/1931	9/6/1937	6	3
Acting Insurance Commissioner	William N. Johnston	9/26/1930	6/16/1931	0	9
Insurance Commissioner	John E. Sullivan	5/17/1923	9/26/1930	7	4
Insurance Commissioner	John J. Donahue (*Died May 8, 1923*)	4/2/1919	5/8/1923	4	1
Insurance Commissioner	Rufus N. Elwell (*Died Feb. 9, 1919*)	11/21/1917	2/9/1919	1	3
Insurance Commissioner	Robert J. Merrill	1/13/1915	11/21/1917	2	10
Insurance Commissioner	Joseph Warren	12/31/1914	1/13/1915	0	1
Insurance Commissioner	Robert J. Merrill	11/23/1911	12/31/1914	3	1
Insurance Commissioner	George H. Adams*	9/25/1905	11/18/1911	6	2
Insurance Commissioner	John C. Linehan* *(Died Sept. 19, 1905)*	9/25/1890	9/19/1905	15	0
Insurance Commissioner	Henry H. Huse	3/14/1888	9/7/1890	2	6
Insurance Commissioner	Oliver Pillsbury* (*Died Feb. 21, 1888*)	5/24/1871	2/21/1888	16	9
NEW JERSEY—*Appointed, at the Pleasure of the Governor, with the Advice and Consent of the Senate*					
Acting Cmsr. of Banking and Ins.	Justin Zimmerman	6/27/2023		incumbent	
Cmsr. of Banking and Insurance	Marlene Caride	6/27/2018	6/26/2023	5	0
Acting Cmsr. of Banking and Ins.	Marlene Caride	1/16/2018	6/27/2018	0	5
Commissioner Designee	Marlene Caride	12/20/2017	1/15/2018	0	1
Cmsr. of Banking and Insurance	Richard J. Badolato	6/21/2016	12/19/2017	1	6
Acting Cmsr. of Banking and Ins.	Richard J. Badolato	8/1/2015	6/21/2016	0	10
Acting Cmsr. of Banking and Ins.	Peter L. Hartt	7/1/2015	8/1/2015	0	1
Cmsr. of Banking and Insurance	Kenneth E. Kobylowski	12/20/2012	6/30/2015	2	6
Acting Cmsr. of Banking and Ins.	Kenneth E. Kobylowski	2/11/2012	12/20/2012	0	10
Cmsr. of Banking and Insurance	Thomas B. 'Tom' Considine	2/1/2010	2/11/2012	2	0
Acting Cmsr. of Banking and Ins.	William Radar	1/1/2010	2/1/2010	0	1
Cmsr. of Banking and Insurance	Neil N. Jasey	7/17/2009	1/1/2010	0	6
Cmsr. of Banking and Insurance	Steven M. Goldman	3/20/2006	7/17/2009	3	4
Acting Cmsr. of Banking and Ins.	Donald Bryan	3/1/2005	3/20/2006	1	0
Cmsr. of Banking and Insurance	Holly C. Bakke	2/4/2002	3/1/2005	3	1
Acting Cmsr. of Banking and Ins.	Donald Bryan	10/15/2001	2/4/2002	0	4
Cmsr. of Banking and Insurance	Karen L. Suter	6/29/2000	10/15/2001	1	4
Acting Cmsr. of Banking and Ins.	Karen L. Suter	1/18/2000	6/29/2000	0	5
Cmsr. of Banking and Insurance	Jaynee LaVecchia	9/1/1998	1/18/2000	1	4
Acting Cmsr. of Banking and Ins.	Jaynee LaVecchia	8/24/1998	9/1/1998	0	1
Cmsr. of Banking and Insurance	Elizabeth 'Lisa' Randall	10/1/1995	8/24/1998	2	10
Acting Insurance Commissioner	Anita B. Kartalopoulos	9/14/1995	10/1/1995	0	1
Insurance Commissioner	Andrew J. 'Drew' Karpinski	5/1/1994	9/14/1995	1	4
Acting Insurance Commissioner	Andrew J. 'Drew' Karpinski	3/4/1994	5/1/1994	0	2
Insurance Commissioner	Samuel F. Fortunato	4/1/1990	3/1/1994	3	11
Acting Insurance Commissioner	Jasper Jackson	1/1/1990	4/1/1990	0	3
Insurance Commissioner	Kenneth D. Merin	5/1/1986	1/1/1990	3	8
Insurance Commissioner	Hazel Frank Gluck	3/1/1985	5/1/1986	1	2
Acting Insurance Commissioner	Jasper Jackson	1/1/1985	3/1/1985	0	2
Insurance Commissioner	Kenneth D. Merin	10/1/1984	1/1/1985	0	3
Acting Insurance Commissioner	Kenneth D. Merin	4/1/1984	10/1/1984	0	6

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
NEW JERSEY—*Continued*					
Insurance Commissioner	Joseph F. Murphy	2/1/1982	4/1/1984	2	2
Acting Insurance Commissioner	John G. Foley	1/1/1982	2/1/1982	0	1
Insurance Commissioner	James J. Sheeran	1/1/1974	1/1/1982	8	0
Insurance Commissioner	Richard C. McDonough	2/14/1972	1/1/1974	1	11
Insurance Commissioner	Robert L. Clifford	1/1/1970	2/14/1972	2	1
Cmsr. of Banking and Insurance	Horace J. Bryant	3/1/1969	1/1/1970	0	10
Cmsr. of Banking and Insurance	Charles R. Howell*	2/1/1955	3/1/1969	14	1
Acting Cmsr. of Banking and Ins.	Jerome B. McKenna	10/1/1954	2/1/1955	0	4
Cmsr. of Banking and Insurance	Warren N. Gaffney	5/1/1950	10/1/1954	4	5
Acting Cmsr. of Banking and Ins.	Christopher A. Gough	1/1/1949	5/1/1950	1	4
Cmsr. of Banking and Insurance	John J. Dickerson	7/1/1948	1/1/1949	0	6
Acting Cmsr. of Banking and Ins.	Christopher A. Gough	5/1/1948	7/1/1948	0	2
Cmsr. of Banking and Insurance	Lawrence B. Carey	2/1/1945	5/1/1948	3	3
Cmsr. of Banking and Insurance	Eugene E. Agger	1/1/1942	2/1/1945	3	1
Cmsr. of Banking and Insurance	Louis A. Reilly	3/1/1938	1/1/1942	3	10
Cmsr. of Banking and Insurance	Carl K. Withers	4/1/1935	3/1/1938	2	11
Cmsr. of Banking and Insurance	William H. Kelly	2/1/1932	4/1/1935	3	2
Cmsr. of Banking and Insurance	Frank H. Smith	2/1/1929	2/1/1932	3	0
Cmsr. of Banking and Insurance	Edward E. Maxson	2/28/1923	2/1/1929	6	0
Cmsr. of Banking and Insurance	William E. Tuttle, Jr. (*Died Feb. 11, 1923*)	1/1/1921	2/11/1923	2	1
Cmsr. of Banking and Insurance	Frank H. Smith	12/1/1917	1/1/1921	3	1
Cmsr. of Banking and Insurance	George M. La Monte	11/1/1912	12/1/1917	5	1
Cmsr. of Banking and Insurance	Henry J. Ford	4/1/1912	11/1/1912	0	7
Cmsr. of Banking and Insurance	Vivian M. Lewis	4/1/1909	4/1/1912	3	0
Cmsr. of Banking and Insurance	David O. Watkins	4/1/1903	4/1/1909	6	0
Cmsr. of Banking and Insurance	William Bettle	3/1/1897	3/31/1903	6	0
Cmsr. of Banking and Insurance	George W. Wurts	10/1/1896	3/1/1897	0	5
Cmsr. of Banking and Insurance	George S. Duryea	6/1/1891	10/1/1896	5	4
Cmsr. of Banking and Insurance	George B. M. Harvey	4/1/1891	6/1/1891	0	2
Cmsr. of Banking and Insurance	*No Record in Proceedings* (Represented by Actuary David P. Fackler)	9/20/1881	8/20/1890	8	11
Secretary of State	Henry C. Kelsey	5/24/1871	4/1/1881	9	11
NEW MEXICO—*Appointed, by the Insurance Nominating Committee; 4-Year Term*					
Superintendent of Insurance	Alice T. Kane	6/12/2023		incumbent	
Interim Superintendent of Insurance	Jennifer A. Catechis	1/21/2023	6/11/2023	0	5
Superintendent of Insurance	Russell Toal	1/1/2020	1/20/2023	3	0
Superintendent of Insurance	John G. Franchini	7/27/2010	12/31/2019	9	5
Acting Superintendent of Insurance	Johnny L. Montoya	6/15/2010	7/27/2010	0	1
Interim Superintendent of Insurance	Craig Dunbar	5/24/2010	6/15/2010	0	1
Interim Superintendent of Insurance	Thomas R. 'Tom' Rushton	5/4/2010	5/24/2010	0	1
Superintendent of Insurance	Morris J. 'Mo' Chavez	10/1/2006	5/4/2010	3	7
Acting Superintendent of Insurance	Thomas R. 'Tom' Rushton	6/14/2006	10/1/2006	0	4
Superintendent of Insurance	Eric P. Serna	2/20/2001	6/14/2006	5	4
Superintendent of Insurance	Donald J. 'Don' Letherer	10/4/1999	1/31/2001	1	3
Acting Superintendent of Insurance	Michael C. Batte	1/1/1999	10/4/1999	0	9
Superintendent of Insurance	Christopher P. 'Chris' Krahling	6/1/1995	12/11/1998	3	6
Acting Superintendent of Insurance	Thomas R. 'Tom' Rushton	4/28/1995	6/1/1995	0	1

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
NEW MEXICO—*Continued*					
Superintendent of Insurance	Fabian Chavez	4/18/1988	4/28/1995	7	0
Superintendent of Insurance	Vicente B. Jasso	8/1/1981	4/18/1988	6	8
Superintendent of Insurance	Manuel A. Garcia, Jr.	6/11/1978	8/1/1981	3	2
Superintendent of Insurance	Kenneth C. Moore	6/1/1976	6/11/1978	3	0
Superintendent of Insurance	Ralph F. Apodaca	10/15/1976	6/11/1978	1	8
Superintendent of Insurance	George A. Biel	8/20/1939	10/15/1976	37	2
Superintendent of Insurance	Eliseo Gonzales	2/15/1935	3/1/1935	0	1
Superintendent of Insurance	Alfonso Aguilar	1/6/1933	2/15/1935	2	1
Superintendent of Insurance	Max Fernandez	1/5/1931	1/6/1933	2	0
Superintendent of Insurance	J. H. Vaughn	2/1/1928	1/5/1931	2	11
Superintendent of Insurance	H. A. Delgado	3/20/1925	2/1/1928	2	11
Bank Examiner of State	L. B. Gregg	3/3/1921	3/20/1925	4	0
Superintendent of Insurance and Corporation Commission	Remijio Mirabel	3/6/1919	3/3/1921	2	0
Superintendent of Insurance and Corporation Commission	Cleofas Romero	3/15/1917	3/6/1919	2	0
Superintendent of Insurance	Jacobo Chavez	3/19/1907	3/15/1917	10	0
Superintendent of Insurance	John H. Sloan	1/19/1906	3/19/1907	1	2
Superintendent of Insurance	Pedro Perea (*Died Jan. 11, 1906*)	3/1/1905	1/11/1906	0	10
Territorial Auditor	William G. Sargent	4/1/1901	3/1/1905	3	11
Territorial Auditor	Luis M. Ortiz	3/14/1899	4/1/1901	2	0
Territorial Auditor	Marcelino Garcia	2/21/1895	3/14/1899	4	0
Territorial Auditor	Demetrio Perez	3/18/1891	2/21/1895	4	0
Territorial Auditor	Trinidad Alarid	8/15/1888	3/18/1891	2	7
NEW YORK—*Appointed, at the Pleasure of the Governor*					
Superintendent of Financial Services	Adrienne A. Harris	1/25/2022		incumbent	
Acting Superintendent of Fin. Svcs.	Adrienne A. Harris	9/13/2021	1/25/2022	0	4
Acting Superintendent of Fin. Svcs.	Shirin Emami	8/25/2021	9/12/2021	0	1
Superintendent of Financial Services	Linda A. Lacewell	6/21/2019	8/24/2021	2	2
Acting Superintendent of Fin. Svcs.	Linda A. Lacewell	2/4/2019	6/20/2019	0	4
Superintendent of Financial Services	Maria T. Vullo	6/15/2016	2/1/2019	2	8
Acting Superintendent of Fin. Svcs.	Maria T. Vullo	2/22/2016	6/15/2016	0	4
Acting Superintendent of Fin. Svcs.	Shirin Emami	12/1/2015	2/22/2016	0	2
Acting Superintendent of Fin. Svcs.	Anthony J. Albanese	6/18/2015	11/30/2015	0	5
Superintendent of Financial Services	Benjamin M. Lawsky	10/3/2011	6/17/2015	3	8
Superintendent of Insurance	James J. 'Jim' Wrynn	9/11/2009	10/3/2011	2	1
Acting Superintendent of Insurance	James J. 'Jim' Wrynn	8/20/2009	9/11/2009	0	1
Acting Superintendent of Insurance	Kermitt J. Brooks	7/4/2009	8/19/2009	0	1
Superintendent of Insurance	Eric R. Dinallo	4/18/2007	7/3/2009	2	3
Acting Superintendent of Insurance	Eric R. Dinallo	1/29/2007	4/17/2007	0	3
Acting Superintendent of Insurance	Louis W. 'Lou' Pietroluongo	1/1/2007	1/28/2007	0	1
Superintendent of Insurance	Howard D. Mills III	5/18/2005	12/31/2006	1	7
Acting Superintendent of Insurance	Howard D. Mills III	1/18/2005	5/17/2005	0	4
Superintendent of Insurance	Gregory V. 'Greg' Serio	5/9/2001	1/18/2005	3	9
Acting Superintendent of Insurance	Gregory V. 'Greg' Serio	4/5/2001	5/9/2001	0	1
Superintendent of Insurance	Neil D. Levin (*Died Sept. 11, 2001*)	4/7/1997	4/5/2001	4	0
Acting Superintendent of Insurance	Gregory V. 'Greg' Serio	12/29/1996	4/7/1997	0	4

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
NEW YORK—*Continued*					
Superintendent of Insurance	Edward J. Muhl*	2/12/1995	12/29/1996	1	10
Superintendent of Insurance	Salvatore R. Curiale	6/30/1990	12/31/1994	4	6
Acting Superintendent of Insurance	Wendy E. Cooper	1/27/1990	6/29/1990	0	5
Superintendent of Insurance	James P. Corcoran	3/8/1983	1/26/1990	6	10
Superintendent of Insurance	Albert B. Lewis	1/5/1978	3/7/1983	5	2
Acting Superintendent of Insurance	John F. Lennon	7/21/1977	1/4/1978	0	6
Superintendent of Insurance	Thomas A. Harnett	6/24/1975	7/20/1977	2	1
Acting Superintendent of Insurance	John P. Gemma	4/11/1975	6/23/1975	0	2
Superintendent of Insurance	Lawrence W. Keepnews	3/18/1975	4/11/1975	0	1
Acting Superintendent of Insurance	Lawrence O. Monin	3/10/1975	3/18/1975	0	1
Superintendent of Insurance	Benjamin R. Schenck	1/1/1971	3/10/1975	4	2
Superintendent of Insurance	Richard E. 'Dick' Stewart*	1/1/1967	12/31/1970	3	11
Superintendent of Insurance	Henry Root Stern, Jr.	1/28/1964	12/31/1966	2	11
Acting Superintendent of Insurance	Samuel C. Cantor	10/3/1963	1/27/1964	0	3
Superintendent of Insurance	Thomas Thacher	1/27/1959	10/2/1963	4	9
Superintendent of Insurance	Julius S. Wikler	3/17/1958	1/26/1959	0	10
Superintendent of Insurance	Leffert Holz	2/3/1955	3/15/1958	3	1
Acting Superintendent of Insurance	Adelbert G. Straub, Jr.	2/1/1955	2/3/1955	0	1
Superintendent of Insurance	Alfred J. Bohlinger	7/1/1950	1/31/1955	4	6
Superintendent of Insurance	Robert E. Dineen*	9/23/1943	6/30/1950	6	9
Acting Superintendent of Insurance	Thomas J. Cullen	2/1/1943	9/22/1943	0	7
Superintendent of Insurance	Louis H. Pink	5/10/1935	1/31/1943	8	4
Superintendent of Insurance	George S. Van Schaick	3/5/1931	5/9/1935	4	2
Acting Superintendent of Insurance	Henry A. Thellusson	2/17/1931	3/4/1931	0	1
Acting Superintendent of Insurance	Thomas F. Behan	7/1/1930	2/16/1931	0	7
Superintendent of Insurance	Albert Conway	1/1/1929	6/30/1930	1	6
Superintendent of Insurance	James A. Beha	7/1/1924	1/1/1929	4	6
Superintendent of Insurance	Francis R. Stoddard, Jr.	12/1/1921	6/30/1924	2	6
Acting Superintendent of Insurance	Henry D. Appleton	11/1/1921	11/30/1921	0	1
Superintendent of Insurance	Jesse S. Phillips*	7/1/1915	10/31/1921	6	3
Superintendent of Insurance	Frank Hasbrouck	3/27/1914	6/30/1915	1	3
Superintendent of Insurance	William Temple Emmet	2/21/1912	3/26/1914	2	1
Superintendent of Insurance	William H. Hotchkiss	2/18/1909	2/18/1912	3	0
Acting Superintendent of Insurance	Henry D. Appleton	1/14/1909	2/17/1909	0	1
Superintendent of Insurance	Otto Kelsey	5/17/1906	1/13/1909	2	8
Superintendent of Insurance	Francis Hendricks	2/2/1900	5/16/1906	6	3
Superintendent of Insurance	Louis F. Payn	2/11/1897	2/1/1900	3	0
Superintendent of Insurance	James F. Pierce*	2/12/1891	2/10/1897	6	0
Superintendent of Insurance	Robert A. Maxwell	1/1/1886	2/11/1891	5	1
Superintendent of Insurance	John A. McCall, Jr.*	4/23/1883	12/31/1885	2	8
Superintendent of Insurance	Charles G. Fairman	4/27/1880	4/23/1883	3	0
Superintendent of Insurance	John F. Smyth	2/21/1877	4/26/1880	3	2
Acting Superintendent of Insurance	William Smyth	2/1/1876	2/20/1877	1	0
Superintendent of Insurance	Orlow W. Chapman*	11/29/1872	1/31/1876	3	2
Acting Superintendent of Insurance	George B. Church	5/13/1872	11/28/1872	0	6
Superintendent of Insurance	George W. Miller*	5/24/1871	5/12/1872	1	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
NORTH CAROLINA—*Elected; 4-Year Term*					
Commissioner of Insurance	Mike Causey *(Elected Nov. 8, 2016; Re-elected Nov. 3, 2020)*	1/1/2017		incumbent	
Commissioner of Insurance	G. Wayne Goodwin	1/10/2009	1/1/2017	8	0
Commissioner of Insurance	James E. 'Jim' Long*	1/5/1985	1/10/2009	24	0
Commissioner of Insurance	John Randolph Ingram	1/10/1973	1/5/1985	12	0
Commissioner of Insurance	Edwin S. Lanier	7/16/1962	1/10/1973	10	6
Commissioner of Insurance	Charles F. Gold	6/1/1953	7/16/1962	9	1
Commissioner of Insurance	Waldo C. Cheek	6/1/1949	6/1/1953	4	0
Commissioner of Insurance	William P. 'Bill' Hodges	9/1/1942	6/1/1949	6	9
Commissioner of Insurance	Daniel C. 'Dan' Boney*	11/15/1927	9/1/1942	14	10
Commissioner of Insurance	Stacey W. Wade	1/1/1921	11/15/1927	6	10
Commissioner of Insurance	James R. Young*	1/1/1899	1/1/1921	22	0
Secretary of State	Cyrus Thompson	1/1/1897	1/1/1899	2	0
Secretary of State	C. M. Cooke	8/1/1895	1/1/1897	1	5
Secretary of State	Octavius Coke	4/1/1891	8/1/1895	4	4
Secretary of State	William L. Saunders	1/1/1879	4/1/1891	12	3
Secretary of State	J. A. Englehard	1/1/1877	1/1/1879	2	0
Secretary of State	W. H. Howerton	1/1/1873	1/1/1877	4	0
Secretary of State	*No Record in Proceedings* (Represented by Special Delegate William H. Finch)	10/1/1871	1/1/1873	1	3
NORTH DAKOTA—*Elected; 4-Year Term*					
Commissioner of Insurance	Jon Godfread *(Elected Nov. 8, 2016; Re-elected Nov. 3, 2020)*	1/3/2017		incumbent	
Commissioner of Insurance	Adam W. Hamm*	10/9/2007	1/3/2017	9	3
Acting Commissioner of Insurance	Rebecca Ternes	9/1/2007	10/9/2007	0	1
Commissioner of Insurance	James A. 'Jim' Poolman	1/1/2001	8/31/2007	6	8
Commissioner of Insurance	Glenn Pomeroy*	1/1/1993	1/1/2001	8	0
Commissioner of Insurance	Earl R. Pomeroy*	1/1/1985	1/1/1993	8	0
Commissioner of Insurance	Jorris O. Wigen	1/1/1981	1/1/1985	4	0
Commissioner of Insurance	Byron Knutson	1/1/1977	1/1/1981	4	0
Commissioner of Insurance	Jorris O. Wigen	1/1/1969	1/1/1977	8	0
Commissioner of Insurance	Karsten O. Nygaard	1/1/1965	1/1/1969	4	0
Commissioner of Insurance	Frank Albers	1/1/1963	1/1/1965	2	0
Commissioner of Insurance	Alfred J. Jensen	1/1/1951	1/1/1963	12	0
Commissioner of Insurance	Otto G. Krueger	9/7/1945	1/1/1951	5	4
Commissioner of Insurance	Oscar E. Erickson (*Died Aug. 15, 1945*)	1/11/1937	8/15/1945	8	7
Commissioner of Insurance	Harold L. Hopton	1/7/1935	1/11/1937	2	0
Commissioner of Insurance	Sveinung A. Olsness	1/2/1917	1/7/1935	18	0
Commissioner of Insurance	Walter C. Taylor	1/1/1911	1/2/1917	6	0
Commissioner of Insurance	Ernest C. Cooper	1/1/1905	12/31/1910	6	0
Commissioner of Insurance	Ferdinand 'Ferd' Leutz	1/1/1901	12/31/1904	4	0
Commissioner of Insurance	George W. Harrison	1/3/1899	12/31/1900	2	0
Commissioner of Insurance	Frederick B. 'Fred' Fancher	1/7/1895	1/3/1899	4	0
Commissioner of Insurance	James 'Jim' Cudhie	1/3/1893	1/7/1895	2	0
Commissioner of Insurance	A. L. Carey	11/4/1889	1/3/1893	3	2

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
NORTH DAKOTA—*Continued*					
Territorial Auditor	John C. McManima	9/4/1889	11/4/1889	0	2
NORTHERN MARIANA ISLANDS—*Appointed, Concurrent with Current Governor*					
Secretary of Commerce	Remedio C. 'Remy' Mafnas	8/8/2024		Incumbent	
Acting Secretary of Commerce	Remedio C. 'Remy' Mafnas	5/10/2024	8/8/2024	0	3
Acting Secretary of Commerce	Francisco D. 'Frank' Cabrera	3/20/2024	5/9/2024	0	2
Acting Secretary of Commerce	Remedio C. 'Remy' Mafnas	11/13/2023	3/19/2024	0	4
Acting Secretary of Commerce	Francisco D. 'Frank' Cabrera	4/26/2023	11/12/23	0	7
Acting Secretary of Commerce	Joseph Rios Jr.	2/1/2023	4/25/2023	0	2
Secretary of Commerce	Edward M. Deleon Guerrero	7/8/2021	2/1/2023	1	7
Acting Secretary of Commerce	Edward M. Deleon Guerrero	3/28/2021	7/8/2021	0	4
Secretary of Commerce	Mark O. Rabauliman	3/6/2015	3/26/2021	6	0
Acting Secretary of Commerce	Mark O. Rabauliman	9/9/2014	3/6/2015	0	6
Secretary of Commerce	Sixto K. Igisomar	1/24/2012	9/9/2014	2	8
Acting Secretary of Commerce	Sixto K. Igisomar	10/8/2010	1/24/2012	1	3
Secretary of Commerce	Michael J. Ada	9/18/2008	10/8/2010	2	1
Acting Secretary of Commerce	Michael J. Ada	8/15/2008	9/18/2008	0	1
Secretary of Commerce	James A. Santos	5/8/2006	8/15/2008	2	3
Acting Secretary of Commerce	James A. Santos	1/9/2006	5/8/2006	0	4
Secretary of Commerce	Andrew S. Salas	1/1/2006	1/9/2006	3	0
OHIO—*Appointed, at the Pleasure of the Governor; Confirmed by the Senate*					
Director of Insurance	Judith L. 'Judi' French	2/8/2021		incumbent	
Interim Director of Insurance	Tynesia Dorsey	8/24/2020	2/7/2021	0	6
Director of Insurance	Jillian E. Froment	3/31/2017	8/24/2020	3	5
Lt. Governor/Director of Insurance	Mary Taylor	1/10/2011	3/31/2017	6	2
Director of Insurance	Mary Jo Hudson	1/8/2007	1/10/2011	4	0
Director of Insurance	Ann H. Womer Benjamin	1/6/2003	1/8/2007	4	0
Interim Director of Insurance	Holly Saelens	11/29/2002	1/6/2003	0	2
Director of Insurance	J. Lee Covington II	5/7/1999	11/29/2002	3	7
Interim Director of Insurance	Alan F. Berliner	4/1/1999	5/7/1999	0	1
Interim Director of Insurance	David S. Meyer	1/11/1999	4/1/1999	0	3
Director of Insurance	Harold T. Duryee	3/1/1991	1/11/1999	7	10
Acting Director of Insurance	Dana Rudmose	1/14/1991	3/1/1991	0	2
Director of Insurance	George Fabe	2/4/1983	1/14/1991	7	11
Director of Insurance	Robert H. Katz	8/31/1982	2/4/1983	0	5
Director of Insurance	Robert L. Ratchford, Jr.	12/31/1979	8/31/1982	2	8
Director of Insurance	Harry V. Jump	1/13/1975	12/31/1979	4	11
Director of Insurance	Kenneth E. 'Ken' DeShetler	1/11/1971	1/13/1975	4	0
Director of Insurance	Fred B. Smith	2/4/1969	1/11/1971	1	11
Director of Insurance	Eugene P. Brown (*Died Jan. 27, 1969*)	3/1/1968	1/27/1969	0	10
Superintendent of Insurance	William R. Morris	1/14/1963	3/1/1968	5	2
Superintendent of Insurance	Robert L. Mullins	12/1/1961	1/14/1963	1	1
Acting Superintendent of Insurance	Robert L. Mullins	10/1/1961	12/1/1961	0	2
Superintendent of Insurance	Edward A. 'Ted' Stowell	1/12/1959	10/1/1961	2	9
Superintendent of Insurance	Arthur I. 'Art' Vorys	1/16/1957	1/12/1959	2	0
Superintendent of Insurance	August 'Augie' Pryatel	7/2/1955	1/16/1957	1	6
Superintendent of Insurance	Walter A. Robinson	1/10/1949	7/2/1955	6	6
Superintendent of Insurance	W. Lee Shield	1/13/1947	1/10/1949	2	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
OHIO—*Continued*					
Superintendent of Insurance	Walter Dressel	1/15/1945	1/13/1947	2	0
Superintendent of Insurance	J. Roth Crabbe	3/1/1943	1/15/1945	1	10
Superintendent of Insurance	John A. Lloyd	1/16/1939	3/1/1943	4	2
Superintendent of Insurance	Robert L. Bowen	1/14/1935	1/16/1939	4	0
Superintendent of Insurance	Charles T. Warner	2/1/1931	1/14/1935	3	11
Superintendent of Insurance	Charles S. Younger	1/14/1929	1/31/1931	2	0
Superintendent of Insurance	William A. Doody	12/15/1928	1/14/1929	0	1
Superintendent of Insurance	William C. Safford	4/15/1927	12/15/1928	1	8
Superintendent of Insurance	Harry L. Conn*	2/1/1925	4/15/1927	2	2
Superintendent of Insurance	Emmett L. Savage	6/25/1924	2/1/1925	0	8
Superintendent of Insurance	Harry L. Conn*	1/12/1923	6/25/1924	1	5
Superintendent of Insurance	Bert W. Gearheart	1/25/1921	1/12/1923	2	0
Superintendent of Insurance	Robert T. Crew	7/1/1920	1/25/1921	0	6
Superintendent of Insurance	William H. Tomlinson	6/1/1917	7/1/1920	3	1
Superintendent of Insurance	Frank Taggart	2/11/1915	6/1/1917	2	4
Superintendent of Insurance	Price Russell	11/7/1914	2/11/1915	0	3
Superintendent of Insurance	Robert M. Small	4/18/1914	11/7/1914	0	7
Acting Superintendent of Insurance	Robert M. Small	2/9/1914	4/18/1914	0	2
Superintendent of Insurance	Edmond H. Moore	5/18/1911	2/9/1914	2	9
Superintendent of Insurance	Charles C. Lemert	12/16/1907	4/30/1911	3	5
Superintendent of Insurance	Arthur I. 'Jake' Vorys*	6/3/1900	12/16/1907	7	6
Superintendent of Insurance	William S. Matthews	6/3/1896	6/3/1900	4	0
Superintendent of Insurance	William M. Hahn*	6/3/1893	6/3/1896	3	0
Superintendent of Insurance	William H. Kinder	6/3/1890	6/3/1893	3	0
Superintendent of Insurance	Samuel E. Kemp	6/3/1887	6/3/1890	3	0
Superintendent of Insurance	Henry J. Reinmund	6/2/1884	6/3/1887	3	0
Superintendent of Insurance	Charles H. Moore	6/2/1881	6/2/1884	3	0
Superintendent of Insurance	Joseph F. Wright	6/2/1878	6/2/1881	3	0
Superintendent of Insurance	William D. Hill	6/2/1875	6/2/1878	3	0
Superintendent of Insurance	William F. Church	6/2/1872	6/2/1875	3	0
Auditor of State	James Williams	1/8/1872	6/2/1872	0	5
Auditor of State	James H. Godman	5/24/1871	1/8/1872	0	8
OKLAHOMA—*Elected; 4-Year Term*					
Insurance Commissioner	Glen Mulready (*Elected Nov. 6, 2018; Re-elected Nov. 8, 2022*)	1/14/2019		incumbent	
Insurance Commissioner	John D. Doak	1/10/2011	1/14/2019	8	0
Insurance Commissioner	Kim Holland	1/24/2005	1/10/2011	6	0
Insurance Commissioner	*Position Vacant*	9/24/2004	1/1/2005	0	3
Insurance Commissioner	Carroll Fisher	1/1/1999	9/24/2004	5	9
Insurance Commissioner	John P. Crawford	1/1/1995	1/1/1999	4	0
Insurance Commissioner	Catherine J. 'Cathy' Weatherford	10/1/1991	1/1/1995	3	3
Insurance Commissioner	Gerald Grimes	1/1/1975	10/1/1991	16	9
Insurance Commissioner	Joe B. Hunt	1/1/1955	1/1/1975	20	0
Insurance Commissioner	Robert L. Birdwell	6/1/1954	1/1/1955	0	7
Insurance Commissioner	Donald F. Dickey	7/21/1946	6/1/1954	7	11
Insurance Commissioner	Jess G. Read* (*Died July 20, 1946*)	1/6/1924	7/20/1946	22	6
Insurance Commissioner	E. W. Hardin	2/1/1921	1/6/1924	2	11

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
OKLAHOMA—*Continued*					
Insurance Commissioner	A. L. Welch	4/28/1913	2/1/1921	7	10
Insurance Commissioner	Perry A. Ballard	1/9/1911	4/28/1913	2	3
Insurance Commissioner	Milas Lasater	12/3/1909	1/9/1911	1	1
Insurance Commissioner	T. J. McComb	11/1/1907	12/3/1909	2	1
Territorial Secretary	Charles H. Filson	1/1/1906	11/1/1907	1	10
Territorial Secretary	William Grimes	5/1/1901	1/1/1906	4	8
Territorial Secretary	William M. Jenkins	6/1/1897	5/1/1901	3	11
Territorial Secretary	Thomas J. Lowe	9/1/1893	6/1/1897	3	9
Territorial Secretary	Robert Martin	5/1/1890	9/1/1893	3	4
OREGON—*Appointed, Indefinite*					
Director, Department of Consumer and Business Services (DCBS) / Insurance Commissioner	Andrew R. Stolfi	4/7/2020		incumbent	
Insurance Commissioner	Andrew R. Stolfi	2/1/2018	4/7/2020	2	2
Acting Director, DCBS / Insurance Commissioner	Cameron Smith	12/21/2017	1/31/2018	0	2
Acting Director, DCBS / Insurance Commissioner	Jean Straight	9/1/2017	12/20/2017	0	3
Insurance Commissioner / Chief Actuary	Laura N. Cali Robison	7/15/2013	8/31/2017	4	1
Insurance Commissioner	Louis D. Savage	5/1/2012	7/15/2013	1	2
Acting Insurance Commissioner	Louis D. Savage	11/1/2011	5/1/2012	0	6
Insurance Administrator	Teresa D. Miller	7/8/2009	11/1/2011	2	4
Acting Insurance Administrator	Teresa D. Miller	10/1/2008	7/8/2009	0	9
Insurance Administrator	Scott J. Kipper	12/1/2007	10/1/2008	0	10
Acting Insurance Administrator	Carl Lundberg	7/1/2007	12/1/2007	0	5
Insurance Administrator (named NAIC member rep. by Dir. Neidig)	Joel S. Ario	12/1/2000	7/1/2007	7	3
Director, DCBS / Insurance Commissioners	Mary C. Neidig *(exp. 1/1/2003)*	4/27/2000	12/1/2000	2	9
Acting Director, DCBS / Insurance Commissioners	Mary C. Neidig	3/1/2000	4/27/2000	0	1
Acting Director, DCBS / Insurance Commissioners	Deborah Lincoln	3/1/2000	3/1/2000	0	1
Acting Director, DCBS / Insurance Commissioners	Mike Greenfield	7/1/1998	3/1/2000	1	8
Acting Director, DCBS / Insurance Commissioners	Deborah Lincoln	3/1/1998	7/1/1998	0	4
Acting Director, DCBS / Insurance Commissioners	Kerry Barnett	12/1/1993	12/31/1997	4	0
Acting Insurance Commissioner	Geoff Guilfoy	10/1/1993	12/1/1993	0	2
Insurance Commissioner	Gary Weeks	3/1/1991	10/1/1993	2	7
Acting Insurance Commissioner	Geoff Guilfoy	1/1/1991	3/1/1991	0	2
Insurance Commissioner	Theodore R. Kulongoski	1/1/1987	1/1/1991	4	0
Insurance Commissioner	Josephine M. 'Jo' Driscoll*	12/1/1981	1/1/1987	5	1
Insurance Commissioner	Wilfred W. Fritz	2/1/1978	12/1/1981	3	10
Insurance Commissioner	Lester L. Rawls*	8/1/1972	12/31/1977	5	4
Acting Insurance Commissioner	F. Frank Howatt	4/1/1972	8/1/1972	0	4
Insurance Commissioner	Cornelius C. Bateson	12/1/1969	4/1/1972	2	4
Insurance Commissioner	James R. Faulstich	1/1/1967	12/1/1969	2	11
Insurance Commissioner	Walter G. Korlann	11/1/1961	1/1/1967	5	2

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
OREGON—*Continued*					
Insurance Commissioner	V. Dean Musser	1/1/1959	11/1/1961	2	10
Insurance Commissioner	Hugh H. Earle	7/1/1957	1/1/1959	1	6
Insurance Commissioner	Robert B. Taylor*	7/1/1949	6/30/1957	7	11
Insurance Commissioner	Seth B. Thompson*	6/1/1940	6/30/1949	9	0
Insurance Commissioner	Hugh H. Earle	7/1/1935	6/1/1939	3	11
Insurance Commissioner	Alva H. Averill	6/1/1931	12/1/1934	3	6
Insurance Commissioner	Clare A. Lee	2/1/1927	12/1/1930	3	10
Insurance Commissioner	Will Moore	8/1/1923	10/1/1926	3	2
Insurance Commissioner	A. C. Barbour	9/1/1920	9/1/1921	1	0
Insurance Commissioner	Harvey W. Wells	9/1/1915	9/1/1919	4	0
Insurance Commissioner	John W. Ferguson	7/1/1912	9/1/1915	3	2
Insurance Commissioner	Samuel A. Kozer	8/1/1911	7/1/1912	0	11
Insurance Superintendent	Samuel A. Kozer	8/24/1909	8/1/1911	2	0
PENNSYLVANIA—*Appointed, by the Governor with the Advice and Consent of the Senate*					
Insurance Commissioner	Michael M. 'Mike' Humphreys	6/26/2023		incumbent	
Acting Insurance Commissioner	Michael M. 'Mike' Humphreys	2/26/2022	6/26/2023	1	4
Insurance Commissioner	Jessica K. Altman	3/20/2018	2/25/2022	3	11
Acting Insurance Commissioner	Jessica K. Altman	8/19/2017	3/20/2018	0	7
Insurance Commissioner	Teresa D. Miller	6/3/2015	8/18/2017	2	2
Acting Insurance Commissioner	Teresa D. Miller	1/21/2015	6/3/2015	0	5
Insurance Commissioner	Michael F. 'Mike' Consedine	4/26/2011	1/20/2015	3	9
Acting Insurance Commissioner	Michael F. 'Mike' Consedine	1/19/2011	4/26/2011	0	3
Acting Insurance Commissioner	Robert L. Pratter	8/30/2010	1/18/2011	0	5
Insurance Commissioner	Joel S. Ario	7/3/2008	8/29/2010	2	1
Acting Insurance Commissioner	Joel S. Ario	7/2/2007	7/3/2008	1	0
Acting Insurance Commissioner	Randolph R. 'Randy' Rohrbaugh	2/20/2007	7/1/2007	0	5
Insurance Commissioner	M. Diane Koken*	8/27/1997	2/19/2007	9	6
Acting Insurance Commissioner	Gregory S. Martino	6/30/1997	8/27/1997	0	2
Insurance Commissioner	Linda S. Kaiser	1/30/1995	6/30/1997	2	5
Insurance Commissioner	Cynthia M. Maleski	4/7/1992	1/30/1995	2	10
Acting Insurance Commissioner	Ronald Chronister	2/28/1992	4/7/1992	0	2
Insurance Commissioner	Constance B. Foster	1/20/1987	2/28/1992	5	1
Insurance Commissioner	George F. Grode	7/23/1985	1/20/1987	1	6
Acting Insurance Commissioner	William R. Muir, Jr.	5/1/1984	7/23/1985	1	3
Acting Insurance Commissioner	Anthony A. Geyelin	9/26/1983	5/1/1984	0	7
Insurance Commissioner	Michael L. Browne	7/24/1980	9/26/1983	3	2
Acting Insurance Commissioner	James R. Farley	5/21/1980	7/24/1980	0	2
Insurance Commissioner	Harvey Bartle III	2/23/1979	5/20/1980	1	3
Acting Insurance Commissioner	John J. Sheehy	1/2/1979	2/23/1979	0	2
Insurance Commissioner	William J. Sheppard	4/30/1974	1/1/1979	4	9
Insurance Commissioner	Herbert S. Denenberg	1/25/1971	4/30/1974	3	3
Insurance Commissioner	George F. Reed	9/11/1969	1/25/1971	1	4
Insurance Commissioner	David O. Maxwell	1/17/1967	9/11/1969	2	8
Insurance Commissioner	Audrey R. Kelly	1/15/1963	1/17/1967	4	0
Insurance Commissioner	Theodore S. Gutowicz	7/16/1962	1/15/1963	0	6
Insurance Commissioner	Francis R. Smith	1/18/1955	7/16/1962	7	6
Insurance Commissioner	Artemas C. Leslie	4/8/1950	1/18/1955	4	9
Insurance Commissioner	James F. Malone, Jr.	1/21/1947	4/8/1950	3	3
Insurance Commissioner	Gregg L. Neel	1/10/1943	1/21/1947	4	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
PENNSYLVANIA—*Continued*					
Insurance Commissioner	Ralph H. Alexander	11/5/1942	1/10/1943	0	2
Acting Insurance Commissioner	Ralph H. Alexander	7/23/1942	11/5/1942	0	4
Insurance Commissioner	Matthew H. Taggart (*Died July 23, 1942*)	1/17/1939	7/23/1942	3	6
Insurance Commissioner	Owen B. Hunt	1/15/1935	1/17/1939	4	0
Acting Insurance Commissioner	Charles H. Groff	2/5/1934	1/15/1935	0	11
Insurance Commissioner	Charles F. Armstrong (*Died Feb. 4, 1934*)	1/20/1931	2/4/1934	3	1
Insurance Commissioner	Matthew H. Taggart	4/18/1927	1/20/1931	3	9
Insurance Commissioner	Einar Barford	8/16/1926	4/18/1927	0	8
Insurance Commissioner	Samuel W. McCulloch	6/15/1923	8/16/1926	3	2
Insurance Commissioner	Thomas B. Donaldson	5/6/1919	6/15/1923	3	1
Insurance Commissioner	Charles A. Ambler	9/10/1917	5/6/1919	1	8
Insurance Commissioner	J. Denny O'Neil	6/23/1916	9/6/1917	1	3
Acting Insurance Commissioner	Samuel W. McCulloch	3/31/1916	6/23/1916	0	3
Insurance Commissioner	Charles Johnson	11/15/1911	3/30/1916	4	4
Insurance Commissioner	Samuel W. McCulloch	12/23/1909	11/15/1911	1	11
Insurance Commissioner	David Martin	7/1/1905	12/23/1909	4	5
Insurance Commissioner	Israel W. Durham	1/18/1899	6/30/1905	6	5
Insurance Commissioner	James H. Lambert	1/15/1895	1/18/1899	4	0
Insurance Commissioner	George B. Luper*	5/21/1891	1/15/1895	3	8
Insurance Commissioner	John Montgomery Forster	5/5/1873	5/21/1891	8	0
Auditor General	Harrison Allen	12/2/1872	5/5/1873	0	5
Auditor General	John F. Hartranft	5/24/1871	12/2/1872	1	7
PUERTO RICO—*Appointed, Indefinite*					
Commissioner of Insurance	Alexander S. Adams Vega	12/20/2021		incumbent	
Commissioner of Insurance	*Position Vacant*	11/25/2021	12/19/2021	0	1
Commissioner of Insurance	Mariano A. Mier Romeu	1/4/2021	11/24/2021	0	10
Commissioner of Insurance	Rafael Cestero-Lopategui	9/10/2020	1/4/2021	0	4
Acting Commissioner of Insurance	Rafael Cestero-Lopategui	1/23/2020	9/10/2020	0	8
Commissioner of Insurance	Javier Rivera Rios	1/17/2017	1/22/2020	3	0
Commissioner of Insurance	Ángela Weyne	1/2/2013	12/31/2016	3	11
Commissioner of Insurance	Ramón L. Cruz-Colón	1/4/2009	1/2/2013	4	0
Commissioner of Insurance	Dorelisse Juarbe Jiménez	1/7/2004	12/31/2008	4	11
Commissioner of Insurance	Fermín M. Contreras Gómez	3/15/2001	1/7/2004	2	10
Commissioner of Insurance	Juan Antonio Garcia	1/1/1993	3/15/2001	8	2
Commissioner of Insurance	Ralph J. Rexach Chandri	1/14/1992	12/31/1992	0	11
Commissioner of Insurance	Miguel A. Villafañe-Neriz	1/1/1989	1/14/1992	3	0
Commissioner of Insurance	Juan Antonio Garcia	1/4/1982	12/31/1988	6	11
Commissioner of Insurance	Rolando Cruz	1/13/1977	12/18/1981	4	11
Commissioner of Insurance	Manuel Juarbe	4/18/1975	12/31/1976	1	8
Commissioner of Insurance	Carlos R. Rios	7/2/1973	3/25/1975	1	8
Acting Commissioner of Insurance	Juan Antonio Garcia	12/31/1972	7/2/1973	0	6
Commissioner of Insurance	Pedro J. Fernández Badillo	4/17/1969	12/31/1972	3	8
Commissioner of Insurance	Julio R. Hernandez	11/1/1967	3/25/1969	1	5
Commissioner of Insurance	Jorge Soto Garcia	8/1/1964	9/30/1967	3	1
Commissioner of Insurance	Pablo J. Lopez Castro	8/1/1957	7/15/1964	7	0
Superintendent of Insurance	Mariano Nieves Hidalgo (*Died June 13, 1957*)	1/9/1953	6/13/1957	4	5

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
PUERTO RICO—*Continued*					
Superintendent of Insurance	Jorge Font Saldaña	6/1/1949	12/31/1952	2	7
Superintendent of Insurance	Lorenzo J. Noa	1/9/1943	4/6/1949	6	3
Superintendent of Insurance	Hector R. Ball	5/24/1933	12/31/1942	9	7
Superintendent of Insurance	Augusto R. Soltero	12/9/1930	5/23/1933	4	9
RHODE ISLAND—*Appointed, at the Discretion of the Director of Business Regulation*					
Director, Department of Business Regulation (DBR)	Elizabeth 'Beth' Kelleher Dwyer	5/16/2023		incumbent	
Superintendent of Banking and Insurance	Elizabeth 'Beth' Kelleher Dwyer	1/11/2016	5/16/2023	7	4
Deputy Director/Superintendent of Banking and Insurance	Joseph Torti III	12/16/2002	12/31/2015	13	0
Superintendent of Insurance	Alfonso E. 'Al' Mastrostefano	7/1/1994	12/16/2002	8	5
Superintendent of Insurance	Charles P. Kwolek, Jr.	11/19/1991	7/1/1994	3	8
Insurance Commissioner	Maurice C. Paradis	1/1/1991	11/19/1991	0	10
Insurance Commissioner	Robert J. Janes	10/30/1988	1/1/1991	2	2
Insurance Commissioner	Mark A. Pfeiffer	4/21/1986	10/30/1988	2	6
Insurance Commissioner	Clifton A. Moore	2/1/1985	4/21/1986	1	2
Insurance Commissioner	William F. Carroll	2/3/1984	2/1/1985	1	0
Insurance Commissioner	Thomas J. Caldarone, Jr.	1/16/1977	2/3/1984	6	1
Insurance Commissioner	Peter F. Mullaney	1/10/1969	1/16/1977	9	0
Insurance Commissioner	Ralph A. Petrarca	6/30/1967	1/10/1969	2	6
Insurance Commissioner	Warren R. Campbell	1/1/1963	6/30/1967	4	6
Insurance Commissioner	Thomas J. Coyle	1/9/1961	1/1/1963	2	0
Insurance Commissioner	Hartley F. Roberts	1/20/1959	1/9/1961	2	0
Insurance Commissioner	George A. Bisson	2/11/1947	1/20/1959	11	11
Insurance Commissioner	J. Austin Carroll	7/1/1942	2/1/1947	4	7
Insurance Commissioner	Henri N. Morin	3/1/1939	7/1/1942	3	4
Chief, Division of Banking & Ins.	M. Joseph Cummings	3/4/1935	2/28/1939	4	0
Insurance Commissioner	Oscar L. Heltzen	12/29/1932	3/4/1935	2	2
Insurance Commissioner	Philip H. Wilbour	4/8/1929	12/9/1932	3	8
State Auditor/Ins. Commissioner	Philip H. Wilbour	2/1/1917	4/8/1929	12	2
State Auditor/Ins. Commissioner	Charles M. Arnold	12/23/1916	1/31/1917	0	1
State Auditor/Ins. Commissioner	Charles C. Gray (*Died Dec. 21, 1916*)	1/16/1899	12/21/1916	17	11
State Auditor/Ins. Commissioner	Albert C. Landers	5/27/1891	1/16/1899	7	7
State Auditor/Ins. Commissioner	Elisha W. Bucklin	5/28/1890	5/27/1891	1	0
State Auditor/Ins. Commissioner	William C. Townsend	5/30/1889	5/28/1890	1	0
State Auditor/Ins. Commissioner	Almon K. Goodwin	6/1/1888	5/30/1889	1	0
State Auditor/Ins. Commissioner	Elisha W. Bucklin	6/1/1887	6/1/1888	1	0
State Auditor/Ins. Commissioner	Samuel H. Cross	6/30/1882	6/1/1887	4	11
State Auditor/Ins. Commissioner	Joel M. Spencer	5/24/1871	6/30/1882	11	1

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
SOUTH CAROLINA—*Appointed, by the Governor upon the Advice and Consent of the Senate*					
Director of Insurance	Michael Wise (*Appointed April 26, 2023; Confirmed May 11, 2023)*	5/11/2023		incumbent	
Acting Director of Insurance	Michael Wise	4/16/2022	5/11/2023	1	1
Director of Insurance	Raymond G. 'Ray' Farmer* (*Appointed Nov. 12, 2012; Confirmed Feb. 14, 2013; Reappointed Dec. 12, 2018*)	12/3/2012	4/15/2022	9	4
Acting Director of Insurance	Gwendolyn Fuller McGriff	12/29/2011	12/2/2012	1	0
Director of Insurance	David Black (*Appointed Jan. 20, 2011; Confirmed Feb. 3, 2011*)	2/1/2011	12/28/2011	0	10
Director of Insurance	Scott H. Richardson	2/15/2007	2/1/2011	4	0
Director of Insurance	Eleanor Kitzman	2/1/2005	2/15/2007	2	0
Co-Acting Director of Insurance	Gwendolyn Fuller & Tim Baker	8/1/2004	2/1/2005	0	6
Director of Insurance	Ernst N. 'Ernie' Csiszar*	1/26/1999	8/1/2004	5	7
Director of Insurance	Lee P. Jedziniak	7/1/1995	1/13/1999	3	6
Chief Insurance Commissioner	Susanne K. Murphy	3/1/1995	7/1/1995	0	4
Chief Insurance Commissioner	John G. Richards	3/7/1985	3/1/1995	10	0
Chief Insurance Commissioner	Rogers T. Smith	10/21/1981	3/7/1985	3	5
Acting Insurance Commissioner	Rogers T. Smith	9/3/1981	10/21/1981	0	1
Chief Insurance Commissioner	John W. 'Jack' Lindsay	7/1/1975	9/3/1981	6	2
Chief Insurance Commissioner	Howard B. Clark	1/14/1974	6/30/1975	1	5
Acting Insurance Commissioner	Glen E. Craig	12/1/1973	1/13/1974	0	1
Acting Insurance Commissioner	Lanville H. Mengedoht	1/1/1973	12/1/1973	0	11
Chief Insurance Commissioner	John W. 'Jack' Lindsay	3/2/1970	12/31/1972	2	9
Chief Insurance Commissioner	Leroy M. Brandt	7/1/1968	3/2/1970	1	8
Chief Insurance Commissioner	Charles W. Gambrell	2/17/1964	6/30/1968	4	4
Chief Insurance Commissioner	William F. Austin	7/1/1960	2/15/1964	3	7
Insurance Commissioner	R. Lee Kelly	8/5/1954	7/1/1960	5	11
Insurance Commissioner	D. D. 'Pat' Murphy*	9/15/1948	8/4/1954	5	11
Insurance Commissioner	L. George Benjamin, Jr.	11/1/1945	9/15/1948	2	10
Insurance Commissioner	D. D. 'Pat' Murphy*	8/16/1944	11/1/1945	1	3
Insurance Commissioner	William Egleston	9/4/1942	8/16/1944	1	11
Insurance Commissioner	L. George Benjamin, Jr.	4/1/1942	9/4/1942	0	5
Insurance Commissioner	Samuel B. 'Sam' King	4/2/1928	4/1/1942	14	0
Insurance Commissioner	John J. McMahan	4/7/1921	4/2/1928	7	0
Insurance Commissioner	William A. McSwain	3/1/1918	4/7/1921	3	1
Insurance Commissioner	Fitz Hugh McMaster	3/4/1908	3/1/1918	10	0
Comptroller-General of State	Adolphus W. Jones	1/21/1903	3/4/1908	5	2
Comptroller-General of State	John P. Derham	1/26/1898	1/21/1903	5	0
Comptroller-General of State	Layfayette P. Epton	11/2/1897	1/26/1898	0	2
Comptroller-General of State	James W. Norton	11/26/1894	11/2/1897	3	0
Comptroller-General of State	William H. Ellerbe	11/21/1890	11/26/1894	4	0
Comptroller-General of State	John S. Verner	12/22/1887	11/21/1890	2	11
Comptroller-General of State	William E. Stoney	11/23/1882	12/22/1887	5	1
Comptroller-General of State	John Bratton	12/22/1880	11/23/1882	1	11
Comptroller-General of State	John C. Coit	11/30/1880	12/20/1880	0	1
Comptroller-General of State	Johnson Hagood	11/23/1876	11/30/1880	4	0
Comptroller-General of State	Thomas C. Dunn	3/23/1875	11/23/1876	1	8

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
SOUTH CAROLINA—*Continued*					
Comptroller-General of State	Solomon L. Hoge	12/7/1872	3/23/1875	2	3
Comptroller-General of State	John L. Neagle	10/18/1871	12/7/1872	1	2
SOUTH DAKOTA—*Appointed, at the Pleasure of the Secretary of the Department of Labor and Regulation*					
Director of Insurance	Larry D. Deiter	1/8/2015		incumbent	
Interim Director of Insurance	Larry D. Deiter	12/1/2014	1/8/2015	0	1
Director of Insurance	Merle D. Scheiber	8/8/2005	12/1/2014	9	4
Director of Insurance	Gary L. Steuck	5/12/2003	7/31/2005	2	2
Acting Director of Insurance	Wendell Malsam	1/1/2003	5/12/2003	0	4
Director of Insurance	Darla L. Lyon	1/6/1992	1/1/2003	11	0
Acting Director of Insurance	Darla L. Lyon	10/1/1991	1/6/1992	0	3
Director of Insurance	Mary Jane Cleary	7/6/1987	10/1/1991	4	3
Acting Director of Insurance	Jeff Stingley	5/13/1987	7/6/1987	0	2
Director of Insurance	Susan L. Walker	8/30/1983	5/13/1987	3	8
Director of Insurance	Henry J. Lussem, Jr.	3/1/1980	8/30/1983	3	9
Director of Insurance	Lowell L. Knutson	1/1/1976	3/1/1980	4	2
Acting Director of Insurance	Donald D. Graham	6/30/1975	1/1/1976	0	7
Commissioner of Insurance	Ralph A. Nauman	7/1/1971	6/30/1975	4	0
Commissioner of Insurance	Warren E. Dirks	1/1/1967	7/1/1971	4	6
Acting Commissioner of Insurance	Warren E. Dirks	12/1/1966	1/1/1967	0	1
Commissioner of Insurance	J. R. Menning	6/30/1963	12/1/1966	3	6
Acting Commissioner of Insurance	D. E. Mitchell	6/1/1963	6/30/1963	0	0
Commissioner of Insurance	Robert A. Hurlbut	6/1/1961	6/1/1963	2	0
Commissioner of Insurance	Randolph Bagby	11/15/1960	6/1/1961	0	7
Commissioner of Insurance	William J. 'Bill' Dawson (*Died Nov. 15, 1960*)	6/1/1959	11/15/1960	1	5
Commissioner of Insurance	D. E. Mitchell	5/1/1956	6/1/1959	3	1
Commissioner of Insurance	George O. Burt	6/1/1952	5/1/1956	4	6
Commissioner of Insurance	D. E. Mitchell	6/1/1951	6/1/1952	1	0
Commissioner of Insurance	George O. Burt	1/2/1950	6/1/1951	1	5
Commissioner of Insurance	Waldemar A. Mueller	7/18/1944	1/2/1950	5	6
Commissioner of Insurance	George K. Burt (*Died May 23, 1944*)	3/1/1940	5/23/1944	4	3
Commissioner of Insurance	P. J. Dunn	7/1/1937	3/1/1940	2	8
Commissioner of Insurance	William J. 'Bill' Dawson (*Died Nov. 15, 1960*)	7/1/1933	7/1/1937	4	0
Commissioner of Insurance	Clyde R. Horswill	7/1/1931	7/1/1933	2	0
Commissioner of Insurance	Donald C. 'Don' Lewis	7/1/1927	7/1/1931	4	0
Commissioner of Insurance	G. H. Helgerson	7/1/1925	7/1/1927	2	0
Commissioner of Insurance	William N. Van Camp	3/1/1917	7/1/1925	8	4
Commissioner of Insurance	M. Harry O'Brien	10/1/1915	3/1/1917	1	5
Commissioner of Insurance	Otto K. Stablein	9/1/1913	10/1/1915	2	1
Commissioner of Insurance	Orville S. Basford	9/1/1907	9/1/1913	6	0
Commissioner of Insurance	Len U. Doty	10/1/1906	9/1/1907	0	11
Commissioner of Insurance	John C. Perkins	9/1/1903	10/1/1906	3	1
Commissioner of Insurance	Howard C. Shober	9/1/1901	9/1/1903	2	0
Commissioner of Insurance	F. G. King	9/1/1899	9/1/1901	2	0
Commissioner of Insurance	L. C. Campbell	9/30/1898	9/1/1899	1	0
Commissioner of Insurance	Thomas H. Ayers	9/1/1898	9/30/1898	0	1
Commissioner of Insurance	J. H. Kipp	9/1/1897	9/1/1898	1	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
SOUTH DAKOTA—*Continued*					
Commissioner of Insurance	H. E. Mayhew	1/1/1897	9/1/1897	0	8
Auditor of State	J. E. Hipple	1/1/1893	1/1/1897	4	0
Auditor of State	L. C. Taylor	11/2/1889	1/1/1893	3	2
Territorial Auditor	John C. McManima	9/4/1889	11/2/1889	0	2
TENNESSEE—*Appointed, at the Discretion of the Governor*					
Cmsr. of Commerce and Insurance	Carter Lawrence	11/12/2020		incumbent	
Cmsr. of Commerce and Insurance	Hodgen Mainda	10/1/2019	11/12/2020	1	1
Interim Cmsr. of Commerce & Ins.	Carter Lawrence	6/15/2019	9/30/2019	0	3
Cmsr. of Commerce and Insurance	Julie Mix McPeak*	1/12/2011	6/14/2019	8	5
Cmsr. of Commerce and Insurance	Leslie A. Newman	1/1/2007	1/12/2011	4	0
Cmsr. of Commerce and Insurance	Paula A. Flowers	1/18/2003	1/1/2007	4	0
Cmsr. of Commerce and Insurance	Anne B. Pope	11/1/1999	1/1/2003	3	2
Cmsr. of Commerce and Insurance	Douglas M. 'Doug' Sizemore	1/21/1995	10/31/1999	4	10
Cmsr. of Commerce and Insurance	Allan S. Curtis	4/1/1994	1/21/1995	0	9
Cmsr. of Commerce and Insurance	Elaine A. McReynolds	1/17/1987	4/1/1994	7	3
Cmsr. of Commerce and Insurance	William H. Inman	4/1/1986	1/17/1987	0	9
Commissioner of Insurance	John C. Neff	1/20/1979	4/1/1986	7	3
Commissioner of Insurance	Millard V. Oakley	1/18/1975	1/20/1979	4	0
Commissioner of Insurance	Richard F. Keathley	1/1/1974	1/18/1975	1	0
Cmsr. of Insurance and Banking	Halbert L. Carter, Jr.	1/25/1971	12/31/1973	2	11
Cmsr. of Insurance and Banking	Milton P. Rice	9/5/1969	1/25/1971	1	4
Cmsr. of Insurance and Banking	David M. Pack	1/16/1967	9/2/1969	1	8
Cmsr. of Insurance and Banking	Albert Williams	1/15/1963	1/16/1967	4	0
Cmsr. of Insurance and Banking	John R. Long, Jr.	1/19/1959	1/15/1963	4	0
Cmsr. of Insurance and Banking	Leon Gilbert	1/1/1959	1/19/1959	0	1
Cmsr. of Insurance and Banking	Arch E. Northington*	1/15/1953	12/23/1958	5	11
Cmsr. of Insurance and Banking	Robert L. Taylor	12/8/1952	1/15/1953	0	1
Cmsr. of Insurance and Banking	Malcolm O. Allen (*Died Nov. 27, 1952*)	1/17/1949	11/27/1952	3	10
Cmsr. of Insurance and Banking	James M. McCormack*	1/16/1939	1/17/1949	10	0
Cmsr. of Insurance and Banking	John W. Britton	1/10/1938	1/16/1939	1	0
Cmsr. of Insurance and Banking	James M. McCormack*	1/15/1937	1/10/1938	1	0
Cmsr. of Insurance and Banking	Joseph S. Tobin	1/17/1933	1/15/1937	4	0
Cmsr. of Insurance and Banking	Joseph I. Reece	7/14/1931	1/17/1933	1	6
Cmsr. of Insurance and Banking	Albert S. Caldwell*	2/1/1923	7/14/1931	8	5
Insurance Commissioner	Earl N. Rogers	7/1/1921	2/1/1923	1	8
Insurance Commissioner	Robert L. Carden	1/17/1921	6/30/1921	0	5
Acting Insurance Commissioner	Thomas E. Miles	12/1/1920	1/17/1921	0	1
Insurance Commissioner	Leslie K. Arrington	7/7/1917	12/1/1920	3	5
Insurance Commissioner	William F. Dunbar	6/1/1915	7/1/1917	2	1
Insurance Commissioner	J. Will Taylor	3/1/1913	6/1/1915	2	3
State Treasurer/Ins. Commissioner	G. Thomas 'Tom' Taylor	2/20/1911	3/1/1913	2	1
State Treasurer/Ins. Commissioner	Reau E. Folk*	2/16/1901	2/20/1911	10	0
State Treasurer/Ins. Commissioner	Edward B. Craig	1/26/1893	2/16/1901	8	1
State Treasurer/Ins. Commissioner	Mansfield F. 'Manse' House	2/11/1889	1/26/1893	3	11
State Treasurer/Ins. Commissioner	Atha Thomas	10/26/1886	2/11/1889	2	4
State Treasurer/Ins. Commissioner	James W. Thomas (*Died Oct. 25, 1886*)	2/3/1885	10/25/1886	1	8
State Treasurer/Ins. Commissioner	Atha Thomas	1/17/1883	2/3/1885	2	1

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
TENNESSEE—*Continued*					
State Treasurer/Ins. Commissioner	Marshall T. Polk	2/8/1877	1/17/1883	5	11
State Treasurer/Ins. Commissioner	William L. Morrow	5/24/1871	2/8/1877	5	9
TEXAS—*Appointed; 2-Year Term*					
Insurance Commissioner	Cassandra J. 'Cassie' Brown (*Reappointed Feb. 3, 2023*)	9/8/2021		incumbent	
Chief Deputy Commissioner	J. Douglas 'Doug' Slape	10/1/2020	9/8/2021	0	11
Insurance Commissioner	Kent Sullivan	9/21/2017	9/30/2020	3	0
Insurance Commissioner	*Position Vacant*	4/13/2017	9/21/2017	0	5
Insurance Commissioner	David C. Mattax (*Died April 13, 2017*)	1/13/2015	4/13/2017	2	3
Insurance Commissioner	Julia Rathgeber	5/27/2013	1/13/2015	1	8
Insurance Commissioner	Eleanor Kitzman	8/15/2011	5/27/2013	1	9
Insurance Commissioner	Michael 'Mike' Geeslin	6/7/2005	8/15/2011	6	2
Insurance Commissioner	José Montemayor	2/1/1999	6/7/2005	6	4
Interim Insurance Commissioner	José Montemayor	1/11/1999	2/1/1999	0	1
Insurance Commissioner	Elton L. Bomer	2/2/1995	1/10/1999	3	11
Interim Insurance Commissioner	Rebecca Lightsey	12/11/1994	1/27/1995	0	1
Insurance Commissioner	J. Robert 'Bob' Hunter	11/3/1993	12/11/1994	1	1
Interim Commissioner of Insurance	Edna Ramon Butts	9/1/1993	11/1/1993	0	2
Insurance Commissioner	Georgia D. Flint	3/1/1992	8/31/1993	1	6
Acting Insurance Commissioner	Georgia D. Flint	11/4/1992	3/1/1992	0	4
Insurance Commissioner	Philip W. 'Phil' Barnes	1/8/1991	11/4/1991	0	10
Insurance Commissioner	A. W. 'Woody' Pogue	12/19/1988	11/1/1990	1	11
Acting Insurance Commissioner	A. W. 'Woody' Pogue	11/4/1988	12/19/1988	0	1
Insurance Commissioner	Doyce R. Lee	8/6/1985	11/4/1988	3	4
Insurance Commissioner	Thomas J. 'Tom' Bond	9/24/1982	8/6/1985	2	11
Insurance Commissioner	E. J. Voorhis, Jr.	6/29/1977	9/24/1982	5	3
Insurance Commissioner	Joseph D. 'Joe' Hawkins	8/1/1975	6/29/1977	1	11
Acting Insurance Commissioner	Thomas I. 'Tom' McFarling	5/13/1975	8/1/1975	0	2
Insurance Commissioner	Don B. Odum	1/1/1974	5/13/1975	1	4
Insurance Commissioner	Clay Cotten	11/15/1965	1/1/1974	8	2
Insurance Commissioner	J. N. Nutt	9/1/1963	11/1/1965	2	2
Insurance Commissioner	William A. Harrison	8/5/1957	9/1/1963	6	1
Acting Insurance Commissioner	William A. Harrison	6/21/1957	8/5/1957	0	2
Commissioner of Life Insurance/Chairman of Board	John Osorio	1/1/1957	6/1/1957	0	5
Commissioner of Life Insurance/Chairman of Board	J. Byron Saunders	1/30/1956	1/1/1957	0	11
Commissioner of Life Insurance/Chairman of the Board	Garland A. 'Chink' Smith	10/6/1953	1/30/1956	2	4
Commissioner of Life Insurance/Chairman of the Board	George B. Butler (*Died Sept. 28, 1953*)	2/11/1945	9/28/1953	8	8
Commissioner of Life Insurance/Chairman of the Board	Omicron P. Lockhart	5/12/1941	2/1/1945	3	9
Commissioner of Life Insurance/Chairman of Board	Reuben Williams	1/2/1941	5/12/1941	0	4
Commissioner of Life Insurance/Chairman of the Board	Walter C. Woodward (*Died Dec. 17, 1940*)	3/6/1939	12/17/1940	1	9
Commissioner of Life Insurance/Chairman of the Board	R. L. Daniel	2/10/1933	3/1/1939	6	1

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
TEXAS—*Continued*					
Commissioner of Life Insurance/Chairman of the Board	William A. Tarver	5/2/1929	2/10/1933	3	9
Commissioner of Life Insurance/Chairman of the Board	Robert B. Cousins, Jr.	9/1/1927	5/1/1929	1	8
Commissioner of Insurance	R. L. Daniel	10/1/1925	9/1/1927	1	11
Commissioner of Insurance	John M. Scott	8/21/1923	10/1/1925	2	1
Cmsr. of Insurance and Banking	James L. Chapman	9/1/1922	8/21/1923	1	0
Cmsr. of Insurance and Banking	Edward 'Ed' Hall	1/20/1921	9/1/1922	1	8
Cmsr. of Insurance and Banking	J. T. McMillan	8/1/1920	1/20/1921	0	5
Cmsr. of Insurance and Banking	John C. Chidsey	4/1/1920	8/1/1920	0	4
Cmsr. of Insurance and Banking	George Waverly Briggs	2/1/1919	4/1/1920	1	2
Cmsr. of Insurance and Banking	Charles O. Austin	8/31/1916	1/31/1919	2	5
Cmsr. of Insurance and Banking	John S. Patterson (*Died Aug. 29, 1916*)	1/20/1915	8/29/1916	1	7
Cmsr. of Insurance and Banking	William W. Collier	7/22/1913	1/20/1915	1	6
Cmsr. of Insurance and Banking	Bennett L. 'Ben' Gill	1/17/1911	7/10/1913	2	6
Cmsr. of Insurance and Banking	Frederick C. von Rosenburg	8/4/1910	1/6/1911	0	5
Cmsr. of Insurance and Banking	William E. Hawkins	2/1/1910	8/3/1910	0	6
Cmsr. of Insurance and Banking	Thomas B. Love	9/1/1907	1/31/1910	2	5
Commissioner of Agriculture, Insurance, Statistics and History	Robert T. Milner	8/1/1906	8/31/1907	1	1
Commissioner of Agriculture, Insurance, Statistics and History	William J. Clay	8/1/1901	8/1/1906	5	0
Commissioner of Agriculture, Insurance, Statistics and History	Jefferson Johnson	8/1/1897	8/1/1901	4	0
Commissioner of Agriculture, Insurance, Statistics and History	Archibald J. Rose	1/10/1895	8/1/1897	2	7
Commissioner of Agriculture, Insurance, Statistics and History	John E. Hollingsworth	5/15/1891	1/10/1895	3	8
Commissioner of Agriculture, Insurance, Statistics and History	Lafayette L. Foster	1/21/1887	5/5/1891	4	4
Commissioner of Agriculture, Insurance, Statistics and History	Hamilton P. Bee	12/30/1884	1/21/1887	2	1
Commissioner of Agriculture, Insurance, Statistics and History	Henry P. Brewster (*Died Dec. 26, 1884*)	1/31/1883	12/26/1884	1	11
Commissioner of Agriculture, Insurance, Statistics and History	Ashley W. Spaight	1/26/1881	1/31/1883	2	0
Commissioner of Agriculture, Insurance, Statistics and History	Valentine O. King	9/17/1879	1/26/1881	1	4
UTAH—*Appointed, at the Pleasure of the Governor; Confirmed by the Senate*					
Commissioner of Insurance	Jonathan T. 'Jon' Pike	2/4/2021		incumbent	
Acting Commissioner of Insurance	Jonathan T. 'Jon' Pike	1/5/2021	2/4/2021	0	1
Interim Commissioner of Insurance	Tanji J. Northrup	10/1/2020	1/5/2021	0	3
Commissioner of Insurance	Todd E. Kiser	12/20/2012	9/30/2020	7	9
Commissioner of Insurance	Neal T. Gooch	5/24/2010	12/20/2012	2	7
Acting Commissioner of Insurance	Neal T. Gooch	1/19/2010	5/24/2010	0	4
Commissioner of Insurance	D. Kent Michie	1/5/2005	1/19/2010	5	0
Commissioner of Insurance	Merwin U. Stewart	2/7/1997	12/31/2004	7	11
Commissioner of Insurance	Robert E. Wilcox	1/27/1993	2/7/1997	4	1
Commissioner of Insurance	Harold C. Yancey	7/1/1985	1/27/1993	7	7

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
UTAH—*Continued*					
Commissioner of Insurance	Roger C. Day* *(Died July 18, 2019)*	6/1/1977	7/1/1985	8	1
Commissioner of Insurance	Clifton N. Ottosen	2/1/1965	6/1/1977	12	4
Commissioner of Insurance	E. Virgil Norton	1/1/1961	1/30/1965	3	8
Commissioner of Insurance	Carl A. Hulbert	6/1/1958	12/31/1960	2	7
Commissioner of Insurance	Albert E. 'Buck' Buckwell	3/15/1957	6/1/1958	1	3
Commissioner of Insurance	Walter M. Jones	9/11/1953	3/15/1957	3	6
Commissioner of Insurance	Lewis M. Terry	5/1/1949	9/11/1953	4	4
Acting Commissioner of Insurance	H. J. Timmerman	3/16/1949	5/1/1949	0	2
Commissioner of Insurance	Oscar W. Carlson	9/12/1941	3/16/1949	7	6
Acting Commissioner of Insurance	Clifton N. Ottosen	3/15/1941	9/12/1941	0	6
Commissioner of Insurance	C. Clarence Nelson*	4/1/1937	3/15/1941	4	0
Commissioner of Insurance	Elias A. Smith, Jr.	4/1/1933	4/1/1937	4	0
Commissioner of Insurance	John G. McQuarrie	3/13/1925	4/1/1933	8	1
Commissioner of Insurance	John W. Walker	4/1/1921	3/13/1925	3	11
Commissioner of Insurance	Rulon S. Wells	3/15/1917	4/1/1921	4	1
Commissioner of Insurance	John James	7/10/1914	3/15/1917	2	8
Commissioner of Insurance	Willard Done	10/10/1910	7/10/1914	3	9
Commissioner of Insurance	George B. Squires (*Died Sept. 30, 1910*)	4/8/1909	9/30/1910	1	6
Secretary of State	Charles S. Tingey	1/2/1905	4/3/1909	4	3
Secretary of State	James T. Hammond	1/6/1896	1/2/1905	9	0
Secretary of Territory	Elijah Sells	5/16/1889	5/6/1893	4	0
Secretary of Territory	William C. Hall	4/6/1887	5/16/1889	2	1
Secretary of Territory	Arthur L. Thomas	9/1/1884	4/6/1887	2	7
VERMONT—*Appointed, Biennially by the Governor with the Advice and Consent of the Senate*					
Commissioner, Department of Financial Regulation (DFR)	Kevin Gaffney	7/8/2022		incumbent	
Interim Commissioner, DFR	Kevin Gaffney	5/17/2022	7/8/2022	0	2
Commissioner, DFR	Michael S. 'Mike' Pieciak (*Reappointed Dec. 22, 2016; Reappointed March 1, 2019*)	7/5/2016	5/16/2022	5	10
Commissioner, DFR	Susan L. Donegan	1/10/2013	6/30/2016	3	5
Commissioner, DFR	Stephen W. 'Steve' Kimbell	4/4/2012	1/9/2013	0	9
Commissioner, Department of Banking, Insurance, Securities, & Health Care Administration (BISHCA)	Stephen W. 'Steve' Kimbell	1/7/2011	4/3/2012	1	3
Commissioner, BISHCA	Michael F. 'Mike' Bertrand	6/18/2010	1/6/2011	0	7
Commissioner, BISHCA	Paulette J. Thabault	1/22/2007	6/18/2010	3	5
Commissioner, BISHCA	John P. Crowley	1/9/2003	1/5/2007	4	0
Commissioner, BISHCA	Elizabeth R. 'Betsy' Costle	8/17/1992	1/9/2003	10	5
Commissioner of Banking and Insurance	Jeffery P. Johnson	1/13/1990	8/14/1992	2	7
Commissioner of Banking and Insurance	Gretchen Babcock	7/10/1987	1/13/1990	2	6
Commissioner of Banking and Insurance	Thomas P. Menson	3/30/1986	7/1/1987	1	3
Commissioner of Banking and Insurance	David T. Bard	1/23/1985	3/7/1986	1	2
Commissioner of Banking and Insurance	George A. Chaffee	3/24/1980	11/16/1984	4	8
Commissioner of Banking and Insurance	Stewart M. Ledbetter	2/16/1977	2/22/1980	3	0
Acting Cmsr. of Banking and Insurance	Jean B. Baldwin	6/23/1976	2/16/1977	0	8
Commissioner of Banking and Insurance	James A. Guest	7/16/1973	6/23/1976	2	11

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
VERMONT—*Continued*					
Acting Cmsr. of Banking and Insurance	Eugene R. Lemke	1/3/1973	7/16/1973	0	6
Commissioner of Banking and Insurance	Charles F. Black	1/9/1969	1/3/1973	4	0
Commissioner of Banking and Insurance	James H. Hunt	7/20/1965	1/8/1969	3	6
Commissioner of Banking and Insurance	Robert E. Cummings, Jr.	6/7/1963	7/19/1965	2	1
Commissioner of Banking and Insurance	Albert D. Pingree	3/1/1961	6/7/1963	2	3
Commissioner of Banking and Insurance	Alexander H. Miller	3/1/1951	2/28/1961	10	0
Acting Cmsr. of Banking and Insurance	Albert D. Pingree	11/15/1950	3/1/1951	0	4
Commissioner of Banking and Insurance	Donald A. Hemenway	12/1/1947	11/15/1950	2	11
Commissioner of Banking and Insurance	Charles E. Burns	7/1/1943	12/1/1947	4	5
Acting Cmsr. of Banking and Insurance	Albert D. Pingree	4/29/1943	7/1/1943	0	2
Commissioner of Banking and Insurance	Reginald T. Cole	2/1/1941	4/29/1943	2	3
Commissioner of Banking and Insurance	Donald A. Hemenway	2/1/1937	2/1/1941	4	0
Commissioner of Banking and Insurance	George B. Carpenter	8/12/1935	2/1/1937	1	6
Commissioner of Banking and Insurance	L. Douglas Meredith	8/1/1934	8/12/1935	1	0
Commissioner of Banking and Insurance	George H.V. Allen	5/1/1934	8/1/1934	0	3
Commissioner of Banking and Insurance	Robert C. Clark	4/15/1923	5/1/1934	11	1
Insurance Commissioner	Laurence A. Kelty	10/1/1922	4/15/1923	0	6
Insurance Commissioner	Joseph G. Brown*	4/11/1917	10/1/1922	5	6
Secretary of State State Treasurer	Guy W. Bailey Walter F. Scott	10/1/1915	4/11/1917	1	6
Secretary of State State Treasurer	Guy W. Bailey Edward H. Deavitt	10/1/1908	10/1/1915	7	0
Secretary of State State Treasurer	F. L. Fleetwood Edward H. Deavitt	10/1/1902	10/1/1908	6	0
Secretary of State State Treasurer	Fred A. Howland John L. Bacon*	10/1/1898	10/1/1902	4	0
Secretary of State State Treasurer	Chauncey W. Browell, Jr. Henry F. Field	10/1/1890	10/1/1898	8	0
Secretary of State State Treasurer	Charles W. Porter William H. Dubois	10/1/1884	10/1/1890	6	0
Secretary of State State Treasurer	George Nichols William H. Dubois	10/1/1882	10/1/1884	2	0
Secretary of State State Treasurer	George Nichols John B. Page	9/17/1873	10/1/1882	9	1
U.S. VIRGIN ISLANDS—*Elected; 4-Year Term*					
Lt. Governor/Ins. Commissioner	Tregenza A. Roach (*Elected Nov. 20, 2018; Re-elected Nov. 8, 2022*)	1/7/2019		incumbent	
Lt. Governor/Ins. Commissioner	Osbert E. Potter	1/5/2015	1/7/2019	3	11
Lt. Governor/Ins. Commissioner	Gregory R. Francis	1/1/2007	1/5/2015	8	0
Lt. Governor/Ins. Commissioner	Vargrave A. Richards	1/6/2003	1/1/2007	4	0
Lt. Governor/Ins. Commissioner	Gerard Luz James II	1/4/1999	1/6/2003	4	0
Lt. Governor/Ins. Commissioner	Kenneth E. Mapp	5/1/1998	1/4/1999	0	8
Director, Banking & Insurance	Gwendolyn 'Gwen' Hall Brady	5/1/1996	5/1/1998	2	0
Acting Director, Banking & Ins.	Gwendolyn 'Gwen' Hall Brady	3/4/1996	5/1/1996	0	2
Director, Banking & Insurance	Margery O. Resnick	6/1/1995	3/4/1996	0	9
Lt. Governor/Ins. Commissioner	Kenneth E. Mapp	2/12/1995	6/1/1995	0	4
Director, Banking & Insurance	Larry Diehl	1/2/1995	2/12/1995	1	1
Lt. Governor/Ins. Commissioner	Derek M. Hodge	1/5/1987	1/2/1995	8	0
Lt. Governor/Ins. Commissioner	Julio A. Brady	1/3/1983	1/5/1987	4	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
U.S. VIRGIN ISLANDS—*Continued*					
Lt. Governor/Ins. Commissioner	Henry A. Millan	4/10/1978	1/3/1983	4	9
Lt. Governor/Ins. Commissioner	*Position Vacant*	1/3/1978	4/9/1978	0	3
Lt. Governor/Ins. Commissioner	Juan Francisco Luis	1/6/1975	1/2/1978	3	0
Lt. Governor/Ins. Commissioner	Athniel C. Ottley	4/5/1973	1/6/1975	1	9
Lt. Governor/Ins. Commissioner	*Position Vacant*	2/21/1973	4/4/1957	0	2
Lt. Governor/Ins. Commissioner	David E. Maas	10/1/1969	2/20/1973	2	8
Govt. Secretary/Ins. Commissioner	Cyril E. King	5/1/1961	9/30/1969	8	4
Govt. Secretary/Ins. Commissioner	Roy W. Bornn	9/25/1958	5/1/1961	2	8
Govt. Secretary/Ins. Commissioner	John D. Merwin	12/23/1957	9/25/1958	0	9
Govt. Secretary/Ins. Commissioner	*Position Vacant*	5/31/1957	12/23/1957	0	7
Govt. Secretary/Ins. Commissioner	Charles K. Claunch	4/9/1954	5/31/1957	3	1
Government Secretary	Daniel W. Ambrose	8/1/1952	4/9/1954	1	7
VIRGINIA—*Appointed, at the Pleasure of the State Corporation Commission*					
Commissioner of Insurance	Scott A. White	1/1/2018		incumbent	
Commissioner of Insurance	Jacqueline K. Cunningham	1/1/2011	12/31/2017	6	11
Commissioner of Insurance	Alfred W. 'Al' Gross	8/1/1996	1/1/2011	14	5
Acting Commissioner of Insurance	Alfred W. 'Al' Gross	5/1/1996	8/1/1996	0	3
Commissioner of Insurance	Steven T. Foster*	2/9/1987	4/30/1996	9	2
Commissioner of Insurance	James M. Thomson	12/1/1981	2/1/1987	5	2
Commissioner of Insurance	James W. Newman, Jr.	3/1/1979	12/1/1981	2	9
Acting Commissioner of Insurance	James W. Newman, Jr.	12/1/1978	3/1/1979	0	3
Commissioner of Insurance	John G. Day	6/1/1975	12/1/1978	2	6
Commissioner of Insurance	Everette S. Francis	7/1/1969	6/1/1975	5	11
Commissioner of Insurance	T. Nelson Parker*	6/1/1956	7/1/1969	13	1
Commissioner of Insurance	George A. Bowles* (*Died June 1, 1956*)	4/14/1932	6/1/1956	24	2
Cmsr. of Insurance and Banking	Myron E. Bristow	1/15/1930	4/14/1932	2	3
Cmsr. of Insurance and Banking	T. McCall Frazier	11/6/1929	1/17/1930	0	3
Cmsr. of Insurance and Banking	Joseph L. Button*	3/1/1928	10/15/1929	1	7
Commissioner of Insurance	Joseph L. Button*	7/1/1906	3/1/1928	21	8
Auditor of Public Accounts	Morton Marye	9/4/1889	7/1/1906	16	10
Auditor of Public Accounts	*Research Proceedings*	1884	1889	5	
Auditor of Public Accounts	S. B. Allen	11/7/1882	1884	2	
Auditor of Public Accounts	John E. Massey	1879	11/7/1882	3	
Auditor of Public Accounts	*Research Proceedings*	4/1/1872	1879	7	
Special Delegate for Auditor	Edward M. Alfriend	10/18/1871	4/1/1872	0	6
WASHINGTON—*Elected; 4-Year Term*					
Insurance Commissioner	Mike Kreidler *(Elected Nov. 7, 2000; Re-elected Nov. 2, 2004; Re-elected Nov. 4, 2008; Re-elected Nov. 6, 2012; Re-elected Nov. 8, 2016; Re-elected Nov. 3, 2020)*	1/10/2001		incumbent	
Insurance Commissioner	Deborah M. Senn (*Elected Nov. 3, 1992*; *Re-elected Nov. 5, 1996*)	1/13/1993	1/10/2001	8	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
WASHINGTON—*Continued*					
Insurance Commissioner	Richard G. 'Dick' Marquardt (*Elected Nov. 2, 1976*; *Re-elected Nov. 4, 1980*; *Re-elected Nov. 6, 1984*; *Re-elected Nov. 8, 1988*)	1/12/1977	1/13/1993	16	0
Insurance Commissioner	Karl V. Herrmann (*Elected Nov. 5, 1968; Re-elected Nov. 7, 1972*)	1/15/1969	1/12/1977	8	0
Insurance Commissioner	Lee I. Kueckelhan* (*Elected Nov. 8, 1960; Re-elected Nov. 3, 1964*)	1/1/1961	1/15/1969	8	0
Insurance Commissioner	William A. Sullivan* (*Elected Nov. 8, 1932; Re-elected Nov. 3, 1936; Re-elected Nov. 5, 1940; Re-elected Nov. 7, 1944; Re-elected Nov. 2, 1948; Re-elected Nov. 4, 1952; Re-elected Nov. 6, 1956*)	1/11/1933	1/1/1961	28	0
Insurance Commissioner	Herbert O. Fishback* (*Elected Nov. 5, 1912; Re-elected Nov. 7, 1916; Re-elected Nov. 2, 1920; Re-elected Nov. 4, 1924: Re-elected Nov. 6, 1928*)	1/13/1913	1/11/1933	20	0
Insurance Commissioner	John H. Schively (*Elected Nov. 3, 1908*)	1/1/1909	1/13/1913	4	0
Secretary of State	Sam H. Nichols	1/1/1901	1/1/1909	8	0
Secretary of State	Will D. Jenkins	1/1/1897	1/1/1901	4	0
Secretary of State	James H. Price	1/1/1893	1/1/1897	4	0
Secretary of State	Allen Weir	6/26/1890	1/1/1893	2	7
WEST VIRGINIA—*Appointed, at the Pleasure of the Governor*					
Insurance Commissioner	Allan L. McVey	9/22/2021		incumbent	
Insurance Commissioner	James A. Dodrill	3/4/2019	9/20/2021	2	6
Acting Insurance Commissioner	Erin K. Hunter	1/25/2019	3/1/2019	0	2
Insurance Commissioner	Allan L. McVey	4/1/2017	1/23/2019	1	10
Acting Insurance Commissioner	Andrew R. Pauley	2/1/2017	3/31/2017	0	2
Insurance Commissioner	Michael D. Riley	1/9/2012	1/31/2017	5	0
Acting Insurance Commissioner	Michael D. Riley	7/1/2011	1/8/2012	0	6
Insurance Commissioner	Jane L. Cline*	1/15/2001	6/30/2011	10	5
Insurance Commissioner	Hanley C. Clark	1/18/1989	1/15/2001	12	0
Acting Insurance Commissioner	Hanley C. Clark	7/1/1988	1/17/1989	0	6
Insurance Commissioner	Fred E. Wright	2/21/1985	6/30/1988	3	4
Insurance Commissioner	Richard G. Shaw	1/17/1977	1/11/1985	8	0
Insurance Commissioner	Donald W. Brown	1/16/1975	1/14/1977	2	0
Insurance Commissioner	Samuel H. Weese	1/31/1969	1/16/1975	6	0
Insurance Commissioner	Robert J. Shipman	10/1/1968	1/30/1969	1	4
Insurance Commissioner	Frank R. Montgomery	1/16/1966	9/30/1968	2	8
Insurance Commissioner	Harlan Justice	9/4/1962	1/15/1966	3	4
Insurance Commissioner	Virginia Mae Brown	5/17/1961	9/3/1962	1	4
Insurance Commissioner	Hugh N. Mills	1/16/1961	5/16/1961	0	4

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
WEST VIRGINIA—*Continued*					
Insurance Commissioner	C. Judson Pearson	2/7/1958	1/15/1961	2	11
Insurance Commissioner	Harold E. Neeley	7/1/1957	2/5/1958	0	7
Insurance Commissioner	Louis Miller, Jr.	10/1/1956	6/30/1957	0	9
Insurance Commissioner	Thomas J. Gillooly	7/1/1953	9/30/1956	3	3
Insurance Commissioner	Hugh N. Mills	7/1/1952	6/30/1953	1	0
Insurance Commissioner	Robert A. Crichton	5/1/1949	6/30/1952	3	2
Insurance Commissioner	David S. Butler	7/1/1947	4/30/1949	1	10
State Auditor	Edgar B. Sims	3/4/1933	7/1/1947	14	4
State Auditor	Edgar C. Lawson	3/4/1929	3/4/1933	4	0
State Auditor	Samuel T. 'Sam' Mallison	3/18/1927	3/4/1929	2	0
State Auditor	John C. Bond	3/4/1921	3/15/1927	6	0
State Auditor	John S. Darst*	3/4/1909	3/4/1921	12	0
State Auditor	Arnold C. Sherr	3/4/1901	3/4/1909	8	0
State Auditor	Latelle M. LaFollette	3/4/1897	3/4/1901	4	0
State Auditor	Isaac V. Johnson	3/4/1893	3/4/1897	4	0
State Auditor	Patrick F. Duffy	9/30/1891	3/4/1893	8	0
WISCONSIN—*Appointed, at the Pleasure of the Governor*					
Insurance Commissioner	Nathan Houdek	1/2/2022		incumbent	
Interim Commissioner	Nathan Houdek	12/18/2021	1/2/2022	0	1
Insurance Commissioner	Mark V. Afable	1/22/2019	12/17/2021	2	11
Insurance Commissioner	Theodore K. 'Ted' Nickel*	1/3/2011	1/7/2019	8	0
Insurance Commissioner	Sean Dilweg	1/1/2007	1/3/2011	4	0
Insurance Commissioner	Jorge Gomez	2/17/2003	12/18/2006	3	10
Acting Insurance Commissioner	Randy Blumer	1/7/2003	2/16/2003	0	1
Insurance Commissioner	Connie L. O'Connell	1/4/1999	1/6/2003	4	0
Acting Insurance Commissioner	Randy Blumer	1/6/1998	1/2/1999	1	0
Insurance Commissioner	Josephine W. 'Jo' Musser*	3/8/1993	1/2/1998	4	10
Insurance Commissioner	*Position Vacant*	1/1/1993	3/7/1993	0	2
Insurance Commissioner	Robert D. 'Bob' Haase	4/28/1987	12/31/1992	5	8
Insurance Commissioner	Thomas P. Fox	3/1/1983	4/27/1987	4	2
Insurance Commissioner	Ann J. Haney	8/1/1982	2/28/1983	0	7
Insurance Commissioner	Susan M. Mitchell	3/19/1979	7/31/1982	3	4
Insurance Commissioner	Harold R. Wilde, Jr.	4/8/1975	3/18/1979	3	11
Insurance Commissioner	Stanley C. DuRose, Jr.	10/1/1969	4/8/1975	5	6
Insurance Commissioner	Robert D. 'Bob' Haase	9/15/1965	9/7/1969	4	0
Insurance Commissioner	Charles L. Manson	7/2/1959	9/15/1965	6	2
Insurance Commissioner	Paul J. Rogan	11/1/1955	7/2/1959	3	8
Insurance Commissioner	Alfred Van DeZande	7/15/1955	11/1/1955	0	4
Insurance Commissioner	John R. Lange	12/1/1948	6/15/1955	6	6
Insurance Commissioner	John L. Sonderegger	10/1/1948	12/1/1948	0	2
Insurance Commissioner	Morvin Duel	10/1/1939	8/8/1948	8	10
Insurance Commissioner	Harry J. Mortensen	7/1/1931	10/1/1939	8	2
Insurance Commissioner	Milton A. Freedy	1/10/1927	7/1/1931	4	5
Insurance Commissioner	Olaf H. Johnson	6/2/1926	1/10/1927	0	7
Insurance Commissioner	W. Stanley Smith	7/17/1923	6/2/1926	2	11
Insurance Commissioner	Platt Whitman*	4/10/1919	7/17/1923	4	3
Insurance Commissioner	Michael J. 'Mike' Cleary*	7/1/1915	4/10/1919	3	9
Insurance Commissioner	Herman L. Ekern	1/2/1911	7/1/1915	4	6
Insurance Commissioner	George E. Beedle	1/7/1907	1/2/1911	4	0

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
WISCONSIN—*Continued*					
Insurance Commissioner	Zeno M. Host	1/5/1903	1/1/1907	4	0
Insurance Commissioner	Emil Giljohann	10/15/1898	1/5/1903	4	3
Insurance Commissioner	William A. Fricke	1/7/1895	10/15/1898	3	9
Insurance Commissioner	Wilbur M. Root	1/5/1891	1/7/1895	4	0
Insurance Commissioner	Philip Cheek, Jr.*	1/3/1887	1/5/1891	4	0
Insurance Commissioner	Philip L. Spooner, Jr.	4/1/1878	1/3/1887	8	9
Secretary of State	Hans B. Warner	1/7/1878	4/1/1878	3	0
Secretary of State	Peter Doyle	1/5/1874	1/7/1878	4	0
Secretary of State	Llewelyn Breese*	5/24/1871	1/5/1874	2	8
WYOMING—*Appointed, at the Pleasure of the Governor*					
Insurance Commissioner	Jeffrey P. 'Jeff' Rude	9/19/2019		incumbent	
Interim Insurance Commissioner	Jeffrey P. 'Jeff' Rude	6/19/2019	9/19/2019	0	3
Insurance Commissioner	Paul Thomas 'Tom' Glause	1/3/2015	6/19/2019	4	5
Insurance Commissioner	Thomas C. 'Tom' Hirsig	4/16/2012	12/31/2014	2	8
Insurance Commissioner	Kenneth G. 'Ken' Vines	2/21/2003	4/16/2012	9	2
Acting Insurance Commissioner	Kenneth G. 'Ken' Vines	10/16/2002	2/21/2003	0	4
Insurance Commissioner	John P. McBride	5/7/1992	10/1/2002	10	5
Acting Insurance Commissioner	John P. McBride	10/1/1991	5/7/1992	0	7
Insurance Commissioner	Kenneth Erickson	2/1/1990	10/1/1991	1	8
Acting Insurance Commissioner	Ralph Thomas	12/1/1989	2/1/1990	0	2
Insurance Commissioner	Gordon W. Taylor, Jr.	7/1/1986	12/1/1989	3	5
Acting Insurance Commissioner	Monroe D. Lauer	3/1/1986	7/1/1986	0	4
Insurance Commissioner	Robert W. Schrader	6/1/1984	3/1/1986	1	9
Insurance Commissioner	John T. Langdon	1/1/1975	6/1/1984	9	5
Insurance Commissioner	Ben S. Murphy	1/1/1971	1/1/1975	4	0
Insurance Commissioner	Vincent J. Horn, Jr.	6/1/1970	1/1/1971	0	7
Insurance Commissioner	William G. Walton	6/1/1967	6/1/1970	3	0
Insurance Commissioner	Mark Duncan	6/1/1963	6/1/1967	4	0
Insurance Commissioner	Gilbert A.D. Hart	5/1/1960	6/1/1963	3	1
Insurance Commissioner	Robert Adams	3/1/1959	5/1/1960	1	2
Insurance Commissioner	Ford S. Taft	3/1/1951	3/1/1959	8	0
Insurance Commissioner	Rodney Barrus	3/18/1945	3/1/1951	6	0
Insurance Commissioner	Alex MacDonald	2/1/1939	3/18/1945	6	1
Insurance Commissioner	Arthur J. Ham	3/1/1935	2/1/1939	3	11
Insurance Commissioner	Theodore Thulemeyer	2/13/1929	3/1/1935	6	1
Insurance Commissioner	Lyle E. Jay	6/6/1927	2/13/1929	1	8
Insurance Commissioner	John M. Fairfield (*Died May 21, 1927*)	3/1/1927	5/21/1927	0	2
Insurance Commissioner	Harry A. Loucks	3/1/1923	3/1/1927	4	0
Insurance Commissioner	Donald M. Forsyth	11/8/1920	3/1/1923	2	4
Insurance Commissioner	Robert B. Forsyth	3/1/1919	11/8/1920	1	8
State Auditor	Robert B. Forsyth	1/2/1911	3/1/1919	8	2
State Auditor	LeRoy Grant	1/2/1899	1/2/1911	12	0
State Auditor	William O. Owen	1/7/1895	1/2/1899	4	0
State Auditor	Charles W. Burdick	11/9/1890	1/7/1895	4	2
State Auditor	Mortimer N. Grant	7/10/1890	11/8/1890	0	4
Territorial Auditor	Mortimer N. Grant	3/8/1888	7/10/1890	2	4
Insurance Commissioner	Joseph B. Adams	4/1/1884	3/8/1888	3	11
Territorial Auditor	Jesse Knight	4/1/1882	3/31/1884	1	11

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEMBER TENURE LIST

STATE/MEMBER TITLE	MEMBER NAME	BEG. DATE	END DATE	YRS. SERVED	MOS. SERVED
WYOMING—*Continued*					
Territorial Auditor	John H. Nason	1/4/1880	3/31/1882	2	2
Territorial Auditor	James France	12/13/1877	1/4/1880	2	1

Updated: 08/08/2024

https://naiconline.sharepoint.com/teams/memberservicesexecutive/shared documents/commissioner/tenure/_tenure_list_master.docx

* NAIC Past President. This person served as NAIC President one or more times during their term(s) of office.

© 2024 National Association of Insurance Commissioners

NAIC MEETING RECORD

The following is a record of officers and list of national meeting locations at which the NAIC has met since its organization.

Mtg	Date	Meeting Site	President	Vice-President	Secretary / Secretary-Treasurer
1	5/24–6/2/1871	New York, NY	George W. Miller, NY	Llewelyn Breese, WI	Henry S. Olcott, NY
2	10/18–30/1871	New York, NY	George W. Miller, NY	Llewelyn Breese, WI	Henry S. Olcott, NY
3	10/--/1872	New York, NY	George W. Miller, NY	Llewelyn Breese, WI	Henry S. Olcott, NY
4	9/17–20/1873	Boston, MA	Llewelyn Breese, WI	John W. Foard, CA	Oliver Pillsbury, NH
5	9/2–5/1874	Detroit, MI	Orlow W. Chapman, NY	Samuel H. Row, MI	Oliver Pillsbury, NH
6	9/20–25/1875	New York, NY	Orlow W. Chapman, NY	Samuel H. Row, MI	Oliver Pillsbury, NH
7	9/19–21/1876	Harrisburg, PA	Samuel H. Row, MI	Oliver Pillsbury, NH	Stephen H. Rhodes, MA
8	9/18/1877	St. Paul, MN	Samuel H. Row, MI	Oliver Pillsbury, NH	Stephen H. Rhodes, MA
9	8/27/1878	Providence, RI	Oliver Pillsbury, NH	Andrew R. McGill, MN	Orrin T. Welch, KS
10	9/17/1879	St. Louis, MO	Oliver Pillsbury, NH	Andrew R. McGill, MN	Orrin T. Welch, KS
11	9/10/1880	Chicago, IL	Andrew R. McGill, MN	Julius L. Clarke, MA	Orrin T. Welch, KS
12	9/20–21/1881	Detroit, MI	Julius L. Clarke, MA	Philip L. Spooner, WI	Orrin T. Welch, KS
13	10/4–5/1882	Niagara Falls, NY	Julius L. Clarke, MA	John A. McCall Jr., NY	Orrin T. Welch, KS
14	9/26–27/1883	Columbus, OH	Oliver Pillsbury, NH	Charles P. Swigert, IL	John W. Brooks, CT
15	9/24–25/1884	Chicago, IL	John A. McCall Jr., NY	Charles H. Moore, OH	Charles P. Swigert, IL
16	9/23–24/1885	Chicago, IL	John A. McCall Jr., NY	Eugene Pringle, MI	Charles P. Swigert, IL
17	9/22–23/1886	St. Paul, MN	Charles P. Swigert, IL	Henry J. Reinmund, OH	Charles Shandrew, MN
18	9/21–22/1887	Niagara Falls, NY	Oliver Pillsbury, NH[1]	Samuel H. Cross, RI[1]	Jacob A. McEwen, OH[1]
19	8/15–16/1888	Madison, WI	Philip Cheek Jr., WI	Orsamus R. Fyler, CT	Jacob A. McEwen, OH
20	9/4–5/1889	Denver, CO	Orsamus R. Fyler, CT	Samuel E. Kemp, OH	George B. Luper, PA
21	8/20–21/1890	Cleveland, OH	George S. Merrill, MA	Samuel E. Kemp, OH	George B. Luper, PA
22	9/30–10/2/1891	St. Louis, MO	Christopher P. Ellerbe, MO	George B. Luper, PA	John J. Brinkerhoff, IL[2]
23	6/15–16/1892	St. Paul, MN	George B. Luper, PA	William H. Kinder, OH	John J. Brinkerhoff, IL
24	9/12–13/1893	Chicago, IL	John C. Linehan, NH	Christopher H. Smith, MN	John J. Brinkerhoff, IL
25	9/5–6/1894	Alexandria Bay, NY	James F. Pierce, NY	Bradford K. Durfee, IL	John J. Brinkerhoff, IL
26	9/17–18/1895	Mackinac Island, MI	Bradford K. Durfee, IL	William M. Hahn, OH	Frederick L. 'Fred' Cutting, MA
27	9/22–23/1896	Philadelphia, PA	James R. Waddill, MO[3]	Stephen W. Carr, ME[3]	Frederick L. 'Fred' Cutting, MA
28	9/7–8/1897	Old Point Comfort, VA	Stephen W. Carr, ME[4]	Stephen W. Carr, ME[4]	John J. Brinkerhoff, IL[5]
29	9/1898	Milwaukee, WI	Stephen W. Carr, ME	William A. Fricke, WI	John J. Brinkerhoff, IL[6]
30	9/1899	Detroit, MI	Edward T. Orear, MO[7]	Milo D. Campbell, MI	John J. Brinkerhoff, IL
31	9/1900	Hartford, CT	Edward T. Orear, MO	W. S. Matthews, OH	John J. Brinkerhoff, IL
32	9/1901	Buffalo, NY	William H. Hart, IN[8]	Edwin L. Scofield, CT	John J. Brinkerhoff, IL
33	9/1902	Columbus, OH	William H. Hart, IN	Fred A. Howland, VT	John J. Brinkerhoff, IL
34	9/1903	Baltimore, MD	Arthur I. Vorys, OH	John L. Bacon, VT	John J. Brinkerhoff, IL
35	9/1904	Indianapolis, IN	John L. Bacon, VT	James V. Barry, MI	John J. Brinkerhoff, IL
36	9/1905	Bretton Woods, NH	Frederick L. 'Fred' Cutting, MA	James V. Barry, MI	John J. Brinkerhoff, IL
37	10/1906	Washington, DC	James V. Barry, MI	Theron Upson, CT	John J. Brinkerhoff, IL
38	9/1907	Richmond, VA	George H. Adams, NH	Reau E. Folk, TN	John J. Brinkerhoff, IL
39	8/1908	Detroit, MI	Reau E. Folk, TN	Beryl F. Carroll, IA	John J. Brinkerhoff, IL
40	8/1909	Colorado Springs, CO	Benjamin F. Crouse, MD	Fred W. Potter, IL	John A. Hartigan, MN
41	9/1910	Mobile, AL	John A. Hartigan, MN	Eugene J. McGivney, LA	Harry R. Cunningham, MT
42	8/1911	Milwaukee, WI	Joseph L. Button, VA	Theodore H. Macdonald, CT[9]	Harry R. Cunningham, MT
43	7/1912	Spokane, WA	Fred W. Potter, IL	Frank H. Hardison, MA	Fitz Hugh McMaster, SC[10]
44	7/1913	Burlington, VT	Frank H. Hardison, MA	1st James R. Young, NC 2nd Willard Done, UT	Fitz Hugh McMaster, SC
45	9/1914	Asheville, NC	James R. Young, NC	1st Willard Done, UT[11] 2nd John S. Darst, WV	Fitz Hugh McMaster, SC
46	9/1915	Del Monte, CA	John S. Darst, WV	1st Burton Mansfield, CT 2nd John T. Winship, MI	Fitz Hugh McMaster, SC
47	9/1916	Richmond, VA	Burton Mansfield, CT	1st John T. Winship, MI 2nd W. C. Taylor, ND	Fitz Hugh McMaster, SC
48	8/1917	St. Paul, MN	Jesse S. Phillips, NY	1st John T. Winship, MI 2nd Emory H. English, IA	Fitz Hugh McMaster, SC
49	9/1918	Denver, CO	Michael J. 'Mike' Cleary, WI[12]	1st Robert J. Merrill, NH[12] 2nd Walter K. Chorn, MO[12]	Joseph L. Button, VA[13]
50	9/1919	Hartford, CT	Claude W. Fairchild, CO	1st Joseph G. Brown, VT 2nd Frank H. Ellsworth, MI	Joseph L. Button, VA
51	9/1920	Beverly Hills, CA	Joseph G. Brown, VT	1st Frank H. Ellsworth, MI 2nd Alfred L. Harty, MO[14]	Joseph L. Button, VA
52	9/1921	Louisville, KY	Alfred L. Harty, MO[15]	1st Thomas B. Donaldson, PA[15] 2nd Platt Whitman, WI[15]	Joseph L. Button, VA
53	9/1922	Swampscott, MA	Thomas B. Donaldson, PA	1st Platt Whitman, WI 2nd Herbert. O. Fishback, WA	Joseph L. Button, VA
54	8/1923	Minneapolis, MN	Herbert O. Fishback, WA[16]	1st. John C. Luning, FL[16] 2nd John C. Luning, FL[16]	Joseph L. Button, VA
55	7/1924	Seattle, WA	Herbert O. Fishback, WA	1st John C. Luning, FL 2nd Samuel W. McCulloch, PA	Joseph L. Button, VA

© 2024 National Association of Insurance Commissioners

Mtg	Date	Meeting Site	President	Vice-President	Secretary / Secretary-Treasurer
56	9/1925	San Antonio, TX	John C. Luning, FL	1st Samuel W. McCulloch, PA 2nd Bruce T. Bullion, AR	Joseph L. Button, VA
57	11/1926	Los Angeles, CA	Harry L. Conn, OH[17]	1st T. M. Henry, MA 2nd Thomas M. Baldwin, Jr., DC	Joseph L. Button, VA
58	9/1927	Cincinnati, OH	Albert S. Caldwell, TN[18]	1st James A. Beha, NY[18] 2nd Charles R. Detrick, CA	Joseph L. Button, VA
59	9/1928	Rapid City, SD	Albert S. Caldwell, TN	1st Charles R. Detrick, CA 2nd James A. Beha, NY	Joseph L. Button, VA
60	9/1929	Toronto, Canada	Howard P. Dunham, CT[19]	1st Clarence C. Wysong, IN[19] 2nd Jess G. Read, OK[19]	Joseph L. Button, VA
61	9/1930	Hartford, CT	Howard P. Dunham, CT	1st Clarence C. Wysong, IN 2nd Jess G. Read, OK	Albert S. Caldwell, TN[20]
62	9/1931	Portland, OR	Jess G. Read, OK[21]	1st Charles D. Livingston, MI[21] 2nd William A. Tarver, TX [21]	Albert S. Caldwell, TN
63	10/1932	Dallas, TX	Charles D. Livingston, MI	1st William A. Tarver, TX 2nd Garfield W. Brown, MN	Jess G. Read, OK
64	6/1933	Chicago, IL	Garfield W. Brown, MN[22]	1st Daniel C. 'Dan' Boney, NC[22] 2nd George S. Van Schaick, NY[22]	Jess G. Read, OK
65	12/1934	St. Petersburg, FL	Garfield W. Brown, MN	1st Daniel C. 'Dan' Boney, NC 2nd George S. Van-Schaick, NY	Jess G. Read, OK
66	7/1935	Seattle, WA	Daniel C. 'Dan' Boney, NC	1st George S. Van-Schaick, NY[23] 2nd Merton L. Brown, MA[23]	Jess G. Read, OK
67	6/1936	St. Paul, MN	William A. Sullivan, WA	1st Ernest Palmer, IL 2nd George A. Bowles, VA	Jess G. Read, OK
68	6/1937	Philadelphia, PA	Ernest Palmer, IL	George A. Bowles, VA	Jess G. Read, OK
69	6/1938	Quebec, Canada	George A. Bowles, VA	Samuel L. Carpenter, Jr., CA	Jess G. Read, OK
70	6/1939	San Francisco, CA	Frank N. Julian, AL	Arthur J. Ham, WY	Jess G. Read, OK
71	6/1940	Hartford, CT	C. Clarence Nelson, UT	John C. Blackall, CT[24]	Jess G. Read, OK
72	6/1941	Detroit, MI	John C. Blackall, CT	Charles F. Hobbs, KS	Jess G. Read, OK
73	6/1942	Denver, CO	Charles F. Hobbs, KS	John Sharp Williams III, MS	Jess G. Read, OK
74	6/1943	Boston, MA	John Sharp Williams III, MS	Charles F. J. Harrington, MA	Jess G. Read, OK
75	6/1944	Chicago, IL	Charles F. J. Harrington, MA	Newell R. Johnson, MN	Jess G. Read, OK
76	6/1945	St. Paul, MN	Newell R. Johnson, MN	James M. McCormack, TN	Jess G. Read, OK
77	6/1946	Portland, OR	James M. McCormack, TN	Robert E. Dineen, NY[25]	Jess G. Read, OK
78	6/1947	Atlantic City, NJ	Robert E. Dineen, NY	Seth B. Thompson, OR	Nellis P. Parkinson, IL[26]
79	6/1948	Philadelphia, PA	Seth B. Thompson, OR	J. Edwin Larson, FL	William P. Hodges, NC
80	6/1949	Seattle, WA	J. Edwin Larson, FL	David A. Forbes, MI	George A. Bowles, VA
81	6/1950	Quebec, Canada	David A. Forbes, MI	W. Ellery Allyn, CT	George A. Bowles, VA
82	6/1951	Swampscott, MA	W. Ellery Allyn, CT	Frank Sullivan, KS	George A. Bowles, VA
83	6/1952	Chicago, IL	Frank Sullivan, KS	Wade O. Martin Jr., LA	George A. Bowles, VA
Reg.	12/1952	New York, NY	Wade O. Martin Jr., LA	D. D. 'Pat' Murphy, SC	George A. Bowles, VA
84	6/1953	San Francisco, CA	Wade O. Martin Jr., LA	D. D. 'Pat' Murphy, SC	George A. Bowles, VA
Reg.	11/1953	Miami Beach, FL	D. D. 'Pat' Murphy, SC	Donald Knowlton, NH[27]	George A. Bowles, VA
85	6/1954	Detroit, MI	D. D. 'Pat' Murphy, SC	Donald Knowlton, NH	George A. Bowles, VA
Reg.	11/1954	New York, NY	Donald Knowlton, NH	C. Lawrence Leggett, MO	George A. Bowles, VA
86	5/1955	Los Angeles, CA	Donald Knowlton, NH	C. Lawrence Leggett, MO	George A. Bowles, VA
Reg.	11/1955	New York, NY	C. Lawrence Leggett, MO	Robert B. Taylor, OR	George A. Bowles, VA
87	5/1956	St. Louis, MO	C. Lawrence Leggett, MO	Robert B. Taylor, OR	George A. Bowles, VA
Reg.	12/1956	Miami Beach, FL	Robert B. Taylor, OR	Joseph A. Navarre, MI	Paul A. Hammel, NV[28]
88	6/1957	Atlantic City, NJ	Robert B. Taylor, OR	Joseph A. Navarre, MI	Paul A. Hammel, NV
Reg.	12/1957	New York, NY	Joseph A. Navarre, MI	Arch E. Northington, TN	J. Edwin Larson, FL
89	6/1958	Chicago, IL	Joseph A. Navarre, MI	Arch E. Northington, TN	J. Edwin Larson, FL
Reg.	12/1958	New Orleans, LA	Arch E. Northington, TN	Paul A. Hammel, NY	J. Edwin Larson, FL
90	6/1959	Boston, MA	Paul A. Hammel, NV[29]	Sam N. Beery, CO[29]	J. Edwin Larson, FL
Reg.	11/30-12/4/1959	Miami Beach, FL	Paul A. Hammel, NV	Sam N. Beery, CO	Alfred N. Premo, CT
91	5/30–6/3/1960	San Francisco, CA	Paul A. Hammel, NV	Sam N. Beery, CO	Alfred N. Premo, CT
Reg.	11/28-12/2/1960	New York, NY	Sam N. Beery, CO	T. Nelson Parker, VA	Alfred N. Premo, CT
92	6/5–9/1961	Philadelphia, PA	Sam N. Beery, CO	T. Nelson Parker, VA	Alfred N. Premo, CT
Reg.	12/4–8/1961	Dallas, TX	T. Nelson Parker, VA	Rufus D. Hayes, LA	Harvey G. Combs, AR
93	6/18–22/1962	Montreal, Canada	T. Nelson Parker, VA	Rufus D. Hayes, LA	Harvey G. Combs, AR
Reg.	12/3–7/1962	Chicago, IL	Rufus D. Hayes, LA	Joseph S. Gerber, IL	Harvey G. Combs, AR
94	6/17–21/1963	Seattle, WA	Rufus D. Hayes, LA	Joseph S. Gerber, IL[30]	Harvey G. Combs, AR
Reg.	12/2–6/1963	Phoenix, AZ	Lee I. Kueckelhan, WA	Cyrus E. Magnusson, MN	Ralph F. Apodaca, NM
95	6/8–12/1964	Minneapolis, MN	Lee I. Kueckelhan, WA	Cyrus E. Magnusson, MN	Ralph F. Apodaca, NM
Reg.	11/30-12/4/1964	Las Vegas, NV	Cyrus E. Magnusson, MN	William E. Timmons, IA	Ralph F. Apodaca, NM
96	6/7–11/1965	New York, NY	Cyrus E. Magnusson, MN	William E. Timmons, IA	Ralph F. Apodaca, NM
Reg.	11/29-12/3/1965	Miami Beach, FL	William E. Timmons, IA	Frank J. Barrett, NE	Ralph F. Apodaca, NM
97	6/19–24/1966	Richmond, VA	William E. Timmons, IA	Frank J. Barrett, NE	Ralph F. Apodaca, NM
Reg.	12/4–9/1966	Dallas, TX	Frank J. Barrett, NE	James L. Bentley, GA	Ralph F. Apodaca, NM
98	6/11–16/1967	Boston, MA	Frank J. Barrett, NE	James L. Bentley, GA	Ralph F. Apodaca, NM
Reg.	12/3–8/1967	Honolulu, HI	James L. Bentley, GA	Charles R. Howell, NJ	Ralph F. Apodaca, NM
99	6/16–21/1968	Portland, OR	James L. Bentley, GA	Charles R. Howell, NJ	Ralph F. Apodaca, NM
Reg.	12/1–6/1968	Los Angeles, CA	Charles R. Howell, NJ[31]	Ned Price, TX	Ralph F. Apodaca, NM

© 2024 National Association of Insurance Commissioners

Mtg	Date	Meeting Site	President	Vice-President	Secretary / Secretary-Treasurer
100	6/16–20/1969	Philadelphia, PA	Ned Price, TX	Richard E. 'Dick' Stewart, NY	Ralph F. Apodaca, NM
Reg.	12/1–5/1969	New Orleans, LA	Ned Price, TX	Richard E. 'Dick' Stewart, NY	Ralph F. Apodaca, NM
101	6/15–19/1970	Cleveland, OH	Ned Price, TX	Richard E. 'Dick' Stewart, NY	Ralph F. Apodaca, NM
Reg.	12/14–18/1970	Chicago, IL	Richard E. 'Dick' Stewart, NY[32]	Lorne R. Worthington, IA	Ralph F. Apodaca, NM
102	6/14–18/1971	New York, NY	Lorne R. Worthington, IA	Richards D. 'Dick' Barger, CA	Ralph F. Apodaca, NM
Reg.	11/28-12/3/1971	Miami Beach, FL	Richards D. 'Dick' Barger, CA	Russell E. Van Hooser, MI	Ralph F. Apodaca, NM
103	6/12–16/1972	Denver, CO	Richards D. 'Dick' Barger, CA	Russell E. Van Hooser, MI	Ralph F. Apodaca, NM
Reg.	12/3–8/1972	Atlanta, GA	Russell E. Van Hooser, MI	W. Fletcher Bell, KS	Ralph F. Apodaca, NM
104	6/4–8/1973	Washington, DC	Russell E. Van Hooser, MI	W. Fletcher Bell, KS	Ralph F. Apodaca, NM
Reg.	12/2–7/1973	Las Vegas, NV	W. Fletcher Bell, KS	Johnnie L. Caldwell, GA	Ralph F. Apodaca, NM
105	6/2–7/1974	San Francisco, CA	W. Fletcher Bell, KS	Johnnie L. Caldwell, GA	Ralph F. Apodaca, NM
Reg.	12/1–6/1974	Mexico City, Mexico	Johnnie L. Caldwell, GA[33]	Kenneth E. 'Ken' DeShetler, OH[34]	Ralph F. Apodaca, NM
106	6/8–12/1975	Seattle, WA	William H. Huff III, IA[34]	Richard L. 'Dick' Rottman, NV	Ralph F. Apodaca, NM
Reg.	12/7–11/1975	San Juan, PR	William H. Huff III, IA	Richard L. 'Dick' Rottman, NV	Ralph F. Apodaca, NM
107	6/7–11/1976	New Orleans, LA	Richard L. 'Dick' Rottman, NV	Lester L. Rawls, OR	Ralph F. Apodaca, NM
Reg.	12/6–10/1976	Phoenix, AZ	Richard L. 'Dick' Rottman, NV	Lester L. Rawls, OR	Ralph F. Apodaca, NM
108	6/5–10/1977	Minneapolis, MN	Lester L. Rawls, OR	Harold B. McGuffey, KY	Elmer V. Omholt, MT
Reg.	12/4–9/1977	Miami Beach, FL	Lester L. Rawls, OR	Harold B. McGuffey, KY	Elmer V. Omholt, MT
109	6/11–16/1978	Washington, DC	Harold B. McGuffey, KY	H. Peter 'Pete' Hudson, IN	Elmer V. Omholt, MT
Reg.	12/3–8/1978	Las Vegas, NV	Harold B. McGuffey, KY	H. Peter 'Pete' Hudson, IN	Elmer V. Omholt, MT
110	6/3–8/1979	Chicago, IL	H. Peter 'Pete' Hudson, IN	Wesley J. Kinder, CA	Elmer V. Omholt, MT
Reg.	12/2–7/1979	Los Angeles, CA	H. Peter 'Pete' Hudson, IN[35]	Wesley J. Kinder, CA	Elmer V. Omholt, MT
111	6/15–20/1980	Denver, CO	Wesley J. Kinder, CA	William H. L. Woodyard III, AR	Elmer V. Omholt, MT
Reg.	11/30-12/5/1980	New York, NY	Wesley J. Kinder, CA	William H. L. Woodyard III, AR	Elmer V. Omholt, MT
112	6/7–12/1981	Detroit, MI	William H. L. Woodyard, AR	John W. Lindsay, SC[36]	Elmer V. Omholt, MT
Reg.	12/13–18/1981	New Orleans, LA	William H. L. Woodyard, AR	Johnnie L. Caldwell, GA[36]	Elmer V. Omholt, MT
113	6/6–11/1982	Philadelphia, PA	Lyndon L. Olson Jr., TX	Roger C. Day, UT	Elmer V. Omholt, MT
Zone	9/1982	Nashville, TN	Lyndon L. Olson Jr., TX	Roger C. Day, UT	Elmer V. Omholt, MT
114	11/28-12/3/1982	Dallas, TX	Lyndon L. Olson Jr., TX	Roger C. Day, UT	Elmer V. Omholt, MT
Zone	3/1983	Baltimore, MD	Roger C. Day, UT	William D. 'Bill' Gunter, FL	Elmer V. Omholt, MT
115	6/12–17/1983	St. Louis, MO	Roger C. Day, UT	William D. 'Bill' Gunter, FL	Elmer V. Omholt, MT
Zone	9/1983	Tampa, FL	Roger C. Day, UT	William D. 'Bill' Gunter, FL	Elmer V. Omholt, MT
116	12/4–9/1983	San Diego, CA	Roger C. Day, UT	William D. 'Bill' Gunter, FL	Elmer V. Omholt, MT
Zone	3/1984	Portland, OR	William D. 'Bill' Gunter, FL	Bruce W. Foudree, IA	Elmer V. Omholt, MT
117	6/3–8/1984	New Orleans, LA	William D. 'Bill' Gunter, FL	Bruce W. Foudree, IA	Elmer V. Omholt, MT
Zone	9/1984	Omaha, NE	William D. 'Bill' Gunter, FL	Bruce W. Foudree, IA	Elmer V. Omholt, MT
118	12/9–14/1984	Washington, DC	William D. 'Bill' Gunter, FL	Bruce W. Foudree, IA	Elmer V. Omholt, MT
Zone	3/1985	Williamsburg, VA	Bruce W. Foudree, IA	Josephine M. 'Jo' Driscoll, OR	Elmer V. Omholt, MT
119	6/9–14/1985	Kansas City, MO	Bruce W. Foudree, IA	Josephine M. 'Jo' Driscoll, OR	Elmer V. Omholt, MT
Zone	9/1985	Syracuse, NY	Bruce W. Foudree, IA	Josephine M. 'Jo' Driscoll, OR	Elmer V. Omholt, MT
120	12/8–12/1985	Reno, NV	Bruce W. Foudree, IA	Josephine M. 'Jo' Driscoll, OR	Elmer V. Omholt, MT
Zone	3/1986	San Francisco, CA	Josephine M. 'Jo' Driscoll, OR	Edward J. Muhl, MD	W. Fletcher Bell, KS
121	6/8–12/1986	Boston, MA	Josephine M. 'Jo' Driscoll, OR	Edward J. Muhl, MD	W. Fletcher Bell, KS
Zone	9/1986	Des Moines, IA	Josephine M. 'Jo' Driscoll, OR	Edward J. Muhl, MD	W. Fletcher Bell, KS
122	12/7–11/1986	Orlando, FL	Josephine M. 'Jo' Driscoll, OR	Edward J. Muhl, MD	W. Fletcher Bell, KS
Zone	4/1987	Lexington, KY	Edward J. Muhl, MD	John E. Washburn, IL	W. Fletcher Bell, KS
123	6/21–26/1987	Chicago, IL	Edward J. Muhl, MD	John E. Washburn, IL	W. Fletcher Bell, KS
Zone	9/13–16/1987	Pittsburgh, PA	Edward J. Muhl, MD	John E. Washburn, IL	W. Fletcher Bell, KS
124	12/6–11/1987	Phoenix, AZ	Edward J. Muhl, MD	John E. Washburn, IL	W. Fletcher Bell, KS
Zone	3/13–15/1988	Santa Fe, NM	John E. Washburn, IL	David A. Gates, NV	W. Fletcher Bell, KS
125	6/12–17/1988	New York, NY	John E. Washburn, IL	David A. Gates, NV	W. Fletcher Bell, KS
Zone	9/18-20/1988	Mackinac Island, MI	John E. Washburn, IL	David A. Gates, NV	W. Fletcher Bell, KS
126	12/11–16/1988	New Orleans, LA	John E. Washburn, IL	David A. Gates, NV	W. Fletcher Bell, KS
Zone	3/19-21/1989	Little Rock, AR	David A. Gates, NV	Earl R. Pomeroy, ND	W. Fletcher Bell, KS
127	6/4–8/1989	Cincinnati, OH	David A. Gates, NV	Earl R. Pomeroy, ND	W. Fletcher Bell, KS
Zone	9/10–12/1989	Wilmington, DE	David A. Gates, NV	Earl R. Pomeroy, ND	W. Fletcher Bell, KS
128	12/3–7/1989	Las Vegas, NV	David A. Gates, NV	Earl R. Pomeroy, ND	W. Fletcher Bell, KS
Zone	3/25–27/1990	Salt Lake City, UT	Earl R. Pomeroy, ND	James E. 'Jim' Long, NC	W. Fletcher Bell, KS
129	6/3–7/1990	Baltimore, MD	Earl R. Pomeroy, ND	James E. 'Jim' Long, NC	W. Fletcher Bell, KS
Zone	9/8–11/1990	Kansas City, MO	Earl R. Pomeroy, ND	James E. 'Jim' Long, NC	W. Fletcher Bell, KS
130	12/2–6/1990	Louisville, KY	Earl R. Pomeroy, ND	James E. 'Jim' Long, NC	W. Fletcher Bell, KS
Zone	4/13-16/1991	Charleston, WV	James E. 'Jim' Long, NC	William H. 'Bill' McCartney, NE	Robin Campaniano, HI
131	6/9–13/1991	Indianapolis, IN	James E. 'Jim' Long, NC	William H. 'Bill' McCartney, NE	Robin Campaniano, HI
Zone	9/14–17/1991	Pittsburgh, PA	James E. 'Jim' Long, NC	William H. 'Bill' McCartney, NE	Robin Campaniano, HI
132	12/9–12/1991	Houston, TX	James E. 'Jim' Long, NC	William H. 'Bill' McCartney, NE	Robin Campaniano, HI
Zone	3/28–31/1992	Seattle, WA	William H. 'Bill' McCartney, NE	Steven T. Foster, VA	David J. Walsh, AK
133	6/7–11/1992	Washington, DC	William H. 'Bill' McCartney, NE	Steven T. Foster, VA	David J. Walsh, AK
Zone	9/20–22/1992	Cincinnati, OH	William H. 'Bill' McCartney, NE	Steven T. Foster, VA	David J. Walsh, AK
134	12/6–9/1992	Atlanta, GA	William H. 'Bill' McCartney, NE	Steven T. Foster, VA	David J. Walsh, AK
Zone	3/7–9/1993	Nashville, TN	Steven T. Foster, VA	David J. Walsh, AK	David J. Lyons, IA
135	6/20–23/1993	Chicago, IL	Steven T. Foster, VA	David J. Walsh, AK	David J. Lyons, IA
136	9/19–21/1993	Boston, MA	Steven T. Foster, VA	David J. Walsh, AK	David J. Lyons, IA
137	12/5–8/1993	Honolulu, HI	Steven T. Foster, VA	David J. Walsh, AK	David J. Lyons, IA
138	3/6–8/1994	Denver, CO	David J. Walsh, AK	David J. Lyons, IA	Catherine J. Weatherford, OK
139	6/12–15/1994	Baltimore, MD	David J. Walsh, AK	David J. Lyons, IA[37]	Catherine J. Weatherford, OK

Mtg	Date	Meeting Site	President	Vice-President	Secretary / Secretary-Treasurer
140	9/18–20/1994	Minneapolis, MN	David J. Walsh, AK	Lee Douglass, AR[37]	Catherine J. Weatherford, OK
141	12/4–7/1994	New Orleans, LA	David J. Walsh, AK	Lee Douglass, AR	Catherine J. Weatherford, OK
142	3/12–14/1995	Miami, FL	Lee Douglass, AR	Brian Atchinson, ME	Josephine W. 'Jo' Musser, WI
143	6/4–7/1995	St. Louis, MO	Lee Douglass, AR	Brian Atchinson, ME	Josephine W. 'Jo' Musser, WI
144	9/10–12/1995	Philadelphia, PA	Lee Douglass, AR	Brian Atchinson, ME	Josephine W. 'Jo' Musser, WI
145	12/2–6/1995	San Antonio, TX	Lee Douglass, AR	Brian Atchinson, ME	Josephine W. 'Jo' Musser, WI
146	3/23–27/1996	Detroit, MI	Brian Atchinson, ME	Josephine W. 'Jo' Musser, WI	Glenn Pomeroy, ND
147	6/1–5/1996	New York, NY	Brian Atchinson, ME	Josephine W. 'Jo' Musser, WI	Glenn Pomeroy, ND
148	9/28–10/2/1996	Anchorage, AK	Brian Atchinson, ME	Josephine W. 'Jo' Musser, WI	Glenn Pomeroy, ND
149	12/14–18/1996	Atlanta, GA	Brian Atchinson, ME	Josephine W. 'Jo' Musser, WI	Glenn Pomeroy, ND
150	3/15–19/1997	Orlando, FL	Josephine W. 'Jo' Musser, WI	Glenn Pomeroy, ND	George M. Reider Jr., CT
151	6/7–11/1997	Chicago, IL	Josephine W. 'Jo' Musser, WI	Glenn Pomeroy, ND	George M. Reider Jr., CT
152	9/22/1997	Washington, DC	Josephine W. 'Jo' Musser, WI	Glenn Pomeroy, ND	George M. Reider Jr., CT
153	12/6–9/1997	Seattle, WA	Josephine W. 'Jo' Musser, WI	Glenn Pomeroy, ND	George M. Reider Jr., CT
154	3/14–18/1998	Salt Lake City, UT	Glenn Pomeroy, ND	George M. Reider Jr., CT	George Nichols, III, KY
155	6/20–24/1998	Boston, MA	Glenn Pomeroy, ND	George M. Reider Jr., CT	George Nichols, III, KY
156	9/12–16/1998	New York, NY	Glenn Pomeroy, ND	George M. Reider Jr., CT	George Nichols, III, KY
157	12/5–9/1998	Orlando, FL	Glenn Pomeroy, ND	George M. Reider Jr., CT	George Nichols, III, KY
158	3/6–10/1999	Washington, DC	George M. Reider Jr., CT	George Nichols, III, KY	Kathleen Sebelius, KS
159	6/5–9/1999	Kansas City, MO	George M. Reider Jr., CT	George Nichols, III, KY	Kathleen Sebelius, KS
160	10/2–6/1999	Atlanta, GA	George M. Reider Jr., CT	George Nichols, III, KY	Kathleen Sebelius, KS
161	12/4–8/1999	San Francisco, CA	George M. Reider Jr., CT	George Nichols, III, KY	Kathleen Sebelius, KS
162	3/11–15/2000	Chicago, IL	George Nichols, III, KY	Kathleen Sebelius, KS	Therese M. 'Terri' Vaughan, IA
163	6/10–14/2000	Orlando, FL	George Nichols, III, KY	Kathleen Sebelius, KS	Therese M. 'Terri' Vaughan, IA
164	9/9–13/2000	Dallas, TX	George Nichols, III, KY	Kathleen Sebelius, KS	Therese M. 'Terri' Vaughan, IA
165	12/2–5/2000	Boston, MA	George Nichols, III, KY	Kathleen Sebelius, KS	Therese M. 'Terri' Vaughan, IA
166	3/24–27/2001	Nashville, TN	Kathleen Sebelius, KS	Therese M. 'Terri' Vaughan, IA	J. Michael 'Mike' Pickens, AR
167	6/9–12/2001	New Orleans, LA	Kathleen Sebelius, KS	Therese M. 'Terri' Vaughan, IA	J. Michael 'Mike' Pickens, AR
N/A	9/2001	Mtg. canceled [38]	Kathleen Sebelius, KS	Therese M. 'Terri' Vaughan, IA	J. Michael 'Mike' Pickens, AR
168	12/8–11/2001	Chicago, IL	Kathleen Sebelius, KS	Therese M. 'Terri' Vaughan, IA	J. Michael 'Mike' Pickens, AR
169	3/16–19/2002	Reno, NV	Therese M. 'Terri' Vaughan, IA	J. Michael 'Mike' Pickens, AR	Nathanial S. 'Nat' Shapo, IL
170	6/8–11/2002	Philadelphia, PA	Therese M. 'Terri' Vaughan, IA	J. Michael 'Mike' Pickens, AR	Nathanial S. 'Nat' Shapo, IL
171	9/9–12/2002	New Orleans, LA	Therese M. 'Terri' Vaughan, IA	J. Michael 'Mike' Pickens, AR	Nathanial S. 'Nat' Shapo, IL
172	12/7–10/2002	San Diego, CA	Therese M. 'Terri' Vaughan, IA	J. Michael 'Mike' Pickens, AR	Nathanial S. 'Nat' Shapo, IL
173	3/8–11/2003	Atlanta, GA	J. Michael 'Mike' Pickens, AR	Ernst N. 'Ernie' Csiszar, SC	Joel S. Ario, OR
174	6/21–24/2003	New York, NY	J. Michael 'Mike' Pickens, AR	Ernst N. 'Ernie' Csiszar, SC	Joel S. Ario, OR
175	9/13–16/2003	Chicago, IL	J. Michael 'Mike' Pickens, AR	Ernst N. 'Ernie' Csiszar, SC	Joel S. Ario, OR
176	12/6–9/2003	Anaheim, CA	J. Michael 'Mike' Pickens, AR	Ernst N. 'Ernie' Csiszar, SC	Joel S. Ario, OR
177	3/13–16/2004	New York, NY	Ernst N. 'Ernie' Csiszar, SC	James A. 'Jim' Poolman, ND	Joel S. Ario, OR
178	6/13–16/2004	San Francisco, CA	Ernst N. 'Ernie' Csiszar, SC[39]	James A. 'Jim' Poolman, ND	Joel S. Ario, OR
179	9/11–14/2004	Anchorage, AK	M. Diane Koken, PA[39]	Joel S. Ario, OR[39]	Alessandro A. 'Al' Iuppa, ME[39]
180	12/4–7/2004	New Orleans, LA [40]	M. Diane Koken, PA	Joel S. Ario, OR	Alessandro A. 'Al' Iuppa, ME

© 2024 National Association of Insurance Commissioners

Mtg	Date	Meeting Site	President	President-Elect	Vice President	Secretary-Treasurer
181	3/12–15/2005	Salt Lake City, UT	M. Diane Koken, PA	Alessandro A. 'Al' Iuppa, ME	Joel S. Ario, OR	Sandra K. 'Sandy' Praeger, KS
182	6/11–14/2005	Boston, MA	M. Diane Koken, PA	Alessandro A. 'Al' Iuppa, ME	Joel S. Ario, OR	Sandra K. 'Sandy' Praeger, KS
N/A	9/2005	Mtg. canceled [41]	M. Diane Koken, PA	Alessandro A. 'Al' Iuppa, ME	Joel S. Ario, OR	Sandra K. 'Sandy' Praeger, KS
183	12/3–6/2005	Chicago, IL	M. Diane Koken, PA	Alessandro A. 'Al' Iuppa, ME	Joel S. Ario, OR	Sandra K. 'Sandy' Praeger, KS
184	3/4–7/2006	Orlando, FL	Alessandro A. 'Al' Iuppa, ME	Walter A. Bell, AL	Sandra K. 'Sandy' Praeger, KS	Eric P. Serna, NM [42]
185	6/10–13/2006	Washington, DC	Alessandro A. 'Al' Iuppa, ME	Walter A. Bell, AL	Sandra K. 'Sandy' Praeger, KS	Roger A. Sevigny, NH [42]
186	9/9–12/2006	St. Louis, MO	Alessandro A. 'Al' Iuppa, ME	Walter A. Bell, AL	Sandra K. 'Sandy' Praeger, KS	Roger A. Sevigny, NH
187	12/9–12/2006	San Antonio, TX	Alessandro A. 'Al' Iuppa, ME	Walter A. Bell, AL	Sandra K. 'Sandy' Praeger, KS	Roger A. Sevigny, NH
188	3/10–13/2007	New York, NY	Walter A. Bell, AL	Sandra K. 'Sandy' Praeger, KS	Roger A. Sevigny, NH	Jane L. Cline, WV
189	6/1–4/2007	San Francisco, CA	Walter A. Bell, AL	Sandra K. 'Sandy' Praeger, KS	Roger A. Sevigny, NH	Jane L. Cline, WV
190	9/29–10/1/2007	Washington, DC	Walter A. Bell, AL	Sandra K. 'Sandy' Praeger, KS	Roger A. Sevigny, NH	Jane L. Cline, WV
191	12/2–4/2007	Houston, TX	Walter A. Bell, AL	Sandra K. 'Sandy' Praeger, KS	Roger A. Sevigny, NH	Jane L. Cline, WV
192	3/29–31/2008	Orlando, FL	Sandra K. 'Sandy' Praeger, KS	Roger A. Sevigny, NH	Jane L. Cline, WV	Susan E. Voss, IA
193	5/31–6/2/2008	San Francisco, CA	Sandra K. 'Sandy' Praeger, KS	Roger A. Sevigny, NH	Jane L. Cline, WV	Susan E. Voss, IA
194	9/22–24/2008	National Harbor, MD	Sandra K. 'Sandy' Praeger, KS	Roger A. Sevigny, NH	Jane L. Cline, WV	Susan E. Voss, IA
195	12/5–8/2008	Grapevine, TX	Sandra K. 'Sandy' Praeger, KS	Roger A. Sevigny, NH	Jane L. Cline, WV	Susan E. Voss, IA
196	3/15–18/2009	San Diego, CA	Roger A. Sevigny, NH	Jane L. Cline, WV	Susan E. Voss, IA	Kevin M. McCarty, FL
197	6/13–15/2009	Minneapolis, MN	Roger A. Sevigny, NH	Jane L. Cline, WV	Susan E. Voss, IA	Kevin M. McCarty, FL
198	9/21–24/2009	National Harbor, MD	Roger A. Sevigny, NH	Jane L. Cline, WV	Susan E. Voss, IA	Kevin M. McCarty, FL
199	12/5–8/2009	San Francisco, CA	Roger A. Sevigny, NH	Jane L. Cline, WV	Susan E. Voss, IA	Kevin M. McCarty, FL
200	3/25–28/2010	Denver, CO	Jane L. Cline, WV	Susan E. Voss, IA	Kevin M. McCarty, FL	Kim Holland, OK
201	8/14–17/2010	Seattle, WA	Jane L. Cline, WV	Susan E. Voss, IA	Kevin M. McCarty, FL	Kim Holland, OK
202	10/18–21/2010	Orlando, FL	Jane L. Cline, WV	Susan E. Voss, IA	Kevin M. McCarty, FL	Kim Holland, OK
203	3/26–29/2011	Austin, TX	Susan E. Voss, IA	Kevin M. McCarty, FL	James J. Donelon, LA	Michael T. McRaith, IL [43]
N/A	8/2011	Mtg. canceled [44]	Susan E. Voss, IA	Kevin M. McCarty, FL	James J. Donelon, LA	Adam Hamm, ND [43]
204	11/3–6/2011	Washington, DC	Susan E. Voss, IA	Kevin M. McCarty, FL	James J. Donelon, LA	Adam Hamm, ND
205	3/3–6/2012	New Orleans, LA	Kevin M. McCarty, FL	James J. Donelon, LA	Adam Hamm, ND	Monica J. Lindeen, MT
206	8/11–14/2012	Atlanta, GA	Kevin M. McCarty, FL	James J. Donelon, LA	Adam Hamm, ND	Monica J. Lindeen, MT
207	11/29–12/2/2012	National Harbor, MD	Kevin M. McCarty, FL	James J. Donelon, LA	Adam Hamm, ND	Monica J. Lindeen, MT
208	4/6–9/2013	Houston, TX	James J. Donelon, LA	Adam Hamm, ND	Monica J. Lindeen, MT	Michael F. Consedine, PA
209	8/24–27/2013	Indianapolis, IN	James J. Donelon, LA	Adam Hamm, ND	Monica J. Lindeen, MT	Michael F. Consedine, PA
210	12/15–18/2013	Washington, DC	James J. Donelon, LA	Adam Hamm, ND	Monica J. Lindeen, MT	Michael F. Consedine, PA
211	3/29–4/1/2014	Orlando, FL	Adam Hamm, ND	Monica J. Lindeen, MT	Michael F. Consedine, PA	Sharon P. Clark, KY
212	8/16–19/2014	Louisville, KY	Adam Hamm, ND	Monica J. Lindeen, MT	Michael F. Consedine, PA	Sharon P. Clark, KY
213	11/16–19/2014	Washington, DC	Adam Hamm, ND	Monica J. Lindeen, MT	Michael F. Consedine, PA [45]	Sharon P. Clark, KY
214	3/28–31/2015	Phoenix, AZ	Monica J. Lindeen, MT	John M. Huff, MO [45]	Sharon P. Clark, KY	Theodore K. 'Ted' Nickel, WI
215	8/15–18/2015	Chicago, IL	Monica J. Lindeen, MT	John M. Huff, MO	Sharon P. Clark, KY	Theodore K. 'Ted' Nickel, WI
216	11/19–22/2015	National Harbor, MD	Monica J. Lindeen, MT	John M. Huff, MO	Sharon P. Clark, KY [46]	Theodore K. 'Ted' Nickel, WI
217	4/3–6/2016	New Orleans, LA	John M. Huff, MO	Theodore K. 'Ted' Nickel, WI [46]	Julie Mix McPeak, TN [46]	Eric A. Cioppa, ME [46]
218	8/26–29/2016	San Diego, CA	John M. Huff, MO	Theodore K. 'Ted' Nickel, WI	Julie Mix McPeak, TN	Eric A. Cioppa, ME
219	12/10–13/2016	Miami, FL	John M. Huff, MO	Theodore K. 'Ted' Nickel, WI	Julie Mix McPeak, TN	Eric A. Cioppa, ME
220	4/8–11/2017	Denver, CO	Theodore K. 'Ted' Nickel, WI	Julie Mix McPeak, TN	Eric A. Cioppa, ME	David C. Mattax, TX [47]
221	8/6–9/2017	Philadelphia, PA	Theodore K. 'Ted' Nickel, WI	Julie Mix McPeak, TN	Eric A. Cioppa, ME	Raymond G. Farmer, SC [47]
222	12/2–4/2017	Honolulu, HI	Theodore K. 'Ted' Nickel, WI	Julie Mix McPeak, TN	Eric A. Cioppa, ME	Raymond G. Farmer, SC
223	3/24–27/2018	Milwaukee, WI	Julie Mix McPeak, TN	Eric A. Cioppa, ME	Raymond G. Farmer, SC	Gordon I. Ito, HI
224	8/4–7/2018	Boston, MA	Julie Mix McPeak, TN	Eric A. Cioppa, ME	Raymond G. Farmer, SC	Gordon I. Ito, HI
225	11/15–18/2018	San Francisco, CA	Julie Mix McPeak, TN	Eric A. Cioppa, ME	Raymond G. Farmer, SC	Gordon I. Ito, HI [48]
226	4/6–9/2019	Orlando, FL	Eric A. Cioppa, ME	Raymond G. Farmer, SC	David Altmaier, FL [48]	Dean L. Cameron, ID
227	8/3–6/2019	New York, NY	Eric A. Cioppa, ME	Raymond G. Farmer, SC	David Altmaier, FL	Dean L. Cameron, ID
228	12/7–10/2019	Austin, TX	Eric A. Cioppa, ME	Raymond G. Farmer, SC	David Altmaier, FL	Dean L. Cameron, ID
N/A	3/2020	Mtg. canceled [49]	Raymond G. Farmer, SC	David Altmaier, FL	Dean L. Cameron, ID	Chlora Lindley-Myers, MO
229	7/27–8/14/2020	Virtual meeting [50]	Raymond G. Farmer, SC	David Altmaier, FL	Dean L. Cameron, ID	Chlora Lindley-Myers, MO
230	12/3–9/2020	Virtual meeting [51]	Raymond G. Farmer, SC	David Altmaier, FL	Dean L. Cameron, ID	Chlora Lindley-Myers, MO
231	4/7–14/2021	Virtual meeting [52]	David Altmaier, FL	Dean L. Cameron, ID	Chlora Lindley-Myers, MO	Andrew N. Mais, CT
232	8/13–17/2021	Columbus, OH [53]	David Altmaier, FL	Dean L. Cameron, ID	Chlora Lindley-Myers, MO	Andrew N. Mais, CT
233	12/13–16/2021	San Diego, CA [54]	David Altmaier, FL	Dean L. Cameron, ID	Chlora Lindley-Myers, MO	Andrew N. Mais, CT
234	4/4–8/2022	Kansas City, MO	Dean L. Cameron, ID	Chlora Lindley-Myers, MO	Andrew N. Mais, CT	Jon Godfread, ND
235	8/9–13/2022	Portland, OR	Dean L. Cameron, ID	Chlora Lindley-Myers, MO	Andrew N. Mais, CT	Jon Godfread, ND
236	12/12–16/2022	Tampa, FL	Dean L. Cameron, ID	Chlora Lindley-Myers, MO	Andrew N. Mais, CT	Jon Godfread, ND
237	3/21–25/2023	Louisville, KY	Chlora Lindley-Myers, MO	Andrew N. Mais, CT	Jon Godfread, ND	Scott A. White, VA
238	8/12–16/2023	Seattle, WA	Chlora Lindley-Myers, MO	Andrew N. Mais, CT	Jon Godfread, ND	Scott A. White, VA
239	11/30-12/4/2023	Orlando, FL	Chlora Lindley-Myers, MO	Andrew N. Mais, CT	Jon Godfread, ND	Scott A. White, VA
240	3/15–18/2024	Phoenix, AZ	Andrew N. Mais, CT	Jon Godfread, ND	Scott A. White, VA	Elizabeth Kelleher Dwyer, RI
241	8/12–15/2024	Phoenix, AZ	Andrew N. Mais, CT	Jon Godfread, ND	Scott A. White, VA	Elizabeth Kelleher Dwyer, RI

1. Sept. 23, 1886: John K. Tarbox (MA) was elected President for the 1887 Convention; Samuel H. Cross (RI) was elected Vice-President; and Robert B. Brinkerhoff (Ohio chief clerk) was elected Secretary. Commissioner Tarbox died May 28, 1887. Auditor Cross was out of office effective June 1, 1887. Mr. Brinkerhoff was out of office effective June 3, 1887. Oliver Pillsbury (NH) was chosen to preside over the 1887 Convention. It is unknown who acted as Vice-President. Jacob A. McEwen (Ohio chief clerk) was chosen to act as Secretary.

© 2024 National Association of Insurance Commissioners

2. Aug. 21, 1890: Charles B. Allan (Nebraska deputy auditor) was elected Secretary for the 1891 Convention; however, he resigned before the Convention assembled. Sept. 30, 1891: John J. Brinkerhoff (Illinois actuary) was elected Secretary for the 1891 Convention.

3. Sept. 18, 1895: William M. Hahn (OH) was elected President for the 1896 Convention and James R. Waddill (MO) was elected Vice-President; however, Superintendent Hahn was out of office effective June 3, 1886. Sept. 22, 1896: Superintendent Waddill was elected President for the 1896 Convention and Stephen W. Carr (ME) was chosen to act as Vice-President.

4. Sept. 23, 1896: James R. Waddill (MO) was elected President for the 1897 Convention and Stephen W. Carr (ME) was elected Vice-President; however, Mr. Waddill was out of office effective March 1, 1897. Sept. 7, 1897: Commissioner Carr was elected President for the 1897 Convention. It is unknown who acted as Vice-President.

5. Sept. 23, 1896: Frederick L. 'Fred' Cutting (MA) was elected Secretary for the 1897 Convention; however, he was out of office on the date of the Convention. Sept. 7, 1897: John J. Brinkerhoff (Illinois actuary) was elected Secretary for the 1897 Convention.

6. Sept. 7, 1897: Frederick L. 'Fred' Cutting (MA) was elected Secretary for the 1898 Convention; however, he declined the offer. Sept. 13, 1898: John J. Brinkerhoff (Illinois actuary) was elected Secretary for the 1898 Convention.

7. Sept. 15, 1898: Elmer H. Dearth (MN) was elected President for the 1899 Convention; however, he was out of office at the date of the Convention. Sept. 5, 1899: Edward T. Orear (MO) was elected President for the 1899 Convention.

8. Sept. 20, 1900: John A. O'Shaughnessy (MN) was elected President for the 1901 Convention; however, he was out of office at the date of the Convention. September 1901: William H. Hart (IN) was elected President for the 1901 Convention.

9. Sept. 29, 1910: Theodore H. Macdonald (CT) was elected Vice-President for the 1911 Convention; however, he was out of office at the date of the Convention. It is unknown who acted as Vice-President.

10. Aug. 25, 1911: Harry R. Cunningham (MT) was elected Secretary for the 1912 Convention; however, he resigned before the Convention assembled. March 1912: Fitz Hugh McMaster (SC) was elected Secretary for the 1912 Convention.

11. Aug. 1, 1913: Willard Done (UT) was elected First Vice-President for the 1914 Convention; however, he resigned before the Convention assembled. It is unknown who acted as First Vice-President.

12. Aug. 31, 1917: Emory H. English (IA) was elected President for the 1918 Convention; Robert J. Merrill (NH) was elected First Vice-President; and Michael J. Cleary (WI) was elected Second Vice-President. November 1917: Mr. Merrill resigned as First Vice-President. Dec. 6, 1917: Mr. Cleary was elected First Vice-President for the 1918 Convention and Walter K. Chorn (MO) was elected Second Vice-President. Jan. 1, 1918: Mr. English resigned as President and Mr. Cleary was elected President for the 1918 Convention by the Executive (EX) Committee. It is unknown who acted as First Vice-President.

13. Aug. 31, 1917: Fitz Hugh McMaster (SC) was elected Secretary for the 1918 Convention; however, he resigned before the Convention assembled. Dec. 6, 1917: Joseph L. Button (VA) was elected Secretary for the 1918 Convention.

14. Sept. 12, 1919: John B. Sanborn (MN) was elected Second Vice-President for the 1920 Convention; however, he resigned before the Convention assembled. June 1920: Alfred L. Harty (MO) was chosen to act as Second Vice-President for the 1920 Convention.

15. Sept. 3, 1920: Frank H. Ellsworth (MI) was elected President for the 1921 Convention; Alfred L. Harty (MO) was elected First Vice-President; and Thomas B. Donaldson (PA) was elected Second Vice-President. Commissioner Ellsworth resigned effective April 30, 1921, as NAIC President and Michigan Insurance Commissioner. June 27, 1921: Superintendent Harty was elected President for the 1921 Convention by the Executive (EX) Committee; Commissioner Donaldson was elected First Vice-President; and Platt Whitman (WI) was elected Second Vice-President.

16. Sept. 8, 1922: Platt Whitman (WI) was elected President for the 1923 Convention; Herbert O. Fishback (WA) was elected First Vice-President; and John C. Luning (FL) was elected Second Vice-President. July 1, 1923: Commissioner Whitman resigned as President; Commissioner Fishback was elected President for the 1923 Convention by the Executive (EX) Committee; and Mr. Luning was elected First Vice-President by the Executive (EX) Committee. It is unknown who acted as Second Vice-President.

17. Sept. 18, 1925: William R. C. Kendrick (IA) was elected President for the 1926 Convention. January 1926: Commissioner Kendrick resigned as NAIC President and Harry L. Conn (OH) was elected President for the 1926 Convention. Commissioner Kendrick remained as Iowa Insurance Commissioner until March 1, 1926.

18. Nov. 19, 1926: Harry L. Conn (OH) was elected President for the 1927 Convention and Albert S. Caldwell (TN) was elected First Vice-President. April 15, 1927: Superintendent Conn resigned as NAIC President and Ohio Insurance Superintendent. May 3, 1927: Commissioner Caldwell was elected President for the 1927 Convention and James A. Beha (NY) was elected First Vice-President.

19. Sept. 26, 1928: Charles R. Detrick (CA) was elected President for the 1929 Convention; James A. Beha (NY) was elected First Vice-President; and Howard P. Dunham (CT) was elected Second Vice-President. Jan. 1, 1929: Superintendent Beha resigned as NAIC First Vice-President and New York Insurance Superintendent. Commissioner Dunham was elected First Vice-President for the

© 2024 National Association of Insurance Commissioners

1929 Convention. April 24, 1929: Commissioner Detrick resigned as NAIC President and California Insurance Commissioner. Commissioner Dunham was elected President for the 1929 Convention; Clarence C. Wysong (IN) was elected First Vice-President; and Jess G. Read (OK) was elected Second Vice-President.

20. Sept. 19, 1929: Joseph L. Button (VA) was elected Secretary for the 1930 Convention; however, he resigned effective Oct. 15, 1929, as NAIC Secretary and Virginia Commissioner of Insurance and Banking. Dec. 10, 1929: Albert S. Caldwell (TN) was elected Secretary for the 1930 Convention.

21. Sept. 9, 1930: Clarence C. Wysong (IN) was elected President for the 1931 Convention; Jess G. Read (OK) was elected First Vice-President; and Clare A. Lee (OR) was elected Second Vice-President. January 1931: Commissioner Wysong resigned effective Jan. 1, 1931, as NAIC President and Indiana Insurance Commissioner; Commissioner Lee was no longer serving as Second Vice-President; and Commissioner Read was elected President by the Executive (EX) Committee for the 1931 Convention. June 17, 1931: Charles D. Livingston (MI) was elected First Vice-President by the Executive (EX) Committee for the 1931 Convention and William A. Tarver (TX) was elected Second Vice-President by the Executive (EX) Committee.

22. Oct. 20, 1932: William A. Tarver (TX) was elected President for the 1933 Convention; Garfield W. Brown (MN) was elected First Vice-President; and Daniel C. 'Dan' Boney (NC) was elected Second Vice-President. Commissioner Tarver resigned effective Feb. 10, 1933, as NAIC President and Texas Life Insurance Commissioner. Commissioner Brown was elected President for the 1933 Convention; Commissioner Boney was chosen to act as First Vice-President and George S. Van Schaick (NY) was chosen to act as Second Vice-President.

23. July 1935: It is unclear why no one acted as First Vice-President or Second Vice-President for the 1935 Convention.

24. June 23, 1939: J. Balch Moor (DC) was elected Vice-President; however, he died July 22, 1939, before the 1940 Convention assembled. John C. Blackall (CT) was elected Vice-President by the Executive (EX) Committee to fill the unexpired term.

25. June 6, 1945: Edward L. Scheufler (MO) was elected Vice-President for the 1946 Convention; however, he resigned effective Oct. 15, 1945, as NAIC Vice-President and Missouri Insurance Superintendent. Dec. 3, 1945: Robert E. Dineen (NY) was elected Vice-President by the Executive (EX) Committee for the 1946 Convention.

26. June 11, 1946: Jess G. Read (OK) was elected Secretary for the 1947 Convention; however, he died July 20, 1946. Sept. 4, 1946: Nellis P. Parkinson (IL) was elected Secretary by the Executive (EX) Committee to fill the unexpired term.

27. June 1953: George B. Butler (TX) was elected Vice-President; however, he died Sept. 28, 1953. It is unknown who acted as Vice-President for the November 1953 Convention. Nov. 30, 1953: Donald Knowlton (NH) was elected Vice-President by the Executive (EX) Committee to fill the unexpired term.

28. May 1956: George A. Bowles (VA) was elected Secretary; however, he died June 1, 1956. Paul A. Hammel (NV) was elected Secretary to fill the unexpired term.

29. June 1958: Arch E. Northington (TN) was elected President; however, he resigned effective Dec. 23, 1958, as NAIC President and Tennessee Insurance Commissioner. January 1959: Paul A. Hammel (NV) was elected President and Sam N. Beery (CO) was elected Vice-President by the Executive (EX) Committee to fill the unexpired term.

30. June 1962: Joseph S. Gerber (IL) was elected Vice-President; however, he resigned effective Jan. 29, 1963, as NAIC Vice-President and Illinois Insurance Director. The office of Vice-President was vacant for the June 1963 Convention.

31. June 1968: Charles R. Howell (NJ) was elected President; however, he resigned effective Feb. 28, 1969, as NAIC President and New Jersey Commissioner of Banking and Insurance. Ned Price (TX) was elected by the Executive (EX) Committee to fill the unexpired term.

32. June 1970: Richard E. 'Dick' Stewart (NY) was elected President; however, he resigned as NAIC President effective Dec. 17, 1970, and as New York Insurance Superintendent effective Dec. 31, 1970. Dec. 17, 1970: Lorne R. Worthington (IA) was elected by Plenary to fill the unexpired term.

33. A constitutional amendment moved NAIC officer elections from June to December (commencing December 1974), President Johnnie L. Caldwell (GA) served a six-month term.

34. Kenneth E. 'Ken' DeShetler (OH) was elected President; however, he resigned effective Jan. 13, 1975, as NAIC President and Ohio Insurance Director. William H. Huff, III (IA) was elected by the Executive (EX) Committee to fill the unexpired term.

35. H. Peter 'Pete' Hudson (IN) was elected President; however, he resigned as NAIC President and Indiana Insurance Commissioner effective Nov. 15, 1979. It is unknown who presided over the December 1979 Convention.

36. John W. Lindsay resigned effective Sept. 3, 1981, as NAIC Vice-President and South Carolina Insurance Commissioner. Johnnie L. Caldwell (GA) was elected by the Executive (EX) Committee to fill the unexpired term.

© 2024 National Association of Insurance Commissioners

37. David J. Lyons resigned effective June 17, 1994, as NAIC Vice President but remained as Iowa Insurance Commissioner until July 31, 1994. A special interim Plenary election was held June 12, 1994: Arkansas Insurance Commissioner Lee Douglass was elected Vice President to serve June 17, 1994, to Dec. 31, 1994.

38. September 2001: NAIC members unanimously agreed that the 2001 Fall National Meeting should be canceled in the wake of the tragic events that occurred Sept. 11, 2001. The meeting had been scheduled for Sept. 22–25, 2001, at the Marriott and Westin Copley Place hotels in Boston, Massachusetts.

39. Ernst N. 'Ernie' Csiszar resigned effective Aug. 18, 2004, as NAIC President and South Carolina Director of Insurance. Approximately two weeks later, James A. 'Jim' Poolman resigned as NAIC Vice President but remained as North Dakota Insurance Commissioner. A special interim Plenary election was held Sept. 13, 2004, during the Fall National Meeting in Anchorage, Alaska: Pennsylvania Insurance Commissioner M. Diane Koken was elected President; Oregon Insurance Administrator Joel S. Ario was elected Vice President; and Maine Insurance Superintendent Alessandro A. 'Al' Iuppa was elected Secretary-Treasurer to serve from Sept. 13, 2004, to Dec. 31, 2004.

40. December 2004: NAIC members voted at its 2004 Winter National Meeting to adopt amendments to the NAIC Bylaws, which included the creation of a President-Elect position as an NAIC officer.

41. September 2005: NAIC members agreed to cancel the 2005 Fall National Meeting due to the devastation caused by Hurricane Katrina on Aug. 29, 2005. The meeting had been scheduled for Sept. 10–13, 2005, at the Sheraton hotel in New Orleans, Louisiana.

42. Eric P. Serna resigned effective June 14, 2006, as NAIC Secretary-Treasurer and New Mexico Superintendent of Insurance. A special Plenary interim election was held during the 2006 Summer National Meeting: New Hampshire Insurance Commissioner Roger A. Sevigny was elected Secretary-Treasurer to serve from June 14, 2006, to Dec. 31, 2006.

43. Michael T. McRaith resigned effective May 31, 2011, as NAIC Secretary-Treasurer and Illinois Director of Insurance. A special Plenary interim election was held via conference call May 16, 2011: North Dakota Insurance Commissioner Adam Hamm was elected Secretary-Treasurer to serve from May 31, 2011, to Dec. 31, 2011.

44. Aug. 25, 2011: NAIC members agreed to cancel its 2011 Summer National Meeting so members could assist consumers in disaster situations caused by Hurricane Irene. The meeting had been scheduled for Aug. 29–Sept. 1, 2011, at the Marriott Philadelphia Downtown in Philadelphia, Pennsylvania.

45. Michael F. 'Mike' Consedine resigned effective Jan. 20, 2015, as NAIC President-Elect and Pennsylvania Insurance Commissioner. A special Plenary interim election was held via conference call Feb. 8, 2015: Missouri Insurance Director John M. Huff was elected President-Elect to serve from Feb. 8, 2015, to Dec. 31, 2015.

46. Sharon P. Clark resigned effective Jan. 11, 2016, as NAIC President-Elect and Kentucky Insurance Commissioner. A special Plenary interim election was held in Bonita Springs, Florida, on Feb. 7, 2016: Wisconsin Insurance Commissioner Theodore K. 'Ted' Nickel was elected President-Elect; Tennessee Insurance Commissioner Julie Mix McPeak was elected Vice President; and Maine Insurance Superintendent Eric A. Cioppa was elected Secretary-Treasurer to serve from Feb. 7, 2016, to Dec. 31, 2017.

47. David C. Mattax, NAIC Secretary-Treasurer and Texas Insurance Commissioner, died in office April 13, 2017. A special Plenary interim election was held via conference call on May 12, 2017: South Carolina Insurance Director Raymond G. Farmer was elected Secretary-Treasurer to serve from May 12, 2017, to Dec. 31, 2017.

48. Gordon I. Ito resigned effective Dec. 31, 2018, as NAIC Vice President and Hawaii Insurance Commissioner. A special Plenary interim election was held in La Quinta, California, on Feb. 4, 2019: Florida Insurance Commissioner David Altmaier was elected Vice President to serve from Feb. 4, 2019, to Dec. 31, 2019.

49. March 11, 2020: Due to concerns about the COVID-19 pandemic, the NAIC officers—in consultation with the NAIC membership—decided to hold the 2020 Spring National Meeting in a virtual format. However, on March 23, 2020, the NAIC officers decided to suspend holding any further sessions of the virtual Spring National Meeting to allow NAIC members and staff more time to focus on the health emergency. The meeting had been scheduled for March 21–24, 2020, at the Phoenix Convention Center and the Sheraton Grand and Hyatt Regency hotels in Phoenix, Arizona.

50. June 10, 2020: Given the ongoing health challenges associated with holding large in-person meetings in the midst of the COVID-19 pandemic, the NAIC officers—in consultation with the NAIC membership—decided to hold the 2020 Summer National Meeting in a virtual format. The meeting had been scheduled for Aug. 8–11, 2020, at the Minneapolis Convention Center and the Hilton and Hyatt Regency hotels in Minneapolis, Minnesota.

51. Sept. 21, 2020: Given the ongoing health challenges associated with holding large in-person meetings in the midst of the COVID-19 pandemic, the NAIC officers—in consultation with the NAIC membership—decided to hold the 2020 Fall National Meeting in a virtual format. The meeting had been scheduled for Nov. 14–17, 2020, at the JW Marriott hotel in Indianapolis, Indiana.

© 2024 National Association of Insurance Commissioners

52. Feb. 24, 2021: Given the ongoing health challenges associated with holding large in-person meetings in the midst of the COVID-19 pandemic, the NAIC officers—in consultation with the NAIC membership—decided to hold the 2021 Spring National Meeting in a virtual format. The meeting had been scheduled for April 10–13, 2021, at the Gaylord Texan Hotel and Convention Center in Grapevine, Texas.

53. June 1, 2021: Given the ongoing health challenges associated with holding large in-person meetings in the midst of the COVID-19 pandemic, the NAIC officers—in consultation with the NAIC membership—decided to hold the 2021 Summer National Meeting in a hybrid format. In-person meetings took place for NAIC members and interested parties as capacity allowed. Meetings were live-streamed for participants who attended virtually.

54. Oct. 27, 2021: Given the ongoing health challenges associated with holding large in-person meetings in the midst of the COVID-19 pandemic, the NAIC officers—in consultation with the NAIC membership—decided to hold the 2021 Fall National Meeting in a hybrid format. In-person meetings took place for NAIC members and interested parties as capacity allowed. Meetings were live-streamed for participants who attended virtually.

Updated: 08/15/2024

https://naiconline.sharepoint.com/teams/MemberServicesExecutive/Shared Documents/Commissioner/Meeting_Officer_Record/08-Meeting_Officer_Record.docx

NAIC MODEL LAWS, REGULATIONS, AND GUIDELINES

The following is a listing of NAIC model laws, regulations, and guidelines referenced in the *Proceedings* of the 2024 Summer National Meeting.

Health Insurance Reserves Model Regulation (#10)
3-12

Health Carrier Prescription Drug Benefit Management Model Act (#22)
6-218, 6-220, 6-221, 6-223

Coordination of Benefits Model Regulation (#120)
6-185, 6-188, 6-190

Supplementary and Short-Term Health Insurance Minimum Standards Model Act (#170)
4-14, 6-176, 6-178, 6-185, 6-213

Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act (#171)
3-2, 4-14, 6-162, 6-167, 6-169, 6-174, 6-176, 6-209, 6-210, 6-212, 6-214

Uniform Individual Accident and Sickness Policy Provision Law (UPPL) (#180)
6-190

Producer Licensing Model Act (#218)
8-72, 8-73, 8-74, 8-75, 8-77, 8-85

Public Adjuster Licensing Model Act (#228)
3-2. 4-14. 8-4, 6-62, 6-67, 6-69, 8-116, 8-118, 8-121, 8-124

Annuity Disclosure Model Regulation (#245)
3-27, 5-7

Investments of Insurers Model Act (Defined Limits Version) (#280)
9-239

Corporate Governance Annual Disclosure Model Act (#305)
5-46, 5-51, 5-67

Corporate Governance Annual Disclosure Model Regulation (#306)
5-46, 5-51, 5-67

Risk-Based Capital (RBC) Model Act (#312)
9-931

Insurance Holding Company System Regulatory Act (#440)
3-27, 10-2

Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450)
3-27, 9-945

Life and Health Insurance Guaranty Association Model Act (#520)
10-4,

Property and Casualty Insurance Guaranty Association Model Act (#540)
3-7, 3-28, 10-2, 10-4

Insurer Receivership Model Act (#555)
9-976

Life Insurance Illustrations Model Regulation (#582)
5-5, 5-90

Life Insurance and Annuities Replacement Model Regulation (#613)
3-5, 8-30, 8-34

Mortgage Guaranty Insurance Model Act (#630)
3-28

Pet Insurance Model Act (#633)
3-27, 8-6, 8-36, 8-37, 8-48

Travel Insurance Model Act (#640)
8-6, 8-37, 8-38

Limited Long-Term Care Insurance Model Act (#642)
6-196

Limited Long-Term Care Insurance Model Regulation (#643)
6-196

Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)
6-179, 6-202, 6-231

Insurance Data Security Model Law (#668)
12-21, 12-85, 12-90

NAIC Insurance Information and Privacy Protection Model Act (#670)
12-51, 12-53, 12-55

Privacy of Consumer Financial and Health Information Regulation (#672)
3-2, 4-15, 5-32, 5-40, 9-989, 12-4, 12-46, 12-53, 12-55, 12-62

Insurance Consumer Privacy Protections Model (#674)
12-4, 12-61

Market Conduct Surveillance Model Law (#693)
5-51

Credit for Reinsurance Model Law (#785)
9-982, 9-983

Credit for Reinsurance Model Regulation (#786)
9-983

Term and Universal Life Insurance Reserve Financing Model Regulation (#787)
9-983

Life and Health Reinsurance Agreements Model Regulation (#791)
9-180

Standard Valuation Law (#820)
3-45, 5-205, 5-405, 5-406, 5-407, 5-408, 6-409, 5-410, 5-411, 5-412, 5-448

Valuation of Life Insurance Policies Model Regulation (#830)
5-90,

Nonadmitted Insurance Model Act (#870)
3-27, 7-3, 7-127, 7-133, 7-137, 7-142

Unfair Trade Practices Act (#880)
3-27, 5-45, 5-51, 5-66

Unfair Claims Settlement Practices Act (#900)
5-51

NAIC 2024 Summer National Meeting
Chicago, IL

OPENING SESSION
August 13, 2024

CALL TO ORDER *Andrew N. Mais, NAIC President*

The 241st session of the National Association of Insurance Commissioners will now come to order. Good afternoon. I am NAIC President and Connecticut Insurance Commissioner Andy Mais, and I am honored to welcome you to the NAIC's 2024 Summer National Meeting in historic Chicago. We are proud to announce that more than 1,700 people have registered to attend in person, with over another 1,000 participating virtually. If you are joining us for the first time, it is especially great to have you here. The NAIC supports the state-based system of insurance regulation in its mission to protect consumers and keep markets healthy and stable. Thank you for adding your voice to this week's conversation, and we look forward to seeing you around.

INTRODUCTION OF HEAD TABLE *Andrew N. Mais, NAIC President*

At this time, I would like to introduce the members of our head table. Please hold your applause until I have introduced the entire group.

Honorable Ann Gillespie, Meeting Host and Illinois Department of Insurance Acting Director
Gary Anderson, NAIC CEO
Honorable Chlora Lindley-Myers, NAIC Immediate Past President and Missouri Commerce and Insurance Director
Honorable Jon Godfread, NAIC President-Elect and North Dakota Insurance Commissioner
Honorable Scott White, NAIC Vice President and Virginia Insurance Commissioner
Honorable Elizabeth Kelleher Dwyer, NAIC Secretary-Treasurer and Rhode Island Department of Business Regulation Director
Honorable Dean Cameron, NAIC Past President and Idaho Department of Insurance Director

Please join me in welcoming the members of our NAIC Summer National Meeting head table.

WELCOME TO SPECIAL GUESTS *Andrew N. Mais, NAIC President*

National meetings offer state insurance regulators another opportunity to not only collaborate with each other and the industry but also with representatives from federal and state governments, as well as our international colleagues. Please join me in welcoming these special guests to our meeting.

INTRODUCTION OF NEW MEMBERS *Andrew N. Mais, NAIC President*

At this time, I would also like to recognize our newest members in this short video.

[New member video plays]

Please join me in a round of applause for our newest members.

INTRODUCTION OF HOST COMMISSIONER *Andrew N. Mais, NAIC President*

It is now my privilege to introduce our meeting host, Illinois Department of Insurance Acting Director Ann Gillespie.

© 2024 National Association of Insurance Commissioners

Acting Director Gillespie was appointed to her position by Governor J.B. Pritzker in April of this year after serving as Illinois' state senator for the 27th District since 2019. Prior to joining the Illinois General Assembly, her roles included practicing health care law, serving as chair of the Illinois Life and Health Insurance Guaranty Association (ILHIGA), and consulting with state insurance departments managing HMOs in receivership. Not only is Acting Director Gillespie providing the host remarks at her first-ever NAIC opening session, but she is also celebrating her birthday today. I don't know about you, but I can't think of a better way to spend a birthday than in wall-to-wall insurance meetings.

Ann, thank you for hosting us, and a very, very happy birthday to you.

HOST ACTING DIRECTOR'S REMARKS *Illinois Acting Director Ann Gillespie*

Thank you, Commissioner Mais. Gov. Pritzker unfortunately could not join us in person today, but he sent a special message to welcome you to the Prairie State.

[Governor Pritzker video plays]

Thank you, Gov. Pritzker, and welcome, everyone, to the 2024 NAIC Summer National Meeting. We're so happy to be the host city, and we know you'll enjoy your stay here in downtown Chicago. Now, I was prepared to share all the things I know and love about Chicago, but we love a good competition here in Illinois. So, instead, we'll flip it and see how much you know. Are you ready for the Chicago trivia challenge? To play, please take out your phones and scan the QR code on the screen to join our Slido poll. And no using Gemini or ChatGPT for the assist.

Let's start with a topic known to start family feuds—hot dogs. No. 1: Which of these ingredients does not belong on a Chicago-style hot dog? A) Relish; B) Ketchup (not catsup); C) Tomato slices; D) Mustard. OK, let's see how you did! Answer: B) Ketchup (not catsup).

No. 2: What is the nickname for Chicago's downtown area? A) The Chi'; B) The Loop; C) City Center; D) The Magnificent Mile. Answer: B) The Loop.

No. 3: Why do locals call some Chicago Transit Authority (CTA) trains "the L"? A) Because the train track route is shaped like the letter "L"; B) Because the nickname for Chicago's downtown is the Loop, which begins with the letter L; C) Because some of the train tracks are elevated; D. Because you have to "take the L," as in take the loss if you miss your train. Answer: C) Because some of the train tracks are elevated.

No. 4: In the 1986 movie "Ferris Bueller's Day Off," which one of these iconic Chicago landmarks did he NOT visit the day he ditched school? A) The Chicago Board of Trade; B) The Shedd Aquarium; C) Wrigley Field; D) The Art Institute of Chicago. Answer: B) The Shedd Aquarium.

Over halfway! How are we doing so far?

No. 5: When Chicagoans say they have "dibs," what are they most likely referring to? A) Floor seats at a Bulls game; B) A faster route to O'Hare airport; C) Placing random items like a lawn chair, bucket, or basket to "reserve" a street parking spot they shoveled out after a heavy snowfall; D) Reservations at the best restaurant in town; E) Winning a coin toss in a pickup game. Answer: C) Placing random items like a lawn chair, bucket, or basket to "reserve" a street parking spot they shoveled out after a heavy snowfall.

No. 6: What is the Chicago handshake? A) A handshake with a fist bump; B) A head nod instead of a handshake; C) A handshake followed by a high-five; D) A local specialty drink made of a shot of Malort and an Old Style beer;

© 2024 National Association of Insurance Commissioners

E) When a politician shakes your hand. Answer: D) A local specialty drink made of a shot of Malort and an Old Style beer.

No. 7: Last one: Chicago is home to the world's very first skyscraper. What was it named? A) Sears Tower; B) The Rookery Building; C) The Home Insurance Building; D) Tribune Tower. Answer: C) The Home Insurance Building. Yes, even as far back as 1885, insurance gave a boost to our economy and a positive profile.

Well done, everyone! You may not know everything about the Chi', but now you know a bit more than you did. You deserve a round of applause and a Chicago handshake! Remember to take a look in the NAIC Events App at the list that our folks put together for great tips about where to go and what to see as you explore our great city and state!

Thank you.

TRANSITION REMARKS *Andrew N. Mais, NAIC President*

Thank you again, Ann, for welcoming us, as well as letting us share in celebrating your special day. I know our schedule is packed, but I do hope each of you will make time to enjoy some of Chicago's many sights and sounds—so maybe Commissioner Godfread will do a little better on that quiz next time.

OPENING SESSION SPEECH *Andrew N. Mais, NAIC President*

I want us to take a moment to think back—and I know for some of us this may be quite a ways back—but let's think back to those first days when we were starting out on our own. It is a strange thing, that initial taste of freedom, in that it is a bit of a contradiction. On one hand, you feel invincible, expected to take on a world you are sure is just waiting for you to conquer. But on the other, you can't quite clear all the pockets of doubt, uncertainty, and intimidation from your mind.

There is so much to figure out so fast, and sometimes it can be hard to feel like you are getting any of it right. For some of us, the circumstances of life meant there were all questions and little confidence. We used to think of that as "growing pains." Now, you hear it referred to as "adulting." But no matter what term each generation uses, we all have this in common: We can't do it alone.

I just saw Ray Farmer yesterday as I was walking around, and it reminded me—Ray was the director in South Carolina—and I'm thankful to people like Ray. People like Eric Cioppa. I'm thankful for those who took the time to share with me what they learned along the way, even when I didn't realize that was what they were doing. I'm grateful to the people who mentored me, helped keep me on track, and stuck with me through the ups and downs that are so much a part of life. They were there for me, and as a son, a husband, father, grandfather, friend, and, yes, insurance regulator, I can pay that forward by being there for others.

At our Spring National Meeting in Phoenix, AZ, I said my year as NAIC President is focused on "minding the gap," and a key part of that message is making sure as many people as possible know they don't have to navigate the complex and often confusing world of insurance by themselves. Take Gen Z, for example. Right now, they are going through their own version of finding their way, just like we did.

And according to a recent survey commissioned by the NAIC of more than 1,000 adults ages 18 to 27 throughout the U.S., they are nervous. More than half of them—54%—said they feel "overwhelmed or anxious" just at "the thought of dealing with insurance." Thirty-four percent said they were "going to try to wait as long as possible" to get their own life insurance. More than one in four (28%) said the exact same thing about health insurance. It's one of those interesting sidenotes that 35% of Gen Z adults currently pay for a cell phone protection plan, and I

© 2024 National Association of Insurance Commissioners

cannot figure that out, as I keep saying, because I don't know any Gen Zer who's got their own phone. They're all on their parents' plan, but, nonetheless, they pay for cell phone protection—35%. But only 21% carry renters insurance to cover the rest of their belongings.

Just 27% and 29%, respectively, said they would be able to correctly define "deductible" and "copay." Nineteen percent, less than one in five, reported that they would be able to correctly define "out of network."

What is more, consumers with health insurance, especially younger people, are not always aware they have the right to challenge denied insurance claims, according to a separate survey by the Commonwealth Fund. Less than half of the respondents who reported billing errors said they had challenged them. And more than half (54%) of the group said they didn't know they had the right to contest a bill.

The gap among the age groups was striking. Sixty percent of 19- to 34-year-olds surveyed said they didn't know they could challenge a denied claim, compared with 45% of 50- to 64-year-olds, and one in four of the total respondents said they didn't know where to go for help.

Don't get me wrong. I'm not beating up on young adults here. Navigating the world of insurance coverage and claims can be challenging, can be frustrating for all of us. But the results of these two surveys highlight the massive opportunity we have to mind the gap.

You know, I doubt I could ace a quiz on modern lingo, and some of my staff—some of them are actually wearing the Connecticut Insurance Department t-shirts so you can recognize them—but some of my staff might accuse me of being "cringe" if I tried working it in today, but our message of hope and help transcends generational boundaries.

And that is what the NAIC strove to do on July 22 when I conducted my first satellite media tour of the year. I went to spread the word on how state insurance departments and the NAIC can assist consumers and demystify the insurance process for everyone. The Gen Z survey helped set the stage for the satellite media tour. It was a long day. Fueled by a passion for the work and the power of several cups of coffee—numerous cups of coffee at the beginning—I spoke to nine television and nine radio outlets from very early in the morning until early afternoon, and I've since added other interviews for a total audience reach so far of nearly 16 million. That's 16 million people who have heard about what the NAIC and state insurance regulators together are doing to help consumers.

And that tour was only one of the efforts we've undertaken to mind the gap in what has been a packed six months for the NAIC since our last national meeting.

Back when we met in Phoenix, AZ, in March, we had just launched the state-led property/casualty (P/C) market intelligence, the PCMI—you know, we love the abbreviations—PCMI data call. It's a first-of-its-kind, multistate project to add granular data on the availability and affordability of homeowners insurance for consumers to the already-robust financial data on solvency and investments that we have. The PCMI data call asked insurance companies to submit data on more than 70 data points at a ZIP-code level, and that includes information on premiums, policies, claims, losses, limits, deductibles, non-renewals, coverage types, and more.

We've got lots of data now, and it's still undergoing review. But that information and the analysis will help us tell the story of what is happening across our nation in terms of the homeowners insurance market. The findings will enhance our regulatory capability to assess market concentrations and competitiveness, to identify potential coverage gaps, and to determine where to focus our mitigation and resilience efforts. It is important work.

© 2024 National Association of Insurance Commissioners

And I want to say thank you again to Arkansas Insurance Commissioner Alan McClain and the Property and Casualty Insurance (C) Committee and the leadership group that has worked on this for your diligence and dedication in support of state insurance regulators' leadership on this critical issue.

Separately, by the way, we have a treasure trove of state data on homeowners insurance in the MCAS, the Market Conduct Annual Statement, and together with the information from the PCMI data call and some third-party data sets, we will be able to provide a far more comprehensive picture of our property insurance markets than anyone else, including the federal government.

In April, continuing our work to protect consumers and property markets, we unveiled the NAIC's first-ever *NAIC National Climate Resilience Strategy for Insurance* (Climate Resilience Strategy), and that brought together insight and approaches from U.S. insurance regulators representing jurisdictions that are large and small, coastal and inland, urban and rural, as well as island jurisdictions. That strategy, and if you go to naic.org you can find it, is driven by data. It prioritizes pre-disaster mitigation, and it formalizes five resilience actions that can be coordinated by the NAIC both before and after disaster strikes.

My thanks again to our Climate and Resiliency (EX) Task Force co-chairs, Alaska Division of Insurance Director Lori Wing-Heier and the California Insurance Commissioner Ricardo Lara, for their tireless efforts in creating the strategy and guiding it to adoption.

The month of May brought progress in minding the gap on both the domestic and international fronts. We held two of our annual signature events—our International Insurance Forum and our Commissioner DC Fly-In. Each enabled us to shine a light on critical issues and advance discussions key to achieving long-term solutions.

You may have heard me say this before, but I do think it's worth bragging again. Thanks to the great work by the NAIC staff, our International Forum sold out just six days after we opened registration. I kept asking them to try to find some more space, and we actually were able to move the room around and fit in a few more people. So, we had a total of 250 attendees, representing 18 countries.

Speakers from six continents joined us for an event that embraced the "mind the gap" theme and featured topics such as: climate risk; cyber; artificial intelligence (AI); property insurance costs and access; the investment landscape; and diversity, equity, and inclusion (DE&I). Because collaboration is at the heart of the NAIC's mission stateside, working with our international counterparts is essential, as well, as these issues defy borders.

So, over the past and the recent past, in addition to the International Forum, we have participated in almost 30 outreach calls, bilateral meetings, and events held by other organizations so far in 2024. And that does not include the numerous International Association of Insurance Supervisors (IAIS) meetings our representatives have joined over the past seven months. And we expect the rest of the year to be at least as busy.

Of course, one of the international projects foremost in our minds this year is the comparability assessment for the aggregation method (AM). Over the coming weeks and months, the IAIS will be considering the analysis done on comparability, and that all reflects years of time and effort by IAIS members, by the Secretariat, and the volunteer companies, who so kindly shared their data in order to enable this project to go forward for the good of all. We do believe that the end result of this process should show that the AM provides comparable outcomes to the insurance capital standard (ICS). This project will conclude at year-end, and the future focus at the IAIS, then, will shift toward implementation, with the AM becoming the U.S. implementation of the I.C.S.

We were back in Washington, DC, not long after the International Forum for the Commissioner DC Fly-In, and we had more than 150 Capitol Hill meetings with various legislators. Thirty-eight percent of those were with a

© 2024 National Association of Insurance Commissioners

regulator's member of Congress, and that marks an 11% increase from 2023. Those were jam-packed meetings. Regulators discussed numerous issues with our congressional representatives in the District, including:

- Strengthening property insurance markets and enhancing mitigation and resilience efforts.
- One we've asked for on numerous occasions: giving state insurance regulators voting membership on the Financial Stability Oversight Council (FSOC), where this industry is the only industry that does not have its primary regulator having voting rights.
- Protecting seniors from financial abuse, because we all get the calls, and we all know there are areas where the federal government has reserved power, and we could help, and we need to be able to do that.
- Clarifying the authority of the Consumer Financial Protection Bureau (CFPB). As you know, that was not meant to cover insurance, and we will continue to re-say that.
- Protecting policyholders when insurers fail.
- Fighting improper health insurance marketing.
- Funding state health grants.
- Opposing federal preemption of state data privacy, cyber, and AI protections.
- And, finally, we wanted to make sure that the consumer protections we fought so hard for in property insurance that we put into place are not undermined by expanded risk retention groups (RRGs).

Now, after that successful International Forum and Commissioner DC Fly-In, we gathered in the NAIC's home base of Kansas City, MO, where Director Lindley-Myers was our host in June, and we had our fourth annual DE&I Conference. Evelyn Boswell led that so well. That, too, was a standing-room-only occasion. There were 480 in-person attendees. There wasn't room for any more; I can tell you that. Another 301 were watching virtually, and they had engaging speakers and an action-oriented theme of "Stand Up! Speak Out!"

Now, one interesting little sidebar is that this year's edition also included a new feature, if you weren't there. It's a pet sensory room, and that proved to be an especially big hit. I mean go figure, who knew?

As I share all of this good news—that's not all the good news that we have here—I do want to congratulate the departments of insurance (DOIs) in Florida, Georgia, Montana, Pennsylvania, and Utah for meeting the NAIC's Accreditation Program requirements. As you know, that's central to our national system of state-based regulation. About an hour ago, the NAIC's Financial Regulation Standards and Accreditation (F) Committee, chaired by Director Wing-Heir, announced that these states have undergone a comprehensive, independent review, resulting in the states meeting financial solvency oversight standards and receiving accreditation for the next five years. And for those five states, I want to say, "Congratulations"!

There is more, and I want to recognize the Interstate Insurance Product Regulation Commission (Compact) on welcoming its 44th member in July: the right Dakota, South Dakota. This followed, by the way—and this was a moving moment for so many of us who were there—this followed the Compact's presenting of its first-ever Compact Champion Award in June to the outgoing Commission Chair Kathleen Birrane, as she stepped down from her role as Maryland Insurance Commissioner. The Compact Champion Award recognizes members for their distinguished service to and stewardship of the Insurance Compact. And for those who know the work that Kathleen put in, not just on the Compact but all the way around, that was such a well-deserved award.

So, that's a quick look back, but I guess we also have to look ahead. A look at our agenda this week will tell you that we have no intention of slowing down. It is also obvious that the feeling of uncertainty we all likely experienced as younger adults was not confined to our first taste of being responsible for ourselves. The headwinds we face every day, whether in our role as state insurance regulators or as leaders in our communities, are strong. But national meetings like this provide momentum to propel us forward to positive solutions. There is so much that we have to ponder. How do we best help consumers and our insurance marketplaces withstand the

© 2024 National Association of Insurance Commissioners

risks of today and plan for those that will come tomorrow? How do we lean into the human side of our mission as state insurance regulators?

Responding to those questions showcases our state insurance regulatory system at its collaborative best. And I emphasize “collaborative” here because we work together as states, enabling innovation for the good of the nation for the good of consumers.

I hope you will share my confidence in what is possible as you look around this room and see that while there is no shortage of challenges big and small, you never have to face them alone.

ADJOURNMENT *Andrew N. Mais, NAIC President*

Thank you, and this officially concludes our opening session. We are adjourned.

© 2024 National Association of Insurance Commissioners

This page intentionally left blank.

© 2024 National Association of Insurance Commissioners

Date: 9/30/2024

Synopsis of the NAIC Committee, Subcommittee, and Task Force Meetings
2024 Summer National Meeting
August 12–15, 2024

TO: Members of the NAIC and Interested Parties
FROM: The Staff of the NAIC

Committee Action

NAIC staff have reviewed the committee, subcommittee, and task force reports and highlighted the actions taken by the committee groups during the 2024 Summer National Meeting. The purpose of this report is to provide NAIC Members, state insurance regulators, and interested parties with a summary of these meeting reports.

EXECUTIVE (EX) COMMITTEE AND PLENARY (Joint Session)

Aug. 15, 2024

1. Received the Aug. 14 report of the Executive (EX) Committee.
2. Adopted by consent the committee, subcommittee, and task force minutes of the Spring National Meeting.
3. Received the report of the Life Insurance and Annuities (A) Committee. Refer to the Committee listing for details.
4. Received the report of the Health Insurance and Managed Care (B) Committee. Refer to the Committee listing for details.
5. Received the report of the Property and Casualty Insurance (C) Committee. Refer to the Committee listing for details.
6. Received the report of the Market Regulation and Consumer Affairs (D) Committee. Refer to the Committee listing for details.
7. Received the report of the Financial Condition (E) Committee. Refer to the Committee listing for details.
8. Received the report of the Financial Regulation Standards and Accreditation (F) Committee. Refer to the Committee listing for details.
9. Received the report of the International Insurance Relations (G) Committee. Refer to the Committee listing for details.
10. Received the report of the Innovation, Cybersecurity, and Technology (H) Committee. Refer to the Committee listing for details.
11. Adopted amendments to the 2025 *Valuation Manual*.
12. Adopted amendments to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51).
13. Adopted the risk-based capital (RBC) disclosure on climate impact.
14. Received a status report on the state implementation of NAIC-adopted model laws and regulations.

EXECUTIVE (EX) COMMITTEE

Aug. 14, 2024

1. Adopted the report of the joint meeting of the Executive (EX) Committee and the Internal Administration (EX1) Subcommittee, which met Aug. 13 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) and paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings. During this meeting, the Committee and Subcommittee took the following action:
   A. Adopted their Spring National Meeting minutes.

© 2024 National Association of Insurance Commissioners

B. Adopted their June 25 and April 4 minutes. During these meetings, the Committee and Subcommittee took the following action:
   i. Appointed Gary D. Anderson (NAIC Chief Executive Officer) to serve on the National Insurance Producer Registry (NIPR) Board of Directors.
   ii. Received a 2024 financial update and overview of the preliminary 2025 budget.
   iii. Selected Hollywood, FL, as the replacement site for the 2025 Fall National Meeting.
   iv. Appointed Director Chlora Lindley-Myers (MO) to the International Association of Insurance Supervisors (IAIS) Executive Committee.
C. Approved the following fiscal requests:
   i. Retention of a consultant to assist with CEO onboarding training.
   ii. Retention of a public relations firm to assist in communications campaigns.
   iii. Two full-time employees (FTEs) for the Member Services department.
   iv. Retention of a consultant to assist with the property/casualty (P/C) market intelligence (PCMI) data call.
D. Approved a recommendation to revise the zone funding methodology.
E. Received a May year-to-date (YTD) financial update and overview of the preliminary 2025 budget.
F. Approved the new 2025 Fall National Meeting site in Hollywood, FL.
G. Approved the appointment of Director Chlora Lindley-Myers (MO) to the International Association of Insurance Supervisors (IAIS) Executive Committee.
H. Approved the ratification of the memorandum of understanding between the Federal Insurance Office (FIO) and the NAIC.
I. Approved the new 2026 Spring National Meeting site in San Diego, CA.
J. Adopted the report of the Audit Committee, which met Aug. 1 and May 9. During these meetings, the Committee took the following action:
   i. Received an overview of proposed 2025 revenues.
   ii. Received the June 30 financial update.
   iii. Reappointed RubinBrown as the financial audit firm to conduct the 2024 audit.
   iv. Approved a revision to the zone funding methodology.
   v. Affirmed the 2025 Audit Committee charter.
   vi. Received an update on the Enterprise Resource Planning (ERP) project.
   vii. Received an update on the 2025 budget calendar.
   viii. Received the 2023/2024 Service Organization Control (SOC) 1 and SOC 2 audit reports.
   ix. Heard a presentation on the 2024 operating reserve analysis.
K. Adopted the report of the Internal Administration (EX1) Subcommittee, which met May 30. During this meeting, the Subcommittee took the following action:
   i. Received the March 31 long-term investment portfolio report.
   ii. Received the March 31 defined benefit portfolio report.
   iii. Received an update on the termination of the defined benefit pension plan.
L. Heard the CEO report.
M. Heard an update on the fiscals approved at the Commissioners' Mid-Year Roundtable.
N. Heard an update on the PCMI data call.

2. Adopted its June 25 and April 4 meeting report.
3. Adopted the report of the Climate and Resiliency (EX) Task Force. Refer to the Task Force listing for details.
4. Adopted the report of the Government Relations (EX) Leadership Council. Refer to the Task Force listing for details.
5. Adopted the report of the Special (EX) Committee on Race and Insurance. Refer to the Special Committee listing for details.
4. Adopted revisions to the NAIC Consumer Participation Plan of Operation.

© 2024 National Association of Insurance Commissioners

5. Received a status report on model law development efforts for amendments to: 1) the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171); 2) the *Public Adjuster Licensing Model Act* (#228); and 3) the *Privacy of Consumer Financial and Health Information Regulation* (#672).
6. Received a report from the NIPR Board of Directors.
7. Received a report from the Interstate Insurance Product Regulation Commission (Compact).

Climate and Resiliency (EX) Task Force

Aug. 15, 2024

1. Adopted its Spring National Meeting minutes.
2. Heard a presentation from reThought Flood on its innovative flood insurance product and how consumer education, mitigation, and risk modeling are all components to increasing flood insurance take-up and closing protection gaps. The company uses risk modeling to develop a technology-based approach to underwriting flood risk.
3. Heard a presentation from Marsh McLennan on the *Global Risks Report 2024*. The report, published by the World Economic Forum, looks at the global insurance markets and identifies current and upcoming risks. The presentation put climate risks in the context of all the relative risks that insurance companies are facing and trying to address.
4. Received an update on deliverables from the *NAIC National Climate Resilience Strategy for Insurance* (Climate Resilience Strategy), including the development of a climate risk dashboard. The current draft of the dashboard includes information on physical risks, transition risks, and coverage trends. The Task Force plans to form a regulator-only drafting group to complete the development of the dashboard.
5. Received an update from its Climate Risk Disclosure Workstream. The Workstream met twice in 2024, during which it heard reports on the analysis of submitted disclosures and highlighted best practices for the completion of the climate risk disclosure survey by small and medium-sized companies.
6. Received a federal update from NAIC staff on the following issues: legislative proposals; congressional actions; Federal Emergency Management Agency (FEMA) activities; Federal Housing Finance Agency (FHFA) and U.S. Department of Housing and Urban Development (HUD) events; interest in the property/casualty (P/C) market intelligence (PCMI) data call; the U.S. Securities and Exchange Commission's (SEC's) reporting rule; the U.S. Department of the Treasury's (Treasury Department's) actions; and White House initiatives.

Government Relations (EX) Leadership Council

The Government Relations (EX) Leadership Council did not meet at the Summer National Meeting.

Special (EX) Committee on Race and Insurance

Aug. 13, 2024

1. Adopted its Spring National Meeting minutes.
2. Received a status report from its Health Workstream.
3. Received a status report from its Life Workstream.
4. Received a status report from its Property/Casualty (P/C) Workstream.
5. Received an update on the Member Diversity Leadership Forum.
6. Heard an update from the American Academy of Actuaries (Academy) on its Health Equity Committee (HEC) and its accomplishments over the past four years.

INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE

Refer to the Executive (EX) Committee listing for details.

© 2024 National Association of Insurance Commissioners

LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

Aug. 14, 2024

1. Adopted its July 15 minutes. During this meeting, the Committee took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Adopted the 2025 revisions to the *Valuation Manual*.
2. Heard a federal update on the U.S. Department of Labor's (DOL's) proposed Retirement Security Rule, also known as the fiduciary rule, and amendments to the prohibited transaction exemptions (PTEs), which exempt fiduciaries from what would otherwise be prohibited conflicts.
3. *Financial Wellness Resource Guide* Adopted the report of the Life Actuarial (A) Task Force. Refer to the Task Force listing for details.
4. Adopted the report of the Accelerated Underwriting (A) Working Group, including the *Regulatory Guidance and Considerations* document and the *Market Regulation Handbook* referral. The Working Group met Aug. 6, July 11, June 13, and April 3. During these meetings, the Working Group took the following action:
   A. Discussed a work plan for completing a guidance document for state insurance regulators on accelerated underwriting (AU) in life insurance, along with a draft referral to the Market Conduct Examination Guidelines (D) Working Group to consider adding specific guidance to the *Market Regulation Handbook*.
   B. Reviewed drafts of the *Accelerated Underwriting in Life Insurance Regulatory Guidance and Considerations* document and the *Market Regulation Handbook* referral.
   C. Discussed comments received on the draft *Accelerated Underwriting in Life Insurance Regulatory Guidance and Considerations* document.
   D. Adopted the draft *Accelerated Underwriting in Life Insurance Regulatory Guidance and Considerations* document and the referral to the Market Conduct Examination Guidelines (D) Working Group.
5. Heard presentations from Securian Financial and Athene on illustrations.
6. Received an update from the Special (EX) Committee on Race and Insurance's Life Workstream, which included its adoption of the and endorsement of a mandatory financial education course as a prerequisite to high school graduation. The Workstream also exposed a draft survey of life insurers' use of criminal history in underwriting for a 30-day public comment period ending Sept. 5.

Life Actuarial (A) Task Force

Aug. 11–12, 2024

1. Adopted its July 25, June 20, June 13, June 6, May 30, May 23, May 16, May 9, May 2, April 25, April 4, and March 28 minutes. During these meetings, the Task Force took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Reported that it met July 11 and May 22 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to review the illustrations of annuity products.
   C. Discussed comments received on a June 20 exposure of concepts for asset adequacy testing (AAT) for reinsurance and an attribution analysis template.
   D. Exposed a presentation on AAT for reinsurance and the attribution analysis concept spreadsheet for a 30-day public comment period ending July 19.
   E. Adopted amendment proposal form (APF) 2023-13 to add mortality tables to the *Valuation Manual* for certain annuities and allow the use of international mortality tables for life insurance business issued in foreign countries. The Task Force previously exposed APF 2023-13 for a 21-day public comment period ending May 15.
   F. Adopted APF 2024-08 to revise the net asset earned rate (NAER) calculation in VM-21, Requirements for Principle-Based Reserves for Variable Annuities. The Task Force previously re-exposed APF 2024-08 with one editorial change for a seven-day public comment period ending June 5. It initially exposed the proposal for a 21-day public comment period ending May 22.

© 2024 National Association of Insurance Commissioners

G. Adopted APF 2024-07 to update the VM-21 standard projection amount (SPA) assumptions. The Task Force previously exposed APF 2024-07 for a 21-day public comment period ending June 5.
H. Adopted APF 2024-06, which allows for non-jumbo contracts to be treated as jumbo for discounting purposes. The Task Force previously re-exposed APF 2024-06 for a 14-day public comment period ending May 22. It initially exposed the proposal for a 30-day public comment period ending May 3.
I. Adopted APF 2024-05, which allows for the use of monthly rates when determining the discount rate for deposit-type contracts. The Task Force previously exposed APF 2024-05 for a 21-day public comment period ending May 29.
J. Adopted APF 2024-09, which changes how the interest maintenance reserve (IMR) is treated in VM-21. The Task Force previously exposed APF 2024-09 for a 21-day public comment period ending May 29.
K. Discussed AAT reinsurance comments.
L. Adopted APF 2024-10 to update credit disability claim incidence rate assumptions.
M. Re-exposed APF 2024-13, with a guidance note on the potential for the NAIC to post a listing of the tables along with the removal of the reference to 2030, for a 14-day public comment period ending June 5.
N. Adopted APF 2024-01 to require specific qualification standards for qualified actuaries.
O. Adopted APF 2024-04 to update the lapse assumptions in VM-20, Requirements for Principle-Based Reserves for Life Products. The Task Force previously exposed APF 2024-04 for a 21-day public comment period ending April 17.
P. Discussed adherence to Task Force exposure periods.
Q. Discussed editorial changes to the 2024 *Valuation Manual*.
R. Discussed a correction to the *Actuarial Guideline LIII—Application of the Valuation Manual for Test the Adequacy of Life Insurer Reserves* (AG 53) template to fix a locking issue so that the relevant numbers can be populated.

2. Adopted the report of the Indexed Universal Life (IUL) Illustration (A) Subgroup, which is reviewing the impact of the most recent revisions to *Actuarial Guideline XLIX-A—The Application of the Life 1 Illustrations Model Regulation to Policies with Index-Based Interest Sold on or After Dec. 14, 2020* (AG 49-A) on the market.
3. Adopted the report of the Variable Annuities Capital and Reserves (E/A) Subgroup, which met May 16 in joint session with the Task Force and April 4. During its April 4 meeting, the Subgroup took the following action:
   A. Exposed APF 2024-07 to update VM-21 SPA assumptions.
4. Adopted the report of the Longevity Risk (E/A) Subgroup, which will resume meeting once the VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, methodology is finalized to develop and recommend longevity risk factors.
5. Adopted the report of the Experience Reporting (A) Subgroup, which is monitoring the NAIC's mortality experience data collection and considering a group annuity mortality experience data collection.
6. Exposed APF 2024-12, which would mandate data collection for group annuity mortality, for a 75-day public comment period ending Oct. 25.
7. Adopted the report of the Valuation Manual (VM)-22 (A) Subgroup, which met June 4, May 29, April 10, and March 25. During these meetings, the Subgroup took the following action:
   A. Exposed the longevity reinsurance alternative methodology for a 119-day public comment period ending Sept. 30.
   B. Discussed the initial spread bonus placeholder in the VM-22 SPA draft.
   C. Exposed the VM-22 Section 6 SPA draft, which includes the proposed SPA mortality and policyholder behavior assumptions, for a 119-day public comment period ending Sept. 30.
   D. Heard a presentation from the American Council of Life Insurers (ACLI) on longevity reinsurance.
   E. Discussed VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation, comments on nonguaranteed element (NGE) disclosures.
   F. Discussed its next steps.
   G. Discussed the VM-22 reserves supplement draft.
   H. Discussed comments received on the VM-31 draft.
8. Received an update on the generator of economic scenarios (GOES) field test.

© 2024 National Association of Insurance Commissioners

9. Adopted the report of the Generator of Economic Scenarios (GOES) (E/A) Subgroup, which met June 12, May 15, May 1, April 17, April 10, and March 27. During these meetings, the Subgroup took the following action:
   A. Heard a presentation from Oliver Wyman showing results from a variable annuity model office for the GOES field test scenarios.
   B. Discussed stochastic exclusion ratio test (SERT) scenarios.
   C. Discussed model governance.
   D. Received an update on the GOES field test.
   E. Discussed questions received on the C-3 Phase I GOES field test instructions.
   F. Reviewed results from the revised GOES calibration.
   G. Discussed instructions for the 2024 GOES field test.
10. Heard an update from the Society of Actuaries (SOA) on the VM-20 historical mortality improvement (HMI) and future mortality improvement (FMI) rates.
11. Heard a presentation from Oliver Wyman on the results of model office testing of the GOES field test scenarios.
12. Heard an update from the SOA on research and education.
13. Exposed APF 2024-11, which would revise the VM-20 life principle-based reserves (PBR) exemption to account for recent updates made to the annual statement blanks, for a 21-day public comment period ending Sept. 2.
14. Heard a presentation on the appropriate reflection of negative IMR in PBR and AAT.
15. Heard a presentation on state insurance regulator reviews of AG 53 filings.
16. Exposed the AAT for reinsurance actuarial guideline draft for a 60-day public comment period ending Oct. 11. The Task Force exposed specific components of the draft actuarial guideline were for shorter comment periods to allow for discussion during its interim meetings.
17. Heard an update from the American Academy of Actuaries (Academy) Council on Professionalism and Education (COPE).
18. Heard an update from the Academy Life Practice Council.
19. Heard an update on Academy life knowledge statements.
20. Heard an update from the Interstate Insurance Product Regulation Commission (Compact).
21. Exposed the Generally Recognized Expense Tables (GRETs) for a 21-day public comment period ending Sept. 2.

HEALTH INSURANCE AND MANAGED CARE (B) COMMITTEE

Aug. 15, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted its July 26 and June 13 minutes. During these meetings, the Committee took the following action:
   A. Adopted the Regulatory Framework (B) Task Force's revised 2024 charges. Revisions amend the 2024 charges for the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup, which has been renamed as the Pharmaceutical Benefit Management Regulatory Issues (B) Working Group.
   B. Adopted revisions to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51).
   C. Adopted revisions to Valuation Manual (VM)-26, Section 3B—Contract Reserves for Credit Disability Insurance.
   D. Adopted the Health Actuarial (B) Task Force's revised 2024 charges.
   E. Discussed the Health Actuarial (B) Task Force's findings from its review and discussion of an issue the Committee referred to the Task Force late last year on how possible changes to the cost-sharing reduction (CSR) subsidy, like changes to silver loading, could impact plan options and costs to consumers.
   F. Heard a presentation from the Center for Insurance Policy and Research (CIPR) on findings from a case study the CIPR completed as part of its Network Adequacy Project: Compensation of Travel Costs for In-Network Care in Mississippi.

3. Adopted the report of the Health Actuarial (B) Task Force. Refer to the Task Force listing for details.
4. Adopted the report of the Long-Term Care Insurance (B) Task Force. Refer to the Task Force listing for details.
5. Adopted the report of the Regulatory Framework (B) Task Force. Refer to the Task Force listing for details.
6. Adopted the report of the Senior Issues (B) Task Force. Refer to the Task Force listing for details.
7. Adopted the report of the Consumer Information (B) Subgroup, which met July 29 and June 18. During these meetings, the Subgroup took the following action:
   A. Discussed and adopted a consumer guide on prior authorization.
   B. Discussed potential future projects, including guides on preventive services, limited benefit plans, balance billing protections under the federal No Surprises Act (NSA), mental health parity protections, and others.
8. Adopted the report of the Health Innovations (B) Working Group, which did not meet at the Summer National Meeting but plans to meet following the Summer National Meeting.
9. Heard a federal update on various issues of interest to the Committee.
10. Heard a presentation from the consumer perspective on recent state activity related to the prior authorization process, including potential improvements to the process for the benefit of consumers and providers based on such state activity. The presenters also discussed recent federal activity on this issue, which states could use as a guide to inform their future activities. Additionally, the presenters discussed potential next steps that state insurance regulators and the Committee can take, such as: 1) charging the Consumer Information (B) Subgroup to modify and use the Subgroup's new consumer prior authorization guide to educate consumers; 2) forming a new Committee working group to share information and work on implementation, best practices and enforcement; and 3) partnering with the Innovation, Cybersecurity, and Technology (H) Committee on the use of artificial intelligence (AI) in the prior authorization process.
11. Heard presentations from the Center on Health Insurance Reforms (CHIR) and AHIP on health cost transparency. The CHIR presentation focused on state-level options to improve transparency in coverage (TiC) data collected as a result of the federal TiC requirements. The AHIP presentation provided an overview of the federal TiC requirements, including an implementation timeline. In addition, AHIP discussed what actions states can take to address the issue, such as: 1) prioritizing solutions that provide direct consumer value; 2) considering approaches to expand consumer awareness and education of tools; and 3) avoiding single-state solutions.
12. Heard an update from the federal Center for Consumer Information and Insurance Oversight (CCIIO) on recent activities of interest to the Committee.
13. Discussed the Committee member priorities identified at the beginning of the year that have already been addressed and priorities to be addressed during future Committee meetings.

Health Actuarial (B) Task Force

Aug. 12, 2024

1. Adopted its May 13 minutes. During this meeting, the Task Force took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Adopted an amendment proposal form (APF) to revise Valuation Manual (VM)-26, Credit Life and Disability Reserve Requirements, Section 3.B. Contract Reserves for Credit Disability Insurance.
2. Heard a presentation from the American Academy of Actuaries (Academy) on drivers of 2025 federal Affordable Care Act (ACA) health insurance premium changes.
3. Heard an update on Society of Actuaries (SOA) Research Institute activities and on SOA education redesign.
4. Heard an update from the federal Center for Consumer Information and Insurance Oversight (CCIIO) on Bright HealthCare and Friday Health Plans risk adjustment payments, risk adjustment and risk adjustment data validation (RADV) topics, the proposed 2026 Notice of Benefit and Payment Parameters (NBPP), and plan year 2025 federal ACA rate filings.
5. Heard an update from the Academy's Health Practice Council on recent Academy health-related webinars and Academy engagement with various NAIC groups.

© 2024 National Association of Insurance Commissioners

6. Heard a presentation from the Academy on health knowledge statements.
7. Heard an Academy professionalism update.

Long-Term Care Insurance (B) Task Force

Aug. 13, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted the report of the Long-Term Care Actuarial (B) Working Group, which met Aug. 12. During this meeting, the Working Group took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Adopted its July 2 minutes. During this meeting, the Working Group took the following action:
      i. Discussed comments received on the exposure of the Minnesota approach with any suggested adjustments as a candidate for a single long-term care insurance (LTCI) multistate rate review approach methodology for use in multistate actuarial (MSA) filing reviews.
      ii. Exposed the Minnesota approach with any suggested adjustments to the cost-sharing formula to address large rate increases for policyholders at roughly age 85 with a policy duration of 25 years (85/25 issue) as a candidate for a single LTCI multistate rate review approach for a 30-day public comment period ending Aug. 1.
   C. Discussed and received comments on a proposed single multistate LTCI rate review approach.
   D. Exposed proposed single multistate rate review approaches for a 45-day comment period ending Sept. 27.
3. Heard a report on industry trends that could have an impact on the solvency of LTCI companies and reserves.
4. Heard an update from Delaware regarding consumer education on reduced benefit options (RBOs). The update included the Delaware Department of Insurance's (DOI's) Office of Long-Term Care Insurance website, staff who are trained to provide customer assistance, and links to additional LTCI and RBO information.
5. Received an update from the Center for Insurance Policy and Research (CIPR) on a study of RBO letters to consumers and consumer choices. The CIPR plans to continue to model the data, as well as consider ways to improve RBO checklists and better ways to educate consumers.

Regulatory Framework (B) Task Force

Aug. 13, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted its July 1 minutes. During this meeting, the Task Force took the following action:
   A. Adopted its 2024 revised charges. Revisions amend the 2024 charges for the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup, which has been renamed as the Pharmaceutical Benefit Management Regulatory Issues (B) Working Group.
3. Adopted the report of the Accident and Sickness Insurance Minimum Standards (B) Subgroup, which met July 29, July 15, June 24, April 22, April 8, and March 25. During these meetings, the Subgroup took the following action:
   A. Discussed the Dec. 1, 2023, comments received on the Oct. 12, 2023, draft of proposed revisions to the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171).
   B. Distributed for final review a May 3 draft of proposed revisions to Model #171 reflecting the Subgroup's discussions.
   C. Discussed comments received on the May 3 draft of proposed revisions to Model #171.
4. Adopted the report of the Employee Retirement Income Security Act (ERISA) (B) Working Group.
5. Adopted the report of the Mental Health Parity and Addiction Equity Act (MHPAEA) (B) Working Group, including its Spring National Meeting minutes. Additionally, the Working Group will meet Aug. 14. During this meeting, it plans to take the following action:

© 2024 National Association of Insurance Commissioners

A. Hear presentations on clinical guidelines for behavioral health care.
B. Meet in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to continue discussion of the opioid use disorder issue.

6. Adopted the report of the Pharmaceutical Benefit Management Regulatory Issues (B) Working Group (formerly the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup), which met June 7 and May 2. During these meetings, the Working Group took the following action:
   A. Discussed and adopted its revised 2024 charges.
7. Heard a presentation from the Center on Health Insurance Reforms (CHIR) on outpatient facility fee reforms focusing on options for the states.
8. Discussed the *Loper Bright Enterprises v. Raimondo and Relentless v. Department of Commerce* (Loper Bright) ruling, which overturned the so-called "Chevron Doctrine" and its potential implications on health insurance-related regulations. Schiffbauer Law Office provided an overview of the case and highlighted several health insurance-related regulations, including the federal Affordable Care Act's (ACA) Section 1557 federal regulations, the ACA's cost-sharing and deductible regulations, and Medicare hospital payment rules that could be affected by its overturning of the Chevron Doctrine, which provided deference to federal agencies in rulemaking in interpreting statutes they administer.
9. Heard a presentation from AHIP and the Bipartisan Policy Center (BPC) on a new collaborative multi-stakeholder initiative "Promoting Health Through Prevention (PHtP)."

Senior Issues (B) Task Force

Aug. 13, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted its July 18 minutes. During this meeting, the Task Force took the following action:
   A. Discussed the Medicare Supplement Insurance (Medigap) guaranteed issue and provider withdrawals from Medicare Advantage plans.
   B. Discussed the impacts of Section 1557 of the federal Affordable Care Act (ACA) and the application of nondiscrimination rules to Medigap.
3. Heard a presentation on State Health Insurance Assistance Programs (SHIPs).
4. Discussed the Medigap guarantee issue and provider withdrawals from Medicare Advantage plans. The Task Force agreed to send a letter to the federal Centers for Medicare & Medicaid Services (CMS) seeking information, guidance, and clarification on this topic to help states help their beneficiaries.
5. Discussed the impacts of Section 1557 of the ACA and the application of nondiscrimination rules to Medigap. The Task Force agreed to send a letter to the U.S. Office of Civil Rights (OCR) seeking answers and guidance on Section 1557 and nondiscrimination.

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE

Aug. 15, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted the report of the Casualty Actuarial and Statistical (C) Task Force. Refer to the Task Force listing for details.
3. Adopted the report of the Surplus Lines (C) Task Force. Refer to the Task Force listing for details.
4. Adopted the report of the Title Insurance (C) Task Force. Refer to the Task Force listing for details.
5. Adopted the report of the Workers' Compensation (C) Task Force, which did not meet at the Summer National Meeting. However, the Task Force reported that it met Aug. 8 to hear an update from the National Council on Compensation Insurance (NCCI) on the state of the workers' compensation market.
6. Adopted the report of the Cannabis Insurance (C) Working Group, which met May 8. During this meeting, the Working Group took the following action:

© 2024 National Association of Insurance Commissioners

A. Adopted its Dec. 19, 2023, minutes. During this meeting, the Working Group took the following action:
   i. Adopted its Nov. 14, 2023, minutes.
   ii. Heard an update on cannabis-related legislative activities.
   iii. Heard a presentation on ALM Global's cannabis insurance coverage specialist designation.
B. Heard an update on cannabis-related legislative activities.
C. Heard a presentation from BDSA on trends and emerging issues in the cannabis space.
D. Heard a presentation from Jencap on insurance availability, coverage trends, and new risks in the cannabis space.
E. Heard a presentation on the work of the Highway Loss Data Institute (HLDI) and the Insurance Institute for Highway Safety (IIHS) on the legalization of marijuana for recreational use.

7. Adopted the report of the Catastrophe Insurance (C) Working Group, which met Aug. 13 in joint session with the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group. During this meeting, the Working Group and Advisory Group took the following action:
   A. Adopted their Spring National Meeting minutes.
   B. Heard an update on federal legislation. The update included: 1) FEMA activity; 2) the various congressional hearings and public press releases around the high cost of property insurance related to natural catastrophes; and 3) state insurance regulators' support of several congressional bills supporting mitigation and resilience funding, tax incentives, and research for state mitigation and resilience programs to address challenges arising from natural disasters.
   C. Received an update on the Catastrophe Modeling Primer from the drafting group. The drafting group is close to completion and is reviewing the document. It anticipates exposing the document soon so that it can be considered for adoption at the Fall National Meeting.
   D. Heard an update from FEMA on the changes to the Community Rating System (CRS). The CRS is an incentive program that recognizes and rewards community floodplain management practices that exceed minimum requirements of the National Flood Insurance Program (NFIP). Improvements in FEMA's capability to analyze, assess, and communicate flood risk, as well as overwhelming feedback from external stakeholders, influenced FEMA's consideration of bold programmatic changes to the CRS. The CRS redesign process started in fiscal year 2023 and will be implemented sometime in 2026. FEMA will be hosting events, public meetings, and webinars to collect feedback.
   E. Heard a presentation on FEMA's Direct to Customer (D2C) launch and timeline and FEMA's Agent Registry. The D2C implementation has two phases: 1) Phase One will provide quotes to customers and sales leads to insurance agencies; and 2) Phase Two will provide online sales to customers, as well as servicing by the NFIP directly. The agency locator will allow agencies to register to appear in the quote table, and it is a voluntary program. The data will undergo a validation process, and the agencies displayed will be based on geography. FEMA has conducted user interviews and consumer testing, and the Agent Registry will go through internal testing.
   F. Received an update from the Center for Insurance Policy and Research (CIPR) on the Center of Excellence (COE) resiliency activities. The Mitigation and Resilience Assistance Resilience Hub provides information on mitigation program coordination and development, peer-to-peer learning opportunities, consumer education and outreach, resilience funding, and data and analysis.
   G. Heard a presentation from the American Property Casualty Insurance Association (APCIA) on mitigation discounts. Increased property loss is being caused by weather, a rise in exposure values and replacement costs, the natural variability that comes from selecting any five-year sample of natural catastrophe sample of natural catastrophe experience, the effects of the changing climate on different atmospheric perils, and the impacts of human-made loss drivers. Insurance availability pressures are caused by the demand for property insurance and increased costs, while capital is decreasing. Insurers are leading efforts to make communities more resilient and mitigate risks. Consumer empowerment includes mitigation, catastrophe deductibles, and catastrophe savings accounts. There are financial incentives for resilience, including grants, low-interest loans, waiving and reducing fees, tax credits, and insurance incentives.

© 2024 National Association of Insurance Commissioners

8. Adopted the report of the Terrorism Insurance Implementation (C) Working Group, which has not met since the Spring National Meeting.
9. Adopted the report of the Transparency and Readability of Consumer Information (C) Working Group, which met Aug. 8. During this meeting, the Working Group took the following action:
   A. Discussed proposed revisions to the premium increase transparency guidance based on received comment letters.
   B. Discussed general comments received from comment letters on the previously exposed premium increase transparency guidance.
   C. Exposed the revised premium increase transparency guidance for a 22-day public comment period ending Aug. 30.
10. Heard a federal update on property/casualty (P/C) insurance issues.
11. Heard an update on the P/C market intelligence (PCMI) data call.
12. Heard a presentation from APCIA and the National Association of Mutual Insurance Companies (NAMIC) on the state of the P/C insurance market, particularly regarding challenges insurance companies are facing in homeowners insurance markets.

Casualty Actuarial and Statistical (C) Task Force

Aug. 13, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted its July 9, June 17, May 7, and March 20 minutes. During these meetings, the Task Force took the following action:
   A. Adopted the *2022 Auto Insurance Database Average Premium Supplement* (Auto Supplement).
   B. Heard an update on rate filing issues.
   C. Discussed the American Academy of Actuaries' (Academy's) Cyber Risk Toolkit.
   D. Received an update on the activities of the Cybersecurity (H) Working Group.
   E. Discussed reporting for the private flood insurance supplement.
   F. Heard a presentation from InsurSight on reserving analytics for regulators.
3. Reported that it met July 16, June 18, May 21, and April 16 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss rate filing issues.
4. Reported that it held Book Club education sessions about predictive modeling on July 23, June 25, May 28, and April 23. Book Club sessions included the following:
   A. Gary Wang (Pinnacle Actuarial Resources Inc.) and Joey Sveda (Pinnacle Actuarial Resources Inc.) presented "Stepping into the Actuarial Modeling Wonderland."
   B. Tammy Schwartz (Guidewire) and Paul Harper (Guidewire) introduced a tool called HazardHub, which focuses on property risk.
   C. Matt Moore (Highway Loss Data Institute—HLDI) presented on electric vehicles.
   D. Sam Kloese (NAIC), April Yu (NAIC), and Roberto Perez Santiago (NAIC) presented recommendations for non-generalized linear model (GLM) model documentation.
5. Adopted the report of the Actuarial Opinion (C) Working Group, which met June 25 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss observations resulting from state insurance regulators' review of the 2023 Statements of Actuarial Opinion (SAOs). The Working Group also met Aug. 6 and July 23. During these meetings, the Working Group took the following action:
   A. Discussed the Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year 2024, and the 2025 Property/Casualty (P/C) Statement of Actuarial Opinion Instructions. Some topics under discussion include documenting: 1) the already adopted 2024 limitation of qualification documentation to only first appointment and no longer annually thereafter; 2) changes to the Actuarial Standards Board (ASB) Actuarial Standard of

© 2024 National Association of Insurance Commissioners

Practice (ASOP) No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves; and the Society of Actuaries (SOA) educational plan.

6. Adopted the report of the Statistical Data (C) Working Group, which met July 29. During this meeting, the Working Group took the following action:
   A. Adopted its May 30 minutes. During this meeting, the Working Group took the following action:
      i. Discussed proposed changes to the *Report on Profitability by Line by State* (Profitability Report) and to the *Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report).
   B. Discussed proposed changes to the Homeowners Report, Profitability Report, and *Auto Insurance Database Report* (Auto Report).
7. Received an update on the NAIC Rate Model Review team's newly announced six- to nine-month moratorium on submission of any new rate model filing to the NAIC. The team is currently booked for nine months and will complete all the filings already received, including any initial reviews and any of the related objection reviews. During the moratorium, the Task Force will be asked to consider adjustments to the program. The Executive (EX) Committee will discuss budget considerations and staffing.
8. Heard a presentation from the Casualty Actuarial Society (CAS) on race and insurance.
9. Discussed the private flood insurance supplement and personal flood insurance alien data reported to the International Insurance Department (IID). It is unclear whether the data from the IID is a match to the supplement data.
10. Received liaison reports about other committees' P/C actuarial activities.
11. Exposed a draft white paper appendix on penalized regression for a 30-day public comment period ending Sept. 13.
12. Heard activity and research reports from the ASB, the Actuarial Board for Counseling and Discipline (ABCD), the Academy, the CAS, and the SOA.

Surplus Lines (C) Task Force

Aug. 13, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted the report of the Surplus Lines (C) Working Group, which met June 25 and March 28 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. The Working Group also met June 28 and April 30. During these meetings, the Working Group took the following action:
   A. Exposed the draft *NAIC International Insurers Department Plan of Operation* for a 30-day public comment period that ended May 31.
   B. Adopted amendments to the *NAIC International Insurers Department Plan of Operation*, which clarify the scope of analysis completed on insurers applying or admitted to the NAIC Quarterly Listing of Alien Insurers (Quarterly Listing).
3. Exposed its draft surplus lines service of process form, which includes new language regarding the location of a lawsuit as defined within the *Nonadmitted Insurance Model Act* (#870), for a 30-day public comment period ending Sept. 13.
4. Heard details regarding adjustments to exempt commercial purchaser minimum qualifications, which are required to be amended every five years.
5. Adopted its 2025 proposed charges, which remain unchanged from its 2024 charges.
6. Heard a presentation from the National Association of Public Insurance Adjusters (NAPIA) on public adjusters in the surplus lines market. The presentation covered the following: 1) the role and need for public adjusters; 2) discussion on recent anti-public adjuster endorsements; and 3) potential solutions to the problems.

© 2024 National Association of Insurance Commissioners

Title Insurance (C) Task Force

Aug. 14, 2024

1. Adopted its Spring National Meeting minutes.
2. Received an update on the *Survey of State Insurance Laws Regarding Title Data and Title Matters*. The results from the jurisdiction filings are being compiled to produce the updated report. The final report is anticipated to be considered for adoption at the Fall National Meeting.
3. Heard an update from NAIC Government Affairs on recent title-related federal activities that have garnered both support and concerns among stakeholders. As part of the current administration's housing affordability initiative, federal housing regulators have instituted affordability policies and pilots, including eliminating title insurance fees for certain federally backed mortgages and allowing attorney opinion letters (AOLs) to replace title insurance in most states.
4. Heard an update from the American Academy of Actuaries (Academy) on its soon-to-be-initiated title-related research.
5. Heard a presentation from CertifID on its *2024 State of Wire Fraud Report* and *Wire Fraud Liability: Insights from 2020–2024 Court Battles* report. The title industry is experiencing increased wire fraud from advances in artificial intelligence (AI), a fast-paced real estate market, and a prevalence of consumers communicating and transacting via mobile phones.

Workers' Compensation (C) Task Force

The Workers' Compensation (C) Task Force did not meet at the Summer National Meeting.

MARKET REGULATION AND CONSUMER AFFAIRS (D) COMMITTEE

Aug. 15, 2024

1. Adopted its July 29 minutes. During this meeting, the Committee took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Adopted a revised Market Actions (D) Working Group charge to "facilitate interstate communication and coordinate collaborative state regulatory activities involving nontraditional market actions through the Coordinated Market Investigation Subgroup."
   C. Adopted a revision to the life and annuity Market Conduct Annual Statement (MCAS) blank to reflect the language in the *Life Insurance and Annuity Replacement Model Regulation* (#613). The revision clarifies that the replacements of policies and contracts of affiliated companies are internal replacements.
   D. Adopted a requirement for fraternal organizations to report MCAS annually to participating MCAS jurisdictions.
2. Adopted the report of the Antifraud (D) Task Force. Refer to the Task Force listing for details.
3. Adopted the report of the Market Information Systems (D) Task Force. Refer to the Task Force listing for details.
4. Adopted the report of the Producer Licensing (D) Task Force. Refer to the Task Force listing for details.
5. Adopted the report of the Market Analysis Procedures (D) Working Group, which met Aug. 5. During this meeting, the Working Group took the following action:
   A. Adopted its June 24 minutes. During this meeting, the Working Group took the following action:
      i. Adopted its April 29 minutes. During this meeting, the Working Group took the following action:
         a. Adopted its Spring National Meeting minutes.
         b. Adopted public and non-public pet insurance MCAS ratios.
         c. Adopted a requirement for fraternal companies to annually report MCAS.
         d. Discussed the Market Information Systems (MIS) data.
         e. Discussed the lunch-and-learn webinar scheduled for May 6.
         f. Received an update on the current MCAS reporting.
      ii. Discussed MIS data.

© 2024 National Association of Insurance Commissioners

iii. Discussed the lunch-and-learn schedule.

B. Received an update from the Market Analysis Prioritization Tool (MAPT) Recommendations Subgroup.

C. Discussed the lunch-and-learn schedule.

6. Adopted the report of the Market Conduct Annual Statement Blanks (D) Working Group, which met July 11. During this meeting, the Working Group took the following action:

A. Adopted its June 6 minutes. During this meeting, the Working Group took the following action:

i. Adopted its May 1 minutes. During this meeting, the Working Group took the following action:

a. Adopted its April 19 and April 2 minutes. During these meetings, the Working Group took the following action:

1) Adopted its Oct. 10, 2023, minutes. During this meeting, the Working Group took the following action:

A) Adopted clarifying language to the definition of closed claim in the property/casualty (P/C) lines of business.

B) Adopted revisions to the MCAS change process.

2) Adopted the proposed grammatical changes to the MCAS life and annuity definition of accelerated underwriting (AU).

3) Discussed needed clarifications on the pet insurance MCAS.

4) Exposed duplicate data elements in the MCAS short-term, limited-duration (STLD) blank for a 17-day public comment period that ended April 19.

5) Exposed duplicate data elements in the MCAS other health blank for a 17-day public comment period that ended April 19.

6) Discussed possible edits to clarify the definition of AU.

7) Discussed the clarification of the MCAS home and auto lawsuit definition.

8) Discussed MCAS reporting of life/annuity replacements of a company's policy/contract under the same holding company group and exposed the data elements for a 17-day public comment period ending April 19.

b. Discussed the formation of a subject matter expert (SME) group to review the STLD rule change.

c. Adopted a motion to remove duplicate data elements in the MCAS STLD blanks.

d. Adopted a motion to remove duplicate data elements in the MCAS other health blanks.

e. Adopted the proposed clarification of the MCAS home and auto definition of lawsuit.

f. Adopted a proposed edit to the definition of external replacement of affiliated company policies in the MCAS life and annuity blanks.

g. Received an update on possible edits to the definition of AU for clarification purposes.

h. Received an update on the formation of an SME group to discuss needed pet insurance MCAS clarification.

ii. Received an update from the SME group on other health and STLD MCAS reporting issues.

iii. Received an update from the SME group on the MCAS life AU definition and frequently asked questions (FAQ).

iv. Received an update from the SME group on pet insurance MCAS topics.

v. Received an update on MCAS filings and the 2023 MCAS premium exhibit used for identifying required MCAS filings.

B. Discussed the recommendation from the other health/STLD SME group to remove duplicate data element No. 51 from the other health MCAS.

C. Discussed the draft FAQ document and definitions related to artificial intelligence (AI) and machine learning (ML) proposed by the AU SME group.

D. Discussed the draft definitions for partial payments and cancellations proposed by the pet insurance SME group.

E. Discussed a review of MCAS other health interrogatory question No. 5.

F. Discussed the review of existing MCAS lines of business.

7. Adopted the report of the Market Conduct Examination Guidelines (D) Working Group, which met July 30.

During this meeting, the Working Group took the following action:

A. Adopted its May 22 minutes. During this meeting, the Working Group took the following action:
   i. Discussed its 2024 work plans.
B. Discussed its 2024 work plans.

8. Adopted the report of the Market Regulation Certification (D) Working Group, which met June 24. During this meeting, the Working Group took the following action:
   A. Adopted its April 29 minutes. During this meeting, the Working Group took the following action:
      i. Adopted its Spring National Meeting minutes.
      ii. Discussed its plans for the Summer National Meeting.
      iii. Reviewed the market regulation certification scoring sheet.
      iv. Discussed certification program revisions.
   B. Discussed assistance to jurisdictions and peer review.
   C. Discussed its plans for the Summer National Meeting.
   D. Discussed a certification session at the Insurance Summit
   E. Discussed certification program revisions.
9. Adopted the report of the Speed to Market (D) Working Group, which met July 30. During this meeting, the Working Group took the following action:
   A. Adopted its Feb. 22 minutes. During this meeting, the Working Group took the following action:
      i. Received a report on the System for Electronic Rates & Forms Filing (SERFF) modernization project
      ii. Received a report on the Interstate Insurance Product Regulation Commission (Compact).
      iii. Received an update on the 2024 product coding matrix (PCM) adoption rating.
   B. Received a report on the SERFF modernization project.
   C. Received an update on the release of the 2024 *Product Filing Review Handbook*.
   D. Heard a presentation on using ML for property/casualty (P/C) form review.
   E. Discussed suggestions received on the PCM and uniform transmittal document (UTD).
   F. Received an update on the 2025 PCM.
10. Heard a presentation from the Automotive Education & Policy Institute (AEPI) on insurer automobile claim adjusting practices.

Antifraud (D) Task Force

Aug. 14, 2024

1. Adopted its Spring National Meeting minutes.
2. Discussed its 2025 proposed charges.
3. Heard a presentation from Louisiana on how artificial intelligence (AI) is affecting insurance fraud.
4. Adopted the report of the Improper Marketing of Health Insurance (D) Working Group, which met Aug. 14. During this meeting, the Working Group took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Heard from the federal Centers for Medicare & Medicaid Services (CMS) and AHIP on the current issues consumers are experiencing with continued agent transfers of policy. The Working Group discussed the importance of this issue as it concerns consumer protection. CMS advised the Working Group that at the time of the 2025 Spring National Meeting, it would have a 12-month time frame of data to review and determine if current efforts are making the impact necessary to protect consumers. The Working Group agreed that it would continue to discuss this topic in regulator-to-regulator and open meetings.
   C. Heard an update from NAIC staff on improper marketing within the federal Affordable Care Act (ACA) and unauthorized agent transfers.
5. Received an update from the Antifraud Technology (D) Working Group. The Working Group did not meet prior to the Summer National Meeting. However, it will assist with the implementation process of the new web service and reviewing necessary enhancements to the Online Fraud Reporting System (OFRS).
6. Heard reports from the Coalition Against Insurance Fraud (CAIF) and the National Insurance Crime Bureau (NICB) on antifraud activity.

© 2024 National Association of Insurance Commissioners

Market Information Systems (D) Task Force

Aug. 2, 2024 (*in lieu of the Summer National Meeting*)

1. Adopted its 2023 Fall National Meeting minutes.
2. Adopted the report of the Market Information Systems Research and Development (D) Working Group, which met May 6. During this meeting, the Working Group took the following action:
   A. Adopted the addition of a Complaints Database System (CDS) claim handling reason code of "General Balanced Billing." This is now in preliminary analysis.
   B. Adopted adding "Insurance Companies" in the drop-down description of the complainant in the State Based Systems (SBS) Complaints, Consumer Assistance, and External Health Review (EHR) portals. This is now in preliminary analysis.
   C. Received the *2022 Market Information Systems (MIS) Data Analysis Metrics Report*. The *2023 MIS Data Analysis Metrics Report* should be ready prior to the Working Group's next meeting.
3. Received a report from the Market Analysis Procedures (D) Working Group on its work on the second recommendation in *The Market Information Systems Research and Development (D) Working Group Review of Artificial Intelligence Techniques in Market Analysis*. The Working Group has formed a Market Analysis Prioritization Tool (MAPT) Recommendations Subgroup to review the MAPT data elements and develop recommendations to improve the efficiency and prioritization scoring for the tool.
4. Received an update on Uniform System Enhancement Request (USER) form projects and *State Connected* strategic plan projects affecting the MIS. The NAIC Information Technology Group (ITG):
   A. Began work on preparing the Market Conduct Annual Statement (MCAS) for the 2024 data year collection.
   B. Completed the detailed design work on Regulatory Information Retrieval System (RIRS) enhancements and will soon be working with SBS and Vertafore states to begin implementing the new codes.

Producer Licensing (D) Task Force

Aug. 13, 2024

1. Adopted its May 9 minutes. During this meeting, the Task Force took the following action:
   A. Discussed the template for the 1033 waiver process.
   B. Received reports from the Adjuster Licensing (D) Working Group, the Producer Licensing Uniformity (D) Working Group, the Public Adjuster Licensing (D) Working Group, and the Uniform Education (D) Working Group.
   C. Received comments from the American Council of Life Insurers (ACLI), Finseca, and the National Association of Insurance and Financial Advisors (NAIFA) seeking the following changes to the *State Licensing Handbook*: 1) clarify that pre-licensing education is not required; 2) encourage states to provide examinations in additional languages; and 3) recognize the use of online examinations.
2. Received comments on proposed amendments to the *Public Adjuster Licensing Model Act* (#228). The model is being amended to strengthen regulatory standards governing the conduct of public adjusters for the following four issues: 1) individuals acting as unlicensed public adjusters; 2) contractors who are also acting as public adjusters on the same claim; 3) inappropriate assignment of benefit rights; and 4) excessive fees charged by public adjusters.
3. Received comments on the draft 1033 waiver template. The comments focused on whether individuals should be required to submit a waiver request to non-resident states in which they seek to conduct the business of insurance and on the definition of "conviction."
4. Exposed proposed amendments to the NAIC uniform producer licensing applications, along with the proposed time and cost estimate from the National Insurance Producer Registry (NIPR), for a 30-day public comment period ending Sept. 12.
5. Adopted the report of the Adjuster Licensing (D) Working Group, which met June 12 and May 15. During these meetings, the Working Group took the following action:
   A. Discussed the review of Chapter 18—Adjusters of the *State Licensing Handbook* (Handbook).

© 2024 National Association of Insurance Commissioners

6. Adopted the report of the Producer Licensing Uniformity (D) Working Group, which met Aug. 6, June 4, May 7, and April 2. During these meetings, the Working Group took the following action:
   A. Adopted the 2018 revisions of the NAIC uniform licensing applications for the Individual and Business Entity (Initial and Renewal).
   B. Discussed the review of the Handbook. The Working Group distributed a checklist listing each chapter of the Handbook for Working Group members, interested state insurance regulators, and interested parties to review and designate chapters that need to be revised. The Working Group plans to meet in September to review the responses and determine which chapters to open and potentially revise.
7. Adopted the report of the Public Adjuster Licensing (D) Working Group, which met July 17. During this meeting, the Working Group took the following action:
   A. Adopted its June 18 minutes. During this meeting, the Working Group took the following action:
      i. Adopted its May 2 minutes. During this meeting, the Working Group took the following action:
         a. Adopted its April 5 minutes. During this meeting, the Working Group took the following action:
            1) Discussed its charge and scope of work, which is to consider amendments to strengthen regulatory standards governing the conduct of public adjusters for the following four issues: 1) individuals acting as licensed public adjusters; 2) contractors who are also acting as public adjusters on the same claim; 3) inappropriate assignment of benefit rights; and 4) excessive fees charges by public adjusters.
            2) Reviewed proposed amendments to Model #228.
            3) Received comments on proposed amendments to Model #228.
         b. Received comments on proposed amendments to Section 3 and Section 14 of Model #228, which address public adjuster fees.
      ii. Received comments on proposed amendments to Section 15, Section 16, and Section 19 of Model #228 to strengthen regulatory standards regarding individuals acting as unlicensed public adjusters, contractors who are also acting as public adjusters on the same claim, and inappropriate assignment of benefits.
      iii. Discussed public adjuster fees.
   B. Adopted proposed amendments to Model #228.
8. Adopted the report of the Uniform Education (D) Working Group, which met July 10 and May 8. During these meetings, the Working Group took the following action:
   A. Discussed the creation of continuing education (CE) audit procedures. The Working Group distributed a checklist containing the language from the draft CE audit procedures. It plans to meet to review comments and finalize the draft.
   B. Discussed guidelines for course introduction statements. The Working Group discussed how states provide course introductory statements, and it plans to work to determine a uniform process.
9. Received a report from the NIPR Board of Directors. Through June, NIPR's revenue year to date is $39.6 million, which is 5.7% over budget and 10.5% higher than the same period in 2023. NIPR and the NAIC continue to provide producer licensing zone training for states. The program covers producer licensing practices, as well as current and emerging industry issues. It also encourages dialogue among state licensing peer regulators.

FINANCIAL CONDITION (E) COMMITTEE

Aug. 15, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted its Aug. 2 and June 12 minutes. During these meetings, the Committee took the following action:
   A. Discussed a proposed change to risk-based capital (RBC) proposal 2023-17-CR (Climate Scenario Analysis).
   B. Exposed RBC proposal 2024-20-CR (Climate Stress Test) for a 48-day public comment period that ended July 30.
   C. Heard comments received on proposal 2024-20-CR.
   D. Adopted proposal 2024-20-CR-MOD.

© 2024 National Association of Insurance Commissioners

3. Reported that it met July 15 with representatives of the Federal Insurance Office (FIO) in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy statement on Open Meetings.
4. Adopted the report of the Accounting Practices and Procedures (E) Task Force. Refer to the Task Force listing for details.
5. Adopted the report of the Capital Adequacy (E) Task Force. Refer to the Task Force listing for details.
6. Adopted the report of the Examination Oversight (E) Task Force. Refer to the Task Force listing for details.
7. Adopted the report of the Financial Stability (E) Task Force. Refer to the Task Force listing for details.
8. Adopted the report of the Receivership and Insolvency (E) Task Force. Refer to the Task Force listing for details.
9. Adopted the report of the Reinsurance (E) Task Force. Refer to the Task Force listing for details.
10. Adopted the report of the Risk Retention Group (E) Task Force. Refer to the Task Force listing for details.
11. Adopted the report of the Valuation of Securities (E) Task Force, except for the action taken by the Task Force on its Securities Valuation Office (SVO) discretion proposal, which the Committee plans to consider during a future meeting. Refer to the Task Force listing for details.
12. Adopted the report of the National Treatment and Coordination (E) Working Group, which met July 24. During this meeting, the Working Group took the following action:
    A. Adopted proposal 2024-02 (Expansion Application, Form 2), proposal 2024-03 (Questionnaire, Form 8), and proposal 2024-04 (Narrative).
    B. Exposed proposal 2024-04 for a 50-day public comment period ending Sept. 20.
13. Adopted the report of the Risk-Focused Surveillance (E) Working Group, which met July 17. During this meeting, the Working Group took the following action:
    A. Adopted its May 30 minutes. During this meeting, the Working Group took the following action:
        i. Referred proposed *Financial Analysis Handbook* additions to the Financial Analysis Solvency Tools (E) Working Group and proposed *Financial Condition Examiners Handbook* additions to the Financial Examiners Handbook (E) Technical Group.
        ii. Discussed a referral from the Financial Analysis (E) Working Group regarding best practices related to monitoring insurers that have been placed in run-off.
    B. Exposed proposed regulatory guidance for run-off insurers.
    C. Received an update on the 2024 Peer Review Program sessions.
14. Reported that the Financial Analysis (E) Working Group met Aug. 12, July 10, June 26, June 6, June 3, May 8, and May 7 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 in financial audits.
15. Reported that the Valuation Analysis (E) Working Group met Aug. 12, May 10, and April 11 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies.
16. Received an update from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group.
17. Received an update from the Valuation of Securities (E) Task Force.
18. Exposed a draft request for proposal (RFP) for assistance with the due diligence process of rating agencies for a 60-day public comment period ending Oct. 14.
19. Received an update on a revised investment framework and related document and re-exposed the revised documents for a 60-day public comment period ending Oct. 14.
20. Heard a federal update from NAIC staff on Basel III.
21. Heard a presentation from BlackRock on commercial mortgages.

Accounting Practices and Procedures (E) Task Force

Aug. 14, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted its proposed 2025 charges.

3. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met Aug. 13. During this meeting, the Working Group took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Adopted its May 15 minutes. During this meeting, the Working Group took the following action:
      i. Adopted support and sponsorship for the Schedule BA modified blanks proposal 2023-12BWG, which incorporates revisions for non-bond debt securities pursuant to the principles-based bond project effective Jan. 1, 2025. (Ref #2023-16)
      ii. Adopted revisions to *Statement of Statutory Accounting Principles (SSAP) No. 107—Risk-Sharing Provisions of the Affordable Care Act*, which removed the transitional reinsurance program and risk corridor disclosures, as both programs have expired. In addition, the roll-forward illustration in Exhibit B was revised to remove the portion for the transitional reinsurance program and the risk corridors program. (Ref #2014-13)
      iii. Exposed revisions to *Issue Paper No. 169: Principles-Based Bond Project*, detailing the discussions and decisions underlying the principles-based bond project. (Ref #2019-21)
   C. Adopted the following clarifications to statutory accounting guidance:
      i. Adopted revisions to eliminate lingering references that imply that asset-backed securities (ABS), mortgage loans, or other Schedule BA: Other Long-Term Invested Assets items are permitted to be reported as cash equivalents or short-term investments. (Ref #2024-09)
      ii. Adopted, with modification, disclosures from Accounting Standards Update *(ASU) 2023-06, Disclosure Improvements* for unused commitments and lines of credit, disaggregated by short-term and long-term, and disclosure of cash flows from derivatives. The remaining disclosures related to repurchase and reverse repurchase agreements were added to agenda item 2024-04 for further consideration as part of that project. (Ref #2023-26)
      iii. Adopted, with modification, the leasehold improvement guidance from *ASU 2023-01, Leases (Topic 842), Common Control Arrangements*, modified to align with existing guidance and reject the practical expedient for private companies and not-for-profit entities. (Ref #2024-02)
      iv. Adopted revisions to clarify that directly-held crypto assets are non-admitted assets and adopt the definition of crypto assets from *ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets.* (Ref #2024-03)
      v. Adopted revisions that address transfers of assets when modifying intercompany pooling agreements and nullify *Interpretation (INT) 03-02: Modification to an Existing Intercompany Pooling Arrangement.* (Ref #2022-12)
      vi. Adopted revisions that refer to *SSAP No. 21R—Other Admitted Assets* for the residual definition and accounting and reporting guidance. (Ref #2024-08)
      vii. Adopted editorial revisions to remove the "Revised" and "R," previously intended to identify a substantively revised SSAP, from SSAP titles and SSAP references within the *Accounting Practices and Procedures Manual* (AP&P Manual). (Ref #2024-14EP)
      viii. Adopted *Issue Paper No. 169, Principles-Based Bond Project*, which details the discussions and decisions underlying the principles-based bond project. (Ref #2019-21)
   D. Exposed the following statutory accounting principle (SAP) concepts and clarifications to statutory accounting guidance for a public comment period ending Sept. 27, except for agenda items 2024-10 and 2024-15, which have a public comment period ending Nov. 8, and agenda item 2024-01, which has a public comment period ending Sept. 6.
      i. Exposure clarifies the guidance for debt securities issued by funds to clarify U.S. Securities and Exchange Commission (SEC) registration is a practical safe harbor and should not be used as a proxy for other debt securities issued by funds. Debt securities issued by funds must be classified in accordance with the issuer's primary purpose. (Ref #2024-01)
      ii. Exposure includes clarifications to the accounting guidance for *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits*. (Ref #2024-18)

© 2024 National Association of Insurance Commissioners

iii. Exposed the measurement method guidance, which specifies the process of transferring assets for cash between the general account and book-value separate accounts. (Ref #2024-10)
iv. Re-exposed revisions to *SSAP No. 61R—Life, Deposit-Type, and Accident and Health Reinsurance*, which incorporate guidance consistent with *SSAP No. 62R—Property and Casualty Reinsurance*, Exhibit A Implementation Questions and Answers, question 10. This guidance requires risk transfer to be evaluated in aggregate for contracts with interrelated contract features, such as experience rating refunds. Also exposed reference to A-791, paragraph 6, guidance for yearly renewable term contracts regarding the entirety of the contract. (Ref #2024-06)
v. Exposed concept agenda item to consider new guidance for interest-rate hedging derivatives that do not qualify as accounting effective hedges under *SSAP No. 86—Derivatives* but are used for asset-liability management (ALM). (Ref #2024-15)
vi. Exposed revisions to address debt security investments with derivative components that do not qualify as structured notes. The proposed guidance would require the separation of the derivatives from the debt security and be applicable to "credit repack" investments and any type of debt security with derivative wrappers or components. (Ref #2024-16)
vii. Exposed revisions to reject, with modification, *ASU 2023-09, Improvements to Income Tax Disclosures.* The exposure also proposes to remove one of the existing disclosures detailed within the ASU. (Ref #2024-11)
viii. Exposed revisions to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees to* update the definition of a clearly defined hedging strategy (CDHS) to reflect the revised guidance pursuant to *Valuation Manual* (VM)-01. (Ref #2024-17)
ix. Re-exposed revisions to *Appendix A-791 Life and Health Reinsurance Agreements* (A-791) to remove the first sentence of the A-791, paragraph 2c's question and answer. (Ref #2024-05)
x. Exposed a new part to the reinsurance Schedule S in the life/fraternal and health annual statement blanks and Schedule F in the property/casualty (P/C) and title annual statement blanks to capture information on modified coinsurance (modco) and funds withheld. (Ref #2024-07)
xi. Exposed revisions to provide more reporting lines for collateral loans. (Ref #2023-28)
xii. Exposed a memorandum that details an overview and discussion of securities lending and repurchase/reverse repurchase agreements. (Ref #2024-04)
xiii. Exposed the *Current Expected Credit Losses (CECL) Issuer Paper* to document pre-CECL generally accepted accounting principles (U.S. GAAP) impairment guidance for historical purposes. (Ref #2023-24)
xiv. Exposed the *New Market Tax Credit Project Issue Paper* detailing the discussions and decisions underlying the new market tax credit project. (Ref #2022-14)
xv. Exposed agenda item to reject *ASU 2024-02, Codification Improvements* as not applicable to statutory accounting. (Ref #2024-19)
xvi. Exposed the *Bond Project Question-and-Answer Implementation Guide* (Q&A), which addresses topics in applying the principles-based bond definition. (Ref #2019-21)

E. Directed NAIC staff to defer action on Ref #2024-12: *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures* to allow NAIC staff additional time to confer with interested parties.
F. Received updates on the following:
i. U.S. generally accepted accounting principles (GAAP) exposures, noting that items will be addressed during the normal maintenance process.
ii. *Valuation Manual* adoptions and updates were received, noting that no items were identified that require coordination under the NAIC Policy Statement on Coordination with the *Valuation Manual.*
iii. Interest Maintenance Reserve (IMR) Ad Hoc group activities, as well as an update on the group's discussions. This update identified that companies are not consistently reflecting negative IMR in cash flow testing (CFT). Information was also shared with the Life Actuarial (A) Task Force and chief financial regulators on examples of the correct, incorrect, and potential misreporting that have been noted to assist with the review of domiciliary companies.

© 2024 National Association of Insurance Commissioners

iv. Bond Project Implementation. This update informed that an NAIC self-study educational program is available to all participants without a course fee for 2024.

v. International Association of Insurance Supervisors (IAIS) Audit and Accounting Working Group activities, including notice of the exposed application paper on climate risk.

4. Adopted the report of the Blanks (E) Working Group, which met Aug. 7, 2024. During this meeting, the Working Group took the following action:

A. Adopted its May 23 minutes. During this meeting, the Working Group took the following action:

i. Adopted its Feb. 21 minutes.

ii. Adopted its editorial listing and the following proposals:

a. 2023-12BWG Modified – Categorize debt securities on Schedule BA that do not qualify as bonds under *SSAP No. 26R—Bonds* or *SSAP No. 43R—Loan-Backed and Structured Securities* and are captured in the scope of SSAP No. 21R.

b. 2024-01BWG – Update the Investment Schedules General Instructions to identify that common and preferred stock residual interests should be reported on Schedule BA. (Statutory Accounting Principles [E] Working Group agenda item #2023-23).

c. 2024-02BWG Modified – Remove categories from Schedule DA, Part 1, and Schedule E, Part 2, that should be reported on Schedule BA. Add clarifying instructions on what should be included in other short-term and other cash equivalent categories.

d. 2024-03BWG Modified – Update General Interrogatory 35 for private letter rating security reporting to clarify what should be included.

e. 2024-04BWG – Add clarifying language to the VM-20, Requirements for Principle-Based Reserves for Life Products, supplement in the life blank to include separate accounts where applicable.

f. 2024-05BWG – Add language to Annual General Interrogatory 29.05 (Quarterly General Interrogatory 17.5) to clarify that all investment advisors that have the discretion to make investment decisions, including sub-advisors, should be disclosed through the interrogatory.

g. 2024-06BWG – P/C changes: Limit the requirement to send qualification documentation to the board of directors only at the initial appointment and not annually thereafter. Title changes: Update the title instructions so they are more similar to the P/C instructions.

h. 2024-07BWG – Update the illustration under Note 5S(A)—Investments for net negative (disallowed) IMR to add a separate account breakout. Add a new general interrogatory for a company attestation for separate accounts.

i. 2024-08BWG – Update the IMR and asset valuation reserve AVR instructions for specific allocation guidance for NAIC designation changes for debt securities (excluding loan-backed and structured securities [LBSS]), mortgage loans, and perpetual preferred stocks. (Statutory Accounting Principles [E] Working Group agenda items #2023-15 and #2023-29)

j. 2024-09BWG Modified – Add a note (5T) to the Notes to Financials to be data captured to report the aggregate collateral loans by qualifying investment collateral.

k. 2024-10BWG Modified – Remove the SSAP No. 107 disclosure on the transitional reinsurance program and the risk corridors program from Note 24E in the Notes to Financials (Note 24F for P/C) in the *Annual Statement Instructions*.

iii. Deferred proposal 2024-11BWG – Update the Annual and Quarterly Instructions and Blanks for the New Market Tax Credit changes. Changes that will be made to the Annual include Assets; Notes to Financial Statements 5K, 14A, and 21E; AVR; Schedule BA, Parts 1 and 3; and Verification Between Years. Quarterly changes include Assets; Schedule BA, Part 3; and Verification Between Years. The public comment period ended July 8.

iv. Exposed one proposal for a public comment period that ended July 8.

B. Adopted its editorial listing and the following proposals:

i. A. 2024-11BWG Modified – Update the Annual and Quarterly Instructions and Blanks for the New Market Tax Credit changes. Changes that will be made to the Annual include Assets; Notes to Financial

Statements 5K, 14A, and 21E; AVR; Schedule BA, Parts 1 and 3; and Verification Between Years. Quarterly changes include Assets; Schedule BA, Part 3; and Verification Between Years.

ii. B. 2024-12BWG Modified – Update the quarterly investment schedules for editorial items to the bond project. (Schedule D Verification; Schedule D, Part 1B; Schedule D, Parts 3 and 4; Schedule DL, Parts 1 and 2; and Schedule E, Parts 1 and 2) Update the Quarterly Investment Schedule General Instructions for the changes that were adopted in the Annual Investment Schedule General Instructions. (Reference: adopted proposal 2023-06BWG).

C. Received a Statutory Accounting Principles (E) Working Group memorandum regarding instructional changes to the AVR to allow collateral loans backed by mortgage loans to flow through AVR as an "Other Invested Asset with Underlying Characteristics of Mortgage Loans."

Capital Adequacy (E) Task Force

Aug. 14, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted its June 28 and April 30 minutes. During these meetings, the Task Force took the following action:
   A. Adopted proposal 2024-09-CA (Underwriting Risk Investment Risk Factors). The Task Force previously exposed the proposal for a 30-day public comment period ending May 30.
   B. Adopted proposal 2024-13-CA (Receivable for Securities Factors). The Task Force previously exposed the proposal for a 30-day public comment period ending May 30.
   C. Adopted proposal 2024-15-L (Collateral Loans).
   D. Adopted proposal 2024-17-L (BA Mortgages Omitted AVR Line).
   E. Adopted proposal 2024-12-H (Modified Health Care Receivable Factors).
   F. Adopted proposal 2024-14-P (PC Underwriting Line 1 Factors).
   G. Adopted the June 28 summary report of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group.
   H. Adopted proposal 2024-18-CA (Residual Factor for PC & Health).
   I. Adopted proposal 2024-04-L (TAC for Non-Admitted Affiliate).
   J. Adopted proposal 2024-05-L (BA Mortgages Omitted AVR Line).
   K. Adopted proposal 2024-08-CA (Column 12 Affiliated Investment).
   L. Adopted proposal 2024-10-P (PR019 Other Health Line).
   M. Adopted proposal 2024-11-P (2024 and 2025 Underwriting Risk Lines 4 and 8 Factors).
   N. Adopted proposal 2023-17-CR (Climate Scenario Analysis). However, the Financial Condition (E) Committee adopted proposal 2024-20-CR to replace the 2023-17-CR during its Aug. 2 meeting.
   O. Received an update from the Statutory Accounting Principles (E) Working Group on the potential revisions to Schedule BA collateral loans disclosures and reporting lines.
   P. Discussed proposal 2024-16-CA (Revised Preamble). The Task Force previously exposed the proposal for a 30-day public comment period ending May 30.
   Q. Discussed proposal 2024-02-CA (Residual Structure PC & Health).
   R. Discussed the possibility of establishing a new working group to evaluate the non-investment risk issues.
   S. Discussed a referral from the Statutory Accounting Principles (E) Working Group regarding the investment in tax credit structures.
   T. Forwarded a referral regarding the issue of asset concentration to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group.
   U. Referred issues regarding geographic concentration to the Catastrophe Risk (E) Subgroup.
   V. Exposed a referral from the Statutory Accounting Principles (E) Working Group regarding the investment in tax credit structures for a 30-day public comment period that ended May 30.
   W. Discussed the possibility of establishing a new subgroup to evaluate non-investment risk issues.
3. Adopted the report of the Health Risk-Based Capital (E) Working Group, which met July 25. During this meeting, the Working Group took the following action:

A. Adopted its June 24, June 6, and April 16 minutes. During these meetings, the Working Group took the following action:
   i. Adopted its Feb. 22 minutes. During this meeting, the Working Group took the following action:
      a. Exposed proposal 2024-09-CA for a 32-day public comment period ending March 25.
      b. Discussed comments received from UnitedHealth Group (UHG) on the American Academy of Actuaries' (Academy's) health care receivables presentation.
      c. Discussed pandemic risk and agreed to send a referral to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group.
      d. Adopted its 2024 working agenda.
      e. Heard an update from the Academy on the H2 – Underwriting Risk review project.
   ii. Referred proposal 2024-09-CA to the Capital Adequacy (E) Task Force.
   iii. Heard an update from the American Academy of Actuaries (Academy) on the health care receivables and H2 – Underwriting Risk review projects.
   iv. Exposed a referral letter on pandemic risk to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group for a 30-day public comment period that ended May 16.
   v. Discussed the excessive growth charge.
   vi. Adopted proposal 2024-12-H (MOD). The Working Group previously re-exposed the proposal for a 14-day public comment period ending June 20. It first exposed the proposal for a 30-day public comment period that ended May 16.
B. Adopted the 2024 health risk-based capital (RBC) newsletter.
C. Adopted the 2023 health RBC statistics.
D. Received an update from the Academy on the H2 – Underwriting Risk review project.
E. Forwarded a referral letter on pandemic risk to the Risk-Focused Surveillance (E) Working Group.
F. Adopted its working agenda.

4. Adopted the report of the Life Risk-Based Capital (E) Working Group, which met Aug. 14. During this meeting, the Working Group took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Adopted its June 18 and April 19 minutes. During these meetings, the Working Group took the following action:
      i. Adopted proposal 2024-15-L.
      ii. Adopted proposal 2024-17-L.
      iii. Adopted proposal 2024-04-L.
      iv. Adopted proposal 2024-05-L.
      v. Discussed covariance.
      vi. Discussed C-3 risk.
      vii. Discussed the American Council of Life Insurers' (ACLI's) repurchase agreement proposal.
      viii. Discussed the other long-term assets proposal.
      ix. Exposed the ACLI's collateral loan proposal for instructional and line reference changes for a 30-day public comment period.
   C. Received updates from its subgroups:
      i. Generator of Economic Scenarios (GOES) (E/A) Subgroup.
      ii. Longevity Risk (E/A) Subgroup.
      iii. Variable Annuities Capital and Reserve (E/A) Subgroup.
   D. Adopted the 2024 life RBC newsletter.
   E. Adopted the 2023 life RBC statistics.
   F. Discussed a referral from the Statutory Accounting Principles (E) Working Group on investments in tax credit structures.
   G. Discussed the Schedule BA proposal for non-bond debt securities.
   H. Adopted its working agenda.

© 2024 National Association of Insurance Commissioners

5. Adopted the report of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, which met Aug. 14. During this meeting, the Working Group took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Adopted its June 21, May 22, and April 12 minutes. During these meetings, the Working Group took the following action:
      i. Discussed a review of year-end 2023 data reported for residual tranches.
      ii. Heard a presentation from the NAIC's Structured Securities Group (SSG).
      ii. Discussed comment letters received on Oliver Wyman's residual tranche risk analysis.
      iii. Discussed comment letters received on a memorandum requesting additional feedback from industry stakeholders to substantiate their request for an additional one-year delay in implementing the 45% RBC factor for residual tranches.
      iv. Discussed comment letters received on proposal 2024-19-I and other potential alternative proposals.
      v. Discussed the ACLI's survey data on residual ownerships by life insurers.
      vi. Voted to retain the original adoption of the 45% charge to be applied to all residuals.
   C. Received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group.
   D. Heard an update from the Academy on a structured securities RBC project.
   E. Discussed referrals related to funds and discussed moving forward in considering RBC formula and instruction changes to reflect Securities Valuation Office (SVO)-assigned designations in U.S. Securities and Exchange Commission (SEC)-registered funds, as well as to review and consider convergence with exposure aggregations for funds consistently with the Supplemental Investment Risk Interrogatory (SIRI).
   F. Adopted its 2024 working agenda
6. Adopted the report of the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup, which met in joint session Aug. 14. During this meeting, the Working Group and Subgroup took the following action:
   A. Adopted their Spring National Meeting minutes.
   B. Adopted the Working Group's June 17 and April 25 minutes. During these meetings, the Working Group took the following action:
      i. Adopted proposal 2023-14-P (Underwriting Risk Line 1 Factors). The Working Group and Subgroup previously exposed the proposal for a 30-day public comment period that ended May 25.
      ii. Adopted proposal 2023-17-CR (Climate Scenario Analysis). The Working Group and Subgroup previously re-exposed the proposal for a 22-day public comment period that ended April 8. However, the Financial Condition (E) Committee adopted proposal 2024-20-CR to replace the 2023-17-CR during its Aug. 2 meeting.
      iii. Adopted proposal 2024-10-P (Other Health Line). The Working Group and Subgroup previously exposed the proposal for a 30-day public comment period that ended April 16.
      iv. Adopted proposal 2024-11-P (Underwriting Risk Lines 4 & 8 Factors). The Working Group and Subgroup previously exposed the proposal for a 30-day public comment period that ended April 16.
      v. Discussed potential modifications in the RBC statistics.
      vi. Discussed the study of flood risk in the Catastrophe Risk (E) Subgroup.
      vii. Heard updates from the Academy on its current underwriting risk projects.
   C. Adopted the Catastrophe Risk (E) Subgroup's June 10 and April 23 minutes. During these meetings, the Subgroup took the following action:
      i. Adopted proposal 2023-17-CR (Climate Scenario Analysis). The Subgroup previously exposed the proposal for a 22-day public comment period that ended April 8.
      ii. Exposed a referral from the Capital Adequacy (E) Task Force regarding the geographic concentration issue.
      iii. Discussed the wildfire peril impact analysis.
      iv. Discussed CoreLogic's wildfire model review.
      v. Discussed the possibility of adding flood peril to the Rcat component.

© 2024 National Association of Insurance Commissioners

vi. Heard an update on the severe convective storm peril.

D. Adopted the 2024 property/casualty (P/C) RBC newsletter.
E. Discussed 2023 P/C RBC statistics.
F. Discussed changes to the Working Group's 2024 working agenda.
G. Discussed the geographic concentration issue.
H. Heard updates on the severe convective storm peril.
I. Discussed the wildfire peril impact analysis.
J. Discussed the CoreLogic wildfire model review.
K. Discussed the possibility of adding flood peril to the Rcat component.
L. Discussed how to handle flood peril with the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM).
M. Heard an update from the Academy on current and future research topics.

7. Adopted its working agenda with a few edits to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group section.
8. Exposed its revised procedures document for a 30-day public comment period ending Sept. 13.
9. Exposed its 2025 proposed charges for a 30-day public comment period ending Sept. 13.
10. Exposed a memorandum to the Financial Condition (E) Committee regarding the request for a new working group for a 30-day public comment period ending Sept. 13.

Examination Oversight (E) Task Force

July 24, 2024 (*in lieu of the Summer National Meeting*)

1. Adopted its 2023 Fall National Meeting minutes.
2. Adopted the report of the Electronic Workpaper (E) Working Group, which has not met in open session this year. However, it conducted a series of monthly virtual sessions through April to provide ongoing updates on the TeamMate+ transition and answer questions as states worked through the implementation.
3. Adopted the report of the Financial Analysis Solvency Tools (E) Working Group, which met July 16. During this meeting, the Working Group took the following action:
   A. Adopted revisions to the *Financial Analysis Handbook* (Handbook) regarding affiliated investment management services and agreements as referred by the Risk-Focused Surveillance (E) Working Group.
   B. Exposed revisions to the Handbook regarding complex ownership structure, the property/casualty (P/C) catastrophe reinsurance program, and Own Risk and Solvency Assessment (ORSA) guidance related to the Form F-Enterprise Risk Report for a 30-day public comment period that ended Aug. 15.
   C. Exposed draft revisions to the Handbook's chapter on credit risk assessment for a 45-day public comment period that ended Aug. 30.
   D. Received a referral from the Risk-Focused Surveillance (E) Working Group regarding revisions to the Handbook's guidance on surplus notes and capital maintenance agreements.
   E. Exposed draft guidance to the Handbook regarding the potential impact of pricing and underwriting risks on health insurers, based on a referral from the Financial Analysis (E) Working Group, for a 30-day public comment period that ended Aug. 15.
4. Adopted the report of the Financial Examiners Coordination (E) Working Group, which met March 13 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss reports on group coordination.
5. Adopted the report of the Information Technology (IT) Examination (E) Working Group, which met May 9. During this meeting, the Working Group took the following action:
   A. Discussed activities in response to the March 7, 2023, referral from the Cybersecurity (H) Working Group asking it to consider making cybersecurity a higher priority in the examination process.
   B. Heard an update on the National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF) 2.0.
   C. Discussed its drafting group's goals for 2024.

© 2024 National Association of Insurance Commissioners

Financial Stability (E) Task Force

Aug. 13, 2024

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

Receivership and Insolvency (E) Task Force

Aug. 14, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted the 2025 proposed charges for the Task Force and its Working Groups. The proposed charges do not contain any substantive changes.
3. Adopted the report of the Receivership Financial Analysis (E) Working Group, which met Aug. 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.
4. Adopted the report of the Receivership Law (E) Working Group, which met July 24. During this meeting, the Working Group took the following action:
   A. Heard an update on states' adoption of exemptions to stays and injunctions for Federal Home Loan Banks (FHLB) agreements in states' receivership laws. To date, 29 states have adopted exemptions.
   B. Heard a presentation on the results of litigation regarding the continuation of coverage and over-the-cap claims in the liquidation of Penn Treaty Network America Insurance Company. State insurance regulators are encouraged to review and consider amending their receivership laws, if necessary, to include Section 501, Section 502, and Section 801 of the *Insurer Receivership Model Act* (#555) to avoid similar legal issues in future insolvencies.
5. Heard an update on international resolution activities. The International Association of Insurance Supervisors (IAIS) Resolution Working Group is reviewing comments received on the public consultation of the revisions to Insurance Core Principle (ICP) 12 (Exit from the Market and Resolution) and ICP 16 (Enterprise Risk Management for Solvency Purposes) related to recovery and resolution. After receiving feedback from the IAIS Supervisory Material Review Task Force, the Resolution Working Group is expected to meet Sept. 11–12 in Basel, Switzerland, to review the draft response and prepare a report for its parent committee, the IAIS Policy Development Committee.
6. Heard an update on upcoming events of the International Association of Insurance Receivers (IAIR), which has scheduled a series of virtual events in September and October that are open for registration.
7. Heard an update from the National Conference of Insurance Guaranty Funds (NCIGF) on the proposed federal American Privacy Rights Act (APRA).
8. Heard an update on the U.S. Court of Appeals for the Federal Circuit (DC Circuit) decision on Nevada Health CO-OP, an insurer in liquidation in Nevada.

Reinsurance (E) Task Force

July 22, 2024 (*in lieu of the Summer National Meeting*)

1. Adopted its Spring National Meeting minutes.
2. Adopted its 2025 proposed charges, which included minor revisions from 2024 to reflect the current duties of the Task Force and the Reinsurance Financial Analysis (E) Working Group.
3. Adopted the report of the Reinsurance Financial Analysis (E) Working Group, which met June 27,

© 2024 National Association of Insurance Commissioners

May 13, and March 28 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During these meetings, the Working Group completed the reviews of certified reinsurers and reciprocal jurisdiction reinsurers.

4. Received a status report on the reinsurance activities of the Mutual Recognition of Jurisdictions (E) Working Group, which last met Nov. 1, 2023, in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings. During this meeting, the Working Group reapproved the status of Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK) as qualified jurisdictions and Bermuda, Japan, and Switzerland as reciprocal jurisdictions.
5. Discussed ongoing projects at the NAIC that affect reinsurance.

Risk Retention Group (E) Task Force

July 24, 2024 (*in lieu of the Summer National Meeting*)

1. Discussed a referral to the National Treatment and Coordination (E) Working Group to consider the integration of the Uniform Risk Retention Group Registration Form into the electronic Uniform Certificate of Authority Application (UCAA) system.
2. Adopted its 2025 proposed charges, which include edits to: 1) clarify the need for the Task Force to monitor other NAIC workstreams to ensure that risk retention groups (RRGs) remain in compliance with filing requirements; and 2) enhance the language regarding the potential need to provide guidance to domiciliary and non-domiciliary states regarding RRGs.
3. Discussed updates on the *Privacy of Consumer Financial and Health Information Regulation* (#672) and its impact on RRGs.
4. Received updates on referrals.

Valuation of Securities (E) Task Force

Aug. 13, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted its June 18 and May 2 minutes. During these meetings, the Task Force took the following action:
   A. Adopted an amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to permit NAIC designations for short-term, asset-backed securities (ABS). The Task Force previously exposed the amendment for a 30-day public comment period ending June 2.
   B. Adopted a P&P Manual amendment to add Spain to the list of jurisdictions eligible for counterparty close-out netting. The Task Force previously exposed the amendment for a 30-day public comment period that ended June 2.
   C. Adopted a P&P Manual amendment to change the effective date for the implementation of collateralized loan obligation (CLO) modeling to Dec. 31, 2025. The Task Force previously exposed the amendment for a 30-day public comment period that ended June 2.
   D. Adopted a P&P Manual amendment to clarify permitting insurers to self-assign an NAIC designation 6*. The Task Force previously exposed the amendment for a 30-day public comment period that ended June 2.
   E. Adopted a P&P Manual amendment to make current the list of Securities of Valuation Office (SVO) processes. The Task Force previously exposed the amendment for a 30-day public comment period that ended June 2.
   F. Adopted a P&P Manual amendment to update U.S. government agency and other U.S. government obligation abbreviations.
   G. Adopted a P&P Manual amendment to update references in the Statement of Statutory Accounting Principle (SSAPs) that address guidance for subsidiary, controlled, and affiliated (SCA), related party bond, or preferred stock investments.
   H. Exposed a revised P&P Manual amendment to update the definition of an NAIC designation for a 28-day public comment period that ended July 18.

© 2024 National Association of Insurance Commissioners

I. Exposed a revised P&P Manual amendment authorizing the procedures for the SVO's discretion over NAIC designations assigned through the filing exempt (FE) process.
J. Received an update on the proposed CLO modeling methodology and CLO Ad Hoc Group.

3. Adopted its 2025 proposed charges.
4. Adopted a revised proposed amendment to the P&P Manual to update the definition of an NAIC designation. The Task Force previously exposed the amendment for a 28-day public comment period that ended July 18.
5. Adopted a revised proposed amendment to the P&P Manual authorizing the procedures for the NAIC's discretion over NAIC designations assigned through the FE process. The Task Force previously exposed the amendment for a 38-day public comment period that ended July 26.
6. Exposed a proposed amendment to the P&P Manual to require annual reviews of regulatory transactions for a 30-day public comment period ending Sept. 13.
7. Exposed a proposed P&P Manual amendment to update the list of NAIC credit rating providers (CRPs) for a 30-day public comment period ending Sept. 13.
8. Received a report on the projects of the Statutory Accounting Principles (E) Working Group.
9. Received a report from the SVO on filing investments moving to Schedule BA in 2025 due to changes to *Statement of Statutory Accounting Principles (SSAP) No. 26—Bonds* and *SSAP No. 43R—Loan-Backed and Structured Securities*.
10. Received a staff report on the proposed CLO modeling methodology and the CLO Ad Hoc Working Group.

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Aug. 13, 2024

1. Reported that it met Aug. 12 in regulator-to-regulator session, pursuant to paragraph 7 (consideration of individual state insurance department's compliance with NAIC financial regulation standards) of the NAIC Policy Statement on Open Meetings, to: 1) discuss state-specific accreditation issues; and 2) vote to award continued accreditation to the insurance departments of Florida, Georgia, Montana, Pennsylvania, and Utah.
2. Adopted its Spring National Meeting minutes.
3. Adopted a clarification that the significant elements of the holding company accreditation standard, which have an effective date of Jan. 1, 2026, apply differently for risk retention groups (RRGs). Specifically, RRGs are not subject to the liquidity stress test (LST) element.
4. Adopted a recommendation from the Receivership and Insolvency (E) Task Force that the 2023 revisions to the *Property and Casualty Insurance Guaranty Association Model Act* (#540) be acceptable for accreditation but not required. The revisions update provisions to: 1) preserve guaranty fund coverage for policyholders subject to restructuring mechanisms; and 2) clarify guaranty fund coverage of cybersecurity insurance.

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

Aug. 13, 2024

1. Adopted its Spring National Meeting minutes.
2. Adopted its June 11 minutes. During this meeting, the Committee took the following action:
   A. Approved NAIC comments on the following International Association of Insurance Supervisors (IAIS) public consultations: 1) draft revisions to supervisory material related to the Holistic Framework; 2) proposed changes to reflect climate risk in selected Insurance Core Principle (ICP) guidance and supporting material; and 3) a draft application paper on supervising diversity, equity, and inclusion (DE&I)—the governance, risk management, and culture perspective.
2. Heard an update on international activities related to resolution and recovery, which included remarks from the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA).
3. Heard an update on the IAIS' recent activities, including its recent committee meetings and publications, as well as the status of the comparability assessment of the insurance capital standard and the aggregation method.

© 2024 National Association of Insurance Commissioners

4. Heard an update on international activities, including: 1) recent meetings, events, and speaking engagements with international insurance regulators; 2) bilateral meetings with certain jurisdictions; and 3) ongoing developments at the Organisation for Economic Co-operation and Development (OECD) and the Sustainable Insurance Forum (SIF).

INNOVATION, CYBERSECURITY, AND TECHNOLOGY (H) COMMITTEE

Aug. 15, 2024

1. Adopted its June 28 minutes. During this meeting, the Committee took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Received an update on the work of the Artificial Intelligence (AI) Evaluation and Training Collaboration Forum, Third-Party Data and Models (H) Task Force, Big Data and Artificial Intelligence (H) Working Group, and Privacy Protections (H) Working Group.
   C. Heard presentations from consumer representatives on consumer protection proposals and privacy protections.
2. Adopted the report of the Third-Party Data and Models (H) Task Force. Refer to the Task Force report for details.
3. Adopted the report of the Big Data and Artificial Intelligence (H) Working Group, which met July 29. During this meeting, the Working Group took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Received an update on its health insurance artificial intelligence (AI)/machine learning (ML) survey work.
   C. Heard a presentation on the Society of Actuaries' (SOA's) research on inference methods.
4. Adopted the report of the Cybersecurity (H) Working Group, which met Aug. 14. During this meeting, the Working Group took the following action:
   A. Adopted its July 9 minutes. During this meeting, the Working Group took the following action:
      i. Adopted its Spring National Meeting minutes.
      ii. Adopted its May 20 and March 27 minutes. During these meetings, the Working Group took the following action:
         a. Received an update on the Cybersecurity Event Response Plan (CERP).
         b. Heard a presentation from CyberCube on cyber risk.
         c. Heard an update on the White House Office of the National Cyber Director (ONCD) activities related to cybersecurity and cyber insurance.
      iii. Heard a presentation from the Federal Bureau of Investigation (FBI) and 10-8 LLC on their approach to cybersecurity incidents.
   B. Heard a panel discussion on the state of the cyber insurance market. The discussion covered underwriting innovations, risk mitigation, coverages, and regulatory support. The panelists provided insights on the dynamic nature of cyber and how it differs from typical insurance products.
5. Adopted the report of the E-Commerce (H) Working Group, which met July 18. During this meeting, the Working Group took the following action:
   A. Adopted its April 4 minutes. During this meeting, the Working Group took the following action:
      i. Discussed its 2024 work plan.
      ii. Adopted the *E-Commerce Modernization Guide*.
      iii. Discussed its next steps.
   B. Heard a presentation from Canopy Connect on open insurance.
6. Adopted the report of the Privacy Protections (H) Working Group, which met Aug. 14. During this meeting, the Working Group took the following action:
   A. Adopted its July 10 minutes. During this meeting, the Working Group took the following action:
      i. Adopted its June 12 minutes. During this meeting, the Working Group took the following action:
         a. Adopted its May 15 minutes. During this meeting, the Working Group took the following action:
            1. Adopted its 2023 Fall National Meeting minutes.
            2. Heard a presentation from Husch Blackwell on federal and state privacy legislative efforts.

© 2024 National Association of Insurance Commissioners

b. Discussed comments received from interested parties on the Working Group's path forward.

ii. Adopted a plan to move forward with the existing *Privacy of Consumer Financial and Health Information Regulation* (#672).

iii. Heard an update on federal privacy legislation.

iv. Discussed an approach for revising Model #672.

B. Heard an update on federal privacy legislation.

C. Heard a presentation from Consumers' Checkbook on legacy systems and the protection of consumers' privacy. This presentation highlighted the vulnerability and substantial risk of privacy attacks in certain areas.

D. Discussed its next steps, which include: 1) public exposure of the Working Group chair draft of revisions to Model #672 for a 30-day public comment period; and 2) distribution of the guidelines required for volunteers who want to be on the drafting group, with an invitation to those who want to volunteer from industry, consumer representatives, and regulators.

7. Adopted the report of the Technology, Innovation, and InsurTech (H) Working Group, which met Aug. 13. During this meeting, the Working Group took the following action:

A. Adopted its Aug. 29, 2023, minutes. During this meeting, the Working Group took the following action:

i. Adopted its April 27, 2023, minutes. During this meeting, the Working Group took the following action:

a. Discussed its 2023 work plan.

b. Discussed the development of a SupTech forum.

c. Discussed the development of an InsurTech forum.

d. Heard a presentation on ChatGPT and its uses in the insurance industry.

ii. Heard updates from the Global Insurance Accelerator (GIA) and InsurTech NY.

B. Heard a presentation from McKinsey & Company on InsurTech trends and developments. The presentation provided insights on: 1) the state of the U.S. insurance markets, including the challenges in the marketplace; 2) the challenges that the InsurTech community may be able to assist with; and 3) how InsurTechs may be able to assist with product innovation, customer experiences, and streamlining manual process in the insurance value chain.

C. Heard a presentation from Clearcover, Lemonade, and NEXT Insurance, which are all part of the InsurTech Coalition. The InsurTech Coalition supports public policy that enables innovation, including fostering an environment in which innovation can thrive responsibly.

D. Heard an update on Insurtech on the Silicon Prairie (ISP), which takes place Oct. 28–29 in Omaha, NE.

8. Heard a presentation from Locke Lord on federal regulatory actions related to the use of AI.

9. Heard a presentation from the SOA on the National Institute of Standard and Technology (NIST) AI Safety Institute Consortium (ASIC) efforts to develop a framework for governing AI.

10. Heard a presentation on International Actuarial Association (IAA) efforts to survey global AI governance frameworks.

Third-Party Data and Models (H) Task Force

Aug. 13, 2024

1. Adopted its Spring National Meeting minutes.

2. Adopted its July 30, July 19, and July 10 minutes. During these meetings, the Task Force took the following action:

A. Adopted its 2024–2025 work plan.

B. Heard presentations on the following U.S. risk-based regulatory approaches: 1) the risk-focused surveillance approach; 2) the NAIC/state-specific market conduct approach; and 3) Colorado's "Trust but Verify" approach.

3. Heard the following presentations on regulatory decision-making and the use of experts:

A. Financial: multistate exams, group exams, and audits.

B. Financial: property/casualty (P/C) risk-based capital (RBC) catastrophe (CAT) approvals.
C. Financial: life and P/C Statements of Actuarial Opinion (SAOs).
D. Market conduct: advisory organizations and multistate exams.

NAIC/CONSUMER LIAISON COMMITTEE

Aug. 12, 2024

1. Observed a minute of silence to honor the memory of Karrol Kitt, a long-time NAIC consumer representative.
2. Adopted its Spring National Meeting minutes.
3. Received a report on the activities of the NAIC/Consumer Participation Board of Trustees. The Liaison Committee heard feedback from testers on the automated consumer representative application; discussed additional comments from consumer representatives; adopted new revisions to its plan of operation for the Consumer Participation Program; and discussed two requests for NAIC action on: 1) readability for all NAIC models and committees; and 2) state legislative surveys and enforcement tracking of prior authorizations.
4. Heard a presentation from the National Alliance on Mental Illness (NAMI), the Legal Action Center (LAC), and an individual consumer advocate on insurance obstacles to mental health and substance use disorder care. This is important due to the alarming rise in mental illness and substance abuse in the U.S., as access to affordable care with in-network clinicians is difficult to obtain.
5. Heard a presentation from the Center for Budget and Policy Priorities (CBPP) and Georgians for a Healthy Future (GHF) on the impact of the enhanced premium tax credit (PTC) on uninsurance, premiums, and state innovation. The expiration of the enhanced PTCs brings a host of new health concerns to those who rely on PTCs to maintain access to needed health care.
6. Heard a presentation from the National Health Law Program (NHLP) and the Colorado Consumer Health Initiative (CCHI) on important changes to the essential health benefits (EHBs) in the U.S. Department of Health and Human Services (HHS) Notice of Benefit and Payment Parameters for 2025. This is important to states, as the final rule clarifies that the 10 EHBs listed are minimum requirements that states can add to and build upon with benefits such as oral and dental care, which are tied to physical and mental health.
7. Heard a presentation from the Life Insurance Consumer Advocacy Center (LICAC) about the misuse of indexed life and annuity policy illustrations. It is important for consumers and states to realize that illustrations currently are not required to indicate zero or negative impacts of interest and investments on disclosures to consumers during the purchase process.
8. Heard a presentation from the University of Georgia on readability standards in state insurance laws. Included was a consumer representative request for NAIC action to incorporate readability standards into existing models and those in development going forward.
9. Heard a presentation from the California Western School of Law on whether plaintiff's attorneys are the cause of rising premiums. With skewed data from the industry, it is evident that there is misbehavior at the claims level even if the number of cases or the amount of the settlements are virtually unchanged over time.
10. Heard a presentation from United Policyholders (UP) and the Coalition Against Insurance Fraud (CAIF) on combatting post-disaster fraud but preserving coverage. Highlighted was the fact that consumers are often harmed several times—by the disaster, by the insurer, and by the fraudster turning the consumer into a fraudster with misleading advice on claims filing.
11. Heard a presentation from Ceres on the progress and challenges in U.S. insurance sector disclosures in navigating climate risks. International Task Force on Climate-Related Financial Disclosures (TCFD) reporting by the NAIC indicated four core principle pillars with 11 recommendations regarding financial risk disclosures, which shows that the insurance industry needs to be proactive—not reactive.

NAIC/AMERICAN INDIAN AND ALASKA NATIVE LIAISON COMMITTEE

Aug. 14, 2024

1. Adopted its Spring National Meeting minutes.

© 2024 National Association of Insurance Commissioners

2. Heard a presentation from Leavitt Partners on the American Indian Medical Education Strategies (AIMES) Alliance, which aims to address physician shortages in tribal communities. The organization is singularly focused on advancing and advocating for federal policies that bring graduate medical education (GME) partnerships to more urban and rural tribal medical facilities.
3. Heard state updates on native community outreach in Alaska, Arizona, Oklahoma, and Washington.

© 2024 National Association of Insurance Commissioners

EXECUTIVE (EX) COMMITTEE AND PLENARY

Executive (EX) Committee and Plenary Aug. 15, 2024, Minutes 3-2
Adopted Amendments to the 2025 *Valuation Manual* (Attachment One)..... 3-9
Adopted Amendments to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) (Attachment Two)..... 3-11
Adopted Risk-Based Capital (RBC) Disclosure on Climate (Attachment Three)..... 3-16
Report on States' Implementation of NAIC-Adopted Model Laws and Regulations (Attachment Four) 3-27

© 2024 National Association of Insurance Commissioners

Draft: 8/28/24

Executive (EX) Committee and Plenary
Chicago, Illinois
August 15, 2024

The Executive (EX) Committee and Plenary met in Chicago, IL, Aug. 15, 2024. The following Committee and Plenary members participated: Andrew N. Mais, Chair (CT); Jon Godfread, Vice Chair, represented by John Arnold (ND); Scott A. White, Vice President (VA); Elizabeth Kelleher Dwyer, Secretary-Treasurer (RI); Chlora Lindley-Myers, Most Recent Past President (MO); Lori K. Wing-Heier (AK); Mark Fowler (AL); Alan McClain (AR); Barbara D. Richardson (AZ); Ricardo Lara represented by Lucy Wang (CA); Michael Conway (CO); Karima M. Woods represented by Sharon Shipp (DC); Trinidad Navarro (DE); Michael Yaworsky (FL); John F. King (GA); Gordon I. Ito (HI); Doug Ommen (IA); Dean L. Cameron (ID); Ann Gillespie (IL); Amy L. Beard represented by Victoria Hastings (IN); Vicki Schmidt (KS); Sharon P. Clark (KY); Timothy J. Temple represented by Chris Cerniauskas (LA); Kevin P. Beagan (MA); Joy Y. Hatchette (MD); Robert L. Carey (ME); Anita G. Fox (MI); Grace Arnold (MN); Mike Chaney represented by Andy Case (MS); Troy Downing (MT); Mike Causey represented by Jackie Obusek (NC); Eric Dunning (NE); Justin Zimmerman (NJ); Alice T. Kane (NM); Scott Kipper (NV); Adrienne A. Harris represented by Bhavna Agnihotri (NY); Judith L. French represented by Whitney Fitch (OH); Glen Mulready (OK); Andrew R. Stolfi (OR); Michael Humphreys represented by Shannen Logue (PA); Michael Wise (SC); Larry D. Deiter (SD); Carter Lawrence represented by Toby Compton (TN); Cassie Brown (TX); Tregenza A. Roach (VI); Kevin Gaffney (VT); Mike Kreidler represented by Charles Malone (WA); Nathan Houdek (WI); Allan L. McVey (WV); and Jeff Rude (WY).

1. Received the Report of the Executive (EX) Committee

Commissioner Mais reported that the Executive (EX) Committee met Aug. 14 and adopted the Aug. 13 report of the joint meeting of the Executive (EX) Committee and the Internal Administration (EX1) Subcommittee.

The Committee adopted its June 25 and April 4 meeting reports.

The Committee adopted the reports of its Task Forces: 1) Climate and Resiliency (EX) Task Force; 2) Government Relations (EX) Leadership Council; and 3) Special (EX) Committee on Race and Insurance.

The Committee adopted revisions to the NAIC Consumer Participation Plan of Operation.

The Committee received a status report on model law development efforts for amendments to the: 1) *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171); 2) *Public Adjuster Licensing Model Act* (#228); and 3) *Privacy of Consumer Financial and Health Information Regulation* (#672).

The Committee also heard reports from the National Insurance Producer Registry (NIPR) and the Interstate Insurance Product Regulation Commission (Compact).

2. Adopted by Consent the Committee, Subcommittee, and Task Force Minutes of the Spring National Meeting

Director Lindley-Myers made a motion, seconded by Director Cameron, to adopt by consent the committee, subcommittee, and task force minutes of the Spring National Meeting. The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

3. Received the Report of the Life Insurance and Annuities (A) Committee

Commissioner Ommen reported that the Life Insurance and Annuities (A) Committee met Aug. 14. During this meeting, the Committee: 1) adopted its July 15 minutes; 2) adopted its Spring National Meeting minutes; 3) adopted the report of the Accelerated Underwriting (A) Working Group, including its interim meeting minutes and the *Accelerated Underwriting in Life Insurance Regulatory Guidance and Considerations* and *Market Regulation Handbook* referral to the Market Conduct Examination Guidelines (D) Working Group; and 4) adopted the 2025 revisions to the *Valuation Manual*.

The Committee also: 1) adopted the report of the Life Actuarial (A) Task Force; 2) heard a federal update; and 3) heard presentations from Securian Financial and Athene on illustrations.

The Committee received an update from the Special (EX) Committee on Race and Insurance's Life Workstream, which included its adoption of the *Financial Wellness Resource Guide* and endorsement of a mandatory financial education course as a prerequisite to high school graduation. The Workstream also exposed a draft survey of life insurers' use of criminal history in underwriting for a 30-day public comment period ending Sept. 5.

4. Adopted the Amendments to the 2025 *Valuation Manual*

Commissioner Ommen reported that the amendments to the 2025 *Valuation Manual* include 13 amendments adopted by the Life Insurance and Annuities (A) Committee during its July 15 meeting and one amendment adopted by the Health Insurance and Managed Care (B) Committee during its June 13 meeting.

Several of the amendments clarify, correct, or update existing requirements. However, some of the amendments were substantive, including: 1) amendment 2023-12, which is based on findings from the review of *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53) filings and explicitly requires reflection of equity return volatility in cash-flow testing; 2) amendment 2023-13, which adds explicit requirements for international mortality to principle-based reserving for life products; and 3) amendment 2024-01, which requires the qualified actuary for principle-based reserving to meet the American Academy of Actuaries (Academy) Specific Qualification Standard with respect to their opining areas.

Commissioner Ommen made a motion, seconded by Director Wing-Heier, to adopt the amendments to the 2025 *Valuation Manual* (Attachment One). The motion was adopted by 50 jurisdictions, representing 97.81% of the applicable premiums written. Commissioner Mais confirmed that the vote satisfied the requirements to amend the *Valuation Manual*.

5. Received the Report of the Health Insurance and Managed Care (B) Committee

Director Fox reported that the Health Insurance and Managed Care (B) Committee met Aug. 15. During this meeting, the Committee adopted its Spring National Meeting minutes.

The Committee also adopted its July 26 minutes. During this meeting, the Committee: 1) adopted the Regulatory Framework (B) Task Force's revised 2024 charges, including revisions to the 2024 charges for the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup.

The Committee adopted its June 13 minutes. During this meeting, the Committee: 1) adopted revisions to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51); 2) adopted revisions to Valuation Manual (VM)-26, Section 3B—Contract Reserves for Credit Disability Insurance; 3) adopted the Health Actuarial (B) Task Force's revised 2024 charges; 4) discussed the Health Actuarial (B) Task Force's findings on how possible changes to the cost-sharing reduction (CSR) subsidy, including changes to silver

© 2024 National Association of Insurance Commissioners

loading, could impact plan options and costs to consumers; and 5) heard a presentation from the Center for Insurance Policy and Research (CIPR) on findings from a case study that CIPR completed as part of its Network Adequacy Project: Compensation of Travel Costs for In-Network Care in Mississippi.

The Committee adopted its subgroup, working group and task force reports and their interim meeting minutes.

The Committee heard a federal update on various issues of interest to the Committee, including recent court cases such as the *Loper Bright* case and the *Braidwood* case.

The Committee heard a presentation from the consumer perspective on recent state activity related to the prior authorization process, including potential improvements to the process for the benefit of consumers and providers. The presenters also discussed recent federal activity on this issue, which states could use as a guide to inform their future activities. Additionally, the presenters discussed potential next steps, such as: 1) charging the Consumer Information (B) Subgroup with modifying and using the Subgroup's new consumer prior authorization guide to educate consumers; 2) forming a new working group to share information and work on implementation, best practices, and enforcement; and 3) partnering with the Innovation, Cybersecurity, and Technology (H) Committee on the use of artificial intelligence (AI) in the prior authorization process.

The Committee heard presentations from the Center on Health Insurance Reforms (CHIR) and America's Health Insurance Plans (AHIP) on health cost transparency. The CHIR presentation focused on state-level options to improve transparency in coverage (TiC) data collected as a result of the federal TiC requirements. The AHIP presentation provided an overview of the federal TiC requirements, including an implementation timeline. In addition, AHIP discussed actions states can take to address this issue, such as: 1) prioritizing solutions that provide direct consumer value; 2) considering approaches to expand consumer awareness and education tools; and 3) avoiding single-state solutions.

The Committee heard an update from the federal Center for Consumer Information and Insurance Oversight (CCIIO) on recent activities of interest to the Committee, including steps CCIIO can take to address consumer complaints regarding agents making unauthorized plan switches.

The Committee also reported on the progress of the Committee member priorities identified at the beginning of the year and the priorities that will be addressed during future Committee meetings.

6. Adopted the Amendments to Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51)

Director Fox reported that revisions to AG 51 are the result of the work of the Health Test Ad Hoc Group of the Health Risk-Based Capital (E) Working Group.

The Ad Hoc Group reviewed the health test language within the *Annual Statement Instructions* due to inconsistencies in the reporting of health business across different blanks, as well as a significant amount of health business being reported on the life and fraternal blank.

Through its evaluation and discussion of changes to the health test, a question was raised regarding whether an entity would still be required to comply with the AG 51 requirements for long-term care insurance business if it moved from the life blank to the health blank.

To address the issue, the Long-Term Care Actuarial (B) Working Group revised AG 51 to clarify that regardless of the blank the entity files, AG 51 filing is required by the entity if the criteria stated in the guideline are met.

© 2024 National Association of Insurance Commissioners

The Health Actuarial (B) Task Force adopted the amendment on Feb. 20. The Long-Term Care Insurance (B) Task Force adopted the amendment on March 16. The Health Insurance and Managed Care (B) Committee adopted the amendment on June 13.

Director Fox made a motion, seconded by Director Lindley-Myers, to adopt the amendments to AG 51 (Attachment Two). The motion passed unanimously.

7. Received the Report of the Property and Casualty Insurance (C) Committee

Commissioner McClain reported that the Property and Casualty Insurance (C) Committee met Aug. 15. During this meeting, the Committee adopted its Spring National Meeting minutes.

The Committee adopted its Task Force and Working Group reports, including: the Casualty Actuarial and Statistical (C) Task Force; the Surplus Lines (C) Task Force; the Title Insurance (C) Task Force; the Workers' Compensation (C) Task Force; the Cannabis Insurance (C) Working Group; the Catastrophe Insurance (C) Working Group; the Terrorism Insurance Implementation (C) Working Group; and the Transparency and Readability of Consumer Information (C) Working Group.

The Committee also: 1) heard a federal update related to property/casualty (P/C) insurance issues; 2) heard an update on the state regulator Property and Casualty Market Intelligence (PCMI) data call; and 3) heard a presentation on the state of the P/C insurance market, particularly challenges faced by insurance companies in homeowners insurance markets.

8. Received the Report of the Market Regulation and Consumer Affairs (D) Committee

Commissioner Navarro reported the Market Regulation and Consumer Affairs (D) Committee met on Aug. 15 and adopted its Spring National Meeting minutes.

The Committee also adopted its July 29 minutes, which included the following action: 1) adopted a revised charge for the Market Actions (D) Working Group to "facilitate interstate communication and coordinate collaborative state regulatory activities involving non-traditional market actions through the Coordinated Market Investigation Subgroup"; 2) adopted a revision to the Life and Annuity Market Conduct Annual Statement (MCAS) blank to reflect the language in the NAIC'S *Life Insurance and Annuities Replacement Model Regulation* (#613). The revision clarifies that replacements of policies and contracts of affiliated companies are internal replacements; and 3) adopted a requirement for fraternal organizations to report MCAS annually to participating MCAS jurisdictions.

The Committee heard a presentation by the Automotive Education and Policy Institute (AEPI) on insurer automobile claim adjusting practices.

The Committee adopted its Task Force and Working Group reports, including: the Antifraud (D) Task Force; the Market Information Systems (D) Task Force; the Producer Licensing (D) Task Force; the Market Analysis Procedures (D) Working Group; the Market Conduct Annual Statement Blanks (D) Working Group; the Market Conduct Examination Guidelines (D) Working Group; the Market Regulation Certification (D) Working Group; and the Speed to Market (D) Working Group.

Commissioner Navarro also noted that the Antifraud (D) Task Force is developing a Consumer Agent Broker Search Tool, which will be a free, web-based service for consumers to verify whether an agent is licensed in their state and the types of insurance products the agent is authorized to sell.

© 2024 National Association of Insurance Commissioners

9. Received the Report of the Financial Condition (E) Committee

Commissioner Houdek reported the Financial Condition (E) Committee met Aug. 15. During this meeting, the Committee adopted its Aug. 2 and June 12 minutes, which included the following action: 1) discussed risk-based capital (RBC) proposal 2023-17-CR; 2) exposed RBC proposal 2024-20-CR for a public comment period for 48 days that ended July 30; and 3) adopted RBC proposal 2024-20-CR MOD.

The Committee also adopted its Spring National Meeting minutes.

The Committee adopted the reports of its Task Forces and Working Groups, including: the Accounting Practices and Procedures (E) Task Force; the Capital Adequacy (E) Task Force; the Examination Oversight (E) Task Force; the Financial Stability (E) Task Force; the Receivership and Insolvency (E) Task Force; the Reinsurance (E) Task Force; the Risk Retention Group (E) Task Force; the Risk-Focused Surveillance (E) Working Group; and the National Treatment and Coordination (E) Working Group. The Committee also adopted the report of the Valuation of Securities (E) Task Force, except for the action taken by the Task Force on its Securities Valuation Office (SVO) discretion proposal, which the Committee plans to consider during a future meeting.

The Committee also received status reports from: 1) the Risk-Based Capital Investment Risk and Evaluation (E) Working Group and 2) the Valuation of Securities (E) Task Force.

The Committee exposed a draft request for proposal (RFP) for assistance with the due diligence process of rating agencies for a 60-day public comment period ending Oct. 14.

The Committee also received an update on a revised draft of its proposed *Framework for Regulation of Insurer Investments – A Holistic Review* and related documents, including an updated work plan.

The Committee heard a federal update from NAIC staff on Basel III.

The Committee also heard a presentation from BlackRock on commercial mortgages.

Note: Items adopted within the Financial Condition (E) Committee's 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—will be considered for adoption by the Executive (EX) Committee and Plenary through the Financial Condition (E) Committee's technical changes report process. Pursuant to this process, which was adopted by the NAIC in 2009, a listing of the various technical changes will be sent to NAIC Members shortly after completion of the national meeting, and the Members will have 10 days to comment with respect to those items. If no objections are received with respect to a particular item, the technical changes will be considered adopted by the NAIC membership and effective immediately.

10. Adopted the Risk-Based Capital (RBC) Disclosure on Climate

Commissioner Houdek reported that the Risk-Based Capital (RBC) Disclosure on Climate captures confidential analytical information that can be used by a state regulator to help initiate conversations with companies regarding their exposure to hurricane and wildfire risk. Commissioner Houdek noted that the changes to the 2024 RBC formula do not impact the RBC calculation or the amount of capital that companies are required to hold.

The work on this proposal started in fall 2023 with a referral from the Solvency Workstream of the Climate and Resiliency (EX) Task Force to the Catastrophe Risk (E) Subgroup.

© 2024 National Association of Insurance Commissioners

The proposal provides companies with three options to calculate their potential exposure to these perils given recent trends and future projected impacts.

One option allows companies to develop the estimate by using existing catastrophe (CAT) models and adjusting the frequency of future CAT events based upon current and expected future trends. This option helps to reduce the cost of complying with this disclosure and can be performed quickly.

Another option allows companies to use their own internal models or develop estimates with the assistance of a reinsurance broker. Costs for this approach are expected to be minimal.

This disclosure will automatically sunset in three years unless regulators decide to continue to require the disclosure.

Commissioner Houdek made a motion, seconded by Commissioner Lara, to adopt the RBC Disclosure on Climate (Attachment Three).

Commissioner Yaworsky stated that Florida would be voting no because Florida does not understand why this information is being collected, feels the process was rushed, and would have preferred that the item be referred back to the Climate and Resiliency (EX) Task Force.

The motion passed. Alabama, Alaska, Florida, Georgia, Idaho, Kansas, Louisiana, Montana, Nebraska, North Carolina, South Carolina, Tennessee, and West Virginia voted no. Indiana abstained.

11. Received the Report of the Financial Regulation Standards and Accreditation (F) Committee

Director Wing-Heier reported that the Financial Regulation Standards and Accreditation (F) Committee met Aug. 13. During this meeting, the Committee reported that it met Aug. 12 in regulator-to-regulator session, pursuant to paragraph 7 (consideration of individual state insurance department's compliance with NAIC financial regulation standards) of the NAIC Policy Statement on Open Meetings, and took the following action: 1) discussed state-specific accreditation issues and 2) voted to award continued accreditation to the insurance departments of Florida, Georgia, Montana, Pennsylvania, and Utah.

The Committee also adopted its Spring National Meeting minutes.

The Committee adopted a clarification to the record that the significant elements of the holding company accreditation standard, which have an effective date of Jan. 1, 2026, apply differently for risk retention groups (RRGs). Specifically, RRGs are subject to the group capital calculation (GCC) element but not the liquidity stress test (LST) element.

The Committee adopted a recommendation from the Receivership and Insolvency (E) Task Force that the 2023 revisions to the *Property and Casualty Insurance Guaranty Association Model Act* (#540) be acceptable for accreditation but not required. The amendments are to: 1) preserve guaranty fund coverage for policyholders subject to restructuring mechanisms and 2) clarify guaranty fund coverage of cybersecurity insurance.

12. Received the Report of the International Insurance Relations (G) Committee

Director Dunning reported that the International Insurance Relations (G) Committee met Aug. 13. During this meeting, the Committee adopted its June 11 minutes, which included the following action: approved NAIC comments on the following International Association of Insurance Supervisors (IAIS) public consultations: a) draft revisions to supervisory material related to the Holistic Framework; b) proposed changes to reflect climate risk in

© 2024 National Association of Insurance Commissioners

selected Insurance Core Principle (ICP) guidance and supporting material; and c) a draft application paper on supervising diversity, equity, and inclusion (DE&I)—the governance, risk management, and culture perspective.

The Committee also adopted its Spring National Meeting minutes.

The Committee facilitated a discussion on international activities related to resolution and recovery, which included remarks from the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA).

The Committee heard an update on the IAIS' recent activities, including its recent committee meetings and publications, as well as the status of the comparability assessment of the insurance capital standard and the aggregation method.

The Committee heard an update on international activities, including: 1) recent meetings, events, and speaking engagements with international insurance regulators; 2) bilateral meetings with certain jurisdictions; and 3) ongoing developments at the Organisation for Economic Co-operation and Development (OECD) and the Sustainable Insurance Forum (SIF).

13. Received the Report of the Innovation, Cybersecurity, and Technology (H) Committee

Commissioner Gaffney reported that the Innovation, Cybersecurity, and Technology (H) Committee met Aug. 15. During this meeting, the Committee took the following action: 1) adopted its June 28 minutes and 2) adopted the reports of its Task Force and Working Groups.

The Committee also: 1) heard a presentation from Paige Waters (Locke Lord) on federal regulatory actions regarding the use of AI; 2) heard a presentation from Dale Hall (Society of Actuaries—SOA) on National Institute of Standards and Technology (NIST) AI Safety Institute Consortium (AISIC) efforts to develop a framework for governing AI; and 3) heard a presentation from Dorothy Andrews (NAIC) on International Actuarial Association (IAA) efforts to survey global AI governance frameworks.

14. Received a Report on the States' Implementation of NAIC-Adopted Model Laws and Regulations

Commissioner Mais referred attendees to the written report for updates on states' implementation of NAIC-adopted model laws and regulations (Attachment Four).

Having no further business, the Executive (EX) Committee and Plenary adjourned.

SharePoint/Support Staff Hub/Meetings/2024-Summer/Plenary/Minutes & Summary/Minutes – EX-Plenary.docx

© 2024 National Association of Insurance Commissioners

Life VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date
2023-08	VM- 20 Section 7.D.7, VM-30 Section 3.B.5	Clarifies the allocation of negative interest maintenance reserves (IMR) for VM-20 and VM-30 and that non-admitted IMR is excluded from the allocation.	8/31/2023
2023-09	VM-20 Section 9.C.2.h	This amendment requires companies to apply historical mortality improvement rates, which may be negative.	10/5/2023
2023-11	VM-20 Section 8.C.17 and VM-21 Section 1.C.3	This amendment proposes removal of references to risk-based capital (RBC) in VM-20 and VM-21 that are inconsistent with the purpose, scope, and intended use of RBC to be consistent with improvements made in related sections of the VM-22 draft.	1/25/2024
2023-12	VM-01 and VM-30 Section 3.B	This amendment clarifies expectations on the reflection of equity return volatility in VM-30 cash-flow testing.	2/29/2024
2024-01	VM-01 "Qualified Actuary"	Model 820 specifically calls out a qualified actuary as a person "who meets the requirements specified in the valuation manual." This amendment adds the requirement that "A qualified actuary must meet the specific qualification standard for providing a NAIC Annual Statement Opinion".	4/25/2024
2024-02	VM-G Governance in PBR Actuarial Report, VM-31 Section 3.C.7 and Sections 3.C.8 - 3.C.11, VM-31 Section 3.B.6	This amendment clarifies that documentation on VM-G applies to all products subject to principle-based reserves (PBR). Currently VM-G documentation is only required in the Life PBR Actuarial Report.	2/29/2024
2024-04	VM-20 Section 9.D.5	This amendment updates the industry lapse experience table used for minimally funded universal life with secondary guarantee (ULSG) policies to the term-to-100 lapse experience table published by the Canadian Institute of Actuaries in December 2021.	4/25/2024
2024-06	VM-22 Section 3.C.3	This amendment permits companies to elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts, with prior approval of the domiciliary commissioner.	6/6/2024
2024-05	Valuation Manual II, Subsection 3: Deposit-Type Contracts	This amendment allows companies to consistently determine statutory maximum valuation interest rates monthly rather than annually for certain simple deposit-type contracts with prior approval of the domiciliary commissioner.	6/6/2024
2024-09	VM-21 Section 3.A and VM-21 Section 4.B.1	This amendment corrects the order of operations for the pre-tax IMR application in VM-21.	6/6/2024
2023-13	VM-M Sections 1 and 2, VM-31 Section 3.D.3, VM-20 Sections 3.C.1.h, 9.C.3.b and 9.C.3.g	This amendment requires the use of non-U.S. mortality tables for blocks of business issued in foreign countries covering insureds who are not residents of the U.S. These tables must be approved by LATF before being used for reserve purposes. This amendment also adds several annuity tables to VM-M.	6/13/2024
2024-07	VM-21 Section 6.C.2, VM-21 Section 6.C.6, VM-21 Section 6.C.9, VM-21 Section 11.B.3	This amendment makes updates to VM-21 standard projection amount maintenance expense, full surrender, and mortality assumptions.	6/13/2024
2024-08	VM-21 Section 4.B.3	This amendment clarifies the calculation of the Net Asset Earned Rate (NAER) on additional assets, providing additional detail on how the initial additional asset portfolio is constructed and how it is reinvested.	6/13/2024

© 2024 National Association of Insurance Commissioners

Health VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	HATF Adoption Date
2024-10	VM-26, Section 3.B	Updates the margins for credit disability insurance reserves based on the Society of Actuaries' "2023 Credit Disability Study Report"	5/13/24

© 2024 National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Health Insurance and Managed Care (B) Committee

FROM: Long-Term Care Insurance (B) Task Force

DATE: March 16, 2024

RE: Amendment to AG 51

The Health Risk-Based Capital (E) Working Group established the Health Test Ad Hoc Group in 2018 to review the health test language within the Annual Statement Instructions due to inconsistencies in reporting of health business across the different blanks, as well as a significant amount of health business reported on the life and fraternal blank. Through the evaluation and discussion of changes to the health test, there was a question brought up as to whether an entity would still be required to comply with *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) requirements for long-term care insurance (LTCI) business if the entity moved from the life blank to the health blank.

In consideration of the Health Risk-Based Capital (E) Working Group's request for a sentence to be added to AG 51 to clarify the applicability to insurers filing health blanks, the Long-term Care Actuarial (B) Working Group adopted an amendment to AG 51's scope paragraph (**Attachment A**) on Nov. 20, 2023, that would indicate that regardless of the blank the entity files, AG 51 filing is required by the entity if the criteria stated in the Guideline are met. The Health Actuarial (B) Task Force adopted the amendment on Feb. 20, 2024. The Long-Term Care Insurance (B) Task Force adopted the amendment on March 16, 2024.

The Long-Term Care Insurance (B) Task Force requests the Committee consider adopting the amendment to AG 51.

Washington, DC 1101 K Street N.W. Suite 650, Washington, DC 20005 p | 202 471 3990

Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600

New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000

www.naic.org

© 2024 National Association of Insurance Commissioners

Amendment Adopted by:
Long-term Care Actuarial (B) Working Group, Nov. 20, 2023
Health Actuarial (B) Task Force, Feb. 20, 2024
Long-term Care Insurance (B) Task Force, March 16, 2024
Adopted by the Health Insurance and Managed Care (B) Committee, June 13, 2024

Actuarial Guideline LI

THE APPLICATION OF ASSET ADEQUACY TESTING TO LONG-TERM CARE INSURANCE RESERVES

Background

The *Health Insurance Reserves Model Regulation (#010)* and the *NAIC Valuation Manual (VM-25)* contain requirements for the calculation of long-term care insurance (LTC) reserves. Regulators have observed a lack of uniform practice in the implementation of tests of reserve adequacy and reasonableness of LTC reserves. The reserve adequacy testing required by Model #10 and VM-25 does not provide regulators comfort as to the reserve adequacy of companies with material blocks of LTC business. As such, regulators must rely upon asset adequacy analysis required by the NAIC Valuation Manual (*VM-30*) to evaluate the solvency position of companies with sizable blocks of LTC business. This Guideline is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for the asset adequacy testing applied to a company's LTC block of contracts. In particular, this Guideline:

(1) Specifies that the appropriate form of asset adequacy analysis may be in the form of a gross premium valuation or in a more robust form, such as cash-flow testing, with Actuarial Standards of Practice providing guidance in this area;

(2) Clarifies the type of adequacy testing methods that must be used for aggregation with other blocks of business to be allowed for asset adequacy analysis purposes;

(3) Requires a uniform approach to supporting acceptable assumptions regarding future LTC premium rate increases;

(4) Provides requirements for documentation of assumptions associated with all key LTC risks; and

(5) Provides requirements for documentation of standalone LTC asset adequacy testing results.

Note: It is anticipated that the requirements contained in this Guideline will be incorporated into the *NAIC Valuation Manual* (VM-30) at a future date, effective for a future valuation year. This Guideline will cease to apply to annual statutory financial statements at the time the corresponding VM-30 requirements become effective.

Text

1. Effective Date

This Guideline shall be effective for reserves reported with the December 31, 2017 and subsequent annual statutory financial statements.

2. Authority

© 2024 National Association of Insurance Commissioners

Pursuant to Section 1, paragraph 3, of *VM-30* of the *NAIC Valuation Manual*, the commissioner shall have the authority to specify specific methods of actuarial analysis and actuarial assumptions when, in the commissioner's judgment, these specifications are necessary for an acceptable opinion to be rendered relative to the adequacy of reserves and related items.

3. Scope

This Guideline shall apply to a company with over 10,000 inforce lives covered by long-term care insurance contracts as of the valuation date regardless of which Annual Statement blank (Health, Life/Accident/Health & Fraternal, or Property/Casualty) the company files with its domiciliary state's insurance regulatory authority. All long-term care insurance contracts, whether directly written or assumed through reinsurance are included. Accelerated death benefit products or other combination products where the substantial risk of the product is associated with life insurance or an annuity are not subject to this Guideline.

4. Asset Adequacy Analysis of LTC Business

A. As stated in Actuarial Standard of Practice (ASOP) No. 22, multiple asset adequacy analysis methods, including cash-flow testing and gross premium valuation, are available to actuaries for this analysis.

The method of analysis used for LTC shall conform with ASOP No. 22 in recognition of the typical significant asset- and liability-related risks associated with LTC.

B. Asset adequacy analysis specific to all inforce LTC business, and without consideration of results for other block of business within the company, must be performed for valuations associated with the December 31, 2017 and subsequent annual statutory financial statements. The analysis shall comply with applicable Actuarial Standards of Practice, including standards regarding identification of key risks. Material assumptions associated with the LTC business shall be determined testing moderately adverse deviations in actuarial assumptions.

C. When determining whether additional reserves are necessary:

1. A reserve deficiency in the LTC block may be aggregated with sufficiencies in the company's other blocks of business for the purposes of developing an actuarial opinion, if cash-flow testing is used for both the LTC business and for all significant blocks of non-LTC business within a company. If a reserve deficiency in the LTC block is not offset with sufficiencies in the company's other blocks of business, then additional reserves shall be established as required by section 2.C.2. of *VM-30*.

2. If cash-flow testing is not used for testing of the LTC business, then a reserve deficiency revealed from another method, e.g., a gross premium valuation, utilized for purposes of asset adequacy analysis of the LTC block under this Guideline shall not be offset with sufficiencies in the company's other blocks of business. The additional reserves under this Guideline shall be established based only upon the adequacy of the reserves in the LTC block.

D. When determining the effect of investment returns or the time value of money:

1. In the case where cash-flow testing is used, the company must allocate investment income to the LTC block of business consistently with the way investment income generated by the General Account is managed. If, however, a segment of the

© 2024 National Association of Insurance Commissioners

General Account is used to manage the investment risk for LTC business, the investment income generated by assets from that segment should be appropriately represented within the asset adequacy analysis.

2. In the case where a gross premium valuation method is used or asset cash flows are not explicitly modeled, the discount rate used by the actuary must reflect consideration of the yield on current assets held to support the liability as well as future yields on assets purchased with future premium income and reinvestments or anticipated divesture of existing assets.

E. The analysis shall only anticipate premium rate increases based upon a rate increase plan that is documented, is supported by and has been approved by management, is highly likely to be undertaken, and contains rate increase requests and timelines by jurisdiction. The assumptions used in the analysis should reflect a reasonable estimate of regulatory approved amounts and implementation timelines.

5. Documentation Required

The documentation requirements below are to be incorporated as a separate section of the appointed actuary's Actuarial Memorandum required by the *VM-30* or in a special Actuarial Memorandum containing LTC-specific information and shall be submitted to the commissioner of the company's state of domicile. The separate section of the companywide Actuarial Memorandum or the special Actuarial Memorandum shall be available to other state insurance commissioners in which the company is licensed upon request to the company. The confidentiality provisions regarding the Actuarial Memorandum contained in *VM-30* are applicable to the separate section of the Actuarial Memorandum and to the special Memorandum.

A. Results of the asset adequacy analysis of the LTC business shall be reported and documented in the separate section of the Actuarial Memorandum or the special Memorandum, as appropriate.

B. Assumptions on mortality shall be documented to state the reference standard valuation table, if applicable, and explicitly cite adjustments, select factors, and mortality improvement factors, where applicable. If a reference standard valuation table is not used in setting the mortality assumption, then a table of rates and comparison of the applied rates to rates from an unmodified standard mortality table for sample issue ages shall be provided. A summary of experience or other actuarial support of assumptions used shall be documented.

C. Assumptions on voluntary lapse shall be documented in table format by duration band and by other factors such as gender, marital status, with versus without inflation rider, and length of benefit period impacting the lapse assumption, where applicable. A summary of experience or other support of assumptions shall be documented.

D. Assumptions on morbidity shall be documented and actuarial support of the assumption shall be provided. If an outside source is used as the basis for morbidity assumptions, then the rationale for the applicability of that source and any adjustments to the factors from that source shall be documented.

E. Assumptions on investment returns and interest rates shall be documented. If a simplified approach is applied, such as implicit reflection of projected investment returns through the use of discount rates in a gross premium valuation as contemplated in Section 4.D.2., then justification shall be provided.

© 2024 National Association of Insurance Commissioners

F. Any rate increases already approved shall be documented by jurisdiction with approved implementation timelines. Assumptions on future rate increases shall be documented by policy form or policy grouping. Such documentation should adequately describe the way in which future rate increase assumptions are developed. Unless the appointed actuary has operational responsibility for carrying out the rate increase plan specified in Section 4.E., the Memorandum shall contain a signed and dated reliance statement from the person with operational responsibility for carrying out such actions that the rate increase plan(s) provided to the appointed actuary appropriately reflects management's plan.

G. Documentation of any other material assumptions shall be provided.

H. Documentation shall be provided for assumptions that have significantly changed from the prior year's analysis.

© 2024 National Association of Insurance Commissioners

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Plenary ☒ Financial Condition (E) Committee

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	5/28/2024
CONTACT PERSON:	Steve Broadie
TELEPHONE:	847-736-8258
EMAIL ADDRESS:	steve.broadie@apci.org
ON BEHALF OF:	American Property Casualty Insurance Assoc
NAME:	Steve Broadie
TITLE:	Vice Present, Financial & Counsel
AFFILIATION:	American Property Casualty Insurance Assoc
ADDRESS:	

FOR NAIC USE ONLY

Agenda Item # 2023-17-CR MOD
Year 2024

DISPOSITION

ADOPTED:
☐ Plenary
☑ Financial Condition (E) Aug. 2, 2024
☐ TASK FORCE (TF)
☐ WORKING GROUP (WG)
☐ SUBGROUP (SG)

EXPOSED:
☐ TASK FORCE (TF)
☐ WORKING GROUP (WG)
☐ SUBGROUP (SG)

REJECTED:
☐ TF ☐ WG ☐ SG

OTHER:
☐ DEFERRED TO
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☒ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☒ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

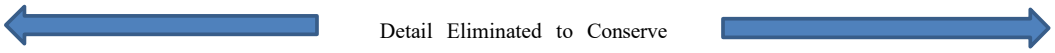
The Solvency Workstream of the Climate & Resiliency (EX) Task Force was tasked with considering the development of climate scenario analysis. The workstream held three public panels on the topic in 2022 and in 2023 learned that commercial CAT modelers have products known as "Climate Conditioned Catalogs" that reflect adjusted frequency and severity for certain time horizons (e.g. 2040 or 2050) that if compared side by side with existing RBC data in PR027 would provide an estimate of climate change for hurricane and wildfire. The information is intended to be useful for domestic regulators holding conversations with insurers that may have a greater degree of risk levels for these perils.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

CALCULATION OF CATASTROPHE RISK CHARGE RCAT
PR027A, PR027B, PR027C, PR027, PR027B2, PR027C2, PR027B3, PR027C3
AND PR027INT



DISCLOSURE OF CLIMATE IMPACT ON CATASTROPHE EXPOSURE
PR027B2, PR027B3, PR027C2, PR027C3

These disclosures aim at collecting the impact of climate related risks on the modeled losses for the perils of hurricane and wildfire that have been used in PR027B and PR027C respectively. These disclosures will be effective for YE 2024, YE 2025 and YE 2026 reporting. The intent of these disclosures is for informational purposes only and not to determine a new RCAT charge.

An insurer may elect to provide its response as either time-based or frequency-based, with the insurer responding to yes-no questions to indicate which approach is taken along with additional corresponding questions (if any). The impact should be estimated using the following specific instructions:

- For any approach used, the insurer must assume a static in-force book for business at year end (no changes to book of business, to reinsurance strategy, or to total insured value (TIV) inflation over the projected time horizon).
- For a time-based approach:
  - Representative Concentration Pathway (RCP) represents a set of projections that are meant to serve as an input for climate modeling, pattern scaling and atmospheric chemistry modeling. For purposes of these instructions, companies should utilize an RCP of 4.5 (or equivalent SSP).
  - The impact should be assessed separately under two-time horizons 2040 and 2050.
  - The impact can be modeled using either a Climate Conditioned Catalog developed by a commercial CAT model vendor or equivalent view of climate risk internally developed by the insurer or that is the result of adjustments made by the insurer to vendor provided catalogs to represent the own view of climate risk.
  - The two interrogatories PR027B2 for 2040 and 2050 should be populated for hurricane and the two interrogatories PR027C2 for 2040 and 2050 should populated for wildfire.
- For a frequency-based approach:
  - The impact should be modeled using both a 50% frequency increase for major hurricanes (Category 3 and higher, but only for wind losses) and all wildfire events, and a 10% increase in frequency for major hurricanes and all wildfire events.
  - The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge
  - The modeling assumptions should be the same as those used in the RCAT charge. For the hurricane peril, the adjustments should be constrained to wind frequency only—no adjustments should be made for other sub perils.
  - The two interrogatories PR027B3 10% and 50% should be populated for hurricane and the two interrogatories PR027C3 10% and 50% should populated for wildfire.

The same basic information is required to be completed for these PR027B2 and PR027C2 and PR027B3 and PR027C3 as the previous pages PR027B and PR027C, including specifically as follows:

Column (1) – Direct and Assumed Modeled Losses
These are the direct and assumed modeled losses per the first footnote. Include losses only; no loss adjustment expenses. For companies that are part of an inter-company pooling arrangement, the losses in this column should be consistent with those reported in Schedule P, i.e. losses reported in this column should be the gross losses for the pool multiplied by the company's share of the pool.

Column (2) – Net Modeled Losses
These are the net modeled losses per the footnote. Include losses only; no loss adjustment expenses.

Column (3) - Ceded Amounts Recoverable
These are the modeled losses ceded under any reinsurance contract. Include losses only, no loss adjustment expenses, and should be associated with the Net Modeled Losses.

For a time-based approach, in addition, the insurer should provide the following information about the view of climate risk used to determine the climate conditioned modeled losses under each time horizon:

- If a Climate Conditioned Catalog developed by a commercial CAT model vendor is used, provide name and version of the catalog.
- If it is internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers, provide a brief description of assumptions/adjustments made including the sources of climate science research used

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

Hurricane	Reference	Climate Impact on Modeled Losses - 2040 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate impact used:	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

Hurricane	Reference	Climate Impact on Modeled Losses - 2050 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate impact used:	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

Hurricane	Reference	Climate Impact on Modeled Losses - 10% Frequency Adjustment (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

((6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

Hurricane	Reference	Climate Impact on Modeled Losses - 50% Frequency Adjustment (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

(6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C2
(For Informational Purposes Only)

Wildfire	Reference	Climate Impact on Modeled Losses - 2040 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate impact used:	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C2
(For Informational Purposes Only)

Wildfire	Reference	Climate Impact on Modeled Losses - 2050 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate impact used:	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C3
(For Informational Purposes Only)

Wildfire	Reference	Climate Impact on Modeled Losses - 10% Frequency Adjustment (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

(6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C3
(For Informational Purposes Only)

			Climate Impact on Modeled Losses - 50% Frequency Adjustment		
			(1)	(2)	3†
Wildfire		Reference	Direct and Assumed	Net	Ceded Amounts Recoverable
(1)	Worst Year in 50	Company Records			
(2)	Worst Year in 100	Company Records			
(3)	Worst Year in 250	Company Records			
(4)	Worst Year in 500	Company Records			
(5)	Worst Year in 1000	Company Records			

(6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

State Implementation Reporting of NAIC-Adopted Model Laws and Regulations
As of: 7/8/2024

Executive (EX) Committee

- Amendments to the ***Unfair Trade Practices Act* (#880)**—The Executive (EX) Committee and Plenary adopted these revisions at the 2024 Spring National Meeting. NAIC staff are not aware of adoption by any jurisdiction.

Life Insurance and Annuities (A) Committee

- Amendments to the ***Annuity Disclosure Model Regulation* (#245)**—The Executive (EX) Committee and Plenary adopted these revisions at the 2021 Summer National Meeting. Two jurisdictions have adopted revisions to this model.

Health Insurance and Managed Care (B) Committee

- Amendments to the ***Insurance Holding Company System Regulatory Act* (#440)**—The Executive (EX) Committee and Plenary adopted these revisions at the 2021 Summer National Meeting. Fourteen jurisdictions have adopted revisions to this model.

- Amendments to the ***Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450)**—The Executive (EX) Committee and Plenary adopted these revisions at the 2021 Summer National Meeting. Seven jurisdictions have adopted revisions to this model.

Property and Casualty Insurance (C) Committee

- Adoption of the ***Pet Insurance Model Act* (#633)**—The Executive (EX) Committee and Plenary adopted Model #633 at the 2022 Summer National Meeting. Ten jurisdictions have adopted this model.

- Adoption of the ***Nonadmitted Insurance Model Act* (#870)**—The Executive (EX) Committee and Plenary adopted Model #870 at the 2023 Summer National Meeting. NAIC staff are not aware of adoption by any jurisdiction.

© 2024 National Association of Insurance Commissioners

Financial Condition (E) Committee

- Adoption of the ***Property and Casualty Insurance Guaranty Association Model Act* (#540)**—The Executive (EX) Committee and Plenary adopted Model #540 at the 2023 Fall National Meeting. NAIC staff are not aware of adoption by any jurisdiction.

- Adoption of the ***Mortgage Guaranty Insurance Model Act* (#630)**—The Executive (EX) Committee and Plenary adopted Model #630 at the 2023 Summer National Meeting. NAIC staff are not aware of adoption by any jurisdiction.

© 2024 National Association of Insurance Commissioners

EXECUTIVE (EX) COMMITTEE

Executive (EX) Committee Aug. 14, 2024, Minutes 4-2
Executive (EX) Committee Interim Meeting Report (Attachment One) 4-6
Executive (EX) Committee Task Force Reports (Attachment Two) 4-7
Adopted Revisions to the NAIC Consumer Participation Plan of Operation (Attachment Three) 4-9
Report of Model Law Development Requests (Attachment Four) 4-14

© 2024 National Association of Insurance Commissioners

Draft: 8/28/24

Executive (EX) Committee
Chicago, Illinois
August 14, 2024

The Executive (EX) Committee met in Chicago, IL, Aug. 14, 2024. The following Committee members participated: Andrew N. Mais, Chair (CT); Jon Godfread, Vice Chair (ND); Scott A. White, Vice President (VA); Elizabeth Kelleher Dwyer, Secretary-Treasurer (RI); Chlora Lindley-Myers, Most Recent Past President (MO); Alan McClain (AR); Michael Conway (CO); Trinidad Navarro (DE); Vicki Schmidt (KS); Sharon P. Clark (KY); Anita G. Fox (MI); Eric Dunning (NE); Andrew R. Stolfi (OR); Michael Humphreys (PA); Carter Lawrence (TN); Cassie Brown (TX); and Kevin Gaffney (VT). Also participating was: Grace Arnold (MN).

1. Adopted the Aug. 13 Report of the Executive (EX) Committee and the Internal Administration (EX1) Subcommittee

Commissioner Mais reported that the Executive (EX) Committee and Internal Administration (EX1) Subcommittee met Aug. 13 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters of the NAIC) and paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings.

During this meeting, the Committee and Subcommittee adopted their June 25, April 4, and Spring National Meeting minutes, which included the following action: 1) approved the employment agreement between the NAIC and Gary D. Anderson as Chief Executive Officer (CEO); 2) approved the appointment of Gary D. Anderson to the National Insurance Producer Registry (NIPR) Board of Directors; 3) approved the following fiscal requests: a) retention of a consultant to assist with CEO onboarding training; b) retention of a public relations firm to assist in communications campaigns; c) approval of two full-time employees (FTEs) for the Member Services department; and d) retention of a consultant to assist with the Property & Casualty Market Intelligence (PCMI) data call; 4) approved a recommendation to revise the zone funding methodology; 5) received a May year-to-date (YTD) financial update and overview of the preliminary 2025 budget; 6) approved the new 2025 Fall National Meeting site in Hollywood, FL; 7) approved the appointment of Director Lindley-Myers to the International Association of Insurance Supervisors (IAIS) Executive Committee; 8) approved the ratification of the memorandum of understanding between the Federal Insurance Office (FIO) and the NAIC; and 9) approved the new 2026 Spring National Meeting site in San Diego, CA.

The Committee and Subcommittee adopted the report of the Audit Committee, including its Aug. 1 and May 9 minutes. During these meetings, the Committee took the following action: 1) heard an overview of proposed 2025 revenues; 2) received the June 30 financial update; 3) reappointed RubinBrown as the financial audit firm to conduct the 2024 audit; 4) approved a revision to the zone funding methodology; 5) affirmed the 2025 Audit Committee charter; 6) heard an update on the Enterprise Resource Planning (ERP) project; 7) heard an update on the 2025 budget calendar; 8) received the 2023/2024 Service Organization Control (SOC) 1 and SOC 2 audit reports; and 9) heard a presentation on the 2024 operating reserve analysis.

The Committee and Subcommittee adopted the report of the Internal Administration (EX1) Subcommittee, including its May 30 minutes. During this meeting, the Subcommittee took the following action: 1) received the March 31 Long-Term Investment Portfolio report; 2) received the March 31 Defined Benefit Portfolio report; and 3) received an update on the termination of the defined benefit pension plan.

The Committee and Subcommittee also: 1) heard the CEO report; 2) heard an update on the fiscals approved at the Commissioners' Mid-Year Roundtable; and 3) heard an update on the PCMI data call.

© 2024 National Association of Insurance Commissioners

Commissioner Godfread made a motion, seconded by Commissioner White, to adopt the Aug. 13 report of the joint meeting of the Executive (EX) Committee and the Internal Administration (EX1) Subcommittee. The motion passed unanimously.

2. Adopted its June 25 and April 4 Meeting Report

Commissioner Godfread made a motion, seconded by Commissioner Conway, to adopt the Executive (EX) Committee's June 25 and April 4 meeting report (Attachment One). The motion passed unanimously.

3. Adopted the Reports of its Task Forces

Director Dunning made a motion, seconded by Commissioner Gaffney, to adopt the reports of the: 1) Climate and Resiliency (EX) Task Force; 2) Government Relations (EX) Leadership Council; and 3) Special (EX) Committee on Race and Insurance (Attachment Two). The motion passed unanimously.

4. Adopted Revisions to the NAIC Consumer Participation Plan of Operation

Commissioner Arnold reported that the Consumer Participation Board of Trustees met Aug. 12 and adopted the following revisions to Section 6.A. and Section 9 of the NAIC Consumer Participation Plan of Operation:

- The revisions to Section 6.A. would clarify the experience required for applicants to qualify as potential consumer representatives. It would also require demonstrating a record of participation for continuation as a consumer representative from one year of active service as a consumer representative to two years.
- The revisions to Section 9 would allow a process for consumer representatives who change their status midyear to be considered for continuation of their existing term under the new status by providing information on their new status to regulator board members for vetting rather than having to resign as a consumer liaison representative and reapply for the following year.

Director Fox made a motion, seconded by Commissioner Clark, to adopt the revisions to the NAIC Consumer Participation Plan of Operation (Attachment Three). The motion passed unanimously.

5. Received a Report on Model Law Development Efforts

Commissioner Mais presented a written report on the progress of ongoing model law development efforts (Attachment Four).

6. Heard a Report from the NIPR Board of Directors

Director Deiter reported that the NIPR Board of Directors met Aug. 12. During this meeting, the Board accepted a report of the Audit Committee, which highlighted NIPR's strong financial performance through the first half of the year. Through June, NIPR's revenue YTD is $39.6 million, which is 5.7% over budget and 10.5% higher than the same period in 2023. June 2024 was NIPR's highest revenue month in its history, with revenue of $6.79 million, which was 12.9% over budget. Expenses through the month of June are $1.24 million, or 3.3% under budget. Investments ended June with a $3.34 million net gain YTD.

The Board heard reports on two critical initiatives for 2024. Laurie Wolf (NIPR) outlined an enhanced approach to providing service and support to producer licensing regulators. NIPR now serves all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. By borrowing best business practices in account management, NIPR is scaling its team to improve service. Regulators can expect an expanded team of trained

© 2024 National Association of Insurance Commissioners

experts who will provide a consistent point of contact, streamlined request handling, and a deep understanding of their needs.

Eric Saul (NIPR) walked the board through the phases of NIPR's multi-year project to improve the look and functionality of NIPR's website and the credentialing and reporting applications accessed through that site. NIPR will roll out an updated version of all reporting products by the end of 2024. As the leading licensing compliance resource for insurance professionals, NIPR is committed to user-centric design principles, improved efficiency, and strengthening the regulatory data supply chain to provide enhanced value and service.

NIPR is well-positioned to continue to meet the demands of the mission NAIC Members set in 1996—to provide cost-effective, streamlined, and uniform producer licensing.

7. Heard a Report from the Compact

Director Dunning reported that the Interstate Insurance Product Regulation Commission (Compact) will meet Aug. 15.

Director Dunning noted that with the departure of former Commissioner Kathleen A. Birrane (MD), the Compact went through a transition in leadership and will ensure continuity in leadership through November when the Compact holds elections at its annual meeting. The current Compact officers are: Director Dunning, Chair; Commissioner Allan L. McVey, Vice Chair (WV); Cabinet Executive Officer Barbara D. Richardson, Treasurer (AZ); and Director Dwyer, Past Chair.

The Compact welcomed South Dakota as the newest member state in July. The Compact now has 48 Compacting jurisdictions, which include 46 U.S. states, the District of Columbia, and Puerto Rico.

The Compact will hold a public hearing to receive comments on amendments to the group term life and group whole life standards. These amendments will allow Compact-approved products to be issued to non-employer groups permitted under a Compacting State's laws and procedures.

The Compact will also consider for final action amendments to several annuity benefit feature standards to expand their scope for index-linked variable annuities (ILVAs).

In April, the Compact adopted a core standard for ILVAs. The ILVA standard becomes effective Aug. 12, other than for Oregon, which is pursuing its right to opt out. Once the amendments to the standards for annuity benefit features are adopted, this will complete a major undertaking by the Compact with guidance from the NAIC and its Life Actuarial (A) Task Force on detailed standards for this product.

The Compact will hear reports from the Adjunct Services Committee and Finance Committee. The Adjunct Services Committee is taking feedback from Compact Roundtables and outlining a pilot process that states could test to make filing reviews more efficient for companies and more collaborative for states.

The Compact Officers hosted a Compact Roundtable May 15 in Washington, DC. The Compact had 60 participants, including 25 commissioners and state insurance regulators, company representatives, a legislator, and consumer representatives. The consensus was to pilot some of the ideas, especially a collaborative process using the Compact's product expertise to review product features that are not yet within the scope of a Uniform Standard. The next Compact Roundtable will be held Oct. 30 in Omaha, NE.

© 2024 National Association of Insurance Commissioners

The Compact will receive comments on amendments to the Compact Bylaws to expand the definition of past chair beyond just the person who served as chair immediately before the current chair to whoever is the most immediate past chair.

The Compact exposed 25 new strategic action items in hopes of finalizing a new three-year strategic plan by the end of 2024.

Having no further business, the Executive (EX) Committee adjourned.

SharePoint/Support Staff Hub/Committees/Committee Folders/EX CMTE/EXCMTE/2024-Summer/Minutes/Minutes–Executive (EX) Committee.docx

© 2024 National Association of Insurance Commissioners

Attachment One
Executive (EX) Committee
8/14/24

Virtual Meetings

EXECUTIVE (EX) COMMITTEE
June 25, 2024 / April 4, 2024

Summary Report

The Executive (EX) Committee met June 25 and April 4, 2024, in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) of the NAIC Policy Statement on Open Meetings.

1. During its June 25 meeting, the Committee:
   A. Appointed Gary D. Anderson (NAIC Chief Executive Officer) to serve on the National Insurance Producer Registry (NIPR) Board of Directors.
   B. Received a 2024 financial update and overview of the preliminary 2025 budget.

2. During its April 14 meeting, the Committee:
   A. Selected Hollywood, FL, as the replacement site for the 2025 Fall National Meeting.
   B. Appointed Director Chlora Lindley-Myers (MO) to the International Association of Insurance Supervisors (IAIS) Executive Committee.

© 2024 National Association of Insurance Commissioners

Draft: 8/13/24

REPORT OF THE EXECUTIVE (EX) COMMITTEE TASK FORCES

Climate and Resiliency (EX) Task Force—The Climate and Resiliency (EX) Task Force will meet Aug. 15 and anticipates the following action: 1) adopting its Spring National Meeting minutes; 2) hearing a presentation on innovative flood insurance technology; 3) hearing a presentation on the *Global Risks Report 2024*; 4) hearing an update on deliverables from the *NAIC National Climate Resilience Strategy for Insurance* (Climate Resilience Strategy); 5) hearing an update from its Climate Risk Disclosure Workstream; and 6) hearing a federal update.

Government Relations (EX) Leadership Council—The Government Relations (EX) Leadership Council will not meet at the Summer National Meeting. The Leadership Council meets weekly in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss federal legislative and regulatory developments affecting insurance regulation.

Special (EX) Committee on Race and Insurance—The Special (EX) Committee on Race and Insurance met Aug. 13 and took the following action: 1) adopted its Spring National Meeting minutes; 2) received a status report from its workstreams; 3) received an update on the Member Diversity Leadership Forum; and 4) heard a presentation from the American Academy of Actuaries (Academy) on health equity.

- **Health Workstream**—The Health Workstream met in regulator-to-regulator session after the Spring National Meeting to consider its activities and initiatives for 2024. During this meeting, the Workstream discussed its potential year-end deliverables, including developing a referral document based on its work to date for other NAIC groups to explore and delve more into issues the Workstream has identified that could potentially promote health equity. The Workstream also decided to restart its discussion on data collection through learning sessions focusing on what insurers need with respect to data as part of their efforts to promote health equity. The Workstream plans to continue its work on its collaborative space on NAIC Connect, which the Workstream intends to be a platform where Workstream members can share with other NAIC Members the information it has captured during its meetings on removing barriers to health insurance for historically disadvantaged communities. The thought is that the Workstream's NAIC Connect page would be a living resource for the NAIC Membership, and the Workstream can continue to build content and other tools for the states on this site. In addition, the Workstream hopes this site can also serve as a platform for discussions and conversations regarding health equity and other related topics, including adding blog posts from various stakeholders on issues and topics relevant to its work.

- **Life Workstream**—The Life Workstream has continued its focus on "marketing, distribution, and access to life insurance products in minority communities, including the role that financial literacy plays." The Life Workstream met Aug 5, April 25, and March 28. During its April 25 meeting, it adopted a financial wellness resource guide developed at the end of last year intended to be a resource for insurance departments looking to take action to improve access and understanding in underserved communities. The guide highlights the financial literacy initiatives in three states: 1) the District of Columbia; 2) Maryland; and 3) Oregon. The Workstream hopes that the guide can be expanded in the future to include other state initiatives and outside organizations' programs so it can become a robust resource for all states. Also during its April 25 meeting, the Workstream adopted an endorsement of a mandatory financial literacy course in high school. The Workstream would like for the Special (EX) Committee on Race and Insurance to consider providing its support for the inclusion of mandatory financial literacy courses in high schools by also adopting this endorsement. Lastly, the Workstream has continued to look at

© 2024 National Association of Insurance Commissioners

barriers to access to life insurance, particularly on how criminal history is used in underwriting life insurance and whether it is a barrier to access. The Workstream exposed a draft survey of insurers asking how they consider criminal history in underwriting for a 30-day public comment period ending Sept. 5 . The Life Workstream anticipates meeting in mid-September to discuss any comments received.

- **Property/Casualty (P/C) Workstream**—The P/C Workstream met Aug. 12 to discuss various definitions of discrimination in the insurance industry. The Workstream heard from NAIC Legal staff as well as consumer, industry, and actuarial perspectives. On June 3, the Workstream heard from consumer groups about homeowners insurance messaging to underserved communities and research related to uninsured homeowners trends. On June 20, the Workstream heard an update from Commissioner Karima M. Woods (DC) about the District of Columbia Department of Insurance, Securities and Banking (DISB) initiative to evaluate unintentional bias in private passenger automobile (PPA) insurance. In the future, the Workstream plans to look into California's low-cost auto program and discuss how the NAIC Property and Casualty Market Intelligence (PCMI) data call results can be leveraged.

© 2024 National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Reflects Edits Adopted by the NAIC/Consumer Board of Trustees on August~~May~~ 12~~28~~, 202~~41~~
Adopted by NAIC/Executive (EX) Committee on August 12, 2022.
Reflects Status Change Revisions Suggested by the Chair Drafting Group and Consumer Representatives

PLAN OF OPERATION
NAIC CONSUMER PARTICIPATION PROGRAM

April 11, 2017

The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the fifty states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

The mission of the NAIC is to assist state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient and cost-effective manner, consistent with the wishes of its members:

Protect the public interest;
Promote competitive markets;
Facilitate the fair and equitable treatment of insurance consumers;
Promote the reliability, solvency and financial solidity of insurance institutions; and
Support and improve state regulation of insurance.

To promote consumer representation and participation in the NAIC, the Consumer Participation Program was established by the NAIC.

Section 1. Mission

The mission of the NAIC Consumer Participation Program is to assist the NAIC in its efforts to support state insurance regulation by providing consumer views on insurance regulatory issues.

Section 2. NAIC Consumer Participation Board of Trustees

A. The NAIC Consumer Participation Board of Trustees (Board) shall consist of 12 members: six NAIC members and six consumer representative members.

B. The current president of the NAIC, or his or her designee shall serve as Chairperson of the Board.

C. The NAIC Executive Committee shall annually appoint the NAIC members of the Board at the beginning of each year.

D. Board appointments of the six NAIC members shall be confirmed by the NAIC Executive Committee during the first quarter of the year.

E. The term of service for the six NAIC members of the Board shall be one year, which shall begin on January 1 and conclude on December 31.

F. Each December, the six NAIC members serving on the current Board shall appoint to the board six consumer representatives, chosen from those who will serve in the upcoming year. The consumer representatives selected to serve on the Board shall have served for at least two years as a NAIC consumer representative.

© 2024 National Association of Insurance Commissioners

G. Consumer Members of the Board shall serve staggered, two-year terms with three different consumer members of the Board rotating on and off the Board annually; however, each must submit a recertification form for the second year of their term. NAIC members of the Board will review second-year recertification forms to determine if there is a reason a consumer representative should not continue to serve on the Board. If no reason is determined, the designated consumer representatives shall serve the second year of his or her two-year term.

H. Consumer representatives shall be asked to indicate their interest to serve on the Board when they apply to be consumer representatives.

I. The Board may meet in person or via teleconference to conduct its business.

J. Meetings of the Board are not public meetings and matters discussed are to be kept confidential unless publicly disclosed by the Chairperson of the Board. However, no change to the Plan of Operation may be taken by the Board without prior disclosure to and opportunity for comment by current consumer representatives of the proposed changes.

K. A consumer representative Board member may be removed by a majority vote of the Board (four of the six NAIC members and four of the six consumer representative members) whenever, in their judgment, the best interests of the Board would be served thereby. Prior to the vote, the consumer representative Board member under consideration for removal will be afforded an opportunity to address the Board and present justification for retention of his or her Board seat and/or to answer any questions of the Board members.

L. If a vacancy occurs on the Board prior to October 1 due to the resignation or removal of a Board member, a new Board member shall be appointed to serve out the remainder of the term. If the open position is that of an NAIC Member, a replacement shall be appointed by the NAIC Officers. If the open position is that of a Consumer Representative, a replacement shall be appointed by the NAIC Members of the Board. No replacement will be appointed for a vacancy on the Board that occurs on or after October 1.

Section 3. Duties of the Board

A. The Board shall administer the Consumer Participation Program:

1. By the end of the calendar year prior to the new term, the current Board shall select the NAIC funded and unfunded consumer representatives to serve in the next calendar year.

2. The Board may also remove a designated consumer representative by a majority vote of the Board (four of the six NAIC members and four of the six consumer members) whenever the representative no longer meets the consumer representative qualifications; or, whenever in its judgment, the best interests of the Consumer Participation Program would be served, thereby. Prior to the vote, the designated consumer representative under consideration for removal will be afforded an opportunity to address the Board and present justification for retention of his or her designation and/or to answer any questions of the NAIC Board members.

3. At the last national meeting of each year, the Chairperson of the NAIC Consumer Participation Board of Trustees shall provide the NAIC Executive (EX) Committee with an annual report summarizing the Board's activities for the year, as well as the consumer participation in the Program.

Section 4. Consumer Representatives

A. Consumer representatives must possess a commitment to and experience with consumer advocacy regarding insurance regulatory issues.

B. Applicants may apply to be designated funded or unfunded consumer representatives.

© 2024 National Association of Insurance Commissioners

Section 5. Consumer Representative Application Process

A. By August 31 of each year, a link for web access to the blank consumer representative applications shall be posted on the NAIC website along with: 1) a statement that the NAIC encourages those individuals and consumer advocacy groups with a commitment to and experience with consumer advocacy regarding insurance regulatory issues; 2) a statement describing the NAIC and its services to the state insurance departments; 3) a schedule of the NAIC meetings for the following year and their locations; 4) a list of the NAIC committees and their memberships; 5) an explanation that the role of the consumer representatives at NAIC meetings is to serve as a liaison to the consumer advocacy community and to offer the consumer perspective; and 6) the following statement:

> **The NAIC provides an equal opportunity for all applicants and does not discriminate based on: race, creed, color, sex, sexual orientation, gender identity or expression, religion, age, national origin or ancestry, handicap or disability, marital status, pregnancy, genetic information, veteran or military status or any other status protected by law.**

B. Prospective consumer representatives are required to submit fully completed applications to the NAIC by October 31. (Partial or late applications will not be considered.) To be considered a fully completed application, the applicant must:

1. Submit a copy of his or her organization's by-laws, if available, reflecting the organization's mission to represent consumer interests and promote consumer protection, if the applicant is applying as a representative of a consumer organization.

2. Submit a completed and signed application with all required attachments.

3. Submit a signed NAIC Conflict of Interest Statement to disclose conflicts, if any, and acknowledge the NAIC's expectation that he or she will notify the Board of any potential conflict of interest as soon as one arises during the year. The Board will determine if a conflict exists and what action may be required on a case-by-case basis.

Section 6. Consumer Representative Qualifications

A. Applicants for the position of NAIC consumer representative shall:

1. Demonstrate a commitment to and experience with ~~consumer advocacy regarding~~ insurance regulatory issues;
2. ~~Demonstrate an expertise in insurance regulatory issues~~Represent a consumer organization or apply as an individual to represent a consumer perspective;
3. Demonstrate an ability to effectively advocate on behalf of ~~for~~ consumers in a collegial, respectful and professional manner;
4. Commit to ~~attending regular NAIC meetings absent exceptional circumstances, and commit to~~ participat~~eing~~ in the work of~~on~~ the NAIC, including attending NAIC meetings; contributing to the work of NAIC Committees, Task Forces, and Working Groups; and communicating and coordinating with other NAIC~~conference calls, including calls among~~ consumer representatives; and
5. ~~Only be considered for~~For reappointment, demonstrate a track record of participation at NAIC as defined in Item 4. above. ~~if he or she attends NAIC meetings and participates in NAIC meetings and NAIC calls.~~

B. Applicants for a funded representative position must describe in detail the applicant's need for NAIC funding, including his or her current source of funding. If he or she is applying as a consumer representative of an organization, he or she must submit the organization's most current annual budget.

C. At the completion of the selection process, successful applicants will be notified of his or her appointment as either a funded or unfunded consumer representative.

© 2024 National Association of Insurance Commissioners

D. The current Board will determine if unsuccessful applicants for funded positions may be considered for unfunded positions.

Section 7. Reimbursement of Expenses

NAIC funded consumers shall submit expense reports itemizing the costs of attending NAIC meetings according to the NAIC Funded Consumer Representative Guidelines for Reimbursement of Expenses located on the NAIC Consumer Participation web site.

Unfunded consumer representatives will not receive reimbursement for travel expenses from the NAIC but are eligible for other benefits, including waiver of the NAIC national meeting registration fees.

Section 8. Designated Consumer Representative Term

Designated consumer representatives are appointed by NAIC and consumer members of the Board and shall serve two-year terms; however, each must submit a recertification form for the second year of the term.

NAIC and consumer members of the Board will review recertification forms to determine if there is a reason a designated consumer representative should not continue to serve. If no reason is determined, the designated consumer representatives shall serve the second year of his or her two-year term.

Section 9. Representatives ~~Chosen to Represent an Organization~~Who Change Their Status Midyear

When~~If~~ an NAIC Consumer Representative wishes to change their status midyear to represent a different organization or represent consumers as an individual instead of on behalf of an organization, notification of the change in status is required to be sent to NAIC staff support in a timely fashion with the materials noted below.

A. If they want to apply to represent an organization that has previously participated in the program, they must complete the sections of the application relevant to personal conflicts of interest, sign a new conflict of interest form, complete sections of the application relevant to the organization's conflict of interest, and submit the organization's budget.
B. If they are applying to represent an organization that has not previously been represented at NAIC, they must complete the sections of the application related to the organization.
C. If they are applying to represent consumers as an individual after representing an organization, they must complete the sections of the application relevant to personal conflicts of interest and sign a new conflict of interest form.

In a timely manner, NAIC staff support will distribute the materials to all Board members for review, discussion, and a vote as to whether the change requested is acceptable for continuation as a NAIC Consumer Representative. ~~A vote to accept must include~~ A majority vote is required to approve a change in status. The majority vote must include at~~at~~ least two regulator members and two consumer members for the change to be approved. NAIC staff support will notify the Consumer Representative seeking the change of the Board's decision. The NAIC Consumer Representative would then continue to serve the remainder of their term.

~~A consumer representative chosen to represent an organization will be expected to resign their position if the representative ceases to be affiliated with the organization or if the organization ceases to exist.~~

~~Such a representative may apply to be an individual, independent consumer representative during the next annual application period.~~

Section 10. Further Information

Information about the NAIC Consumer Participation Program (application deadline, selection criteria, etc.) and complete listings of the current NAIC Consumer Representatives can be found on the NAIC website.

© 2024 National Association of Insurance Commissioners

Section 11. NAIC/Consumer Liaison Committee

A. The purpose of the NAIC Consumer Liaison Committee is to assist the NAIC in its mission to support state insurance regulation by providing consumer views on insurance regulatory issues. The Liaison Committee provides a forum for ongoing dialogue between NAIC members and NAIC consumer representatives.

B. To promote participation at NAIC meetings, the agenda of the NAIC Consumer Liaison Committee shall be set and distributed no later than 21 days prior to the next NAIC national meeting by the Chairperson of the NAIC Consumer Liaison Committee in consultation with one of the six consumer members of the Consumer Participation Board of Trustees. Any amendments made to this agenda are subject to the approval of the Chairperson of the NAIC Consumer Liaison Committee.

© 2024 National Association of Insurance Commissioners

Attachment Four
Executive (EX) Committee
8/14/24

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Draft: 8/9/24

Model Law Development Report

Amendments to the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171)—Amendments to Model #171 are required for consistency with the federal Affordable Care Act (ACA) and the revisions to its companion model act, the *Supplementary and Short-Term Health Insurance Minimum Standards Model Act* (#170). The Accident and Sickness Insurance Minimum Standards (B) Subgroup completed the revisions to Model #170 in late 2018, which the Executive (EX) Committee and Plenary adopted in February 2019. Therefore, they did not require approval of a Request for NAIC Model Law Development by the Executive (EX) Committee.

Soon after completing its work on Model #170, the Subgroup began considering revisions to Model #171. The Subgroup met every two weeks until December 2019. After a long hiatus since late 2019 due to the loss of a co chair, the COVID-19 pandemic, and other resource issues, the Subgroup resumed its meetings in June 2021. The Subgroup has been meeting on a regular basis to discuss the comments received on Model #171. During the last few months of 2022, the Subgroup's discussions focused on Section 8—Supplementary and Short-Term Health Minimum Standards for Benefits. This section establishes minimum standards for benefits for the products subject to the model, including accident-only coverage, hospital indemnity or other fixed indemnity coverage, and disability income protection coverage. The revisions also include a new section establishing minimum benefits for short-term, limited-duration (STLD) plans. The Subgroup completed its discussions of Section 8 in December 2022, including developing a new subsection establishing minimum benefit standards for STLD plans.

The Subgroup resumed its meetings in February 2023 and plans to continue meeting regularly to continue its discussions. It plans to work on the following Model #171 sections in this order: 1) the remainder of Section 8, including revisiting the proposed new subsection on STLD plans to discuss the Feb. 24, 2023, comments received on that section; 2) Section 7—Prohibited Policy Provisions; 3) revisit Section 5—Definitions and Section 6—Policy Definitions to reconcile any inconsistencies that may have arisen after the Subgroup's review of the substantive provisions of Model #171; and 4) Section 9—Required Disclosure Provisions. The Subgroup is completing work on Section 9—Required Disclosure Provisions. It recently completed its review of all the comments received on Model #171. The Subgroup set a public comment deadline of Dec. 1, 2023, to receive comments on the initial draft reflecting its discussions and preliminary revisions to Model #171. The Subgroup resumed its meetings in January to discuss the comments received. The Subgroup completed its review of those comments following the Spring National Meeting and distributed a draft reflecting all its discussions for final comment. The Subgroup received additional comments on the draft and began discussion of those comments in June. The Subgroup anticipates completing its discussion of the additional comments following the Summer National Meeting and will forward the proposed draft of revisions to Model #171 to the Regulatory Framework (B) Task Force for its consideration.

Amendments to the *Public Adjuster Licensing Model Act* (#228)—The Executive (EX) Committee approved a Request for NAIC Model Law Development for amendments to Model #228 during the 2024 Spring National Meeting. The Model Law Review Request provided guidance that Model #228 should be amended to strengthen regulatory standards governing the conduct of public adjusters for the following four issues: 1) individuals acting as unlicensed public adjusters; 2) contractors who are also acting as public adjusters on the same claim; 3) inappropriate assignment of benefit rights; and 4) excessive fees charged by public adjusters.

The Public Adjuster Licensing (D) Working Group met July 17, June 18, and April 5. During its April 5 meeting, the Working Group discussed proposed modifications to Sections 3 and 14 of the model, which address public adjuster fees. During its June 18 meeting, the Working Group discussed proposed amendments to Sections 15,

© 2024 National Association of Insurance Commissioners

16, and 19 of the model to strengthen regulatory standards regarding individuals acting as unlicensed public adjusters; contractors who are also acting as public adjusters on the same claim; and inappropriate assignment of benefit rights. During its July 17 meeting, the Working Group adopted proposed amendments.

The Producer Licensing (D) Task Force received comments on the model during its Aug. 13 meeting.

Amendments to the *Privacy of Consumer Financial and Health Information Regulation* (#672) —During the 2022 Summer National Meeting, the Executive (EX) Committee approved a Request for NAIC Model Law Development for a new model that would replace existing models in order to enhance consumer protections and corresponding obligations of entities licensed by insurance departments to reflect the extensive innovations that have been made in communications and technology. The Privacy Protections (H) Working Group approved this request on Aug. 2, 2022. The drafting process continued through 2023, culminating in the Working Group pausing its public activities to allow subject matter experts (SMEs) the time necessary to review the comments received, discuss the detailed concerns with individual companies, and develop wording that would address the needs of industry to conduct business while providing important consumer protection. The SMEs met twice a week on this endeavor.

With the Innovation, Cybersecurity, and Technology (H) Committee's recent adoption of an extension to Dec. 31, 2024, the Working Group also started 2024 with new leadership. Throughout the first part of the year, the new leadership focused on understanding the status of work to ensure a proper transition of responsibilities. Following the Spring National Meeting, the Working Group met to hear from an SME on the current privacy landscape. During a June 12 meeting, after hearing comments from interested parties, the Working Group adopted its path forward to revise the existing NAIC privacy model, Model #672. During its July 10 meeting, the Working Group: 1) discussed incorporating comments it had received on core privacy principles from regulators, industry, and consumer representatives into Model #672; and 2) announced it would be requesting volunteers to serve on the drafting group. The Working Group met Aug. 5 in regulator-to-regulator session to discuss next steps in preparation for the Summer National Meeting. During its Aug. 14 meeting, the Working Group will: 1) hear an update on federal privacy legislation; 2) hear a presentation on legacy systems and consumer data protections; 3) discuss record retention and data deletion; and 4) provide guidelines for drafting group volunteers.

© 2024 National Association of Insurance Commissioners

CLIMATE AND RESILIENCY (EX) TASK FORCE

Climate and Resiliency (EX) Task Force Aug. 13, 2024, Minutes..... 4-17

© 2024 National Association of Insurance Commissioners

Draft: 8/25/24

Climate and Resiliency (EX) Task Force
Chicago, Illinois
August 15, 2024

The Climate and Resiliency (EX) Task Force met in Chicago, IL, Aug. 15, 2024. The following Task Force members participated: Lori K. Wing-Heier, Co-Chair (AK); Ricardo Lara, Co-Chair (CA); Andrew R. Stolfi represented by Kirsten Anderson, Co-Vice Chair (OR); Jeff Rude, Co-Vice Chair (WY); Mark Fowler (AL); Alan McClain (AR); Barbara D. Richardson (AZ); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Sharon Shipp (DC); Trinidad Navarro represented by Alisa Pritchard (DE); Michael Yaworsky represented by Virginia Christy (FL); Gordon I. Ito (HI); Doug Ommen (IA); Ann Gillespie (IL); Sharon P. Clark (KY); Timothy J. Temple (LA); Kevin P. Beagan represented by Jackie Horigan (MA); Joy Y. Hatchette represented by Gregory Ricci and Kory Boone (MD); Anita G. Fox represented by Parker Fisher (MI); Grace Arnold represented by Peter Brickwedde (MN); Chlora Lindley-Myers (MO); Mike Chaney represented by Andy Case (MS); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Blaine Bergstedt (ND); Eric Dunning (NE); D.J. Bettencourt represented by Christian Citarella (NH); Scott Kipper represented by Nick Stosic (NV); Adrienne A. Harris represented by Robert Kasinow (NY); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Rick Wagnon (OK); Michael Humphreys represented by Jodi Frantz (PA); Elizabeth Kelleher Dwyer (RI); Michael Wise (SC); Scott A. White (VA); Tregenza A. Roach (VI); Kevin Gaffney (VT); Mike Kreidler represented by Jay Bruns (WA); and Nathan Houdek represented by Sarah Smith (WI).

1. Adopted its Spring National Meeting Minutes

Director Lindley-Myers made a motion, seconded by Commissioner Rude, to adopt the Task Force's March 18 (*see NAIC Proceedings – Spring 2024, Climate and Resiliency (EX) Task Force*) minutes. The motion passed unanimously.

2. Heard a Presentation from reThought Flood on its Innovative Flood Insurance Product

Commissioner Lara said this Task Force has prioritized understanding flood risk and recently heard several presentations on flood risks, atmospheric rivers, and innovative parametric insurance products. He said this presentation builds on the themes the Task Force has focused on during the past year, which is bringing together innovation and flood insurance.

Derek Lynch (reThought Flood) said as a flood insurance managing general agent (MGA), the goal of the reThought Flood product is to provide options to increase capacity for flood insurance writers and increase consumer take-up rates. He said reThought was founded in 2017, and the methodology was developed by top actuaries at global reinsurers.

Lynch said the two key pillars to close the protection gap are insurance and mitigation. He said the flood protection gap exists because 1) insurers and reinsurers are concerned about deploying capacity; 2) agents are not confident in selling the value of flood insurance; 3) insureds lack the awareness that they need coverage; and 4) mitigation is seldom employed. He said to close the protection gap, insurers must see that coverage can be provided profitably and sustainably. He said when there is more capacity and more companies writing flood insurance, there will be better coverage and more affordable premiums, which will lead to increased take up. He said this would result in increased premium revenue and insurer profitability.

Lynch said in terms of mitigation, technology has allowed companies to better predict what flooding will look like at a building level. He said with this increase in predictability, companies can better educate consumers, insurers,

© 2024 National Association of Insurance Commissioners

and mitigators on the best mitigation strategy for their specific type of flooding. He said increased mitigation leads to the prevention of flood losses.

Lynch said reThought is working on an initiative to provide admitted insurance carriers the tools they need to provide an admitted product with better coverage. He said this coverage would include replacement cost for primary and secondary dwellings; replacement costs for contents; unrestricted basement coverage; additional living and extra expenses; more than one dwelling per policy; more flexible terms and higher limits; broader eligibility for other structures; and broadening the product wherever possible while maintaining affordable premiums. He said the education needed for the rollout of this product includes awareness of the need for coverage; risk-appropriate pricing; education to consumers on their specific risk; timely materials before, during, and after an event; education for agents on how to discuss and sell flood; direct work with customers on attainable mitigation; and mitigation incentives.

Lynch said most of the smaller companies reThought would be working with do not have catastrophe claims experts. He said they plan to work with third-party administrators (TPAs) with experienced adjusters to make sure claims are fast, seamless, and fair. Lynch said regarding rating, historically, most programs, including the National Flood Insurance Program (NFIP), have used flood zones to establish rates. He said that because 40% to 50% of flooding happens outside special flood hazard areas, flood zones for rating are no longer used. He said other approaches include using territory-based mapping, third-party scores, or single models. He said that while models can have holes, artificial intelligence (AI) can help solve this problem by using detailed information about each location or building. He said reThought uses a multiple model approach with its flood resilience score to rate on a building basis.

Director Wing-Heier asked how regulators will know if reThought is working with companies in their state. Lynch said reThought has been reaching out to state insurance regulators to review its product, even when rate filing is not required for flood insurance in that state.

Commissioner Ommen said the private flood insurance market is important because it assists consumers in accessing information about their flood risk and encourages the purchase of flood insurance.

Brickwedde asked how large a mitigation project needs to be to impact rating and the flood resilience score. Lynch said they have a list of homeowner-level mitigations that have been proven to increase resilience, and employment of one of these mitigations would decrease their deductible percentage.

Cabinet Executive Officer (CEO) Richardson asked if there is concern that certain homeowner-level mitigations could increase downstream effects to nearby houses. Lynch said community-level mitigations should be considered and implemented along with homeowner-level mitigation.

Chou asked if reThought has worked with a consulting firm to have its flood model application sent to the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM). Lynch said its model has not been sent for outside review but has been reviewed and accepted by reinsurers and regulators.Chou asked if AI is used to bring in external information into geographic location information to determine total insured value. Lynch said the AI approach lets reThought take additional detailed information and do a better assessment at a building level to find gaps in model data.

Director Lindley-Myers asked what type of commercial business might be able to use this product. Lynch said reThought writes most types of commercial risks. Director Lindley-Myers asked how the pricing of this product is lining up against the NFIP. Lynch said its product is reasonably competitive with NFIP offerings, but reThought offers broader coverage.

© 2024 National Association of Insurance Commissioners

Commissioner Gaffney asked if there are regional restrictions to the reThought tools. Lynch said there are no regional restrictions within the U.S. He said because it would require a different data set, the tools cannot be used internationally. Commissioner Gaffney asked if, at some point, consumers would be able to access the general cost for coverage at their property. Lynch said they want to make available assessments of buildings so consumers can get a concept of their risk and make it fast and easy for agents to provide that coverage.

3. Heard a Presentation from Marsh McLennan on the *Global Risks Report 2024*

Lorraine Stack (Marsh McLennan) gave a presentation on Marsh McLennan's *Global Risks Report 2024*, which examines the global insurance markets and identifies current and upcoming risks in both the near future and the longer term.

Stack said that from 2011 to 2014, risk perception was more heavily focused on economic risk. Starting around 2017, environmental risks became more important, and technology risks have recently come into focus. Stack said those surveyed for this report responded that in the near future, top risk concerns include technological concerns, such as misinformation and disinformation and cyber insecurity; environmental concerns, such as extreme weather events and pollution; and societal concerns, such as polarization, lack of economic opportunity, and involuntary migration. She said when focused on a 10-year outlook, many of the concerns were more focused on environmental risks. She said these risks are complex, layered, and highly interconnected, such as extreme weather events leading to involuntary migration.

Stack said two of the major risks where businesses have been seeing an impact are: 1) AI and cyber risks, including AI-generated misinformation, impacts on upcoming elections worldwide, and AI-fueled cyberattacks; and 2) supply chains in distress due to geopolitical impacts and extreme weather events.

Stack said the identified risks in this report could have certain insurance impacts on business, including: 1) capacity withdrawals; 2) changes to policy wording and conditions; 3) differentiated solutions for high-performing customers; and 4) innovation leading to new products.

Stack said insurance may not be available or cost-effective for certain risks in the future. She said they are advising clients to take a longer-term view of risk and build resilience. She said to expect to see growth in alternative risk financing structures, such as risk mutualization, parametric solutions, and captives or special purpose reinsurance vehicles.

4. Received an Update on Deliverables from the Climate Resilience Strategy

Commissioner Lara said the *NAIC National Climate Resilience Strategy for Insurance* (Climate Resilience Strategy) was adopted this year, and the Task Force has begun initial work on some of the deliverables found within the strategy document. One deliverable under Action 1 was to establish a Climate Risk Dashboard. This aligns with the priority to identify and address protection gaps in state insurance markets.

Commissioner Lara said the dashboard is intended to be a tool for regulators, and NAIC staff have made some initial progress in finding sources of data and pulling together information that can be refined by the members. He said this dashboard is very timely for many states that are trying to build further understanding of wildfire risk, convective storm risk, flood risk, and what that means for protection gaps.

Tim Nauheimer (NAIC) provided a high-level update and outlined the next steps for identifying key priorities to develop the dashboard. Nauheimer said NAIC staff have been meeting every two weeks for the past few months to establish a climate risk dashboard framework building off the version that was presented to the Task Force last year. The draft dashboard includes three sections: a physical risk section, a coverage trends section, and a

© 2024 National Association of Insurance Commissioners

transition risk section. The coverage trends section contains protection gap, affordability, and availability types of measures. He said on bi-weekly calls, NAIC staff collaborated to identify risk indicators for each of the three sections. For each indicator, there is also a trend and risk level. He said the sources and availability of historical data were carefully researched to be able to identify trends and risk levels, and forward-looking modeled data is also considered.

Nauheimer said the next step is to create a regulator-only drafting group to continue developing the dashboard. The group would determine how the dashboard's results would be communicated, and he envisions a public summary of the dashboard with detailed Excel-type metrics that are regulator-only.

5. Received an Update from its Climate Risk Disclosure Workstream

Commissioner Lara said the Climate Risk Disclosure Workstream hosted two meetings this summer. The first meeting, held on June 13, highlighted the best practices for small- and medium-sized companies for completing their climate risk disclosures. The workstream heard from David Carlin (United Nations Environment Programme Finance Initiative—UNEP) and Steven Rothstein (Ceres) on trends in the completion of the disclosure from small- to medium-sized companies. The workstream also heard from Olivia Brindle (The Fidelis Partnership), and Gaby Polanco-Sorto (Gore Mutual Insurance) on each company's processes surrounding its climate risk disclosure filing.

Commissioner Lara said the second meeting was a presentation from Ceres on its report on the climate risk disclosure survey analysis. He said this is the second year that Ceres has conducted this analysis, and its report is based on the disclosure responses of 516 insurance groups. It examines the progress and remaining challenges these groups have shown in integrating climate-focused strategies throughout their governance and risk management processes. Commissioner Lara said recordings of these meetings can be found on the NAIC Climate Risk and Resiliency Resource Center. He said the workstream will continue to look for ways to provide education for companies on best practices for completing their climate risk disclosure, as well as providing sessions to hear from those analyzing the contents of the disclosures.

6. Received a Federal Update

Shana Oppenheim (NAIC) summarized several key legislative proposals in Congress related to disaster resilience and insurance. Additionally, she covered other congressional activities, including relevant hearings, as well as some recent Federal Emergency Management Agency (FEMA) activities, events from the Federal Housing Finance Agency (FHFA) and the U.S. Department of Housing and Urban Development (HUD), some interest on the Property & Casualty Insurance Market Intelligence (PCMI) Data Call from Capitol Hill, the U.S. Securities and Exchange Commission's (SEC's) disclosure reporting rule, and the U.S. Department of the Treasury's (Treasury Department's) actions and initiatives from the White House.

Oppenheim said on the legislative side, the Homeowners' Defense Act allows the Treasury Department to guarantee debt issued by state catastrophe insurance programs that support the private insurance market and offer residential property insurance. She said a Senate bill on flood insurance premiums proposes an above-the-line tax deduction for flood insurance premiums to make coverage more affordable. She said the Prevent Environmental Hazards Act (H.R. 8637) authorizes NFIP payouts for structures condemned due to chronic erosion or unusual flooding, allowing advance payouts for demolition or relocation. She said the Fix Our Forests Act aims to streamline permitting processes for forest management projects to mitigate wildfire risks by expediting reviews and reducing litigation delays, and the Disaster Resiliency and Coverage Act of 2024 (H.R. 7849) proposes a federal grant program providing a 30% tax credit and up to $10,000 in incentives for homeowners in disaster-prone regions, with several revisions to empower state regulators and focus on mitigation efforts.

© 2024 National Association of Insurance Commissioners

Oppenheim said in congressional actions, Sen. Elizabeth Warren (D-MA) and Rep. Sean Caston (D-IL) have urged federal banking regulators to address climate-related financial risks, citing data gaps and modeling challenges. She said they have accused federal U.S. regulators of hindering global climate-risk standards and have pressed for explanations from the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC). Federal Reserve Chair Jerome Powell has publicly stated that the Federal Reserve does not intend to be a climate policymaker.

Oppenheim said Capitol Hill remains interested in the PCMI Data Call. She said U.S. Secretary of the Treasury Janet Yellen was testifying on international monetary markets during a recent House hearing, and Casten raised concerns with the progress and scope of the NAIC's data collection. He suggested that the federal government engage in more oversight of insurers through the Financial Stability Oversight Council in light of increasing property insurance premiums and natural disasters. Additionally, the Senate Budget Committee held a hearing on June 5 titled "Riskier Business: How Climate Is Already Challenging Insurance Markets," where democratic witnesses highlighted the negative impacts of climate change on the property/casualty (P/C) insurance market, while Republicans focused on inflation's role in driving insurance premiums. She said Sen. Harry Reid (D-NV) did a great job at discussing rising insurance premiums, proactive mitigation, supporting competitive markets, and sensible regulation.

Oppenheim said regarding federal agencies, HUD and FHFA have continued to express interest in the issue of affordability, specifically in multi-family housing, and the insurance and resilience piece involved. She said they have held several symposiums in Washington, DC, over the past several months, engaging relevant stakeholders. Additionally, following February seller's guide clarifications, the FHFA began engaging stakeholders to address property insurance requirements. She said they have met with various stakeholders to discuss compliance challenges related to replacement cost value versus actual cost value and are continuing to engage on that and expects further outreach on that issue.

Oppenheim said the Treasury Department held round tables with insurers reinsurers, and catastrophe (CAT) modeling firms to discuss natural catastrophe risks in the U.S. insurance markets, as well as the PCMI Data Call. She said Sen. Jackie Rosen (D-NV) sent a letter to the Federal Insurance Office (FIO), urging action on the rising costs and decreased availability of insurance for homeowners.

Oppenheim said the House Financial Services Subcommittee on Oversight Investigations held a field hearing to discuss the SEC's climate disclosure rule, marking the first official hearing since the SEC updated its rule in March to remove the requirement at disclosure for scope three emissions. Also, in March, the 5th U.S. Circuit of Court of Appeals temporarily halted the SEC's climate reporting rule due to compliance costs concerns from the regulated companies and arguments from the U.S. Chamber of Commerce. She said the SEC paused the rule, pending legal challenges, and the House Financial Services Committee has to continue to hold hearings criticizing the SEC's rule.

Oppenheim said the White House awarded $120 million to Tribal Nations for 146 climate resilience projects, addressing sea level rise, wildfire, and drought, while trying to incorporate indigenous knowledge. She said there is a new flood protection rule through HUD, which is the Federal Flood Risk Management Standard, and it expands flood plains and imposes stricter requirements on federally backed housing construction, though developers have expressed concerns about increased costs. She said the administration has also introduced a heat and health index tool to identify heat-related risks by zip code, launched a climate capital guidebook to help climate-related startups and small businesses access federal funding, and launched a new beta website and mapping tool to help users identify high flood risk areas.

Oppenheim said FEMA has been active in this space, transferring NFIP risk to the reinsurance and capital markets, offering funding through Swift Current, and offering regional catastrophe preparedness grants. She said FEMA has also finalized a rule requiring projects to use its funds to consider future flood risks exacerbated by the changing

© 2024 National Association of Insurance Commissioners

climate. Effective Sept. 9, this standard mandates that plans reflect future flood risks based on the best available science with studies showing that every dollar spent on resilience saves one dollar in future damages.

Having no further business, the Climate and Resiliency (EX) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/EX CMTE/CRTF/2024_Summer/crtf-minutes-0815 DRAFT

© 2024 National Association of Insurance Commissioners

GOVERNMENT RELATIONS (EX) LEADERSHIP COUNCIL

The Government Relations (EX) Leadership Council did not meet at the Summer National Meeting.

© 2024 National Association of Insurance Commissioners

SPECIAL (EX) COMMITTEE ON RACE AND INSURANCE

Special (EX) Committee on Race and Insurance Aug. 13, 2024, Minutes 4-25

© 2024 National Association of Insurance Commissioners

Draft: 8/28/24

Special (EX) Committee on Race and Insurance
Chicago, Illinois
August 13, 2024

The Special (EX) Committee on Race and Insurance met in Chicago, IL, Aug. 13, 2024. The following Special Committee members participated: Andrew N. Mais, Co-Chair (CT); Jon Godfread, Co-Chair (ND); Elizabeth Kelleher Dwyer, Co-Vice Chair (RI); Lori K. Wing-Heier (AK); Mark Fowler (AL); Alan McClain (AR); Ricardo Lara (CA); Michael Conway (CO); Doug Ommen (IA); Ann Gillespie (IL); Amy L. Beard (IN); Timothy J. Temple (LA); Kevin P. Beagan (MA); Joy Y. Hatchette (MD); Robert L. Carey (ME); Anita G. Fox (MI); Grace Arnold (MN); Chlora Lindley-Myers (MO); Mike Causey (NC); Eric Dunning (NE); Justin Zimmerman (NJ); Judith L. French (OH); Glen Mulready (OK); Michael Humphreys (PA); Michael Wise (SC); Cassie Brown (TX); Kevin Gaffney (VT); Mike Kreidler (WA); Nathan Houdek (WI); and Jeff Rude (WY). Also participating were: Chandara Phanachone (CA) and Gary Jones (PA).

1. Adopted its Spring National Meeting Minutes

Commissioner Godfread made a motion, seconded by Commissioner Gaffney, to adopt the Special Committee's March 16 minutes (*see NAIC Proceedings – Spring 2024, Special (EX) Committee on Race and Insurance*). The motion passed unanimously.

2. Received a Status Report on its Health Workstream

Commissioner Arnold reported that the Special Committee's Health Workstream met in regulator-to-regulator session after the Spring National Meeting to consider its activities and initiatives for 2024. During this meeting, the Workstream discussed its potential year-end deliverables, including developing a referral document based on its work to date for other NAIC groups to explore and delve more into issues the Workstream has identified that could potentially promote health equity.

The Workstream also decided to restart its discussion on data collection through learning sessions focusing on what insurers need with respect to data as part of their efforts to promote health equity. The Workstream will schedule meetings in September and October to hold these discussions.

The Workstream also plans to continue its work on its collaborative space on NAIC Connect. The Workstream intends NAIC Connect to be a platform where Workstream members can share with other NAIC members the information it has gathered during its meetings on removing barriers to health insurance for historically disadvantaged communities. The thought is that the Workstream's NAIC Connect page would be a living resource for the NAIC Membership, and it can continue to build content and other tools for the states on this site. In addition, the Workstream hopes this site can also serve as a platform for discussions and conversations related to health equity and other related topics, including adding blog posts from various stakeholders on issues and topics relevant to its work.

The Workstream recently published a guest blog post on its NAIC Connect page from Blue Cross and Blue Shield of Minnesota (Blue Cross MN): "Addressing inequities through a commitment to gender care." Blue Cross MN will participate in the Diversity, Equity, and Inclusion (DE&I) Member Diversity Leadership Forum meeting later today, which will discuss "Coverage in Transition: Making Health Insurance Work for Transgender Beneficiaries."

© 2024 National Association of Insurance Commissioners

3. Received a Status Report on its Life Workstream

Commissioner Humphreys reported that the Special Committee's Life Workstream met Aug. 5, April 25, and March 28. Commissioner Humphreys reported that during its Aug. 5 meeting, the Workstream heard from Sharon Dietrich (Community Legal Services of Philadelphia). She gave a presentation on Clean Slate initiatives and had some questions and comments following the American Council of Life Insurers (ACLI) presentation in April.

Commissioner Humphreys also reported that the Workstream exposed a draft survey asking about insurers' use of criminal history in life insurance underwriting for a 30-day public comment period ending Sept. 5. The draft survey is 11 questions, focused on underwriting, cut back from a broader initial draft that was looking to gather information about the use of criminal history relative to producer engagement, company operations, use of data, product design, as well as its use in underwriting. The Workstream plans to meet in September to discuss any feedback received.

During its April 25 meeting, the Workstream heard a presentation from the ACLI on the use of criminal history in life insurance underwriting.

The Workstream also finalized two work products. The first was the Financial Wellness Resource Guide, a project started by the Workstream in 2023. This document highlights financial literacy initiatives in DC, MD, and OR. The Resource Guide is intended to be helpful to all insurance departments looking to take action to improve access and understanding in underserved communities. The Workstream hopes that in the future, additional states and outside organizations will add information to the Resource Guide so that it can become a robust resource for states looking to implement financial literacy initiatives.

The Workstream also adopted a draft endorsement supporting state legislation requiring a financial literacy course as a prerequisite to high school graduation. As was noted in the presentation from John Pelletier (Champlain College Center for Financial Literacy) about the Center for Financial Literacy's 2023 National Report Card on State Efforts to Improve Financial Literacy in High Schools, mandatory financial literacy courses in high schools make the biggest difference in the lives of kids in underserved communities.

During its March 28 meeting, the Workstream continued its focus on barriers to access to life insurance for people in underserved communities, focusing on criminal history. The Workstream heard several interesting presentations that provided different perspectives on how justice-impacted individuals continue to face barriers long after committing a crime. The Workstream heard from Chastity Murphy (U.S. Department of the Treasury—Treasury Department) about some of the current Treasury Department initiatives seeking to address barriers in financial services for justice-impacted individuals.

The Workstream heard from Jo-Ann Wallace (National Legal Aid & Defender Association [NLADA] Mutual Insurance Co., Risk Retention Group [RRG]), who spoke about the obstacles created by the intersection of racial bias and a criminal record. The negative public perception of individuals with criminal records acts as a barrier for many businesses to engage with this community. She suggested some ways the NAIC might help remove barriers to insurance for people with a criminal record.

The Workstream also heard from Shannon Ross (The Community). The Community is an organization focused on correcting the common misperceptions about justice-impacted individuals through videos, presentations, and conferences. Ross is also the host of the All In All Out podcast. He spoke about his personal experiences trying to purchase life insurance as a formerly incarcerated individual.

The Workstream heard from Raymond Robinson (Raymond Robinson Group LLC), who spoke about the challenges he has experienced in finding suitable life insurance products for individuals with a criminal history.

© 2024 National Association of Insurance Commissioners

The Workstream also heard from Peter Kochenburger (Southern University Law School), who spoke about the use of criminal history data in insurance.

4. Received a Status Report on its P/C Workstream

Commissioner Gaffney reported that the Property/Casualty (P/C) Workstream met Aug. 12 and heard presentations related to various definitions of discrimination in the insurance industry. The Workstream heard from Kay Noonan (NAIC), who provided it with a base understanding of terms defined in the legal space, such as unfair discrimination, disparate treatment, disparate impact, and proxy discrimination. The Workstream also heard a consumer perspective from Peter Kochenburger and industry perspectives from Robert Gordon (American Property Casualty Insurance Association—APCIA) and Tony Cotto (National Association of Mutual Insurance Companies—NAMIC), where the Workstream discussed unintentional and intentional requirements for these terms as well as risk-based pricing aspects. Finally, Ken Williams (Casualty Actuarial Society—CAS) provided an actuarial perspective, including an overview of a study related to definitions and a preview of other upcoming CAS papers.

Commissioner Gaffney reported that the Workstream met June 20 in regulator-to-regulator session to hear an update from Commissioner Karima M. Woods (DC) about the District of Columbia Department of Insurance, Securities and Banking (DISB) initiative to evaluate unintentional bias in private passenger automobile (PPA) insurance. Commissioner Gaffney said the Workstream also met June 3 and heard from consumer groups about homeowners insurance messaging to underserved communities and research related to uninsured homeowners trends.

Commissioner Gaffney stated that the Workstream plans to receive an update on DC's final report, investigate California's low-cost auto program, and discuss how the Property & Casualty Market Intelligence (PCMI) Data Call results can be leveraged.

5. Received an Update on the Member Diversity Leadership Forum

Chandara Phanachone, co-chair of the Member Diversity Leader Forum, reported that the DE&I Leadership Forum's mission is to be able to share knowledge and resources, provide thought leadership for regulatory training coursework, and enable the NAIC and its regulated entities. Ms. Phanachone provided an update on the DE&I Leadership Forum's strategic plan, stating the Forum continues to collaborate on projects that highlight best practices in DE&I for collaboration. She said the DE&I Leadership Forum shares best practices by presenting at the Insurance Public Policy Summit and the NAIC International Insurance Forum and works with other countries to share best practices, increase community engagement by amplifying the disability inclusion pipeline and supporting other NAIC pipeline projects, and increase education and awareness by launching Phase 2 of the DE&I Regulator Coursework to further education and awareness of diversity in the insurance industry.

Gary Jones, co-chair of the Member Diversity Leader Forum, provided a shared learning update stating that the DE&I Leadership Forum heard presentations, including one from Patrick Smock (RI), who informed the Forum of Rhode Island's financial literacy for youth initiative. The forum also heard from Ron Henderson (LA), who provided information about the diversity of opportunities and the importance of building a diverse recruitment pipeline for insurance careers.

The Forum heard from Alycia Anderson (The Alycia Anderson Company) in July. Mr. Jones explained that Ms. Anderson is a disability inclusion champion and advocate, TEDx speaker, and California Insurance Diversity Task Force appointee. At that meeting, Ms. Anderson shared the meaning behind Disability Pride Month, which is celebrated in July because it aligns with the anniversary of the Americans with Disabilities Act of 1990 (ADA). The

© 2024 National Association of Insurance Commissioners

ADA ushered in a new era of diversity and disability inclusion. Ms. Anderson stated that Disability Pride Month encourages people to embrace their identities and promotes disability rights in order to create a more inclusive world.

6. Heard an Update from the American Academy of Actuaries (Academy) on its HEC

Annette V. James (American Academy of Actuaries—Academy) provided an overview of the Academy's Health Equity Committee (HEC) and its accomplishments over the past four years. Ms. James explained that the HEC was created in 2020 to provide an actuarial perspective on health equity. The HEC focuses on evaluating actuarial practices in the context of health equity, educating actuaries and other stakeholders on health equity issues, and applying an equity lens when considering the impact of current or proposed health care policies. The HEC publishes issue briefs exploring health equity topics in actuarial practice and held a symposium on equity-enhancing benefits in the employer coverage space in November 2023.

Ms. James further explained that the HEC hosted a discussion group with a broad range of participants on the successes and challenges of incorporating equity-enhancing benefits in employer health plans. Ms. James stated that the areas and focus of the symposium were the process and challenges to incorporating equity-enhancing features, how benefit changes are evaluated, how to incorporate the voices of the people being served, and addressing implementation challenges. The HEC held four workshops in 2023 and had a subsequent release of related issue briefs. Ms. James explained that the 2023 Workshop Series provided an opportunity for actuaries to gain a broader perspective and opportunities for non-actuaries to understand the actuarial perspective.

Ms. James explained the importance of data, stating that data drives decisions that impact health coverage. Actuaries use data for pricing benefits, forecasting, reserving, risk adjustment accruals, population management programs, and provide contracting. Data is used in determining the efficacy of those benefits. Actuaries use data to measure and monitor health disparities and health equity. Ms. James explained that there are challenges in collecting the data in a consistent format with the types of information needed to measure equity. The collection of that data may be limited, and the data may be imperfect, but it still could be usable. Ms. James explained that policy experts have stated that they have not moved the needle on equity because they do not have good data. Ms. James also stated that while actuaries love perfect data, there is no reason to wait for perfect data to make changes.

Ms. James presented the limitations of claims data and explained that claims data only reflects claims of those using the health care system. For historically marginalized groups, claims understate risk and unmet needs. Ms. James further explained that claims data does not always include key information needed to measure disparities. To combat this, combining data from other sources could be helpful. For example, enrollment data, clinical data, and social risk indices. However, actuaries must understand the limitations and risks of using data from different sources.

When evaluating benefits, actuaries need to evaluate cost and cost-effectiveness. The HEC has been looking for a better metric for success in evaluating benefit programs and entities. Participants of the symposium suggested that cost-effectiveness may be a better metric to incorporate the true value of a program. Ms. James explained that the advantages of using cost-effectiveness as a metric are that it reflects not only health costs but also desired health outcomes and the impact on total benefits supports using a longer time horizon to see the value of the benefit, and helps reframe the evaluation of benefit options to prioritize high-value care that improves health.

Ms. James explained the challenges of implementing a cost-effective approach to evaluating benefits. She explained that the challenges include: 1) it might be difficult to attribute results to specific benefits or initiatives; 2) there is a lack of uniform metrics to measure health and health outcomes; 3) there is a risk of misinterpreting

© 2024 National Association of Insurance Commissioners

clinical information; 4) the cost is much more easily understood and accepted and decision-makers may not prioritize cost-effectiveness; and 5) there is a lack of data to support a cost-effective approach.

Ms. James highlighted the regulatory issues affecting the implementation of equity-enhanced benefits. The following regulatory issues were found: 1) laws are often not designed with an equity lens; 2) state and federal limitations on the collection and use of data; and 3) federal and state laws may limit the ability to enhance benefits.

The HEC's 2024 focus is on behavioral health. The HEC is focusing on using cost-effectiveness to evaluate enhanced behavioral health benefits, as opposed to using only cost. This requires evidence to connect the dots and incorporate other factors into actuarial analysis, such as non-financial outcomes and impact on other medical spending. The HEC is focusing on using behavioral health to develop a framework that could be generalized for other health benefits. Ms. James, in conclusion, informed the Committee of the 2024 Academy Annual Meeting, which is Oct. 15–16 at the Grand Hyatt in Washington, DC. Ms. James highlighted the health-specific breakout sessions. The first breakout session, "Broadening the Focus: Incorporating Indirect Costs/Savings and Non-Financial Outcomes," can be attended virtually or in person. The other breakout sessions are "Integration of Care for Dual-Eligible Beneficiaries Across Medicare" and "Medicaid and Regulating the Affordable Care Act: What's New for 2025?"

Acting Director Gillespie asked a question regarding Ms. James's point that health care claims are not predictive of unmet needs. She said she was wondering if there were more specifics on the type of data that might help illustrate those unmet needs. Ms. James responded that the Academy has not specifically identified other data elements, but generally, it would be data collected in other areas like emergency room utilization or similar data. Ms. James said that the HEC is not focused on that at this point.

Having no further business, the Special (EX) Committee on Race and Insurance adjourned.

SharePoint/NAIC Support Staff Hub/Committees/EX CMTE/SCORI/2024_Summer/Final Minutes & Summary/Minutes – Special (EX) Committee on Race and Insurance.docx

© 2024 National Association of Insurance Commissioners

This page intentionally left blank.

© 2024 National Association of Insurance Commissioners

LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

Life Insurance and Annuities (A) Committee Aug. 14, 2024, Minutes 5-2
Life Insurance and Annuities (A) Committee July 15, 2024, Minutes (Attachment One) 5-11
Accelerated Underwriting (A) Working Group Aug. 6, 2024, Minutes (Attachment Two) 5-13
Accelerated Underwriting (A) Working Group July 11, 2024, Minutes (Attachment Two-A) 5-14
Accelerated Underwriting (A) Working Group June 13, 2024, Minutes (Attachment Two-A1) 5-22
Accelerated Underwriting (A) Working Group April 3, 2024, Minutes (Attachment Two-A2) 5-24
Accelerated Underwriting (A) Working Group Regulatory Guidance Document Adopted Aug. 14, 2024 (Attachment Three) 5-26
Accelerated Underwriting (A) Working Group Referral to the Market Conduct Examination Guidelines (D) Working Group Adopted Aug. 14, 2024 (Attachment Four) 5-66
Financial Wellness Resource Guide (Attachment Five) 5-68
Life Workstream of the Special (EX) Committee on Race and Insurance's Endorsement of Financial Literacy Courses in High School (Attachment Six) 5-80

© 2024 National Association of Insurance Commissioners

Draft: 8/21/24

Life Insurance and Annuities (A) Committee
Chicago, Illinois
August 14, 2024

The Life Insurance and Annuities (A) Committee met in Chicago, IL, Aug. 14, 2024. The following Committee members participated: Judith L. French, Chair (OH); Doug Ommen, Co-Vice Chair (IA); Carter Lawrence, Co-Vice Chair (TN); Mark Fowler (AL); Barbara D. Richardson (AZ); Karima M. Woods represented by Stephen Flick (DC); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Elizabeth Kelleher Dwyer represented by Matt Gendron (RI); Scott A. White represented by Craig Chupp (VA); and Nathan Houdek (WI). Also participating were: Nour Benchaaboun (MD); Fred Andersen (MN); Eric Dunning (NE); Michael Humphreys (PA); and Rachel Hemphill (TX).

1. Adopted its July 15 Minutes

Director French said the Committee met July 15 and took the following action: 1) adopted its 2022 Spring National Meeting minutes; and 2) adopted the 2025 revisions to the *Valuation Manual*.

Commissioner Ommen made a motion, seconded by Commissioner Lawrence, to adopt the Committee's July 15 minutes (Attachment One). The motion passed unanimously.

2. Heard a Federal Update

Taylor Walker (NAIC) gave an update on the U.S. Department of Labor's (DOL's) proposed Retirement Security Rule, also known as the fiduciary rule, and amendments to the prohibited transaction exemptions (PTEs), which exempt fiduciaries from what would otherwise be prohibited conflicts. Walker reminded the Committee that the rule was issued in November 2023 with a 60-day public comment period. However, as many noted at the time, the comment period really amounted to only 30+ business days with offices closed during the holidays. After a brief review by the Office of Management and Budget (OMB), the final version of the fiduciary rule was published in the Federal Register on April 25, 2024. The DOL made some slight changes to the final version of the fiduciary rule, but the most significant updates, the ones that will impact industry most, remain intact.

Walker explained that the fiduciary rule: 1) expands the definition of an investment advice fiduciary. Fiduciary status applies to nearly all financial professionals who provide retirement guidance, including life insurers who sell annuity products; 2) the new fiduciary definition eliminates the requirement that advice be given on a "regular basis." Now, one-time advice, including rollover recommendations, is considered fiduciary advice; and 3) the fiduciary rule adds additional restrictions and requirements to the PTEs.

Walker explained that most of the fiduciary rule was set to take effect on Sep. 23, 2024. But last month, two federal district courts in Texas, in two separate cases, stayed the rule. This means that industry does not have to comply with the fiduciary rule until the lawsuits are resolved. The first suit was filed by the Federation of Americans for Consumer Choice (FACC), along with several independent insurance agents. The second was brought by nine insurance trade associations, including the American Council of Life Insurers (ACLI), National Association of Insurance and Financial Advisors (NAIFA), Insured Retirement Institute (IRI), and National Association for Fixed Annuities (NAFA). In both court cases, the judges noted that the fiduciary rule shares many of the same legal defects as the Obama-era 2016 fiduciary rule and exceeds the DOL's statutory authority. The DOL is expected to appeal to the conservative Fifth Circuit, which has been hostile to past Biden administration policies.

© 2024 National Association of Insurance Commissioners

3. Adopted the Report of Life Actuarial (A) Task Force

Hemphill said the Life Actuarial (A) Task Force met Aug. 11–12 at the Summer National Meeting. Hemphill said the Valuation Manual (VM)-22 (A) Subgroup continues to develop principle-based reserving (PBR) requirements for non-variable annuities and is currently conducting a field test that will run through September. The planned initial effective date is Jan. 1, 2026, with a three-year implementation period that ends on Jan. 1, 2029, after which PBR will become mandatory for non-variable annuity contracts on a prospective basis.

Hemphill said that for indexed universal life policies (IUL), Task Force members have reviewed company illustrations to assess compliance with current Actuarial Guideline *XLIX-A—The Application of the Life Illustrations Model Regulation to Policies With Index-Based Interest Sold on or After December 14, 2020* (AG 49-A) requirements and identify any concerns. Members found that the latest revisions to 49-A appeared initially effective in addressing maximum illustrated rate company outliers. However, Task Force members were surprised to find the inclusion of hypothetical returns or historical averages displayed in the illustrations alongside the maximum illustrated rates. As a next step, state insurance regulators will be following up with companies to better understand how companies see this practice as fitting within the current requirements.

Hemphill reported that for the generator of economic scenarios (GOES), progress continues with the Task Force having received a presentation on model office results. The Task Force is also hearing company presentations in regulator-only sessions on their individual results from the second economic scenario generator field test. So far, companies have noted tremendous improvement in the scenarios and generator since the first field test, but they have also noted additional tweaks that they believe would improve the generator and resulting scenarios. Companies also have noted that their results are directionally consistent with those from the model office, indicating it is an effective tool for obtaining a general understanding of potential industry impacts. The planned effective date of the updated generator is Jan. 1, 2026.

Hemphill said the Task Force exposed a draft actuarial guideline on asset adequacy testing (AAT) when there is reinsurance ceded. The Task Force plans on discussing comments received at the Fall National Meeting, as well as discussing specifically: 1) the scope of the actuarial guideline; and 2) the level of aggregation of results (e.g., by line of business for a given counterparty or by counterparty) during interim meetings leading up to the Fall National Meeting.

Chupp made a motion, seconded by Commissioner Arnold, to adopt the report of the Life Actuarial (A) Task Force. The motion passed unanimously.

4. Adopted the Report of the Accelerated Underwriting (A) Working Group

Commissioner Houdek said the Accelerated Underwriting (A) Working Group met Aug. 6, July 11, June 13, and April 3. During these meetings, the Working Group established a work plan, followed it, and adopted a guidance document for state insurance regulators on accelerated underwriting in life insurance and a referral to the Market Conduct Examination Guidelines (D) Working Group to consider revisions to the *Market Regulation Handbook.* Commissioner Houdek noted that the project history for the *Regulatory Guidance and Considerations* (Attachment Three) explains that the effort to develop regulatory guidance started years ago, with the Educational Report adopted by the Life Insurance and Annuities (A) Committee in 2022. Commissioner Houdek explained that a small drafting group met biweekly during 2022 to develop draft regulatory guidance that was exposed for comment in January 2023. Comments were submitted in the spring of 2023, but revisions to that draft were paused for the remainder of 2023 while the Innovation, Cybersecurity, and Technology (H) Committee finished the *Model Bulletin on the Use of Artificial Intelligence (AI) Systems by Insurers* (AI Model Bulletin) and the Big Data and Artificial Intelligence (H) Working Group finished the AI life survey. Both projects were completed in December 2023.

© 2024 National Association of Insurance Commissioners

During its April 3 meeting, the Accelerated Underwriting (A) Working Group devised a work plan to complete the regulatory guidance and referral by the Summer National Meeting. Through April and May, a drafting group met biweekly to revise the January 2023 draft guidance document and referral in light of the completion of the AI Model Bulletin and AI life survey. During its June 13 meeting, the Working Group reviewed revised drafts, dated June 3, 2024, The June 3 drafts were exposed for a public comment period that ended June 30. A comment letter on the regulatory guidance was submitted by Center for Insurance Research—CIR and several consumer representatives, and another letter came from the ACLI.

The Working Group met July 11 and reviewed the comments, revised the draft, and exposed the revised July 11 draft for a final comment period to catch any unresolved issues or mistakes of fact. This final comment period ended July 26. The NAIC consumer representatives submitted the only comment letter, reiterating earlier concerns. The Working Group met Aug. 6 and adopted the July 11 *Regulatory Guidance and Considerations* and the June 3 market regulation referral.

Director French said that based on the length of time spent on this project and the public exposure periods over the past two years, she feels comfortable with having the Life Insurance and Annuities (A) Committee consider the adoption of the July 11 *Regulatory Guidance and Considerations* and the June 3 market regulation referral. Benchaaboun said that the regulatory guidance and referral was a group effort and that he thinks the final product is excellent. Gendron said that he has been involved with the small drafting group. He echoed Benchaaboun's comments and said he supports the adoption of the draft.

Gendron made a motion, seconded by Commissioner Arnold, to adopt the report of the Accelerated Underwriting (A) Working Group, including its Aug. 6 (Attachment Two), July 11 (Attachment Two-A), June 13 (Attachment Two-A1), and April 3 (Attachment Two-A2) minutes. The motion passed unanimously.

Gendron made a motion, seconded by Commissioner Zimmerman, to adopt the July 11 *Regulatory Guidance and Considerations* (Attachment Three) and the June 3 Market Regulation referral (Attachment Four).

5. Heard an Update on the Life Workstream of the Special (EX) Committee on Race and Insurance

Commissioner Fowler reported that Life Workstream of the Special (EX) Committee on Race and Insurance met Aug. 5, April 25, and March 28. During its March 28 meeting, The Life Workstream continued its focus on barriers to access to life insurance for people in underserved communities, focusing on criminal history. He reported that the Life Workstream heard several interesting presentations providing different perspectives on how justice-impacted individuals continue to face barriers long after committing a crime. The Life Workstream heard from Chastity Murphy (U.S. Department of the Treasury—Treasury Department) about some of the current initiatives at the Treasury seeking to address barriers in financial services for justice-impacted communities. The Life Workstream also heard from Jo-Ann Wallace (National Legal Aid and Defender Association [NLADA] Mutual Insurance Co., a Risk Retention Group). Wallace spoke about the obstacles created by the intersection of racial bias and a criminal record. Wallace said the negative public perception around individuals with criminal records acts as a barrier for many businesses to engage with this community. She suggested some ways the NAIC might help remove barriers to insurance for people with a criminal record.

Additionally, the Life Workstream heard from Shannon Ross (The Community). The Community is an organization focused on correcting the common misperceptions about justice-impacted individuals through videos, presentations, and conferences; Ross is also host of the "All In All Out" podcast. Ross spoke about his personal experiences trying to purchase life insurance as a formerly incarcerated individual. The Life Workstream heard from Raymond Robinson (Raymond Robinson Group LLC). He spoke about the challenges he has experienced in finding suitable life insurance products for individuals with a criminal history. The Life Workstream also heard from Peter Kochenburger (NAIC Consumer Representative and Southern University Law School), who spoke about

© 2024 National Association of Insurance Commissioners

the use of criminal history data in insurance. Commissioner Fowler said recordings of these presentations are posted on the Special (EX) Committee on Race and Insurance's web page on the NAIC website.

Commissioner Fowler said the Life Workstream also met April 25. During this meeting, it heard a presentation from the ACLI on the use of criminal history in life insurance underwriting. The Life Workstream also finalized two work products. The first is the *Financial Wellness Resource Guide* (Attachment Five), which is a project started by the 2023 Life Workstream. This document highlights financial literacy initiatives in Washington, DC; Maryland, and Oregon. Commissioner Fowler said the hope is that in the future, additional states and outside organizations will add information to the guide so that it can become a robust resource for states looking to implement financial literacy initiatives. The Life Workstream also adopted an endorsement in support of state legislation requiring a financial literacy course as a prerequisite to high school graduation (Attachment Six). Studies show that mandatory financial literacy courses in high schools make a measurable difference in the lives of kids in underserved communities.

Additionally, Commissioner Fowler reported that the Life Workstream met Aug. 5. Sharon Dietrich (Community Legal Services of Philadelphia) gave a presentation on clean slate initiatives and had some questions and comments about the April ACLI presentation. The Life Workstream exposed a draft survey asking about insurers' use of criminal history in underwriting. The survey is 11 questions, cut back from a broader initial draft that was looking to gather information about the use of criminal history relative to producer engagement, company operations, use of data, product design, and its use in underwriting. The draft is narrowly focused on life insurance underwriting. It was exposed for a xx-day public comment period ending Sept. 5. The Life Workstream plans to schedule a meeting in late September to discuss any feedback received.

Director French asked if the survey was going to be something that state insurance regulators could make voluntary for their domestic insurers. Commissioner Fowler said that there was no intention to make the survey mandatory. He said that the survey is an effort to understand this slice of the market better.

Commissioner Ommen said that the workstreams are doing a good job, but he is concerned that there may not be a lot of collaboration among the Life, Health and Property/ Casualty Workstreams, as well as other groups at the NAIC that are working in areas that may touch on these issues, like the Accelerated Underwriting (A) Working Group and the Innovation, Cybersecurity, and Technology (H) Committee and its groups. Commissioner Ommen suggested that a group could be formed to combine these efforts and increase the collaboration between the overlapping work occurring in the three separate workstreams and elsewhere.

6. Heard Presentations from Securian Financial and Athene on Illustrations

Andersen said that as a follow-up to the illustration discussion during the Spring National Meeting, Athene will speak about annuity illustrations, and Securian will present on life insurance illustrations. As the Life Insurance and Annuities (A) Committee and the Life Actuarial (A) Task Force continue with efforts that include the review and analysis of illustrations and related materials, it is important to know how the more highly regulated parts of the sales process, like illustrations, relate to information that is less heavily regulated.

Brian Rock (Securian Financial) reviewed life insurance illustration laws and discussed how illustrations might be used along with other types of materials that might be presented to a consumer. He summarized the provisions in the *Life Insurance Illustrations Model Regulation* (#582), which regulates how life insurance companies present policy illustrations to potential buyers. The regulation aims to ensure that the life insurance illustrations are clear, accurate, and not misleading. It standardizes how insurers present their products to prevent consumers from being misled by overly optimistic or unclear illustrations. Rock said Model #582 applies to all group and individual life policies with the exception of variable life, credit life, and policies with no illustrative death benefits exceeding $10,000. Model #582 requires descriptions of premiums required, policy features, riders, and options both

© 2024 National Association of Insurance Commissioners

guaranteed and nonguaranteed. He said Model #582 requires numeric summary information and tabular detail information along with disclosure requirements. Model #582 also requires that an illustration be provided to a consumer at the time of application and at the time of policy delivery, if an illustration is used.

Rock explained that Model #582 defines three types of illustrations and applies to each: 1) a basic illustration, which is a ledger or proposal used in the sale of a life insurance policy that shows both guaranteed and nonguaranteed elements; 2) a supplemental illustration, meaning illustrations furnished in addition to the basic illustration that may be presented in a format differing from the basic illustration, but may only depict a scale of nonguaranteed elements that is permitted under the basic illustration; and 3) an in-force illustration, which is an illustration furnished at any time after the policy has been in force at least one year. Model #582 also requires annual certifications by an illustration actuary that the disciplined current scale used in illustration is in conformity with all associated standards of practice and this regulation.

Rock said the NAIC adopted Model #582 in 1995. Since that time, there has been continued evolution in product design, including the introduction of benefits that are tied to an index or indices. Although these policies are also subject to Model #582, not all of their features are explicitly referenced in the model. This has resulted in a lack of uniform practice in its implementation. He said as indexed universal life (IUL) products grew in popularity, concerns about the methods insurers used to illustrate potential returns also rose. In response to these concerns, the NAIC developed *Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest* (AG 49) in 2015. AG 49 sets standards for how IUL policies could be illustrated, aiming to ensure that consumers received more realistic and consistent information. AG 49 placed limits on the assumed interest rates that could be used in an illustration and introduced rules on the treatment of policy laws, particularly when illustrating the impact of borrowed of borrowing against the policy's cash value.

Rock said that after implementation of AG 49, the life insurance industry adjusted its practices and complied with all regulations. He said new and more complex products and features, such as multipliers, were developed that were still technically compliant with AG-49, but they raised concerns amongst state insurance regulators and consumer advocates. This led to the development and adoption of AG 49-A in 2020. This regulation addressed these new product features by enhancing provisions on limits to the maximum crediting rate and refining the rules around policy loan illustrations. Most recently, in 2023, AG 49-A was further revised to limit the maximum crediting rate and control for the illustrated leverage on the hedge budget used for an indexed account.

Rock said it is important to note that individual carriers may also have policies and procedures for agents to follow when selling their products, including licensing and appointment requirements, sales practice requirements on advertising, disclosures, illustrations, suitability, sales to seniors and vulnerable adults, premium financing requirements, unfair trade practices, policies against specific sales concepts, such as stranger owned life insurance, captive insurance sales strategies, and sales rebating concepts. There could also be requirements on replacements, processes around complaints and compliance with requirements for agents.

Rock spoke about illustration practices and consumer presentations. He said there are carrier-generated presentations and field-generated presentations. Carrier-generated presentations are materials or tools provided by the insurer for the agent to use. Some of the materials may be consumer-facing, while other materials may be educational for the agent. Product illustrations are carrier-generated presentations and must comply with the regulations covered earlier in the presentation. Optional reports may also be carrier-generated. That includes things like policy charges or internal rates of return for specific scenarios or upon death. These may be developed to help customers better understand the need for life insurance and include insurance need calculators, estate tax projection tools, business buy/sell opportunities, deferred compensation, or corporate owned life insurance (COLI) opportunities. Marketing materials are also carrier-generated and include consumer brochures and case studies on how products or features within the products work.

© 2024 National Association of Insurance Commissioners

Rock said field-generated presentations are developed by or provided from outside the insurer and are used by an agent or an advisor. Some examples of field-generated presentations include technology vendors to help advisors and customers better compare products and features. Field-generated materials may bring illustrated values to life through visual aids or include other online flexibility to help customers better understand how their choices impact the illustration, such as what happens when one starts taking income at different ages or different distribution amounts. Field-generated materials could also include conceptual materials that discuss how certain life insurance or structures might be used. Agent-generated marketing materials show agents discussing products in their own voice. Rock said insurers may have different rules for reviewing agent-generated marketing materials.

Rock then summarized some of the Financial Industry Regulatory Authority (FINRA) rules that can apply to life illustrations. Rule 2210 lays out rules for communications with the public. This rule details that communications must be based on principles of fair dealing executed in good faith. Communications must be fair and balanced and provide a sound basis for evaluating the facts with respect to any particular security or type of security. Communications must provide balanced treatment of the risks and potential benefits, be consistent with the risks of fluctuating prices and the uncertainty of dividends or rates of return and yield inherent to investments. Communications must provide details and explanations appropriate to the audience and must not miss omit any material factor qualification that could cause the communication to be misleading. Communications must not make any false, exaggerated, unwarranted, promissory, or misleading statements or claims and must not contain any untrue statement of material facts or otherwise be false or misleading.

Rock said that FINRA Rule 2211 provides guidance in addition to Rule 2210, specific to variable life and variable annuities. It includes general considerations around product identification and liquidity. He said this includes claims about guarantees and then specific considerations around historical performance, hypothetical illustrations and what may be used to demonstrate how variable life insurance operates and a maximum of 12% gross rate for investment returns, providing one of the returns is a 0 % gross rate.

Mike Consedine (Athene) and Adam Politzer (Athene) spoke about the history and development of annuity illustrations with a focus on the *Annuity Disclosure Model Regulation* #245 and Athene's experience in its day-to-day application. Consedine said that Athene has a long history of selling fixed indexed annuities and was actively involved in the development of Model #245. Athene's commitment to clear, comprehensive, and transparent consumer communication has always been a guiding principle, and he said he believes that Model #245 plays a crucial role in achieving these goals. However, only 10 states have adopted the current provisions in Model #245 addressing illustrations. Increased adoption among the states would ensure more consistency in how insurers approach annuity illustrations, providing a uniform standard that benefits both consumers and the industry. The NAIC promoting consistency and uniformity in this area would go a long way in assisting both companies and consumers alike.

Consedine said that despite the low adoption rate, Athene finds that Model #245 works reasonably well, although there are still challenges regarding adequate disclosure consistency in illustrating nonguaranteed elements and clearly showing minimum guarantees. These elements have proven essential in helping consumers understand the potential performance of their annuity contracts. Consedine said that Athene continues to support the application of Model #245. He added that with broader state adoption, along with other measures to simplify the marketing and sale of needed guaranteed income products, the effectiveness of this regulation can be further enhanced. Ths would ensure that all consumers receive the highest standard of information and protection.

Politzer provided additional detail about Athene's experience with Model #245. Section 6 governs illustrations for fixed and fixed indexed annuities with nonguaranteed elements. The focus of this section is on making sure there is adequate disclosure. This section defines with mathematical precision how the illustration should be completed. There is a big focus on the minimum guarantee within the contract, which Athene thinks is critically important. The focus is on a particular index track record and, in particular, the last 10 or 20 years of performance of the

© 2024 National Association of Insurance Commissioners

index. Model #245 does not allow the illustration of bespoke indices that have less than 10 years of history. An index must have 10 years of history in order to illustrate it.

Politzer highlighted the disclosure language that Model #245 requires to be presented to consumers: 1) the illustration is hypothetical; 2) the purpose of an illustration is to explain how the contract works; and 3) the illustration is not a promise of performance. These disclosures are critical to the effectiveness of the illustration. Politzer explained that Model #245 requires that certain information must be included in the illustrations. There must be an illustration of the "worst-case scenario" for the consumer, which, for a fixed indexed annuity, shows 0 credits in any year where the index has negative returns. This part of the illustration highlights the minimum guarantees of the contract. The illustration also shows nonguaranteed elements of the contract from the most recent 10 years to show the mechanics of the contract—what happens when the index goes up and when the index goes down. Another prescribed exhibit in the illustration must show the most recent 10 years of performance, the highest 10 years of the last 20 years, and the lowest 10 years of the last 20 years. This makes clear that there is a range of outcomes and illustrates the most logical ones. It is prescribed so that each carrier has to do it the same way. However, only 10 states have adopted the current version of Model #245.

Politzer said, for the most part, illustrations are fairly consistent in the remaining 40 states. He said that there are some deviations in practice, the most common being companies will illustrate more than 10 years of data if it is available. There are companies in the 40 states that also illustrate bespoke indices without 10 years of history. He said that Athene has been discussing that the most recent 10 years and even the most recent 20 years have been a strong set of markets for the S&P 500, which is considered the benchmark index and the index used most commonly in Athene's products. So, any reliance on that period of data is going to show an optimistic forecast of the contract, as good as any other asset class. Athene has, as a result, added some additional disclosures highlighting that this had been a higher set of years of performance. Athene has been following Model #245 for a long time and has found that illustrations are helpful in promoting annuities and helping customers use them for their retirement needs. He said Athene has received few complaints about illustrations over the years. Ultimately, the performance of Athene's contracts has been a testament to how well the illustrations have been working.

Politzer reiterated that variable annuities, including registered index-linked annuities (RILAs), must also comply with FINRA Rule 2210 and U.S. Securities and Exchange Commission (SEC) Rule 156 effective Sept 23, 2024. He highlighted three ways the Model #245 differs from the SEC and FINRA rules: 1) the NAIC rules are much more prescriptive, while the FINRA rules are more focused on how the contract works; 2) all materials go through a rigorous review and approval process with FINRA; and 3) FINRA will not approve the use of any pre-inception index performance. Politzer reviewed an illustration of an Athene RILA. He explained that the illustration shows how the buffer upgrades protection on the way down, and then it shows an illustration of how either a cap rate or a participation rate would work within the RILA product. It is really just a hypothetical to explain the key features of the product.

Commissioner Humphreys said he attended a presentation at the NAIC/Consumer Liaison Committee meeting that talked about illustrations and reviewed modeling of certain illustrations that showed a high failure rate. He said there is a gap between what industry and the consumers are saying with respect to illustrations that is more significant than he would normally expect. He asked for some clarification regarding this gap.

Richard Webber (NAIC Consumer Representative) gave the presentation at the NAIC/Consumer Liaison Committee meeting, and he explained that the presentation he gave showed a different way of looking at illustrations. He said life insurers produce illustrations in conformance with Model #582. The problem is that Model #582 is 30 years old, and it did not contemplate indexed products that use an outside reference rather than a disciplined scale or a declared rate. The approach he presented reviews illustrations from a real-world standpoint. The illustration is produced at a constant rate of return, and that does not exist in nature. He said there are fluctuations between the 0% guarantee, or whatever the guarantee is, and the current cap. The

© 2024 National Association of Insurance Commissioners

sequence of returns is the reality of what will occur with the policy and what happens when the illustration is not only showing a substantial input of premium but then a substantial extraction of cash value later on, both in withdrawals and loans. He said that one single interest rate does not take a sequence of returns into account. Webbr said his analysis of the numbers in an illustration (by taking and running thousands of scenarios) found in one case as much as a 95% failure rate. He said he would like to work with the Life Insurance and Annuities (A) Committee and the Life Actuarial (A) Task Force to find ways of bringing these two worlds together—the regulated illustration world and something that might reflect reality in a more modern way.

Commissioner Ommen said that he appreciated the support indicated for Model #245. However, he asked if Athene, in the 40 states that do not have the model, illustrates newer, younger indices? Politzer said that Athene illustrates those indices in the states where it is allowed. He said that Athene believes that those indices are good for their customers and for the industry in general and that there is a demand for illustrations of that information. At times, especially in the current economic environment, Athene can produce very high illustrations. He said in a couple of situations, Athene has decided not to illustrate because the company was not comfortable putting the illustration in front of consumers, but it has enhanced its disclosures and want to guard against setting expectations too high.

Commissioner Ommen said that Model #245 is prescriptive, but he asked in those states without it, what are some of the requirements surrounding the use of annuity illustrations beyond using good judgment. He asked what industry is doing to curb the practice of using illustrations that are beyond reasonable expectations. Politzer said he has been in some groups talking about forecasting and that there are some models out there that do produce some reasonable forecasts, but that would open a whole line of inquiry about how to set parameters for those forecasts. Politzer said, at this point, it is just a matter of using judgment to look at things and asking whether the company is comfortable putting an illustration in front of their advisors and customers.

Gendron said the presentation before the NAIC/Consumer Liaison Committee showed a number of life insurance illustrations that were sold with the idea that there would be a certain amount of income coming off of those life insurance policies. Gendron asked whether Rock thought there was a problem with any of those sales. Rock replied that what is being seen is a sensitivity to insurance products and some of the patterns of returns, specifically when a person is leveraging money. He said that maybe some of those were taking loans, and different things were premium financed in order to get income to repay those loans. So, some of those sales are showing the leverage that one can get out of a life insurance policy. He said that the way AG 49 works is that it shows the level of return and not the pattern of returns. He said that what the presentation is showing is some of the sensitivity for those risks embedded in some of those products.

Gendron agreed with Rock's assessment, but he wondered whether it is a problem, in Rock's opinion, if a producer is making a representation about being able to do certain things with a life insurance product, and the illustrations are being used to support that promise. Rock replied that if a producer is guaranteeing a return or stating that a future scenario will happen and has not identified the risks embedded in that, then that is a problem. He said that is why there are numerous disclosures and different scenarios embedded in the illustration to help expand upon some of those risks that are associated with the product sale. Gendron said he generally agreed that the problem lies with the marketing of these products, but there might be some company oversight that would be helpful to ensure that representatives in the marketplace are not using their documents in overly aggressive ways.

Gendron said that on the annuity side, the presentation at the NAIC/Consumer Liaison Committee did not identify annuity illustrations, but there was a working group a number of years back that heard from consumer representatives that models were being created using back testing. He said Rhode Island has the current model #245, so he would not see illustrations of these newer indices. However, he said he heard Politzer express some hesitation to illustrate in some situations, and he asked whether Politzer thought there should be a different set of rules to bring up all boats. Politzer said Athene is advocating for full 50 state adoption of the current Model

© 2024 National Association of Insurance Commissioners

#245. He said there is no question that as yields rose, especially over the past three years and rates got much higher, the same mathematical concept applied in the past has resulted in unreasonable outcomes with some of the newer indices. He said that some of this gets technical and involves the way these indices are constructed. He said they are excess return indices and that part of the issue when illustrating them against the historical low interest rate environment, but with rates from today, is that more unreasonable outcomes are produced than in the past. He said the challenge is how to get information to people without setting an unreasonable set of expectations because he believes that these indices are good for consumers in a lot of ways and that there is demand to understand how the indices will work and in what environments.

Gendron asked whether Politzer thought that producers fully understand these indices enough to explain them to a doctor or a teacher. Politzer said that Athene was going to great lengths as a company to focus on education. He offered to introduce the Committee to an index standard group it has worked with to develop training on how bespoke indices work and to make sure Athene's advisors have all the information they need to sell these products. Consedine emphasized that they are committed as an industry to training and education. He said that he expects there to be continuing demand for guaranteed income products to help address the retirement crisis in this country. He said that industry, state insurance regulators, and consumers would all benefit from consistency in the marketplace and if there were uniform rules of the road, many of the issues being discussed now would resolve themselves over time.

Andersen reported that state insurance regulators are reviewing life and annuity illustrations and other marketing materials. He said they plan to develop findings and discuss how best to address short-term and long-term issues. Director French said that the presentation was intended to be a springboard to future discussions, and she looks forward to future conversations on this topic.

Having no further business, the Life Insurance and Annuities (A) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Committees/A Committee/2024 Summer National Meeting/A_Cmte_SumNMeetingminfinal.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/5/24

Life Insurance and Annuities (A) Committee
Virtual Meeting
July 15, 2024

The Life Insurance and Annuities (A) Committee met July 15, 2024. The following Committee members participated: Judith L. French, Chair (OH); Doug Ommen, Co-Vice Chair, represented by Mike Yanacheak (IA); Carter Lawrence, Co-Vice-Chair, represented by Bill Huddleston (TN); Mark Fowler (AL); Barbara D. Richardson (AZ); Karima M. Woods (DC); Grace Arnold represented by Fred Andersen (MN); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bill Carmello and Mark McLeod (NY); Glen Mulready represented by Andrew Schallhorn (OK); Elizabeth Kelleher Dwyer (RI); Scott A. White (VA); and Nathan Houdek (WI). Also participating was Rachel Hemphill (TX).

1. Adopted its Spring National Meeting Minutes

Cabinet Executive Officer Richardson made a motion, seconded by Commissioner Fowler, to adopt the Committee's March 17 minutes (*see NAIC Proceedings – Spring 2024, Life Insurance and Annuities (A) Committee*). The motion passed unanimously.

2. Adopted the 2025 *Valuation Manual* Amendments

Hemphill explained that the Life Actuarial (A) Task Force adopted 14 Amendment Proposal Forms (APFs) to be effective for the 2025 *Valuation Manual*. Several of the APFs are primarily clarifying, correcting, or keeping existing requirements up to date. Hemphill reviewed seven of the APFs with more notable changes to requirements: (1) APF 2023-12: Based on findings from the review of *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53) filings, this change explicitly requires a reflection of equity return volatility in cash-flow testing; (2) APF 2023-13: Adds explicit requirements for international mortality to principle-based reserving for life products; (3) APF 2024-01: Requires the qualified actuary for principle-based reserving to meet the American Academy of Actuaries' (Academy's) Specific Qualification Standard with respect to their opining areas; (4) APF 2024-05: To better match liabilities and assets, the valuation rate for funding agreements may be determined monthly rather than annually; (5) APF 2024-06: To better match liabilities and assets, the valuation rate for non-jumbo contracts may be determined daily rather than quarterly; (6) APF 2024-07: Requires variable annuity principle-based reserving prescribed assumption updates as ongoing maintenance; and (7) APF 2024-10: For credit disability, removes the 12% increase to claim incidence rates based on more recent experience.

Hemphill said that APF 2020-10 was included for completeness because it was adopted by the Life Actuarial (A) Task Force as the gatekeepers for the *Valuation Manual*. However, it does not need to be adopted by the A Committee because it is a health item that was also adopted by the Health Actuarial (B) Task Force and the Health Insurance and Managed Care (B) Committee.

Cabinet Executive Officer Richardson asked whether the Task Force had seen an increase in mortality issues as a result of excessive heat or climate issues. Hemphill said that the Society of Actuaries (SOA) is looking into the issue and published a collection of articles, essays, and research reports that examine the impacts of excessive heat on mortality, morbidity, property damage, and other costs, and the applications to actuarial practice and quantification of risks resulting from excessive heat, which can be accessed on their website. Hemphill said, in addition, the Life Actuarial (A) Task Force meeting at the Summer National Meeting will hear a presentation on

© 2024 National Association of Insurance Commissioners

mortality trends, and Hemphill said she will be sure to specifically ask how climate is being reflected. Director French suggested that this might be an area to explore in a presentation at a future meeting.

Andersen made a motion, seconded by Commissioner Houdek, to adopt the 2025 *Valuation Manual* amendments. (*see NAIC Proceedings – Summer 2024, Executive (EX) Committee and Plenary, Attachment One*). The motion passed unanimously.

Having no further business, the Life Insurance and Annuities (A) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A Cmte/2024 Fall National Meeting/7-15-24 ACmte min final

© 2024 National Association of Insurance Commissioners

Draft: 8/7/24

Accelerated Underwriting (A) Working Group
Virtual Meeting
August 6, 2024

The Accelerated Underwriting (A) Working Group of the Life Insurance and Annuities (A) Committee met Aug. 6, 2024. The following Working Group members participated: Nathan Houdek, Chair, and Lauren Van Buren (WI); Grace Arnold, Vice Chair, represented by Sarah Gillaspey (MN); William Leung (MO); Ross Hartley (ND); Daniel Bradford (OH); Matt Gendron (RI); and David Hippen (WA).

1. Adopted its July 11 Minutes

Hippen made a motion, seconded by Gendron, to adopt the Working Group's July 11 minutes (Attachment Two-A). The motion passed unanimously.

2. Adopted the July 11 Draft *Regulatory Guidance and Considerations* Document and June 3 Market Regulation Handbook Referral

Commissioner Houdek said the Working Group received a comment letter on the July 11 draft regulatory guidance and considerations document from several NAIC-funded consumer representatives. Commissioner Houdek said the comment letter was posted to the Working Group's web page. Gendron said he reviewed and appreciated the comments and that they reiterated previously raised comments that had been discussed and addressed in the current draft. Gendron said the July 11 draft looks good and is ready to be adopted.

Gendron made a motion, seconded by Gillaspey, to adopt the July 11 draft regulatory guidance and considerations document (*See NAIC Proceedings – Summer 2024, Life Insurance and Annuities (A) Committee, Attachment Three*) and the June 3 *Market Regulation Handbook* referral (*See NAIC Proceedings – Summer 2024, Life Insurance and Annuities (A) Committee, Attachment Four*). The motion passed unanimously.

3. Discussed its Next Steps

Commissioner Houdek explained that the regulatory guidance and considerations document and *Market Regulation Handbook* referral would be included in the Working Group's report to the Life Insurance and Annuities (A) Committee at the Summer National Meeting. It is possible that the documents will be considered for adoption at that time.

Having no further business, the Accelerated Underwriting (A) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A Cmte /AUWG/AUWG min 8-6-24 final

© 2024 National Association of Insurance Commissioners

Draft: 8/6/24

Accelerated Underwriting (A) Working Group
Virtual Meeting
July 11, 2024

The Accelerated Underwriting (A) Working Group of the Life Insurance and Annuities (A) Committee met July 11, 2024. The following Working Group members participated: Nathan Houdek, Chair, and Lauren Van Buren (WI); Grace Arnold, Vice Chair, represented by Sarah Gillaspey (MN); William Leung (MO); Ross Hartley (ND); Maggie Reinert and Megan VanAusdall (NE); Daniel Bradford (OH); and Matt Gendron (RI); and David Hippen (WA). Also participating were: Nour Benchaaboun (MD) and Tomasz Serbinowski (UT).

1. Adopted its June 13 and April 3 Minutes

The Working Group met June 13 and April 3 to discuss next steps for finalizing the regulatory guidance document and exposing it for a public comment period. Commissioner Houdek said the minutes from these two Working Group meetings were included in the meeting materials posted to the website.

Amann made a motion, seconded by Gendron, to adopt the Working Group's June 13 (Attachment Two-A1) and April 3 (Attachment Two-A2) minutes. The motion passed unanimously.

2. Discussed Comments Received on the June 3 Draft *Regulatory Guidance and Considerations* Document

Commissioner Houdek said that the Working Group received two comment letters on the June 3 draft *Regulatory Guidance and Considerations* document. One letter was from the American Council of Life Insurers (ACLI), and the other was signed by several NAIC-funded consumer representatives. Commissioner Houdek explained that a chart was posted to the Working Group's webpage showing the comments received next to the language in the June 3 draft *Regulatory Guidance and Considerations*. Commissioner Houdek said he was going to use the chart to facilitate the review of the comments received and that ACLI and the consumer representatives would be given the opportunity to speak to each of their comments. Commissioner Houdek said he hoped that by the end of the meeting, there would be a consensus document to expose for a final exposure period before adoption by the Working Group prior to the Summer National Meeting in Chicago.

A. Discussed Introduction

Commissioner Houdek said that the first comment to review was from the consumer representatives addressing the introduction in the June 3 draft *Regulatory Guidance and Considerations* document. Brendan Bridgeland (Center for Insurance Research—CIR) explained that this comment suggests the inclusion of a new section (C) identifying "benefits and protections on behalf of the consumer/applicant." Bridgeland said it is important for the regulatory guidance to acknowledge that protection of consumers is one of the vital goals of implementing and monitoring accelerated underwriting (AU) programs and mentioning them here ensures they do not get overlooked as the intended beneficiaries of the review. Commissioner Houdek said that the proposed language seeks to modify language that functions as a table of contents by identifying the sections addressed in the regulatory guidance, so adding this language without corresponding information in the body of the document does not work. Commissioner Houdek said the reason for having the Accelerated Underwriting (A) Working Group is consumer protection and is the entire purpose of this document.

© 2024 National Association of Insurance Commissioners

B. Discussed Regulatory Considerations A(2)

The next comment was a proposed revision to Section A(2) suggested by the consumer representatives:

> "External data sources, Algorithms or Predictive Models are based on sound actuarial principles, including a rational explanation why a rating variable is correlated to expected loss or expense, and why that correlation is consistent with the expected direction of the relationship, and how the inclusion of inputs from multiple data sources interacts in generating an expected loss or expense."

Bridgeland said the suggested language seeks to address the situation where an AU program uses multiple different data points or sources. He said outcomes need to be evaluated to measure consumer impacts because two data points that correlate with risk may turn out to be duplicative and produce inconsistent results when applied together instead of singly. Bridgeland said that he raised this issue during the Innovation, Cybersecurity, and Technology (H) Committee meeting on June 28.

Bridgeland shared a historical example of when the use of multiple data points led to inaccurate results. Bridgeland said that many years ago, there was a weight curve in mortality tables, and people on the high end and the low end were considered high risk. When the information was reviewed later, it became clear that because heavy smokers are often on the lighter end of the weight scale, it resulted in the correlation that everyone on the lighter end of the weight scale was a smoker, and as a result, people were overcharged for years due to the confusion caused by using multiple data points without clear differentiation. Bridgeland said the inclusion of the suggested language is to ensure that regulators keep an eye on how potential data points are being used and how they are used together. Bridgeland said that there seems to be a lot of potential for overlap, especially in areas such as credit scores or mortgage payments that are used in rating. Bridgeland said these data points seem to be measuring some basic financial factors, which raises the prospect that if you have an error in one of them, they could impact the whole result, which is another reason why it is important to allow consumers a way to correct errors in their information.

Commissioner Houdek said he agreed with the comments and concerns raised by Bridgeland regarding inputs from multiple data sources and suggested that instead of using the suggested detailed language, which can be a bit confusing, to use the following:

> "External data sources, Algorithms or Predictive Models are based on sound actuarial principles, including a rational explanation why a rating variable or a combination of variables, is correlated to expected loss or expense, and why that correlation is consistent with the expected direction of the relationship."

Bridgeland said he liked the simplified language. Gendron said he also liked the simplified language and suggested that this concept should be considered in the context of some of the questions in the guidance referencing external data sources.

Birny Birnbaum (Center for Economic Justice—CEJ) said that the issue Bridgeland raised is two-fold: 1) multiple factors in the AU algorithm can interact with one another, and 2) the algorithm as a whole may have a discriminatory effect. Birnbaum said it is not just looking at components of the algorithm, there is a need to examine the effect of the algorithm as a whole, so the language should recommend considering the algorithm as a whole rather than suggesting parsing out specific components of it. Gillaspey pointed out that the existing

© 2024 National Association of Insurance Commissioners

language does reference the algorithm as a whole before mentioning rating variables or a combination of variables.

C. Discussed Regulatory Considerations A(5)

Comments were submitted by both the consumer representatives and the ACLI suggesting revisions to Section A(5): "Reason(s) for an Adverse Underwriting Decision are provided to the consumer along with all information upon which the insurer based its Adverse Underwriting Decision." The consumer representatives' comment letter suggested the following revisions:

> "5. Reason(s) for an Adverse Underwriting Decision are provided to the consumer - in language understandable by the typical consumer - along with all information upon which the insurer based its Adverse Underwriting Decision. This should include a sufficiently detailed description of what consumer data the insurer used in its determination, and where such data was reported, such that the consumer is able to review and request correction of any errors in their own data. Generic descriptions such as "low credit score," or "preexisting health conditions" do not meet this requirement."

Peter Kochenberger (NAIC Funded Consumer Representative) said that the consumers' suggested language is much more specific because otherwise standard disclosures provide very little information. Kochenberger said consumers are asking for data about themselves (not proprietary information involving the algorithm), and a clear standard for transparency should be established that provides sufficient information to consumers to correct erroneous information that impacts their ability to purchase insurance.

The ACLI suggested the following revisions:

> "5. Reason(s) for an Adverse Underwriting Decision are provided to the consumer. ~~along with all i~~Information ~~upon which the insurer based its~~ regarding an Adverse Underwriting Decision will be provided to the consumer consistent with applicable state insurance privacy law(s)."

Colin Masterson (ACLI) explained that the June 3 draft *Regulatory Guidance and Considerations* document contemplates an insurer providing the consumer with "all information" involved in an adverse underwriting decision. The current legal standard and industry practice is to provide the specific reason for the adverse underwriting decision and not all underlying information. In addition, some insurers using various third-party algorithms may be bound by contract to not disclose information regarding what is considered to be and promoted as "proprietary" algorithms. It is also observed that this and several following sections touch upon privacy requirements, and Masterson said that perhaps it would be sounder to point to those requirements, which may differ across jurisdictions.

Gendron said that while asking for "all information" may go too far, there needs to be sufficient information provided to a consumer to inform them of the reason for a negative decision or why they are being rated a certain way. Gendron said the reason is not only so a consumer can correct errors but also to understand that certain behaviors may increase risk (such as smoking), and the consumer may be able to modify those behaviors. Gendron said an example of where erroneous information may be used is in the case of pharmacy records. Gendron gave the example of using his pharmacy rewards card when purchasing items and medication for his parents. He asked how the insurer is able to distinguish between what may be a negative underwriting factor for him versus his parents. Gendron said that, to him, this type of transparency is not negotiable. If the insurer is prevented from

© 2024 National Association of Insurance Commissioners

providing that kind of information by claims of there being a proprietary algorithm, then that algorithm should not be allowed to be used.

Serbinowski said he did not think this information implicated confidentiality when it involved personal information about the consumer. Serbinowski said that if the insurer is rating him based on the fact that he is 5 feet, 6 inches tall, but he is actually 6 feet, 5 inches tall, the consumer should have the chance to correct it. If the insurer says the consumer is being rated a certain way because they ride a motorcycle, the consumer should be able to correct that by saying they do not. He asked how a consumer can set the record straight if the insurer will not disclose what information they are looking at and from where they obtained it.

Commissioner Houdek agreed with the sentiments expressed by Gendron and Serbinowski and suggested the following revisions based on the comments:

> "5. Reason(s) for an Adverse Underwriting Decision, ~~are provided to the consumer~~ along with ~~all~~ information upon which the insurer based its Adverse Underwriting Decision, are provided to the consumer in language understandable by the typical consumer and consistent with applicable state and federal laws and regulations."

Benchaaboun supported the suggested revision and explained that it is important for a consumer to understand what information was relied upon in reaching an adverse underwriting decision, which may involve the offering of coverage other than what was applied for. For example, a person who applied for a $100,000 whole-life policy would be told in simple language that they only qualify for a $50,000 policy because of specific information provided in the application.

Birnbaum asserted that the current legal standard is inadequate because an insurer would not consider moving a consumer from AU to normal underwriting based on an adverse underwriting decision, so they would not have to provide an explanation. Second, if an insurer is using data not subject to the Fair Credit Reporting Act (FCRA), then there is no requirement that the insurer obtain permission to collect or disclose that information, so the guidance needs to specifically require the insurer to give the consumer the necessary information to dispute the outcome if the data is incorrect. Birnbaum also said that the current requirement for permission to access a consumer's data under FCRA is also inadequate because consumers do not realize all the information they are granting access to, such as credit information, medical information, motor vehicle reports, and much more. Kochenburger reiterated his concern that the proposal needs to guarantee that a consumer will receive sufficient information to be able to review its accuracy and contest any inaccuracies.

D. Discussed Regulatory Considerations A(6)

Comments were submitted by both the consumer representatives and the ACLI suggesting revisions to Section A(6). The consumer representatives suggested the following revisions:

> "6. The insurer establishes and follows written procedures to protect the consumer's privacy and the consumer's data and provides a description of these procedures to the consumer at the time of authorization."

Bridgeland explained that AU programs that utilize customer data to produce underwriting outcomes should never be subject to ad hoc administration. All AU programs should be detailed in writing.

The ACLI proposed the following revisions:

> "6. ~~The insurer establishes and follows procedures to protect the consumer's privacy and the consumer's data.~~ The insurer's existing procedures to protect consumer privacy and consumer data apply equally when accelerated underwriting is utilized."

Masterson explained that the ACLI proposal reframes this consideration in the context of existing protections that apply to data employed in AU.

Commissioner Houdek suggested including the following language in the next draft, which takes into account both proposals, and the Working Group agreed:

> "6. The insurer establishes and follows written procedures to protect the consumer's privacy and the consumer's data and provides a description of these procedures consistent with applicable state and federal laws and regulations to the consumer at the time of authorization."

E. Discussed Regulatory Considerations A(7)

Comments were submitted by both the consumer representatives and the ACLI suggesting revisions to Section A(7). The consumer representatives suggested the following revisions:

> "7. The insurer has a mechanism in place to correct mistakes if found in consumer data. This mechanism must include disclosure to the applicant of what consumer information was used, and a reasonable, accessible, and clearly described procedure for applicants to correct inaccurate information, with final responsibility to evaluate and correct errors on the insurer, and not in third party vendors or modelers."

Bridgeland said the consumer representatives' proposal states with specificity the mechanism for providing information to consumers in order for there to be a meaningful understanding of an insurer's actions and an opportunity to correct any errors, regardless of a record also being held by a third party. Bridgeland said that there should be the opportunity to correct inaccurate information with the insurer, as well as understand where the information originated to correct it elsewhere as well.

The ACLI suggested the following revisions:

> "7. The insurer has a ~~mechanism~~process in place to ~~correct mistakes if found in~~assist a consumer ~~data~~ in contacting the originator of a record that the consumer believes to be incorrect."

And could also include:

> "The insurer should also have in place a mechanism to correct undisputed mistakes confirmed by records."

Masterson said the ACLI proposed revisions reflect the position that insurers must be careful about and are often unauthorized to make changes to consumer records. For example, if a consumer believes something in their medical record is incorrect, the insurer can point the consumer to where it obtained the record, but it does not

have the ability to change the underlying record. Masterson said that, generally, under insurance privacy law, the insurer must notify the consumer as to where it obtained the disputed record.

Commissioner Houdek suggested the following proposal, which revises A(7) and adds a new A(8).

> "7. The insurer has a mechanism in place to correct mistakes confirmed by records ~~if~~ found in consumer data.
>
> 8. The insurer has a process in place to assist a consumer in contacting the originator of a record that the consumer believes to be incorrect."

Kochenberger said he was concerned that insurers are in a better position to contact third parties than consumers and a "process" to refer a consumer to a third party without any more specificity does not provide much assurance. Gendron said he liked the proposed (7) and (8) because they address two sides of the issue: 1) if the insurer has erroneous information in their records, and there is evidence of an error, they have to fix it, and 2) if they received the information from elsewhere, they have to tell the consumer where it came from so it can be corrected there as well. The Working Group agreed to include the proposed revisions in the next draft.

F. Discussed Regulatory Considerations A(9)

Comments were submitted by both the consumer representatives and the ACLI suggesting revisions to Section A(9). The consumer representatives suggested the following revisions:

> "9. The insurer has procedures in place to address the following requirements pertaining to the consumer: Notice Requirements, Opting-Out of (or Opting In to) Data Sharing, Correcting or Deleting Information, Data Portability, and Restricting the use of Data."

Bridgeland explained that this revision includes an option to opt-in because AU programs should be permitted to allow for opt-ins not just opt-outs.

The ACLI suggested the following revisions:

> "9. The insurer has procedures in place to address ~~the following requirements pertaining to the~~ consumer issues, ~~:~~ including ~~N~~notice ~~R~~requirements~~, Opting-Out of~~ and use/restrictions on ~~Data Sharing, Correcting or Deleting Information, Data Portability, and Restricting the use of D~~data consistent with applicable insurance privacy and other existing laws."

Masterson said that the ACLI suggests using more general language and referencing applicable privacy laws rather than including references that may not apply to life insurance, such as references to deleting information.

Commissioner Houdek suggested the following revisions:

> "9. The insurer has procedures in place ~~to address the following requirements~~ pertaining to ~~the~~ consumer ~~: N~~notice ~~R~~requirements~~, Opting-Out of~~ and use/restrictions on ~~Data Sharing, Correcting or Deleting Information, Data Portability, and Restricting the use of D~~consumer data, consistent with applicable state and federal laws and regulations."

Commissioner Houdek explained that the proposed revisions use more general language to encompass all applicable notice requirements, consistent with applicable state and federal laws. This approach avoids being too narrow and inadvertently eliminating something like an opt-in requirement. The Working Group agreed to include the revisions in the next draft.

G. Discussed Strategies for Review B(6)

Consumer representatives suggested adding a new Strategy for review B(6):

> "6. Confirm a life insurer has a mechanism in place to correct mistakes if found in consumer data – and a mechanism by which the consumer can inform the insurer of a perceived mistake and obtain specific and direct corroboration of the insurer's receipt and action on the notice of mistaken data."

Bridgeland explained that the consumer representatives suggested adding a new strategy for review, and its importance was discussed previously. The consumers believe that the critical nature of having a mechanism in place to correct errors warrants the inclusion of a mechanism to identify and correct errors as a strategy for review. Commissioner Houdek agreed with the need for a process as was discussed and incorporated into a revised A(7) and the new A(8).

H. Discussed Requests for Information C(3) and C(7)

Comments were submitted by ACLI suggesting revisions to Sections C(3) and C(7):

> "3. Explain ~~in detail~~ how the company's ~~discloses to applicants~~ authorization for life insurance ~~what external~~ includes information ~~is used in its Accelerated Underwriting program and how this external information actually is~~that may be used in an~~the~~ Accelerated Underwriting program.
>
> 7. How is external data or information about life applicants ~~utilized, stored, and destroyed after the completion of the underwriting process~~managed consistent with applicable privacy and other related laws and regulations?"

Masterson explained that the proposed revisions recommend more general language, rather than specific language that could be interpreted as requiring more detail than is customary or practical. Masterson said that existing practice ensures authorizations describe the information to be gathered and the purposes and uses of that information, which would be the same in connection with AU. Masterson said that while companies follow data minimization procedures, some information must be retained for legal and regulatory compliance purposes. The way the question currently reads, there appears to be a presumption that data or information is "destroyed" after the underwriting process, which is not the case.

Commissioner Houdek explained that these requests for information are intentionally broad to empower regulators to ask more open-ended questions, and regulators can tailor these questions to their specific laws. Gendron said that destroying information would be in contravention of record retention laws. He said that he certainly hopes companies do not do this and said that companies should know their own record retention policies and that insurers should know how long they need to keep information after issuing a policy, and if a policy is never issued, information must be destroyed after a certain number of years. This is the kind of information a regulator may want to ask about. Gendron asked whether there was a better way to word the question.

© 2024 National Association of Insurance Commissioners

Birnbaum said the question is how is information about life applicants utilized, stored, and destroyed after the need for the data no longer exists. An insurer is going to maintain underwriting data for as long as the policy is in force to make sure there is no fraud. The question should be rephrased to key into how long information is retained once it is no longer required for the purposes of serving the consumer. Birnbaum also suggested that the question should ask the insurer to document the process that they use. Commissioner Houdek agreed with the comments raised by Gendron and Birnbaum. Gillaspey suggested the following revisions:

> "3. Explain and document in detail how the company discloses to applicants for life insurance what external information is used in its Accelerated Underwriting program and how this external information actually is used in the Accelerated Underwriting program.
> 7. How is external data or information about life applicants utilized, stored~~, and destroyed~~ after the completion of the underwriting process, and ultimately destroyed?"

The Working Group agreed to include these revisions in the next draft. Commissioner Houdek explained that a revised draft will be exposed for a two-week public comment period ending on July 26. Comments should be sent via email to Jennifer Cook (NAIC) at jcook@naic.org. He asked Working Group members, interested regulators, and interested parties to review the draft closely for any errors or mistakes of fact. The goal is to have the Working Group adopt the draft guidance and the market conduct referral during its next meeting in early August.

Having no further business, the Accelerated Underwriting (A) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A Cmte /AUWG/AUWG min 7-11-24 Final

© 2024 National Association of Insurance Commissioners

Draft: 6/24/24

Accelerated Underwriting (A) Working Group
Virtual Meeting
June 13, 2024

The Accelerated Underwriting (A) Working Group of the Life Insurance and Annuities (A) Committee met June 13, 2024. The following Working Group members participated: Nathan Houdek, Chair, and Lauren Van Buren (WI); Grace Arnold, Vice Chair, represented by Sarah Gillaspey (MN); Jason Lapham (CO); Cynthia Amann (MO); Maggie Reinert and Megan VanAusdall (NE); Daniel Bradford (OH); Brett Bache (RI); and David Hippen (WA).

1. Exposed the Revised AU Guidance Document and Referral

Commissioner Houdek said that the focus of the Working Group meeting is to discuss the June 3 revisions made to the Jan. 25, 2023, draft *Regulatory Guidance and Considerations* document and the Jan. 11, 2023, draft *Market Regulation Handbook* referral. Commissioner Houdek explained that a small drafting group met weekly following the April 3 Working Group call to revise the drafts based on the comments received last year, as well as the *Model Bulletin on the Use of Algorithms, Predictive Models, and Artificial Intelligence Systems by Insurers* (AI Model Bulletin) and the results of the AI/machine learning (ML) survey. Commissioner Houdek said the drafting group included Van Buren, legal counsel in Wisconsin, Gillaspey, and legal counsel in Minnesota, who were largely responsible for the drafts exposed last year. Also participating in the drafting group were Lapham, Nour Benchaaboun (MD), Amann, Ross Hartley (ND), Bradford, Matt Gendron (RI), and Mariel Garcia (RI). NAIC staff supporting the Innovation, Cybersecurity, and Technology (H) Committee and its groups participated, including Dorothy Andrews (NAIC), Miguel Romero (NAIC), and Scott Sobel (NAIC).

Gillaspey reviewed the revisions made to the June 3 draft *Regulatory Guidance and Considerations* document (*See NAIC Proceedings – Summer 2024, Life Insurance and Annuities (A) Committee, Attachment Three*). She explained that the guidance document was structurally reorganized to include a brief introduction before laying out the guidance. For better organization, three headings were added: 1) *Regulatory Considerations*; 2) *Strategies for Review*; and 3) *Requests for Information*. The more comprehensive background information was moved to after the regulatory guidance.

Gillaspey explained that the content of the guidance is largely unchanged from the January draft. She said the specific differences include: 1) in A)1, instead of the phrase "unfair bias," the draft uses the phrase "unfair discrimination"; 2) in A)8, the phrase "or actions" was added; 3) in B)1, The January draft's phrasing of "…review a life insurer's initial submission of policy filings…" was changed to "underwriting programs/guidelines."; 4) in B)4, the phrase "via a model" was added; 5) in C)5, "based on external data or information?" was added as clarifying language; 6) rephrased the following question in C)8 that asked how often does a company audits to ask how a company validates, tests, and audits; 7) in C)8, adding a reference to "Adverse Outcomes," which keys into the AI Model Bulletin; and 8) removing a couple of questions that were not feasible in practice, such as questions asking what changed as a result of audits and why and asking for a copy of audit reports. Similar questions were removed from the AI Model Bulletin as burdensome to produce and of questionable importance.

Gillaspey explained that the revised guidance relies on definitions from other NAIC work products footnoted in the June 3 draft. Changes were also made to the structure of the background information. The June 3 draft lays out chronologically the NAIC work product related to the state insurance regulator guidance. Since the January draft, several NAIC projects in this area were completed and have been hyperlinked and included as appendices to the regulatory guidance.

© 2024 National Association of Insurance Commissioners

Gillaspey reviewed the revisions to the June 3 draft referral (Appendix 2 to the June 3 draft *Regulatory Guidance and Considerations* document). She said minor revisions were made to the referral. The referral was updated to reference the AI Model Bulletin and specifically list the NAIC models that provide the authority to add guidance on accelerated underwriting (AU) in life insurance to the *Market Regulation Handbook*. The revised referral references the regulatory guidance rather than re-stating the guidance in the referral. Lastly, the revisions to the referral make clear that the Working Group stands ready to assist the Market Conduct Examination Guidelines (D) Working Group in revising the *Market Regulation Handbook*.

Birny Birnbaum (Center for Economic Justice—CEJ) asked how the Working Group envisioned state insurance regulators and insurers using the regulatory guidance. Van Buren said she saw this guidance as a starting point for state insurance regulators to reference in fulfilling their duties to regulate these new technologies. Van Buren said that the guidance is not overly detailed but will provide helpful guidance to all state insurance regulators, even those with limited exposure to these technologies, to be able to review an AU program under the parameters laid out in the regulatory guidance document. Birnbaum said that the NAIC has been working on AU for at least eight years and that it seems like a long time to reach a starting point. Birnbaum asked what "law or guidelines governing the proposed use of data elements" reference in *Strategies for Review,* specifically where it states that a department of insurance (DOI) may "Review a life insurer's underwriting programs/guidelines to confirm the proper use of data elements." Van Buren said the specifics will always be a matter of state law. Gillaspey agreed with Van Buren and explained that, additionally, the *Strategies for Review* reference relies on the regulatory factors listed under the previous heading, *Regulatory Considerations*. Gillaspey also said the educational paper developed by the Working Group (Appendix 1 to the June 3 draft *Regulatory Guidance and Considerations* document) contains context that informs the regulatory guidance and considerations.

Birnbaum asked whether the proper use of data elements includes the avoidance of proxy discrimination as set out in the "NAIC Principles on Artificial Intelligence (AI)" (AI Principles). Gillaspey explained that the regulatory guidance references other NAIC work products, all of which make clear that current insurance laws continue to apply to AI and AU, including laws prohibiting unfair discrimination in rating and underwriting practices. Birnbaum asked whether a state with a law prohibiting discrimination in life insurance underwriting on the basis of race should follow the June 3 draft *Regulatory Guidance and Considerations* document review insurers' use of AU for proxy discrimination on the basis of race. Commissioner Houdek said every state prohibits unfair discrimination, and the June 3 draft of the *Regulatory Guidance and Considerations* document has been drafted to allow states the discretion to review insurers' use of AU in light of their state laws.

Birnbaum asked whether the referral to the Market Conduct Examination Guidelines (D) Working Group would include developing procedures for testing whether an insurer's use of AU violates the prohibition on unfair discrimination on the basis of race. Commissioner Houdek said he anticipates working with the Market Conduct Examination Guidelines (D) Working Group to determine what is appropriate. Commissioner Houdek said Birnbaum was welcome to submit additional comments and questions during the comment period. Birnbaum said he has put forth these questions and recommendations in the past and is wondering why the guidance is not more specific.

The Working Group agreed to expose the June 3 draft *Regulatory Guidance and Considerations* document and referral for a public comment period ending June 30. Comments should be sent via email to Jennifer Cook (jcook@naic.org).

Having no further business, the Accelerated Underwriting (A) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A Cmte /AUWG/AUWG min 6-13-23 final

© 2024 National Association of Insurance Commissioners

Draft: 4/8/24

Accelerated Underwriting (A) Working Group
Virtual Meeting
April 3, 2024

The Accelerated Underwriting (A) Working Group of the Life Insurance and Annuities (A) Committee met April 3, 2024. The following Working Group members participated: Nathan Houdek, Chair, and Lauren Van Buren (WI); Grace Arnold, Vice Chair, represented by Sarah Gillaspey (MN); Jason Lapham (CO); Russ Gibson (IA); Cynthia Amann (MO); Maggie Reinert and Megan VanAusdall (NE); Daniel Bradford (OH); and David Hippen (WA).

1. Discussed Next Steps for Accelerated Underwriting Guidance Document and Referral

Commissioner Houdek explained that the focus of the Working Group meeting is to discuss the next steps for finalizing the regulatory guidance document and the *Market Regulation Handbook* referral now that the *NAIC Model Bulletin on the Use of Algorithms, Predictive Models, and Artificial Intelligence Systems by Insurers* (AI Model Bulletin) is finalized and the survey on the use of artificial intelligence (AI)/machine learning (ML) in life insurance is complete. He suggested a process for completing the resource guide and referral in time for consideration by the Life Insurance and Annuities (A) Committee at the Summer National Meeting.

Commissioner Houdek said that the first step in the work plan is to have a small drafting group meet to revise both draft documents based on the comments received last year, as well as the AI Model Bulletin and the results of the AI/ML survey. He said revised drafts would be exposed via email for a 30-day public comment period. Ideally, the exposure will occur around the third week of April, with a comment deadline during the third week of May.

Commissioner Houdek said the Working Group would have an open meeting to review and discuss any comments received, and the drafting group would meet again to revise accordingly. Another draft would be exposed for a final comment period ending around the second week of July. He said the Working Group would have another open virtual meeting to discuss what he hopes will be minor comments and adopt the final drafts for consideration by the Life Insurance and Annuities (A) Committee during the Summer National Meeting.

Commissioner Houdek explained that while the drafting group will develop the revised drafts, the entire Working Group will be given an opportunity to review each draft prior to its public exposure. He also explained that the drafting group will be regulator-only; however, the Working Group is committed to reviewing and discussing comments on each draft during open meetings. He said the goal is to facilitate full understanding by all stakeholders—state insurance regulators and interested parties—and ensure an opportunity for input throughout the drafting process.

Commissioner Houdek said Van Buren and Gillaspey will participate in the drafting group. He requested that any other state insurance regulators interested in participating in the drafting group email Jennifer Cook (NAIC). He asked that any state insurance regulators also involved in the Market Conduct Examination Guidelines (D) Working Group and willing to review the referral document reach out to Cook.

Amann asked about the intended audience for the regulatory guidance document. She asked if the guidance document is intended to address the needs of state insurance regulators, insurers, or both. She said this was an issue that arose during the drafting of the AI Model Bulletin. Van Buren explained that the resource guide, as drafted, is intended as a tool for state insurance regulators. Commissioner Houdek encouraged state insurance

© 2024 National Association of Insurance Commissioners

regulators to participate in the drafting group. He said the current draft is consistent with the principles-based approach of the AI Model Bulletin and should not require too much effort to revise.

Having no further business, the Accelerated Underwriting (A) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A Cmte /AUWG/AUWG min 2-23-23 final

© 2024 National Association of Insurance Commissioners

Adopted by the Life Insurance and Annuities (A) Committee on August 14, 2024
Adopted by the Accelerated Underwriting (A) Working Group on August 6, 2024

Accelerated Underwriting in Life Insurance
Regulatory Guidance and Considerations

The Accelerated Underwriting (A) Working Group offers the following regulatory guidance for state Departments of Insurance (DOIs) to use when reviewing life insurer's use of accelerated underwriting programs. The regulatory guidance is designed to provide a framework for regulators to reference and is divided into three areas of focus: A) regulatory considerations; B) strategies for review; and C) requests for information.

Regulators should ensure that accelerated underwriting programs are fair, transparent, safe, and secure and in compliance with existing law. Making sure that the use of accelerated underwriting is fair to consumers is important because its use impacts the availability, access, and affordability of life insurance to consumers. Ensuring that insurers use accelerated underwriting in a transparent manner is important because consumers should understand what personal data is being accessed by insurers and how that data is being used. Insurers accessing sensitive consumer data have a duty to secure that data to protect consumers from the harm of unauthorized disclosure. And finally, it is critical that insurers' use of accelerated underwriting is in compliance with all applicable insurance laws and regulations.

A "Background" section has been included starting on page 5 to explain the history of the development of this regulatory guidance. A chronological list of the work product from other NAIC groups addressing similar or overlapping issues related to accelerated underwriting also has been included. While this entire body of work at the NAIC has influenced this guidance document, in the interest of clarity in this rapidly evolving area, this guidance document includes specific references to the definitions from other work product on which the regulatory guidance relies.

© 2024 National Association of Insurance Commissioners

Regulatory Guidance

A) Regulatory Considerations

The AUWG developed the following regulatory factors for DOIs to consider when reviewing a life insurer's use of Accelerated Underwriting[1] programs:

1. Data inputs are transparent, accurate, reliable, and the data itself is evaluated for potential unfair discrimination.

2. External data sources, Algorithms[2] or Predictive Models[3] are based on sound actuarial principles, including a rational explanation why a rating variable or combination of variables is correlated to expected loss or expense, and why that correlation is consistent with the expected direction of the relationship.[4]

3. Predictive Models or Machine Learning[5] Algorithm(s) within Accelerated Underwriting accurately assess and price risk.

4. Predictive Models or Machine Learning Algorithm(s) achieve an outcome that is not unfairly discriminatory.

5. Reason(s) for an Adverse Underwriting Decision,[6] along with information upon which the insurer based its Adverse Underwriting Decision, are provided to the consumer in language understandable by the typical consumer and consistent with applicable state and federal laws and regulations.

6. The insurer establishes and follows written procedures to protect the consumer's privacy and the consumer's data and provides a description of these procedures consistent with applicable state and federal laws and regulations to the consumer at the time of authorization.

7. The insurer has a mechanism in place to correct mistakes confirmed by records if found in consumer data.

8. The insurer has a process in place to assist a consumer in contacting the originator of a record that the consumer believes to be incorrect.

---

[1] For purposes of this Regulatory Guidance, "Accelerated Underwriting" has the meaning set forth in the Life and Annuity Market Conduct Annual Statement (MCAS). See page 6 below "From 2022."
[2] For purposes of this Regulatory Guidance, "Algorithm" has the meaning set forth in the AI Model Bulletin (*See* Appendix 4).
[3] For purposes of this Regulatory Guidance, "Predictive Model" has the meaning set forth in the AI Model Bulletin (*See* Appendix 4).
[4] For clarity and consistency, this bullet borrows language from the Casualty Actuarial and Statistical (C) Task Force *Regulatory Review of Predictive Models White Paper* to describe this concept, replacing the language from the Accelerated Underwriting Educational Paper recommendation, which said: "External data sources, algorithms or predictive models are based on sound actuarial principles, including a valid explanation or rationale for any claimed correlation or causal connection."
[5] For purposes of this Regulatory Guidance, "Machine Learning" has the meaning set forth in the AI Model Bulletin (*See* Appendix 4).
[6] For purposes of this Regulatory Guidance, "Adverse Underwriting Decision" has the meaning articulated in the most recent draft of Model #674, which came from Model #670 and is consistent with the Fair Credit Reporting Act.

© 2024 National Association of Insurance Commissioners

8. The insurer will produce information upon request as part of regular filing submission reviews or market conduct examinations or actions.

9. The insurer has procedures in place to address consumer notice requirements anduse/restrictions on consumer data, consistent with applicable state and federal laws and regulations.

B) Strategies for Review

Using the regulatory considerations in A. above as a baseline for review, DOIs may consider the following:

1. Review a life insurer's underwriting programs/guidelines to confirm the proper use of data elements.

2. Request a life insurer provide Accelerated Underwriting data sources, Predictive Models, and Algorithms or summaries for analysis.

3. Request a life insurer provide additional information about how a particular Predictive Model or Machine Learning Algorithm is used in an Accelerated Underwriting program.

4. Request a life insurer provide information about source data used as part of its Accelerated Underwriting programs regardless of whether the data or score is provided by a third party or via a model.

5. Request a life insurer provide information about its auditing of data sets, Predictive Models, and Machine Learning Algorithms to ensure they are accurate, reliable, and do not result in unfairly discriminatory outcomes.

C) Requests for Information

The following are examples of questions and requests for information DOIs may want to submit to life insurers when reviewing Accelerated Underwriting programs:

1. What specific external data or information about life insurance applicants is being utilized by the Accelerated Underwriting program?

2. How does the company obtain any external data or information used as part of its life insurance Accelerated Underwriting program?

3. Explain and document in detail how the company discloses to applicants for life insurance what external information is used in its Accelerated Underwriting program and how this external information actually is used in the Accelerated Underwriting program.

4. Ask for a copy of all company disclosures provided to applicants regarding the company's Accelerated Underwriting program.

5. What process or recourse does the company provide to an applicant for life insurance should they receive an Adverse Underwriting decision based on external data or information?

6. What process or recourse does the company provide to applicants for life insurance to correct mistakes in the external data or information?

© 2024 National Association of Insurance Commissioners

7. How is external data or information about life applicants utilized, stored after the completion of the underwriting process, and ultimately destroyed?

8. How does the company validate, test, and/or audit data sets, Predictive Models, and Machine Learning Algorithms for accuracy and reliability, and for potential Adverse Consumer Outcomes[7]?

9. Does the company validate, test, and/or audit data sets, Predictive Models, and Machine Learning Algorithms internally or does it utilize a third-party to perform these functions?

10. How does the company ensure that the model(s) it uses are based on sound actuarial principles?

11. How does the company address potential unfair discrimination by ensuring that external consumer data's correlation to risk is not outweighed by any correlation to a protected class(es).

The AUWG offers this guidance to the state DOIs for consideration, while recognizing that there is more work to come. The AUWG anticipates that the work of the other NAIC groups on this topic will lead to additional guidance regarding Accelerated Underwriting in life insurance.

Background

The Accelerated Underwriting Working Group (AUWG) was created by the Life Insurance and Annuities (A) Committee at the NAIC 2019 Summer National Meeting. One of the original charges given to the Working Group was to "… consider the use of external data and data analytics in accelerated life underwriting . . . and, if appropriate, drafting guidance for the states." The Working Group has been considering the effects of accelerated underwriting in life insurance since 2019, and during that time the definitions of artificial intelligence and accelerated underwriting and their use in life insurance has evolved.

A significant portion of the early work of the AUWG benefitted from a multitude of presentations from the life insurance industry, actuarial consulting firms, a machine learning assurance company, and consumer advocate groups. These presentations are summarized in an educational paper (Appendix 1) adopted by the Life Insurance and Annuities (A) Committee at the NAIC 2022 Spring National Meeting.

The educational paper includes recommendations for insurers and regulators designed to ensure new technologies are utilized by life insurers in ways that comply with existing insurance law. While existing insurance laws vary from state to state, the recommendations acknowledge that most states: 1) require life insurance underwriting to be based on expected losses and expenses; 2) require insurers that collect consumer data to maintain that data in secure systems; and 3) prohibit unfair discrimination in insurance underwriting.

The AUWG presents regulatory guidance for State Departments of Insurance (DOIs) when reviewing Accelerated Underwriting programs used by life insurers. The regulatory guidance expounds on the recommendations the AUWG made in its educational paper and provides sample questions and areas for review for DOIs.

Also, the AUWG is making a referral (Appendix 2) to the Market Conduct Examination Guidelines (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee with suggested additions to the NAIC's

[7] For purposes of this Regulatory Guidance, "Adverse Consumer Outcomes" has the meaning set forth in the Model AI Bulletin (See Appendix 4).

Market Regulation Handbook (MRH). The AUWG has concluded that it would be beneficial to include additional guidance in the NAIC's MRH that addresses questions involving Accelerated Underwriting in life insurance.

There are other NAIC groups working on similar or overlapping issues related to Accelerated Underwriting. The AUWG has considered and incorporated relevant content from the following:

From 2020:

- ***The National Association of Insurance Commissioners (NAIC) Principles on Artificial Intelligence (AI)***

On August 14, 2020, the NAIC membership adopted the *NAIC Principles on AI* (AI Principles) (Appendix 3). These AI Principles apply to insurance companies and all persons or entities facilitating the business of insurance that play an active role in the AI system life cycle, including third parties such as rating, data providers and advisory organizations (AI actors). The purpose of the principles is to inform and establish general expectations for AI actors and systems, emphasizing the importance of developing AI systems that are fair and ethical, accountable, compliant with insurance laws and regulations, transparent, and safe, secure, and robust. Both the educational paper and this regulatory guidance and referral rely on the expectations articulated in the AI Principles.[8]

From 2021:

- **The Casualty Actuarial and Statistical Task Force *Regulatory Review of Predictive Models White Paper*:**

The NAIC adopted the Casualty Actuarial and Statistical Task Force of Property and Casualty I Committee's *Regulatory Review of Predictive Models White Paper* (*Regulatory Review White Paper*) on April 14, 2021. The *Regulatory Review White Paper* was issued to help bring more consistency to the art of reviewing predictive models within property/casualty rate filings and make the review process more efficient.

From 2022:

- **The Market Conduct Annual Statement (MCAS) definition of Accelerated Underwriting**

The Market Conduct Annual Statement (MCAS) (D) Working Group under Market Regulation and Consumer Affairs (D) Committee is the national forum for states to define and revise the Market Conduct Annual Statement (MCAS) data elements and definitions. In 2022, the MCAS Working Group adopted additions to the Life and Annuity MCAS to collect basic information about products subject to Accelerated Underwriting, as well as the types of data the company uses in its Accelerated Underwriting. The MCAS includes the following:

> For this MCAS, data should be reported as Accelerated Underwriting when artificial intelligence and/or machine learning which utilizes, in whole or in part, Other Non-medical Third-party Data and/or FCRA Compliant Non-medical Third-party Data in the underwriting of life insurance is applied; including when that data is used in combination with Application Data or Medical Data.

The AUWG believes that the MCAS definition is consistent with the more detailed definition of Accelerated Underwriting that informed the educational paper.[9] Given that the AUWG regulatory guidance is contemplated

[8] The AUWG relied on the NAIC's AI Principles for the recommendations contained in its educational paper and believes that these AI Principles, coupled with the NAIC model references listed in the MRH Section F. Underwriting and Rating of Chapter 20—General Examination Standards, and Section F. Underwriting and Rating of Chapter 23—Conducting the Life and Annuity Examination, form the basis for additional examination review criteria that focus on Accelerated Underwriting in life insurance.

[9] AUWG's educational paper adopted the following definition: "Accelerated underwriting (AU) is the use of big data, artificial intelligence, and machine learning to underwrite life insurance in an expedited manner. The process generally uses predictive models and machine learning algorithms to analyze applicant data, which may include the use of non-traditional, non-medical data, provided either by the applicant directly or obtained through external sources. The process is typically used to replace

© 2024 National Association of Insurance Commissioners

for use by insurance departments during market conduct reviews and for inclusion in the MRH, the AUWG uses the MCAS definition for purposes of its regulatory guidance document to avoid any unintended confusion.

From 2023[10]:

- ***NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers***

On December 4, 2023, the NAIC adopted the *NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers* (AI Model Bulletin) (Appendix 4). The bulletin, when issued by a Department of Insurance: 1) reminds insurers that decisions or actions made or supported by AI must comply with all applicable insurance laws and regulations; 2) sets forth expectations as to how insurers will govern the development/acquisition and use of AI technologies and systems; and 3) also advises insurers of the type of information and documentation that the Department may request during an investigation or examination of any insurer regarding its use of AI technologies and systems.

The regulatory guidance follows the AI Model Bulletin. Specifically, the considerations, expectations, and questions about Accelerated Underwriting in life insurance contained in the regulatory guidance follow the expectations articulated in the first sentence of the AI Model Bulletin: "that decisions or actions impacting consumers that are made or supported by advanced analytical and computational technologies, including Artificial Intelligence (AI) Systems (as defined [in the bulletin]), must comply with all applicable insurance laws and regulations." The defined terms in the AI Model Bulletin also apply to the AUWG regulatory guidance.

Big Data and AI (H) Working Group 2023 Life Artificial Intelligence/Machine Learning Survey

The 2023 Life Artificial Intelligence/Machine Learning Survey (Life AI/ML Survey) was conducted to inform the work of the Big Data and Artificial Intelligence (H) Working Group in support of its charge to:

> Research the use of big data and artificial intelligence (AI) in the business of insurance, and evaluate existing regulatory frameworks for overseeing and monitoring their use. Present findings and recommended next steps, if any, to the Innovation and Technology (EX) Task Force, which may include model governance for the use of big data and AI for the insurance industry.

The results of the survey, summarized in a *Nov. 30, 2023 memorandum* (Appendix 5) and in the summary results chart (Appendix 6), confirm the importance of the development of regulatory guidance specific to the use of Accelerated Underwriting in life insurance.

In 2024 and ongoing…

- **Third-Party Data and Models (H) Task Force**

---

all or part of traditional underwriting in life insurance and to allow some applicants to have certain medical requirements waived, such as paramedical exams and fluid collection."

[10] In 2023, Draft Model and Data Questions were developed and exposed for comment by the Big Data and AI (H) Working Group to help regulators assess whether, to what extent, and in what capacity AI and ML algorithms were used in insurer operations. The Questions are intended to help regulators perform regulatory oversight during an investigation or as related to rate model reviews. The document includes a spreadsheet to gather responses in a structured format. An initial draft was exposed for comment in 2023, however, the project was put on hold to focus efforts on developing the AI Model Bulletin.

© 2024 National Association of Insurance Commissioners

In 2024, the Third-Party Data and Models (H) Task Force was formed. The Task Force is charged to:

A. Develop and propose a framework for the regulatory oversight of third-party data and predictive models.
B. Monitor and report on state, federal, and international activities related to governmental oversight and regulation of third-party data and model vendors and their products and services. Provide recommendations to the Innovation, Cybersecurity, and Technology (H) Committee regarding responses to such activities.

The goal of this Task Force is to develop and propose an optimal regulatory framework for the regulatory oversight of third-party data and predictive models. The proposed regulatory framework may require new or modification of adopted model laws or regulations in 2025. The Third-Party Data and Models (H) Task Force will coordinate with other Innovation, Cybersecurity, and Technology (H) Committee activities and forums and place emphasis on transparency during the process.

- **Artificial Intelligence Systems Evaluation and Training Collaboration Forum**

The Innovation, Cybersecurity, and Technology (H) Committee established the concept of Collaboration Forums (CFs) as platforms for multiple NAIC groups to work together to identify and address foundational issues and develop a common framework that can inform the various workstreams across the NAIC Committee structure. CFs typically result in a series of events which may include webinars, or in-person components intended to advance an important policy matter.

An emerging CF is the Artificial Intelligence Systems Evaluation and Training Collaboration Forum, which includes several working groups and task force leads coming together for the purpose of developing exam standards for insurers using AI. The CF is also planning to oversee the development of AI training for regulators. The AUWG leadership is involved in this CF and in this role will help ensure that there is consistency around this topic across all lines of insurance.

- **The Privacy Protections (H) Working Group under the Innovation, Cybersecurity and Technology (H) Committee**

The Privacy Protections (H) Working Group is working on replacing the NAIC's Insurance Information and Privacy Protection Model Act (#670) and the Privacy of Consumer Financial and Health Information Regulation (#672) with one new model, *Consumer Privacy Protections Model Law* (#674). Model #674 is intended to address issues confronting state insurance regulators applying current model law and regulation requirements to consumer privacy notifications relative to insurance companies, insurance producers, and their third-party vendors access to consumer data via the internet, telematics, and other data tracking technology used in complex algorithms, including machine learning (ML) and artificial intelligence (AI). Although this group is addressing a unique set of issues, it will require coordination, especially with regard to definitions.

The AUWG supports the NAIC further developing regulatory guidance regarding the use of artificial intelligence in the insurance industry to help DOIs appropriately monitor the use of Accelerated Underwriting programs used by life insurers. As noted above, there is work currently underway which will inform future efforts on this topic.

© 2024 National Association of Insurance Commissioners

APPENDIX 1

DRAFT March 4, 2022
Adopted by the Life Insurance and Annuities (A) Committee on April 7, 2022
Adopted by Accelerated Underwriting Working Group on March 24, 2022

Accelerated Underwriting (A) Working Group
Ad Hoc Drafting Subgroup

TABLE OF CONTENTS

I. Introduction

II. Procedural background of the Working Group and its Charge – Address presentations we received about current accelerated underwriting practices in life insurance.

III. What is accelerated underwriting and put it in context of traditional underwriting
  A. What is accelerated underwriting
    1. What is a predictive model
    2. What is a machine learning algorithm
  B. What is traditional underwriting
  C. What is simplified underwriting
  D. How is accelerated underwriting similar and different from traditional underwriting and simplified underwriting

  E. How prevalent is accelerated underwriting
  F. Trends for the future
  G. Recommendations
IV. Discussion of issues and recommendations
  A. Input data
    1. Traditional data
    2. Non-traditional data
    3. Fair Credit Reporting Data (FCRA) data
    4. Discussion of bias in input data
    5. Recommendations

  B. Data Privacy

Conclusion

Appendices
Appendix A: Additional Procedural Background
Appendix B: Machine Learning/ Artificial Intelligence Definition in 6/24/21 Draft Big Data and Artificial Intelligence (EX) Working Group Survey on private passenger automobile (PPA) insurers' use and governance of big data.

Resources

© 2024 National Association of Insurance Commissioners

New York Circular No. 1
Abbreviated Summary of Presentations
National Association of Insurance Commissioners (NAIC) Principles on Artificial Intelligence (AI)
Casualty Actuarial and Statistical (C) Task Force Regulatory Review of Predictive Models White Paper

Introduction

In 2019, the National Association of Insurance Commissioners (NAIC) established the Accelerated Underwriting (A) Working Group to consider the use of external data and data analytics in accelerated life insurance underwriting, including consideration of the ongoing work of the Life Actuarial (A) Task Force on the issue and, if appropriate, draft guidance for the states. In addition, the 2021 charges of the Special Committee on Race and Insurance direct the working group to include an assessment of and recommendations, as necessary, regarding the impact of accelerated underwriting on minority populations. A more detailed procedural background can be found in the appendix. This paper is the output of over a year's work by regulators to understand the current state of the industry and its use of accelerated underwriting. It summarizes what the Working Group has learned over the past year, contextualizes that learning and the topic of accelerated underwriting within other NAIC work and standard regulatory product evaluation processes, and makes recommendations for regulators and insurers when evaluating accelerated underwriting.

Accelerated underwriting in life insurance may provide potential benefits to both consumers and insurers, if applied in a fair and non-discriminatory manner. In order to fairly deliver the benefits of more convenient and cost-effective processes, regulators and insurers should be guided by current law related to fair trade practices and unfair discrimination. Regulators and insurers should also continue to monitor accelerated underwriting practices as they develop and update, when necessary, relevant laws to adapt to these developing practices to avoid unfair trade practices and unfairly discriminatory practices. Much of the discussion in this paper is framed in these general terms. The Working Group believes the charge to specifically address the impact on minority populations is included in these terms. Future work products of the Working Group may address the charge from the Special Committee on Race and Insurance in more detail.

What is Accelerated Underwriting?

Throughout this paper, we use the term accelerated underwriting in life insurance. For purposes of this paper, we based our work on the following definition:

> Accelerated underwriting is the use of big data, artificial intelligence, and machine learning to underwrite life insurance in an expedited manner. The process generally uses predictive models and machine learning algorithms to analyze applicant data, which may include the use of non-traditional, non-medical data, provided either by the applicant directly or obtained through external sources. The process is typically used to replace all or part of traditional underwriting in life insurance and to allow some applications to have certain medical requirements waived, such as paramedical exams and fluid collection.

Predictive models examine data sets for patterns to predict and assign the risk category, e.g., a model developer enters data points (potentially hundreds of thousands), and the model finds patterns and identifies future

© 2024 National Association of Insurance Commissioners

predictions of risk and assigns an insured to a risk category.[1] Machine learning algorithms are a process or set of rules executed to solve an equation[2], e.g., a life insurance underwriter uses a set of rules to place an individual insured in a particular risk category. The 'learning' part of machine learning means that those programs change how they process data over time, much as humans change how they process data by learning. Machine learning often falls into two groups: supervised or unsupervised. The difference between the two is whether the program is directed to analyze patterns or is self-automated.

Predictive models or machine learning trains a system to make judgments when exposed to data that is unfamiliar to serve as a substitute for human-centric decision making. These are both subcategories of artificial intelligence, which should not be confused with a static rule-based algorithm.

Life insurance underwriting is the process of determining eligibility and classifying applicants into risk categories to determine the appropriate rate to charge for transferring the financial risk associated with insuring the applicant. Traditional life insurance underwriting involves, assessing the applicant's physical health, along with other financial and behavioral elements, then determining whether an applicant is eligible for coverage and the risk class to which that individual belongs. Accelerated underwriting relies both on traditional and non-traditional, non-medical data used within predictive models or machine learning algorithms to perform some of the tasks of an underwriter. The exact parameters of the application of accelerated underwriting vary by insurer.

Presentations made to the Working Group indicated that life insurers use accelerated underwriting in primarily two ways: 1) Accelerated underwriting is used to triage applicants, where unsuccessful applicants are re-routed to traditional underwriting, and successful ones continue through the accelerated underwriting process; or 2) Accelerated underwriting is used to rate applicants based on risk categories.

Most predictive or machine learning algorithms used in life insurance underwriting are in their second or third generation. The COVID-19 pandemic sped up the adoption of accelerated underwriting in the industry as both consumers and insurers looked for options to purchase and write policies that relied more on technology and involved less in-person contact. This has highlighted the need for ongoing monitoring of the machine learning algorithms—both their development and their uses in the marketplace.

Presentations made to the Working Group indicated that adverse underwriting decisions are sometimes reviewed by human underwriters. Companies presenting to the Working Group stated that the accelerated underwriting process is less cumbersome, costs less than traditional underwriting, it expedites the process and requires less

[1] For a more detailed discussion of predictive models in property and casualty insurance, see the Casualty Actuarial and Statistical (C) Task Force Regulatory Review of Predictive Models White Paper, Adopted by the Property and Casualty Insurance (C) Committee on Dec. 8, 2020.

[2] The Big Data and Artificial Intelligence (EX) Working Group developed a survey to conduct analysis on private passenger automobile (PPA) insurers' use and governance of big data, as used in an artificial intelligence (AI) and machine learning (ML) system. The survey is being conducted under the examination authority of Connecticut, Illinois, Iowa, Louisiana, Nevada, North Dakota, Pennsylvania, Rhode Island, and Wisconsin. This analysis will help inform the Working Group in completing its long-term goals of developing guidance and recommendations to update the existing regulatory framework for the use of big data and AI, including how to monitor and oversee the industry's compliance with the NAIC's AI principles. The survey work may be expanded to other lines of insurance as needed, such as life insurance and homeowners insurance. For the purposes of the survey only, AI/ML is defined as, "an automated process in which a system begins recognizing patterns without being specifically programmed to achieve a pre-determined result." This is different from a standard algorithm that consists of a process or set of rules executed to solve an equation or problem in a pre-determined fashion, and evolving algorithms are considered a subset of AI/ML.

© 2024 National Association of Insurance Commissioners

consumer involvement in the purchase, improves the underwriting experience for consumers, shortens issue times, and increases policy acceptance rates. [3]

General Discussion of Issues and Recommendations

Life insurers reliance on an increasingly automated underwriting process that uses non-traditional, non-medical data presents new regulatory challenges. Regulators must ensure that the process is **fair, transparent, and secure.** With regard to accelerated underwriting in life insurance, this concern pertains to input data, the predictive model or machine learning algorithm, and the results of the process. One particular challenge is the potential for **unfair discrimination.** Due to the fact accelerated underwriting relies on non-traditional, non-medical data and predictive models or machine learning algorithms, it may lead to unexpected or unfairly discriminatory outcomes even though the input data may not be overtly discriminatory. It is critical to test the conclusions up front, on the back end, as well as, randomly, to ensure the machine learning algorithm does not produce unfairly discriminatory ratings or ones that are not actuarially sound. Testing can also be important in determining if a machine learning algorithm is accurate across demographic categories. Such scrutiny is especially important when behavioral data is utilized. Behavioral data may include gym membership, one's profession, marital status, family size, grocery shopping habits, wearable technology, and credit attributes. Although medical data has a scientific linkage with mortality, behavioral data may lead to questionable conclusions without reasonable explanation.

Recommendations

Consistent with the Artificial Intelligence Principles approved by the NAIC in 2020[4], the use of accelerated underwriting in life insurance should be fair and transparent to regulators, consumers, and policymakers. Companies must operate in compliance with applicable laws, and the process and data companies use need to be secure. To accomplish these objectives, regulators should dialogue with consumers, life insurers, and third-party vendors to determine if consumer data is being used in problematic or unfair ways or generating unfair outcomes.

Insurers and other parties involved in accelerated underwriting in life insurance should:

- Take steps to ensure data inputs are transparent, accurate, reliable, and the data itself does not have any unfair bias.
- Ensure that the use of external data sources, algorithms or predictive models are based on sound actuarial principles with a valid explanation or rationale for any claimed correlation or causal connection.
- Ensure that the predictive models or machine learning algorithm within accelerated underwriting has an intended outcome and that outcome is being achieved.
- Ensure that the predictive models or machine learning algorithm achieve an outcome that is not unfairly discriminatory.

[3] Presentations to Accelerated Underwriting (A) Working Group between Dec. 8, 2018, and Sept. 24, 2020.

[4] See National Association of Insurance Commissioners (NAIC) Principles on Artificial Intelligence (AI) – Fair and Ethical a. AI actors should respect the rule of law throughout the AI life cycle. This includes, but is not limited to, insurance laws and regulations, such as those relating to trade practices, unfair discrimination, access to insurance, underwriting, privacy, consumer protection and eligibility practices, rate making standards, advertising decisions, claims practices, and solvency. b. Consistent with the risk-based foundation of insurance, AI actors should proactively engage in responsible stewardship of trustworthy AI in pursuit of beneficial outcomes for consumers and to avoid proxy discrimination against protected classes. AI systems should not be designed to harm or deceive people and should be implemented in a manner that avoids harmful or unintended consequences and corrects and remediates for such consequences when they occur.

- Be able to provide the reason(s) for an adverse underwriting decision, whether the decision is based on data subject to FCRA or not, to the consumer and all information upon which the insurer based its adverse underwriting decision.
- Take steps to protect consumer privacy and ensure consumer data is secure.
- Have a mechanism in place to correct mistakes if found.
- Produce information upon request as part of regular filing submissions reviews or market conduct examinations.

Input data

Predictive models or machine learning algorithms within the accelerated underwriting process rely heavily on data and multiple variables. Examples of the variables used by some accelerated underwriting models include customer disclosures, prescription history, digital health records, credit attributes, medical information bureau data, public records, motor vehicle reports, smartphone apps, consumer activity wearables, claim acceleration tools, individual consumer risk development systems, purchasing history, behavior learned through cell phone usage, and social media. Because accelerated underwriting relies on predictive models or machine learning algorithms that use non-traditional, non-medical data, it may lead to unexpected or unfairly discriminatory outcomes, even though the input data may be facially neutral.

Traditional Data

Traditional data used in life insurance underwriting includes data collected through a traditional underwriting process. This data may include the following:

- Application data, e.g., medical records, prescription questions, vocation questions, financial profile
- Tele-interview
- Medical records
- Data from the MIB (formerly known as Medical Information Bureau) [5]
- Data from Motor Vehicle Records
- Prescription drug history
- Public records, e.g., criminal records, bankruptcy records, civil litigation, etc.
- Paramedical or medical exam, including EKG's in some instances
- Fluids, e.g., blood, urine, swab/saliva test to determine tobacco usage
- Financial and tax information

Considerations for use of Traditional Data

- Traditional data has a long and established history in the life insurance industry. Carriers, producers, and consumers are generally familiar with the process.
- Traditional data has a history of usage by insurance carriers. Trained underwriters and producers have years of experience and often understand the process well.
- The relationship of the traditional data elements to the risk is well established and consumers generally understand how most of the elements impact their risk classification or premium charged.

[5] This data is subject to the Fair Credit Reporting Act (FCRA). ©

- State statutes and case laws were developed based on the use of traditional data containing consumer protections created under the assumption that this was the type of data collected or reviewed during an underwriting process.
- Presentations made to the Working Group represented that time and costs associated with obtaining and reviewing traditional data are significant.

Non-traditional Data

Non-traditional data used in life insurance underwriting may include the following:

- Public records, e.g., assessor data, genealogy records, court filings, voter information
- Property/casualty data from adjacent carrier(s)
- Marketing and social data, e.g., shopping habits, mortgage amount/lender, occupation and education, and social media, etc.
- Professional licenses
- Biometric data, e.g., voice analysis, facial analysis, and other analytics based on personal physical features and characteristics
- Wearable devices

Considerations for use of Non-traditional Data

- Per Actuarial Standard of Practice (ASOP) No. 12, an actuary needs to demonstrate that a relationship between a risk characteristic and an expected outcome exists. This standard applies for any data used, traditional or non-traditional.Consumers may not generally understand how non-traditional data elements impact their risk classification or premium charged.
- As additional rating factors are introduced via insurance scores or with specific data elements, disparate impact across and between demographic groups may be introduced or amplified.
- Non-traditional data may not have the same consumer protections as FCRA and traditional data. For example:
    - There may not be a clear path for consumers to know how data affected their application and how inaccurate data may be corrected.
    - The type and purpose of data accessed are not required to be disclosed to the consumer.
    - There may be privacy concerns about the extent of the use of non-traditional data.

FCRA Data

Some data[7] used in traditional and accelerated underwriting is subject to the federal Fair Credit Reporting Act (FCRA), which protects the privacy of consumer report information. If an insurer uses data subject to FCRA in its underwriting, applicants:

(1) Have a right to be told if this information is used to deny insurance or take other adverse action[8],
(2) Have the ability to request the data a consumer reporting agency is providing to an insurer, and
(3) Have the right to ask a consumer reporting agency to correct any errors in the data.

[7] FCRA applies to consumer reports. Please see 15 U.S. Code § 1681a(d).

[8] FCRA defines adverse action, in part, as "a denial or cancellation of an increase in any charge for, or a reduction or other adverse or unfavorable change in the terms of coverage or amount of, any insurance, existing or applied for, in connection with the underwriting of insurance[.]" 15 U.S. Code § 1681a(k).

Considerations for use of data subject to FCRA:

- FCRA data is readily available.
- FCRA data is updated regularly.
- FCRA data is already used in life and property/casualty lines of business.
- There is existing regulation and oversight by the Federal Trade Commission (FTC) and Consumer Financial Protection Bureau (CFPB).
- Not all FCRA data is useful/ relevant to life insurance underwriting.
- If there is a dispute about the accuracy of FCRA data, a consumer has to obtain additional information and formally dispute these findings.
- FCRA data is extensive and accessing such data may result in access to non-usable credit attributes. In other words, significantly more data may be collected than is needed to determine risk.
- As additional rating factors are introduced via insurance scores or with specific data elements, unfair discrimination, including disparate impact, may be introduced or amplified.

Recommendations

Existing regulations apply to accelerated underwriting programs in the same way as traditional underwriting programs. State Departments of Insurance (DOIs) have broad regulatory authority to make inquiries into the processes and procedures of life insurers in order to investigate potential unfair trade practices. Complaints about underwriting practices are opportunities for DOIs to review a life insurer's use of accelerated underwriting and data collection methods. Additional DOI actions may include market conduct and on-site examinations as appropriate under existing authority.

Specifically, examiners may:

- Review the life insurer's underwriting practices and underwriting guidelines during an examination or upon initial submission of the policy rates and forms and confirm the proper use of the data elements.
- Request that explanation provided to the consumer for any negative action taken by the life insurer adequately informs the consumer as to why a particular action was taken without the consumer having to make additional inquiries.
- Request information about source data regardless of whether the data or score is provided by a third party.

Form and rate reviewers may:

- Request that the life insurer provides information about how a predictive model or machine learning algorithm will be used.
- Consider requiring the filing of models used to analyze data.
- Consider questioning the extent to which data elements correlate to applicant risk.
- Request information about source data regardless of whether the data or score is provided by a third party.

Life insurers and third-party vendors have a responsibility to understand the data they are using. To accomplish this, life insurers should conduct post-issue audits and data analysis and make these audits and analysis available to regulators upon request. For example, analyses such as evaluating claims and lapse rates may be helpful. Life insurers and third-party vendors should ensure data inputs are accurate and reliable.

© 2024 National Association of Insurance Commissioners

Life insurers and third-party vendors should ensure that the external data sources, algorithms, or predictive models are developed with sufficient internal controls and oversight and based on sound actuarial principles with a valid explanation or rationale for any claimed correlation and causal connection.

Data Privacy

Data privacy—a consumer's ability to retain control over what data can be shared about them and with whom—is not a concern unique to accelerated underwriting in life insurance. Protecting consumer privacy is an issue across all lines of insurance and is the subject of the NAIC Privacy Protections (D) Working Group, formed in 2019 under the parent committee of Market Regulation and Consumer Affairs (D) Committee.

The Working Group's charge is to review the state insurance privacy protections regarding the collection, use, and disclosure of information gathered in connection with insurance transactions, and make recommended changes, as needed, to certain NAIC models and other existing federal or state statutes. [9]

The primary focus of the Working Group is on the six consumer data privacy rights or types of consumer data privacy protections identified in the NAIC's Member adopted *Strategy for Consumer Data Privacy Protections* policy statement. The secondary focus is on issues such as notice requirements and standards, disclosure of information collected, disclosure of shared information, requirements to disclose sources of information, requirements to disclose business purposes, and a requirement to disclose third party involvement.
The current assignments for the Working Group are intended to create a framework for the policy statement: defining the parameters of these consumer rights by offering suggested definitions, examples of consumer risks, and what may not be protected in federal laws or not covered under NAIC Model laws.

The Privacy Protections Working Group's policy statement will address the following consumer privacy rights: [10]

1) Right to opt-out of data sharing
2) Right to opt-in of data sharing
3) Right to correct information
4) Right to delete information
5) Right to data portability

[9] The Working Group has focused its reviews on the Insurance Information and Privacy Protection Model Act #670, and the Privacy of Consumer Financial and Health Information Regulation Model Act #672 – both drafted in response to the enactment of GLBA, and #668 – the Insurance Data Security Model Act, enacted in 2019/20. With a great deal of research assistance from NAIC Legal Staff, the Working Group prepared a gap analysis – upon which it continues to work. The Working Group is also reviewing the consumer data privacy protections other than those already in these models, such as the numerous provisions contained in federal acts such as the Fair Credit Reporting Act {FCRA}, the Gramm-Leach Bliley Act {GLBA}, the Health Insurance Portability and Affordability Act {HIPAA}, Electronic Health Records {EHR}, etc. The Working Group is also analyzing the various provisions of recently enacted legislation, such as California's Consumer Privacy Act {CCPA} and its Consumer Data Privacy Regulation {CCPR}, Virginia's and Colorado's recently enacted Consumer Privacy Protection laws, certain provisions of the European General Data Protection Regulation {GDPR}, the NAIC's Record Retention Model Regulation and the NAIC's Unfair Claims Practice Model Act {UCPA}. There are a lot of jurisdictional issues that remain to be sorted through.

[10] For purposes of the Working Group's paper, the use of the term "right" should be read as a basic protection, or, denoting access to making a request and not as a guarantee of having the requested right acted upon in the manner as the consumer requests.

6) Right to restrict the use of data[11]

The Accelerated Underwriting (A) Working Group will continue to watch the work of this group. If at any point issues unique to accelerated underwriting arise, we will endeavor to address them in a future work product.

[11] for purposes of the Working Group's paper there is a distinction between an individual's data and information that results from the use of this data, *e.g.*, the insurance score that results from the use of an algorithm.

© 2024 National Association of Insurance Commissioners

Appendix A: Additional Procedural Background

At the 2019 NAIC Summer National Meeting, the Life Insurance and Annuities (A) Committee discussed a referral it had received from the Big Data (EX) Working Group. The Big Data Working Group had discussed the use of predictive models in accelerated underwriting in life insurance, instead of medical examinations and the collection of fluids. The Big Data Working Group agreed that the issue would be most appropriately addressed by the life insurance subject matter experts and voted to refer the issue of the use of external data and data analytics in accelerated underwriting in life insurance to the Life Insurance and Annuities (A) Committee (Committee).[12]

The Committee discussed the referral and acknowledged that there are a multitude of issues surrounding insurers' use of data models and data analytics; issues that extend into many areas of insurance and overlap with the work of several groups at the NAIC. In addition to the Big Data (EX) Working Group, there is the Innovation and Technology (EX) Task Force, the Artificial Intelligence (EX) Working Group, the Casualty Actuarial and Statistical (C) Task Force, and the Privacy Protections (D) Working Group. The Life Actuarial Task Force was also looking at the use of accelerated underwriting in life insurance from an actuarial perspective, including looking at any potential impact on insurer solvency.

The Committee agreed that an effort to delve into accelerated underwriting in life insurance would need to be narrowly focused while taking into account the work of these other NAIC groups touching on the same topic.

Robert Muriel (IL) chaired the Working Group and Grace Arnold (MN) was the vice-chair. The following were Working Group members: Jason Lapham (CO); Russ Gibson (IA); Rich Piazza (LA); Cynthia Amann (MO); Rhonda Ahrens and Laura Arp (NE); Ross Hartley and Chris Aufenthie (ND); Lori Barron (OH); Elizabeth Kelleher Dwyer (RI); Lichiou Lee (WA); Mark Afable (WI). In January 2021, Commissioner Afable became chair of the Working Group and the rest of the membership remained the same.

The Working Group met for the first time on Oct 2, 2019, and developed a work plan to accomplish its charge. The work plan contemplated the Accelerated Underwriting (A) Working Group progressing through three phases with the goal of completing its charge by the 2020 Fall National Meeting. The first phase was focused on information-gathering. The second phase focused on identifying the issues and deciding on a work product, with the final phase devoted to drafting.

During the information gathering phase, the Working Group heard 15 presentations from varying stakeholders, including an academic (Professor Patrick Brocket[13]), insurance companies, consulting firms (Deloitte and Milliman), a consumer advocate (Birny Birnbaum—CEJ), the American Academy of Actuaries, lawyers from 2 Illinois law firms (Foley & Lardner and Edelson), a machine learning assurance company (Monitaur), and a data analytics company (Verisk). Several of the presentations were held in regulator-only meetings when requested by presenters in order to share proprietary and confidential company-specific information.

Regulators from the Working Group volunteered to participate in two ad hoc groups to tackle the second and third phases of its work plan: There was an ad hoc NAIC liaison group to ensure awareness of and coordination with any work, including guidelines or protocols, developed by other NAIC groups, past and present, that related to the Working Group. There was also an ad hoc drafting group that agreed to take the information gathered, identify issues, recommend and draft a work product for review and approval by the Working Group.

[12] *See* NAIC Proceedings – Spring 2019, Innovation and Technology (EX) Task Force, Attachment Two.

[13] Gus Wortham Chair in Risk Management and Insurance at the University of Texas at Austin and Editor, North American Actuarial Journal.

© 2024 National Association of Insurance Commissioners

In November 2020, the ad hoc drafting group shared with the Accelerated Underwriting (A) Working Group a proposed draft outline for an educational report exploring accelerated underwriting in life insurance to provide guidance to regulators, industry, and consumer advocates, and other stakeholders. In February 2021, the ad hoc groups merged.

Appendix B: Machine Learning/ Artificial Intelligence Definition in 6/24/21 Draft Big Data and Artificial Intelligence (EX) Working Group Survey on private passenger automobile (PPA) insurers' use and governance of big data.

Artificial Intelligence/Machine Learning (AI/ML)

AI/ML describes an automated process in which a system begins recognizing patterns without being specifically programmed to achieve a pre-determined result. This is different from a standard algorithm in that an algorithm is a process or set of rules executed to solve an equation or problem in a pre-determined fashion. Evolving algorithms are considered a subset of AI/ML.

Artificial Intelligence / Machine Learning Systems include:

- Systems that adapt and adjust to new data and experience without manual human intervention.
- Systems that arrive at results for which the outcomes and the stepwise approach toward the outcomes were not configured in advance by a human programmer.
- Systems that dynamically respond to conditions in the external environment without the specific nature of such responses being known in advance to the designers of the systems.
- Systems that utilize neural networks and/or deep-learning algorithms, such as supervised, semi-supervised, and unsupervised learning algorithms.
- Systems that engage in automatic speech recognition, facial recognition, image recognition, text recognition, natural language processing, generation of customer-specific recommendations, automated customer communications (e.g., chatbots with non-preprogrammed prompts), autonomous or semi-autonomous vehicle operation or data gathering, or any other approach that does not require either preprogramming or a manual human intervention in every instance of an action or decision.
- Systems that automatically generate adaptive responses based on interactions with a consumer or third party.
- Systems that determine which data elements to rely upon, in a non-preprogrammed fashion, among a variety of possible alternatives.

Artificial Intelligence / Machine Learning Systems are not:

- Static "scorecards" that deterministically map consumer or other risk characteristics to treatments or decisions. (However, an AI/ML system may use the output of such static "scorecards" as input data for the AI/ML system to consider.)
- Systems with solely preprogrammed decision rules (e.g., "If A, then B" applied invariably in all situations).
- Tables of point or factor assignments in rating plans.
- Static rate making and/or predictive modeling methodologies, including linear regression, generalized linear modeling (GLM), or generalized additive modeling (GAM).
  Purely informational static databases, such as databases used to obtain reference amounts for claim settlements, or static databases pertaining to consumer characteristics or experience, regardless of the

amount of information in the database. However, if AI/ML is used to create a static predictive model, that AI/ML system is considered within the scope of this survey.

- Deterministic "phone trees" that navigate consumers through pre-recorded voice prompts.
- Any approach that an insurer could have realistically utilized in the year 2000 or prior.

AI/ML Use Descriptions and/or Explanations

- **Underwriting:** AI/ML Uses
  - Automated Approval: Approving an application without human intervention on that particular application.
  - Automated Denial: Denying an application without human intervention on that particular application.
  - Underwriting Tier Determination: Decisions regarding the criteria to use to establish specific named or numbered categories (called tiers) which utilize combinations of attributes that affect an insurer's underwriting decision.
  - Company Placement: Decisions regarding which of several affiliated companies within an insurance group will accept an individual risk.
  - Input into Non-Automated Approval Decision: Providing data, analysis, or recommendations regarding a decision to approve an application in a situation where a human decision-maker still has the ability and responsibility to affirmatively consider this information and make a decision independently of the AI/ML system. In this situation, the AI/ML system cannot automatically approve the application, and protocols exist that ensure that each recommendation from the AI/ML system is actively reviewed and not adopted by default.
  - Input into Non-Automated Denial Decision: Providing data, analysis, or recommendations regarding a decision to deny an application in a situation where a human decision-maker still has the ability and responsibility to affirmatively consider this information and make a decision independently of the AI/ML system. In this situation, the AI/ML system cannot automatically deny the application, and protocols exist that ensure that each recommendation from the AI/ML system is actively reviewed and not adopted by default.
  - Automate Processing Thru the Agency Channel: Enabling agencies to receive certain information about applicants automatically without specifically requesting that information and/or to provide quotes to the applicants and/or recommend a decision regarding the application to the agent without being based on preprogrammed decision rules.

© 2024 National Association of Insurance Commissioners

APPENDIX 2

Adopted by the Life Insurance and Annuities (A) Committee on August 14, 2024
Adopted by the Accelerated Underwriting (A) Working Group on August 6, 2024

MEMORANDUM

TO: **Market Conduct Examination Guidelines (D) Working Group** of the Market Regulation and Consumer Affairs (D) Committee

FROM: Accelerated Underwriting (A) Working Group of the Life Insurance and Annuities (A) Committee

DATE:

RE: Suggested additions to the NAIC's *Market Regulation Handbook* addressing accelerated underwriting in life insurance

The Accelerated Underwriting Working Group (AUWG) was created by the Life Insurance and Annuities (A) Committee at the NAIC 2019 Summer National Meeting to "… consider the use of external data and data analytics in accelerated life underwriting, including consideration of the ongoing work of the Life Actuarial (A) Task Force on the issue and, if appropriate, drafting guidance for the states." The AUWG drafted an educational paper that was adopted by the Life Insurance and Annuities (A) Committee on April 7, 2022. During this same time frame, various groups at the NAIC continued to work on related issues and develop work product.[1] Notably, on December 4, 2023, the NAIC adopted the *NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers* (AI Model Bulletin). The AUWG also continued its work drafting the *Accelerated Underwriting in Life Insurance Regulatory Guidance* (Regulatory Guidance) for the states reviewing life insurers' use of accelerated underwriting. This Regulatory Guidance was adopted by the AUWG on [insert date] and by the Life Insurance and Annuities (A) Committee on [insert date].

In developing the Regulatory Guidance, the AUWG realized that additional guidance addressing accelerated underwriting in life insurance in the NAIC's *Market Regulation Handbook* (MRH) would provide examiners with critical tools to use when looking at the underwriting activities of life insurers. Specific guidance pertaining to accelerated underwriting in the MRH is necessary to alert the market conduct examiner to the novel data and processes utilized by life insurers in accelerated underwriting.

Existing laws and regulations apply to accelerated underwriting programs in the same way as traditional underwriting programs. DOIs have broad authority to examine the processes and procedures of life insurers to determine if their accelerated underwriting programs comply with the statutes and regulations of the department The AI Model Bulletin also advises insurers of the type of information and documentation that insurance departments may request under existing regulatory authority during an investigation or examination regarding its use of AI Systems, which includes accelerated underwriting in life insurance. In particular, the state equivalent to the following NAIC Models provide legislative authority for specific inquiry into insurer practices involving AI Systems, including accelerated underwriting in life insurance:

> *Unfair Trade Practices Act* (#880) defines practices that constitute unfair methods of competition or unfair or deceptive acts and practices and prohibits the trade practices so defined or determined.

[1] See list of related work product in the Background section of the *Accelerated Underwriting in Life Insurance Regulatory Guidance* document.

© 2024 National Association of Insurance Commissioners

Unfair Claims Settlement Practices Model Act (#900) sets forth standards for the investigation and disposition of claims arising under policies or certificates of insurance.

Corporate Governance Annual Disclosure Model Act (#305): requires insurers to report on governance practices and to provide a summary of the Insurer's corporate governance structure, policies, and practices. The content, form, and filing requirements for a Corporate Governance Annual Disclosure (CGAD) are set forth in the Corporate Governance Annual Disclosure Model Regulation (#306)

The AUWG recommends that the Market Conduct Examination Guidelines (D) Working Group utilize the Regulatory Guidance to update the MRH. The Regulatory Guidance is designed to provide a framework for regulators to reference when reviewing insurers' use of accelerated underwriting and is divided into three areas of focus: A) regulatory considerations; B) strategies for review; and C) requests for information. Section C, in particular, contains questions that could be incorporated into the MRH. The AUWG looks forward to working with and will be available to assist the Market Conduct Examination Guidelines (D) Working Group in drafting the recommended changes to the MRH.

APPENDIX 3

Adopted by the Executive (EX) Committee and Plenary, Aug. 14, 2020
Adopted by the Executive (EX) Committee, Aug. 13, 2020
Adopted by the Innovation and Technology (EX) Task Force, Aug. 7, 2020

National Association of Insurance Commissioners (NAIC) Principles on Artificial Intelligence (AI)

RECOMMENDS that insurance companies and all persons or entities facilitating the business of insurance that play an active role in the AI system life cycle, including third parties such as rating, data providers and advisory organizations (hereafter referred to as "AI actors") promote, consider, monitor and uphold the following principles according to their respective roles; and

THIS DOCUMENT is intended to establish consistent high-level guiding principles for AI actors. These principles are guidance and do not carry the weight of law or impose any legal liability. This guidance can serve to inform and establish general expectations for AI actors and systems emphasizing the importance of accountability, compliance, transparency, and safe, secure, fair and robust outputs.

Further, **THIS DOCUMENT**

Should be used to assist regulators and NAIC committees addressing insurance-specific AI applications. The level of regulatory oversight may vary based on the risk and impact to the consumer. These principles should be interpreted and applied in a manner that accommodates the nature and pace of change in the use of AI by the insurance industry and promotes innovation, while protecting the consumer.

Fair and Ethical

a. AI actors should respect the rule of law throughout the AI life cycle. This includes, but is not limited to, insurance laws and regulations, such as those relating to trade practices, unfair discrimination, access to insurance, underwriting, privacy, consumer protection and eligibility practices, ratemaking standards, advertising decisions, claims practices, and solvency.

b. Consistent with the risk-based foundation of insurance, AI actors should proactively engage in responsible stewardship of trustworthy AI in pursuit of beneficial outcomes for consumers and to avoid proxy discrimination against protected classes. AI systems should not be designed to harm or deceive people and should be implemented in a manner that avoids harmful or unintended consequences and corrects and remediates for such consequences when they occur.

© 2024 National Association of Insurance Commissioners

Accountable

a. AI actors should be accountable for ensuring that AI systems operate in compliance with these principles consistent with the actors' roles, within the appropriate context and evolving technologies. Any AI system should be compliant with legal requirements governing its use of data and algorithms during its phase of the insurance life cycle. Data supporting the final outcome of an AI application should be retained and be able to be produced in accordance with applicable insurance laws and regulations in each jurisdiction. AI actors should be responsible for the creation, implementation and impacts of any AI system, even if the impacts are unintended. AI actors should implement mechanisms and safeguards consistent with the degree and nature of the risks posed by AI to ensure all applicable laws and regulations are followed, including ongoing (human or otherwise) monitoring and, when appropriate, human intervention.

Compliant

a. AI actors must have the knowledge and resources in place to comply with all applicable insurance laws and regulations. AI actors must recognize that insurance is primarily regulated by the individual states and territories of the United States as well as by the federal government, and that AI systems must comply with the insurance laws and regulations within each individual jurisdiction. Compliance is required whether the violation is intentional or unintentional. Compliance with legal requirements is an ongoing process. Thus, any AI system that is deployed must be consistent with applicable laws and safeguards against outcomes that are either unfairly discriminatory or otherwise violate legal standards, including privacy and data security laws and regulations.

Transparent

a. For the purpose of improving the public's confidence in AI, AI actors should commit to transparency and responsible disclosures regarding AI systems to relevant stakeholders. AI actors must have the ability to protect confidentiality of proprietary algorithms, provided adherence to individual state law and regulations in all states where AI is deployed can be demonstrated. These proactive disclosures include revealing the kind of data being used, the purpose of the data in the AI system and consequences for all stakeholders.

b. Consistent with applicable laws and regulations, stakeholders (which includes regulators and consumers) should have a way to inquire about, review and seek recourse for AI-driven insurance decisions. This information should be easy-to-understand and describe the factors that lead to the prediction, recommendation or decision. This information may be presented differently and should be appropriate for applicable stakeholders.

Secure, Safe and Robust

a. AI systems should be robust, secure and safe throughout the entire life cycle so that in conditions of normal or reasonably foreseeable use, or adverse conditions, they can function in compliance with applicable laws and regulations. To this end, AI actors should ensure a reasonable level of traceability in relation to datasets, processes and decisions made during the AI system life cycle. AI actors should enable analysis of the AI system's outcomes, responses and other insurance-related inquiries, as appropriate in keeping with applicable industry best practices and legal requirements.

b. AI actors should, based on their roles, the situational context and their ability to act, apply a systematic risk management approach to each phase of the AI system life cycle on a continuous basis to address risks related to AI systems, including privacy, digital security and unfair discrimination as defined by applicable laws and regulations.

W:\National Meetings\2020\Summer\Plenary\AI principles as Adopted by the TF_0807.docx

© 2024 National Association of Insurance Commissioners

APPENDIX 4

Draft: 12/2/2023
Adopted by Executive (EX) Committee and Plenary, December 4, 2023
Adopted by the Innovation, Cybersecurity, and Technology (H) Committee, December 1, 2023

NAIC MODEL BULLETIN:

USE OF ARTIFICIAL INTELLIGENCE SYSTEMS BY INSURERS

TO: All Insurers Licensed to Do Business In (*Insert Name of Jurisdiction*) ("Insurers")

FROM: [Department/Commissioner]

DATE: [Insert]

RE: The Use of Artificial Intelligence Systems in Insurance

This bulletin is issued by the [] (Department) to remind all Insurers that hold certificates of authority to do business in the state that decisions or actions impacting consumers that are made or supported by advanced analytical and computational technologies, including Artificial Intelligence (AI) Systems (as defined below), must comply with all applicable insurance laws and regulations. This includes those laws that address unfair trade practices and unfair discrimination. This bulletin sets forth the Department's expectations as to how Insurers will govern the development/acquisition and use of certain AI technologies, including the AI Systems described herein. This bulletin also advises Insurers of the type of information and documentation that the Department may request during an investigation or examination of any Insurer regarding its use of such technologies and AI Systems.

SECTION 1: INTRODUCTION, BACKGROUND, AND LEGISLATIVE AUTHORITY

Background

AI is transforming the insurance industry. AI techniques are deployed across all stages of the insurance life cycle, including product development, marketing, sales and distribution, underwriting and pricing, policy servicing, claim management, and fraud detection.

AI may facilitate the development of innovative products, improve consumer interface and service, simplify and automate processes, and promote efficiency and accuracy. However, AI, including AI Systems, can present unique risks to consumers, including the potential for inaccuracy, unfair discrimination, data vulnerability, and lack of transparency and explainability. Insurers should take actions to minimize these risks.

The Department encourages the development and use of innovation and AI Systems that contribute to safe and stable insurance markets. However, the Department expects that decisions made and actions taken by Insurers using AI Systems will comply with all applicable federal and state laws and regulations.

The Department recognizes the *Principles of Artificial Intelligence* that the NAIC adopted in 2020 as an appropriate source of guidance for Insurers as they develop and use AI systems. Those principles emphasize the importance of the fairness and ethical use of AI; accountability; compliance with state laws and regulations; transparency; and a safe, secure, fair, and robust system. These fundamental principles should guide Insurers in their development and use of AI Systems and underlie the expectations set forth in this bulletin.

© 2024 National Association of Insurance Commissioners

Legislative Authority

The regulatory expectations and oversight considerations set forth in Section 3 and Section 4 of this bulletin rely on the following laws and regulations:

- ***Unfair Trade Practices Model Act* (#880)**: The *Unfair Trade Practices Act* [*insert citation to state statute or regulation corresponding to Model #880]* (UTPA)*,* regulates trade practices in insurance by: 1) defining practices that constitute unfair methods of competition or unfair or deceptive acts and practices; and 2) prohibiting the trade practices so defined or determined.

- ***Unfair Claims Settlement Practices Model Act* (#900)**: The *Unfair Claims Settlement Practices Act*, [*insert citation to state statute or regulation corresponding to Model #900*] (UCSPA)*,* sets forth standards for the investigation and disposition of claims arising under policies or certificates of insurance issued to residents of [insert state].

Actions taken by Insurers in the state must not violate the UTPA or the UCSPA, regardless of the methods the Insurer used to determine or support its actions. As discussed below, Insurers are expected to adopt practices, including governance frameworks and risk management protocols, that are designed to ensure that the use of AI Systems does not result in: 1) unfair trade practices, as defined in []; or 2) unfair claims settlement practices, as defined in [].

- ***Corporate Governance Annual Disclosure Model Act* (#305)**: The *Corporate Governance Annual Disclosure Act* [*insert citation to state statute or regulation corresponding to Model #305*] (CGAD), requires Insurers to report on governance practices and to provide a summary of the Insurer's corporate governance structure, policies, and practices. The content, form, and filing requirements for CGAD information are set forth in the *Corporate Governance Annual Disclosure Model Regulation* (#306) [*insert citation to state statute or regulation corresponding to Model #306])* (CGAD-R).

The requirements of CGAD and CGAD-R apply to elements of the Insurer's corporate governance framework that address the Insurer's use of AI Systems to support actions and decisions that impact consumers.

- ***Property and Casualty Model Rating Law* (#1780)**: The *Property and Casualty Model Rating Law*, [*insert citation to state statute or regulation corresponding to the Model #1780]*, requires that property/casualty (P/C) insurance rates not be excessive, inadequate, or unfairly discriminatory.

The requirements of [] apply regardless of the methodology that the Insurer used to develop rates, rating rules, and rating plans subject to those provisions. That means that an Insurer is responsible for assuring that rates, rating rules, and rating plans that are developed using AI techniques and Predictive Models that rely on data and Machine Learning do not result in excessive, inadequate, or unfairly discriminatory insurance rates with respect to all forms of casualty insurance—including fidelity, surety, and guaranty bond—and to all forms of property insurance—including fire, marine, and inland marine insurance, and any combination of any of the foregoing.

- ***Market Conduct Surveillance Model Law* (#693)**: The *Market Conduct Surveillance Model Law* [*insert citation to state statute or regulation corresponding to Model #693*] establishes the framework pursuant to which the Department conducts market conduct actions. These are comprised of the full range of activities that the Department may initiate to assess and address the market practices of Insurers, beginning with market analysis and extending to targeted examinations. Market conduct actions are separate from, but may result from, individual complaints made by consumers asserting illegal practices by Insurers.

© 2024 National Association of Insurance Commissioners

An Insurer's conduct in the state, including its use of AI Systems to make or support actions and decisions that impact consumers, is subject to investigation, including market conduct actions. Section 4 of this bulletin provides guidance on the kinds of information and documents that the Department may request in the context of an AI-focused investigation, including a market conduct action.

SECTION 2: DEFINITIONS

For the purposes of this bulletin the following terms are defined[1]:

"Adverse Consumer Outcome" refers to a decision by an Insurer that is subject to insurance regulatory standards enforced by the Department that adversely impacts the consumer in a manner that violates those standards.

"Algorithm" means a clearly specified mathematical process for computation; a set of rules that, if followed, will give a prescribed result.

"AI System" is a machine-based system that can, for a given set of objectives, generate outputs such as predictions, recommendations, content (such as text, images, videos, or sounds), or other output influencing decisions made in real or virtual environments. AI Systems are designed to operate with varying levels of autonomy.

"Artificial Intelligence (AI)" refers to a branch of computer science that uses data processing systems that perform functions normally associated with human intelligence, such as reasoning, learning, and self-improvement, or the capability of a device to perform functions that are normally associated with human intelligence such as reasoning, learning, and self-improvement. This definition considers machine learning to be a subset of artificial intelligence.

"Degree of Potential Harm to Consumers" refers to the severity of adverse economic impact that a consumer might experience as a result of an Adverse Consumer Outcome.

"Generative Artificial Intelligence (Generative AI)" refers to a class of AI Systems that generate content in the form of data, text, images, sounds, or video, that is similar to, but not a direct copy of, pre-existing data or content.

"Machine Learning (ML)" Refers to a field within artificial intelligence that focuses on the ability of computers to learn from provided data without being explicitly programmed.

"Model Drift" refers to the decay of a model's performance over time arising from underlying changes such as the definitions, distributions, and/or statistical properties between the data used to train the model and the data on which it is deployed.

"Predictive Model" refers to the mining of historic data using algorithms and/or machine learning to identify patterns and predict outcomes that can be used to make or support the making of decisions.

"Third Party" for purposes of this bulletin means an organization other than the Insurer that provides services, data, or other resources related to AI.

[1] Drafting note: Individual states may have adopted definitions for terms that are included in the model bulletin that may be different from the definitions set forth herein.

© 2024 National Association of Insurance Commissioners

SECTION 3: REGULATORY GUIDANCE AND EXPECTATIONS

Decisions subject to regulatory oversight that are made by Insurers using AI Systems must comply with the legal and regulatory standards that apply to those decisions, including unfair trade practice laws. These standards require, at a minimum, that decisions made by Insurers are not inaccurate, arbitrary, capricious, or unfairly discriminatory. Compliance with these standards is required regardless of the tools and methods Insurers use to make such decisions. However, because, in the absence of proper controls, AI has the potential to increase the risk of inaccurate, arbitrary, capricious, or unfairly discriminatory outcomes for consumers, it is important that Insurers adopt and implement controls specifically related to their use of AI that are designed to mitigate the risk of Adverse Consumer Outcomes.

Consistent therewith, all Insurers authorized to do business in this state are expected to develop, implement, and maintain a written program (an "AIS Program") for the responsible use of AI Systems that make, or support decisions related to regulated insurance practices. The AIS Program should be designed to mitigate the risk of Adverse Consumer Outcomes, including, at a minimum, the statutory provisions set forth in Section 1 of this bulletin.

The Department recognizes that robust governance, risk management controls, and internal audit functions play a core role in mitigating the risk that decisions driven by AI Systems will violate unfair trade practice laws and other applicable existing legal standards. The Department also encourages the development and use of verification and testing methods to identify errors and bias in Predictive Models and AI Systems, as well as the potential for unfair discrimination in the decisions and outcomes resulting from the use of Predictive Models and AI Systems.

The controls and processes that an Insurer adopts and implements as part of its AIS Program should be reflective of, and commensurate with, the Insurer's own assessment of the degree and nature of risk posed to consumers by the AI Systems that it uses, considering: (i) the nature of the decisions being made, informed, or supported using the AI System; (ii) the type and Degree of Potential Harm to Consumers resulting from the use of AI Systems; (iii) the extent to which humans are involved in the final decision-making process; (iv) the transparency and explainability of outcomes to the impacted consumer; and (v) the extent and scope of the insurer's use or reliance on data, Predictive Models, and AI Systems from third parties. Similarly, controls and processes should be commensurate with both the risk of Adverse Consumer Outcomes and the Degree of Potential Harm to Consumers.

As discussed in Section 4, the decisions made as a result of an Insurer's use of AI Systems are subject to the Department's examination to determine that the reliance on AI Systems are compliant with all applicable existing legal standards governing the conduct of the Insurer.

AIS Program Guidelines

1.0 General Guidelines

1.1 The AIS Program should be designed to mitigate the risk that the Insurer's use of an AI System will result in Adverse Consumer Outcomes.

1.2 The AIS Program should address governance, risk management controls, and internal audit functions.

© 2024 National Association of Insurance Commissioners

1.3 The AIS Program should vest responsibility for the development, implementation, monitoring, and oversight of the AIS Program and for setting the Insurer's strategy for AI Systems with senior management accountable to the board or an appropriate committee of the board.

1.4 The AIS Program should be tailored to and proportionate with the Insurer's use and reliance on AI and AI Systems. Controls and procedures should be focused on the mitigation of Adverse Consumer Outcomes and the scope of the controls and procedures applicable to a given AI System use case should reflect and align with the Degree of Potential Harm to Consumers with respect to that use case.

1.5 The AIS Program may be independent of or part of the Insurer's existing Enterprise Risk Management (ERM) program. The AIS Program may adopt, incorporate, or rely upon, in whole or in part, a framework or standards developed by an official third-party standard organization, such as the National Institute of Standards and Technology (NIST) Artificial Intelligence Risk Management Framework, Version 1.0.

1.6 The AIS Program should address the use of AI Systems across the insurance life cycle, including areas such as product development and design, marketing, use, underwriting, rating and pricing, case management, claim administration and payment, and fraud detection.

1.7 The AIS Program should address all phases of an AI System's life cycle, including design, development, validation, implementation (both systems and business), use, on-going monitoring, updating and retirement.

1.8 The AIS Program should address the AI Systems used with respect to regulated insurance practices whether developed by the Insurer or a third-party vendor.

1.9 The AIS Program should include processes and procedures providing notice to impacted consumers that AI Systems are in use and provide access to appropriate levels of information based on the phase of the insurance life cycle in which the AI Systems are being used.

2.0 Governance

The AIS Program should include a governance framework for the oversight of AI Systems used by the Insurer. Governance should prioritize transparency, fairness, and accountability in the design and implementation of the AI Systems, recognizing that proprietary and trade secret information must be protected. An Insurer may consider adopting new internal governance structures or rely on the Insurer's existing governance structures; however, in developing its governance framework, the Insurer should consider addressing the following items:

2.1 The policies, processes, and procedures, including risk management and internal controls, to be followed at each stage of an AI System life cycle, from proposed development to retirement.

2.2 The requirements adopted by the Insurer to document compliance with the AIS Program policies, processes, procedures, and standards. Documentation requirements should be developed with Section 4 in mind.

2.3 The Insurer's internal AI System governance accountability structure, such as:

a) The formation of centralized, federated, or otherwise constituted committees comprised of representatives from appropriate disciplines and units within the Insurer, such as business units, product specialists, actuarial, data science and analytics, underwriting, claims, compliance, and legal.

© 2024 National Association of Insurance Commissioners

b) Scope of responsibility and authority, chains of command, and decisional hierarchies.

c) The independence of decision-makers and lines of defense at successive stages of the AI System life cycle.

d) Monitoring, auditing, escalation, and reporting protocols and requirements.

e) Development and implementation of ongoing training and supervision of personnel.

2.4 Specifically with respect to Predictive Models: the Insurer's processes and procedures for designing, developing, verifying, deploying, using, updating, and monitoring Predictive Models, including a description of methods used to detect and address errors, performance issues, outliers, or unfair discrimination in the insurance practices resulting from the use of the Predictive Model.

3.0 Risk Management and Internal Controls

The AIS Program should document the Insurer's risk identification, mitigation, and management framework and internal controls for AI Systems generally and at each stage of the AI System life cycle. Risk management and internal controls should address the following items:

3.1 The oversight and approval process for the development, adoption, or acquisition of AI Systems, as well as the identification of constraints and controls on automation and design to align and balance function with risk.

3.2 Data practices and accountability procedures, including data currency, lineage, quality, integrity, bias analysis and minimization, and suitability.

3.3 Management and oversight of Predictive Models (including algorithms used therein), including:

a) Inventories and descriptions of the Predictive Models.

b) Detailed documentation of the development and use of the Predictive Models.

c) Assessments such as interpretability, repeatability, robustness, regular tuning, reproducibility, traceability, model drift, and the auditability of these measurements where appropriate.

3.4 Validating, testing, and retesting as necessary to assess the generalization of AI System outputs upon implementation, including the suitability of the data used to develop, train, validate and audit the model. Validation can take the form of comparing model performance on unseen data available at the time of model development to the performance observed on data post-implementation, measuring performance against expert review, or other methods.

3.5 The protection of non-public information, particularly consumer information, including unauthorized access to the Predictive Models themselves.

3.6 Data and record retention.

© 2024 National Association of Insurance Commissioners

3.7 Specifically with respect to Predictive Models: a narrative description of the model's intended goals and objectives and how the model is developed and validated to ensure that the AI Systems that rely on such models correctly and efficiently predict or implement those goals and objectives.

4.0 Third-Party AI Systems and Data

Each AIS Program should address the Insurer's process for acquiring, using, or relying on (i) third-party data to develop AI Systems; and (ii) AI Systems developed by a third party, which may include, as appropriate, the establishment of standards, policies, procedures, and protocols relating to the following considerations:

4.1 Due diligence and the methods employed by the Insurer to assess the third party and its data or AI Systems acquired from the third party to ensure that decisions made or supported from such AI Systems that could lead to Adverse Consumer Outcomes will meet the legal standards imposed on the Insurer itself.

4.2 Where appropriate and available, the inclusion of terms in contracts with third parties that:

a) Provide audit rights and/or entitle the Insurer to receive audit reports by qualified auditing entities.

b) Require the third party to cooperate with the Insurer with regard to regulatory inquiries and investigations related to the Insurer's use of the third-party's product or services.

4.3 The performance of contractual rights regarding audits and/or other activities to confirm the third-party's compliance with contractual and, where applicable, regulatory requirements.

SECTION 4: REGULATORY OVERSIGHT AND EXAMINATION CONSIDERATIONS

The Department's regulatory oversight of Insurers includes oversight of an Insurer's conduct in the state, including its use of AI Systems to make or support decisions that impact consumers. Regardless of the existence or scope of a written AIS Program, in the context of an investigation or market conduct action, an Insurer can expect to be asked about its development, deployment, and use of AI Systems, or any specific Predictive Model, AI System or application and its outcomes (including Adverse Consumer Outcomes) from the use of those AI Systems, as well as any other information or documentation deemed relevant by the Department.

Insurers should expect those inquiries to include (but not be limited to) the Insurer's governance framework, risk management, and internal controls (including the considerations identified in Section 3). In addition to conducting a review of any of the items listed in this Bulletin, a regulator may also ask questions regarding any specific model, AI System, or its application, including requests for the following types of information and/or documentation:

1. Information and Documentation Relating to AI System Governance, Risk Management, and Use Protocols

1.1. Information and documentation related to or evidencing the Insurer's AIS Program, including:

a) The written AIS Program.

b) Information and documentation relating to or evidencing the adoption of the AIS Program.

c) The scope of the Insurer's AIS Program, including any AI Systems and technologies not included in or addressed by the AIS Program.

d) How the AIS Program is tailored to and proportionate with the Insurer's use and reliance on AI Systems, the risk of Adverse Consumer Outcomes, and the Degree of Potential Harm to Consumers.

e) The policies, procedures, guidance, training materials, and other information relating to the adoption, implementation, maintenance, monitoring, and oversight of the Insurer's AIS Program, including:

i. Processes and procedures for the development, adoption, or acquisition of AI Systems, such as:

(1) Identification of constraints and controls on automation and design.

(2) Data governance and controls, any practices related to data lineage, quality, integrity, bias analysis and minimization, suitability, and Data Currency.

ii. Processes and procedures related to the management and oversight of Predictive Models, including measurements, standards, or thresholds adopted or used by the Insurer in the development, validation, and oversight of models and AI Systems.

iii. Protection of non-public information, particularly consumer information, including unauthorized access to Predictive Models themselves.

1.2. Information and documentation relating to the Insurer's pre-acquisition/pre-use diligence, monitoring, oversight, and auditing of data or AI Systems developed by a third party.

1.3. Information and documentation relating to or evidencing the Insurer's implementation and compliance with its AIS Program, including documents relating to the Insurer's monitoring and audit activities respecting compliance, such as:

a) Documentation relating to or evidencing the formation and ongoing operation of the Insurer's coordinating bodies for the development, use, and oversight of AI Systems.

b) Documentation related to data practices and accountability procedures, including data lineage, quality, integrity, bias analysis and minimization, suitability, and Data Currency.

c) Management and oversight of Predictive Models and AI Systems, including:

i. The Insurer's inventories and descriptions of Predictive Models, and AI Systems used by the Insurer to make or support decisions that can result in Adverse Consumer Outcomes.

ii. As to any specific Predictive Model or AI System that is the subject of investigation or examination:

(1) Documentation of compliance with all applicable AI Program policies, protocols, and procedures in the development, use, and oversight of Predictive Models and AI Systems deployed by the Insurer.

© 2024 National Association of Insurance Commissioners

(2) Information about data used in the development and oversight of the specific model or AI System, including the data source, provenance, data lineage, quality, integrity, bias analysis and minimization, suitability, and Data Currency.

(3) Information related to the techniques, measurements, thresholds, and similar controls used by the Insurer.

d) Documentation related to validation, testing, and auditing, including evaluation of Model Drift to assess the reliability of outputs that influence the decisions made based on Predictive Models. Note that the nature of validation, testing, and auditing should be reflective of the underlying components of the AI System, whether based on Predictive Models or Generative AI.

2. Third-Party AI Systems and Data

In addition, if the investigation or examination concerns data, Predictive Models, or AI Systems collected or developed in whole or in part by third parties, the Insurer should also expect the Department to request the following additional types of information and documentation.

2.1 Due diligence conducted on third parties and their data, models, or AI Systems.

2.2 Contracts with third-party AI System, model, or data vendors, including terms relating to representations, warranties, data security and privacy, data sourcing, intellectual property rights, confidentiality and disclosures, and/or cooperation with regulators.

2.3 Audits and/or confirmation processes performed regarding third-party compliance with contractual and, where applicable, regulatory obligations.

2.4 Documentation pertaining to validation, testing, and auditing, including evaluation of Model Drift.

The Department recognizes that Insurers may demonstrate their compliance with the laws that regulate their conduct in the state in their use of AI Systems through alternative means, including through practices that differ from those described in this bulletin. The goal of the bulletin is not to prescribe specific practices or to prescribe specific documentation requirements. Rather, the goal is to ensure that Insurers in the state are aware of the Department's expectations as to how AI Systems will be governed and managed and of the kinds of information and documents about an Insurer's AI Systems that the department expects an Insurer to produce when requested.

As in all cases, investigations and market conduct actions may be performed using procedures that vary in nature, extent, and timing in accordance with regulatory judgment. Work performed may include inquiry, examination of company documentation, or any of the continuum of market actions described in the NAIC's *Market Regulation Handbook*. These activities may involve the use of contracted specialists with relevant subject matter expertise. Nothing in this bulletin limits the authority of the Department to conduct any regulatory investigation, examination, or enforcement action relative to any act or omission of any Insurer that the Department is authorized to perform.

© 2024 National Association of Insurance Commissioners

APPENDIX 5

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

To: Superintendent Elizabeth Kelleher Dwyer,
Chair of the Big Data and Artificial Intelligence (H) Working Group

From: Commissioner Kevin Gaffney, Chair of Workstream One (Surveys) of the Big Data and Artificial Intelligence (H) Working Group

Cc: Fourteen-State Subject Matter Expert Group; Kris DeFrain (NAIC)

Date: November 30, 2023

Re: 2023 Life Artificial Intelligence (AI)/Machine Learning (ML) Survey Analysis

---

The 2023 Life Artificial Intelligence/Machine Learning Survey (Life AI/ML Survey) was conducted to inform the work of the Big Data and Artificial Intelligence (H) Working Group in support of its charge to:

> *Research the use of big data and artificial intelligence (AI) in the business of insurance, and evaluate existing regulatory frameworks for overseeing and monitoring their use. Present findings and recommended next steps, if any, to the Innovation and Technology (EX) Task Force, which may include model governance for the use of big data and AI for the insurance industry.*

The survey was conducted under the market examination authorities of 14 requesting states (Colorado, Connecticut, Illinois, Iowa, Louisiana, Minnesota, Nebraska, North Dakota, Oregon, Pennsylvania, Rhode Island, Vermont, Virginia, and Wisconsin) and completed by insurers who actively write Life insurance in at least one of the participating states and 1) have at least $250 million in national life insurance premium for 2021, 2) covered at least 10,000 lives by issuing term insurance in 2021, or 3) is an identified InsurTech company. Note this survey is limited to the application of AI/ML in life insurance products only, excluding annuities. The following subject matter experts (SMEs) represented the fourteen states:

CO: Jason Lapham
CT: Paul Lombardo
IL: Erica Weyhenmeyer
IA: Jared Kirby
LA: Nichole Torblaa
MN: Fred Andersen
NE: Director Eric Dunning
ND: Ross Hartley
OR: Brian Fjeldheim
PA: Shannen Logue
RI: Matt Gendron

© 2024 National Association of Insurance Commissioners

VT: Commissioner Kevin Gaffney
VA: Eric Lowe
WI: Lauren Van Buren

This memorandum contains the SMEs' summary of the survey analysis, key takeaways, and some recommendations for next steps. The SMEs also approved public distribution of the attached NAIC staff's survey analysis, which provides more detail about the survey results.

SURVEY ANALYSIS SUMMARY

Artificial Intelligence/Machine Learning Model Use by Companies

In contrast to the Private Passenger Auto and Home AI/ML Surveys, this survey intentionally includes Generalized Linear Models (GLMs) and Generalized Additive Models (GAMs) as types of AI models in scope, so the data should be interpreted as applying to insurers' predictive models including these model types. Out of 161 companies[1] completing the survey, 94 companies currently use, plan to use, or plan to explore using AI/machine learning (ML) as defined for this survey. This equates to 58% of reporting companies. For comparison, 88% of the companies responding to the PPA Survey and 70% of the companies responding to the Home Survey reported they currently use, plan to use, or plan to explore using AI/ML (where AI/ML algorithms were defined as *excluding* GLMs and GAMs).

Among the total number of AI/ML models that have been implemented by life insurers responding to this survey, 36% were used for Marketing and 34% were used in Underwriting, while only 18% were used for Pricing and 11% were used for Risk Management.

Of the 67 companies that indicated they had no plans to use or explore the use of AI/ML, the most common reason stated by 48 companies (72%) was "no compelling business reason." The second and third most common reasons stated by 31 companies (46%) each, reported "lack of resources and expertise," and "reliance on legacy systems requiring IT, data, and technology upgrades." Note that these responses are not mutually exclusive as multiple reasons may be applicable.

The following highlights the predominant uses, the levels of decision-making, and how often models are developed in-house or externally by insurer operation.

MODELS BY INSURER OPERATION

Marketing

Uses: For marketing life insurance products, companies reported currently using AI/ML models mostly for target online advertising (24 companies), followed by provisions of offers to existing customers (21 companies), identification of recipients of mail or phone advertising (19 companies), and identification of potential customer groups (18 companies). Other uses include other marketing-related functions (11 companies), demand modeling (9 companies), and direct online sales (7 companies).

Level of decision-making: A majority of the total AI/ML models reported for Marketing *augmented* human decision-making, however approximately 40% of the AI/ML models used for target online advertising were *automated*, and 60% of the models used for other marketing-related functions were used to *support* human decision-making.

[1] A total of 179 companies were selected to participate in the survey. Of those, 2 companies submitted incomplete surveys and 16 companies were exempt.

In-house or third-party: While a slight majority (56%) of the models reported for Marketing in total were developed by a third party, 76% of the models used for identification of recipients of mail or phone advertising, and 75% of the models used for provisions of offers to existing customers were developed internally.

Types of models: A wide variety of model types used for Marketing purposes were reported. The two most popular techniques were regression/regularization-based methods (which likely refer to GLMs), and ensemble methods (which combine several, usually machine learning, modeling types to achieve better performance).

Pricing and Underwriting

Uses: In pricing and underwriting, companies reported currently using AI/ML models mostly to reduce time to issue (35 companies), but 29 companies each also reported using models for automated approval/denial decisions and assigning a risk class through underwriting, and 25 companies reported using models for non-automated approval/denial decisions.

Level of decision-making: Almost half (48%) of the AI/ML models in total reported for Pricing and Underwriting uses were *automated.*

In-house or third-party: Models used for Pricing and Underwriting were almost evenly split between developed internally (46%) and by third parties (54%). However, over two thirds of the models (68%) used for non-automated approval/denials were developed by third parties. In contrast, over three quarters (77%) of the models developed for other underwriting-related functions were developed internally.

Types of models: A wide variety of model types used for Pricing and Underwriting were reported. As for Marketing, the two most popular techniques again were regression/regularization-based methods, likely referring to GLMs, and ensemble methods, which combine several, usually machine learning, modeling types to achieve better performance.

Risk Management

As noted above, 11% of the total AI/ML models in production were used for risk management. But because this information was provided by only 7 responding companies, it may be misleading to infer broad conclusions about how AI/ML models are currently being using within the life insurance market, the degree of human involvement in decision-making, the sources of model development, and the types of modeling algorithms used.

DATA ELEMENTS BY INSURER OPERATIONS

To gain a better understanding of the types of data used, insurers were asked whether they included any of the following in their AI/ML models: Credit-Based Insurance Score, Financial Credit Score, Other Types of Non-Credit "Score", Public Records, Demographics, Telematics Type Data, Driving Behavior, Biometrics, Medical, Online Media, and Other Non-Traditional Data Elements.

Among these specific elements:

- Marketing—Demographics data was used in nearly 40% of the AI/ML models by the responding companies, followed by Online Media data which was used in 17% of the models.
    - Demographics data was about equally split between internal and external sources, while Online Media data was nearly all externally sourced.

© 2024 National Association of Insurance Commissioners

- Pricing and Underwriting—a wider variety of data elements were used: Medical data was used in 30% of the models, followed by Demographics data (17%), Driving Behavior data (15%), and Credit-Based Insurance Scores (14%).
    - Medical data, Driving Behavior data, and Credit-Based Insurance Scores were almost always externally sourced, while Demographics data was mainly internally sourced.
- Risk Management—Only 7 companies responded that they used any of these specific data elements in their AI/ML models for risk management. The variables that were indicated being used were: Credit-Based Insurance Score, Public Records, Demographics, Driving Behavior, Medical data, and Other Non-Traditional Data Elements.
    - Nearly all these data elements were externally-sourced.

CUSTOMER DATA CORRECTION

Non-Fair Credit Reporting Act (Non-FCRA) Data Disclosures to Consumers
Insurers were asked about their processes for informing consumers about data collection—when and how their data is used, *other than what is required by law* under the Fair Credit Reporting Act. By operational use, 37% reported "yes" for the data used for Marketing, 41% of companies reported "yes" for Pricing and Underwriting, and 23% reported "yes" for Risk Management.

Consumer Opportunity to Challenge or Correct Data
Insurers responded similarly to the question of whether consumers have an opportunity to correct their data that is not included under the FCRA: 34% reported "yes" for the data used for Marketing, 46% of companies reported "yes" for Pricing and Underwriting, and 26% reported "yes" for Risk Management.

GOVERNANCE

The purpose of the model governance questions is to obtain a better understanding of the company's awareness of specific risk areas tied to selected categories in the NAIC Artificial Intelligence Principles.

Insurers were asked if the following are *documented* in their governance program:

- Fairness and ethics considerations;
- Accountability for data algorithms' compliance with laws, as well as intended and unintended impacts;
- Appropriate resources and knowledge involved to ensure compliance with laws, including those related to unfair discrimination;
- Ensure transparency with appropriate disclosures, including notice to consumers specific to data being used and methods for appeal and recourse related to inaccurate data; and
- AI systems are secure, safe, and robust, including decision traceability and security and privacy risk protections.

The response rate to these governance questions was extremely low—only three companies provided responses. Of those, two companies answered "yes" that their governance program included the above considerations, while the third company responded "no" to this question.

However, when asked about components documented in Life Insurer Governance Programs, there was a nearly 60% response rate, which was fairly high. Of those responding, 53% reported their governance program includes documented Compliance with Laws and Regulations, 53% have Accountability for Intended or Unintended Impacts, 60% documented the Resources / Knowledge Needed to Ensure Compliance, 62% provide Transparency and Notices to Consumers About Their Data

and Methods for Correction, and 57% reported they document Assurance of Safe, Secure and Robust Systems Including Decision Traceability. 47% of the companies responded they follow guidance from other established standards, such as the Actuarial Standards Board, American Academy of Actuaries, Society of Actuaries, NIST, and others, including the Colorado Division of Insurance and the NAIC.

THIRD-PARTY DATA SOURCES AND MODELS

Insurers identified third-party vendors they use to purchase models and/or data. A very high proportion (94%) of insurers responded that contracts with third parties do not include any conditions that would limit disclosure or otherwise limit transparency to regulators.

Of the 365 total models listed in the survey, 165 (46%) models were developed internally, and 191 (54%) were developed by a third party. There were no models reported developed jointly with a third party. After grouping the similarly-named third parties, there were 59 unique third-party companies listed in the survey who provided the data elements noted in the above Data Elements section that were used in AI/ML models. Marketing has 37 different third parties listed as providing any of these data elements, and Pricing & Underwriting and Risk Management data were each sourced from 15 different third parties. Note that some third-party vendors provided data that were used in more than one insurer operation.

CONCLUSION/NEXT STEPS

The insights gained from the survey will be used to supplement state insurance regulators' knowledge of the current regulatory framework around AI/ML, governance, consumers, and third parties and to evaluate whether any changes should be made to the frameworks.

Following are some potential next steps, including many activities already in progress. This list is not intended to be complete, but it may be helpful as a starting point for discussions and decision-making about what next steps to take at the NAIC:

- Explore Insurer AI/ML model usage and the level of decision-making.
- Evaluate the regulatory framework about the use of third-party models.
- Determine whether additional white papers on best practices would be useful on subjects in the AI/ML space.
- Explore the use of AI/ML at the product level.

Additional information was collected but not documented due to the confidential nature. Regulators may contact Dorothy Andrews, dandrews@naic.org to seek additional, but non-company identifying information. This report is confidential because data was collected in a market conduct examination of the fourteen states and agreed confidentiality protections were applied.

© 2024 National Association of Insurance Commissioners

APPENDIX 6

Summary Chart of Life Insurance AI/ML Survey Results

AI/ML Usage Status	Co. CNT
Currently Using	76
Planning to Use	8
Exploring Use	10
None of the Above	67
Excluded Companies	18
Total No. of Companies	**179**

Comments on Survey

The following is a summary of the company counts for various uses of AI/ML. Not all the questions applied to every company based on screening questions reflected in the survey. To gain a complete understanding of the responses, you may view the full report on the NAIC website at the link https://content.naic.org/industry/data-call/life.

Artificial Intelligence/ Machine Learning Areas of Usage

Pricing Assumptions	Co. CNT
Pricing	
Yes	27
No	23
Reduced Time to Issue	
Yes	39
No	11
Specality Programs (i.e. Diabetes)	
Yes	N/A
No	N/A
Automated Approval/Denial	
Yes	35
No	14
Non-Automated Approval/Denial	
Yes	27
No	23
Underwriting Risk Class	
Yes	33
No	17
Other Underwriting Function	
Yes	12
No	37

Marketing	Co. CNT
Target Online Advertising	
Yes	34
No	60
ID Mail/Phone Ad Recipients	
Yes	27
No	67
Offers to Existing Customers	
Yes	24
No	70
ID of Potential Customer Groups	
Yes	26
No	68
Demand Modeling	
Yes	13
No	81
Direct Online Sales	
Yes	11
No	83
Other Marketing	
Yes	30
No	64

Risk Management	Co. CNT
Wearable Devices	
Yes	3
No	91
Wellness Initiatives	
Yes	4
No	90
Discount Medical Programs	
Yes	0
No	94
Technology to Detect Smoking	
Yes	2
No	93
Disease Detection	
Yes	2
No	92
Other Risk Management	
Yes	4
No	89

Artificial Intelligence/ Machine Learning Governance Issues (Yes/No)

Transparency Limitation Disclosures	
Pricing & Underwriting	5/80
Marketing	6/77
Risk Management	3/74
Algorithmic Compliance with Laws	
Pricing & Underwriting	47/47

Accountability for Unintended Impacts	
Pricing & Underwriting	46/49
Marketing	40/55
Risk Management	27/67
Transparencey for Consumer Appeals	
Pricing & Underwriting	56/39

Accountability for Intended Impacts	
Pricing & Underwriting	47/47
Marketing	41/53
Risk Management	28/65
Safe, Secure, Robust AI Practices	
Pricing & Underwriting	49/46

© 2024 National Association of Insurance Commissioners

Marketing	42/52
Risk Management	25/68

Marketing	39/56
Risk Management	29/65

Marketing	44/51
Risk Management	26/68

Accountability for Compliance with	
Pricing & Underwriting	53/42
Marketing	48/47
Risk Management	34/00

Other AI Guidance Followed	
Pricing & Underwriting	40/54
Marketing	39/55
Risk Management	30/63

Development Source of Guidance*	
Pricing & Underwriting	24/1/17
Marketing	25/2/14
Risk Management	19/2/11

NAIC AI Principles - Fair & Ethical	
Pricing & Underwriting	2/1
Marketing	2/1
Risk Management	2/1

NAIC AI Principles - Accountable	
Pricing & Underwriting	2/1
Marketing	2/1
Risk Management	2/1

NAIC AI Principles - Compliant	
Pricing & Underwriting	2/1
Marketing	2/1
Risk Management	2/1

NAIC AI Principles - Transparent	
Pricing & Underwriting	2/1
Marketing	2/1
Risk Management	2/1

NAIC AI Principles - Safe/Secure/Robust	
Pricing & Underwriting	2/1
Marketing	2/1
Risk Management	2/1

The designation represents Internally Developed/Developed by a Third-Party/Developed by Both

Commonly Used Artificial Intelligence/ Machine Learning Third-Party Products & Vendors

Pricing Assumptions
CRL
CURV Scorfe
Exam One
Lexis Nexis (incl. MVR)
Milliman (Medical/Pharmacy)
Milliman Intelliscript
Samba Saftey
State DMV
TransUnion (Incl. DriverRisk)
TrueRisk Life Score

Marketing
IXI AssetMix
AARP Services
Adobe
AGS
Axciom
Bing & Googel Ads
Census (Incl. Religion Census)
Choregraph
Data Axle
EASI
Epsilon
Experian
IXI Wealth Complete
LinkedIn
Merkle
Meta/Facebook
Neustar
SAS
Secuian
The Trade Desk
TikTok
TransUnion

Risk Management
Equifax
Experisn
Lexis Nexis
TransUnion
State DMV
Fitbit
Garmin
Google Fit
MaoMyFitness
Oura
Peleton
Polar
Samsung
Strava
Whoop

© 2024 National Association of Insurance Commissioners

Adopted by the Life Insurance and Annuities (A) Committee on August 14, 2024
Adopted by the Accelerated Underwriting (A) Working Group on August 6, 2024

MEMORANDUM

TO: **Market Conduct Examination Guidelines (D) Working Group** of the Market Regulation and Consumer Affairs (D) Committee

FROM: Accelerated Underwriting (A) Working Group of the Life Insurance and Annuities (A) Committee

DATE:

RE: Suggested additions to the NAIC's *Market Regulation Handbook* addressing accelerated underwriting in life insurance

The Accelerated Underwriting Working Group (AUWG) was created by the Life Insurance and Annuities (A) Committee at the NAIC 2019 Summer National Meeting to "… consider the use of external data and data analytics in accelerated life underwriting, including consideration of the ongoing work of the Life Actuarial (A) Task Force on the issue and, if appropriate, drafting guidance for the states." The AUWG drafted an educational paper that was adopted by the Life Insurance and Annuities (A) Committee on April 7, 2022. During this same time frame, various groups at the NAIC continued to work on related issues and develop work product.[1] Notably, on December 4, 2023, the NAIC adopted the *NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers* (AI Model Bulletin). The AUWG also continued its work drafting the *Accelerated Underwriting in Life Insurance Regulatory Guidance* (Regulatory Guidance) for the states reviewing life insurers' use of accelerated underwriting. This Regulatory Guidance was adopted by the AUWG on [insert date] and by the Life Insurance and Annuities (A) Committee on [insert date].

In developing the Regulatory Guidance, the AUWG realized that additional guidance addressing accelerated underwriting in life insurance in the NAIC's *Market Regulation Handbook* (MRH) would provide examiners with critical tools to use when looking at the underwriting activities of life insurers. Specific guidance pertaining to accelerated underwriting in the MRH is necessary to alert the market conduct examiner to the novel data and processes utilized by life insurers in accelerated underwriting.

Existing laws and regulations apply to accelerated underwriting programs in the same way as traditional underwriting programs. DOIs have broad authority to examine the processes and procedures of life insurers to determine if their accelerated underwriting programs comply with the statutes and regulations of the department. The AI Model Bulletin also advises insurers of the type of information and documentation that insurance departments may request under existing regulatory authority during an investigation or examination regarding its use of AI Systems, which includes accelerated underwriting in life insurance. In particular, the state equivalent to the following NAIC Models provide legislative authority for specific inquiry into insurer practices involving AI Systems, including accelerated underwriting in life insurance:

> *Unfair Trade Practices Act* (#880) defines practices that constitute unfair methods of competition or unfair or deceptive acts and practices and prohibits the trade practices so defined or determined.

[1] See list of related work product in the Background section of the *Accelerated Underwriting in Life Insurance Regulatory Guidance* document.

© 2024 National Association of Insurance Commissioners

Unfair Claims Settlement Practices Model Act (#900) sets forth standards for the investigation and disposition of claims arising under policies or certificates of insurance.

Corporate Governance Annual Disclosure Model Act (#305): requires insurers to report on governance practices and to provide a summary of the Insurer's corporate governance structure, policies, and practices. The content, form, and filing requirements for a Corporate Governance Annual Disclosure (CGAD) are set forth in the Corporate Governance Annual Disclosure Model Regulation (#306)

The AUWG recommends that the Market Conduct Examination Guidelines (D) Working Group utilize the Regulatory Guidance to update the MRH. The Regulatory Guidance is designed to provide a framework for regulators to reference when reviewing insurers' use of accelerated underwriting and is divided into three areas of focus: A) regulatory considerations; B) strategies for review; and C) requests for information. Section C, in particular, contains questions that could be incorporated into the MRH. The AUWG looks forward to working with and will be available to assist the Market Conduct Examination Guidelines (D) Working Group in drafting the recommended changes to the MRH.

© 2024 National Association of Insurance Commissioners

FINANCIAL WELLNESS
RESOURCE GUIDE

State Diversity, Equity, and Inclusion (DEI) initiatives focused on improving the financial literacy of underserved populations within the insurance sector

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

© 2024 National Association of Insurance Commissioners

ABOUT
The NAIC

The National Association of Insurance Commissioners (NAIC) provides expertise, data, and analysis for insurance commissioners to effectively regulate the industry and protect consumers. Founded in 1871, the U.S. standard-setting organization is governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories to coordinate regulation of multistate insurers.

NAIC members are state insurance regulators from diverse backgrounds—but are united in their shared commitment to set standards and ensure fair, competitive, and healthy insurance markets to protect consumers.

© 2024 National Association of Insurance Commissioners



SPECIAL (EX) COMMITTEE ON RACE AND INSURANCE

LIFE WORKSTREAM

The Special (EX) Committee on Race and Insurance Life Workstream has been focused on marketing, distribution, and access to life insurance products in minority communities, including the role that financial literacy plays.

Every American has the right to impartial and equitable treatment, and financial education empowers consumers to make positive financial decisions.

© 2024 National Association of Insurance Commissioners



OUR APPROACH

The Life Workstream, in collaboration with the NAIC State Diversity Leaders, asked about states' financial literacy programs, specifically focusing on initiatives for underserved populations within their diversity, equity, and inclusion programs and initiatives.

By highlighting states' programs, we can share information and insights helpful to all insurance departments looking to take action to improve access and understanding in underserved communities.



© 2024 National Association of Insurance Commissioners

CURRENT
ACTIVE STATES

We are highlighting three initiatives, based on survey feedback. The Life Workstream welcomes additional information on state financial literacy initiatives.





© 2024 National Association of Insurance Commissioners

PARTICIPATING
STATES/ JURISDICTIONS

Maryland
Oregon
Washington, D.C.

FINANCIAL WELLNESS PLAN
MARYLAND

Maryland's Insurance Administration's (MIA) goal is to help consumers understand the importance of insurance. The information is provided through multi-lingual presentations (in-person and virtual); events (MIA set up tables at various locations including libraries, food banks, farmers markets); brochures and advisories on their website; videos; and social media posts.
MIA also reaches out to various community, faith-based, and nonprofit organizations to provide information or answer any questions they may have.



Kathleen A. Biranne, Maryland Insurance Commissioner

© 2024 National Association of Insurance Commissioners

FINANCIAL WELLNESS PLAN
OREGON

Oregon Division of Financial Regulation (DFR) offers a Statewide Outreach Program to improve financial literacy of underserved populations in Oregon. The department's Outreach Team also partners with a variety of non-profits to provide financial education programming to underserved communities, separately from the Sponsorship Program.



Andrew R. Stolfi, Oregon Insurance Commissioner

The Oregon DFR's Statewide Outreach Sponsorship Program supports organizations engaged in financial empowerment work within underserved communities. With up to five sponsorships available, each worth $25,000 for one-year contracts, the initiative aims to collaborate with trusted community partners to deliver financial education.

The program empowers consumers to make informed decisions about insurance and financial services, while also raising awareness of the division's free resources. Recipient organizations work closely with DFR staff to plan outreach events, including classes and participation in community health fairs, enhancing financial empowerment programming.

© 2024 National Association of Insurance Commissioners

FINANCIAL WELLNESS PLAN

District of Columbia

The DC Department of Insurance, Securities, and Banking (DISB) provides diverse programs for women, youth, immigrants, justice-involved individuals, military/veterans, and seniors or disabled individuals to meet specific financial needs covering budgeting, credit management, home buying, retirement planning, and wealth building.

The Consumer Analysis Division (CAD) specializes in life insurance flood insurance, estate planning for seniors, and addresses financial fraud and scams, with a focus on mental health parity and health insurance access.

The Office of Financial Empowerment and Education (OFEE) collaborates with stakeholders to provide actionable information and resources for managing expenses, building generational wealth, and maximizing income.

© 2024 National Association of Insurance Commissioners



Karima M. Woods, District of Columbia
Insurance Commissioner

KEY FINDINGS AND SUGGESTIONS

Community Workshops and Seminars: Host educational workshops and seminars in underserved communities to provide in-depth information about the importance of insurance. Cover a variety of insurance topics to address underserved populations needs.

Collaborate with Local Organizations: Partner with local community centers, non-profit organizations, and religious institutions to reach underserved populations. Offer informational sessions or distribute pamphlets on insurance during community events or gatherings.

Multilingual Resources: Recognize the diverse linguistic needs of underserved populations and provide insurance information in multiple languages. Ensure that materials are culturally sensitive and easily understandable for speakers of various languages.

© 2024 National Association of Insurance Commissioners



Digital Outreach and Webinars: Leverage online platforms to conduct webinars or create digital content that explains the significance of insurance. Use social media, community forums, and other online channels to disseminate accessible and engaging information.

Mobile Information Centers: Establish mobile information centers that visit underserved neighborhoods, offering on-the-spot information about insurance. Trained representatives can answer questions and assist individuals in understanding the insurance options available to them.

Partnerships with Local Leaders: Forge partnerships with local leaders and influencers within underserved communities. Leaders can play a pivotal role in promoting the importance of insurance through their networks, building trust, and encouraging community members to seek coverage.

SPECIAL (EX) COMMITTEE ON RACE AND INSURANCE

LIFE WORKSTREAM

Meet the dedicated individuals who in 2023 brought a wealth of expertise and diverse perspectives to our collective efforts.

Judith L. French, Co-Chair, Ohio
John Finston, Co-Chair, New York
Karima M. Woods, Co-Chair, District of Columbia
Mark Fowler, Alabama
Barbara D. Richardson, Arizona
Michael Yaworsky, Florida
Dean Cameron, Idaho
Doug Ommen, Iowa
Timothy N. Schott, Maine
Kathleen A. Birrane, Maryland
Anita G. Fox, Michigan
Grace Arnold, Minnesota
Eric Dunning, Nebraska
Justin Zimmerman, New Jersey
Michael Wise, South Carolina
Cassie Brown, Texas

© 2024 National Association of Insurance Commissioners



THANK YOU

If you would like to add your state's information regarding how you provide insurance information specifically to underserved populations, please email us.

jcook@naic.org

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Additional Resources

Consumer Financial Protection Bureau (CFPB)
- Website includes educational resources focused on responsible use of financial services.

Federal Deposit Insurance Corporation (FDIC)
- Website includes resource Money Smart, which is a financial education program for researchers, educators, and youth interested in financial topics.

Federal Financial Literacy and Education Commission
- Website MyMoney.gov includes resources for researchers, educators, and youth interested in financial topics

FINRA Financial Industry Regulatory Authority
- FINRA Investor Education Foundation provides educational programs and research to help consumers achieve their financial goals.

American Institute of CPAs
- Website 360 Degrees of Financial Literacy provides a free program to help consumers understand their personal finances.

Champlain College
- The Center for Financial Literacy at Champlain College produces an annual report about state financial education requirements in high school.

Council for Economic Education
- The Council produces a biennial report about state financial education in schools and a financial education curriculum widely used in schools and includes insurance. It also provides a directory to state Council affiliates.

Everfi
- Produces a financial education curriculum widely used in schools and includes insurance.

© 2024 National Association of Insurance Commissioners

April 25, 2024 Adopted by Life Workstream of the Special (EX) Committee on Race and Insurance

National Association of Insurance Commissioners (NAIC)

Special (EX) Committee on Race and Insurance – Life Workstream

Endorsement of Financial Literacy Courses in High Schools

THIS DOCUMENT recommends that state insurance departments engage with state financial regulators, state departments of education, and state legislators to promote a student's completion of stand-alone financial literacy and personal finance coursework as a prerequisite for high school graduation that includes an insurance component. This policy endorsement begins with the premise that a basic financial education, including one that introduces insurance types and concepts, is fundamental to an individual's future financial success. State insurance regulators are uniquely positioned to offer expertise in identifying key insurance concepts and skills to be included in the curriculum of a mandated course. We encourage insurance regulators to partner with those who have experience and expertise developing curriculum and teaching high school students to identify or create curriculum that includes insurance content for a mandated course. Insurance regulators can also offer their expertise to serve as resources for teachers as they prepare to deliver insurance-related content, including partnering with those designing and delivering teacher training.

Insurance regulators should play a key role in advancing conversations surrounding the need for financial literacy courses in our high schools, as financial education and individual financial circumstances may impact both insurability and cost of all insurance products, including life insurance. Further, comprehensive financial education for all students is expected to contribute to successfully addressing financial disparities among historically underrepresented groups.

FINANCIAL FUTURES BEGIN EARLY

It is never too early to begin teaching our youngest generations about financial responsibility, as these lessons can last a lifetime. While that education can start at home, according to T. Rowe Price, 57 percent of parents have some reluctance about discussing financial matters with their kids and 37 percent do not like to talk to their children about money, making classroom-provided education all the more important. In addition, foster children, a population that is overrepresented by African-American children[1], have been found to experience financial capability challenges, especially when transitioning out of the foster care system and into adulthood.[2]

For too many children, the only financial education available to them may be the one offered (hopefully required) through their school curriculums. And because many graduating high schoolers[3] will go directly into the workforce[4], it is important that financial education and skills are developed before graduation

[1] According the to Annie E. Casey Foundation, while black children represented 21 percent of the total child population in 2021, they represented 22 percent of all kids in foster care.

[2] *Study Finds Foster Youth Lack Critical Financial Skills*. March 24, 2021. Washington State University.

[3] According to the National Center for Education Statistics, in school year 2019-2020, the U.S. average adjusted cohort graduation rate (ACGR) for public high school students was 87 percent, with varying rates among demographic populations: Asian/Pacific Islander (93 percent), White (90 percent), Hispanic (83 percent), Black (81 percent), and American Indian/Alaska Native (75 percent).

[4] According to the National Center for Education Statistics, in 2021, about 62 percent of people who completed high school or earned a GED certificate immediately enrolled in college. Asian/Pacific Islander students had the highest ACGR (93 percent), followed by White (89 percent), Hispanic (82 percent), Black (80 percent), and American

© 2024 National Association of Insurance Commissioners

to provide individuals with the best opportunity to achieve financial success.

STATE STATUTORY ENVIRONMENT

In recent years, states have focused on the importance of bringing financial literacy to high school classrooms. According to the Center for Financial Literacy at Champlain College, 7 states required high school graduates in the Class of 2023 to have taken a personal finance course before graduation with that number growing to 25 states for the Class of 2028. That still leaves students in half the country without state-required access to a basic financial education and provides an opportunity for state insurance and financial regulators to work with legislators to enact meaningful policy solutions.

FINANCIAL LITERACY IN SCHOOLS THROUGH AN EQUITY LENS

A state mandate is necessary to provide all graduating high schoolers with a similar baseline understanding of personal finance and will help to address inequities in access to financial education. According to research commissioned by Next Gen Personal Finance, in states that do not mandate a personal finance course as a graduation requirement (leaving such decisions up to local school district control), predominantly-minority high schools have only a 7 percent chance of being locally required to take such a course, while predominantly-white high schools are more than twice as likely to have such a local graduation requirement (14.2 percent).

FINANCIAL LITERACY AND INSURANCE

A comprehensive financial curriculum should focus on an understanding of the fundamentals of insurance, such as risk pooling, cost sharing, underwriting and premiums. A curriculum also should include exposure to insurances more likely to resonate with high school students, as well as include an introduction to the largest personal lines insurance coverages (auto, homeowners, health, and life) to prepare students for decisions that they face soon after graduation. Not only will personal finance coursework better prepare individuals for insurance decisions and transactions, but it may also improve their access to affordable insurance for the next several years of their lives or longer. It is particularly important for younger individuals to understand the difference between whole and term life insurance so that they may make informed decisions about which product to buy and the best time to purchase, including the benefits of accumulating cash value. Further, research consistently finds that requiring financial education in high school increases credit scores, particularly through reducing the likelihood of credit delinquencies. As the use of credit and insurance scores is generally not a prohibited underwriting factor across the country, increased credit scores resulting from high school financial education could have the inadvertent effect of reducing premium prices that consumers will pay for insurance products well into their financial futures[5].

Indian/Alaska Native (74 percent) students.

[5] The use of credit scores in underwriting personal lines insurance policies is controversial and this endorsement of required financial literacy coursework in high schools is NOT an endorsement of the use of credit or insurance scores in underwriting insurance policies.

© 2024 National Association of Insurance Commissioners

LIFE ACTUARIAL (A) TASK FORCE

Life Actuarial (A) Task Force Aug. 11–12, 2024, Minutes 5-85
Life Actuarial (A) Task Force July 25, 2024, Minutes (Attachment One) 5-92
American Academy of Actuaries (Academy) Comment Letter (Attachment One-A) 5-94
American Council of Life Insurers (ACLI) Comment Letter (Attachment One-B) 5-100
Mark Tenney Comment Letter (Attachment One-C) 5-108
Peter Gould Comment Letter (Attachment One-D) 5-109
Reinsurance Group of America Comment Letter (Attachment One-E) 5-114
Risk & Regulatory Consulting LLC (RRC) Comment Letter (Attachment One-F) 5-124
Life Actuarial (A) Task Force June 20, 2024, Minutes (Attachment Two) 5-129
Presentation on Asset Adequacy Testing (AAT) for Reinsurance (Attachment Two-A) 5-131
Life Actuarial (A) Task Force June 13, 2024, Minutes (Attachment Three) 5-139
Amendment Proposal Form (APF) 2023-13 (Attachment Three-A) 5-141
APF 2024-08 (Attachment Three-B) 5-146
ACLI Comment Letter (Attachment Three-C) 5-149
Prudential Financial Comment Letter (Attachment Three-D) 5-151
APF 2024-07 (Attachment Three-E) 5-152
Life Actuarial (A) Task Force June 6, 2024, Minutes (Attachment Four) 5-159
APF 2024-06 (Attachment Four-A) 5-161
APF 2024-05 (Attachment Four-B) 5-163
APF 2024-09 (Attachment Four-C) 5-165
Life Actuarial (A) Task Force May 30, 2024, Minutes (Attachment Five) 5-167
ACLI Comment Letter (Attachment Five-A) 5-169
Academy Comment Letter (Attachment Five-B) 5-173
Cayman International Reinsurance Companies Association (CIRCA) Comment Letter (Attachment Five-C) 5-178
Equitable Comment Letter (Attachment Five-D) 5-179
Peter Gould Comment Letter (Attachment Five-E) 5-181
Routhenstein & Co Comment Letter (Attachment Five-F) 5-184
RRC Comment Letter (Attachment Five-G) 5-186
Life Actuarial (A) Task Force May 23, 2024, Minutes (Attachment Six) 5-190
APF 2024-10 (Attachment Six-A) 5-192
ACLI Comment Letter (Attachment Six-B) 5-194
Life Actuarial (A) Task Force May 16, 2024, Minutes (Attachment Seven) 5-196
Academy Comment Letter (Attachment Seven-A) 5-198
ACLI Comment Letter (Attachment Seven-B) 5-200
LIMRA Comment Letter (Attachment Seven-C) 5-202
Life Actuarial (A) Task Force May 9, 2024, Minutes (Attachment Eight) 5-205
ACLI Comment Letter (Attachment Eight-A) 5-207
Carmello Comment Letter (Attachment Eight-B) 5-2010
Life Actuarial (A) Task Force May 2, 2024, Minutes (Attachment Nine) 5-211
Life Actuarial (A) Task Force April 25, 2024, Minutes (Attachment Ten) 5-213
APF 2024-01 (Attachment Ten-A) 5-215
ACLI Comment Letter (Attachment Ten-B) 5-218
APF 2024-04 (Attachment Ten-C) 5-220
Life Actuarial (A) Task Force April 4, 2024, Minutes (Attachment Eleven) 5-221
Life Actuarial (A) Task Force March 28, 2024, Minutes (Attachment Twelve) 5-223

© 2024 National Association of Insurance Commissioners

Editorial Changes to the 2024 *Valuation Manual* (Attachment Twelve-A) 5-225
Report of the Indexed Universal Life (IUL) Illustration (A) Subgroup (Attachment Thirteen) 5-228
Report of the Variable Annuities Capital and Reserve (E/A) Subgroup (Attachment Fourteen) 5-229
Variable Annuities Capital and Reserve (E/A) Subgroup April 4, 2024, Minutes (Attachment Fifteen) 5-230
Report of the Longevity Risk (E/A) Subgroup (Attachment Sixteen) 5-231
Update on the NAIC's Mortality Experience Data Collection (Attachment Seventeen) 5-232
Report of the Valuation Manual (VM)-22 (A) Subgroup (Attachment Eighteen) 5-238
VM-22 (A) Subgroup June 4, 2024, Minutes (Attachment Nineteen) 5-239
Dynamic Lapse Formula (Attachment Nineteen-A) 5-241
VM-22 (A) Subgroup May 29, 2024, Minutes (Attachment Twenty) 5-243
Alternative Approach to the K-Factor Methodology (Attachment Twenty-A) 5-245
VM-22 (A) Subgroup April 10, 2024, Minutes (Attachment Twenty-One) 5-253
VM-22 (A) Subgroup March 25, 2024, Minutes (Attachment Twenty-Two) 5-254
VM-22, Statutory Maximum Valuation Interest Rates for Income Annuities Reserves Supplement Draft (Twenty-Two-A) 5-256
Pros and Cons of the Draft of VM-31, Principle-Based Reserving (PBR) Actuarial Report Requirements for Business Subject to a Principle-Based Valuation (Twenty-Two-B) 5-257
Update on the Generator of Economic Scenarios (GOES) Field Test (Attachment Twenty-Three) 5-258
GOES (E/A) Subgroup June 12, 2024, Minutes (Attachment Twenty-Four) 5-260
Variable Annuity (VA) Model Office Results Presentation (Attachment Twenty-Four-A) 5-261
GOES (E/A) Subgroup May 15, 2024, Minutes (Attachment Twenty-Five) 5-294
Stochastic Exclusion Ratio Test (SERT) Scenarios (Attachment Twenty-Five-A) 5-295
Model Governance (Attachment Twenty-Five-B) 5-301
Tenney Comment Letter (Attachment Twenty-Five-C) 5-304
GOES (E/A) Subgroup May 1, 2024, Minutes (Attachment Twenty-Six) 5-328
GOES (E/A) Subgroup: Model Governance (Attachment Twenty-Six-A) 5-329
GOES (E/A) Subgroup April 17, 2024, Minutes (Attachment Twenty-Seven) 5-334
GOES (E/A) Subgroup April 10, 2024, Minutes (Attachment Twenty-Eight) 5-335
Results from the Revised GOES Calibration (Attachment Twenty-Eight-A) 5-336
Revisions to the 2024 GOES Field Test Instructions (Attachment Twenty-Eight-B) 5-342
GOES (E/A) Subgroup March 27, 2024, Minutes (Attachment Twenty-Nine) 5-347
Results from the Current GOES Calibration (Attachment Twenty-Nine-A) 5-348
ACLI's Review of the New Scenario Set (Attachment Twenty-Nine-B) 5-354
Update on the VM-20, Requirements for Principle-Based Reserved for Life Products Historical Mortality Improvement (HMI) and Future Mortality Improvement (FMI) Factors (Attachment Thirty) 5-361
Results of Model Office Testing of the GOES Field Test Scenarios (Attachment Thirty-One) 5-369
Update from the Society of Actuaries (SOA) on Research and Education (Attachment Thirty-Two) 5-389
Presentation on the Appropriate Reflection of Negative Interest Maintenance Reserve (IMR) in PBR and AAT (Attachment Thirty-Three) 5-400
Presentation on State Insurance Regulator Reviews of *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53) Filings (Attachment Thirty-Four) 5-405
Presentation on AAT for Reinsurance Actuarial Guideline Draft (Attachment Thirty-Five) 5-413
AAT for Reinsurance Actuarial Guideline Draft (Attachment Thirty-Six) 5-425
Update from the Academy's Life Practice Council (Attachment Thirty-Seven) 5-432
Update on Academy Life Knowledge Statements (Attachment Thirty-Eight) 5-439
Academy's Draft Life Knowledge Statements (Attachment Thirty-Nine) 5-444

© 2024 National Association of Insurance Commissioners

Presentation on 2025 Generally Recognized Expense Table (GRET) Recommendation (Attachment Forty) 5-454
2025 GRET Recommendation (Attachment Forty-One) 5-460

Draft: 8/26/24

Life Actuarial (A) Task Force
Chicago, Illinois
August 11–12, 2024

The Life Actuarial (A) Task Force met in Chicago, IL, Aug. 11–12, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Peni 'Ben' Itula Sapini Teo represented by Elizabeth Perri (AS); Ricardo Lara represented by Ahmad Kamil, Thomas Reedy, Elaine Lam, and Ted Chang (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak and Kevin Clark (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by William Leung and John Rehagen (MO); Eric Dunning represented by Michael Muldoon (NE); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom and David Wolf (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Adopted its July 25, June 20, June 13, June 6, May 30, May 23, May 16, May 9, May 2, April 25, April 4, and March 28 Minutes and the Reports of the IUL Illustration (A) Subgroup and the Longevity Risk (E/A) Subgroup

The Task Force met July 25, June 20, June 13, June 6, May 30, May 23, May 16, May 9, May 2, April 25, April 4, and March 28. During these meetings, the Task Force took the following action: 1) discussed comments received on a June 20 exposure of concepts for asset adequacy testing (AAT) for reinsurance and an attribution analysis template; 2) adopted amendment proposal form (APF) 2023-13 to add mortality tables to the Valuation Manual (VM) for certain annuities and allow the use of international mortality tables for life insurance business issued in foreign countries; 3) adopted APF 2024-07 to update the VM-21, Requirements for Principle-Based Reserves for Variable Annuities, standard projection amount (SPA) assumptions; 4) adopted APF 2024-05, which allows for the use of monthly rates when determining the discount rate for deposit-type contracts; 5) adopted APF 2024-06, which allows for non-jumbo contracts to be treated as jumbo for discounting purposes; 6) adopted APF 2024-09, which changes how the interest maintenance reserve (IMR) is treated in VM-21; 7) adopted APF 2024-08 to revise the net asset earned rate (NAER) calculation in VM-21; 8) discussed comments received on a March 17 exposure of questions regarding AAT for reinsurance; 9) adopted its Spring National Meeting minutes; 10) adopted APF 2024-10 to update credit disability claim incidence rate assumptions; 11) adopted APF 2024-01 to require specific qualification standards for qualified actuaries; and 12) adopted APF 2024-04 to update the lapse assumptions in VM-20, Requirements for Principle-Based Reserves for Life Products.

The Task Force reviewed the reports of the Indexed Universal Life (IUL) Illustration (A) Subgroup, the Variable Annuities Capital and Reserve (E/A) Subgroup, and the Longevity Risk (E/A) Subgroup. Regarding the work of the IUL Illustration (A) Subgroup, Hemphill noted that Task Force members have reviewed company illustrations to assess compliance with *Actuarial Guideline XLIX-A, The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest Sold on or After Dec. 14, 2020* (AG 49-A) requirements and identify any concerns. Hemphill said that members found that the latest revisions to AG 49-A appeared effective in addressing maximum illustrated rate company outliers. However, Hemphill said that members were surprised to find the inclusion of hypothetical returns or historical averages displayed in the illustrations alongside the maximum illustrated rates. As a next step, Hemphill said that regulators would follow up with companies to better understand how companies see this practice as fitting within the current requirements.

© 2024 National Association of Insurance Commissioners

Chupp made a motion, seconded by Yanacheak, to adopt the Task Force's July. 25 (Attachment One), June 20 (Attachment Two), June 13 (Attachment Three), June 6 (Attachment Four), May 30 (Attachment Five), May 23 (Attachment Six) May 16 (Attachment Seven) May 9 (Attachment Eight), May 2 (Attachment Nine), April 25 (Attachment Ten) April 4 (Attachment Eleven) and March 28 (Attachment Twelve) and the reports of the IUL Illustration (A) Subgroup (Attachment Thirteen), the Variable Annuities Capital and Reserve (E/A) Subgroup (Attachment Fourteen) and its April 4 minutes (Attachment Fifteen), and the Longevity Risk (E/A) Subgroup (Attachment Sixteen). The motion passed unanimously.

2. Adopted the Report of the Experience Reporting (A) Subgroup, Heard an Update on the NAIC's Mortality Experience Data Collection, and Exposed APF 2024-12

Pat Allison (NAIC) walked through a presentation (Attachment Seventeen) that provided an update on the NAIC's life insurance mortality data collection. Gennady Stolyarov II (Nevada Division of Insurance) asked how the NAIC was classifying deaths from COVID-19. Scott O'Neal (NAIC) replied that if COVID-19 was listed as a primary or secondary cause of death, then it was counted as a death due to COVID-19 for the NAIC's life insurance mortality data collection.

Allison then walked through APF 2024-12, which would effectuate a mandatory group annuity mortality experience data collection. Regarding the "Structure" data field, Carmello asked whether an additional option needed to be included for non-insulated separate account products. Allison replied that the additional option for non-insulated separate account products would be a good addition.

Andersen made a motion, seconded by Reedy, to adopt the report of the Experience Reporting (A) Subgroup and expose APF 2024-12 for a 75-day public comment period ending Oct. 25. The motion passed unanimously.

3. Adopted the Report of the VM-22 (A) Subgroup

Lam walked through the report of the VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities (A) Subgroup. The Subgroup met June 4, May 29, April 10, and March 25. During these meetings, the Subgroup took the following action: 1) exposed the VM-22 Section 6, standard projection amount (SPA) draft, which included the proposed SPA mortality and policyholder behavior assumptions; 2) exposed the longevity reinsurance alternative methodology; 3) exposed the VM-22 field test specifications, template, and pre-field test participation survey.

Lam made a motion, seconded by Eom, to adopt the report of the VM-22 (A) Subgroup (Attachment Eighteen) , including its June 4 (Attachment Nineteen), May 29 (Attachment Twenty), April 10 (Attachment Twenty-One), and March 25 (Attachment Twenty-Two) minutes. The motion passed unanimously.

4. Adopted the Report of the GOES (E/A) Subgroup and Heard an Update on the GOES Field Test

Yanacheak and O'Neal walked through a presentation (Attachment Twenty-Three) providing an update on the Generator of Economic Scenarios (GOES) (E/A) Subgroup. The Subgroup met June 12, May 15, May 1, April 17, April 10, and March 27. During these meetings, the Subgroup took the following action: 1) heard a presentation from Oliver Wyman showing results from a variable annuity model office for the GOES field test scenarios; 2) discussed a model governance framework; and 3) planned a field test of a revised calibration of the GOES.

Yanacheak made a motion, seconded by Chou, to adopt the report of the GOES (E/A) Subgroup, including its June 12 (Attachment Twenty-Four), May 15 (Attachment Twenty-Five), May 1 (Attachment Twenty-Six), April 17 (Attachment Twenty-Seven), April 10 (Attachment Twenty-Eight), and March 27 (Attachment Twenty-Nine) minutes. The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

5. Heard an Update on the VM-20 HMI and FMI Factors

Marianne Purushotham (Society of Actuaries—SOA) provided an update (Attachment Thirty) on the VM-20 historical mortality improvement (HMI) and future mortality improvement (FMI) rates. Hemphill asked whether the mortality disimprovement around the age of retirement was due to a cohort effect or whether this was a trend that applied across groups. Purushotham replied that there appeared to be a cohort effect with the retirement ages, but that the mortality disimprovement turned back into improvement around age 65 when individuals become eligible for Medicare. Purushotham stated that further investigation is warranted into whether this was a US population or insured population effect.

For ages 25 to 35, Chupp asked why there was such a steep graduation from the disimprovement in the HMI rates to the improvement in the FMI rates. Purushotham replied that the data used in the 10-year average to develop the HMI rates ends in 2022 and that data showed disimprovement. However, Purushotham said that the Social Security Administration's (SSA's) projection used for the FMI did show approximately half a percent improvement in the long term, leading to the steep transition from HMI to FMI. Boston asked how Purushotham got comfortable that mortality deterioration for certain groups would trend to improvement over time. Purushotham noted that: 1) they were using US total population data to determine an assumption for the US insured population, which was likely to be more favorable than the overall population data; and 2) that emerging data was showing improvements in areas like the opioid epidemic and the easing of the COVID-19 pandemic.

Brian Bayerle (American Council of Life Insurers – ACLI) asked that the spreadsheet of HMI and FMI rates be included in the exposure. Purushotham noted that it would take some time to prepare and validate the HMI and FMI rate spreadsheet. Hemphill said that the exposure would wait until the spreadsheet could be provided.

6. Heard a Presentation on the Results of Model Office Testing of the GOES Field Test Scenarios

Simon Gervais (Oliver Wyman) delivered a presentation (Attachment Thirty-One) on variable annuity and life insurance model office testing results of the GOES field test scenarios. After Gervais explained the simplified investment strategy for the term and universal life with secondary guarantee (ULSG) products where cash is invested at time zero into shorter maturity bonds, Hemphill asked whether a more representative starting asset and reinvestment strategy would result in more reasonable VM-20 stochastic exclusion ratio test (SERT) ratios. Gervais responded that his takeaway from the SERT results was that the GOES scenarios were resulting in larger SERT ratios compared to the AIRG but not necessarily at the magnitude implied by the simplified model office investment strategy. Gervais also stated that they had performed additional sensitivities using longer maturity investments and could share the results of that testing with the Task Force.

Connie Tang (Retired) asked whether any testing would be performed with IUL or variable universal life (VUL) products. O'Neal said that the current budget with Oliver Wyman was largely exhausted, and that any additional modeling would need to be performed by NAIC staff. O'Neal continued that the modeling work would need to be prioritized against other demands on NAIC resources, including anonymizing and summarizing some of the key takeaways from the GOES field test. Chang asked whether sensitivities could be performed on the life model office inforce. O'Neal replied that Oliver Wyman provided a tool that would allow for the composition of the inforce to be changed, but noted again that this work would have to be balanced with other project deliverables.

7. Heard an Update from the SOA on Research and Education

Dale Hall (SOA) walked through an update from the SOA on its research and education initiatives (Attachment Thirty-Two). Regarding the annuity surrender and lapse study, Carmello asked whether the SOA intended to capture 2023 data to better understand of what can happen during a strongly rising interest rate period. Hall

© 2024 National Association of Insurance Commissioners

replied that they are still considering how frequently they would like to perform the annuity study and would listen to feedback from regulators and the insurance industry. Carmello then asked whether the NAIC was collecting any data on ULSG premium persistency. Allison answered that the NAIC does collect some of that data as part of their mortality experience collection, but that the SOA may have included additional fields when they performed their premium persistency study. Continuing on the premium persistency discussion, Serbinowski noted the challenges with the interpretation of planned premium and asked whether a more frequent recalculation of planned premium would provide better information. Hall noted that he had seen companies perform an annual calculation of planned premium, but the challenge with a data collection is being able to get that information consistently from companies.

Ann Weber (SOA) provided an update on the SOA's redesign of its Fellowship educational pathway, noting that a joint task force had been formed with the American Academy of Actuaries (Academy) to collaborate on regulatory educational issues relevant to actuaries. Weber further stated that the joint task force would be releasing a draft report in the next few weeks. Weber also noted that the SOA would review the work of the Academy relating to Life Knowledge Statements to ensure that everything that needs to be covered is included in the SOA Fellowship curriculum.

8. Exposed APF 2024-11

Hemphill introduced APF 2024-11, which would revise the Life Principle-Based Reserves (PBR) Exemption to account for enhancements made to the annual statement blanks.

Chupp made a motion, seconded by Boyd, to expose APF 2024-11 for a 21-day public comment period ending Sept. 2. The motion passed unanimously.

9. Heard a Presentation on the Appropriate Reflection of Negative IMR in PBR and AAT

Hemphill walked through a presentation (Attachment Thirty-Three) on the appropriate reflection of negative IMR in PBR and AAT. Carmello asked whether the IMR Guidance document adopted by the Task Force was clear that all admitted net negative IMR needs to be included in the starting assets. Hemphill replied that the IMR Guidance document could have been made clearer and that the Task Force may want to consider an APF to add a guidance note with clarifying instructions in the VM. Tricia Matson (Risk Regulatory Consulting—RRC) questioned why assets backing surplus that generated net negative IMR would have to be included in PBR or AAT. Hemphill replied that the support for admitting net negative IMR in the first place was due to the idea that the assets that are sold were backing liabilities and the proceeds would be reinvested into new assets backing the liabilities, and the guidance to include admitted net negative IMR in the starting assets was for consistency. Hemphill concluded by stating that the Task Force would continue to consider whether an APF to clarify negative IMR guidance was necessary.

10. Heard a Presentation on State Insurance Regulator Reviews of AG 53 Filings

Andersen and Jennifer Frasier (NAIC) delivered a presentation (Attachment Thirty-Four) on state insurance regulator reviews of Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves (AG 53) filings. In response to Frasier mentioning an inconsistency between the "Projected Allocations" and "Asset Summary" tabs of the AG 53 reporting template, Chang said that the template might only include information on the reinvestment strategy but not the disinvestment strategy. Frasier agreed and noted that regulators do not always have the complete picture and can address this by asking the companies questions about their AG 53 reports.

11. Exposed the AAT for Reinsurance Actuarial Guideline Draft

© 2024 National Association of Insurance Commissioners

Andersen walked through a presentation (Attachment Thirty-Five) on a draft Actuarial Guideline on AAT for Reinsurance. On consideration three dealing with more rigor and/or frequent analysis depending on the level of risk, Tsang asked whether regulators should be concerned with holding an appropriate level of reserves, the type of assets supporting the reserves, or both. Andersen replied that both are important considerations, but that this would not be an exercise in forcing other jurisdictions to apply US standards and that some differences between reserve levels would be reasonable given differences in methodology across jurisdictions. Tsang further asked whether a gross premium valuation (GPV) could be performed to understand whether it is a reserve level or asset issue. Andersen noted challenges with a GPV approach given the importance of the policyholder behavior assumption and the need for multiple scenarios. Andersen further stated that an attribution analysis approach could be helpful in understanding reserve differences across jurisdictions.

Regarding aggregation, Bayerle questioned how the Appointed Actuary could determine that the assets backing their company's reserves are sufficient given that pooled reinsurer assets support multiple blocks of business from different companies. Alan Routhenstein (Routhenstein & Co.) stated that in particular, for a well-diversified reinsurer that aggregates their business to a very high-level, there can be issues with this approach where a given reinsurance treaty is relatively small to the reinsurer but material to the ceding company. Leonard Mangini (Mangini Actuarial) responded that it was important to also consider the opposite problem, where a company reinsures to a weak and poorly diversified affiliated entity.

On the topic of attribution analysis, Eom said that attribution analysis could supplement AAT but could have less value on a standalone basis. Andersen disagreed, stating that attribution analysis could be used for reinsurance not considered risky enough to require AAT but risky enough to warrant additional analysis. Bayerle stated that the ACLI would support the development of an attribution analysis template that leveraged work that companies already do to support reinsurance deals to their domestic state insurance regulators. Matson questioned what action state insurance regulators would take after reviewing attribution analyses and noted that a non-level playing field could arise if states take different actions after the review of otherwise similar attribution analyses. Hemphill stated that attribution analysis could provide good information to state insurance regulators to improve reserving methodologies, highlighting the example of business currently reserved for under the Commissioners Annuity Reserve Valuation Method (CARVM) that will eventually be reserved for under the VM-22 framework currently in development.

Andersen said that the attribution analyses could provide actionable information and that he was skeptical that a company with a reinsurance agreement with inadequate reserves could produce an attribution analysis that performed well under a review by a state insurance regulator. Matson replied that some level of reserve difference was expected between jurisdictions and the challenge will be determining what is an appropriate difference compared to one that needs more review. Eom said that thresholds, such as reduction in reserves due to reinsurance, should be utilized over attribution analysis to determine whether AAT was needed. Rehagen supported the use of attribution analysis to increase transparency in reinsurance transactions with offshore affiliates.

Bayerle stated that there could be issues with this proposed Actuarial Guideline and the Covered Agreements. Bayerle continued that targeting reinsurers in reciprocal jurisdictions could lead to the disparate treatment of US insurers and reinsurers in those jurisdictions. Dan Schelp (NAIC) said that the NAIC legal division was aware of the issues that have been raised around the covered agreements. Schelp said that measures by state insurance regulators would need to result in less favorable treatment of non-US reinsurers compared to a US reinsurer in order to violate the Covered Agreements. Schelp said that the NAIC's current understanding of the proposed Actuarial Guideline was that it would treat US and non-US reinsurers equally.

© 2024 National Association of Insurance Commissioners

Andersen made a motion, seconded by Weber, to expose the AAT for Reinsurance Actuarial Guideline Draft (Attachment Thirty-Six) for a 60-day public comment period ending Oct. 11th. The motion passed unanimously.

12. Heard an Update from the Academy Council on Professionalism and Education

Maryellen Coggins (Academy), Laura Hanson (Actuarial Standards Board—ASB), and Shawna Ackerman (Actuarial Board for Counseling and Discipline—ABCD) jointly delivered the Academy Council on Professionalism and Education's (COPE's) update. Coggins said that the Academy's Committee on Qualifications was currently focused on improving the readability of the US Qualification Standards (USQS). Hanson noted recent work on Actuarial Standards of Practice (ASOPs), including the adoption of updates to ASOP 40, Compliance with the NAIC Valuation of Life Insurance Policies Model Regulation with Respect to Deficiency Reserve Mortality, and the re-exposure of ASOP 24, Compliance with the NAIC Life Insurance Illustrations Model Regulation. Ackerman highlighted the outreach efforts of the ABCD and professionalism webinars conducted by its members.

13. Heard an Update from the Academy's Life Practice Council

Amanda Barry-Moilanen (Academy) delivered a presentation (Attachment Thirty-Seven) on the activities of the Academy Life Practice Council.

14. Heard an Update on Academy Life Knowledge Statements

Lisa Slotznick (Academy), Rhonda Ahrens (Academy), and Darrell Knapp (Academy) delivered a presentation (Attachment Thirty-Eight) on the Academy's work on Life Knowledge Statements.

Hemphill exposed the Academy's draft Life Knowledge Statements (Attachment Thirty-Nine) for a 30-day public comment period ending Sep. 11.

15. Heard an Update from the Compact

Karen Schutter (Interstate Insurance Product Regulation Commission—Compact) provided an update on the work of the Compact. Schutter stated that the Compact was launching a standard for the approval of index-linked variable annuity products starting Aug. 13. Schutter also mentioned that a modernization was underway to enhance the Systems for Electronic Rates & Form Filings (SERFF) to bring new tools and functionality.

16. Exposed the 2025 GRET Recommendation

Tony Phipps (SOA) delivered a presentation (Attachment Forty) on the 2025 Generally Recognized Expense Table (GRET) recommendation. Regarding issues the SOA was having with getting some companies to provide data, Hemphill asked that the SOA reach out to state insurance regulators so that they can assist in getting more responses. Chupp noted an editorial issue with the 2025 GRET Recommendation.

Chupp made a motion, seconded by Leung, to expose the 2025 GRET Recommendation with a correction to the editorial issue mentioned by Chupp (Attachment Forty-One) for a 21-day public comment period ending Sep. 2. The motion passed unanimously.

17. Other Matters

In order to promote discussion of specific sections of the AAT for Reinsurance Actuarial Guideline Draft at interim meetings of the Task Force prior to the Fall National Meeting, Andersen asked that comment periods for the Scope and Aggregation sections be considered.

© 2024 National Association of Insurance Commissioners

Andersen made a motion, seconded by Eom, to expose the Scope section for a 40-day public comment period ending Sep. 19, and the Aggregation sections for a 52-day comment period ending Oct. 3. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Member Meetings/A CMTE/LATF/2024-2-Summer/National Meeting/Minutes Packet/LATF Summer National Meeting Minutes.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/5/24

Life Actuarial (A) Task Force
Virtual Meeting
July 25, 2024

The Life Actuarial (A) Task Force met July 25, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Mark Fowler represented by Sanjeev Chaudhuri (AL); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak and Kevin Clark (IA); Vicki Schmidt represented by Nicole Boyd (KS); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Robert L. Carey represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung and John Rehagen (MO); Eric Dunning represented by Margaret Garrison (NE); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Heard about Regulator-to Regulator Discussion

Hemphill reported that the Task Force met July 11 in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the *NAIC Policy Statement on Open Meetings*, to review the illustrations of annuity products. No action was taken.

2. Discussed Comments Received on AAT for Reinsurance Concepts and Attribution Analysis

Andersen provided background for the asset adequacy testing (AAT) for reinsurance proposal, noting that there is a concern with reinsurance transactions involving US policyholders that result in less transparency to state insurance regulators. Andersen said that the Task Force would be reviewing comments received on a June 20 exposure of 1) concepts for AAT for reinsurance presentation and 2) draft attribution analysis template. Jason Kehrberg (American Academy of Actuaries—Academy) discussed the Academy's comment letter (Attachment One-A) noting that the appointed actuary should be able to apply judgement in performing AAT while recognizing the need for state insurance regulators to provide additional guidance for certain reinsurance situations outlined in the proposal.

Brian Bayerle (American Council of Life Insurers—ACLI) summarized the ACLI's comment letter (Attachment One-B) stating the importance of finding the right scope to focus in on the riskiest treaties and ensuring that reinsurance remains available as a risk mitigation tool. Eom asked if the ACLI had a proposal for how to determine the riskiness of a given reinsurance contract. Bayerle acknowledged the importance of this determination and pointed to the principles outlined in appendix A of their comment letter as a starting point. Mark Tenney (Mathematical Finance Corporation) then discussed his comment letter (Attachment One-C) noting challenges with reinsurance collectability relating to some offshore jurisdictions and the potential of certain offshore reinsurance transactions to go against the spirit of the federal Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) financial reforms. Carmello stated that Dodd-Frank actually took away power from state insurance regulators to manage extraterritorial reinsurance transactions.

Peter Gould (Retired Annuity Consumer) spoke to his comment letter (Attachment One-D) stressing the need to protect consumers from the potential failure of a reinsurer. Dana Wiele (Reinsurance Group of America—RGA) spoke on behalf of the Reinsurance Coalition's comment letter (Attachment One-E) and noted concern with the

© 2024 National Association of Insurance Commissioners

proposal's potential impact on the reinsurance market and conflict with covered agreements. Wiele also asked for different groups at the NAIC to coordinate on the potential solution. Tsang asked if Wiele had any statistics on the failures of both domestic and foreign reinsurers, to which Wiele replied that he would look to follow up with. Rehagen also stated that NAIC staff could follow up with a review of this information as well.

Clark asked if the Reinsurance Coalition had any alternative proposals to address state insurance regulators' concerns. Wiele noted that the Reinsurance Coalition was researching alternatives, but pointed to potential analyses that could be done by the ceding company around collectability. Regarding coordination across the NAIC, Clark noted that the Reinsurance (E) Task Force was working closely with the Life Insurance (A) Task Force on this issue and asked if there was any other area for collaboration that the Reinsurance Coalition had in mind. Wiele stated his request for coordination across the NAIC is related to coming up with a balanced approach.

Tricia Matson (Risk Regulatory Consulting—RRC) walked through RRC's comment letter (Attachment One-F) and stated that her organization had evaluated a number of reinsurance transactions and had concerns that the assets supporting the liabilities would be sufficient under moderately adverse conditions and was therefore supportive of additional requirements. Matson also pointed to the potential need to evaluate capital in addition to reserve adequacy. After Hemphill asked for an elaboration on the need for evaluating capital, Matson stated that certain reinsurance transactions could reduce the assets available to pay claims under more extreme scenarios and should be looked at in addition to the AAT proposal that covered reserving.

Andersen recapped some of the conversation and stated that work was being done to draft an actuarial guideline that would be discussed at the Task Force's session at the Summer National Meeting.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/07 25/July 25 Minutes.docx

© 2024 National Association of Insurance Commissioners



July 19, 2024

Rachel Hemphill
Chair, Life Actuarial (A) Task Force
National Association of Insurance Commissioners

Re: AAT Reinsurance Exposure

Dear Chair Hemphill:

On behalf of the Life Practice Council (LPC) of the American Academy of Actuaries[1], I appreciate the opportunity to provide comments to the Life Actuarial Task Force (LATF) regarding the Reinsurance AAT Concepts and Reinsurance AAT Attribution Analysis " (the Exposure). The LPC believes this is an important issue and appreciates LATF's consideration of public comments.

In response to the Exposure, the LPC offers the following feedback, which we developed to balance our view that the Appointed Actuary should be able to apply principles and judgment in their Asset Adequacy Testing (AAT) and our understanding of the need for regulators to provide additional guidance on AAT in certain situations as outlined in the Exposure.

Further, we recognize that reinsurance has proved to be an effective risk mitigation tool and believe that any changes to AAT requirements should avoid dis-incenting insurance companies from implementing appropriate reinsurance solutions.

Our feedback on each of the specific topics outlined in the Exposure follows:

Need for Review Beyond Counterparty Risk/Collectability

1. Review of counterparty risk/collectability is an essential part of AAT. The Appointed Actuary (AA) is required to evaluate counterparty/collectability risk per the requirements of actuarial standards of practice (ASOP 7, ASOP 11 and ASOP 22). ASOP 11 states that an actuary should take into account "the ability of an entity to meet its

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

© 2024 National Association of Insurance Commissioners

obligations…performance risk of…an investment manager not adhering to investment guidelines [and] the counterparty's…investment policy…." (Sections 3.5.c. and 3.5.f)

2. The review of counterparty risk (ASOP 11, Section 3.5) in AAT needs to be broad enough to address moderately adverse conditions (ASOP 22, Section 3.1) across all material risks. For example, the actuary should assess the likelihood and severity of a counterparty's non-compliance with the contractual terms of the treaty. Based on this assessment, the actuary should then evaluate the expected impact on the cedant's ability to cover future policyholder obligations.
3. When studying counterparty risk, it would be appropriate for the actuary to apply a risk-based approach, such as taking greater care, increasing the comprehensiveness of any analysis, or performing such analysis with an increased level of prudence when the counterparty risk is highest or exposure to the counterparty is particularly material.
4. We believe that the AAT assessment should include consideration of all material risks, including items such as risks associated with the adequacy of the invested assets (i.e., not just the reinsurance receivable asset) backing the ceded reserves, nature and financial condition of the counterparty, and reinsurance structuring considerations including the existence of collateral or similar risk mitigating features. For example, to address the risk associated with the counterparty's invested assets, the AA could perform traditional cash flow testing using the invested assets backing the ceded reserves or using a representative asset portfolio that mimics the invested asset characteristics for the ceded business.
5. Any requirements introduced by LATF should allow for judgment by the AA, since the AA must provide their individual professional opinion as to the adequacy of assets supporting reserves. Such judgment would encompass the approach used to assess adequacy, the assumptions and interpretation of results, and any limitations of the analysis.

Materiality

1. We support an exemption for immaterial treaties. A definition of immaterial could potentially be based on reinsurance reserve released due to the treaty as a specified maximum percentage of surplus. We note that the reinsurance reserve reported in Schedule S Part 3 may not reflect the actual reserve exposure of the reinsurance agreement and, therefore, may not be appropriate for determining materiality. Instead, it may be more appropriate to use a reserve calculated by the cedant as the difference between an aggregate reserve without consideration of the ceded reinsurance treaty and an aggregate reserve that does reflect the ceded reinsurance treaty.
2. We also recommend considering the materiality of a group of similar treaties. Doing so may help avoid a situation in which multiple immaterial treaties have the same outcome

as one material treaty but would otherwise be exempt from the requirements solely due to individual size.

3. We believe a key concern raised by regulators relates to reinsurance agreements involving the transfer of significant investment risk. Therefore, we believe it would be appropriate to exempt treaties that do not transfer significant investment risk from these new requirements.
4. It may also be appropriate to exempt treaties for which assets: (1) are segregated (for example, in a funds withheld), (2) were clearly adequate to support the business on a stand-alone basis prior to the transaction, and (3) are subject to investment guidelines that are not materially riskier than those applicable to the business prior to reinsurance. In this case, monitoring of the implementation of the investment guidelines after treaty inception would be needed to ensure continued exemption.
5. We discuss the timing of the implementation of new requirements below in the "Timing" section.

Risk-Based Rigor and Frequency

1. We believe that adjusting the degree of rigor based on the degree of risk, as outlined in the Exposure, is reasonable. See the criteria under Analysis Considerations for specific considerations of risk.

Analysis Considerations

1. We suggest that any requirements for more detailed analysis be a function of the specific risks of concern to the regulators. This could potentially be done via a grading process, whereby the level of analysis detail gradually increases as the level of risk increases. Alternatively, entire cohorts of treaties could be exempted, with the remaining treaties subject to additional requirements. In either case, we suggest that requirements be consistent across states.
2. Using the exempting process, we suggest limiting any new requirements to treaties that meet all of the following criteria:

    a. The reinsurance treaty is material to the cedant (see materiality section above);
    b. The reinsurance treaty transfers a material amount of investment risk;
    c. The reinsurer is not subject to VM-30 or does not voluntarily submit a report that fully complies with VM-30 that is made available to the ceding company's regulator;
    d. The cash flows associated with the reinsured business are expected to materially vary under different economic scenarios. Note that this criterion is important if the requirement involves cash flow testing. Under ASOP 22, "cash flow testing is generally appropriate where cash flows vary under different economic scenarios". Alternatively, if the new Actuarial Guideline requires cash flow testing, then we

recommend including criteria that require that the cash flows associated with the reinsured business are expected to materially vary under different economic scenarios. This is important, since "cash flow testing is generally appropriate where cash flows vary under different economic scenarios" per ASOP 22; per ASOP 22; and,

e. The reserves held by the reinsurer at treaty inception are less than the reserve needed under the cedant's most recent, pre-reinsurance asset adequacy testing assessment of such business on a standalone basis. This reserve would come from the most recently performed AAT. In other words, the assets held by the reinsurer are less than the level of assets that were clearly adequate to support the business on a standalone basis prior to the transaction. This would eliminate scoping in business that has highly redundant statutory reserves but is otherwise not subject to undue risk.

3. For nonexempted situations, requiring the AA to opine that the total reserve amount is a reasonable estimate of liabilities under moderately adverse conditions. Without consideration of the assets supporting those reserves, the potential risks associated with invested assets supporting the business would not be addressed. Therefore, we believe that in nonexempted situations that involve material invested asset risks under moderately adverse conditions, it would be reasonable for the AA's opinion to include an evaluation of the adequacy of the invested assets to support the policyholder obligations under moderately adverse conditions as part of the holistic assessment of reinsurance reserve adequacy.

Aggregation Considerations

1. The AA must comply with ASOP 22 in determining aggregation. Per ASOP 22, "the actuary may aggregate reserves…for multiple blocks of business if the assets or cash flows from the blocks are available to support the reserves…the actuary should not use assets or cash flows from one block of business to discharge the reserves and other liabilities of another block of business if those assets or cash flows cannot be used for that purpose." (Section 3.1.4)
2. New requirements could potentially include disclosure by the AA of the rationale for aggregation.

Frequency

1. In an approach where certain treaties are exempted from detailed analysis, the exemption determination could be revisited annually. Those that are not exempt would be subject to some form of additional AAT requirements. These additional requirements could involve a detailed level of analysis in the initial year of the Actuarial Guideline and then assessed

© 2024 National Association of Insurance Commissioners

by the AA annually as to the appropriate level of testing based on changes in conditions since the prior year testing.

2. If the AA is required to opine on the adequacy of the invested assets to support the reinsured business each year, the AA could apply judgment as to how much analysis is needed based on past results and material changes in the business, the environment, the assets, and/or the treaty. We note, however, that the more judgement applied, the more it may be necessary for the AA to disclose limitations on the use of the results.

Attribution Analysis

1. Attribution analysis alone would not ensure adequate assets to cover policyholder obligations, and therefore we do not believe it will appropriately address regulatory concerns. Attribution analysis may be helpful in enhancing the understanding of the drivers of the transactions and the components of the statutory framework that may be resulting in reserve redundancy, but it will not indicate whether reserves are adequate for any given transaction, is highly dependent on the order the analysis is performed and may take a lot of time and effort to perform. Therefore, we suggest using a tool, like attribution analysis as part of a separate research initiative or a field study, rather than implementing it as a mandatory submission requirement.
2. We would also suggest that if attribution analysis is used in some form, allowances should be included to allow for reasonable approximations and judgment.

Timing

1. We believe implementation of a new standard should be done using a risk-based approach, as described in the Analysis Considerations section above. Depending on what requirements are implemented, we believe that data availability challenges are a significant practical consideration. For prospective treaties, companies may be able to incorporate required data collection elements into new treaty negotiations. Treaties completed before the finalization of new standards may not have provisions requiring reinsurers to supply the necessary information. In the event actual data is unavailable, the AA will need to use approximations and disclose the approximations used where detailed data was not available.

Although not explicitly addressed in the Exposure, we also have the following comment related to instances in which the business is retroceded:

1. If the reinsurer retrocedes some or all risk assumed under the treaty, the cedant's AA may need to use more judgment, and disclose the associated limitations associated with that judgment, than if the risk assumed under the treaty is not retroceded.

*****

If you have any questions or would like to discuss these comments further, please contact Amanda Barry-Moilanen, the Academy's life policy analyst.

Sincerely,

Jason Kehrberg, MAAA, FSA
Chairperson, Life Practice Council

© 2024 National Association of Insurance Commissioners



Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

Colin Masterson
Policy Analyst
202-624-2463
ColinMasterson@acli.com

July 20, 2024

Rachel Hemphill
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Fred Andersen
Chief Life Actuary, Minnesota Department of Commerce

Re: June 20th Exposure of Reinsurance AAT Concepts

Dear Chair Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the Reinsurance AAT Concepts presentation which was discussed on the June 20th LATF meeting. ACLI is committed to constructively engaging with the NAIC on the development of tools to assess and mitigate potential risks associated with reinsurance while preserving the sector's ability to employ it as a tool for risk management and enhancing consumer access to essential life insurance and retirement solutions.

After review from our members and ongoing discussions with regulators, ACLI has developed the feedback below on the project as a whole and more specific thoughts on the eight "considerations for consensus" listed in the exposure document. We also continue to stress the importance of NAIC coordination between all ongoing workstreams and initiatives related to reinsurance to ensure they are ultimately effective at addressing the NAIC's objectives and to minimize the potential for unintended consequences.

General Feedback –

ACLI members believe further clarity is needed on the scope of this initiative, and how it aligns with or feeds into other regulatory initiatives the NAIC is pursuing related to structural shifts in the insurance sector. The scope needs to be limited to the specific areas of regulatory concern. In Appendix A, we propose a scope based on our understanding of questions raised in exposures

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.
acli.com

© 2024 National Association of Insurance Commissioners

and LATF discussions. We would like to reiterate the need for coordination of NAIC efforts on reinsurance before any significant discussion of framework requirements.

ACLI continues to support a disclosure-based approach as the most appropriate way for addressing the concerns that regulators have voiced. That said, we recognize regulators' desire for a materiality-based approach that entails additional analysis and testing. Any such application of this additional analysis to existing treaties may be infeasible since existing treaties did not contemplate information sharing to support this type of effort; therefore, the application of any changes should be prospective. To the extent that existing treaties are included in this framework, cashflow analysis should not be applicable.

There are several references to "primary security" in the considerations document. These references are problematic, as not all reinsurance transactions are reserve financing transactions and the assets that qualify as primary security are narrower than admitted assets which typically form the basis for collateral investment guidelines. We suggest further exposures move away from this concept.

Lastly, regulators have structured the role of the Appointed Actuary in a manner to comply with the state of domicile regulatory expectations around compliance and operations of a company. Regulators need to have comfort with the accuracy of the opinion of the Appointed Actuary in their assessments, and that treatment should be no different when evaluating reinsurance transactions.

Consideration 1 (Need for reserve adequacy review beyond or as part of collectability review) –

ACLI Position: Any additional review should be limited and proportionate to the underlying risk of the transaction.

- We agree that there are circumstances where companies should look at more than rating agency reviews in determining collectability.
- The Appointed Actuary should consider if the reinsurer is able to fulfill its obligations in a moderately adverse environment consistent with the long-established criteria for asset adequacy.
- There is no requirement within AAT that necessitates fulfillment of reinsurance obligations in an extreme or tail environment, as those risks are already appropriately covered in capital considerations.

Consideration 2 (Materiality threshold for no additional disclosure, attribution analysis, or cash-flow testing) –

ACLI Position: The materiality threshold is a critical item for the framework and it is important that any additional analysis and reporting requirements be proportional to the level of risk a transaction presents. While much of the determination of the level of rigor of analysis should—and appropriately so— be left with the Appointed Actuary, we appreciate the need for some regulatory guidance to provide both uniformity and ensure regulators' concerns are addressed. We suggest such guidance and principles in Appendix A.

- Given the bespoke nature of reinsurance transactions, we believe materiality should be based on sound principles rather than a one-size-fits-all prescriptive approach.
- We agree that the size and impact of a transaction on the company's financials should be a consideration when assessing materiality, but it is appropriate for the assessment to be broader. For example, the credit quality of the reinsurer, existing reporting and tools the cedant's supervisor has access to, and structural protections in place through the treaty (e.g., trusts, agreed upon investment guidelines, etc.) also must be given consideration.

- The applicability of attribution analysis or cashflow analysis should be limited to value-added work to benefit the regulator and the Appointed Actuary. It should also reflect the significant limitations that may exist to provide impacts associated with the assumptions of the reinsurer. Further, we support more robust requirements only for new reinsurance transactions so that the required information sharing can be included in such reinsurance arrangements.

Consideration 3 (More rigorous and/or more frequent analysis to the extent there are significant risks) –

ACLI Position: We agree that the degree of rigor should be proportional with the underlying risks of the transaction. We support a rigorous analysis when deemed appropriate by the Appointed Actuary and consistent with our proposed principles and guidance in the first year, followed by an ongoing and clearly defined monitoring process. We believe this should be sufficient to address many of the reinsurance arrangements on a going forward basis.

- The goal is to help regulators identify situations of risk. Regulators can request additional analysis once a treaty of concern is identified, so the degree of rigor can always be increased based on the domestic regulator's review of the Appointed Actuary's assessment.
- As discussed above, many reinsurance transactions are bespoke arrangements, and the underlying risks will be different. Application of appropriate principles will help provide consistency across state examinations and analyses.
- The framework should not punish jurisdictions because they are different from the US Statutory regime. It is important to encourage coordination and cooperation with non-U.S. regulators, such as through the Supervisory college and information-sharing agreements.

Consideration 4 (Analysis considerations) –

ACLI Position: Consistent with our prior responses, the analysis that is required to be performed should be proportional with the level of risk. The scope should be first addressed before the degree of analysis required is determined by regulators.

- We do not support requiring certification by the Appointed Actuary on the total reserve held, particularly if such certification requirement is imposed retroactively. It is unreasonable and outside actuarial professional requirements and the regulatorily mandated responsibilities of the Appointed Actuary to make a statement about reserves held by another company, including a reinsurer (or subsequent retroceding companies). This does not mitigate the Appointed Actuary's responsibility concerning the direct and assumed reserves of the cedant, only their ability to opine on another company's reserves.
- A reasonable alternative would be to require the Appointed Actuary to have available the analysis that supports their conclusions about the reinsurance reserve credit taken and the collectability of reinsurance cashflows under moderately adverse scenarios.
- The amount of reserves that a reinsurer holds for any one treaty may be misleading:
    - For reinsurers in foreign jurisdictions that have a reserve and capital framework that is different than the reserve and capital structure in the US, it may not be enough to simply look at the reserves held for the treaty. Prudence may be embedded in other elements of the framework, such as required capital.
    - Reinsurers with large blocks of offsetting risks might have benefits of diversification that would not be reflected in a stand-alone or treaty level analysis.

© 2024 National Association of Insurance Commissioners

- Attribution analysis should be broadly defined and should be sufficient in most cases. Any cashflow analysis or sensitivities performed should be for disclosure purposes only and only in an aggregated form.
- The Appointed Actuary should not be required to contemplate any additional asset adequacy reserves unless they believe that disruption of the level or timing of reinsurance cashflows is likely under moderately adverse conditions in line with current regulatory requirements. ACLI believes the template for attribution of reserve differences should be optional for companies to complete, particularly if companies have better disclosures and procedures for producing an attribution analysis. We also suggest that counterparty information be removed from the template and be structured to provide more flexibility. We have provided a modified version of the exposed template reflecting this approach as a separate document.

Consideration 5 (Aggregation considerations) –

ACLI Position: We oppose the creation of any new standards on aggregation of reinsured business. Any cashflow analysis conducted should be done on an aggregate basis consistent with how it is currently performed for the cedant, as risk is ultimately managed at the legal entity level as a whole rather than on an individual treaty or transaction level basis. More clearly put, if the reinsurer were to become insolvent and the ceding company were to recapture the ceded business (as is required under the reinsurance agreement), then the ceding company would re-aggregate the recaptured business with the rest of the ceding company's retained business.

- Sufficiency is determined in accordance with existing actuarial guidelines and requirements.
- Fundamental principles of insurance are based on risk aggregation; therefore, aggregation following sound actuarial guidance should be allowed based on the judgment of the Appointed Actuary.
- The aggregation proposed avoids issues of confusion in this framework, including definitions of block (e.g., LOB, treaty, reinsurance) and when aggregation is permissible.

Consideration 6 (Attribution analysis details) –

ACLI Position: Once the scope and materiality are determined by regulators, the NAIC should seek to leverage the existing work companies are performing when engaging in a transaction to help regulators and the Appointed Actuary determine what, if any, additional attribution analysis is appropriate. To the extent that any additional work is required, it should be focused on high-value work that will educate both the domestic regulator and the Appointed Actuary.

- The criteria associated with analysis should be informed by the nature of the transaction and availability of information – e.g., with an affiliate versus a third-party:
  - Differences in regulatory frameworks (i.e., market value/book value differences inclusive of IMR, other elements of conservatism in reserving for one framework versus another such as best estimate versus prescribed approaches, cash surrender value floors, etc.) should be considered.
  - To the extent data is available – impacts from changes in assumptions (insurance, investment, etc.) should be considered.
- This will need to be a best-efforts analysis; companies should use their own assumptions or the reinsurers' assumptions, if available.

Consideration 7 (Use of information already available) –

© 2024 National Association of Insurance Commissioners

ACLI Position: Any framework the NAIC develops should leverage information already available before determining what, if any, new requirements should be imposed.

- Insurers and regulators should be able to leverage attribution analysis developed as part of transaction review and approval for purposes of meeting a state regulator request. For example, the Bermuda Monetary Authority already requires such analysis for reinsurance transaction approval. Further, for affiliated transactions, analysis is already part of the domiciliary state regulator's up-front review of a transaction.
- Other existing information that should be leveraged includes:
  - Existing ERM frameworks (e.g., capital and liquidity stress testing and reporting);
  - ORSA filings where appropriate;
  - Cedant counterparty risk management framework/practices (e.g., proactive measures in place and preparedness for what recapture would entail/require if it were needed- i.e., looking beyond collectability of claim reimbursements);
  - Availability to discuss solvency concerns with the reinsurer's regulator and leverage their supervisory tools and filings, particularly if they are a Covered Agreement or Qualified Reciprocal Jurisdiction; and
  - Specific information about transactions and reinsurers, including risk mitigation activities, reinsurance in force, the design of the treaty, reserve credit, regulatory engagement during transaction approval and ongoing monitoring, etc.
- We also note that other jurisdictions require actuarial reports that might provide cedants and regulators with information similar to that which is available in a VM-30 report.
- Many of the questions raised in this exercise have been geared toward non-VM 30 reporting jurisdictions. Since Bermuda and certain other jurisdictions have been through the ReFAWG process to achieve reciprocal jurisdiction status, there should be work that is leverageable to gain comfort with the jurisdictions' reserving methodology and capitalization framework.

Consideration 8 (Timing of development and implementation of requirements) –

ACLI Position: Several items need to be resolved before discussing timing of requirements, including the scope and the degree of effort required by the framework. Regardless of these determinations, we do not think it will be appropriate to impose the same requirements on existing transactions as new ones, given information that may be needed to perform analysis on older transactions will likely be difficult to obtain.

- The process needs to be deliberate and give regulators and companies time to learn before considering new requirements.
- We support the idea of a YE 2024 field test on current year transactions to start the education process.
- We appreciate regulators' willingness to provide flexibility as part of this analysis in the first few years so we can strike the right balance of analysis based on transaction risk.
- We believe implementation of a more permanent solution for transactions on or after 1/1/2026 is feasible. Possible broad application to inforce transactions could create significant implementation challenges for companies.

Thank you once again for the consideration of our feedback and ACLI looks forward to continued work on this project throughout the rest of this year and beyond.

© 2024 National Association of Insurance Commissioners

Sincerely,



cc: Scott O'Neal, NAIC

Appendix A: ACLI Proposal for Guidance and Considerations on Framework Tiers:

Guidance for no additional disclosure beyond existing requirements (including ASOP 11), attribution analysis, cash-flow testing –

- None (no additional disclosure):
  - Reinsurance arrangements where reinsurer submits a VM-30 Report; or
  - Reinsurance arrangements below the minimum materiality threshold determined by the Appointed Actuary; or
  - Reinsurance arrangements where base statutory reserves and collateral held (including those held as funds withheld, ModCo, collateral such as comfort trusts, LLCs, LOCs, reinsurance trusts) are at least as great as the levels required in the US; or
  - Risks transferred are limited to mortality and/or morbidity (such as YRT); or
  - Reinsurance arrangements with limited credit and disintermediation risk as defined in NAIC Model #791 Section 2.F.
- Medium (attribution analysis):
  - Consideration only applies to reinsurance transactions excluded from the "None" category; and
  - "Asset intensive business" (as defined by requirements) with sufficient documentation on Appointed Actuary conclusions about the NAIC risk transfer requirements.
- High (cashflow analysis conducted on an aggregate basis, consistent with how it is currently performed for the cedant, as a disclosure/sensitivity only)
  - Consideration only applies to reinsurance transactions excluded from the "None" category; and either or both of:
  - "Asset intensive business" without sufficient documentation on Appointed Actuary conclusions about the NAIC risk transfer requirements or as determined by domestic regulator after submission; or
  - Reserves held by the reinsurer for a particular transaction are at least 25% lower than the reserve held prior to reinsurance.

Possible Principles/Consideration for Appointed Actuary to Assess Thresholds:

- Collective consideration of:
  - Nature of transaction (affiliate vs. third-party);
  - Jurisdiction of the counterparty (Covered Agreement, Qualified/Reciprocal Jurisdiction); and
  - Domicile regulator engagement during approval and post-approval (including Supervisory college considerations).
- Design of the treaty including:
  - Financial strength provisions;
  - Over collateralization;
  - Strong investment guidelines/strategies; and
  - Other protections: such as retaining assets on balance sheet via modified coinsurance, collateral trusts, letters of credit, or funds withheld.
- For the cedant:
  - Materiality via the size and impact of a transaction;
  - Existing ERM cashflow projections;
  - Reinsurance amount in force to a single counterparty; and
  - Reserve credit

© 2024 National Association of Insurance Commissioners

- For the counterparty:
  - Regulatorily required and internal risk mitigation activities (insolvency considerations; disclosure requirements; relationship management; risk diversification; etc.);
  - Credit quality;
  - Risk management framework/practices;
  - Reinsurance collectability (consideration of protections such as trusts, agreed upon investment guidelines, etc.);
  - Lack of data related to the transactions (assumptions, underlying assets, etc.);
  - The availability of a report sent to the reinsurer domestic regulator on the sufficiency of assets/reserves and capital; and
  - The availability of other documentation related to reinsurer that the Appointed Actuary can use in their assessment.

© 2024 National Association of Insurance Commissioners

Mathematical Finance Company
QTSM CIR Green's Function Multifactor CIR and Affine Options SIRP ESG RS-ESG DMRP RS-DMRP

July 19, 2024

Honorable Rachel Hemphill
Chair, Life Actuarial (A) Task Force (LATF)
Re: Reinsurance Asset Adequacy Testing Concepts Exposure.

Dear Ms. Rachel Hemphill,

Please accept this comment on the exposure for Reinsurance Asset Adequacy Testing Concepts. Many countries in the developing and emerging markets use capital flow management measures (CFMs) and macroprudential rules with the IMF's support that can limit capital outflows during a crisis.

Offshore reinsurance from developing and emerging markets requires asking bank regulators for a special rule that reinsurance avoid capital control measures during a crisis. Asking bank regulators in advance to approve a special rule for offshore reinsurance brings up all the reasons that they shouldn't. Loosely regulated tax havens should not be the locus of capital for stopping a financial crisis. They are sources of systemic risk not mitigators and reducers of systemic risk.

Bank regulators would not allow the nexus of risk control and offsets for the international swap and derivatives market to relocate to loosely regulated offshore tax havens. If asked to approve a special capital outflow rule for reinsurance they would point out to insurance regulators they should not be building their risk control house on sand. Offshore tax havens on islands are subject to risk of large storms from climate change harming their water supply and make no sense as the location of risk control for reinsurance.

Offshore reinsurers are not missionaries for managing mortality risk inside the US. What they do is take risky asset bets with the riskiest tranches of complex bond derivative structures that create systemic risk for US regulators. This is the reversal of the intent of Dodd Frank. The large insurers were able to get out of Dodd Frank by claiming they were not a nexus of systemic risk. Offshore reinsurance by large companies used to avoid capital risk regulations is creating systemic risk on purpose. They are thus not just failing to cooperate with Dodd Frank but are creating an anti-Dodd Frankenstein in loosely regulated offshore tax havens.

An offshore reinsurance failure in Latin America of 50 billion dollars or more would be a major failure for Latin America. This would damage the credibility of Latin American regulators and of the Inter-American Development Bank (IADB) and IMF and World Bank to manage capital risk in Latin America. The IADB and IMF need to find a way to transfer 400 billion to 1.1 trillion dollars of capital a year to Latin America for climate mitigation. A reinsurance failure in Latin America would disrupt this effort. Reinsurers are supposed to be helping climate mitigation not disrupting the capital flows and regulator credibility needed to make it work. Every discussion of offshore reinsurance shows the problem is getting bigger from the last time. This is true whether it is LATF discussing it, or hearings by Sherrod Brown or others in Congress.

It is recommended that the NAIC end offshore reinsurance except from highly developed regulated countries that are fully staffed to regulate reinsurance treaties and have capital, tax and investment rules with similar financial results for reinsurers as staying in the US. Also, that the total volume and complexity of all offshore reinsurance be regularly monitored as a source of systemic risk. This should then be combined with swap and derivative risk as well as complex bond instruments for a total called "Difficult to manage, mitigate, hedge, calculate or understand risk that is large in size". This is a definition of systemic risk. That is precisely what the large insurers claimed they were not a source of or contributor to in order to get out of Dodd Frank.

Sincerely yours,

Mark S. Tenney

618 Trailhead Road, Monument, CO 80132
(703) 474 0551 • marktenneymfc@gmail.com • mfcesg.com

© 2024 National Association of Insurance Commissioners

PETER GOULD

July 19, 2024

Life Actuarial (A) Task Force
NAIC

Re: Reinsurance Asset Adequacy Testing Concepts - https://content.naic.org/sites/default/files/inline-files/Reinsurance%20AAT%20LATF%20062024%20%281%29.pdf

Dear Members of the LATF:

I am a retiree and am writing to comment as a consumer and annuity contract owner with skin in the game. My wife and I depend on Guaranteed Lifetime Withdrawal Benefits from Roth IRA variable annuities for a considerable portion of our retirement income. We did not purchase annuities as speculative investments.

As an annuity owner, the insurer's obligations to me are spelled out in my contracts. However, there are no provisions in my contracts that protect me or provide me rights to prevent my insurer from becoming insolvent or unable to meet their contractual obligations to me. **Consumers rely entirely on state regulators** to adopt and enforce regulations that **proactively and effectively** prevent: impairment of insurers' solvency, inability of insurers to honor their contractual obligations to policyowners and failures of insurers.

Reinsurance and asset adequacy is not a new problem. In the press release announcing their 2012 report on Shadow Insurance, the New York State Department of Financial Services stated: (see https://www.dfs.ny.gov/reports_and_publications/press_releases/pr1305211)

> *In July 2012, the New York State Department of Financial Services initiated a serious investigation into this somewhat obscure area that – we believe – could put insurance policyholders and taxpayers at greater risk.*
>
> *"Insurance companies use these captives to shift blocks of insurance policy claims to special entities – often in states outside where the companies are based, or else offshore (e.g., the Cayman Islands) – in order to take advantage of looser reserve and oversight requirements. (Reserves are funds that insurers set aside to pay policyholder claims.)*
>
> *"In a typical transaction, an insurance company creates a "captive" insurance subsidiary, which is essentially a shell company owned by the insurer's parent. The company then "reinsures" a block of existing policy claims through the shell company – and diverts the reserves that it had previously set aside to pay policyholders to other purposes, since the reserve requirements for the captive shell company are typically lower. (Sometimes the parent company even effectively pays a commission to itself from the shell company when the transaction is complete.)*

P.O. Box 8815 Bloomington, IN 47407-8815

© 2024 National Association of Insurance Commissioners

"However, this financial alchemy, let's call it 'shadow insurance,' does not actually transfer the risk for those insurance policies off the parent company's books, because in many instances, the parent company is ultimately still on the hook for paying claims if the shell company's weaker reserves are exhausted ("a parental guarantee").

"That means that when the time finally comes for a policyholder to collect their promised benefits after years of paying premiums – such as when there is a death in their family – there is a smaller reserve buffer available at the insurance company to ensure that the policyholders receive the benefits to which they are legally entitled.

"We believe that shadow insurance also puts the stability of the broader financial system at greater risk. Indeed, in a number of ways, shadow insurance is reminiscent of certain practices used in the run-up to the financial crisis, such as issuing subprime mortgage-backed securities (MBS) through structured investment vehicles ("SIVs") and writing credit default swaps on higher-risk MBS. Those practices were used to water down capital buffers, as well as temporarily boost quarterly profits and stock prices at numerous financial institutions. And ultimately, those practices left those very same companies on the hook for hundreds of billions of dollars in losses from risks hidden in the shadows, and led to a multi-trillion dollar taxpayer bailout.

"Similarly, shadow insurance could leave insurance companies less able to deal with losses. The events at AIG's Financial Products unit in the lead up to the financial crisis demonstrate that regulators must remain vigilant about potential threats lurking in unexpected business lines and at more weakly capitalized subsidiaries within a holding company system.

"We are hard at work on our continuing investigation into shadow insurance. And we hope to shed light on and further stimulate a national debate on this important issue to our financial system."

As reported at the time (see https://www.thinkadvisor.com/2013/06/12/new-york-eyes-probe-of-captives/), Benjamin Lawsky (then Superintendent of NYDFS) said "The Federal Insurance Office, the Office of Financial Research, the National Association of Insurance Commissioners, and other state insurance commissioners should conduct investigations similar to DFS's to document a more complete picture of the full extent of shadow insurance written nationwide."

As reported, at a Federal Advisory Committee on Insurance meeting, FIO director Michael McRaith called for a task force operating out of the FACI to look into the issue. In response, Ben Nelson, NAIC CEO, told McRaith to "stay in its lane," and Connecticut insurance commissioner Tom Leonardi said that McRaith and the FIO through its probe were unnecessarily overlapping state turf.

Peter Gould

© 2024 National Association of Insurance Commissioners

Over a decade later, the problems outlined in the NYDFS report have borne fruit - PHL Variable Life, Columbian Mutual, 777 Re and the list goes on. The failure of regulators to effectively regulate and enforce reinsurance manipulation, has resulted in millions of policy owners facing uncertainty over their financial well-being - the very opposite of the reason for which they purchased the policies in the first place.

I would hope that after the afore-mentioned failures, state regulators and NAIC will not be distracted by preserving turf and focus solely on their rai·son d'ê·tre - protecting consumers.

I respectfully submit the following comments on the exposure draft of Reinsurance Asset Adequacy Testing Concepts:

1. Time is of the essence - given the recent proliferation of actions to place insurers in rehabilitation, many of which are the result of reinsurance problems, these regulations need to be issued ASAP. To facilitate rapid deployment, I'd suggest that NAIC staff begin **now** to test the reporting proposals (NAIC proposal, as well as alternate approaches to cash flow testing as suggested by stakeholders) on insurers currently or previously in rehabilitation and/or liquidation. Since the purpose of these proposed changes is to prevent insurer impairment and failure, it's important that they be effective predictors of problems, that allow time for correction before insurer failure..

   For example, if you apply the proposed methodology to PHL Variable Life, at what point would the reinsurer data be predictive of the decline in RBC ratio from 268% (at the end of 2022) to NEGATIVE 847% (at the end of 2023). If the data is not predictive or not predictive in time for regulator action to prevent failure, what would be needed to make it predictive to prevent insurer failure?

2. Improve analysis - utilize holistic analysis - so that reinsurance data is analyzed in conjunction with other regularly reported information (or with additional data that will need to be required), rather than as a stand-alone measure.

   Utilize analysis over time (5 or 10 year lookback) to spot trends in the components (types and quality of assets, reinsurance arrangements, premium revenue by product, etc.). This analysis would highlight unexpected trends that could compromise solvency. For example, "hot products" where increases in sales are greater than industry averages for that type of product or improvements in surplus that exceed industry averages. These results should trigger a quick and deep examination of the insurer, as they are predictive of manipulations that lead to financial deterioration.

   Using a macro analysis lens, examine concentration risks of reinsurers. To do so, you will need the company-level data to see who's ceding to who, how and why. This might shine a light on a "hot" reinsurer whose business growth is abnormally greater than the industry average.

Peter Gould

© 2024 National Association of Insurance Commissioners

3. Require additional data to effectively regulate and enforce - all data is warehoused electronically. If you need more detailed or better data for analysis, mandate it and don't be cowered by whining of industry trade groups. Without timely data, it's impossible for you to regulate and enforce to protect consumers.

4. Add transparency - the insurance industry embraces opacity, it's impossible for consumers and insurance professionals to accurately assess financial strength and actual claims-paying abilities. You should assume that policy owners are "orphans" - without benefit of a knowledgeable agent.

   For most consumers, the purchase of a life insurance policy or an annuity is a one-time exercise. The purchase is made to protect the consumer from a financial risk (death, longevity, etc.) and once the purchase is made, it is not often revisited. Someone who purchased an Executive Life policy in 1986 would have been assured by company's S&P rating of AAA - with no clue that the company would fail 5 years later. Due to changes in an insured's health and age, market conditions and product offerings over time, years in the future a consumer may be unable to duplicate or even secure comparable coverage from another insurer. For a consumer with a failed insurer, this is a financial disaster.

   In shopping for a product, an informed insurance consumer might look to the rating agencies (AM Best, Fitch, etc.) for assurance that an insurer is financially strong and will be there to honor contractual obligations. Most consumers and many insurance "professionals" do not understand that the agency ratings are based on the aggregate (holding company level) and that only the company named in the policy document is responsible for meeting the contractual obligations and paying claims on the consumer's policy.

   To counteract the industry's opacity, a consumer or insurance professional should be able to **easily** access information about their insurer's asset adequacy, including reinsurance information. All statutory reports should be posted on the NAIC website along with a consumer guide to help them understand the statements and find information (like reinsurance data) that they're looking for.

5. Materiality threshold - given the rise in insurer failures due to reinsurance manipulations, until regulators have a good understanding of the problem and sufficient data to document the extent of the problem, free passes for no additional disclosure, should not be awarded. Without good and complete data, you're regulating with blinders on. All of the data is there, don't be fooled by the whining.

Peter Gould

© 2024 National Association of Insurance Commissioners

6. Appointed Actuary's Statement - that the total reserve amount held being a reasonable estimate of liabilities under moderately adverse conditions.

   This should be required annually as part of the insurer's annual sworn statement.

   Aggregation should not be permitted, since aggregation does not improve a consumer's ability to enforce their insurer to honor its contractual obligations or pay claims. Consider the PHL policy owners - they're guaranteed a haircut - make that a buzz-cut. Yet when PHL was aggregated with Nassau, who would've thunk it?

   The Appointed Actuary should have skin in the game - financial responsibility, fines and prohibition from serving US insurers or their offshore counterparts would be great tools to achieve this.

Thanks for your consideration of my comments and the work that you do to protect consumers.

Yours truly,

Peter Gould

© 2024 National Association of Insurance Commissioners







Rachel Hemphill, Chair
Fred Andersen
Life Actuarial Task Force
c/o Scott O'Neal, soneal@naic.org

July 19, 2024

RE: Asset Adequacy Testing for Reinsurance

Dear Rachel and Fred,

Swiss Re, Hannover Re, and the Reinsurance Association of America (RAA) appreciate the opportunity to provide input on the Life Actuarial Task Force's (LATF) Reinsurance Asset Adequacy Testing (AAT) Concepts and Reinsurance AAT Attribution Analysis exposures. The cosigners of this letter represent some of the largest life and property-casualty reinsurers in the world. We provide reinsurance capacity that is vital to the basic mission of insurance regulation, protection of policyholders by assuring the solvency of insurers and facilitating a competitive marketplace.

We appreciate LATF's ongoing consideration of industry input, and we remain committed to providing LATF feedback on its efforts. To that end, you can find our previous comment letter attached as Appendix 1. As we stated in our prior letter, we respectfully urge the NAIC to ensure its various working groups coordinate and include the Reinsurance (E) Task Force in reinsurance-related discussions at the outset. Including reinsurance regulatory experts from the inception of proposals will avoid duplication of existing regulatory requirements and is more likely to achieve the intended result without discouraging or limiting the benefits that result from the appropriate use of reinsurance.

We continue to be concerned that LATF's current proposals would create unnecessary obstacles which will negatively impact the insurance marketplace without addressing regulators' fundamental concern with the lack of transparency in large, offshore or “third country” reinsurance transactions.

As an alternative, we agree with the other commenters, such as the American Academy of Actuaries and the American Council of Life Insurers, that an enhanced disclosure-based approach by the Appointed Actuary as part of the Actuarial Opinion would increase transparency and advance consistency regarding where existing safeguards exist.

Collectability is at the Core of Regulators' Concerns

In its AAT Concepts exposure, LATF postulates that the issue with asset intensive offshore reinsurance goes "beyond" the need for a rigorous collectability assessment and is one that also needs to focus on reserving levels. We respectfully disagree and submit that the issue

© 2024 National Association of Insurance Commissioners

is one of collectability of such reinsurance and not the investment or reserving rules of the country where the reinsurer is domiciled. While the level of reserves determined under a cashflow testing approach or reserve attribution approach can provide insight into the cedant's exposure to collectability risk, such efforts do not accurately assess the true measure of the reinsurer's ability to pay, because they do not evaluate the overall financial strength or solvency of the reinsurer.

Ceding companies that are party to reinsurance transactions already manage collectability risks using multiple safeguards including, but not limited to, trusts, investment policy restrictions, funds withheld arrangements, counterparty evaluation and ongoing monitoring, and recapture provisions. Management of reinsurance counterparty risk is disclosed within the ORSA filing. Currently, the ceding company's Appointed Actuary is required to consider such factors when performing any AAT and in providing the Actuarial Opinion.

We note that U.S. regulators already have multiple tools at their disposal to safeguard policyholders and provide transparency with respect to reinsurance transactions. For example, the use of captives has been addressed by the NAIC with the implementation of AG 48 and primary security requirements. Further, the domestic state regulator of a ceding company can adjudge the appropriateness of the reserve credits taken by the ceding company and can intervene and may reject or at least modify offshore reinsurance agreements that they find to be questionable. While this is true for any reinsurance transaction, to the extent affiliate reinsurance is involved, transparency and security are further enhanced by Form D requirements that require the domestic regulator's approval of the transaction.

Importantly, performing stand-alone AAT and attribution analysis of reinsured blocks in isolation does not ensure policyholder protection and may lead to false levels of comfort or unnecessary worry, and thus are inefficient methods to address the concerns regulators may have relating to offshore asset intensive reinsurance. These methods may require ceding companies, who often do not have access to a reinsurer's asset portfolio or policyholder behavior and reinvestment assumptions, to make hypothetical assumptions which produce results that may not be credible. Additionally, these methods ignore any factors beyond the ceded block's assets and reserves that support the reinsurer's ability to meet its obligations.

Focusing on standalone AAT, a well reserved cession from a strong company to a poorly capitalized reinsurer would not raise any concern despite increasing risk to the underlying policyholders. We further believe that imposing such a requirement would significantly increase the operational burden on companies without providing a commensurate benefit. Approaches that comprehensively assess a reinsurer's financial soundness such as reinsurance recovery analysis being performed in some European countries or Mr.

© 2024 National Association of Insurance Commissioners

Routhenstein's May 17 alternative disclosure-based approach would be more effective at addressing the issue.

LATF's Efforts Fundamentally Contradict the Covered Agreement

The US-EU Covered Agreement, US-UK Covered Agreement, and reciprocal jurisdiction reinsurer frameworks established in US state credit for reinsurance laws would be contradicted by the LATF proposal. Article 3 of the US – EU Covered Agreement and the US-UK Covered Agreement provides in pertinent part as follows (emphasis added):

1. A Party shall not, and shall ensure that its supervisory authorities or any other competent authorities do not, as a condition to allow an assuming reinsurer which has its head office or is domiciled in the territory of the other Party to enter into a reinsurance agreement with a ceding insurer which has its head office or is domiciled in its territory:

   (a) *Maintain or adopt any requirement to post collateral in connection with cessions from a Host Party Ceding Insure*r to a Home Party Assuming Reinsurer and any related reporting requirements attributable to such removed collateral; or

   (b) *Maintain or adopt any new requirements with substantially the same regulatory impact on the Home Part Assuming Reinsurer* as collateral requirements removed under this Agreement or any reporting requirement attributable to such removed collateral.

We believe that the LATF proposal needs to be evaluated to determine if it would amount to a new requirement with the same regulatory impact on the Home Party Assuming Reinsurer as collateral requirements or any reporting requirements attributable to such removed collateral.

The NAIC reviews non-US regulatory regimes and only accepts those for collateral reduction whose rules prevent unreasonably low reserving levels through its Process for Evaluating Qualified and Reciprocal Jurisdictions. Where jurisdictions have been determined to not require appropriate reserving levels, the NAIC has the authority to remove the regime's Qualified or Reciprocal Jurisdiction status through its ongoing review process.

To recognize such jurisdictions would run contrary to the rule and spirit of the Covered Agreements and LATF's stated goal of not conflicting with the treatment of Reciprocal Jurisdictions. In other instances, regimes not determined to be qualified or reciprocal jurisdictions or not subject to a Covered Agreement would require collateral equal to the full U.S. statutory reserve to be posted and should not be a concern for regulators.

© 2024 National Association of Insurance Commissioners

If the NAIC has concerns with transparency for certain offshore reinsurance transactions, specifically the adequacy of jurisdictional reserving requirements, we would ask that the NAIC first engage in dialogue with that jurisdiction's regulatory body to address these concerns. Should any concerns remain, we would recommend that the NAIC utilize its existing tools to analyze such regimes.

The Reserve Attribution Needs Additional Work

We appreciate LATF's work in creating the Reinsurance AAT Attribution Analysis worksheet (Worksheet) but note the following concerns with it:

- While attribution analysis may serve to provide regulators insight into the sources of reserving differences across different regimes, no amount of attribution analysis will increase policyholder protection.

- The worksheet assumes that the level of reserves held by the reinsurer is available to the cedent. For many transactions (other than potentially for affiliated transactions) this may not be the case. Further, in some cases the reinsurer may not calculate reserves at the individual treaty or cedent level. Additionally, the attribution worksheet does not account for the jurisdictional differences in accounting treatment.

Should regulators want to understand the differences between accounting or other treatments between the US and a Qualified or Reciprocal Jurisdiction, we recommend utilizing existing tools such as those identified earlier in this letter. We believe these tools provide regulators with the transparency they seek without creating an additional worksheet.

Conclusion

We urge a solution that effectively addresses the concerns identified by regulators, ensuring the collectability of reinsurance. This is a counterparty exposure management issue that is more effectively addressed through existing regulatory requirements and enhanced disclosure to regulators and not an issue of reserve adequacy for insurance risks.

To implement regulatory changes that look elsewhere risks the loss of needed reinsurance protection and the resulting opportunity to close the protection gap. Adding regulations that create friction and costs may discourage effective risk management through reinsurance without commensurate benefits. Proposals such as the AAT Concepts and Attribution Analysis exposures are overbroad, discourage the effective use of reinsurance, diminish opportunities to close the protection gap, and risk violating the exiting regulatory structures currently in place.

© 2024 National Association of Insurance Commissioners

We urge LATF to consider its proposal further given the potential consequences of getting this wrong. Particularly, as addressing the issue of what are termed "structural changes in the life insurance industry" is emerging as a global concern. We suggest that the AAT proposal will not be an answer to this concern. Perhaps working at this through a consideration of the resolution authority approach that some regulatory regimes look to require from ceding insurers might be a more fitting, tailored solution that does not discourage reinsurance or the closing of the protection gap. There must be other, more tailored approaches as well worth exploring.

We stand ready to work to find an appropriate solution that addresses the problem without so severely disincentivizing the deployment of reinsurance capacity.

Sincerely,

Karalee Morell
SVP and General Counsel
RAA

Matt Wulf
SVP and Head, Governmental Affairs
Swiss Re

Steve Najjar
EVP and General Counsel
Hannover Re

© 2024 National Association of Insurance Commissioners







Appendix 1

© 2024 National Association of Insurance Commissioners

Swiss Re

REINSURANCE ASSOCIATION OF AMERICA

May 30, 2024

Rachel Hemphill
Chair, Life Actuarial Task Force
c/o Scott O'Neal, soneal@naic.org

RE: Asset Adequacy Testing for Reinsurance

Dear Rachel,

Swiss Re and the Reinsurance Association of America (RAA) appreciate the opportunity to provide input on the Life Actuarial Task Force's Asset Adequacy Testing for Reinsurance Ceded by Life Insurers exposure. Swiss Re and the RAA represent the largest life and property-casualty reinsurers in the world. We provide reinsurance capacity that is vital to the basic mission of insurance regulation, assuring the solvency of insurers and promoting competition.

We note that LATF's efforts follow the Macroprudential Working Group's adoption of its Reinsurance Worksheet last year. Before delving into our formal comments, we respectfully request that the NAIC ensure its various working groups work together when crafting reinsurance proposals, and specifically include the Reinsurance (E) Task Force in discussions at the outset. Including reinsurance regulatory experts from the inception of proposals, we believe, will avoid duplication of any existing regulatory requirements.

Introduction

In its public remarks and the relevant exposed materials, LATF members have signaled a desire to glean additional transparency on reinsurance transactions. While we understand the regulators desire for additional transparency, we do believe many of the proposals being floated undermine the basic value proposition of reinsurance; making selling affordable insurance significantly more difficult for ceding companies. Reinsurance encourages the provision of affordable insurance, and the provision of risk-spreading and support services by reinsurers leads to more insurance.

Discouraging reinsurance reduces the benefits that otherwise are provided and thus poses to continue, if not expand, the global insurance protection gap. It is against this consideration that measures aimed at additional regulation on reinsurance must be considered. The expansion of offshore reinsurance, and in particular reinsurance of so called “asset-intensive reinsurance transactions,” should not be curbed unless done to address clearly identified threats to consumers.

© 2024 National Association of Insurance Commissioners

Swiss Re

REINSURANCE ASSOCIATION OF AMERICA

LATF's Proposal Creates Unnecessary Friction

Reinsurance provides essential capacity to ceding companies and promotes competition in insurance markets. The current LATF proposal would set up unnecessary obstacles which will negatively impact the insurance marketplace without addressing the fundamental threat that is perceived to exist as the result of large, offshore or "third country" reinsurance transactions.

The perceived threat is that substantial amounts of reinsurance may become uncollectable by US domestic insurers. We respectfully submit that the issue is one of credit quality and the collectability of such reinsurance, not the investment or reserving rules of the country where the reinsurer is domiciled.

As reinsurers and other industry participants have voiced throughout this process, we believe there are existing safeguards in place for reinsurance transactions that will provide regulators the necessary transparency they seek and ceding companies the necessary warning systems to identify concerns. In instances where companies utilize reinsurance to exit a line or block of business, there are multiple safeguards including trusts, investment policy restrictions, and funds withheld arrangements, among others to provide the necessary level of policyholder protection. Likewise, the use of captives has been addressed by the NAIC with the implementation of AG 48 and primary security requirements.

The domestic state regulator of a ceding company adjudges the appropriateness of the reserve credits taken by the ceding company and can reject or at least modify offshore reinsurance agreements that they find to be questionable in nature. Such credits are also opined upon by the ceding company's Appointed Actuary (AA). These regulatory and internal insurer safeguards concerning reinsurance make an insurer stronger, not weaker.

The Imposition of the AAT Would Run Contrary to the US's Place in the Global Regulatory Scheme

In the exposed PowerPoint presentation, we were confused by the listed example on page six of cessions of asset intensive reinsurance to offshore or special purpose reinsurers. In the listed example, the NAIC is making note of the possibility of an offshore/captive holding capital & reserves that are below the best estimate valuation of a reinsurance block. If there is a local statutory reserving regime that universally accepts such a position (in which local reserves are less than a best estimate), then in such a position we would grant that those local reserves are too low. However, we would submit that it would be easier for a state regulator to deny reserve credit to such an entity/regime that allows for such artificially low local statutory reserves.

© 2024 National Association of Insurance Commissioners





In contrast, the NAIC reviews such local regimes and only accepts those for collateral reduction whose rules prevent such low reserving levels. We submit that jurisdictions that do not require appropriate reserving levels would simply not be labeled qualified jurisdictions. To recognize such jurisdictions as qualified would run contrary to the rule and spirit of covered agreements and the LATF's stated goal of not conflicting the treatment of reciprocal jurisdictions.

The Provided Methodology is Flawed

On asset adequacy testing (AAT) methodology, other than policyholder dividends on participating business, it is uncommon for AA's to model statutory dividends as doing so would require the AA to fully distribute earnings perspective which includes required capital – prohibited in AAA/AAT work.

Thus the "surety" that the AA would assess from an AAT approach on these reserves ignores the reality of legal entity capital management and incorrectly assumes unlimited retained earnings perspective. The AA should determine the appropriate methodology and document in the Actuarial Memorandum the rationale for the choice and this should not be prescriptive.

The Approach That Fits the Global Regulatory Scheme and Promotes Reinsurance

The recommended approach is to find a solution that addresses credit quality and assures collectability of reinsurance. This is a matter of promoting counterparty credit risk management. The issue is the collectability of reinsurance. Assuring the collectability of reinsurance involves the assessment of the counterparty and its ability to make good on its obligations. Such an assessment should be made based upon the individual facts of the credit worthiness of the reinsurer and the exposure the ceding insurer has to the reinsurer.

In conclusion, we urge a solution to this problem that addresses the problem that has been identified; assuring the collectability of reinsurance. We insist that this is a counterparty exposure management issue and not an issue of reserving for insurance risks. To devise a solution for this problem that looks elsewhere risks the loss of needed reinsurance protection and the resulting opportunity to close the protection gap. Proposals such as the AAT are overbroad, discourage needed reinsurance, harm the insurance market and even run contrary to the US's scheme of insurance regulation as concerning the covered agreement and credit for reinsurance structures now in place.
tes
We stand ready to work to find an appropriate solution that addresses the problem without so severely disincentivizing the formation of reinsurance capacity.

© 2024 National Association of Insurance Commissioners

We again thank you for the opportunity to comment and stand ready to assist LATF and the NAIC as it continues its work on these critical issues.

Sincerely,

Matt Wulf
SVP and Head, Governmental Affairs
Swiss Re

Kara Morell
SVP and General Counsel
RAA

Memo

To: Rachel Hemphill, FSA, MAAA, FCAS, Life Actuarial Task Force

From: Patricia Matson, FSA, MAAA, Partner, RRC

Date: July 18, 2024

Subject: RRC Comments Regarding LATF's June 20th AAT Reinsurance Exposure

Background

The Life Actuarial Task Force (LATF) is requesting comments on the AAT Reinsurance Exposures (one on AAT concepts and one on AAT attribution) that were released on June 20, 2024.

RRC appreciates the opportunity to offer our comments. Should you have any questions, we would be glad to discuss our comments with you and Task Force members.

We appreciate the work LATF has undertaken to address what we believe is a critical industry issue, namely the significant use of reinsurance, including offshore reinsurance, to provide US insurers with material reserve and capital relief.

RRC has assisted regulators in reviewing a variety of reinsurance transactions that result in material reductions in the total asset requirement (TAR) backing the policyholder obligations. We understand that while these transactions are executed for a variety of appropriate business and financial strategies, we also believe that in some cases they can result in reserves or capital that are reduced to a level that raises questions about their appropriateness from a policyholder protection perspective. Below we outline our suggestions as they relate to each item in the exposure drafts. We have also included commentary regarding disadvantages associated with certain alternative approaches that have been discussed in the industry.

RRC Comments on AAT Concepts

Need for Review Beyond Counterparty Risk/Collectability

We do not believe that review of counterparty risk/collectability alone is sufficient to address concerns regarding material reductions in TAR. The Appointed Actuary is already required to evaluate counterparty risk per the requirements of actuarial standards of practice (both ASOP 22 and ASOP 11), and that would continue. However, review of counterparty risk alone would not address situations in which a company cedes a large proportion of its reserves to a strong counterparty that suffers a subsequent material decline in the counterparty's financial resources, resulting in the ceding company needing to recapture the business with insufficient assets available to cover TAR. In addition, if a lot of reinsured business is concentrated in a small number of reinsurers, insolvency of one or more of those reinsurers could lead to systemic risk. In light of the increasing trend to move economically sensitive business offshore, the industry could face a situation similar to the current long term care crisis, i.e., without sufficient total assets available to pay policyholder claims. We support requirements for the Appointed Actuary to directly assess the adequacy of the invested assets backing the ceded reserves.

© 2024 National Association of Insurance Commissioners

Materiality

We are in favor of exempting treaties that do not have a material impact on the cedant's financial statements. For example, ceded reserves below some percentage of surplus, such as 5%, could be exempted from a cash flow testing requirement. We also suggest including guidance for situations in which there are multiple similar treaties that are below the materiality threshold that, when combined, exceed materiality to avoid potential "gaming" of the materiality threshold.

In our experience, the types of treaties that give risk to material TAR reductions are coinsurance or variations thereof (such as modified coinsurance). Therefore, we believe that non-proportional treaties, such as yearly renewable term or excess of loss, could potentially be excluded.

We are not in favor of a more "generous" requirement in the first year, since we believe this may result in a "race" to get treaties in place before the tougher requirements are implemented. As a possible alternative, we would suggest including some sort of exemption or limited requirements that could be followed in the event that the new requirements are viewed as onerous for existing treaties only, and only if approved by the domiciliary regulator.

Risk-Based Rigor and Frequency

We believe that adjusting the degree of rigor based on the degree of risk is reasonable. Regarding the specific scenarios outlined in the exposure, we have the following comments:

1. We agree that more rigor may be needed if the assuming company does not provide a VM-30 memorandum to their regulator
2. We agree that more rigor may be needed if there is a significant reserve decrease, and would also suggest that this criteria be applied both at the time of the transaction as well as prospectively, to avoid a situation in which reserves are maintained to avoid the additional analysis and subsequently released
3. We agree that more rigor may be needed if there is a significant collectability risk associated with the reinsurer, and would also suggest that this criteria be applied prospectively since the collectability risk may increase over time. Collectability risk should also be based on robust analysis, and not just a review of credit rating.
4. We agree that more rigor may be needed if assets are not held in trust or a funds withheld account. However, this should be considered in conjunction with item 2 above. If there is a trust or funds withheld, but the reserve decrease is significant, more rigor may still be appropriate.
5. We suggest applying the requirements to both affiliated and non-affiliated reinsurers.

While we agree that aggressive assumptions used by the reinsurer are concerning, this may not be a practical criterion for determining degree of rigor since it is subjective, and if the cedant's appointed actuary (AA) is not already required to perform an assessment of the adequacy of the invested assets (i.e. the AA is simply assessing counterparty risk), it may be hard to determine whether assumptions are aggressive. Review of the assumptions used would be something the AA and US regulator could do once a requirement to perform testing of the invested assets for adequacy is in place. If the AA determines the reinsurer's assumptions are aggressive, the AA could use more moderate assumptions in their own assessment of adequacy.

© 2024 National Association of Insurance Commissioners

Analysis Considerations

We suggest requiring cash flow testing (CFT) under the following criteria:

1. The reinsurance agreement (or combination of similar agreements) has a material impact on the cedant's balance sheet.
2. The reinsurance agreement transfers investment risk to the reinsurer, so for example coinsurance, modified coinsurance, and coinsurance with funds withheld. If the agreement does not transfer investment risk, then CFT of the reinsured business may not be necessary.
3. The reinsurer is not already subject to VM-30 (since in such cases, material reductions in TAR are less likely and the reinsurer is likely already performing CFT on the reinsured business).
4. Alternatives could be allowed, subject to regulatory approval, for treaties that were already inforce at the time of adoption of a CFT standard if there are significant data availability issues. We note that most treaties include provisions allowing for changes due to changes in law, and therefore it seems that most companies could therefore obtain necessary data to perform cash flow testing. However, we recognize this may not always be the case, and therefore some allowance for an exemption may be needed.

In the case of business for which cash flows do not vary under different economic scenarios, we do not believe that cash flow testing should be mandated. If significant TAR reductions are occurring for any such business, an alternative requirement such as a gross premium valuation may be appropriate. However, we have not seen specific cases involving non-economically sensitive business.

Requiring attribution analysis would assist regulators in understanding the drivers of a reduction in reserves or TAR; however, attribution analysis alone would not ensure adequate assets to cover policyholder obligations. Therefore, we do not believe that requiring disclosure of attribution analysis alone is sufficient to address this important issue.

Requiring the AA to opine that the total reserve amount is a reasonable estimate of liabilities under moderately adverse conditions would not address the invested assets supporting the business. Therefore, we believe that an opinion from the AA regarding the adequacy of the **invested** assets to support the policyholder obligations under moderately adverse conditions would be more helpful in addressing this issue.

Aggregation Considerations

We do not believe that assets should be aggregated across different reinsurers. In the event a cedant has multiple treaties covering similar business with the same reinsurer and the Appointed Actuary determines and documents that the reinsurer supports both treaties with the same pool of assets, aggregation may be appropriate. ASOP 22 already states "the actuary should not use assets or cash flows from one block of business to discharge the reserves and other liabilities of another block of business if those assets or cash flows cannot be used for that purpose."

We do not believe that the ceded business should be aggregated with other direct written business unless the respective durations of the businesses are sufficiently similar. For example, if a company cedes long duration payout annuities and the asset backing reserves are significantly lower post-reinsurance, combining that block with short duration deferred annuities may show that aggregate reserves are sufficient. However, once the short duration block runs off, there may be a shortfall in assets without any

© 2024 National Association of Insurance Commissioners

guarantee that there are available assets to cover that shortfall. While this potential outcome already exists for the retained business, the retained business can be monitored closely by the cedant Appointed Actuary and the domestic regulator. If the "offsetting" blocks are spread across entities and jurisdictions close monitoring may be challenging. Another potential approach to addressing such an issue could involve requirements for review of interim values for the aggregated businesses rather than focusing on ending surplus in assessing adequacy.

In some situations, aggregation may be reasonable. We would encourage a regulatory review process for this so that individual facts and circumstances could be considered. For example, aggregation may be appropriate for blocks of business with similar characteristics and reinsured to the same reinsurer.

Frequency

We agree with a risk-based approach to frequency of applying any new, more prescriptive, requirements. Asset adequacy testing in general should be performed annually. However, for more prescriptive requirements, if a cedant can demonstrate asset adequacy with material margins for the reinsured business, less robust analysis may be appropriate in subsequent years, as long as the AA is still able to opine on asset adequacy. The AA could apply judgment as to how much analysis is needed based on past results and material changes in the business, the environment, the assets, or the treaty. For example, if there are material asset adequacy margins in year one and no significant changes, the AA could use rollforward techniques to support his or her opinion in year two.

Attribution Analysis

As we noted above, attribution analysis alone would not ensure adequate assets to cover policyholder obligations. Therefore, we do not believe that requiring disclosure of attribution analysis alone is sufficient to address this important issue. We believe that any company ceding reserves for economically sensitive business to a reinsurer has an obligation to understand how the reinsurer is managing the assets and mitigating risk. Most agreements include investment guidelines. Therefore, it seems that the Appointed Actuary should be able to gain some insight into how the reinsurer is investing. While it is true that the Appointed Actuary may not be able to obtain sufficient details to model each actual asset backing the business, reasonable approximation methods could be used. Therefore, as noted above, we are in favor of prescribing cash flow testing for economically sensitive business based on specific and defined risk-based criteria. If a US insurer is willing to write business, that insurer should be willing to ensure assets are held in support of that business at a level that covers moderately adverse conditions. This is a very reasonable minimum threshold.

Timing

We suggest adopting a requirement for cash flow testing based on the criteria described above (which would limit the requirement to a relatively small number of treaties) for year end 2024 if possible. We suggest this because an extension of one year may push companies to move as much business offshore as possible between now and year end 2025. Although this could be addressed by a retroactive start date (such as 1/1/2021 per the exposure), there is risk that companies will not structure treaties in a way that would ensure they are able to get sufficient data to perform CFT.

If the effective date is pushed to year end 2025, we believe it is important to scope in treaties starting at 1/1/2024 at a minimum, as there is clearly industry awareness of this issue at this time. If an older start date is used, such as 1/1/2021, we believe there may be situations in which the AA won't have sufficient data to perform robust CFT, and that should be taken into account in some way. Perhaps through an exemption process.

© 2024 National Association of Insurance Commissioners

RRC Comments on AAT Attribution (Excel file)

While we believe that attribution analysis will be helpful in understanding the drivers of changes in reserves, an attribution from CARVM to a post-reinsurance/offshore basis (such as the approach used in Bermuda) may not be insightful due to the very significant differences between the two approaches. Removal of a cash surrender value floor alone may cause a material reduction in reserves. Every single transaction will involve major assumption differences due to the fixed, prescribed CARVM assumptions and the lack of assumptions for behavior and expenses. Investment assumption differences will involve not only the rate of return, but also assumptions regarding prepayments, defaults, recoveries, calls, asset sale prices, etc.

In other words, we would generally expect a material reserve reduction from CARVM to offshore, as that is often a key driver of entering into the transaction itself. Perhaps a more meaningful comparison would be between the reserve held for the business under the most recently performed US cash flow testing (on a standalone basis, under moderately adverse conditions) to the reserve held in the offshore jurisdiction. Such a comparison would help the regulator understand whether the post-reinsurance reserve is less than what would be required under moderately adverse conditions. In addition, attribution of each individual assumption difference would allow the US regulator to understand if the post reinsurance assumptions are aggressive relative to assumptions used in the US framework which were already subject to regulatory review.

Thank you for the opportunity to provide comments on this important topic. I can be reached at 860-305-0701 or tricia.matson@riskreg.com if you or other members have any questions.

© 2024 National Association of Insurance Commissioners

Draft: 8/1/24

Life Actuarial (A) Task Force
Virtual Meeting
June 20, 2024

The Life Actuarial (A) Task Force met June 30, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Mark Fowler represented by Sanjeev Chaudhuri (AL); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak and Kevin Clark (IA); Vicki Schmidt represented by Nicole Boyd (KS); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Timothy N. Schott represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello and Amanda Fenwick (NY); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Exposed Asset AAT Reinsurance Concepts and Attribution Analysis Template

Andersen walked through a presentation on asset adequacy testing (AAT) for reinsurance. He said that state insurance regulators are focused on cases involving US policyholders where reinsurance may result in a lowering of transparency in terms of the reserves held and the assets supporting reserves. Andersen noted the end goal is to decide whether to develop a rule and to decide on the form of that rule, for example an actuarial guideline.

Andersen introduced the first consideration of the need for reserve adequacy review. Jeff Mulholland (Insurance Capital Market Holdings) suggested that the reserve should not be considered in isolation and that other factors such as assets held in trusts should be considered. Fenwick replied that those amounts are already considered in supporting reserves as part of an asset adequacy analysis, to which Clark agreed. Andersen added that in the past year there was an initiative by state insurance regulators to develop some inquiries and some targeted inquiries into reinsurance collectability.

Andersen then spoke to the second consideration regarding the materiality threshold and preventing work where there is insignificant risk. Clark supported the consideration of materiality and noted its importance when cedants negotiate the appropriate level of data with their reinsurers for reporting. Brian Bayerle (American Council of Life Insurers—ACLI) supported flexibility with the materiality, particularly in the first few years of a new rule as state insurance regulators and companies navigate the new requirements. Discussing the third consideration for risk-based rigor and frequency of analysis, Bayerle suggested that consideration should be given to the other types of reports that may already be available. Bayerle gave the example of a *Valuation Manual* (VM)-30, Actuarial Opinion and Memorandum Requirements report that an assuming company already provides its domestic regulator and makes that available to the ceding companies' domestic regulator.

While discussing the fourth "analysis considerations" topic, Leung asked which treaties would require attribution analysis. Andersen responded that it has not been finalized yet. Bayerle suggested that the appointed actuary provide justification as to why a particular level of effort was appropriate, whether that's just the attribution, some sensitivities or any additional work. Andersen finished the presentation by walking through the rest of the considerations (aggregation, attribution analysis details, use of information already available, and timing).

© 2024 National Association of Insurance Commissioners

Andersen made a motion, seconded by Yanacheak, to expose the presentation on AAT for reinsurance (Attachment Two-A) and the attribution analysis concept spreadsheet for a 30-day public comment period ending July 19. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/06 20/June 20 Minutes.docx

© 2024 National Association of Insurance Commissioners

Reinsurance Asset Adequacy Testing (AAT)

Life Actuarial Task Force

Fred Andersen, FSA, MAAA

6/20/2024

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

6/20/2024

1

Reinsurance AAT – Today's Discussion

- Move towards developing consensus on concepts
- Plan next steps towards details and Actuarial Guideline (AG) wording

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

6/20/2024

2

© 2024 National Association of Insurance Commissioners

8 Considerations for Consensus

1. Need for reserve adequacy review beyond or as part of collectability review
2. Materiality threshold for no additional disclosure, attribution analysis, or cash-flow testing
3. More rigorous and/or more frequent analysis to the extent there are significant risks
4. Analysis considerations
5. Aggregation considerations
6. Attribution analysis details
7. Use of information already available
8. Timing of development and implementation of requirements

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
6/20/2024

3

1. Need for reserve adequacy review

- Beyond or as part of collectability review

- Review involves not just collectability (a.k.a., credit or creditworthiness) related to the reinsurer
- Collectability is only one aspect of ASOP 22, para. 3.1.3
- Rating agencies are likely not analyzing reserve assumptions
- Credit ratings are less meaningful if reserving levels are not adequate

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
6/20/2024

4

© 2024 National Association of Insurance Commissioners

2. Materiality threshold

- For no additional disclosure, attribution analysis, or cash-flow testing

- Size and impact on company financials will be considered
- Perhaps more "generous" the first year of the AG
  - re: allowing company judgment or having a lower bar to limit analysis and work
- Schedule S, Part 3 can be used to aid in determining materiality
  - Type of reinsurance, type of product
  - Amount in force, reserve credit, modco reserve, funds withheld

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
6/20/2024

5

3. Risk-based rigor and frequency of analysis

- More rigorous and/or more frequent analysis are applied to the extent there are significant risks, such as
  - VM-30 actuarial memorandum not provided by assuming company to a US regulator
  - Significant reserve decrease due to reinsurance or use of non-primary security to back reserves
  - Collectability risk associated with the reinsurer is significant
  - Perhaps consideration of affiliated status or protections such as trusts or funds withheld
- Generally targeting optimistic judgment on key assumptions or more favorable assumptions where there is not relevant, credible data on key factors
  - Where the optimistic or favorable assumptions lead to a lower level of reserves

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
6/20/2024

6

© 2024 National Association of Insurance Commissioners

4. Analysis considerations

- Rigor
  - Criteria for when cash-flow testing (CFT) is required
  - Attribution analysis in most material cases
    - Where there are significant differences between US statutory reserves and amounts being held by reinsurer without primary security collateral being held for the difference
  - Other types of analysis?
  - Nothing in this AG prevents a state from doing what it's always been allowed to do, requesting CFT where appropriate

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
6/20/2024

7

4. Analysis considerations, cont.

- Appointed Actuary should make a statement (perhaps wherever attribution analysis is required):
  - The statement would be on the total reserve amount held being a reasonable estimate of liabilities under moderately adverse conditions
  - With or without consideration of aggregation?
- Frequency
  - Higher risk: annual
  - Lower risk: one time + monitoring
  - How would monitoring potential status changes occur?

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
6/20/2024

8

© 2024 National Association of Insurance Commissioners

5. Aggregation considerations:

- Narrative explanation the first year where stand-alone block has deficient reserves due to combining with overly adequate blocks through aggregation.
- How to gain confidence that the other block is actually overly adequate?
- Criteria for use of aggregation
  - Not across counterparties?
  - What if the "overly adequate" block leaves?
- Consider ASOP 22 for guidance
- When do regulators want stand-alone adequacy versus combined?

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
6/20/2024

9

6. Attribution analysis details

- Start with Pre-Reinsurance Reserve (US stat for life, known as CARVM for annuities)
- Reserve adjustment from US stat due to assumption differences from baseline:
  - Policyholder behavior assumptions
  - Mortality / longevity assumptions
  - Investment return assumptions versus US stat discount rate

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
6/20/2024

10

© 2024 National Association of Insurance Commissioners

6. Attribution analysis details, cont. (2)

- Other reserve adjustments due to
  - Removal of cash surrender value floor
  - Market value / book value difference due to change in interest rates
  - Moderately adverse to less adverse (or best estimate) conversion
  - Other (other changes to fair value, future cash flows)

- Flexibility for YE 2025 and perhaps beyond
  - Use the "template" or provide similar information explaining reasons for reserve decrease

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
6/20/2024

11

6. Attribution analysis details, cont. (3)

- Result is all of the attribution going from the pre-reinsurance US stat reserve to the post-reinsurance reserve
  - Held by the assuming company or in combination between the assuming company and ceding company
- Commentary would be required regarding the attribution analysis, including re:
  - Total Asset Requirement (TAR) differences between jurisdictions,
  - Any portion of the reserve not backed by primary security
    - Following the definition in Section 4.D. of AG 48
  - Any differences in reflection of expenses, and
  - Any aggregation impact

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
6/20/2024

12

© 2024 National Association of Insurance Commissioners

7. Use of information already available

- Reinsurance spreadsheet
  - See Reinsurance Task Force: https://content.naic.org/sites/default/files/committee_related_documents/NAIC%2520-%2520Reinsurance%2520Comparison%2520Worksheet%2520%25206-5-2023_1.xlsx
  - Review, use, coordinate, avoid duplication
  - Before and after reinsurance:
    - Amount of assets
    - Amount of reserves
    - TAR
  - Attribution analysis and CFT would get at the legitimacy of the reduction in reserves and resulting primary security assets
  - Is this available only for a subset of agreements?

7. Use of information already available, cont.

- ASOP 11 / AG 53 responses for YE 2023
- Coordinating with other jurisdictions, where applicable
  - Would want to ensure insight into, e.g., assumptions, is available

© 2024 National Association of Insurance Commissioners

8. Potential Plan: Timing of Inquiries and Requirements

- 2024: perhaps limited survey / inquiry which can act as a field test
- YE 2025: new AG effective
  - For treaties effective 1/1/2021 and later?
  - Some flexibility
    - More reliance on company judgment for determining level of rigor of analysis, including materiality (but within criteria established in the AG)
- YE 2026: The AG could mention more rigor or prescription for year 2 which can be undone if year 1 flexibility goes well

© 2024 National Association of Insurance Commissioners

Draft: 6/25/24

Life Actuarial (A) Task Force
Virtual Meeting
June 13, 2024

The Life Actuarial (A) Task Force met June 13, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Robert L. Carey represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT). Also participating was: Thomas Reedy (CA).

1. Adopted APF 2023-13

Hemphill provided an overview of amendment proposal form (APF) 2023-13 regarding international mortality. Hemphill noted this APF has had multiple exposures, and no comments were received on the latest exposure.

Chupp made a motion, seconded by Tsang, to adopt APF 2023-13 (Attachment Three-A). The motion passed unanimously.

2. Adopted APF 2024-08

Hemphill introduced APF 2024-08, which clarifies the selection of additional assets and the reinvestment approach. Leung noted the phrase "total asset portfolio" was not defined in Valuation Manual (VM)-21, Requirements for Principle-Based Reserves for Variable Annuities. Hemphill clarified the word "total" and replaced "starting" during the exposure discussion to ensure the other requirements were not violated. Jonah von der Embse (American Academy of Actuaries—Academy) added that a key reason for the change was to eliminate double counting for companies that perform asset selection. Hemphill suggested removing the word "total" so that Section 4B(3)(a)(i) would read "pro-rata slice of the asset portfolio." Leung and von der Embse agreed. Von der Embse suggested using a guidance note in the future to clarify that Section 4B(3)(a)(i) does not necessarily mean total assets or initial assets.

Chupp made a motion, seconded by Tsang, to adopt APF 2024-08 with the edit to strike the word "total" from VM-21 Section 4B(3)(a)(i) (Attachment Three-B). The motion passed unanimously.

3. Adopted APF 2024-07

Weber introduced APF 2024-07, which updates standard projection amount assumptions in VM-21, Section 6. Brian Bayerle (American Council of Life Insurers—ACLI) spoke on ACLI's comments in support of this APF and provided responses to the exposure questions (Attachment Three-C). Gary Hu (Prudential Financial) discussed Prudential's feedback on the exposure questions and the APF (Attachment Three-D).

© 2024 National Association of Insurance Commissioners

Yanacheak, Eom, and Weber supported a 3% full surrender rate for index-linked variable annuity (VA) contracts with no guaranteed living benefits in the surrender charge period or in policy years one through three for contracts without surrender charges. Slutsker added that regulators want to be prudent in general and, with the absence of data, he supports 3% for now and suggested a survey or data collection to gather information to make informed decisions in the future.

Weber agreed on the necessity of collecting data and expressed concern that the post-surrender period profits might not materialize if the surrender assumption is set too low for index-linked VA contracts without guaranteed living benefits in the first year following the surrender charge period. Slutsker supported 60% unless data can support less than that and considering the policyholder behavior assumptions for non-variable annuities coming out are much higher. Reedy noted that the objective is to identify outliers and agreed that 60% aligns with that. Eom agreed with Slutsker and Reedy and noted the need to collect data.

Weber made a motion, seconded by Slutsker, to adopt APF 2024-07 (Attachment Three-E) with the edit to use 3% so that VM-21, Section 6C(6)(f)(i) reads as “In surrender charge period, or in policy years 1–3 for contracts without surrender charges, 3%,” and use 60% so that VM-21 Section 6.C.6.f(ii) reads as “In the first year after the surrender charge period, 60%”. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/06 13/Jun 13 Minutes.docx

© 2024 National Association of Insurance Commissioners

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   Linda Lankowski, RGA, William Leung, MO DCI

   Annuity mortality tables and non-US lives mortality.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   - VM-M Sections 1 and 2
   - VM-31 Section 3.D.3
   - VM-20 Sections 3.C.1.h, 9.C.3.b and 9.C.3.g

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

VM-M:

Section 1: Valuation and Nonforfeiture Mortality Tables

J. 2012 Individual Annuity Reserve Valuation Table

1. Definitions

a. "2012 IAR Table" means that generational mortality table developed by the Joint Academy/SOA Payout Annuity Table Team and containing rates, q^{2012+n}, derived from a combination of the 2012 IAM Period Table and Projection Scale G2, using the methodology stated in the "Application of the 2012 IAR Mortality Table" paragraph of Appendix A-821 of the AP&P Manual.

b. "2012 Individual Annuity Mortality Period Life (2012 IAM Period) Table" means the Period Table containing loaded mortality rates for calendar year 2012. This table contains rates, q^{2012}, developed by the Joint Academy/SOA Payout Annuity Table Team and is shown in Appendices 1–2 of Appendix A-821 of the AP&P Manual.

c. "Projection Scale G2 (Scale G2)" is a table of annual rates, $G2_x$, of mortality improvement by age for projecting future mortality rates beyond calendar year 2012. This table was developed by the Joint Academy/SOA Payout Annuity Table Team and is shown in Appendices 3–4 of Appendix A-821 of the AP&P Manual.

K. 2017 Commissioners Standard Guaranteed Issue Mortality Tables

1. "2017 Commissioners Standard Guaranteed Issue Mortality Table" (2017 CSGI) means that 2017 Guaranteed Issue basic ultimate mortality table with 75% loading, consisting of separate rates of mortality for male and female lives, as well as combined unisex rates, developed from the experience of 2005–2009 collected by the SOA. This table was adopted by the NAIC on Aug. 7, 2018 and is included in the NAIC Proceedings of the 2018 Summer National Meeting.

L. 1994 Group Annuity Reserving (1994 GAR) Table

© 2024 National Association of Insurance Commissioners

1. "1994 GAR Table" means that mortality table developed by the Society of Actuaries Group Annuity Valuation Table Task Force and shown on pages 866-867 of Volume XLVII of the Transactions of the Society of Actuaries (1995).

M. 1983 Table a

1. "1983 Table 'a'" means that mortality table developed by the Society of Actuaries Committee to Recommend a New Mortality Basis for Individual Annuity Valuation and adopted as a recognized mortality table for annuities in June 1982 by the National Association of Insurance Commissioners. [See 1982 Proceedings of the NAIC II, page 454.]

Section 2: Industry Experience Valuation Basic Tables

A. 2008 Valuation Basic Table (2008 VBT)

B. 2015 Valuation Basic Table (2015 VBT) The 2015 Valuation Basic Table is a valuation table without loads jointly developed by the Academy and SOA for use in determining a company's prudent estimate mortality assumption for valuations of Dec. 31, 2015, and later. The table consists of the Primary table (Male, Female, Smoker, Nonsmoker and Composite), 10 Relative Risk tables for nonsmokers (Male and Female) and four Relative Risk tables for smokers (Male and Female). Rates for juvenile ages are included in the composite tables. The tables are on a select and ultimate and ultimate-only basis and are available on an age nearest and an age last birthday basis.

C. "2012 Individual Annuity Mortality Basic (2012 IAM Basic) Table" means the unloaded mortality table underlying the 2012 IAM Period Table. This was developed from the 2002 experience table, projected with improvement factors to 2012. The 2000-2004 Payout Annuity Mortality Experience Study includes experience for immediate annuities, annuitizations and life settlement options of individual life insurance and annuity death claims. The experience analyzed excluded substandard annuities, structured settlement annuities and variable payout annuities. The experience represented 16 companies over the exposure period. The result of these efforts was a 2002 experience table.

D. The 1994 Group Annuity Mortality Basic (GAM-94 Basic) Table, developed by the Society of Actuaries Group Annuity Valuation Table Task Force and shown on pages 886-887 of Volume XLVII of the Transactions of the Society of Actuaries (1995), is a static mortality table containing unloaded mortality rates for calendar year 1994. The central calendar year of the modified mortality experience is 1988. Mortality experience is projected from the central experience year of 1988 to central year 1994, to produce a 1994 Basic Table.

VM-31:

Section 3.D.3: Life Report Mortality

p. Non-US Mortality – Description and rationale for mortality tables used to value non-US blocks of business, pursuant to VM-20 Section 3.C.1.h and VM-20 Section 9.C.3.b.

i. At implementation and alongside with the five-year (or sooner) non-US mortality table update, provide:
   a) Valuation results before and after the update.
   b) Impact of how much the reserves increase or decrease when using a non-US mortality table instead of the otherwise prescribed US mortality table for all applicable groups of contracts issued to individuals residing outside of the US.
   c) Discussion and support for why mortality is higher or lower in the local jurisdiction than in the relevant US insured population.
   d) Reference to external studies or publications to provide support, whenever available.
   e) A summary of the material submitted to the Life Actuarial (A) Task Force for the approval of the non-US valuation mortality table, non-US industry mortality table and the non-US mortality improvement factors used to bring the non-US industry mortality tables forward or backward to the as of date of the non-US valuation mortality tables.

ii. At all reporting times, provide the disclosure and justification of the mortality improvement factors used to bring the non-US industry mortality table forward to the valuation date.

VM-20:

Section 3.C: Net Premium Reserve Assumptions

Section 3.C.1.h (new):

For a group of policies or certificates issued in foreign countries covering insureds who are not residents of the United States:

i. The company shall use a non-US valuation mortality table based on a non-US industry mortality table developed as described in Section 9.C.3.b.i. Companies using these tables shall seek approval from the Life Actuarial (A) Task Force by addressing to the chair of the Life Actuarial (A) Task Force. The non-US mortality tables that are to be used in the year-end YYYY valuation should be approved the Life Actuarial (A) Task Force before September of YYYY. If this timeline is not met, the company shall use the relevant non-US mortality tables used in the prior year; if there is no relevant prior year non-US mortality tables used, the company shall use the relevant US mortality tables.
ii. Appropriate mortality improvement factors shall be used to bring the non-US industry table forward or backward to the same as of date of the corresponding CSO table.
iii. Margins consistent with the purpose of US statutory reserve methods shall then be added to the (adjusted) unloaded mortality table. For example, the margins in the non-US valuation rate could be determined by a formula such as CSO rate/unloaded CSO rate x non-US (adjusted) industry rate.
iv. When a company uses such non-US valuation mortality table for one block of non-US business, the company shall consistently use the same or similarly developed non-US valuation tables for other non-US business.
v. The provisions in Section 3.C.1.f and 3.C.1.g still apply to the non-US valuation mortality table.
vi. It is the company's responsibility to keep the non-US mortality tables and non-US mortality improvement factors up to date. Starting with 2025, participating companies shall update the

© 2024 National Association of Insurance Commissioners

non-US mortality tables at least once every five years. A company may request the Life Actuarial (A) Task Force's approval to update sooner when an updated non-US mortality table becomes available.

vii. If requested by the Life Actuarial (A) Task Force, the applying company shall present the non-US tables and non-US mortality improvement factors in relation to the US tables and US mortality improvement factors without infringing any confidential information of the applying company. Confidential information may be presented in a Life Actuarial (A) Task Force regulators only meeting.

Guidance Note: NAIC staff shall consider whether it is appropriate to maintain and/or publish a list of such tables that have been approved.

Section 9.C.3 Determination of Applicable Industry Basic Tables

b. A modified industry basic table is permitted in a limited number of situations where an industry basic table does not appropriately reflect the expected mortality experience, such as joint life mortality, simplified underwriting, substandard or rated lives, or non-US residence. In cases other than modification of the table to reflect joint life mortality and non-US residence, the modification must not result in mortality rates lower than those in the industry basic table without approval by the insurance commissioner.

For blocks of policies or certificates issued in foreign countries covering insureds who are not residents of the United States:

i. the company shall use a relevant no load mortality table developed by the regulatory authority or the local actuarial society for the life insurance industry in the country of residence. When a relevant non-US industry table developed by the regulatory authority or the local actuarial society is not available, the company shall use any well-established industry table that is based on the experience of policies having the appropriate risk characteristics or create an industry table based on the lives having the appropriate risk characteristics.

Adjustments shall be made to include margins consistent with those included in the relevant VBT. These margins for industry experience tables are meant to cover lack of credibility, estimation error, and similar data risks, rather than conservatism. Such mortality tables must be approved by Life Actuarial (A) Task Force before being used for reserve purposes.

ii. When a company uses such non-US Industry mortality table for one block of non-US business, the company shall consistently use the same or similarly developed non-US Industry tables for other blocks of non-US business.

g. Mortality improvement shall not be incorporated beyond the valuation date in the industry basic table. However, historical mortality improvement from the date of the industry basic table (e.g., Jan. 1, 2008, for the 2008 VBT and July 1, 2015, for the 2015 VBT) to the valuation date shall be incorporated using the improvement factors for the applicable industry basic table as determined by the SOA, adopted by the Life Actuarial (A) Task Force and published on the SOA website, https://www.soa.org/research/topics/indiv-val-exp-study-list/ (Individual Life Insurance Mortality Improvement Scale – for Use with AG38/VM20 – 20XX) for US

business. For blocks of policies or certificates issued in foreign countries covering insureds who are not residents of the United States, appropriate mortality improvement factors shall be used to bring the non-US industry table forward to the valuation date; such mortality improvement factors must be approved by the Life Actuarial (A) Task Force before being used for reserve purposes.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

1994 GAR and 1983 Table a will be needed for valuations using (proposed) VM-22 methodology.

Life insurance that is sold internationally is reinsured into the United States. Mortality for international insureds may vary significantly from that of US insurance markets. The Valuation Manual should be updated to allow for international mortality tables.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
11/15/23, 11/17/23	S.O.		
Notes: 2023-13 LATF re-exposed 2023-13 on 5/23/24 with the edits to 1) strike the sentence "The first year of application is 2025, the first update is 2030." from Section 3.C.1.h(vi) and 2) add a guidance note that states "NAIC staff shall consider whether it is appropriate to maintain and/or publish a list of such tables that have been approved." LATF adopted the 5/23 re-exposed APF 2023-13 on 6/13/24.			

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

Identification:
Jonah von der Embse, MAAA, FSA, CERA; Member, PBR Implementation Subcommittee
Dave Neve, MAAA, FSA, CERA; Member, PBR Implementation Subcommittee
Chanho Lee, MAAA, FSA; Member, PBR Implementation Subcommittee
Linda Lankowski, MAAA, FSA; Chairperson, PBR Implementation Subcommittee

The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Title of the Issue:
Changes to the calculation of the NAER on additional assets for VM-21.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

VM-21 Section 4.B.3 (Also applicable to the working draft of VM-22 Section 4.B.3, and would also apply to VM-20 if APF 2023-10 is adopted)

January 1, 2024, NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

See attachment.

4. State the reason for the proposed amendment. (You may do this through an attachment.)

When discussing the NAER on additional assets, the VM's phrasing is vague on how the initial additional asset portfolio is constructed and how it is reinvested.

For the initial additional assets, the subcommittee believes that it is appropriate to modify the VM to add to the guidance note three different strategies of creating this portfolio, including specifying that one option—a pro-rata slice of the actual initial assets—would still be appropriate, as this is consistent with the Direct Iteration Method when solving for the initial assets. Additionally, we believe that it should be specified that the selection of assets to be included in the initial additional asset portfolio be the same across all scenarios. We believe this statement would prevent a situation where a company might allocate cash or different asset types to certain scenarios to produce a higher NAER on additional assets due to knowing the amount of accumulated deficiencies for each scenario.

For the reinvestment, we believe it is appropriate to add the phrase that the additional asset portfolio is also subject to the alternative investment strategy discussed in section 4.D.4.b. As currently drafted, the phrasing allows for enough ambiguity such that a company could reasonably state that it is following the alternative investment strategy for the actual reinvestment while the additional asset portfolio still follows

© 2024 National Association of Insurance Commissioners

EQUITABLE t estimate strategy. To promote regulatory consistency with the Direct Iteration Method, we believe it should not be allowed.

Dates: Received	Reviewed by Staff	Distributed	Considered
4/24/24	S.O.		
Notes: 2024-08 LATF exposed for comment 5/30/24 with the word "total" replacing "starting" so that VM-21 Section 4.B.3.a.(i) read as "Pro-rata slice of the total asset portfolio". LATF adopted 2024-08 on 6/13/24 with the edit to strike the word "total" to read VM-21 Section 4.B.3.a.(i) as "Pro-rata slice of the asset portfolio".			

3. Determination of NAER on Additional Invested Asset Portfolio

a. The additional invested asset portfolio for a scenario is a portfolio of general account assets as of the valuation date, outside of the starting asset portfolio, that is required in that projection scenario so that the projection would not have a positive accumulated deficiency at the end of any projection year. This portfolio may include only (i) General Account assets available to the company on the valuation date that do not constitute part of the starting asset portfolio; and (ii) cash assets.

Additional invested assets should be selected in a manner such that if the starting asset portfolio were revised to include the additional invested assets, the projection would not be expected to experience any positive accumulated deficiencies at the end of any projection year. The additional invested asset portfolio can be comprised of one or more of the following:
(i) Pro-rata slice of the asset portfolio
(ii) Cash that is immediately reinvested
(iii) A combination of assets that would be transferred to the portfolio from the general account to cover a potential shortfall

It is assumed that the accumulated deficiencies for this scenario projection are known. Assets selected for the additional invested asset portfolio should be based on the same allocation methodology for all scenarios.

The company should be able to support that these additional assets are not double counted across various PBR calculations. For example, it would be inappropriate to assume the same asset was "transferred to the portfolio from the general account" for the same economic scenario for both VM-21 and VM-22.

~~**Guidance Note:**~~

~~Additional invested assets should be selected in a manner such that if the starting asset portfolio were revised to include the additional invested assets, the projection would not be expected to experience any positive accumulated deficiencies at the end of any projection year. The initial additional asset portfolio can be comprised of one or more of the following:~~
~~Pro-rata slice of the actual initial assets of the portfolio~~
~~Cash that is immediately reinvested~~

~~(i) A combination of assets that would be transferred to the portfolio from the general account to cover a potential shortfall~~

~~It is assumed that the accumulated deficiencies for this scenario projection are known. Assets selected for the initial additional asset portfolio should have the same methodology for all scenarios.~~

~~a.~~b. To determine the NAER on additional invested assets for a given scenario:

i. Project the additional invested asset portfolio as of the valuation date to the end of the projection period,

a) Investing any cash in the portfolio and reinvesting all investment proceeds using the company's investment policy, subject to the alternative investment strategy described in section 4.D.4.b.

b) Excluding any liability cash flows.

c) Incorporating the appropriate returns, defaults and investment expenses for the given scenario.

ii. If the value of the projected additional invested asset portfolio does not equal or exceed the accumulated deficiencies at the end of each projection year for the scenario, increase the size of the initial additional invested asset portfolio as of the valuation date, and repeat the preceding step.

iii. Determine a vector of annual earned rates that replicates the growth in the additional invested asset portfolio from the valuation date to the end of the projection period for the scenario. This vector will be the NAER for the given scenario.

~~If the projection results contain any extremely negative or positive NAER due to the depletion of assets in the denominator, the NAER shall be reset to a more appropriate discount rate, which may be carried out by imposing upper/lower limits or by using another approach, subject to actuarial judgement, that is appropriately prudent for statutory valuation.~~

Guidance Note: There are multiple ways to select the additional invested asset portfolio at the valuation date. Similarly, there are multiple ways to determine the earned rate vector. The company shall be consistent in its choice of methods, from one valuation to the next.

© 2024 National Association of Insurance Commissioners

Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

Colin Masterson
Policy Analyst
202-624-2463
ColinMasterson@acli.com

June 4, 2024

Rachel Hemphill
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Re: APF 2024-07 (VM-21 SPA Updates)

Dear Chair Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on APF 2024-07 which was re-exposed for public comment by LATF following the initial proposal by the NAIC Variable Annuities Capital and Reserve (E/A) Subgroup. Along with the proposed Valuation Manual (VM) changes to update VM-21 Standard Projection Amount (SPA) assumptions, LATF also asked interested parties to contemplate several cover page questions regarding potential implementation challenges and language options within the new proposed VM-21 Section 6.C.6.f.

Regarding the first cover page question, our members did not anticipate major issues with implementation and therefore do not desire a delay in the implementation of this APF. For the second question, a member indicated to us anecdotally that what their company experienced was on the lower end of the options provided by regulators (under or just around 2%), so in accordance with our previously submitted comment letter, we believe 2% should be chosen as the full surrender rate.

While we do not have any specific feedback related to the shock full surrender rate, consistent with our prior comments we support treating that rate as a standalone assumption (that is, at the specified rate rather than compare to the stochastic shock lapse assumption). All current standard projection assumptions are fully prescribed, creating a benchmark used to identify outliers in accordance with the original desire for the standard projection. We recommend maintaining consistency with the current approach for prescribed assumptions and defining a lapse rate without reference to company assumptions.

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.
acli.com

© 2024 National Association of Insurance Commissioners

Thank you once again for the opportunity to submit this feedback and we look forward to further discussion and a future session of LATF.

Best,



cc: jfrasier@naic.org

NAIC Life Actuarial (A) Task Force Support Staff received Prudential's feedback from Gary Hu on 6/3/24 regarding APF 2024-07 and the exposure questions.

Hi Jennifer,

Please see Prudential's comments:

#1, We would prefer to delay the implementation. To implement the proposed mortality factors under the expanded characteristics will require some non-trivial changes to our models. Having more time to test out the changes will be beneficial.

#2a, Our company utilized the latest ILVA lapse study from Milliman. Their study showed lapse rates that were below 2% in the CDSC period. We feel 2% is more aligned with their study.

#2b, We support 50%, based on ACLI's comment – the proposed 60% relies too heavily on recent history. While many companies likely experience shock lapse rates around this level in very recent years, prior to the recent interest rate increases assumed shock lapse rates were well below this level. A lower starting baseline would make more sense across a broader swath of economic environments.

Others,

- 6.C.6.f (ii), Using greater of company and prescribed ILVA shock lapse assumption makes this the only SPA not explicitly prescribed. What is the rationale for this?
- Is ILVA lapse assumption based on the ILVA only studies or VA only OW studies? If it is former, could NAIC share the studies? If it is latter, what is the supporting evidence that ILVA follows VA only lapse experience?

Thanks,
Gary

© 2024 National Association of Insurance Commissioners

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

Identification:
VACRSG

Title of the Issue:
Make updates to VM-21 SPA assumptions that are out of date.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

VM-21 Section 6.C.2 (Maintenance Expenses), VM-21 Section 6.C.6 (Full Surrenders), VM-21 Section 6.C.9 (Mortality), VM-21 Section 11.B.3 (Mortality)

January 1, 2024 NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

VM-21 Section 6.C.2 (Maintenance Expenses)

2. Maintenance Expenses

Maintenance expense assumptions shall be determined as the sum of (a) plus (b) if the company is responsible for the administration or (c) if the company is not responsible for the administration of the contract:

a. Each contract for which the company is responsible for administration incurs an annual expense equal to $100 multiplied by 1.025^(valuation year – 2015) in the first projection year, increased by an assumed annual inflation rate of 2.5% for subsequent projection years.

b. Seven basis points of the projected account value for each year in the projection.

c. Each contract for which the company is not responsible for administration (e.g., if the contract were assumed by the company in a reinsurance transaction in which only the risks associated with a guaranteed benefit rider were transferred) incurs an annual expense equal to $35 multiplied by 1.025^(valuation year – 2015) in the first projection year, increased by an assumed annual inflation rate of 2.5% for subsequent projection years.

Guidance Note: The framework adopted by the Variable Annuities Issues (E) Working Group includes the review and possible update of these assumptions every three to five years.

© 2024 National Association of Insurance Commissioners

VM-21 Section 6.C.6 (Full Surrenders)

6. Full Surrenders

The full surrender rate for all contracts shall be calculated based on the Standard Table for Full Surrenders as detailed below in Table 6.3, except for simple 403(b) VA contracts and index-linked VA contracts with no guaranteed living benefits. The Standard Table for Full Surrender prescribes different full surrender rates depending on the contract year and the in-the-moneyness ("ITM") of the contract's guaranteed benefit.

VM-21 Section 6.C.6.f (New Section - Full Surrenders for ILVAs)

f. The full surrender rate for index-linked VA contracts with no guaranteed living benefits shall be:

i. In surrender charge period, or in policy years 1–3 for contracts without surrender charges, 3%.

ii. In the first year after the surrender charge period, 60%.

iii. In subsequent years or in policy years 4 and onwards for contracts without surrender charges, 15%.

VM-21 Section 6.C.6 (Table 6.3 – Standard Table for Full Surrenders)

ITM	In surrender charge period, or in policy years 1–3 for contracts without surrender charges	First year after the surrender charge period	Subsequent years, or in policy years 4 and onwards for contracts without surrender charges
Under 50%	4.0%	25.0%	15.0%
50–75%	3.0%	18.0%	10.0%
75–100%	2.5%	12.0%	7.0%
100–125%	2.5%	8.0%	4.5%
125–150%	2.5%	6.0%	3.0%
150–175%	2.0.5%	5.0%	2.5%
175–200%	2.0.5%	4.5%	2.01.5%
Over 200%	2.0.5%	4.0%	21.0%

VM-21 Section 6.C.9 (Mortality)

9. Mortality

The mortality rate for a contract holder with age x in year (2012 + n) shall be calculated using the following formula, where q_x denotes mortality from the 2012

© 2024 National Association of Insurance Commissioners

IAM Basic Mortality Table multiplied by the appropriate factor (F_x) from Table 6.9 and $G2_x$ denotes mortality improvement from Projection Scale G2:

$$q_x^{2012+n} = q_x^{2012}(1 - G2_x)^n * F_x$$

Table 6.9

Attained Age (x)	F_x for VA with GLB		F_x for VA without GLB and with roll-up GDB		F_x for All Other	
	Male	Female	Male	Female	Male	Female
<=52	100%	95%	160%	150%	110%	105%
53	99%	95%	160%	152%	110%	106%
54	98%	95%	160%	154%	110%	107%
55	97%	95%	160%	156%	110%	108%
56	96%	95%	160%	158%	110%	109%
57	95%	95%	160%	160%	110%	110%
58	93.5%	93.5%	160%	160%	109%	109%
59	92%	92%	160%	160%	108%	108%
60	90.5%	90.5%	160%	160%	107%	107%
61	89%	89%	160%	160%	106%	106%
62	88%	88%	160%	160%	105%	105%
63	89%	88%	160%	159%	105%	104%
64	90%	88%	160%	158%	105%	103%
~~<=~~65	91%	88%~~80.0%~~	160%	157%	105%	102%~~100.0%~~
66	92%	88%~~81.5%~~	160%	156%	105%	101%~~102.0%~~
67	93%	88%~~83.0%~~	160%	155%	105%	100%~~104.0%~~
68	95%	~~84.5%~~90%	160%	154%	107%	~~106.0%~~101.5%
69	97%	~~86.0%~~92%	160%	153%	109%	~~108.0%~~103%
70	99%	~~87.5%~~94%	160%	152%	111%	~~110.0%~~104.5%
71	101%	~~89.0%~~96%	160%	151%	113%	~~112.0%~~106%
72	103%	~~90.5%~~98%	160%	150%	115%	~~114.0%~~108%
73	103.5%	~~92.0~~99.5%	158%	149%	115%	~~116.0%~~109%
74	104%	~~93.5~~101%	156%	148%	115%	~~118.0%~~110%
75	104.5%	~~95.0~~102.5%	154%	147%	115%	~~120.0%~~111%
76	104.5%	~~96.5~~103.5%	152%	146%	115%	~~119.0%~~112%
77	105%	~~98.0%~~105%	150%	145%	115%	~~118.0%~~113%
78	106.5%	106.5%~~99.5%~~	147%	143%	115%	~~117.0%~~113.5%
79	108%	108%~~101.0%~~	144%	141%	115%	114%~~116.0%~~
80	109.5%	109.5%~~102.5%~~	141%	139%	115%	114.5%~~115.0%~~
81	111%	111%~~104.0%~~	138%	137%	115%	114.5%~~114.0%~~
82	113%	~~105.5%~~113%	135%	135%	115%	115%~~113.0%~~
83	113%	113%~~107.0%~~	132%	132%	114.5%	114.5%~~112.0%~~
84	113%	113%~~108.5%~~	129%	129%	114%	114%~~111.0%~~
85	113%	113%~~110.0%~~	126%	126%	113.5%	113.5%~~110.0%~~
86	113%	113%~~110.0%~~	123%	123%	113.5%	113.5%~~110.0%~~
87	113%	113%~~110.0%~~	120%	120%	113%	113%~~110.0%~~

88	113%	113%~~110.0%~~	119%	119%	113%	~~110.0%~~113%
89	113%	113%~~110.0%~~	118%	118%	113%	~~110.0%~~113%
90	113%	113%~~110.0%~~	117%	117%	113%	~~110.0%~~113%
91	113%	113%~~110.0%~~	113%	116%	113%	~~110.0%~~113%
92	113%	113%~~110.0%~~	115%	115%	113%	~~110.0%~~113%
93	112.5%	112.5%~~110.0%~~	114%	114%	112.5%	~~110.0%~~112.5%
94	112%	112%~~110.0%~~	113%	113%	112%	~~110.0%~~112%
95	111.5%	111.5%~~110.0%~~	112%	112%	111.5%	~~110.0%~~111.5%
96	111%	111%~~109.0%~~	111%	111%	111%	~~109.0%~~111%
97	110%	110%~~108.0%~~	110%	110%	110%	~~108.0%~~110%
98	109%	109%~~107.0%~~	109%	109%	109%	~~107.0%~~109%
99	108%	108%~~106.0%~~	108%	108%	108%	~~106.0%~~108%
100	107%	107%~~105.0%~~	107%	107%	107%	~~105.0%~~107%
101	106%	106%~~104.0%~~	106%	106%	106%	~~104.0%~~106%
102	105%	105%~~103.0%~~	105%	105%	105%	~~103.0%~~105%
103	103.0%	103.0%~~102.0%~~	103.0%	103.0%	103.0%	~~102~~103.0%
104	101.0%	101.0%~~101.0%~~	101.0%	101.0%	101.0%	101.0%
>=105	100.0%	100.0%~~100.0%~~	100.0%	100.0%	100.0%	100.0%

VM-21 Section 11.B.3 (Mortality)

3. No Data Requirements

When little or no experience or information is available on a business segment, the company shall use expected mortality curves that would produce expected deaths no less than the appropriate percentage (F_x) from Table 11.1 of the 2012 IAM Basic Table with Projection Scale G2 for contracts with ~~no~~ VAGLBs, without VAGLB and with roll-up GDB and all other. ~~expected deaths no greater than the appropriate percentage (F_x) from Table 1 of the 2012 IAM Basic Mortality Table with Projection Scale G2 for contracts with VAGLBs~~. If mortality experience on the business segment is expected to be atypical (e.g., demographics of target markets are known to have higher [lower] mortality than typical), these "no data" mortality requirements may not be adequate.

$$q_x^{2012+n} = q_x^{2012}(1 - G2_x)^n * F_x$$

Table 11.1

~~Attained Age (x)~~	~~F_x for VA with GLB~~	~~F_x for All Other~~
~~<=65~~	~~80.0%~~	~~100.0%~~
~~66~~	~~81.5%~~	~~102.0%~~
~~67~~	~~83.0%~~	~~104.0%~~
~~68~~	~~84.5%~~	~~106.0%~~
~~69~~	~~86.0%~~	~~108.0%~~
~~70~~	~~87.5%~~	~~110.0%~~
~~71~~	~~89.0%~~	~~112.0%~~
~~72~~	~~90.5%~~	~~114.0%~~
~~73~~	~~92.0%~~	~~116.0%~~

© 2024 National Association of Insurance Commissioners

~~74~~	~~93.5%~~	~~118.0%~~
~~75~~	~~95.0%~~	~~120.0%~~
~~76~~	~~96.5%~~	~~119.0%~~
~~77~~	~~98.0%~~	~~118.0%~~
~~78~~	~~99.5%~~	~~117.0%~~
~~79~~	~~101.0%~~	~~116.0%~~
~~80~~	~~102.5%~~	~~115.0%~~
~~81~~	~~104.0%~~	~~114.0%~~
~~82~~	~~105.5%~~	~~113.0%~~
~~83~~	~~107.0%~~	~~112.0%~~
~~84~~	~~108.5%~~	~~111.0%~~
~~85~~	~~110.0%~~	~~110.0%~~
~~86~~	~~110.0%~~	~~110.0%~~
~~87~~	~~110.0%~~	~~110.0%~~
~~88~~	~~110.0%~~	~~110.0%~~
~~89~~	~~110.0%~~	~~110.0%~~
~~90~~	~~110.0%~~	~~110.0%~~
~~91~~	~~110.0%~~	~~110.0%~~
~~92~~	~~110.0%~~	~~110.0%~~
~~93~~	~~110.0%~~	~~110.0%~~
~~94~~	~~110.0%~~	~~110.0%~~
~~95~~	~~110.0%~~	~~110.0%~~
~~96~~	~~109.0%~~	~~109.0%~~
~~97~~	~~108.0%~~	~~108.0%~~
~~98~~	~~107.0%~~	~~107.0%~~
~~99~~	~~106.0%~~	~~106.0%~~
~~100~~	~~105.0%~~	~~105.0%~~
~~101~~	~~104.0%~~	~~104.0%~~
~~102~~	~~103.0%~~	~~103.0%~~
~~103~~	~~102.0%~~	~~102.0%~~
~~104~~	~~101.0%~~	~~101.0%~~
~~>=105~~	~~100.0%~~	~~100.0%~~

Attained Age (x)	F_x for VA with GLB		F_x for VA without GLB and with roll-up GDB		F_x for All Other	
	Male	Female	Male	Female	Male	Female
<=52	100%	95%	160%	150%	110%	105%
53	99%	95%	160%	152%	110%	106%
54	98%	95%	160%	154%	110%	107%
55	97%	95%	160%	156%	110%	108%
56	96%	95%	160%	158%	110%	109%
57	95%	95%	160%	160%	110%	110%
58	93.5%	93.5%	160%	160%	109%	109%
59	92%	92%	160%	160%	108%	108%
60	90.5%	90.5%	160%	160%	107%	107%
61	89%	89%	160%	160%	106%	106%

© 2024 National Association of Insurance Commissioners

62	88%	88%	160%	160%	105%	105%
63	89%	88%	160%	159%	105%	104%
64	90%	88%	160%	158%	105%	103%
65	91%	88%	160%	157%	105%	102%
66	92%	88%	160%	156%	105%	101%
67	93%	88%	160%	155%	105%	100%
68	95%	90%	160%	154%	107%	101.5%
69	97%	92%	160%	153%	109%	103%
70	99%	94%	160%	152%	111%	104.5%
71	101%	96%	160%	151%	113%	106%
72	103%	98%	160%	150%	115%	108%
73	103.5%	99.5%	158%	149%	115%	109%
74	104%	101%	156%	148%	115%	110%
75	104.5%	102.5%	154%	147%	115%	111%
76	104.5%	103.5%	152%	146%	115%	112%
77	105%	105%	150%	145%	115%	113%
78	106.5%	106.5%	147%	143%	115%	113.5%
79	108%	108%	144%	141%	115%	114%
80	109.5%	109.5%	141%	139%	115%	114.5%
81	111%	111%	138%	137%	115%	114.5%
82	113%	113%	135%	135%	115%	115%
83	113%	113%	132%	132%	114.5%	114.5%
84	113%	113%	129%	129%	114%	114%
85	113%	113%	126%	126%	113.5%	113.5%
86	113%	113%	123%	123%	113.5%	113.5%
87	113%	113%	120%	120%	113%	113%
88	113%	113%	119%	119%	113%	113%
89	113%	113%	118%	118%	113%	113%
90	113%	113%	117%	117%	113%	113%
91	113%	113%	113%	116%	113%	113%
92	113%	113%	115%	115%	113%	113%
93	112.5%	112.5%	114%	114%	112.5%	112.5%
94	112%	112%	113%	113%	112%	112%
95	111.5%	111.5%	112%	112%	111.5%	111.5%
96	111%	111%	111%	111%	111%	111%
97	110%	110%	110%	110%	110%	110%
98	109%	109%	109%	109%	109%	109%
99	108%	108%	108%	108%	108%	108%
100	107%	107%	107%	107%	107%	107%
101	106%	106%	106%	106%	106%	106%
102	105%	105%	105%	105%	105%	105%
103	103.0%	103.0%	103.0%	103.0%	103.0%	103.0%
104	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%
>=105	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

4. State the reason for the proposed amendment? (You may do this through an attachment.)

© 2024 National Association of Insurance Commissioners

VM-21 SPA expense assumption is updated to be consistent with the VM-22 draft, so that expense assumptions reflect inflation and so are kept current without requiring annual updates. Updating baseline inflation, as the historical composite CPI has exceeded Fed targets.

Mortality assumption update based on SOA recommendation.

Surrender assumption update based on regulator survey.

Dates: Received	Reviewed by Staff	Distributed	Considered
4/4/24	S.O.		
Notes: 2024-07 LATF exposed APF 2024-07 with exposure questions 5/16/24 to get feedback on a range of assumption options for VM-21 Section 6.C.6.f(i) and VM-21 Section 6.C.6.f.(ii). LATF adopted 2024-07 on 6/13/24 with the edits to VM-21 Section 6.C.6.f.i to read "In surrender charge period, or in policy years 1–3 for contracts without surrender charges, 3%." and VM-21 Section 6.C.6.f.ii to read "In the first year after the surrender charge period, 60%."			

© 2024 National Association of Insurance Commissioners

Draft: 7/2/24

Life Actuarial (A) Task Force
Virtual Meeting
June 6, 2024

The Life Actuarial (A) Task Force met June 6, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Peni "Ben" Itula Sapini Teo represented by Elizabeth Perri (AS); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Robert L. Carey represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Adopted APF 2024-06 (Optional Jumbo Rates for Non-Jumbo Contracts)

Hemphill provided an overview of amendment proposal form (APF) 2024-06 and noted that it was re-exposed with optional language. She also noted that each motion will have to specify which optional language to include.

Hemphill said there were two decision points regarding optional language. The first decision point was the retroactive scope. Paragraphs b and d of Valuation Manual (VM)-22, Statutory Maximum Valuation Interest Rates for Income Annuities, Section 3.C.3 were included to address contracts issued prior to the operative date of APF 2024-06 and to separately address group and individual contracts. The second decision point regarded the election process, with the choice of either notifying the commissioner or receiving prior approval from the commissioner of the state of domicile.

Brian Bayerle (American Council of Life Insurers—ACLI) spoke on the ACLI's comments in support of this APF. Bayerle noted that the ACLI supports the scope of including both individual and group contracts, as well as having the option for a retroactive application. Bayerle also noted that the ACLI is comfortable with the option that would require the domestic regulator's approval.

Slutsker made the motion, seconded by Chupp, to adopt APF 2024-06, including VM-22, Section 3.C.3, paragraphs b and d, as well as the language "must first receive approval from the Commissioner of the state of domicile for such elections" (Attachment Four-A). The motion passed unanimously.

2. Adopted APF 2024-05 (Optional Monthly Rate Determination for Funding Agreement)

Hemphill provided an overview of APF 2024-05 and noted that it was exposed with optional language in brackets in Subsection 3.C, where it is written that the company either "shall notify" or "must receive approval from" the commissioner of the state of domicile. Hemphill noted that each motion must specify which optional language to include.

Bayerle stated that the ACLI supports this APF and prefers the language "shall notify."

© 2024 National Association of Insurance Commissioners

Slutsker made a motion, seconded by Chupp, to adopt APF 2024-05 with the first sentence below Subsection 3.C.3 reading as: "The company must receive approval from the Commissioner of the state of domicile before making such an election." (Attachment Four-B). The motion passed unanimously.

3. Adopted APF 2024-09 (Order of Operations of Interest Maintenance Reserve [IMR])

Hemphill introduced APF 2024-09, which was drafted following the suggestion from the American Academy of Actuaries' (Academy's) comment letter noting that it would be more consistent to apply the interest maintenance reserve (IMR) deduction to the scenario reserve before there was flooring at the cash surrender value amount rather than applying the IMR deduction at the end to the aggregate reserve. This APF was exposed with optional language highlighted in yellow (Attachment Four-C) because the Academy raised a concern that there could be some reserve impacts, and a transition period could be warranted. Hemphill noted, however, that the change would impact both the reserve calculation and the C3 calculation, and there would be offsetting changes. The APF was drafted to allow an optional period rather than a phase-in period.

Bayerle stated that the ACLI supports this APF and suggested Jan. 1, 2028, as the mandatory date.

Slutsker made a motion, seconded by Chupp, to adopt APF 2024-09, specifying Jan. 1, 2026, as the beginning of the mandatory period. The motion passed unanimously, with a one-year optional implementation period to handle any transitional impacts.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/06 06/Jun 6 Minutes.docx

© 2024 National Association of Insurance Commissioners

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

Identification:
Rachel Hemphill, Texas Department of Insurance

Title of the Issue:
Allow jumbo rates for non-jumbo contracts with commissioner approval.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

VM-22 Section 3.C.3

January 1, 2024 NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

VM-22 Section 3.C.3

Statutory maximum valuation interest rates for non-jumbo contracts are determined and published quarterly by the NAIC on the Industry tab of the NAIC website by the third business day of the quarter. For a given premium determination date, the statutory maximum valuation interest rate is the quarterly statutory maximum valuation interest rate published for the quarter in which the premium determination date falls.

a. For group contracts issued on or after Jan. 1, 2025, a company may elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts.
b. For group contracts issued on or prior to Dec. 31, 2024, but on or after the operative date of VM-22, a company may elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts if they made the same election for group contracts issued on or after Jan 1, 2025.
c. For individual contracts issued on or after Jan. 1, 2025, a company may elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts.
d. For individual contracts issued on or prior to Dec. 31, 2024, but on or after the operative date of VM-22, a company may elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts if they made the same election for individual contracts issued on or after Jan 1, 2025.

A company electing to use jumbo rates for non-jumbo contracts under the conditions in Section 3.C.3.a through Section 3.C.3.d above must first receive approval from the Commissioner of the state of domicile for such elections. Once a company has elected to use jumbo rates for non-jumbo contracts under the conditions in Section 3.C.3.a through Section 3.C.3.d above, the company shall continue to use jumbo rates for all such non-jumbo contracts for future valuations.

© 2024 National Association of Insurance Commissioners

4. State the reason for the proposed amendment? (You may do this through an attachment.)

This is a follow up on SAPWG's letter that permitted practices do not apply to the minimum valuation requirements laid out in the Valuation Manual. A review confirmed that permitted practices on the Valuation Manual, including on VM-A and VM-C, are not common. The majority either 1) allow the IA method for AG35 business or 2) permit valuation rates to be determined more frequently under certain circumstances. These treatments are reasonable, but there should be a level playing field for all companies. So, these methods are proposed to be incorporated in the Valuation Manual. A separate APF is addressing the frequency of rate determination for funding agreements. The IA Method is being reviewed by SAPWG NAIC support staff, as it involves hedge accounting changes as well as reserve modifications for annuity business.

Dates: Received	Reviewed by Staff	Distributed	Considered
4/1/24, 5/6/24	K.K., S.O.		
Notes: 2024-06			

© 2024 National Association of Insurance Commissioners

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

Identification:
ACLI and Rachel Hemphill, Texas Department of Insurance

Title of the Issue:
Minimum reserve requirements for deposit-type contracts with pre-defined cash flows and no withdrawal permitted that are not in scope of VM-22.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

January 1, 2024, NAIC Valuation Manual, II. Reserve Requirements, Subsection 3: Deposit-Type Contracts

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

Subsection 3: Deposit-Type Contracts

A. This subsection establishes reserve requirements for all contracts classified as deposit-type contracts defined in SSAP No. 50 in the AP&P Manual.
B. Minimum reserve requirements for deposit-type contracts are those requirements as found in VM-A, VM-C and VM-22, as applicable.
C. For deposit-type contracts with pre-defined cash flows and no withdrawal permitted prior to the contract maturity date that are not in scope of VM-22, the company may elect to consistently determine statutory maximum valuation rates with the following adjustments to the requirements found in Model #820:
   1. The statutory maximum valuation rate shall be determined monthly;
   2. The reference rate shall be defined as the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc., for the month prior to contract issue; and
   3. The statutory maximum valuation rate shall be rounded to the nearest one-hundredth of one percent (1/100 of 1%).

   The company must receive approval from the Commissioner of the state of domicile before making such an election. Such an election may be made for contracts issued on or after Jan. 1, 2025, or for contracts issued on or after the operative date of the Valuation Manual, but once a company has made such an election, the company shall continue to determine statutory maximum valuation rates using the same methodology for future valuations.

4. State the reason for the proposed amendment. (You may do this through an attachment.)

Current Methodology
- The valuation rate is determined annually and applied on a calendar year basis.
- It is based on an annual average of interest rates ending on 6/30 of the issue year:
  Val Rate = 3% + Weight x (Reference Rate – 3%), rounded to the nearest 25bps, where:
  - Weight is based on Plan Type, duration, reserve basis, presence of a future interest guarantee.
  - Reference Rate is the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the MOODCAVG.

© 2024 National Association of Insurance Commissioners

Rationale

- The monthly average rate better aligns with the yield on available assets and the interest rate environment at issue than the current valuation rate, which utilizes as the Reference Rate a twelve-month rolling average of the MOODCAVG ending on June 30 of the calendar year of issue.
- The monthly average rate is publicly available.
- The contracts are typically issued in a large size on a single day.
- Statutory reserve valuation rate is not known for the first half of the year.
- Does not result in appropriate valuation rates when there is significant movement in interest rates.
- Insurance companies can find it challenging to generate sufficient returns on new contracts in the current market to cover the higher regulatory reserve requirements.

Dates: Received	Reviewed by Staff	Distributed	Considered
03/26/2024, 4/3/24, 5/7/24	K. K, S.O.		
Notes: APF-2024-05			

© 2024 National Association of Insurance Commissioners

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

Identification:
Rachel Hemphill, Texas Department of Insurance

Title of the Issue:
Correct order of operations for IMR application in VM-21, following AAA letter.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

VM-21 Section 3.A and VM-21 Section 4.B.1

January 1, 2024 NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

VM-21 Section 3.A

The aggregate reserve for contracts falling within the scope of these requirements shall equal the SR (following the requirements of Section 4) plus the additional standard projection amount (following the requirements of Section 6) ~~less any applicable PIMR for all contracts not valued under the Alternative Methodology (Section 7),~~ plus the reserve for any contracts determined using the Alternative Methodology (following the requirements of Section 7).

VM-21 Section 4.B.1

For a given scenario, the scenario reserve is the sum of:
a. The greatest present value, as of the projection start date, of the projected accumulated deficiencies; and
b. The starting asset amount, less the allocated amount of PIMR per Section 4.D.1.a.

At the option of the company, the PIMR may be deducted from the aggregate reserve rather than the individual scenario reserves for valuation dates before January 1, 2026, but once a company elects to deduct PIMR from the scenario reserves, they must continue to do so for future valuations. When using the direct Iteration method, the scenario reserve will equal the final starting asset amount determined according to Section 4.B.4, less the allocated amount of PIMR per Section 4.D.1.a.

The scenario reserve for any given scenario shall not be less than the cash surrender value in aggregate on the valuation date for the group of contracts modeled in the projection.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

© 2024 National Association of Insurance Commissioners

This APF is to make the changes as noted in the May 2, 2024 AAA letter. A period of optional implementation was drafted, for LATF consideration, based on the AAA suggestion of a phase-in. An optional period seems cleaner than a phase-in, given the C3P2 mechanics.

Note that this APF will be distributed to both LATF and the Life RBC Working Group during exposure, as the change to deduct the PIMR from the scenario reserve not only impacts the reserve calculation (and so, indirectly the C3P2) but also directly impacts the CTE(98) calculation in LR027, as it impacts the underlying scenario reserves.

Dates: Received	Reviewed by Staff	Distributed	Considered
5/6/24	S.O.		
Notes: 2024-09			

© 2024 National Association of Insurance Commissioners

Draft: 8/15/24

Life Actuarial (A) Task Force
Virtual Meeting
May 30, 2024

The Life Actuarial (A) Task Force met on May 30, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak and Kevin Clark (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Robert L. Carey represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom and David Wolf (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Re-exposed APF 2024-08

Hemphill introduced amendment proposal form (APF) 2024-08 which clarifies the net asset earned rate (NAER) calculation in *Valuation Manual* (VM)-21, Requirements for Principle-Based Reserves for Variable Annuities. Hemphill noted the key updates that had been made since the prior exposure of APF 2024-08; including; 1) taking language detailing the selection of additional invested assets out of a guidance note to make it clear that it was a requirement; 2) revising references to the additional invested asset portfolios for consistency; 3) adding language that the company should be able to support that additional invested assets are not double counted across principle-based reserves (PBR) calculations; 4) adding language noting that reinvestments in the NAER calculation are subject to the alternative investment strategy described in VM-21 Section 4D(4)(b).; and 5) removing a paragraph that specified using actuarial judgment in the calculation of the NAER when assets are close to zero. Hemphill also suggested making one editorial change for the exposure to change "starting asset portfolio" to "total asset portfolio" in VM-21 Section 4B(3)(a)(i).

Brian Bayerle (American Council of Life Insurers—ACLI) stated that the ACLI is in support of APF 2024-08. Jonah von der Embse (American Academy of Actuaries—Academy) commented that it could make sense to add a requirement for the PBR actuary to certify that the additional assets are consistent with established investment and risk management practices. Reedy suggested that if there is a need for company certification, as the Academy suggested that a separate APF could be drafted, and Hemphill agreed.

Reedy made a motion, seconded by Chupp, to re-expose APF 2024-08 with one editorial change for a seven-day public comment period ending June 5. The motion passed unanimously.

2. Discussed AAT Reinsurance Comments

Andersen said that the Task Force would be hearing comments on the asset adequacy testing (AAT) for reinsurance exposure that occurred at the Spring National Meeting. Bayerle spoke on the ACLI comment letter (Attachment Five-A), noting that it is critical to holistically consider the credit quality of the reinsurance counterparty rather than focusing on one part of the solvency framework. Tricia Matson (Academy) spoke to the Academy comment letter (Attachment Five-B) stating that the group was somewhat divided on the approach to move forward with. Matson said that a subset of the group believed that an alternative disclosure-based approach

© 2024 National Association of Insurance Commissioners

would not require a prescribed AAT method, but others felt that the AAT approach could work if the scope was focused on high-risk reinsurance treaties. Greg Mitchell (Cayman International Reinsurance Companies Association—CIRCA) walked through CIRCA's comment letter (Attachment Five-C) and added that one commonality for CIRCA's members is that any assumed liability is fully collateralized at no less than the NAIC statutory reserve.

Aaron Sarfatti (Equitable) introduced Equitable's comment letter (Attachment Five-D) noting that regulators have demonstrated adequate concern to justify a guardrail and at the minimum such a guardrail should provide comfort to US regulators and other stakeholders. Peter Gould (Retired Annuity Consumer) discussed his comment letter (Attachment Five-E) and stated that he is dependent on the regulators to make sure that the company's behavior is appropriate and to ensure consumers collect their benefits. Alan Routhenstein (Routhenstein & Co) spoke on his comment letter (Attachment Five-F) stating that he supported the alternative disclosure-based approach described in the Academy's May 17, 2024 comment letter. Matson (Risk Regulatory Consulting—RRC) summarized RRC's comment letter (Attachment Five-G) stating that she is in favor of a solution that will result in sufficient assets backing the policyholder obligations at a level that is adequate under moderately adverse conditions but said that the focus should be on the treaties where a significant reserve reduction is occurring.

Andersen began a series of questions for discussion by asking whether the focus should be on reserve adequacy instead of the counterparty credit risk of the assuming reinsurer, and whether regulator concerns would be resolved if a company is sufficiently well-capitalized even if it did not hold adequate reserves. Carmello stated that even well-capitalized companies need to hold adequate reserves. Clark said the key question was what is the minimum level of analysis required to evaluate counterparty credit risk, particularly when there is very material exposure to a counterparty.

Andersen then asked if the total reserve held by both the US ceding company and foreign assuming company to support a block of business is being reduced through reinsurance, does the US regulator have the right to know the reasons for the reserve decrease. Bayerle responded that the appointed actuary should understand the regulatory framework and reserves associated with the counterparty and that they should document their understanding in the memorandum within the asset adequacy analysis. Carmello said that state insurance regulators and the ceding company appointed actuaries should be interested in the assuming company itself, and that the ceding company should be interested in some kind of trust for the assets that are being ceded. Weber agreed with Carmello, and noted concern that in some cases the appointed actuary may not have adequate information from the assuming company to make an informed assessment of the reserves held in support of the relevant business. Matson pointed out that Actuarial Standard of Practice (ASOP) 11 has a robust list of things that the actuary must consider as they are evaluating counterparty risk when they are doing asset adequacy testing.

Andersen asked if corrective action is appropriate if it is determined that the total reserve is based on inappropriate assumptions? Carmello commented that regulators should be able to take action but worried that it would be challenging given the current reciprocal jurisdiction reinsurer regulations. Clark commented that covered agreements would not apply since regulators have the jurisdiction over the ceding company to take corrective action. Dan Schelp (NAIC) noted that he agreed with Clark from a legal perspective. Andersen then discussed the concept of an attribution analysis regarding the reasons for the total reserves going down after a reinsurance transaction. Andersen said the attribution analysis would reveal potentially very legitimate reasons for reserves to be different in a different jurisdiction than the US. Wolf said that he supported quantitative safeguards and doesn't just want this effort to tweak the disclosures already required for the appointed actuary.

Having no further business, the Life Actuarial (A) Task Force adjourned.

© 2024 National Association of Insurance Commissioners

Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

Colin Masterson
Policy Analyst
202-624-2463
ColinMasterson@acli.com

May 17, 2024

Rachel Hemphill,
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Re: Asset Adequacy Analysis for Reinsurance Exposure

Dear Chair Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the Asset Adequacy Analysis for Reinsurance Ceded by Life Insurers exposure which was released for public comment on March 17th. ACLI appreciates regulators' interest in this and other NAIC efforts to gain additional insight into reinsurance transactions as part of their ongoing work to ensure policyholders are protected. We also look forward to continued collaboration with regulators to craft constructive and appropriate approaches that accomplish this goal.

Regarding the current LATF exposure, ACLI recommends a framework focused on the creditworthiness of the reinsurer with an enhanced and escalating set of reinsurance-related documentation requirements along with tiers of escalation based on the materiality of the reinsurance transaction. The requirements need to be principle-based due to the complex and bespoke nature of many reinsurance transactions. Such requirements would get to the core issue of whether a counterparty can make good on its obligations and would address the issue by requiring the most rigor where risk is the greatest. It would promote constructive dialogue between regulators and the company and strengthen insights into an insurer's use of reinsurance transactions while still maintaining strong policyholder protections. Critically, it would also ensure that reinsurance continues to be available as an essential tool to manage risks and deliver affordable insurance and retirement solutions to consumers.

We note there are several concurrent efforts at the NAIC related to reinsurance. We suggest the NAIC take a broader view to address these concerns and ensure coordination of the efforts at LATF, the Statutory Accounting Principles (E) Working Group, and other NAIC groups working on

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.
acli.com

these issues. Such an approach avoids duplication of work, promotes consistency, and ensures concerns are understood and addressed.

Please find below the basic principles and documentation requirements of such a framework for LATF consideration. While certain specifics will need to be tailored to address specific concerns of regulators, the framework is conceptually sound and can be adjusted as necessary.

Principles of ACLI's Proposed Framework for Enhanced Assessment of Reinsurance Credit Risk:

- The framework should focus holistically on the **credit quality of the reinsurance counterparty**, not a narrow focus on a single element of the solvency framework (e.g., reserves held by counterparty). Said another way, the focus should be on assessing the ability for the reinsurer to meet its obligations in terms of timing and amount under moderately adverse conditions. From a practical perspective, reinsurance obligations are often met by other sources of cash flow beyond invested assets (e.g., new premiums, capital account investment income, profits from other businesses).

- The framework should be **proportional**, i.e., the more material the risk that the reinsurance obligation is to a cedent or the counterparty, the more rigor is required. Materiality should be viewed relative to the amount of risk in the liability. In some cases, the size of the transaction relative to the size of the cedent or assuming company may also be material, but that is not always the case.

- Aggregation of risks is a foundational premise of the insurance industry and must be a cornerstone of any framework or tools the NAIC moves forward with to enhance state regulator insight into and comfort with reinsurance transactions. The long-term adequacy of a company's assets is not determined by a single liability or asset type, but rather the overall performance of the company across all functions. Any analysis performed should allow full aggregation as part of a holistic review by the Appointed Actuary. Requiring analysis at a more granular level, even at the level of a specific counterparty, could produce misleading results, as insurance companies are not managed in that manner and could lead to an artificial appearance of a shortfall in assets.

- The framework should be **risk-based** with a focus on appropriate disclosures. The disclosure should be commensurate with risks associated with subject business. The onus should be on the Appointed Actuary for full and fair disclosure related to the materiality of the underlying risks associated with each transaction, including the materiality of each risk, and the company's ability to bear these risks in aggregate.

- The framework should respect jurisdictional differences in insurance regulation, focus on the ability of regulatory frameworks to achieve comparable supervisory outcomes to the state-based system in totality, and comport with both the U.S.-EU and U.S.-UK Covered Agreements and the Credit for Reinsurance Model Law and Regulation.

- No adjustment to reinsurance within asset adequacy analysis would be required where evidence exists that the counterparty can meet its obligations.

- The documentation should be sufficient to allow regulators to identify outliers. Identifying outliers will allow regulators to discuss any concerns with the company in their review work.

© 2024 National Association of Insurance Commissioners

- The framework should establish reasonable standards to be applied consistently across states/jurisdictions to avoid creating an unlevel playing field.

ACLI's Proposed Framework for Enhanced Documentation Requirements:

- **Baseline requirements** for all insurers with material reinsurance:
    - Where reinsurance is material, the Appointed Actuary would be responsible for documenting an assessment of the creditworthiness of reinsurance within the Actuarial Memorandum. Special attention would be given to material reinsurance obligations and those that have greater risk exposure.
    - For any reinsurance obligation that presents material risk exposure, the assessment of creditworthiness could include some combination of the following:
        - The reinsurer's current financial condition and credit standing, and the potential for these conditions to change.
        - The extent to which counterparty exposure is collateralized.
        - Contractual treaty provisions for non-performance.
        - Special features of the reinsurer's regulatory environment.
        - Sensitivity analysis or stress testing.
        - Actual or anticipated credit events.
    - The cedent can group transactions of similar reinsurance type if appropriate.
    - If reinsurance is material in aggregate, but no single treaty is individually material, creditworthiness would be assessed for the largest treaties.
- **Supplemental requirements** for a subset of insurers with larger, asset intensive treaties:
    - Required documentation elements for material reinsurance obligations:
        - The rationale for the treaty.
        - A one-time, high-level best efforts assessment of reserve differences between the U.S. statutory framework and the reinsurer's framework.
        - Governance and risk management information about the insurer's monitoring of reinsurance counterparty risk.

Timing and Applicability:

Critical to the discussion of applicability and retroactivity is the amount of effort for companies to implement the requirements. That is, the more significant and prescribed the requirements, the longer the implementation window that will be required. A documentation-based framework such as the one suggested above can be implemented more quickly than a framework that has new quantification or modeling. Further, there may be practical and operational limits that could impair application to treaties issued prior to the effective date of the requirements, which should be considered when establishing guidance.

We believe there should be a targeted scope of requirements. We would propose the following exemption requirements to limit low-value work:

- Treaties issued before 1/1/2022;

© 2024 National Association of Insurance Commissioners

- Treaties where a VM-30 Report or equivalent report with an opinion following the domestic requirements of the assuming company;
- Treaties with reciprocal jurisdictions;
- Treaties that do not meet the materiality thresholds as established by the Appointed Actuary;
- Treaties where base statutory reserves (including those held as funds withheld, collateral such as comfort trusts, reinsurance trusts) are at least as great as the levels required in the US and considered in light of assuming company capital requirements; or
- Treaties of traditional mortality YRT business.

We also suggest the Appointed Actuary should be allowed to voluntarily include earlier or immaterial treaties in their analysis of the overall adequacy of company assets.

Thank you once again for your consideration of our comments and we look forward to additional opportunities to discuss this issue in the near future.

Sincerely,



cc: Scott O'Neal, NAIC, Fred Andersen (Minnesota), and Ben Slutsker (Minnesota)

© 2024 National Association of Insurance Commissioners



May 17, 2024

Rachel Hemphill
Chair, Life Actuarial (A) Task Fore
National Association of Insurance Commissioners

Re: AAT Reinsurance Exposure

Dear Chair Hemphill:

On behalf of the Asset Adequacy and Reinsurance Issues Task Force (AARITF) of the American Academy of Actuaries,[1] I appreciate the opportunity to provide comments to the Life Actuarial Task Force (LATF) regarding the "AAT Reinsurance Exposure 031724" (the Exposure). The AARITF believes this is an important issue and appreciates LATF's consideration of public comments.

In response to the Exposure, the AARITF offers the following feedback. As LATF requested with the Methodology portion of the Exposure, AARITF has considered the Exposure as drafted as well as alternatives. Some members of AARITF view the Exposure as a good starting point to address regulator concerns. Others feel differently and suggest that an alternative approach, such as a disclosure-based approach, may be more appropriate and should be explored. Our comments below reflect both perspectives, starting with the suggested alternative approach, followed by specific comments on the Exposure itself.

A. Alternative Disclosure-Based Approach

LATF may want to consider using an alternative disclosure-based approach, which we've described below.

LATF could consider introducing a confidential filing, implemented via actuarial guidelines (AGs), directing any non-exempt insurer to offer additional disclosures addressing specific areas of concern. These disclosures, which could be both qualitative and quantitative, could then be

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

© 2024 National Association of Insurance Commissioners

used by the domiciliary regulator and the NAIC's Valuation Analysis (E) Working Group as a means to confidentially identify life insurance companies that have reinsurance agreements that may reduce assets to a level that is insufficient to support policyholder obligations or provide inadequate disclosure or insufficiently robust assessment of the reinsurance-related concerns identified by regulators. In this manner, the disclosure could be used by domestic regulators to encourage improvements.

In adopting this approach, the additional disclosures could leverage existing assessments, evaluations, and calculations already performed by the cedent. This may include the cedant's exposure to uncollectible reinsurance. Leveraging existing work products reduces the effort needed by companies to respond to regulatory concerns and may allow for a timelier response to regulatory need for increased transparency.

The implementation of a disclosure-based requirement could also serve to strengthen company practices relating to counterparty assessment over time, as clarifications are made to the AG and feedback is provided from regulators to Appointed Actuaries. The information provided in such filings could be further studied to assess the regulatory concerns, rather than implementing changes to long-standing Asset Adequacy Testing / Analysis (AAA) requirements without sufficient time to thoughtfully evaluate the implications. Such an approach also better aligns with the long-standing ability of the Appointed Actuary to apply appropriate judgment based on their understanding of the specific facts and circumstances of the reinsurance arrangements, supported by the principle-based actuarial standards of practice (ASOPs).

Should LATF be interested in additional details related to an alternative disclosure-based approach, we would be happy to participate in further discussions.

B. Comments on the Exposure

Having reviewed the proposed language in the Exposure, it would seem reasonable to allow Appointed Actuaries to apply judgment in the selection of an AAA method. We recognize that reinsurance has proved to be an effective risk mitigation tool and believe that changes to AAA requirements should not discourage the use of reinsurance for mitigating risk. We also believe that a broadly prescriptive approach may introduce a burden on companies without commensurate benefit. However, there may be instances in which certain reinsurance transactions lead to regulatory questions about the level of assets available to support policyholder obligations. Consequently, we have the following specific feedback on the Exposure.

Terminology

- There appears to be a subset of reinsurance transactions that could create regulatory policyholder protection concerns that are not addressed by the existing AAA

requirements. Therefore, any proposed solution should target those transactions specifically. Such a solution should enhance the actuary's review of such transactions, rather than broadly encompassing all reinsurance transactions. Introducing additional testing requirements for all reinsurance transactions would cause significant additional work for Appointed Actuaries—in some cases without any associated benefit. This could discourage the use of reinsurance, which has been proven to be an effective risk mitigation tool. Further, requiring such testing to be applied without consideration of the specific reinsurance context may result in an incomplete assessment or misimpression of the actual risks.

- For the reasons described in the preceding bullet, we believe that scoping out the following situations might be appropriate:
    - The assuming company submits a VM-30 actuarial memorandum to a U.S. state regulator, or
    - The Appointed Actuary demonstrates that the assuming company holds reserves, either directly or via alternative structures such as funds withheld or assets in trust, that are not materially lower than the cedant's U.S. statutory reserves. A specific materiality threshold could be set for this, or
    - The collectability risk associated with the assuming reinsurer is assessed as insignificant and the Appointed Actuary can demonstrate that it is insignificant. A specific significance threshold could be set for this, or
    - There is objective evidence provided by the Appointed Actuary that assets backing reserves held are adequate to cover moderately adverse conditions.
- Rather than including all treaties with affiliates, such treaties should also be scoped out if they meet at least one of the four criteria as mentioned above, for the same reasons as outlined. Providing specificity on the types of reinsurance treaties that will be in scope also seems reasonable to include.

Materiality

- We would support scoping out treaties that have an immaterial impact on the cedant's overall financial position—for example, a treaty for which reserves ceded are below specified percentages of net reserves and statutory surplus, each determined prior to the application of any new AAA requirements. The aggregate materiality (i.e., the materiality of a combined set of immaterial reinsurance treaties) should also be considered, to prevent inadvertently scoping out multiple treaties that may be individually immaterial

© 2024 National Association of Insurance Commissioners

but material when considered in aggregate. A requirement for Appointed Actuaries to provide supporting rationale for scoping out immaterial treaties may also be helpful.

Aggregation

- ASOP No. 22, *Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Other Liabilities*, provides guidance on the aggregation of multiple blocks of business when performing AAA. It requires the actuary not use assets or cash flows that are otherwise encumbered (due to reinsurance or otherwise) to discharge reserve and other liabilities relating to other business if those assets or cash flows cannot be used for that purpose. We encourage an approach that aligns with ASOP No. 22, allowing for aggregation in instances when the assets or cash flows from one block of business are available to support the reserves and liabilities of another block of business.

Methodology

- Review of the counterparty risk exposure is a critical component of AAA when material reinsurance exists regardless of the method used for AAA. In some instances, a robust evaluation of the counterparty's ability to make good on its reinsurance obligations may be sufficient to satisfy AAA requirements.

- We recommend maintaining a principles-based approach that allows for actuarial judgment. Although this may result in a range of reserve levels for any given situation, we believe this is consistent with a principle-based reserving system in which it is incumbent upon the actuary to follow laws, regulations, and actuarial practice to develop these results. We believe that any sort of "mirror reserving" requirement may conflict with the Appointed Actuary's ability to provide an individual opinion on reserve adequacy. It may also conflict with the particular facts and circumstances of the entity for which the actuary is opining.

Retroactivity & Applicability

- The application of a new requirement to in-force treaties would likely present challenges for Appointed Actuaries. Although performance of AAA is already required, many Appointed Actuaries use methods other than cash flow testing (CFT), such as evaluation of counterparty risk or use of cash flow or stress testing analysis performed by the reinsurer. Therefore, many Appointed Actuaries do not currently have the full set of data that is needed to perform CFT on reinsured businesses (such as data on the assets backing the reinsured liabilities). If new AAA requirements apply prospectively to treaties entered into after the effective date of the change, ceding companies should be able to negotiate

reporting requirements within the reinsurance treaty terms that grant access to sufficient reinsurer information. This would then allow the ceding company Appointed Actuary to meet the new requirements for the actuarial opinion for each treaty. To the extent that the reinsurer applies a broader level of aggregation and, thus does not segregate its invested assets for a specific treaty that is in scope, the actuary of the reinsurer and/or the cedant would need to use judgment to make assumptions about how such broader aggregation of reserves and invested assets might be allocated to a specific treaty.

Other General Comments

In addition to the specific comments above, AARITF also offers the following additional considerations.

- Regardless of the approach taken, evaluation of counterparty risk will still be important and is required by ASOP No. 11, *Treatment of Reinsurance or Similar Risk Transfer Programs Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports*. ASOP No. 11 requires that actuaries working for U.S.-based life insurers understand the risks and benefits to their company when entering into reinsurance arrangements, including the purpose of the reinsurance arrangement, its impact on retained business, the nature of the counterparty, the potential exposure they face to the counterparty, the ability of the counterparty to fulfill their obligations under the terms of the reinsurance arrangement, and any counterparty risk mitigating features of reinsurance arrangement.
- Considering the relatively recent emergence of this issue, as well as the proposed solutions, further study of the range of transactions and associated risks may be warranted. This could be done using new information gleaned from the alternative disclosure approach outlined herein or via additional AAA requirements. We would be happy to assist LATF with further analysis of this issue.

*****

If you have any questions or would like to discuss these comments further, please contact Amanada Barry-Moilanen, the Academy's life policy analyst.

Sincerely,

Tricia Matson, MAAA, FSA
Chairperson, Asset Adequacy and Reinsurance Issues Task Force

© 2024 National Association of Insurance Commissioners



May 17, 2024

Rachel Hemphill,
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Dear Chair Hemphill:

Thank you for the opportunity to submit comments on the Life Actuarial (E) Task Force (LATF) exposure related to asset adequacy analysis for reinsurance ceded by life insurers. I write as a representative of the Cayman International Reinsurance Companies Association (CIRCA). CIRCA is the industry group for commercial reinsurers located in the Cayman Islands, dedicated to fostering the industry through peer interaction, advocacy and education on topics impacting the regulatory and business environment.

Due to the complex nature of reinsurance transactions, CIRCA would like to specifically address LATF's request for information on materiality and scope. On behalf of our member companies that reinsure life and annuity business from U.S. domiciled ceding companies, the following addresses the discussion of requiring, under certain conditions, ceding companies to conduct asset adequacy testing in isolation on blocks of life and annuity business ceded to offshore reinsurance companies.

All life and annuity reinsurance agreements between U.S.-based ceding companies and our current member companies (Cayman Islands licensed reinsurers) are fully collateralized at U.S. statutory reserve levels. The assets providing this collateral are held in the U.S. in qualifying reserve credit trusts or in custodial accounts by the ceding company and carried on the ceding company's balance sheet.

Each Cayman Islands licensed life and annuity reinsurer files an annual Actuarial Valuation Report with the Cayman Islands Monetary Authority (CIMA). The Actuarial Valuation Report is compliant with the requirements of the International Association of Insurance Supervisors (IAIS), of which, CIMA is a founding member.

CIRCA appreciates the opportunity to provide this additional context on relevant transactions of our members. We would welcome the opportunity to discuss further the level of materiality of risk of such transactions.

Sincerely,

David Self



Chair of Board of Directors
Cayman International Reinsurance Company Association

Cc: Greg Mitchell, Vice Chair, CIRCA Board
Sehli Dube, Chair, CIRCA Regulatory Committee
Rachel Funk, Vice Chair, CIRCA Regulatory Committee

© 2024 National Association of Insurance Commissioners



Aaron J. Sarfatti
Chief Strategy Officer and
Head of Institutional Business and New Ventures

May 17, 2024

Mr. Scott O'Neal
Life Actuary, Financial Regulatory Services
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

via email: soneal@naic.org

Re: Asset Adequacy Analysis for Reinsurance

We are pleased to provide Equitable's perspective on the document titled "AAT Reinsurance Exposure 031724" that was exposed for comment by the Life and Annuity Task Force ("LATF") on March 17, 2024 (the "AAT Exposure").

This letter offers six principal positions for consideration by LATF regarding the governance of Asset Adequacy Testing ("AAT") for reinsurance ceded from US onshore entities. Our letter focuses on the Methodology, Materiality, Applicability and Aggregation aspects of the AAT Exposure. While in principle we concur with the retroactivity suggestion to 1/1/2020, we think regulators should use discretion when applying governance retroactively to reinsurance treaties developed on or after 1/1/2020 (but prior to a more recent effective date), in particular in circumstances when reinsurer reserve data is difficult to ascertain or was not considered in the formulation of the treaty to consider reserve availability.

1. **A reserve guardrail is warranted.** Regulators have demonstrated the potential for firms to reduce total asset requirements (TAR) – and thereby policyholder security – by engaging in asset-intensive reinsurance. Such reductions in TAR are achievable particularly with respect to reserves, which typically comprise ~92% of TAR.

2. **Simple metrics should be explored for the reserve guardrail.** Regulators should consider whether a full AAT projection is necessary given the additional operational requirements. A single scenario present value calculation – like Greatest Actuarial Present Value (GAPV) – may be sufficient for covering treaties with limited embedded optionality. A GAPV (or alternative) approach would require comparing this approach to the market value of assets backing assuming company reserves.

© 2024 National Association of Insurance Commissioners

3. **LATF can leverage existing NAIC guardrails, but any such guardrails should not be overreaching that could otherwise create unintended and uneconomic consequences to insurance companies.** Any guardrail (e.g., methodology or assumption) can lean on the vast work done through recent and ongoing US valuation and capital standard reforms (e.g., VM-21, VM-22, AG53). However, there may be uneconomic elements that merit exclusion or exceptions to these guardrails, such as negative IMR and the CSV reserving floor. Regulators should also consider whether company-by-company exceptions to the guardrails can be justified, with burden of proof on the US cedant, and subject to regulatory approval on case-by-case basis.

4. **A dual-threshold materiality test should be established to determine whether a cedant must perform reinsurance AAT testing (Materiality and Applicability).** The first threshold should be set at a level appropriate for determining whether the magnitude of a US entity's ceded reinsurance poses a threat to the ceding entity's solvency (e.g., reinsurance TAR benefit as percentage of cedant's surplus). If that threshold is exceeded, a second threshold should be applied to determine which reinsurance treaties must be tested (e.g., ones where reinsurance TAR benefit is "outsized"). This type of approach would concentrate regulator and industry attention on those firms whose reinsurance TAR reductions, if any, have the potential to account for a material portion of the cedant entity surplus. Further, treaty aggregation should be permitted within unique pairs of assuming and ceding entities.

5. **Adoption of a guardrail-based approach with materiality thresholds will alleviate the implementation burden of enhanced AAT scrutiny.** The anticipated small set of firms subject to these thresholds would ensure that the scope of reinsurance testing is focused only on the treaties and parties of the highest importance.

6. **To promote consistency of reserve guardrails in all arenas, regulators should consider similar reforms for US AAT governance.** Regulators should create and advance initiatives for AAT that utilize similar guardrails for all ceded reinsurance (e.g., US and non-US, captives and non-captives).

We would welcome the opportunity to discuss the concept of guardrails and potential approach and methodologies with regulators. This comment letter offers an introduction to the guardrail concept for initial discussion and feedback. As the US framework continues to evolve, such as with the VM-21 revamp and the finalization of VM-22, we plan to propose more specific methodologies and guardrails (e.g., asset spread caps, policyholder behavior assumptions).

Sincerely,



Aaron Sarfatti
Chief Strategy Officer and Head of Institutional Business and New Ventures

PETER GOULD

May 17, 2024

Life Actuarial (A) Task Force
NAIC

Re: AAT Reinsurance Exposure 031724 - https://content.naic.org/sites/default/files/inline-files/AAT%20Reinsurance%20Exposure%20031724.pdf

Dear Members of the LATF:

I'm a retiree and an end-user/consumer of the products that you're charged to oversee and regulate. My wife and I depend on variable annuities with Guaranteed Lifetime Withdrawal Benefits to provide us with a predictable and secure retirement income. While our annuity contracts clearly spell out the obligations of our insurers to provide our retirement benefits, the contract provisions do not extend to ensuring that our insurance carriers behave responsibly and remain viable and solvent so that they fulfill their contractual obligations to us. For that assurance, we depend on you, our regulators.

The SECURE Act provisions that encourage in-plan annuities in qualified plans, will accelerate the use of annuities for predictable retirement income and it's very likely that for many affected consumers, their annuities will exceed State Guaranty Fund maximum coverage limits. The last thing we retirees want to be doing is trying to reclaim our monthly retirement incomes through our State Guaranty Fund while in the throes of cognitive decline, when some of these reinsurance deals blow up.

In working my way through Mr. Andersen's presentation materials from the NAIC spring meeting and the letter from Mr. Wolf and Mr. Clark, I want to register my full support for anything you can do to improve transparency and rigorous oversight of US insurer's asset adequacy for reinsurance ceded by life insurers - especially to offshored and captive reinsurers, as well as to co-insurance arrangements:

As Mr. Andersen has shown in his spring presentation, these reinsurance strategies can result in serious shortfalls in both available reserves and Total Asset Requirements.

First, in reviewing the materials as a consumer, it seems to me that there's a notable level of deference to what might be convenient or expedient for the companies that have chosen to employ the reinsurance strategies as described in the materials. While I understand professional cordiality, mutual respect and common stakeholder concerns, the level of deference to the "regulated" gives the impression of a relationship that's too "comfortable". Don't get me wrong - I'm a believer in insurance products - I just don't want to be a ward of my State Guaranty Fund! As the additional reporting and analysis called for in the proposal will only apply to companies using such strategies, it's only right that the protection of contract owner interests should be your highest priority, rather that the additional compliance costs incurred by companies choosing to employ these strategies.

Regarding the aspects of this proposal for which you are currently accepting comments, I offer the following:

P.O. Box 8815 Bloomington, IN 47407-8815 gizmo@petergould.com

© 2024 National Association of Insurance Commissioners

1. Terminology - The terminology and details on the concept of testing for reserve adequacy when business is ceded, including in situations where the assuming company does not submit a VM-30 actuarial memorandum to a US state regulator, the assuming company holds reserves lower than US statutory reserves, collectability risk associated with the assuming reinsurer is significant, or the treaty involves an affiliated transaction.

In the interest of protecting contract owners, I think that in all of the above scenarios, full and rigorous testing should be required without a carve out for VM-30 filers.

The alchemy of reinsurance, which results in a reduction in reserves - especially with a captive or offshore reinsurance arrangement or through co-insurance is detrimental to contract owners.

A domino effect could be triggered by a ceding company's insolvency (perhaps due to market value declines in illiquid assets) when combined with the reinsurer's reduced reserves (also invested in illiquid assets). State Guaranty Funds, which admittedly are the final backstop for consumers, are not tracking their exposure to insurer and reinsurer failure on a statewide basis nor on a company-by-company basis.

Although a company may have substantially high capital, it does not offer the contract owner the protection afforded by adequate reserves. For example, if Manulife (holding company) has substantial capital, but my contract is with John How can it not be obvious that most reinsurance transactions with offshore and/or captive reinsurers are driven by reserve reduction? The release of capital is featured in almost every trade article about a reinsurance deal.

2. Materiality - Narrowing the scope on requirements for the ceding company to test the adequacy of reserves while not violating existing federal laws and rules and in-force covered agreements.

As someone at the low end of the NAIC learning curve, I'm not sure of the meaning of "narrowing the scope" - if it means closer and deeper scrutiny of reinsurance arrangements, I strongly support it.

3. Aggregation - Allowing an appropriate level of aggregation to account for availability of cash flows to support a certain treaty or a certain group of treaties.

If the reinsurance arrangement results in a reduction of reserves, then aggregation should not be permitted, as it will be detrimental to contract owners.

4. Retroactivity & applicability – Initial proposal: include treaties developed on and after 1/1/2020 while companies can voluntarily include earlier treaties. Is additional language needed on which treaties can be exempted?

Peter Gould gizmo@petergould.com

© 2024 National Association of Insurance Commissioners

For selfish reasons, I'd propose making the changes retroactive to 1/1/2017. Short of that, how about making them retroactive initially to 1/1/2020, with a gradual extension of retroactivity - i.e. if proposal becomes effective in 2025 it would be retroactive to 1/12020, then in 2026, it would be retroactive to 1/1/2019, etc. maybe go back to 2015 this way.

I support allowing companies to voluntarily include earlier treaties.

I am opposed to any exemptions for treaties, as they would be detrimental to contract owners.

5. Methodology – Are there any approaches that could serve as an alternative to cash flow testing to appropriately demonstrate the adequacy of reserves, and assets supporting such reserves, while still providing a level of rigor and quantification that provides comfort to regulators reviewing this analysis? Likewise, are there ways to design a cash-flow testing requirement that would be more efficient or less burdensome than others?

This wording of this point, is what precipitated my comment above about regulators becoming too comfortable with the regulated. Any testing approaches that are less rigorous, in-depth, transparent or comprehensive should not be considered. This proposal is in direct response to companies who have chosen to employ these strategies. Protecting contract owners should be the primary focus here - not easing regulation because it's burdensome or inconvenient.

As you can tell from the technical depth of my comments, I'm a rank neophyte and low on the NAIC learning curve. However, that doesn't diminish my concern and passion in protecting my retirement income.

Thanks for your consideration of my comments and the work that you do on LATF.

Yours truly

Peter

Peter Gould

Peter Gould gizmo@petergould.com

© 2024 National Association of Insurance Commissioners

May 17, 2024

Ms. Rachel Hemphill
Chair, Life Actuarial (A) Task Force (LATF)
National Association of Insurance Commissioners (NAIC)

Re: LATF's March 17, 2024 AAT Reinsurance Exposure

Dear Ms. Hemphill,

I am submitting this comment letter to you as President and Consulting Actuary of Routhenstein & Co, rather than on behalf of the Academy. Please note that I am Co-Chair of the Academy's Asset Adequacy and Reinsurance Issues Task Force (AARITF), which provided a May 17 comment to LATF on this topic.

I strongly believe that the March 17 exposure is not a good starting point to address regulator concerns. Instead, I am supportive of the alternative disclosure-based approach described in the Academy's May 17 comment letter. I believe that most LATF members would also be supportive if they could envision how the details might be filled in to address regulatory concerns raised in the March 17 exposure. However, with the current absence of such details I suspect that some of those LATF members might find that it difficult to support the Academy's May 17 alternative disclosure-based approach over a refined version of March 17 exposure. **Below I summarize one possible way to implement the Academy's May 17 alternative disclosure-based approach, and then summarize some of the advantages of such an approach over the March 17th exposed approach**.

As one way to implement the Academy's May 17 alternative disclosure-based approach, I suggest that the quantitative disclosure in the confidential filing be required to include a principles-based measurement of the cedant's exposure to noncollectible reinsurance. There would be a description of one or more simplified ways to perform the calculation, where more sophisticated approaches would be encouraged, and where all calculations would be based upon the actuary's professional judgment. The required quantitative disclosure might include the following:

a. The present value of future reinsurer default costs (calculated i) by the insurer in a manner similar to VM-20 requirements for corporate bonds or to how the insurer calculates corporate bond default costs for Asset Adequacy Testing / Analysis (AAA), and ii) net of acceptable collateral that mitigates the insurer's credit exposure. If the company has any reinsurance ceded to a reinsurer for which a PBR Credit Rating could be determined, the filing would require the actuary to document how default costs are determined for any such reinsurers.
b. The present value of any future reinsurer default costs currently reflected in the insurer's AAA.

© 2024 National Association of Insurance Commissioners

c. The insurer's modified total adjusted capital (TAC) if a provision for "a" were reflected in AAA requirements.
d. The insurer's modified Company Action Level RBC Ratio if a provision for "a" were reflected in AAA requirements.

Below is a summary (the details of which could be provided to LATF as follow-up) of the many advantages that such a principles-based default cost disclosure approach ("DCD") has over the 2024-03-17 exposure which I'll refer to as a vanishing treaty calculation approach ("VTCA").

a. DCD could easily be applied to a much broader span of inforce and new treaties than VTCA.
b. In a manner substantially better than VTCA, DCD helps the cedant's regulator fulfill its most important AAA oversight responsibility - to ascertain whether the cedant's reserves and supporting assets (including reinsurance ceded) make adequate provision for the cedant's policy liabilities.
c. It would be much easier for the Valuation Analysis (E) Working Group to determine DCD outliers than VTCA outliers.
d. DCD involves principles-based collectability risk assumptions, where VTCA does not.
e. DCD, unlike VTCA, could be used as a comprehensive credit risk monitoring tool by the NAIC's Financial Stability (E) Task Force.
f. DCD could be prudently implemented more quickly than VTCA, as the latter would warrant a field test to determine what impact it might have on the industry.

I would be pleased to discuss this concept further with LATF.

Best regards,

Alan J. Routhenstein, FSA, MAAA
President and Consulting Actuary, Routhenstein & Co.
e-mail: Alan@Routhenstein.com
Mobile: +1 (973)-900-3808
LinkedIn: https://www.linkedin.com/in/alan-routhenstein-67736820/

© 2024 National Association of Insurance Commissioners

Memo

To:	Rachel Hemphill, FSA, MAAA, FCAS, Life Actuarial Task Force
From:	Patricia Matson, FSA, MAAA, Partner, RRC
Date:	May 10, 2024
Subject:	RRC Comments Regarding LATF's March 17th AAT Reinsurance Exposure

Background

The Life Actuarial Task Force (LATF) is requesting comments on the AAT Reinsurance Exposure that was released on March 17, 2024.

RRC appreciates the opportunity to offer our comments. Should you have any questions, we would be glad to discuss our comments with you and Task Force members.

RRC Comments

We appreciate the work LATF has undertaken to address what we believe is a critical industry issue, namely the significant use of reinsurance, including offshore reinsurance, to provide US insurers with material reserve and capital relief.

RRC has assisted regulators in reviewing a variety of reinsurance transactions that result in material reductions in the total asset requirement (TAR) backing the policyholder obligations. We understand that while these transactions are executed for a variety of appropriate business and financial strategies, we also believe that in some cases they can result in reserves or capital that are reduced to a level that raises questions about their appropriateness from a policyholder protection perspective. Below we outline our suggestions as they relate to each item in the exposure draft. We have also included commentary regarding disadvantages associated with certain alternative approaches that have been discussed in the industry.

Terminology

The Valuation Manual currently requires that "[t]he statement of actuarial opinion must apply to all in-force business on the annual statement date, whether directly issued or assumed, regardless of when or where issued." In providing this opinion, the appointed actuary is required to opine on whether "[t]he reserves and related actuarial items, when considered in light of the assets held by the company with respect to such reserves and related actuarial items including, but not limited to, the investment earnings on the assets, and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision, according to presently accepted ASOPs, for the anticipated cash flows required by the contractual obligations and related expenses of the company." Based on this, Appointed Actuaries should already be performing AAT on all direct business whether reinsured or not.

© 2024 National Association of Insurance Commissioners

In the case of business for which cash flows vary under different economic scenarios ("economically sensitive business"), we believe that cash flow testing is appropriate, and this aligns well with ASOP 22 which states "Cash flow testing is generally appropriate where cash flows vary under different economic scenarios." We support a proposal that would require Appointed Actuaries to use cash flow testing (CFT) for economically sensitive business that is reinsured, and also suggest the following additional conditions under which CFT would be required:

1. The reinsurance agreement transfers investment risk to the reinsurer, so for example coinsurance, modified coinsurance, and coinsurance with funds withheld. If the agreement does not transfer investment risk, then CFT of the reinsured business may not be necessary.
2. The reinsurer is not already subject to VM-30 (since in such cases, material reductions in TAR are less likely and the reinsurer is likely already performing CFT on the reinsured business).
3. Alternatives could be allowed, subject to regulatory approval, for treaties that were already inforce at the time of adoption of a CFT standard if there are significant data availability issues. We note that most treaties include provisions allowing for changes due to changes in law, and therefore it seems that most companies could therefore obtain necessary data to perform cash flow testing. However, we recognize this may not always be the case, and therefore some allowance for an exemption may be needed.

In the case of business for which cash flows do not vary under different economic scenarios, we do not believe that cash flow testing should be mandated. If significant TAR reductions are occurring for any such business, an alternative requirement such as a gross premium valuation may be appropriate. However, we have not seen specific cases involving non-economically sensitive business.

Materiality

We would suggest use of an exemption process similar to item 3 above for immaterial treaties. Alternatively, perhaps ceded reserves below some percentage of surplus, such as 5%, could be exempted from the cash flow testing requirement.

Aggregation

We do not believe that assets should be aggregated across different reinsurers. In the event a cedant has multiple treaties covering similar business with the same reinsurer and the Appointed Actuary determines and documents that the reinsurer supports both treaties with the same pool of assets, aggregation may be appropriate. ASOP 22 already states "the actuary should not use assets or cash flows from one block of business to discharge the reserves and other liabilities of another block of business if those assets or cash flows cannot be used for that purpose."

We do not believe that the ceded business should be aggregated with other direct written business unless the respective durations of the businesses are sufficiently similar. For example, if a company cedes long duration payout annuities and the asset backing reserves are significantly lower post-reinsurance, combining that block with short duration deferred annuities may show that aggregate reserves are sufficient. However, once the short duration block runs off, there may be a shortfall in assets without any guarantee that there are available assets to cover that shortfall. While this potential outcome already exists for the retained business, the retained business can be monitored closely by the cedant Appointed Actuary and the domestic regulator. If the "offsetting" blocks are spread across entities and jurisdictions close monitoring may be challenging.

© 2024 National Association of Insurance Commissioners

In some situations, aggregation may be reasonable. We would encourage a regulatory review process for this so that individual facts and circumstances could be considered. For example, aggregation may be appropriate for blocks of business with similar characteristics and reinsured to the same reinsurer.

Retroactivity and Applicability

We believe that the proposed 1/1/2020 start date is reasonable, but we suggest including an exemption process as described in item 3 under Terminology above. There may be situations in which an Appointed Actuary simply cannot obtain the necessary data to comply, so an exemption process for those situations would allow for such circumstances without requiring an Appointed Actuary to issue a qualified opinion.

Methodology

We believe that any company ceding reserves for economically sensitive business to a reinsurer has an obligation to understand how the reinsurer is managing the assets and mitigating risk. Most agreements include investment guidelines. Therefore, it seems that the Appointed Actuary should be able to gain some insight into how the reinsurer is investing. While it is true that the Appointed Actuary may not be able to obtain sufficient details to model each actual asset backing the business, reasonable approximation methods could be used. Therefore, as noted above, we are in favor of prescribing cash flow testing for economically sensitive business.

A possible alternative, even for economically sensitive business, may be use of a gross premium valuation (GPV). However, if a GPV is used for economically sensitive business, we believe that it would be important for the Appointed Actuary to consider a range of scenarios, including alternative discount rate assumptions, to appropriately capture moderately adverse conditions. Since asset risks cannot be directly modeled in a GPV, we would also recommend that additional margins be required, in particular if the underlying asset mix includes material high yielding assets with risks such as illiquidity, credit, and cash flow delay or prepayment risks.

Other Comments

We have the following additional comments based on our participation in the ongoing public debate and alternative solutions that are being discussed.

We understand that some stakeholders believe that review of counterparty risk alone is sufficient to address concerns regarding material reductions in TAR. We disagree that this is sufficient. The Appointed Actuary is already required to evaluate counterparty risk per the requirements of actuarial standards of practice (both ASOP 22 and ASOP 11), and that would continue. However, review of counterparty risk alone would not address situations in which a company cedes a large proportion of its reserves to a strong counterparty that suffers a subsequent material decline in the counterparty's financial resources, resulting in the ceding company needing to recapture the business with insufficient assets available to cover TAR. In addition, if a lot of reinsured business is concentrated in a small number of reinsurers, insolvency of one or more of those reinsurers could lead to systemic risk. In light of the increasing trend to move economically sensitive business offshore, the industry could face a situation similar to the current long term care crisis, i.e., without sufficient total assets available to pay policyholder claims.

© 2024 National Association of Insurance Commissioners

We do not believe a state-by-state review of individual reinsurance transactions is a sufficient approach to address the issue of significant TAR reductions. We are aware that regulators perform reviews of new reinsurance treaties through existing regulatory review procedures, and part of that process may involve evaluating the impact on policyholders. Conditions may be placed on the cedant as part of the approval process, including conditions related to minimum required reserves and capital. However, there is currently limited uniformity in how individual states implement appropriate policyholder protections, and therefore it can create an unlevel playing field for insurers. A consistent requirement across companies to ensure that TAR is adequate to fund future obligations is preferable, in our opinion.

Thank you for the opportunity to provide comments on this important topic. I can be reached at 860-305-0701 or tricia.matson@riskreg.com if you or other members have any questions.

© 2024 National Association of Insurance Commissioners

Draft: 8/5/24

Life Actuarial (A) Task Force
Virtual Meeting
May 23, 2024

The Life Actuarial (A) Task Force met May 23, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN);Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Adopted APF 2024-10

Hemphill introduced amendment proposal form (APF) 2024-10 Contract Reserves for Credit Disability Insurance noting that it was adopted by the Health Actuarial (A) Task Force and now the Life Actuarial (A) Task Force must review it as part of its role as gatekeeper of amendments to the *Valuation Manual* (VM).

Chupp made a motion, seconded by Shover, to adopt APF 2024-10 (Attachment Six-A). The motion passed unanimously.

2. Adopted its Spring National Meeting Minutes

Hemphill asked the Task Force to consider adoption of its Spring National Meeting minutes.

Chupp made a motion, seconded by Chou, to adopt the Task Force's March 14-15, 2024 National Meeting minutes (*see NAIC Proceedings – Spring 2024, Life Actuarial (A) Task Force*). The motion passed unanimously.

3. Re-Exposed APF 2024-13

Leung walked through the updates to APF 2024-13 from the most recent exposure. Brian Bayerle (American Council of Life Insurers—ACLI) spoke to the ACLI's comment letter (Attachment Six-B) and highlighted that the key change the ACLI proposed is to use the word "may" in VM-20, Requirements for Principle-Based Reserves for Life Insurance Section 3C(1)(h)(i) so that it reads "The company may use a non-US valuation mortality table based on a non-US industry mortality table developed as described in Section 9.C.3.b.i". Bayerle said that this change would clarify that companies would be able to use, for example, an adjusted US table for foreign business if they felt it was appropriate. Leung replied that this change will only affect companies with significant foreign business. Leung further stated that companies that do not use a non-US mortality table for foreign business can apply the materiality threshold as justification.

Bayerle then asked how companies would know the latest approved tables to use from a particular country under a particular situation. Leung responded that all non-US mortality tables will be subject to approval by the Task Force. Hemphill noted that some aspects of the process would need to be worked out. Bayerle asked if the NAIC could maintain and publish a list of foreign mortality tables approved by the Task Force˙Leung responded

© 2024 National Association of Insurance Commissioners

that; 1) posting tables would take NAIC resources; and 2) it may not be appropriate for the NAIC to publish a third-party table for a foreign country. Leung suggested using a guidance note describing that we would explore what could be posted, but not make the decision to publish tables at this time. Yanacheak suggested removing the 2030 reference from Section 3.C.1.h (new)(vi) because it is confusing and limiting the companies to the extent there is a new table before 2030.

Leung made a motion, seconded by Chupp, to re-expose APF 2024-13 for a 14-day public comment period ending June 5, with the guidance note on the potential for the NAIC to post a listing of the tables along with the removal of the reference to 2030. The motion passed unanimously.

4. Reported Regulator-to-Regulator Session

Hemphill said that the Task Force met in regulator-to-regulator session on May 22nd, pursuant to paragraph 3 of the NAIC's Policy Statement on Open Meetings to discuss a review that had been performed on company life insurance illustration practices. Hemphill stated that no action was taken.

Having no other business, the meeting adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/05 23/May 23 Minutes.docx

© 2024 National Association of Insurance Commissioners

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

Christopher H. Hause, FSA, MAAA Principal at Hause Actuarial Solutions and Chair of the Society of Actuaries' Credit Insurance Experience Committee.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

Valuation Manual, section VM-26, Section 3.B. Contract Reserves for Credit Disability Insurance.

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

Please see attached redline and "clean" version of the proposed changes.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

Credit Disability experience has gradually improved since the original (1997) credit disability study. The 2022 study indicates that the current valuation standard contains claim costs that are from 190% to 276% of actual claim cost experience, based on the SOA's "2023 Credit Disability Study Report." The variations in the range shown above occur by elimination period and occupation class distributions observed over the period studied (2014 through 2022). The proposed changes to VM-26 remove the 12% addition to the 1985 CIDA incidence rates for newly issued contracts, since the addition of the 12% constitutes a margin that is no longer needed or justified by experience.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
5/13/24	S.O.		
Notes: 2024-10			

© 2024 National Association of Insurance Commissioners

B. Contract Reserves

1. Contract reserves are required for all contractual obligations, which have not matured, of a company arising out of the provisions of a credit disability insurance contract consistent with claim reserves and unearned premium reserve, if any, held for their respective obligations.

2. The methods and procedures for determining contract reserves for credit disability insurance must be consistent with the methods and procedures for claim reserves for any contract, unless appropriate adjustment is made to assure provision for the aggregate liability. The date of incurral must be the same in both determinations.

3. The morbidity assumptions for use in determining the minimum standard for valuation of single premium credit disability insurance contract reserves are:

a. ~~a~~For contracts issued to be effective prior to January 1, 2025:

i. For plans having less than a 15-day elimination period, the 1985 Commissioners Individual Disability Table A (85CIDA) with claim incidence rates increased by 12%.

~~b~~ii. For plans having greater than a 14-day elimination period, the 85CIDA for a 14-day elimination period with claim incidence rates increased by 12%.

b. For contracts issued to be effective January 1, 2025 and later:

i. For plans having less than a 15-day elimination period, the 1985 Commissioners Individual Disability Table A (85CIDA).

ii. For plans having greater than a 14-day elimination period, the 85CIDA for a 14-day elimination period.

4. The minimum contract reserve for credit disability insurance, other than single premium credit disability insurance, is the gross pro-rata unearned premium reserve.

5. The maximum interest rate for use in determining the minimum standard for valuation of single premium credit disability insurance contract reserves is the maximum rate allowed in Model #820 for the valuation of whole life insurance issued on the same date as the credit disability insurance contract.

6. A company shall not use a separate mortality assumption for valuation of single premium credit disability insurance contract reserves since premium is refunded upon death of the insured.

7. Use of approximations is permitted, such as those involving age groupings, average amounts of indemnity and grouping of similar contract forms; the computation of the reserve for one contract benefit as a percentage of, or by other relation to, the aggregate contract reserves exclusive of the benefit or benefits so valued; and the use of group methods and approximate averages for fractions of a year or otherwise.

8. Annually, a company shall conduct a review of prospective contract liabilities on contracts valued by tabular reserves to determine the continuing adequacy and reasonableness of the tabular reserves. The company shall make appropriate increments to such tabular reserves if such tests indicate that the basis of such reserves is not adequate.

© 2024 National Association of Insurance Commissioners

Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

Colin Masterson
Policy Analyst
202-624-2463
ColinMasterson@acli.com

May 15, 2024

Rachel Hemphill
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Re: April 2024 Re-Exposure of APF 2023-13

Dear Chair Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit comments once again on APF 2023-13 regarding Annuity mortality tables and non-US lives mortality. We are also grateful to the NAIC for already incorporating some ACLI suggestions into the proposal such as adding certificates into scope and creating consistent treatment of international mortality in VM-20 and VM-22 by including reference to the 1994 GAM Table.

After reviewing this most recent exposure from the April 25, 2024 meeting of LATF, we did have one main substantive concern regarding some of the language used throughout the proposal which is the use of "shall" rather than "may" in the new Section 3.C.1.h highlighted in blue below.

Section 3.C.1.h (new):

For a group of policies or certificates issued in foreign countries covering insureds who are not residents of the United States:

i. The company **shall** use a non-US valuation mortality table based on a non-US industry mortality table developed as described in Section 9.C.3.b.i. Companies using these tables shall seek approval from the Life Actuarial (A) Task Force by addressing to the chair of the Life Actuarial (A) Task Force. The non-US mortality tables that are to be used in the year-end YYYY valuation should be approved the Life Actuarial (A) Task Force before September of YYYY. If this timeline is not met, the company shall use the relevant non-US mortality tables used in the prior year; if there is no relevant prior year non-US mortality tables used, the company shall use the relevant US mortality tables.

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.
acli.com

Given the VM-31 report now requires "[d]escription and rationale for mortality tables used to value non-US blocks of business", it would seem that "may" would be appropriate as long as a company is justifying their use of a particular table regardless of if it is a US or non-US table.

Thank you once again for considering our feedback and we look forward to additional discussion on this topic at a future session of LATF.

Sincerely,



cc: Scott O'Neal, NAIC

Draft: 7/21/24

Life Actuarial (A) Task Force
and the Variable Annuities Capital and Reserve (E/A) Subgroup
Virtual Meeting
May 16, 2024

The Life Actuarial (A) Task Force met May 16, 2024, in joint session with the Variable Annuities Capital and Reserve (E/A) Subgroup. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Timothy Schott represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); D.J. Bettencourt represented by Jennifer Li (NH); Judith L. French represented by Peter Weber (OH); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT). The following Subgroup members participated: Pete Weber, Chair (OH); Thomas Reedy (CA); Philip Barlow (DC); Nicole Boyd (KS); Fred Andersen (MN); William Leung (MO); and Rachel Hemphill (TX).

1. Exposed APF 2024-07

Weber provided background on amendment proposal form (APF) 2024-07, which would update the assumptions used in the *Valuation Manual* (VM)-21, Principle-Based Reserves for Variable Annuities Standard Projection Amount (SPA). Weber stated that APF 2024-07 had been exposed for comment by the Variable Annuities Capital and Reserve (E/A) Subgroup, and that the Task Force could consider exposing APF 2024-07 after reviewing comments to meet the requirements for adoption into the VM. Weber stated that he would walk through the comments received from the American Academy of Actuaries (Academy) (Attachment Seven-A), the American Council of Life Insurers (ACLI) (Attachment Seven-B), and LIMRA (Attachment Seven-C) by subject area.

Discussing the updates to the SPA mortality assumption, Weber noted that both the Academy and ACLI highlighted associated implementation challenges. Brian Bayerle (ACLI) requested delaying the updates to give companies more time. Hemphill stated that companies would have considerable time to implement given that the changes would be in effect for 2025, and Andersen and Reedy agreed. Regarding the shock lapse surrender assumption for index-linked variable annuities (ILVAs), Bayerle noted the potential for the assumption to vary by company and the potential inconsistency that this would create with the other SPA assumptions and the use of the SPA as a benchmark. Hemphill suggested including a question about this in a cover letter for the exposure and adding bracketed language, and Weber agreed.

Continuing on the full surrender assumption for ILVAs, Bayerle said that a lower shock lapse rate assumption may be appropriate given recent experience. Weber suggested, again, to include a question and bracketed language with options for 60%, 50%, and 40% in the exposure, and Hemphill and Reedy agreed. Bayerle also questioned what data source was used to develop the 4% assumption used during the surrender charge period for ILVAs. After discussion, Weber recommended adding a question and additional bracketed language with options for two, three, and four percent to the exposure document.

Weber made a motion, seconded by Andersen, to expose APF 2024-07 with modifications to include bracketed language for the options discussed by the Task Force along with a cover letter with questions for a public comment

© 2024 National Association of Insurance Commissioners

period of 21 days ending June 5. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force and the Variable Annuities Capital and Reserve (E/A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/05 16/May 16 Minutes.docx

© 2024 National Association of Insurance Commissioners



May 1, 2024

Peter Weber
Chair, Variable Annuities Capital and Reserve (E/A) Subgroup
National Association of Insurance Commissioners (NAIC)

Re: APF 2024-07

Dear Chair Weber,

On behalf of the Variable Annuity Reserves and Capital Subcommittee (VARCS) of the American Academy of Actuaries,[1] I am providing comments on the exposure draft of APF 2024-07 that proposes updates to the VM-21 Standard Projection Amount (SPA) assumptions. The VARCS is generally supportive of revising SPA assumptions as relevant experience emerges as well as improving the utility of the SPA in its purpose of catching outlier assumptions. We are providing specific comments on the exposed assumptions below.

Maintenance Expenses

The VARCS is supportive of the update to maintenance expenses, as so doing creates consistency between VM-21 and VM-22. Additionally, we note that short-term inflation in recent years has been higher than the Federal Reserve's target of 2%. Accordingly, a historical inflation rate of 2.5% would seem reasonably conservative given that context.

Surrenders

After clarification by the NAIC that index-linked variable annuities (ILVAs) are in scope of VM-21, we are supportive of the addition of a new section (Section 6.C.6.f) for ILVAs.

Experience for surrenders far in-the-money has been increasing, and the conclusion is generally a downward trend in the minimum lapse rate. However, some companies may not have credible experience less than 1%, even for policies in the withdrawal phase, so the proposed assumption would be much lower than what those companies' internal experience would indicate. With the minimum lapse rate possibly being as low as 0.6% for policies with guaranteed minimum withdrawal benefits or hybrid guaranteed minimum income benefits, the change in surrender assumptions may result in the SPA being inappropriately binding for some companies given their internal experience.

We would encourage the subgroup to review industry experience to ensure that the change proposed is supported by available industry data.

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

© 2024 National Association of Insurance Commissioners

Mortality

The VARCS reviewed the mortality assumption developed by the Society of Actuaries and found the new assumption to be reasonable. However, we note that the change in assumption structure could result in an additional implementation burden, as companies would need to make model structure changes to accommodate the new assumption.

*****

If you have any questions or would like to discuss further, please contact Amanda Barry-Moilanen, the Academy's life policy analyst, at barrymoilanen@actuary.org.

Sincerely,

Maambo Mujala, MAAA, FSA
Chairperson, Variable Annuity Reserves and Capital Subcommittee
American Academy of Actuaries

© 2024 National Association of Insurance Commissioners

Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

Colin Masterson
Policy Analyst
202-624-2463
ColinMasterson@acli.com

May 9, 2024

Peter Weber
Chair, NAIC Variable Annuities Capital and Reserve (E/A) Subgroup
Rachel Hemphill,
Chair, NAIC Life Actuarial (A) Task Force

Re: APF 2024-07 (VM-21 SPA Updates)

Dear Chairs Weber and Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide comments on APF 2024-07 which was exposed for public comment by the NAIC Variable Annuities Capital and Reserve (E/A) Subgroup. Along with the proposed Valuation Manual (VM) changes to update VM-21 Standard Projection Amount (SPA) assumptions, the Subgroup also asked interested parties to contemplate the question of whether more expedient changes to only the mortality and expense assumptions would be desirable (potentially for the 2025 VM) or if the entire package (including updated surrender assumptions) should be considered for adoption as it is ready.

Regarding the question posed by regulators, ACLI supports the deferral of any updates to mortality, expense, and surrender assumptions until the entire package is ready to be adopted at once. Updates to mortality will have a large impact on the SPA calculation and will likely require model changes as opposed to the more straightforward expense and lapse updates. Given the greater effort and likely impact of the mortality change, we recommend deferring updates.

Within the APF itself, we have the following feedback:

- We note that all current standard projection assumptions are fully prescribed, creating a benchmark used to identify outliers in accordance with the original desire for the standard projection. The proposal for the shock lapse on index-linked variable annuities with no guaranteed living benefits moves away from this approach by incorporating the company prudent estimate lapse rate, which would create the first standard projection assumption with the potential to vary by company. We recommend maintaining consistency with the

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.
acli.com

current approach for prescribed assumptions and defining a fixed lapse rate without reference to company assumptions.

- Section 6.C.6.f. proposes setting the shock lapse rate to a minimum of 60%. We recommend lowering the minimum rate to 40% as this weighs too heavily on recent history. While many companies likely experience shock lapse rates around this level in very recent years, prior to the recent interest rate increases assumed shock lapse rates were well below this level. A lower starting baseline would make more sense across a broader swath of economic environments.
- In Section 6.C.6.f (i) under ILVA lapse assumption, the proposed lapse assumption of 4% is very high for contracts within the CDSC period. The industry data we have observed showed lapse rates of less than 2%. What industry study was used and how was this assumption developed?
- Based on the Subgroup's discussion preceding the exposure of this APF, it is our understanding that the additional 60% factor for GMWB and hybrid GMIB taking withdrawals that is applied to the tabular surrender rates was not considered when suggesting the updates to the table. As a result, we believe the proposed table updates would result in surrender rates that are too low and suggest additional analysis with this factor in mind to determine if any table updates are necessary.

Thank you once again for the consideration of our comments and we look forward to future discussions on this matter during a future NAIC meeting.

Sincerely,



cc: Scott O'Neal, NAIC

LIMRA
Navigate With Confidence

To: Scott O'Neal

From: LIMRA

Date: May 8, 2024

Subject: Comments on Exposure of APF 2024-07

The Variable Annuities Capital and Reserve Subgroup (VACRSG) has requested comments by May 9, 2024, regarding the exposure of APF 2024-07 – Updates to the VM21 SPA assumptions.

LIMRA respectfully submits these comments to the VACRSG of the National Association of Insurance Commissioners (NAIC) in response to this request.

The request for comments included views on whether the entire set of assumptions including mortality, expense and surrender should be considered for adoption.

We would like to provide some recent data regarding full surrender activity from the most recent Society of Actuaries (SOA)/LIMRA industry experience analysis of contract holder behavior for variable annuity contracts. This may be helpful to the subgroup in determining whether all 3 assumptions should be included in the current adoption.

The proposed VM21 standard assumption for full surrenders found in VM-21 Section 6.C.6 – is shown in Table 6.3 below.

VM-21 Section 6.C.6 (Table 6.3 – Standard Table for Full Surrenders)

ITM	In surrender charge period, or in policy years 1–3 for contracts without surrender charges	First year after the surrender charge period	Subsequent years, or in policy years 4 and onwards for contracts without surrender charges
Under 50%	4.0%	25.0%	15.0%
50–75%	3.0%	18.0%	10.0%
75–100%	2.5%	12.0%	7.0%
100–125%	2.5%	8.0%	4.5%
125–150%	2.5%	6.0%	3.0%
150–175%	2.0%	5.0%	2.0%
175–200%	2.0%	4.5%	1.5%
Over 200%	2.0%	4.0%	1.0%

© 2024 National Association of Insurance Commissioners



The following table provides data consistent with Table 6.3 from the most recent SOA/LIMRA Industry Experience Study for VA contracts with a GLWB. Other types of guaranteed living benefit riders were included in the data collection but the data for those riders was materially less credible.

We note that the APF does not specify whether the surrender rates in Table 6.3 are on a count basis or a contract value basis. We have provided contract value basis results as this is the most common assumption structure.

Note that for the current study, the exposure by in-the-moneyness (ITM) is relatively low for the following categories in Table 6.3: Under 50%, 50-75%, 175%-200% and Over 200%. Therefore, we have combined these categories as shown in the table below to allow for greater credibility of results.

SOA/LIMRA Study (2023 release) – VA contracts with GLWB
Surrender Rates – Contract Value Basis

ITM	In surrender charge period, or in policy years 1–3 for contracts without surrender charges	First year after the surrender charge period	Subsequent years, or in policy years 4 and onwards for contracts without surrender charges
Under 75%	4.0%	30.0%	10.0%
75–100%	2.5%	20.0%	8.0%
100–125%	2.5%	13.0%	6.0%
125–150%	2.5%	9.0%	4.0%
Over 150%	2.0%	6.0%	2.0%

For contracts in the surrender charge period, the rates are substantially equal to those shown in Table 6.3 after rounding to the nearest .5 percent.

For contracts in the first year after the surrender charge period ends, the current study indicates slightly greater rates of surrender across all ITM groups.

For contracts beyond the end of the surrender charge period, the current study also shows a consistent pattern but slightly greater rates of surrender for all ITM groups except Under 75% where the surrender rates seem to be slightly lower.

The SOA/LIMRA study covers the period of the pandemic years 2020 and 2021. So, we also compared these results

© 2024 National Association of Insurance Commissioners

LIMRA
Navigate With Confidence

across both pre- and post-pandemic observation years and the pattern and levels shown in the table above held across both periods. So, the differences do not seem to be pandemic driven.

We hope this analysis is helpful to VACRSG in its discussions regarding the VM21 SPA assumption updates.

LIMRA appreciates the opportunity to provide comments on this matter. We are available to respond to any questions you might have on these comments. Feel free to contact Marianne Purushotham at mpurushotham@limra.com or (860) 249-3366 at any time.

Sincerely,



_____

Marianne Purushotham, FSA, MAAA
Corporate Vice President, Research Data Services
LIMRA

Draft: 8/4/24

Life Actuarial (A) Task Force
Virtual Meeting
May 9, 2024

The Life Actuarial (A) Task Force met May 9, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Timothy Schott represented by Marti Hooper (ME); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Michael Muldoon (NE); D.J. Bettencourt represented by Jennifer Li (NH); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA), and Jon Pike represented by Tomasz Serbinowski (UT).

1. Exposed APF 2024-05

Laura Hanson (Pacific Life) re-introduced amendment proposal form (APF) 2024-05 that had last been discussed during the Task Force's Apr. 4 meeting of the Task Force, noting that four revisions had been made after feedback from that meeting. Hanson said the changes include; 1) a revised scope to only apply to contracts with predefined cash flows and no withdrawals permitted prior to contract maturity date; 2) using the monthly Moody's average corporate bond rate as the daily average corporate bond rate was not publicly available; 3) removing references to alternate weighting factors and instead using weights from the Standard Valuation Law; and 4) adding multiple options in bracketed language pertaining to the requirements for approval from the domiciliary commissioner. Carmello pointed out that New York, and perhaps other states, regulates funding agreements and other similar contracts in a distinct fashion from life insurance and annuities and asked whether the scope of the *Valuation Manual* (VM) reserve requirements included funding agreements across all issue years. Dan Schelp (NAIC) replied that he would review the issue and provide an answer for Carmello.

Carmello also asked why the Moody's monthly average corporate bond rate was used in APF 2024-05 rather than the rates defined in VM-22, Statutory Maximum Valuation Interest Rates for Income Annuities. Hanson responded that the Moody's rate was used due to the simplicity of the contracts in scope and lack of optionality, and that more review would be needed ahead of moving to a VM-22 approach. Tsang asked what the ratings were of the bonds included in the Moody's average corporate bond rate. Carmello said that investment grade bonds were included and that the rating was between A and AA.

Slutsker made a motion, seconded by Carmello, to expose APF 2024-05 for a 21-day public comment period ending May 29. During the discussion of the motion, Chupp asked whether a cover letter should be added to directly ask for comments on the bracketed language regarding domiciliary commissioner approval. Slutsker and Carmello agreed that Chupp's recommendation for a cover letter should be included in the exposure document. The motion passed unanimously.

2. Re-Exposed APF 2024-06

Hemphill said that the Task Force would consider re-exposure of APF 2024-06, which would allow jumbo valuation rates to be used for non-jumbo contracts with either prior domiciliary commissioner approval or domiciliary

© 2024 National Association of Insurance Commissioners

commissioner notification and she walked through updates that had been made to account for comments received from the American Council of Life Insurers (ACLI) (Attachment Eight-A) and Carmello (Attachment Eight-B).

Yanacheak made a motion, seconded by Leung, to expose APF 2024-05 for a 14-day public comment period ending May 22. The motion passed unanimously.

3. Exposed APF 2024-09

Maambo Mujala (American Academy of Actuaries—Academy) introduced APF 2024-09, which would correct the order of operations for the application of the interest maintenance reserve (IMR) in VM-21, Requirements for Principle-Based Reserves for Variable Annuities. Slutsker noted that that it seemed that based on the location of the edits within the existing language that the new requirements would only apply to companies electing to use the direct iteration method (DIM). Hemphill acknowledged Slutsker's comment and suggested instead starting a new paragraph that begins with, "At the option of the company…", to make it clearer that it would not just apply to calculations involving the DIM.

Chupp made a motion, seconded by Tsang, to expose APF 2024-09 with the modification suggested by Hemphill for a 21-day public comment period ending May 29. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/05 09/May 9 Minutes.docx

© 2024 National Association of Insurance Commissioners

Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

Colin Masterson
Policy Analyst
202-624-2463
ColinMasterson@acli.com

May 2, 2024

Rachel Hemphill
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Re: APF 2024-06 (Jumbo Rates)

Dear Chair Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on APF 2024-06 (Jumbo Rates) which was exposed for public comment after the April 4th session of LATF. Generally, ACLI is supportive of the proposed changes to the current VM-22 that would allow for the use jumbo rates in non-jumbo contracts with commissioner approval.

In addition to the feedback on the exposure questions, we have a general clarifying question on the applicability of this APF. Was the intent to include all annuities, or only group annuities? Our responses below are answered both ways. Our proposed revisions to the APF also address both possibilities.

Question/Cover Page Feedback:

1. *Should the use of jumbo rates for non-jumbo contracts, if elected, be for 1) all non-jumbo contracts, 2) all non-jumbo contracts issued after a given date, or 3) a company-selected subset of contracts with justification from the company (e.g., a company revising the cutoff for jumbo vs. non-jumbo)?*
    - If Group only: We would suggest some formulation of option 3, where the company can make an election as of the specified date to either 1) make no change, and continue to use the non-jumbo rates for non-jumbo contracts; 2) prospectively apply the jumbo rates for all non-jumbo contracts; or 3) apply the jumbo rates for all non-jumbo contracts, both prospectively and retrospectively to the operative date of VM-22.
    - If Group and Individual: Same as above, except companies can make separate decisions for group and individual contracts.

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.
acli.com

2. *Once the company has elected the use of jumbo rates for non-jumbo contracts, should they be allowed to subsequently switch back to non-jumbo rates? If so, should there be a limit to how frequently the company may switch, such as every 3-5 years?*
    - We do not believe that flexibility is required at this time.

3. *Should domiciliary commissioner approval be required for the initial election of jumbo rates and/or for any subsequent changes between jumbo and non-jumbo rates?*
    - We support informing the domiciliary commissioner about the election without requiring approval.

APF Feedback:

We propose the following changes to APF 2024-06 language to align with our responses to the cover letter questions.

VM-22 Section 3.C.3

Statutory maximum valuation interest rates for non-jumbo contracts are determined and published quarterly by the NAIC on the Industry tab of the NAIC website by the third business day of the quarter. For a given premium determination date, the statutory maximum valuation interest rate is the quarterly statutory maximum valuation interest rate published for the quarter in which the premium determination date falls.

a. For group contracts issued on or after Jan. 1, 2025, a~~A~~ company may elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts.
b. For group contracts issued on or prior to Dec. 31, 2024, but on or after the operative date of the *Valuation Manual* chapter VM-22, a company may elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts if they made the same election for group contracts issued on or after Jan 1, 2025.
c. For individual contracts issued on or after Jan. 1, 2025, a company may elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts.
d. For individual contracts issued on or prior to Dec. 31, 2024, but on or after the operative date of the *Valuation Manual* chapter VM-22, a company may elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts if they made the same election for individual contracts issued on or after Jan 1, 2025.

A company electing using jumbo rates for non-jumbo contracts under any of the above conditions shall notify the Commissioner of the state of domicile of such elections.
~~, with prior approval of the domiciliary commissioner.~~

Thank you once again for your consideration of our feedback and we look forward to further discussion at a future meeting of LATF.

© 2024 National Association of Insurance Commissioners

Sincerely,



cc: Scott O'Neal, NAIC

Life Actuarial (A) Task Force Exposure 4/4/24: APF 2024-06 and Exposure Questions

Please include comments on the exposure questions in addition to language in APF 2024-06 (on page 2).

1. Should the use of jumbo rates for non-jumbo contracts, if elected, be for 1) all non-jumbo contracts, 2) all non-jumbo contracts issued after a given date, or 3) a company-selected subset of contracts with justification from the company (e.g., a company revising the cutoff for jumbo vs. non-jumbo)?

   Bill Carmello: Answer 2 or 3 but the date should be after the effective date of the VM change

2. Once the company has elected the use of jumbo rates for non-jumbo contracts, should they be allowed to subsequently switch back to non-jumbo rates? If so, should there be a limit to how frequently the company may switch, such as every 3-5 years?

   Bill Carmello: No

3. Should domiciliary commissioner approval be required for the initial election of jumbo rates and/or for any subsequent changes between jumbo and non-jumbo rates?

   Bill Carmello: Yes

© 2024 National Association of Insurance Commissioners

Draft: 7/8/24

Life Actuarial (A) Task Force
Virtual Meeting
May 2, 2024

The Life Actuarial (A) Task Force met May 2, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil and Thomas Reedy (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Timothy N. Schott represented by Marti Hooper (ME); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); and Michael Humphreys represented by Steve Boston (PA).

1. Exposed APF 2024-08

Jonah von der Embse (American Academy of Actuaries—Academy) introduced amendment proposal form (APF) 2024-08, which would revise the calculation of the net asset earned rate (NAER) in Valuation Manual (VM)-21, Requirements for Principle-Based Reserves for Variable Annuities. Hemphill noted that she had a conversation with Timothy Ritter (Jackson National Life Insurance), who had performed a detailed review of APF 2024-08 and would speak to some of his comments. First, Hemphill relayed that the new VM-21 Section 4.B.3.b.iv could add confusion given the reference to the depletion of assets in the denominator of the NAER calculation, given that liabilities are excluded from the calculation. Von der Embse acknowledged that the language could add confusion.

Hemphill continued, noting that there seemed to be inconsistency in the terminology used in APF 2024-08, with the inclusion of the phrase "initial additional asset portfolio," and suggested using the "additional invested asset portfolio" phrasing found in the current edition of VM-21. Von der Embse noted that the "initial" phrasing was used intentionally to distinguish between the initial additional assets and any reinvestment assets but was open to using the existing VM-21 language. Referencing the final sentence of the guidance note, Hemphill said that the language stating that the "assets selected for the initial additional asset portfolio should have the same allocation for all scenarios" should actually refer to an "allocation methodology" to avoid implying that the asset allocation percentages would be the same across every scenario regardless of the starting asset amount. Von der Embse replied that the intention was to have the same allocation percentage across each scenario, to which Hemphill responded that this could be reviewed during the exposure period.

Hemphill then noted that Ritter had one final suggestion that language be added to note that there should not be any double counting of assets across any principle-based reserve (PBR) calculations. Von der Embse said that he would be okay with that edit as long as it did not conflict with using the pro-rata asset allocation approach. Hemphill said that given that the language in the guidance note seems more like a set of requirements, she would prefer the guidance note language be included only in the body of the *Valuation Manual*. Leung stated he had concerns regarding the immediate reinvestment of cash in a high-interest-rate environment, which would likely lead to higher investment returns and a less conservative reserve. Von der Embse acknowledged Leung's concern but noted that this aspect of APF 2024-08 was crafted based on existing VM-21 language. Connie Tang (Retired) stated that in some cases, a pro-rata approach for additional assets may not be appropriate, giving the example

© 2024 National Association of Insurance Commissioners

of a dynamic hedging strategy already reflected in the existing calculation. Von der Embse replied that the intention behind the pro-rata approach was to align the NAER and direct iteration approaches.

Reedy made a motion, seconded by Chupp, to expose APF 2024-08, with the edits discussed above, for a 21-day public comment period ending May 22. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/05 02/May 2 Minutes.docx

© 2024 National Association of Insurance Commissioners

Draft: 6/26/24

Life Actuarial (A) Task Force
Virtual Meeting
April 25, 2024

The Life Actuarial (A) Task Force met April 25, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); and Michael Humphreys represented by Steve Boston (PA).

1. Adopted APF 2024-01

Chupp made a motion, seconded by Slutsker, to adopt amendment proposal form (APF) 2024-01. During a discussion of the motion, Colin Masterson (American Council of Life Insurers—ACLI) requested that the phrasing of the rationale be edited to be consistent with the redlined amended *Valuation Manual* language. Alan Routhenstein (Routhenstein & Co.) suggested alternative wording to clarify the intent of APF 2024-01, which is that the qualified actuary need only be qualified in the areas where they are providing a certification but may be qualified in other areas. Hemphill agreed with the intent that Routhenstein stated and supported removing the word "only" and modifying the rationale in the APF to be consistent with the redline as suggested by Masterson, to which Chupp agreed.

Chupp and Slutsker agreed to amend their motion to adopt APF 2024-01 (Attachment Ten-A) with the revisions suggested. The motion passed unanimously.

2. Adopted APF 2024-04

Hemphill introduced APF 2024-04, noting that the Task Force had received two feedback items from the ACLI's comment letter (Attachment Ten-B). Regarding the potential for using U.S. data for the lapse assumptions for minimally funded universal life with secondary guarantees (ULSG) policies, Hemphill noted that a current study produced by the Society of Actuaries (SOA) and LIMRA did not have the necessary data to produce distinct lapse rates depending on in-the-moneyness. Therefore, Hemphill said utilizing the Canadian Institute of Actuaries' (CIA's) term-to-100 experience still made sense. Hemphill also said that due to the sparse data for joint policies included in the CIA study, she did not recommend requiring the use of that experience for relevant policies.

Chupp made a motion, seconded by Yanacheak, to adopt APF 2024-04 (Attachment Ten-C). The motion passed unanimously.

3. Exposed APF 2023-13

Leung walked through the revisions to APF 2023-13, which would facilitate the inclusion in the *Valuation Manual* of non-U.S. mortality tables for use on non-U.S. lives. Chupp asked whether the effective date would be 2025 rather than 2024, to which Leung responded that he would revise the language in APF 2023-13 to be effective for 2025. Chupp also asked whether the references to the Valuation Analysis (E) Working Group in APF 2023-13 were

© 2024 National Association of Insurance Commissioners

consistent with the Working Group's charges. Pat Allison (NAIC) noted that the role of the Working Group described in APF 2023-13 seemed consistent with the Working Group's current charges. Dan Schelp (NAIC) recommended that the phrasing "The NAIC Valuation Analysis (E) Working Group shall…" be changed to "The NAIC Valuation Analysis (E) Working Group will…" to make it less of a demand on the Working Group, to which Hemphill agreed.

Leung made a motion, seconded by Slutsker, to expose APF 2023-13 for a 21-day public comment period ending May 15, with the edits discussed above. The motion passed unanimously.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/04 25/Apr 25 Minutes.docx

© 2024 National Association of Insurance Commissioners

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

Identification:
Rachel Hemphill, PhD, FSA, FCAS, MAAA

Title of the Issue:
Qualified Actuaries should meet the special qualification standards, in addition to Appointed Actuaries.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

VM-01 definition of "Qualified Actuary"

January 1, 2024 NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

VM-01 definition of "Qualified Actuary":

- The term "qualified actuary" means an individual who is qualified to sign the applicable statement of actuarial opinion in accordance with the Academy qualification standards for actuaries signing such statements and who meets the requirements specified in the Valuation Manual. ~~(Model #820 definition.)~~

  A qualified actuary must meet the basic education, experience and continuing education requirements of the Specific Qualification Standard for Statements of Actuarial Opinion, NAIC Life, Accident & Health, and Fraternal Annual Statement, as set forth in the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* (U.S. Qualifications Standards), promulgated by the Academy. An individual qualified actuary must be qualified with respect to the area(s) that they are providing a certification and/or opinion. For example, if there are separate life and variable annuity qualified actuaries providing the relevant certifications for VM-20 and VM-21, they each need to be qualified in their own respective area.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

For reference, the Model 820 Definition of qualified actuary is:

- The term "qualified actuary" means an individual who is qualified to sign the applicable statement of actuarial opinion in accordance with the American Academy of Actuaries qualification standards for actuaries signing such statements and who meets the requirements specified in the valuation manual.

Currently, the VM-01 definition of qualified actuary just reiterates that definition. But, as Model 820 specifically calls out "who meets the requirements specified in the valuation manual" adding the specific language is consistent with Model 820.

It is surprising that this is not already the requirement. The complexity of PBR and the reliance on the PBR actuary calls for this requirement, but the United States Qualification Standard (USQS) currently only requires the specific qualification standard for an appointed actuary, not a qualified actuary. The American

© 2024 National Association of Insurance Commissioners

Academy of Actuaries noted the USQS states that the NAIC or individual states may have additional requirements. So, a change to the Valuation Manual is needed to ensure PBR actuaries have the 15 hours of specific continuing education and the more detailed basic education (which can be based on exams or self-study). While most qualified actuaries likely already are satisfying this requirement and some may have interpreted this as the current requirement (and some serve as appointed actuaries as well), this clarification is important where regulators have identified some companies whose qualified actuaries are not as knowledgeable as they need to be. This change will be consistent with feedback given by regulators to those qualified actuaries regarding ongoing education.

Similarly, VM-30 allows the appointed actuary to rely on memoranda that are prepared and signed by actuaries that are "qualified actuary within the meaning of the VM-01 definition thereof, with respect to the areas covered in such memoranda".

Specific sections of the USQS are included below; note that all included topics are broadly applicable to PBR qualified actuaries and actuaries that the appointed actuary is relying on for sections of their own memoranda, as well as appointed actuaries. Therefore, while we have revised the edits to reflect that "individual qualified actuary must be qualified with respect to the area(s) that they are providing a certification and/or opinion" to absolutely ensure that no actuary is being held responsible for areas outside the scope of their work, this may be unnecessary due to the broad applicability of the general topic areas required by the specific qualification standard.

For reference, Section 3.1.1.1 of the USQS regarding Specific Qualification Standard basic education requirement:

> An actuary should successfully complete relevant examinations administered by the American Academy of Actuaries or the Society of Actuaries on the following topics: (a) policy forms and coverages, (b) dividends and reinsurance, (c) investments and valuations of assets and the relationship between cash flows from assets and related liabilities, (d) statutory insurance accounting, (e) valuation of liabilities, and (f) valuation and nonforfeiture laws.

For reference, Section 3.1.2 of the USQS regarding Specific Qualification Standard basic education requirement being satisfied through self-study:

> An actuary may also satisfy this basic education requirement by acquiring comprehensive knowledge of the applicable topics through responsible work and/or self-study. To comply with the basic education requirement through self-study, an actuary must obtain a signed statement from another actuary who is qualified to issue Statements of Actuarial Opinion under the specific qualification standard being met. This statement must indicate that the writer is familiar with an actuary's professional history and that an actuary has obtained sufficient alternative education to satisfy the basic education requirement for the specific qualification standard. A sample statement appears in appendix 2. This statement should be obtained before an actuary issues a Statement of Actuarial Opinion and should be retained by the actuary.

For reference, Section 3.3 of the USQS regarding Specific Qualification Standard continuing education requirement:

> To satisfy the Specific Qualification Standards, an actuary must obtain sufficient continuing education to maintain current knowledge of applicable standards and principles in the area of actuarial practice of the Statement of Actuarial Opinion. At a minimum, an actuary must complete 15 credit hours per calendar year of continuing education that is directly relevant to the topics identified in section 3.1.1. A minimum of 6 of the 15 hours must be obtained through experiences that involve interactions with outside actuaries or other professionals, such as seminars, in-person or online courses, or committee work that is directly relevant to the topics identified in section 3.1.1. Hours that satisfy the continuing education requirement of the Specific Qualification Standards may also be used to satisfy the continuing education requirement of the General

Qualification Standard. Hours of continuing education in excess of the annual requirement may be carried forward one year.

Dates: Received	Reviewed by Staff	Distributed	Considered
12/08/2023, 3/18/24	K.K, S.O.		
Notes: 2024-01			

Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

Colin Masterson
Policy Analyst
202-624-2463
ColinMasterson@acli.com

April 17, 2024

Rachel Hemphill
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Re: APF 2024-04 (Term-to-100 lapse study)

Dear Chair Hemphill:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on APF 2024-04 which was exposed for public comment on March 28th and aims to update VM-20 Section 9.D.5 to reference the most recent Canadian Institute of Actuaries (CIA) *Lapse Experience Under Term-to-100 Insurance Policies* study.

While ACLI is generally supportive of this proposal, we did have one clarifying question and another potential approach to this issue that we hope regulators will consider.

First, in Section 5.1 (Joint Type) of the CIA study, the language suggests that the table referenced in that section only applies to single-life policies. Are there any clarifications regulators can provide to companies regarding what to do with joint-lives policies?

Further, ACLI would like to encourage the NAIC to start thinking about the possibility of looking to relevant US experience for future updates. We see that the SOA and LIMRA did a Universal Life Lapse Study (included as a separate attachment from this letter), although it does look like you have to pay to get more information than the public highlights document. Perhaps a way to proceed is to inquire whether the US lapse experience is significantly different than the CIA lapse experience.

Thank you once again for your consideration of our feedback and we look forward to continued discussion on this topic at a future session of LATF.

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.
acli.com

Sincerely,



cc: Scott O'Neal, NAIC

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation, and a very brief description (title) of the issue.

Identification:
Rachel Hemphill, Ph.D., FSA, FCAs, MAAA, Texas Department of Insurance

Title of the Issue:
Update for more recent Term-to-100 lapse study.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

VM-20 Section 9.D.5

January 1, 2024 NAIC Valuation Manual

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted, or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

5. For a universal life policy that guarantees coverage to remain in force as long as the secondary guarantee requirement is met and during projection periods in which the cash surrender value is zero or minimal, industry experience, for purposes of complying with Section 9.A.6, shall be the *Lapse Experience Under Term-to-100 Insurance Policies* published by the Canadian Institute of Actuaries in ~~September~~ December ~~2015~~2021. During projection periods in which the cash surrender value of such policy is zero or minimal, the assumption shall grade from credible company experience to the rates in the *Lapse Experience Under Term-to-100 Insurance Policies* published by the Canadian Institute of Actuaries in ~~September~~ December ~~2015~~ 2021 in five projection years from the last duration where substantially credible experience is available.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

A more recent version of the CIA Term-to-100 study is available, at https://www.cia-ica.ca/app/themes/wicket/custom/dl_file.php?p=38215&fid=34433.

For the study, the CIA notes that there is less data overall, but substantially more data after the 25th policy year. They also note that lapse rates are uniformly lower after the first duration.

Dates: Received	Reviewed by Staff	Distributed	Considered
3/27/24	S.O.		
Notes: 2024-04			

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Life Actuarial (A) Task Force
Virtual Meeting
April 4, 2024

The Life Actuarial (A) Task Force met April 4, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice-Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Exposed APF 2024-06

Hemphill noted that she had conducted a review of the permitted practices database to learn if any permitted practices included practices prescribed in the *Valuation Manual*. Hemphill said the review found that these types of permitted practices were rare but had been granted in a small number of cases. Hemphill further stated that for these permitted practices that were actuarially sound and reasonable, it made sense to amend the VM to create a level playing field for all companies.

With background provided, Hemphill introduced amendment proposal form (APF) 2024-06, which would allow the use of jumbo valuation rates for non-jumbo contracts with approval from the domiciliary commissioner. Slutsker said that he would like to change the language to make sure that there was no optionality. Serbinowski agreed and said that instead of requiring domiciliary commissioner approval, companies electing to use jumbo rates for non-jumbo contracts should continue using them moving forward. Carmello added that companies should not be able to opportunistically pick blocks of business and, instead, should make the election for all or none of their relevant business. Brian Bayerle (American Council of Life Insurers—ACLI) stated that it would be beneficial for companies to have some flexibility when electing to make the change for subsets of their business and change their election under certain circumstances. Hemphill suggested including exposure questions along with the APF to receive feedback on the scope of contracts, the ability to change the election after the initial change, and whether the domiciliary commissioner needed to approve.

Tsang made a motion, seconded by Schallhorn, to expose APF 2024-06 with exposure questions for a 30-day public comment period ending May 3. The motion passed unanimously.

2. Discussed APF 2024-05

Laura Hanson (Pacific Life) walked through APF 2024-05, which would allow funding agreement reserves to be determined using a daily Moody's corporate bond rate as the valuation rate with approval of the domiciliary commissioner. Carmello asked why the proposal used the daily Moody's corporate bond rate rather than the VM-22 jumbo rate. Hanson responded that the Moody's corporate bond rate was viewed as appropriate due to the lack of optionality in funding agreement products and less inherent risk due to fixed cash flows. Carmello requested that the lack of optionality and predefined cash flows be spelled out in the APF 2024-05 language.

© 2024 National Association of Insurance Commissioners

Slutsker asked if the Moody's corporate bond rate was publicly available. Hanson replied that her group would take the question back to find an answer. Slutsker then asked what the basis is for using a weighting factor of one. Hanson responded that the intention was to have a simple approach for a simple product. Carmello noted that while APF 2024-05 seemed to be written with only simple products in mind, he was concerned that products with more complex and risky features could be included if the scope is not clearly defined. Therefore, Carmello felt that APF 2024-05 was not ready to be exposed. After further discussion, Hanson agreed to make further refinements to APF 2024-05 to clarify the scope and reconsider the weighting factor.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/04 04/Apr 04 Minutes.docx

© 2024 National Association of Insurance Commissioners

Draft: 6/10/24

Life Actuarial (A) Task Force
Virtual Meeting
March 28, 2024

The Life Actuarial (A) Task Force met March 28, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Rachel Hemphill (TX); Scott A. White, Vice Chair, represented by Craig Chupp (VA); Lori K. Wing-Heier represented by Sharon Comstock (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ahmad Kamil (CA); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Ann Gilespie represented by Vincent Tsang (IL); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen and Ben Slutsker (MN); Chlora Lindley-Myers represented by William Leung (MO); D.J. Bettencourt represented by Jennifer Li (NH); Adrienne A. Harris represented by Bill Carmello (NY); Judith L. French represented by Peter Weber (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Steve Boston (PA); and Jon Pike represented by Tomasz Serbinowski (UT).

1. Discussed Adherence to Task Force Exposure Periods

Hemphill noted that the Task Force had utilized discretion in the past to allow for some flexibility for comments on exposures to be turned in beyond the deadline. Hemphill said, however, that recently, some of these extensions to deadlines compromised the ability of the Task Force to work toward its objectives in an expedient time frame. Therefore, Hemphill said that the Task Force would be more strictly enforcing adherence to the exposure deadlines going forward.

Brian Bayerle (American Council of Life Insurers—ACLI) described challenges in meeting tight comment periods and noted that the ACLI may request longer comment periods to account for these challenges.

2. Exposed APF 2024-04

Hemphill introduced amendment proposal form (APF) 2024-04, which would update the lapse assumption used for universal life with secondary guarantee (ULSG) products in Valuation Manual (VM)-20, Requirements for Principle-Based Reserves for Life Insurance, when the cash value is zero or minimal. Hemphill noted that the Canadian Institute of Actuaries (CIA) had updated the assumptions currently referenced in VM-20 for more recent experience and that APF 2024-04 would make changes to reference the latest assumptions.

Chupp made a motion, seconded by Weber, to expose APF 2024-04 for a 21-day public comment period ending April 17. The motion passed unanimously.

3. Discussed Editorial Changes to the 2024 *Valuation Manual*

Chupp walked through a series of reference issues and editorial errors (Attachment Twelve-A) in the 2024 version of the *Valuation Manual.* After asking Task Force members if there was any objection to making the series of suggested editorial fixes to the 2024 *Valuation Manual* and hearing none, Hemphill directed NAIC staff to make the editorial changes.

4. Discussed Correction to AG 53 Template

© 2024 National Association of Insurance Commissioners

Scott O'Neal (NAIC) announced a correction to the Actuarial Guideline LIII: Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves (AG 53) template to fix a locking issue so that the relevant numbers can be populated. O'Neal said a corrected AG 53 template will be posted to the NAIC website.

Having no further business, the Life Actuarial (A) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/LATF Calls/03 28/Mar 28 Minutes.docx

© 2024 National Association of Insurance Commissioners

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

Identification:
Craig Chupp, Virginia Bureau of Insurance

Title of the Issue:
Minor clean-up of VM

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

January 1, 2024 NAIC Valuation Manual:

- VM-21, Section 7.C.9.b
- VM-50, Section 2.A
- VM-51, Section 2.E

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

VM-21 Section 7.C.9.b:

b. Calculate two sets of NSPs at each attained age:

i. One using 100% of the 1994 Variable Annuity MGDB Age Last Birthday (ALB) Mortality Table (with the aforementioned five-year age setback for females); and

ii. A second using either:

(a) The prudent estimate mortality if that has been established by the company.

(b) For companies that have not established a prudent estimate mortality assumption, the appropriate percentage of the 2012 IAM Basic Table with Projection Scale G2 ALB (as described in Section 11~~12~~.B.3).

VM-50 Section 2.A:

A. Statutory Authority

1. Model #820 provides the legal authority for the *Valuation Manual* to prescribe experience reporting requirements with respect to companies and lines of business within the scope of the model.

© 2024 National Association of Insurance Commissioners

2. The statutes and regulations requiring data submissions generally apply to all companies licensed to sell life insurance, A&H insurance and deposit-type contracts. These companies must submit experience data as prescribed by the *Valuation Manual*.

3. Section 14A(5) of Model #820 defines the data to be collected to be confidential.

VM-51 Section 2.E:

Companies subject to reporting pursuant to the criteria stated in Section 2.C are required to complete the data forms in Appendix 1, Appendix 2 and Appendix 3 as appropriate, and also complete the Experience Data Elements and Formats as defined in Appendix 4.

The data should include policies issued as standard, substandard (optional) or sold within a preferred class structure. Preferred class structure means that, depending on the underwriting results, a policy could be issued in classes ranging from a best preferred class to a residual standard class. Policies issued as part of a preferred class structure are not to be classified as substandard.

Policies issued as conversions from term or group contracts should be included. For these converted policies, the issue date should be the issue date of the converted policy, and the underwriting field will identify them as issues resulting from conversion.

Generally, each policy number represents a policy issued as a result of ordinary underwriting. If a single life policy, the base policy on a single life has the policy number and a segment number of 1. On a joint life policy, each life has separate records with the same policy number. The base policy on the first life has a segment number of 1, and the base policy on the second life has a segment number of 2. Policies that cover more than two lives are not to be submitted.

Term/paid up riders or additional amounts of insurance purchased through dividend options on a policy issued as a result of ordinary underwriting are to be submitted. Each rider is on a separate record with the same policy number as the base policy and has a unique segment number. The details on the rider record may differ from the corresponding details on the base policy record. If underwriting in addition to the base policy underwriting is done, the coverage is given its own policy number.

Terminations (both death and non-death) are to be submitted. Terminations are to include those that occurred in the observation year and were reported by March 31~~June 30~~ of the year after the observation year.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

Correct cross-references and one other minor correction to VM.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

© 2024 National Association of Insurance Commissioners

Dates: Received	Reviewed by Staff	Distributed	Considered
Notes:			

W:\National Meetings\2010\...\TF\LHA\

August 11, 2024

From: Fred Andersen, Chair
Indexed Universal Life (IUL) Illustration (A) Subgroup

To: Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

Subject: The Report of the Indexed Universal Life (IUL) Illustration (A) Subgroup (IUL Illustration SG) to the Life Actuarial (A) Task Force

The IUL Illustration SG has not met since the adoption of group's main work product, revisions to Actuarial Guideline 49A, by the Life Actuarial (A) Task Force on December 11, 2022. The revisions to Actuarial Guideline 49A were subsequently adopted by the NAIC's Executive (EX) Committee and Plenary at the Spring National Meeting on March 25. Regulators are reviewing the impact of the Guideline revisions on the market.

© 2024 National Association of Insurance Commissioners

August 11, 2024

From: Pete Weber, Chair
The Variable Annuities Capital and Reserve (E/A) Subgroup

To: Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

Subject: The Report of the Variable Annuities Capital and Reserve (E/A) Subgroup (VACR SG) to the Life Actuarial (A) Task Force

The VACR SG met April 4, 2024 to expose an amendment to VM-21, Principle-Based Reserves for Variable Annuities to update the standard projection amount (SPA) assumptions. After the discussion of the SPA assumption updates at the Subgroup, the Life Actuarial (A) Task Force exposed APF 2024-07 before subsequent adoption by the Task Force and the Life Insurance and Annuities (A) Committee. APF 2024-07 will be considered for final adoption at the Joint Meeting of Executive (EX) Committee and Plenary at the 2024 NAIC Summer National Meeting for inclusion in the 2025 *Valuation Manual*.

© 2024 National Association of Insurance Commissioners

Draft: 7/31/24

Variable Annuities Capital and Reserve (E/A) Subgroup
Virtual Meeting
April 4, 2024

The Variable Annuities Capital and Reserve (E/A) Subgroup of the Life Risk-Based Capital (E) Working Group and Life Actuarial (A) Task Force met April 4, 2024. The following Subgroup members participated: Peter Weber, Chair (OH); Thomas Reedy (CA); Nicole Boyd (KS); Fred Andersen and Ben Slutsker (MN); Bill Carmello (NY); and Rachel Hemphill (TX).

1. Exposed APF 2024-07 to Update VM-21 SPA Assumptions

Weber noted that the intention of the discussion would be for the Subgroup to consider exposing amendment proposal form (APF) 2024-07, which would update the expense, full surrender, and mortality assumptions used in the Valuation Manual (VM)-21, Requirements for Principle-Based Reserves for Variable Annuities standard projection amount (SPA). Weber reminded the Subgroup that Joel Sklar (Society of Actuaries—SOA) had presented proposed updates to the mortality assumptions at the Spring National Meeting and turned over the discussion to Sklar to provide a recap. Carmello asked whether Sklar's group had looked into ratchet mortality assumptions in addition to those for rollup-type guarantees. Sklar said they had grouped the ratchet-type products into an "All Other" category to determine the mortality assumption.

Weber then walked through the updates to the expense assumptions, highlighting the increase in the inflation assumption and the starting point from which to apply the inflation to the maintenance expenses. Slutsker said the changes made in APF 2024-07 were consistent with the assumptions used for the draft VM-22, Requirements for Principle-Based Reserves for Non-Variable Annuities, SPA language.

Weber then introduced the potential changes to the full surrender assumptions, noting that it may be difficult to work through the complexities of this assumption while making the deadline for the inclusion of APF 2024-07 into the 2025 *Valuation Manual*. Weber said the full surrender assumptions were based on data that the Life Actuarial (A) Task Force had requested as part of a survey. Brian Bayerle (American Council of Life Insurers—ACLI) requested that an exposure question be added as to whether to quickly adopt APF 2024-07 with just the mortality and expense updates or to work to also include the full surrender assumption updates that could potentially delay adoption.

Carmello made a motion, seconded by Slutsker, to expose APF 2024-07 for a 30-day public comment period ending May 3. The motion passed unanimously.

Having no further business, the Variable Annuities Capital and Reserve (E/A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/VACR SG Calls/04 04/April 04 Minutes.docx

© 2024 National Association of Insurance Commissioners

August 11, 2024

From: Seong-min Eom, Chair
The Longevity Risk (E/A) Subgroup

To: Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

Subject: The Report of the Longevity Risk (E/A) Subgroup to the Life Actuarial (A) Task Force

The Longevity Risk (E/A) Subgroup has not met since the 2024 Spring National Meeting. The subgroup will resume the meetings once the currently exposed VM-22 PBR methodology is finalized and adopted to develop and recommend longevity risk factor(s) for the product(s) that were excluded from the application of the current longevity risk factors.

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS



Update on Life Mortality Experience Data Collection

Pat Allison, FSA, MAAA

August 11, 2024

1

Agenda

- Recap of Previous Life Mortality Experience Data Collections
  - Observation Years 2018 and 2019
  - Observation Year 2020 and 2021
- 2024 Life Mortality Experience Data Collection
  - Observation Years 2022 and 2023
  - What's New For This Year
- Data Quality Improvements

2

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

Recap of Previous Life Mortality Experience Data Collections
Observation Years 2018 and 2019

- The NAIC provided aggregated data files to the SOA for observation years 2018 and 2019. These files included data from all participating companies.
- Significant work was done by both the NAIC and the SOA's Individual Life Experience Committee to review the aggregated data. Comparisons were made to data collected for prior observation years, and predictive analytics was used to look for anomalies within the data.
- The files are now in the final stages of the review process with the SOA.
- Future NAIC work may include assisting the Valuation Basic Table (VBT) team and performing model office testing.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 3

3

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

Recap of Previous Life Mortality Experience Data Collections
Observation Years 2020 and 2021

- NAIC staff is currently working with companies to complete submissions and reviews for the 2020 and 2021 observation years.
  - 2020 data is cleaner than 2021. Significant company staff turnover impacted 2021.
  - Many companies are now passing the NAIC validation checks at an individual record level, but trend analysis done at an aggregated level shows corrections are needed.

    Example: All records coded as standard for 2018-2020 but substandard for 2021
  - For some companies, the only task remaining is to sign off on the reasonableness of the A/E ratios the NAIC calculated based on their data submissions. In some cases, this leads to data resubmissions.
- Once A/E sign-off has been received from all submitting companies for each observation year, the NAIC will prepare aggregated files for the SOA.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 4

4

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

2024 Life Mortality Experience Data Collection
Observation Years 2022 and 2023

- A *Valuation Manual* amendment shortened the lag time for the data collection from two years to one year. As a result, this year's data collection will be covering both the 2022 and 2023 observation years.
- The RDC (Regulatory Data Collection) tool is currently open to begin receiving data submissions.
- The due date for initial company data submissions is September 30, 2024. Final (corrected) company data submissions are due February 28, 2025.
- **The NAIC grants extensions.** If additional time is needed to correct data exceptions identified by the RDC system, please let us know.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 5

5

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

2024 Life Mortality Experience Data Collection
New This Year – SharePoint Site

- The NAIC is migrating away from the current FTP site and is setting up a SharePoint site.
- The new site will be a more robust platform for sharing individual company communications as well as providing a place to post global notices that apply to all submitting companies. The control totals, reconciliation, and VM-51 Appendices Questionnaires provided by the companies will also be posted to this site.
- Final testing is underway. We anticipate the site will go live by the end of August.
- NAIC staff is preparing a special training video on how to use this new site. The video will be posted to the NAIC website prior to the site going live.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 6

6

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

2024 Life Mortality Experience Data Collection
New This Year – Enhancements to Data Trend Spreadsheet

- Last year, NAIC staff began preparing a trend spreadsheet to show the distribution of key data fields for the years that the NAIC has been collecting data.
- This year's spreadsheet will include six years of data (2018 – 2023).
- We are also expanding the spreadsheet to include additional quantitative data such as total & average face amounts.
- NAIC staff reviews these spreadsheets and questions are posed regarding unusual patterns.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 7

7

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

2024 Life Mortality Experience Data Collection
Data Trend Spreadsheet Examples

RECORD COUNTS BY OBSERVATION YEAR				
2018	**2019**	**2020**	**2021**	
SUBSTANDARD INDICATOR				
546,000	593,000	625,000	0	0 = Policy segment is not substandard
21,000	22,000	23,000	642,000	1 = Policy segment is substandard
UNDERWRITING REQUIREMENTS				
492,000	545,000	0	0	01 = Underwritten, but unknown whether fluid was collected
9,000	8,000	100,000	110,000	02 = Underwritten with no fluid collection
0	0	465,000	469,000	03 = Underwritten with fluid collected
35,000	31,000	29,000	27,000	99 = For issues where underwriting requirement unknown or unable to subdivide

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 8

8

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

2024 Life Mortality Experience Data Collection
New This Year - Checklists

- Pre-Submission Checklist
  - The NAIC has prepared a pre-submission checklist to assist companies in making sure their submissions are accurate and complete. Companies can use the checklist when preparing and submitting their data.
  - Common issues that are addressed in the checklist include: ensuring all fields are coded consistently with prior year's data, checking for duplicate records, and checking that preferred class structure fields were coded correctly.
- Post-Submission Checklist
  - We have also prepared a post-submission checklist for steps that need to be done once the company receives feedback from the NAIC.
    - Has all feedback from the NAIC been downloaded and reviewed?
    - Have responses to critical exceptions been provided to the NAIC?
    - Is a data resubmission needed?

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 9

9

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

Data Quality Improvements

- Some companies are now submitting clean data on their first submission.
- Communication / responses from many companies have improved and have been extremely helpful in analyzing the data and improving data quality.
- Some companies have completed major projects to improve data quality. We expected and are seeing changes for the following fields for 2020/2021 vs. 2018/2019:
  - Underwriting Type (see example from slide 8)
  - Preferred Class Structure fields (e.g. cleanup of inconsistent coding)
- Many companies are now including data on COVID-19 deaths for both 2020 and 2021 (this was optional for 2020).

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 10

10

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS



11

© 2024 National Association of Insurance Commissioners

August 11, 2024

From: Ben Slutsker, Chairperson
Elaine Lam, Vice Chairperson
The VM-22 (A) Subgroup

To: Rachel Hemphill, Chair
The Life Actuarial (A) Task Force

Subject: The Report of the VM-22 (A) Subgroup to the Life Actuarial (A) Task Force

The NAIC VM-22 (A) Subgroup has met multiple times since the NAIC Fall National Meeting. The primary focus of the group is currently on the VM-22 field test, which started on July 31 and will end on September 30. Over a third of non-variable annuity writers signed up to participate, with representation across all major product categories. The Subgroup intends to use results from the field test to make key decisions on the reinvestment strategy guardrail, the threshold for the stochastic exclusion ratio test, and modifications to assumptions currently set for the Standard Projection Amount (SPA). In addition, the field test will provide a picture of how the VM-22 principles-based reserve (PBR) calculation compares to the current CARVM requirements.

The VM-22 Subgroup has completed initial drafts for VM-22, the SPA, VM-31 disclosure requirements, edits to VM-G, and the VM-22 PBR Supplement for the NAIC Annual Statement, all of which are available on the NAIC webpage for the VM-22 Subgroup. There have been multiple rounds of exposure and feedback incorporated into these documents, with the exception of assumptions in the latest SPA draft (which are currently exposed for public comment until the end of the field test on September 30). In addition, there has been discussion on the methodology for longevity reinsurance, for which Subgroup members expressed initial preference for the “k-factor” approach, but this topic will be revisited after the conclusion of the field test.

Going forward, the Subgroup plans to hold calls through Spring of 2025 to finalize remaining decisions on the framework, after which an official recommendation will be made to the NAIC Life Actuarial (A) Task Force. The goal for the Subgroup continues to be adoption for an initial effective date of 1/1/2026, accompanied by a three year implementation period that ends on 1/1/2029, after which PBR will become mandatory for non-variable annuity contracts on a prospective basis.

© 2024 National Association of Insurance Commissioners

Draft: 6/24/24

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
June 4, 2024

The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met June 4, 2024. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam, Vice Chair (CA); Lei Rao-Knight (CT); Mike Yanacheak (IA); John Rehagen (MO); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); and Craig Chupp (VA).

1. Exposed the Longevity Reinsurance Proposal

Slutsker provided an overview of the May 29 longevity reinsurance discussion, during which the American Council of Life Insurers (ACLI) presented an alternative reserving methodology to the K-factor approach for longevity reinsurance. Slutsker said that based on the May 29 straw poll, the Subgroup was not ready to vote for a preference on methodology. Slutsker noted that the ACLI planned to provide some examples in the coming weeks to demonstrate how the K-factor and the proposed approaches would work under different scenarios so that the Subgroup would have more information on which to form their decisions.

Slutsker exposed the ACLI's longevity reinsurance proposal provided in edits to the VM-22 draft for a 119-day public comment period ending Sept. 30.

2. Discussed the Initial Spread Bonus Placeholder in the VM-22 SPA Draft

Slutsker raised a point about revisiting the initial bonus spread placeholder in C.11.c(ii) of the standard projection amount (SPA) draft. Slutsker sought feedback from the Subgroup on whether the initial bonus values should be filled out in the draft or if the bonus can be any amount. Slutsker said that the value of 0.5% is reflected in the current draft for the purpose of the field test. Slutsker added that the Subgroup would like to have more discussions following the field test and asked companies for additional commentary and testing for those who would like to see limits higher than those reflected in the draft.

3. Exposed VM-22 Section 6, ASPA Draft

Lam presented the policyholder behavior assumptions in the updated VM-22 SPA draft used for the additional standard projection amount (ASPA) calculation as well as the side-by-side comparison of the dynamic lapse formula initially proposed by the VM-22 Policyholder Behavior Assumptions Drafting Group in Fall 2023, the American Academy of Actuaries (Academy), and the Drafting Group's current proposal (Attachment Nineteen-A).

Chupp suggested defining the guaranteed minimum interest rate factor as "1" instead of "None" in the dynamic lapse formula for fixed-indexed annuities to avoid ambiguity. Lam and Slutsker agreed. Carmello noted a lack of data on interest-sensitive surrenders because the data these assumptions are based on ended in 2022, the year the interest rates popped up. Carmello said there was only one year with higher interest rates, whereas there were several years before that with a lower interest rate environment, which made it challenging to calibrate the dynamic lapse formula.

Huijing Sullivan (Jackson National Life Insurance Company) suggested clarifying partial withdrawal assumption language in VM-22, Section 6.C.4.a because it does not mention what to do for accumulation reserving category contracts after exercising the guaranteed living benefit (GLB). Slutsker noted that the table of partial withdrawal assumptions addresses which assumptions should be used before and after exercising the GLB. Lam suggested

© 2024 National Association of Insurance Commissioners

striking the phrase “either without a guaranteed living benefit or prior to exercising a guaranteed living benefit” from Section 6.C.4.a. Carmello and Slutsker agreed.

Sullivan suggested clarifying Section 6.C.4.c because it is unclear which products this would apply to when compared to Section 6.C.4.a. Slutsker suggested striking Section 6.C.4.c because the partial withdrawals are already addressed in the tables and leaving it in would cause an unnecessary conflict. Lam and Carmello agreed.

Sullivan suggested clarifying Section 6.C.4.g to better understand to which contracts this partial withdrawal requirement would apply. Carmello suggested striking the paragraph because the partial withdrawal assumptions are reflected in tables in the draft. Carmello added that if it was for products with a guaranteed death benefit, it is rare on fixed annuity products. Slutsker agreed to strike Section 6.C.4.g. from the draft as it was unclear which contracts the assumption would apply.

The Subgroup agreed to expose the VM-22 SPA draft with the edits to: 1) strike “either without a guaranteed living benefit or prior to exercising a guaranteed living benefit” from C.4.a; 2) remove paragraph C.4.c and C.4.g; and 3) set the guaranteed minimum interest rate factor to “1” instead of “None” in the dynamic lapse formula for fixed indexed annuities for a 119-day public comment period ending Sept. 30.

4. Discussed Other Matters

Slutsker noted that the Subgroup will reconvene in the fall after the field test ends to discuss the results and the remaining decisions on the framework and address comments participants have.

Having no further business, the VM-22 (A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/VM-22 Calls/06 04/Jun 04 Minutes.docx

© 2024 National Association of Insurance Commissioners

PHBDG (July 2023)	Academy (July 2023)	Revised PHBDG (June 2024)
Total Lapse = (Base Lapse + Rate Factor) * ITM Factor	Total Lapse = (Base Lapse + Rate Factor) * ITM Factor	Total Lapse = (Base Lapse*GMIR Factor + Rate Factor*MVA Factor) * ITM Factor
ITM = PVGMWB/AV	ITM = PVGMWB/AV	ITM = PVGMWB/AV
ITM Factor = 1 if ITM=<1.25 = (1.25/ITM)^2 if ITM>1.25	ITM Factor = 1 if ITM=<1.25 = (1.25/ITM)^2 if ITM>1.25 = 0 if AV = 0	ITM Factor = 1 if ITM=<1.25 and AV<>0 = (1.25/ITM)^2 if ITM>1.25 and AV<>0 = 0 if AV = 0
Rate Factor = Market Factor × Max [0, 1–5*(SC percentage - MVA)]/100	Rate Factor = Market Factor × Max [0,1–10*(1-CSV/AV)]*GMIR/SNFL Era Factor	Rate Factor = Market Factor × Max [0,1–5*(1-CSV/AV)]~~*GMIR/SNFL Era Factor~~
Market Factor = -1.25 * (CR-MR)$^{2.5}$ if CR>=MR = 0 if MR>CR>=(MR-BF) = 1.25 * (MR-BF-CR)$^{2.5}$ if CR< (MR-BF)	Market Factor = X * (CR-MR) if CR>=MR = 0 if MR>CR>=(MR-BF) = Y * (MR-BF-CR) if CR< (MR-BF) X = 1 during the SC period; 5 at shock; 3 thereafter Y = 3 during the SC period; 5 at shock; 6 thereafter	Market Factor = -1.25 * (CR-MR)^X if CR>=MR = 0 if MR>CR>=(MR-BF) = 1.25 * (MR-BF-CR)^X if CR< (MR-BF) X = 2.0 during the SC period; 2.5 at shock and thereafter
MVA = [(A/B)^t-1] A = [1 + the closing effective yield of the "MVA Index" on the issue date] B = [1 + the closing effective yield of the "MVA Index" two days before the withdrawal, *surrender*, or annuitization] t = the number of days from the date of withdrawal, *surrender*, or annuitization to the next contract anniversary divided by 365, plus the number of whole years from the next anniversary to the end of the surrender charge period.	MVA = None	MVA Factor = 0 when MVA is in effect = 1 when MVA is not in effect
CR = crediting rate at the time of projection	CR = crediting rate, or the option budget, at the time of projection	**For FA**: CR = crediting rate, at the time of projection **For FIA**: CR = option budget, at the time of projection
MR = market rate at the time of projection	MR = 10 Year UST + 60%BBB/40% A spread - pricing spread	IGP = Interest Guarantee Period **For FIA and FA with IGP < 2 yrs**: MR = Max (3mth UST, 5yr UST + 50%A/50%AA spread) – pricing spread Pricing spread = 0% (already reflected in credit spread) **For FA with IGP >= 2 yrs:** MR = N Year UST + 50%A/50%AA spread – pricing spread Pricing spread = 0% (already reflected in credit spread) N = 5 Year UST for 2 yrs <= IGP < 5 yrs = 7 Year UST for 5 yrs <= IGP < 7 yrs = 10 Year UST for IG >= 7 yrs IGP

© 2024 National Association of Insurance Commissioners

Min Total Lapse = 1%	Min Rate Factor = -2%; -4% at shock	Min Total Lapse = 0.5%
Max Total Lapse = 60%	Max Rate Factor = 10% during SC period, 60% at shock; 35% thereafter	Max Total Lapse = 90%
GMIR/SNFL Era Factor = None; N/A	GMIR/SNFL Era Factor = TBD	**For FIA:** GMIR Factor = None; N/A **For FA:** GMIR Factor = 1.25 if GMIR <= 1.0% = 1 if 1.0% < GMIR <= 2.5% = 0.70 if GMIR > 2.5%
Buffer (BF) = 0.50%	Buffer (BF) = 0.25%	Buffer (BF) = 0.50%

© 2024 National Association of Insurance Commissioners

Draft: 7/10/24

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
May 29, 2024

The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met May 29, 2024. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam, Vice Chair (CA); Lei Rao-Knight (CT); Mike Yanacheak (IA); Vincent Tsang (IL); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Heard a Presentation from the ACLI on Longevity Reinsurance

Slutsker introduced the longevity reinsurance topic and noted that because these contracts have recurring premiums, the product was identified as potentially requiring a different reserve methodology during the drafting of the VM-22 principle-based reserving (PBR) framework. Slutsker noted that concerns were expressed about the potential for negative reserves under a principles-based framework, reserve sufficiency due to these negative reserves offsetting blocks, and whether any margins were needed. Slutsker said a K-factor proposal discussed at that time is currently in the VM-22 draft.

Brian Bayerle (American Council of Life Insurers—ACLI) presented an alternative approach to the K-factor methodology for reserving for longevity risk transfer (LRT) contracts, which would involve a treaty-level floor of zero and no K-factor (Attachment Twenty-A). Bayerle argued that this approach would be simpler, more principle-based, and more aligned with state insurance regulators' concerns. Bayerle offered to provide the proposal in a redline of the VM-22 draft.

Slutsker inquired about the features of the LRT market, including whether LRT contracts usually have premiums guaranteed for the fixed portion of the contract and if those premiums tend to have a slope following expected mortality. Bayerle said there is a guaranteed aspect to the premiums associated with the contract. Armand Wandji (Prudential) said that fixed premiums follow an expectation of longevity and that there is a slow decrease in premium over time. Wandji stated that the LRT business in the U.S. includes U.S. and UK cedants and could include cedants from other jurisdictions. Bayerle said the proposal is from the perspective of the U.S.-assuming company. Tsang said that while the proposal is from an assuming company perspective, there should be an application to the U.S.-ceding companies.

Chupp asked the ACLI if the proposal's intention was to keep the longevity reinsurance in its own reserving category so that it cannot be aggregated with other reserve categories. Bayerle confirmed the ACLI proposal retains the longevity reinsurance reserve category. Bayerle said that because the ACLI proposal floors each treaty, in theory, the reserve would not be negative within the reserving category. Bayerle added that the proposal does not necessarily align with companies' management actions; however, the companies' perspective is that the K-factor approach could be quite technical to implement, particularly if done at a treaty level.

Eom said she had proposed the static K-factor approach in the current VM-22 draft for company convenience but was open to K-factor unlocking if that would allow the approach to work. Eom described the K-factor unlocking process as replacing the previously anticipated cashflows with the historical actual cashflows from the time of issue, recalculating the K-factor, and then reapplying the unlocked K-factor. Tsang said a flexible K-factor approach could be viable for companies without a lot of longevity contracts because of the need for a K-factor for each contract. Eom noted the K-factors across contracts are independent and thus may differ because companies could set the mortality assumption based on the contract and could consequently use discretion to update a contract's

© 2024 National Association of Insurance Commissioners

K-factor. Bayerle said that unlocking the K-factor would add complexity due to the need to track historical cash flows.

Hemphill asked Eom to elaborate on the situations in which the K-factor approach would be more beneficial than the treaty-level floor, given the complexity of the K-factor approach. Eom said a contract may have zero reserves for a long time without the K-factor, depending on the experience and the assumptions. Yanacheak added that under the ACLI approach, in a situation where experience develops worse than the prudent best estimate, there could be many early years with zero reserves until it finally accumulates. At that point, it may be too late, compared to the K-factor approach, where reserves would start developing in earlier years. Yanacheak suggested discussing the timing of when the reserves should be developed under these circumstances.

Hemphill noted that the K-factor approach seemed to be a hybrid of the principles-based and formulaic approaches. She acknowledged that while state insurance regulators have implemented formulaic floors as part of PBR, the concerns regarding exactly how or when the unlocking should be performed add complexity. Hemphill added that she liked the simplicity of flooring at the treaty level instead of the K-factor approach to address negative reserves but wanted to hear the concerns about the differences. Hemphill said it would be helpful for the ACLI to further illuminate those differences. Carmello voiced support for a K-factor approach as a floor.

Tsang asked the ACLI to demonstrate some sample contracts' reserves under the K-factor approach under the current VM-22 draft and the ACLI proposal and how the reserve credit works. Slutsker suggested the examples show each method under baseline mortality, unfavorable mortality, and favorable mortality experience. Eom suggested a demonstration of the K-factor method with and without applying the static K-factor. Bayerle replied that the ACLI can provide a demonstration of the mechanics of the K-factor approach compared to the ACLI proposal and will work to illustrate some of the suggestions. Wandji said they could investigate illustrating how a reserve credit could work.

Slutsker requested a straw poll for Subgroup members to indicate their preference for the ACLI proposal or the K-factor approach (or abstain). The straw poll resulted in a tie between abstentions and the K-factor approach. One member was leaning toward the ACLI proposal. Slutsker said the Subgroup will need more information and examples of how the proposals work and will plan for another vote after reviewing examples and more discussion.

2. Discussed Other Matters

Slutsker provided an update on the status of the implementation timeline and announced that the VM-22 field test would start July 31 and end Sept. 30.

Having no further business, the VM-22 (A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/VM-22 Calls/05 29/VM22 May 29 Minutes.docx

© 2024 National Association of Insurance Commissioners

Longevity Risk Transfer

VM-22 PROPOSAL

Background

© 2024 National Association of Insurance Commissioners

What is Longevity Risk Transfer?

Longevity Risk Transfer ("LRT") involves isolating and transferring longevity risk that is inherent in a portfolio of pension or insurance liabilities

The typical form of LRT is a (re)insurance contract

LRT transactions began in the U.K. market over 15 years ago but have since been completed in several geographies

The cumulative value of LRT to date is well over $200 billion, measured as present value of benefits covered

The principal risks covered under an LRT transaction are the different aspects of longevity risk (e.g. as misestimation, volatility and long-term trend) although other, secondary risks (e.g. spousal assumptions, pension benefit form election, benefit commencement, inflation rate) could also be covered

Who uses LRT?

Pension plans looking to reduce exposure to longevity risk

Insurance carriers looking to manage longevity risk and/or optimize capital

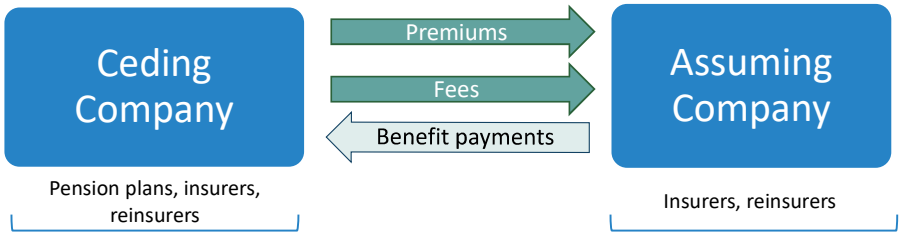
Several U.S. (re)insurance carriers offer LRT solutions both **domestically and internationally**

Markets with large, publicly-disclosed transactions include the U.S., U.K., Netherlands, and Canada

Source: American Academy of Actuaries, May 2022 https://www.actuary.org/sites/default/files/2022-05/Academy_Longevity_Reinsurance_Presentation.pdf

© 2024 National Association of Insurance Commissioners

How does LRT work?

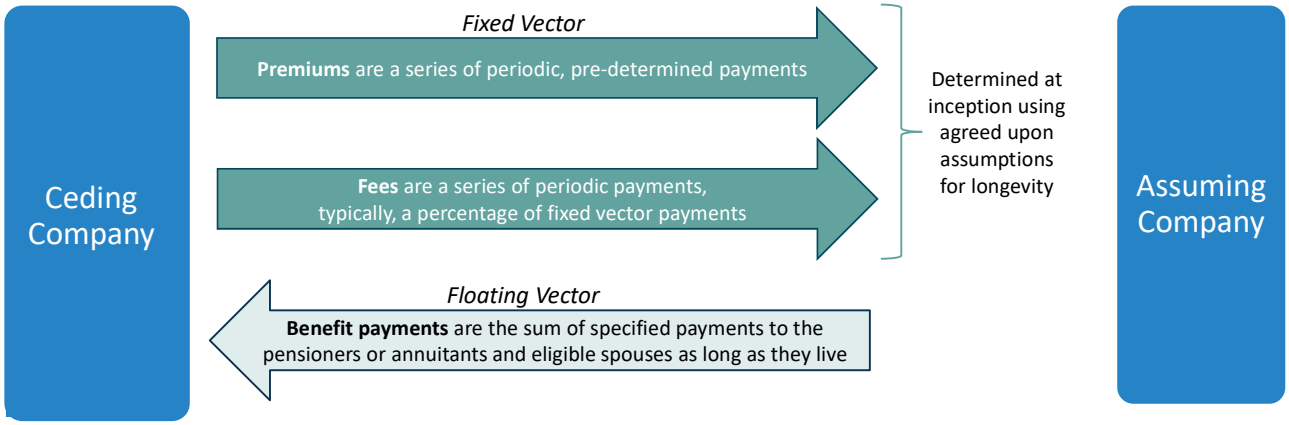


Longevity risk transfer involves an arrangement between two companies

- Main purpose is to transfer longevity risk; does not transfer asset-related risk
- Underlying liability is typically associated with pension schemes (group annuities) or individual annuities

If cedant fails to pay or becomes insolvent, assuming company has a termination right

Cash Flow Exchange



Transactions are settled on a net basis

Underlying Product Designs

Longevity Profile	Monthly Pay	Inflation	Commutations/Transfers
• Pension schemes (group annuities) • Individual annuities	• Premiums are accounted for monthly based on the Fixed Leg Cashflows • Fees are accounted for monthly based on specified terms • Benefit Payments are accounted for monthly based on annuitant profile	• Benefits can be tied to inflation, typically variable inflation with Caps/Floors • Guaranteed Minimum Benefit (minimum average inflation before retirement) • Actual vs estimated inflation impacts both Fixed and Floating legs in tandem	• Transfer out for deferred before retirement (Pensions Freedom Act in the UK) • Partial - Participants can take a X% (varies by country) lump sum at retirement that may or may not be tax free • Commutation can occur at any point when the PV of a policy is under £30K (UK)

Current Statutory Requirements for LRT

- Statutory reserve follows the principles of the Standard Valuation Law (SVL) using VM-A and VM-C
  - Calculated at treaty level
  - PV of future benefits less PV of future premiums
    - PV of future benefits based on projected floating vector cash flows discounted with interest
    - PV of future premiums based on fixed vector and fee cash flows discounted with interest
  - Reserve is floored at zero
  - Minimum reserve based on SVL interest rates and mortality assumption for US group or individual annuities depending on underlying business by treaty

Proposed Reserve Framework

Guiding Principles

Consistent with established PBR principles

- VM-22 Principle 2: Should reflect all liability and asset cash flows
- VM-22 Principle 2 & 3: Should use prudent estimate assumptions with appropriate margin of uncertainty
- VM-22 Principle 2: Should align with company risk management practices

Reported statutory reserves should not be negative

- Inconsistent with statutory reserving objectives
- Inconsistent with pre-PBR practices (e.g., under CRVM) and emerging U.S GAAP standards (e.g., FASB Long-Duration Targeted Improvements)

© 2024 National Association of Insurance Commissioners

Proposal: Zero Floor at Treaty Level

Guiding Principles		Proposal & Rationale
Reflect all policy cash flows	✓	Gross premiums reflected in the reserve calculation since premiums are determined at inception
Use current prudent assumptions	✓	Prudent assumptions as of valuation date
Align with company risk management practices	✗	Calculating the reserve at the treaty level does not align with how many companies monitor and manage the risk associated with these treaties in practice, but proposed to prevent subsidizing among treaties
Non-negative reported reserves	✓	Longevity Reinsurance Reserving Category floored at zero

Assessment of K-Factor Approach

Guiding Principles		Assessment
Reflect all policy cash flows	✗	Gross premiums in excess of locked-in net premium schedule would be excluded, even though such contractually guaranteed premiums would be available to offset any unfavorable deviations in experience post-inception
Use current prudent assumptions	✗	- K-factor is calculated using the prudent estimate assumptions determined at contract inception - Can lead to unreasonably high or unreasonably low reserving outcomes as actual experience emerges
Align with company risk management practices	✗	Performing a treaty-by-treaty K-factor calculation does not align with how many companies monitor and manage the risk associated with these contracts in practice
Non-negative reported reserves	✗	If credible contract experience post-issue is favorable to the assuming company (e.g., supports higher future prudent estimate mortality than the at-inception prudent estimate assumptions), then locking-in the K-factor at inception may cause reserves to be quite low or potentially negative

© 2024 National Association of Insurance Commissioners

Summary of Proposed VM-22 Updates

Section 3: Reserve Methodology	• Add zero floor at treaty level
Section 4: Determination of SR	• Remove k-factor
Section 6: Standard Projection Amount	• Add reference to individual mortality table for LRT on individual annuities
Section 13: Allocation of Aggregate Reserve to the Contract Level	• Clarify N/A to LRT

No changes to sections:

- Section 1: Background
- Section 2: Scope and Effective Date
- Section 5: Reinsurance
- Section 7: Exclusion Testing
- Section 9: Modeling Hedges
- Section 10: Contract Holder Behavior
- Section 11: Mortality
- Section 12: Other Guidance
- VM-V

Appendix

© 2024 National Association of Insurance Commissioners

Cash Flow Payment Patterns

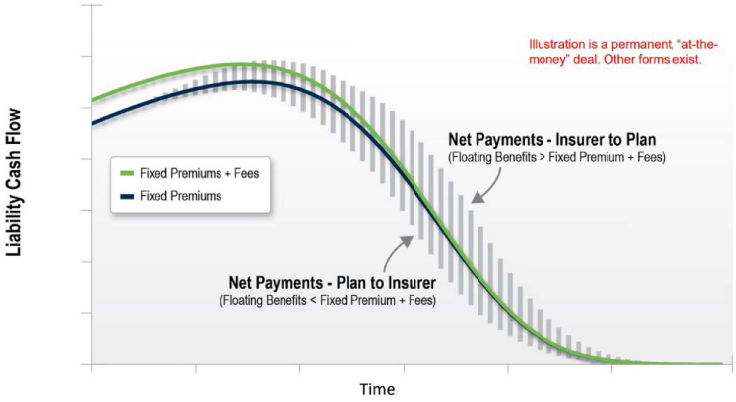
LRT transfers specific longevity risk from a cedant to an assuming company and provides the cedant with certainty of the benefits cashflow:

The cedant owes the assuming company Fixed premiums plus reinsurance fees
- Both are determined at inception using agreed upon assumptions for longevity

Assuming company owes the floating liability benefits to the cedants
- Floating liability benefits are the sum of specified payments to the pension plan members and eligible spouses as long as they live

Transactions are settled on a net basis

Cash flows usually include:
- Premiums are a series of periodic, pre-determined payments. Sometimes referred to as the "fixed vector" in the industry
- Fees are made in consideration for the liability being assumed by the company. Variations on how fees are defined but typically a percentage of the fixed vector payments
- Benefit payments are based on the actual experience of the lives covered. Sometimes referred to as the "floating vector" in the industry



Source: American Academy of Actuaries, May 2022
https://www.actuary.org/sites/default/files/2022-05/Academy_Longevity_Reinsurance_Presentation.pdf

Additional Refinements for LRT

Clarify that 'Section 13: Allocation of Aggregate Reserve to the Contract Level' is not applicable to LRT

Standard Projection Amount
- Longevity reinsurance mortality should point to group or individual annuity industry tables depending on underlying business by treaty
- Section 6.C.3.h.iv: Add reference to individual mortality tables for LRT on individual annuities

Draft: 5/14/24

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
April 10, 2024

The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met April 10, 2024. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam, Vice Chair (CA); Lei Rao-Knight (CT); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); Tomasz Serbinowski (UT); and Craig Chupp (VA).

1. Discussed VM-31 Comments on NGE Disclosures

Slutsker summarized the Subgroup's discussion and suggested consolidations regarding comments about the non-guaranteed element (NGE) disclosures in the VM-31 draft from March 25.

Bruce Friedland (American Academy of Actuaries—Academy) noted the change to consolidate interest crediting strategy disclosures from Section 3.F.3.b into Section 3.F.9 and clarify the distinctions between the company's interest crediting strategies and the disclosures regarding how the strategy was modeled were acceptable. The Subgroup agreed to use the consolidated requirements as represented in proposed Section 3.F.9.f.

Friedland noted the existing language regarding past practices and policies under the NGE section is broad and suggested limiting the disclosure to a specified time frame, as prior periods may not be relevant. Carmello suggested that "relevant past NGE practices and policies" may be sufficient language. Hemphill said she supports including the word relevant but is concerned with including a specific time frame due to variation across companies. Lam concurred with Carmello and Hemphill. The Subgroup agreed to clarify without setting a specific time frame that the disclosure should include a discussion of relevant past practices.

2. Discussed its Next Steps

The VM-22 field test will follow the 2024 Generator of Economic Scenarios (GOES) field test, and the Subgroup will discuss C3 Phase I methodology during future meetings.

Slutsker noted that some assumptions remain regarding the standard projection amount (SPA) to be presented to the Subgroup for non-indexed fixed deferred annuity surrender, partial withdrawal, and dynamic lapse assumptions. The Subgroup will also be looking to make updates to the VM-22 draft to include the SPA mortality.

Slutsker noted the updated drafts for VM-31, VM-22 Reserve Supplement blank, and VM-G, with the incorporated comments and decisions for each, will be available on the NAIC website for reference.

Having no further business, the VM-22 (A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/VM-22 Calls/04 10/Apr 10 Minutes.docx

© 2024 National Association of Insurance Commissioners

Draft: 5/14/24

Valuation Manual (VM)-22 (A) Subgroup
Virtual Meeting
March 25, 2024

The VM-22 (A) Subgroup of the Life Actuarial (A) Task Force met March 25, 2024. The following Subgroup members participated: Ben Slutsker, Chair (MN); Elaine Lam, Vice Chair (CA); Lei Rao-Knight (CT); Vincent Tsang (IL); William Leung (MO); Bill Carmello (NY); Rachel Hemphill and Iris Huang (TX); and Tomasz Serbinowski (UT).

1. Discussed the VM-22 Reserves Supplement Draft

Slutsker recapped the updated line descriptions for individual and group payout annuities in the VM-22 Reserves Supplement discussed during the Feb. 28 call. Slutsker suggested that a similar clarification may be needed for the pension risk transfer and group payout line by striking the phrase "immediate and deferred" from the line description. Slutsker noted that these changes were made in Parts 1A and 1B for both the pre- and post-reinsurance lines. The Subgroup agreed without objection to moving forward with these changes.

Slutsker presented the footnote added to Part 1A of the draft, which clarifies that the groupings provided in the rows of the supplement are different than the groupings permitted for aggregation purposes under VM-22 requirements. Brian Bayerle (American Council of Life Insurers—ACLI) noted the edit was consistent with the ACLI's comment. The Subgroup agreed without objection to moving forward with these changes.

Slutsker presented a redlined version of the changes to Part 1B as well as a clean version formatted by the Blanks (E) Working Group support staff to illustrate: 1) how a large number of additional columns would display the components of the additional standard projection amount (ASPA) calculation; and 2) that state insurance regulators will be able to verify the calculations are being performed as intended (Attachment Twenty-Two-A). Lam and Hemphill said they favored the granularity of the changes in the revised version. Hemphill suggested the additional granularity of Part 1B be brought up to the Life Actuarial (A) Task Force or the Variable Annuities and Capital Reserve (E/A) Subgroup to consider for the Variable Annuities Supplement.

Huijing Sullivan (Jackson National Life Insurance Company—Jackson) asked for clarification, potentially through a footnote, regarding the assumption basis of the CTE70 adjusted calculation expected to be reported in Part 1B, Column 3. Hemphill clarified that the CTE70 adjusted amount in Column 3 is based on company-based assumptions, whereas the Prescribed Projection Amount Column is based on prescribed assumptions. Hemphill added that filling out the supplement will require familiarity with VM-22 and noted that adding footnotes for definitions that are already clearly defined in the *Valuation Manual* would make maintaining those definitions in both places challenging. Lam and Slutsker agreed with Hemphill. The Subgroup agreed to move forward with Part 1B as drafted in Attachment Twenty-Two-A.

2. Discussed Comments Received on the VM-31 Draft

Slutsker introduced an open decision point from the Feb. 28 meeting resulting from the ACLI's concerns with the current draft's having VM-22 disclosure requirements in the same section as the VM-21 disclosure requirements. Some Subgroup members, considering ACLI input, drafted advantages of retaining the existing approach versus those of creating separate sections in VM-31 for non-variable and variable annuities (VAs) (Attachment Twenty-Two-B).

© 2024 National Association of Insurance Commissioners

Bayerle agreed that the pros and cons were adequately captured and noted that the ACLI member consensus was to have separate sections, though they do not speak for all companies. Sullivan voiced a preference for separate sections based on the advantages discussed. Philip Wunderlich (Nationwide Mutual Insurance Company) noted that from a practitioner's point of view, it is preferable to have them separate. Bruce Friedland (representing himself) said the requirements should be separated because this is a new requirement for non-VAs, and for practitioners who are not involved with VM-20 or VM-21 requirements, it would be better to have separate sections now and consider consolidating later.

Lam said she supported keeping disclosures in the same section of VM-31 from a maintenance perspective due to the significant overlap in requirements; however, it should be clear if a requirement applies to only VAs or only non-VAs. Knight agreed with Lam.

Hemphill pointed out that many reasons supporting separate sections in VM-31, besides VM-21 and VM-22 themselves being separate, could also argue for separate sections for VM-20 Term, universal life with secondary guarantees (ULSG), and other permanent products. Hemphill continued that specific disclosures exist for the different product categories and sometimes different qualified actuaries doing the life sub-reports. Hemphill noted that the same section approach for life disclosure requirements in VM-31 works and supports keeping the VM-21 and VM-22 disclosure requirements in one annuity section for consistency.

Slutsker polled the Subgroup to determine a path forward for the structure of the VM-31 draft. The voting options were to keep the VM-21 and VM-22 requirements together as currently drafted, separate them, or abstain if members had no strong preference. Three members preferred to keep the requirements in the same section, two preferred to have separate sections, and two abstained. The Subgroup, therefore, decided to move forward with the existing structure of keeping the requirements together as currently drafted, with the option of revisiting the issue later.

Slutsker invited the parties that commented on the non-guaranteed elements (NGEs) section to discuss. Friedland (American Academy of Actuaries—Academy) noted some overlap between the NGE section and other sections, specifically the interest crediting strategy disclosures in Section 3.F.3.b and Section 3.F.9. Huang and Hemphill noted that Section 3.F.9 is intended to have companies describe how they model the interest crediting strategy, whereas 3.F.3.b is for companies to discuss the actual interest crediting strategy features on the products. Leung suggested adding "modeling" to Section 3.F.9 to differentiate between describing the interest crediting strategy and describing the modeling of the strategy. Hemphill suggested consolidating interest crediting strategy disclosures from Section 3.F.3.b into Section 3.F.9. Leung agreed with Hemphill. Lam noted that if the sections are combined, ensure the language retains the intent that the company needs to discuss the distinction between the index crediting strategies offered on the products and the modeling of those strategies, including any simplifications. Slutsker and a few Subgroup members will bring a draft of the NGE section edits to discuss on the next call.

3. Discussed its Next Steps

The Subgroup will continue to discuss comments received on the NGE section of the VM-31 draft during its April 10 meeting.

Having no further business, the VM-22 (A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/VM-22 Calls/03 25/Mar 25 Minutes.docx

© 2024 National Association of Insurance Commissioners

VM-22 RESERVES SUPPLEMENT – PART 1B

Non-Variable Annuity Reserves Valued According to VM-22 by Product Type

For The Year Ended December 31, 20__

(To Be Filed by March 1)

	Current Year															
	SECTION A							SECTION B						SECTION C		
	1 Cash Surrender Value	2 Prescribed Projection Amount	3 CTE70 (adjusted)	4 Buffer Amount[2]	5 Additional Standard Projection Amount	6 Stochastic Reserve	7 Number of Contracts	8 Cash Surrender Value	9 Prescribed Projection Amount	10 Buffer Amount[3]	11 Additional Standard Projection Amount	12 Deterministic Reserve	13 Number of Contracts	14 Cash Surrender Value	15 VM-A, VM-C, and VM-V Reserve	16 Number of Contracts
1. Post-Reinsurance-Ceded Reserve																
1.1. Fixed Annuities Deferred without Guaranteed Living Benefit							XXX						XXX	XXX	XXX	XXX
1.2. Indexed Annuities Deferred without Guaranteed Living Benefit							XXX						XXX			XXX
1.3. Individual Immediate and Deferred Income Annuities and Annuitizations							XXX						XXX			XXX
1.4. Structured Settlements							XXX						XXX			XXX
1.5. Pension Risk Transfer and Group Payout Annuities and Annuitizations							XXX						XXX			XXX
1.6. Longevity Reinsurance							XXX						XXX			XXX
1.7. Fixed Annuities Deferred – with Guaranteed Living Benefit							XXX						XXX			XXX
1.8. Indexed Annuities Deferred – with Guaranteed Living Benefit							XXX						XXX			XXX
1.9. Aggregate Write-Ins for Other Products							XXX						XXX			XXX
2. Total Post-Reinsurance-Ceded Reserve (Sum of Lines 1.1 through 1.9)							XXX						XXX			XXX
3. Pre-Reinsurance-Ceded Reserve																
3.1. Fixed Annuities Deferred without Guaranteed Living Benefit														XXX	XXX	
3.2. Indexed Annuities Deferred without Guaranteed Living Benefit																
3.3. Individual Immediate and Deferred Income Annuities and Annuitizations																
3.4. Structured Settlements																
3.5. Pension Risk Transfer and Group Payout Annuities and Annuitizations																
3.6. Longevity Reinsurance																
3.7. Fixed Annuities Deferred – with Guaranteed Living Benefit																
3.8. Indexed Annuities Deferred – with Guaranteed Living Benefit																
3.9. Aggregate Write-Ins for Other Products																
4. Total Pre-Reinsurance-Ceded Reserve (Sum of Lines 3.1 through 3.9)																
5. Total Reserves Ceded (Line 4 minus Line 2)							XXX						XXX			XXX
DETAILS OF WRITE-INS																
1.901.							XXX						XXX			XXX
1.902.							XXX						XXX			XXX
1.903.							XXX						XXX			XXX
1.998. Summary of remaining write-ins for Line 1.9 from overflow page							XXX						XXX			XXX
1.999 Totals (Lines 1.901 through 1.903 plus 1.998) (Line 1.9 above)							XXX						XXX			XXX
3.901.																
3.902.																
3.903.																
3.998. Summary of remaining write-ins for Line 3.9 from overflow page																
3.999 Totals (Lines 3.901 through 3.903 plus 3.998) (Line 3.9 above)																

2 – Equal to the Unfloored CTE70 (adjusted) minus Unfloored CTE65 (adjusted)
3 – Equal to the Unfloored DR minus Unfloored scenario reserve calibrated to CTE65

DRAFT

Separate VM-31 Sections for VM-21 & VM-22?

Pros
(supports having different sections)

- Can target specific disclosures for each chapter (e.g., C3P2 and Alternative Methodology sections only for VM-21; Exclusion Test section only for VM-22)
- Separating would help practitioners because the focus is very specific to the chapter in question. It may be challenging for companies if those businesses are managed separately but forced to be combined into the same summary report.
- Consistent with not permitting aggregation between variable and non-variable annuities

Cons
(supports having same section[1])

- Keeping in same section makes VM language and requirements more consistent between VM-21 & VM-22, aligning with a vision of one common principles-based methodology
- There is substantial overlap between VM-21 and VM-22 disclosures (more than ~85% of requirements overlap); separate sections would lengthen VM-31 and contain repeated language
- Separate sections makes it more challenging to draft future amendments, as identical edits may need to be made in multiple places

(1) If combined, consider whether to include commentary on differences between VM-21 and VM-22

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS



4. Update on GOES Field Test and GOES (E/A) Subgroup Report

Mike Yanacheak, Chair, GOES (E/A) Subgroup
Scott O'Neal

August 11, 2024

1

Status of Field and Model Office Testing

Participants:
37 Legal Entities
24 Groups

- There are five required runs using the new GOES field test scenario sets. The runs test the latest calibration of the GOES at of year-end 2023, other alternative Treasury starting conditions, and also include an equity market drop sensitivity.
- There are also seven optional field test runs that include additional Treasury, bond, and equity sensitivities along with a scenario set that uses an alternative initial yield curve fitting methodology.
- Confidential, participant-to-regulator discussions are being held and will continue through at least August. Seven groups have already presented.
- Variable annuity model office testing results were presented in early June and life model office results will be shared later today.

Required Field Test Runs:

Field Test Run	Scenario Sets	Inforce
Baseline	Scenario set(s) the company used for 12/31/23 statutory reporting of reserves and RBC	As of 12/31/23
#1 - GOES	Conning scenarios as of 12/31/23	As of 12/31/23
#2 – Low Rate Shock	Conning scenarios with a starting UST yield curve as of 3/9/20 but with 12/31/23 starting credit spreads.	As of 12/31/23, but modified as necessary for a different starting UST yield curve.
#3 – Up Rate Shock	Conning scenarios with a starting UST yield curve as of 10/31/89 but with 12/31/23 starting credit spreads.	
#4 – Normal Yield Curve	Conning scenarios with a starting UST yield curve as of 12/31/04 but with 12/31/23 starting credit spreads.	
#5 – Down Equity Shock	Same as #1	As of 12/31/23, but modified for a 25% drop in equity markets.

2

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

Initial Field Test Takeaways

Initial Takeaways	Items to Include in Confidential Discussions
• Participants are asked to share their quantitative field test results along qualitative discussions on several topics (see right). • Addressing each of these items can be challenging in 15- to 30-minute presentations followed by Q&A. • After regulator feedback, NAIC Staff sent out example slides with charts and graphs that could be used to quickly summarize field test results for each of the tested frameworks (VM-20, VM-21/C3P2, C3P1). • Participants have shared key insights on how the new scenarios impact their business. • There may be additional follow-up questions for participants after the initial discussions. Regulators can email soneal@naic.org with questions for participants.	Field Test Result Summaries Discussion of Simplified Modeling Approaches Comparison to Model Office Results Limitations of Model Office Approach Concerns with GOES

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 3

3

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

Next Steps

Conclude 2024 GOES Field Test

- Finish conducting participant-to-regulator discussions
- Summarize key findings for public discussion while preserving confidentiality
- Share results from the life model office analysis at Summer NAIC National Meeting
- Answer any remaining questions using model office

Continue Work of GOES (E/A) Subgroup

- Develop and approve GOES model governance framework*
- Streamline and enhance documentation*
- Refine GOES calibration, as needed, after incorporating lessons learned from field and model office testing
- Recommend final VM-20 Stochastic Exclusion Ratio Test methodology, scenario picking tool, and statistical reports

Adoption of GOES

- Once the GOES (E/A) Subgroup finalizes a recommendation, the Life Actuarial (A) Task Force and Life RBC (E) Working Group will adopt necessary changes into the Valuation Manual and RBC Instructions.
- **The GOES will not be required any sooner than 2026.** However, early adoption may be possible depending on the will of the GOES (E/A) Subgroup and parent groups in the NAIC Committee structure.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

*Model governance program and documentation will be revised and enhanced on an ongoing basis

4 4

Draft: 07/24/24

Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
June 12, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met June 12, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Ted Chang (CA); Wanchin Chou (CT); Scott Shover (IN); William Leung (MO); Ben Slutsker (MN); Bill Carmello (NY); Rachel Hemphill and Hattie Wang (TX); and Craig Chupp (VA).

1. Heard a Variable Annuity Model Office Results Presentation from Oliver Wyman

Simon Gervais (Oliver Wyman) presented model office results for the 2024 GOES Field Test scenario sets 1-6 (Attachment Twenty-Four-A). Gervais noted key take aways from the analysis are 1) the GOES Scenario Set 1 produced adverse results compared to the current Academy's generator due to the tail scenarios driving the CTE, 2) all the sensitivity scenario sets produced results consistent with expectations but noted a caveat is that the model uses reinvestment rates anchored to the ten year duration Treasury or corporate bonds and 3) Set 6 produced higher reserves than Set 1.

Connie Tang (Retired) asked how mandatory annuitizations were addressed in the model and asked if Oliver Wyman modeled a mandatory annuitization age so that the money would be out of equities at a certain point? Gervais took the question as a follow up.

Tim Ritter (Jackson National Life Insurance Company) asked for clarification regarding the basis of CTE70 values on slide twenty-one. Gervais noted the CTE70 values reflected the adjusted basis, not the best-efforts.

Gary Hu (Prudential) questioned how many of the scenarios in the CTE70 hit the floor relative to the baseline. Gervais said that additional follow-up could be done to assess the proportion of scenarios with reserves more than the CSV floor. Gervais added that the mature, strong, at-the-money cohort is an example of a situation where only a couple of scenarios out of the 300 were above the CSV.

Having no further business, the GOES (A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/GOES SG Calls/06 12/June 12 Minutes.docx

© 2024 National Association of Insurance Commissioners

OliverWyman

Draft

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

NAIC GOES MODEL OFFICE ANALYSIS

Scenario Analysis Results

June 12, 2024

A business of Marsh McLennan

CONFIDENTIALITY

Our clients' industries are extremely competitive, and the maintenance of confidentiality with respect to our clients' plans and data is critical. Oliver Wyman rigorously applies internal confidentiality practices to protect the confidentiality of all client information.

Similarly, our industry is very competitive. We view our approaches and insights as proprietary and therefore look to our clients to protect our interests in our proposals, presentations, methodologies, and analytical techniques. Under no circumstances should this material be shared with any third party without the prior written consent of Oliver Wyman.

© Oliver Wyman

TABLE OF CONTENTS

ID	SECTION TITLE	PAGE
1	EXECUTIVE SUMMARY	4
2	VM-21 REFRESHER	7
3	MODEL AND SCENARIO SETS	11
4	MODEL OFFICE RESULTS	16
	APPENDIX	26

© Oliver Wyman

SECTION 1

EXECUTIVE SUMMARY

MODEL AND MODEL OFFICE DEVELOPMENT AND ANALYSIS

Oliver Wyman developed a variable annuity ("VA") AXIS model and "model office toolkit", with the goal of developing a model with adjustable driving characteristics to explain field test results and analyze potential candidate scenario sets

Current phase

Model build

- VA model developed in AXIS
- Model office creation tool accepts user input regarding benefits and demographics to quickly generate reserves and capital for different archetypes
- Validation tools are used alongside model to ensure accuracy of results

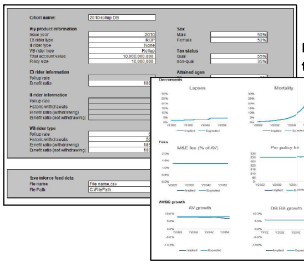
Archetype analysis

- Defined driving characteristics and developed 16 archetypes that make up the model office
- Generated model office testing results based on scenario set 1a[1] from the first GOES field test
- Learnings from model office analysis used to draw additional insights into field test results

Model office GOES impact analysis

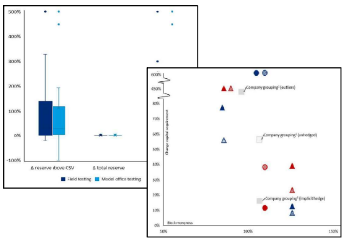
- For the second GOES field test, selected 3 of the 16 key archetypes to be representative of a hypothetical industry participant
- Produced results based on AAA ESG, the 5 required scenario sets for the field test (Set 1-5), and the alternative baseline scenario (Set 6)[2]
- Analyzed results and underlying scenarios to understand the drivers of impact

Model office creation tool

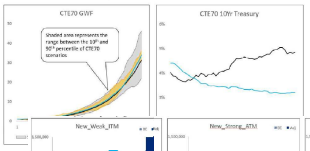


Model validation tool

Model office results



Scenario Analysis



Model office results



1: GEMS Baseline Equity and Corporate model scenarios and Conning Treasury model calibration with generalized fractional floor as of 12/31/21 2. All scenarios are as of 12/31/2023. See slide 15 on descriptions of the scenarios

© Oliver Wyman

EXECUTIVE SUMMARY: MODEL OFFICE GOES IMPACT ANALYSIS

The targeted model office was used to draw insights into field test results and develop a better understanding of how the GOES algorithm impacts projections under a range of starting economic conditions

Analysis performed

Leveraged prior archetype analysis to select 3 key cohorts to analyze under the new field test scenario sets:

1. Mature business / Strong guarantee / At-the-money
2. New business / Strong guarantee / Out-of-the-money
3. New business / Weak guarantee / In-the-money

Produced CTE70 and CTE98 results to analyze changes in VM-21 reserves and capital requirements, consistently with field test requirements. A 1,000 scenario subset was picked based on the significance criteria and all results were produced for 12/31/2023 valuation date.

Key takeaways

1 *Set 1 vs AAA*

Set 1 produces higher reserves than the AAA ESG: Analysis of tail scenario confirmed that accumulated Gross Wealth Factors ("GWF") are lower in the Set 1 results than in the AAA ESG scenarios and interest rates are lower in earlier years, both of which lead to higher CTEs

2 *Sets 2-5 vs Set 1*

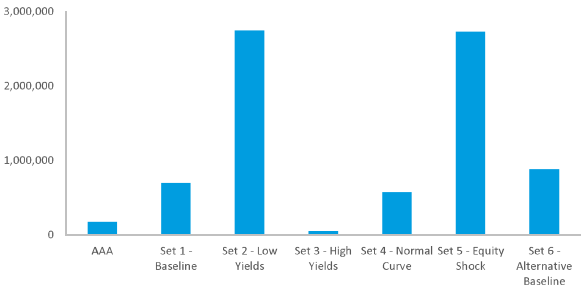
Sensitivity scenario sets produced impacts consistent with expectations: Lower yield curves lead to higher reserves due to lower reinvestment income, and vice versa; lower equity returns increase reserves due to guarantees becoming more in-the-money

3 *Alternative baseline vs Set 1*

Alternative baseline produces higher reserves than Set 1: The proposed adjustments to the fit of the yield curve produced higher reserves, given that reinvestment rates are tied to the 10-year Treasury rates and longer tenors do not impact reinvestment rates

CTE70 (adjusted) in excess of CSV by scenario set

Economic scenarios: AAA, GOES Scenario Sets 1-5, alternative baseline



© Oliver Wyman

© 2024 National Association of Insurance Commissioners

SECTION 2

VM-21 REFRESHER

VM-21 RESERVE REFRESHER: RESERVE COMPONENTS

The primary component of VM-21 reserves is the stochastic reserves, which is based on scenario reserves floored at the CSV

1 Stochastic reserves

- Combination of two CTE70s based on different **scenario reserves**
  - Hedged, i.e., CTE (best efforts)
  - Unhedged, i.e., CTE (adjusted)
- Adjusted for error factor
- Simplified terms: Hedged results + Impact of hedging * error factor

Other VM-21 reserve components

2 Additional standard projection amount ("ASPA")

- Additional reserve held if company assumptions are too aggressive relative to prescribed assumptions

3 Pre-tax IMR ("PIMR")

- Allocated PIMR attributed to assets selected

Initial model office testing resulted in an ASPA value of zero due to the buffer component; PIMR assumed to be zero

Scenario reserves overview

- **Scenario reserve** = Starting assets required to fund all future liability cash flows, with no intermediate deficiencies, for a given economic scenario

- Building block to the stochastic reserve, made up of a set of scenario reserves
- Calculated and recorded for each economic scenario (equity, bond fund, and interest rate)
- Projected separately on both a hedged and unhedged basis, for a contract grouping
- Floored at the cash surrender value

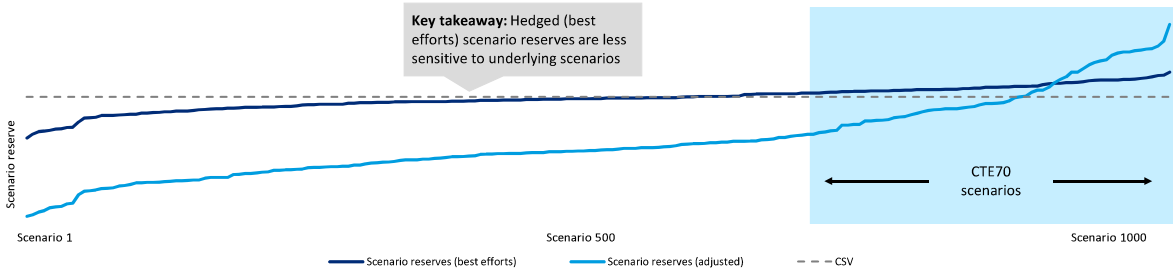
© Oliver Wyman 8

VM-21 RESERVE REFRESHER: STOCHASTIC RESERVE

The stochastic reserve is a combination of CTE70s from scenario reserves on a hedged and unhedged basis

Stochastic reserve = CTE70 (best efforts) + E × max[0, CTE70 (adjusted) – CTE70 (best efforts)]

Illustrative



Component	Details
CTE70 (best efforts)	• CTE70 of **scenario reserves (best efforts)** • Scenario reserve calculation reflects future hedging strategy
CTE70 (adjusted)	• CTE70 of **scenario reserves (adjusted)** • Scenario reserve calculation does not reflect future hedging strategy
Error factor (E)	• Accounts for potential overstatement of the impact of the hedging strategy • Between 5% - 100% based on the model's level of sophistications and its ability to reflect the parameters of the hedging strategy

© Oliver Wyman

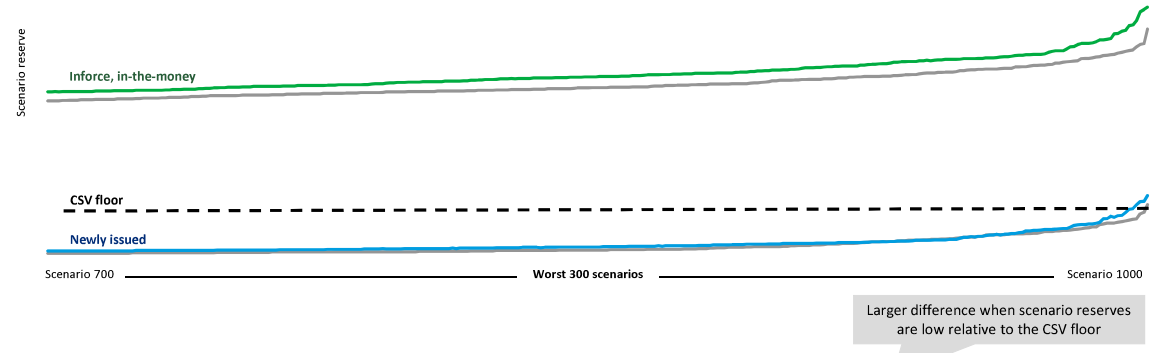
CHANGE IN EXCESS VS CHANGE IN TOTAL SCENARIO RESERVE

Reserves in excess of CSV is the "true" measure of financial impact and more reactive to scenario changes; total reserves do not move much relatively due to CSV being a large component and not impacted by scenarios

Worst 300 of 1000 adjusted scenario reserves

Set1 = colored lines, AAA = gray lines

Illustrative



Archetype	Scenario reserve position relative to the CSV floor	Average increase in unfloored scenario reserve	Increase excess reserve	Increase in total reserves
Inforce, in-the-money	High	4%	**8%**	4%
Newly issued	Low	0.2%	**450%**	0.1%

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

SECTION 3

MODEL AND SCENARIO SETS

MODEL COMPONENTS AND FUNCTIONALITY

Component	Description of functionality
Liability modeling	• Liability cash flows for model office comprised of the following product features: – Base variable annuity contract and a variety of GMxB (GLWB, GMDB, GMIB) with typical features and charges • Modeled on a direct basis only (i.e., without reinsurance)
Asset modeling	• Guardrail VM-21 prescribed strategy: 10-year bonds with ratings A and AA consistent with the guardrail prescribed under VM-21
Calculations	• Outer loop cash flows under best estimate assumptions and input deterministic scenarios • Pre-tax asset and liability projections under input stochastic scenarios reflecting all cashflows under prudent best estimate and VM-21 prescribed assumptions • Inforce asset iteration at valuation date under input stochastic scenarios to achieve no GPVAD • Fair value of living benefit riders on annual timesteps to support implicit hedging approach
Assumption sets	• Best estimate • Prudent best estimate • VM-21 standard projection prescribed
Hedging	• Employs the "cost of reinsurance" method (i.e., implicit method) in the best efforts run, option cost is charged at time 0 and rider fees and claims are removed
Reporting	• Stochastic reserve (CTE70 pre-tax under adjusted and best efforts hedge) • Standard projection add-on under CTEPA method (CTE70 under prescribed in excess of SR, subject to CTE70 – CTE65 unfloored buffer) • C3 at 100% RBC (CTE98 pre-tax and subsequent calculations). Note: C3 will be unsmoothed

© Oliver Wyman

DRIVING CHARACTERISTICS: SPECIFICATIONS

In-force archetypes were created using a model office creation toolkit and varied by driving characteristics. A wide range was used in determining variation in driving characteristics in order to capture a range of impacts to compare against field testing

Characteristic	Variations	Values
GMWB guarantee strength	Weak guarantee	**Rollup rate:** 3% **Income rates:** 4.0% - 5.5% based on attained age
	Strong guarantee	**Rollup rate:** 7% **Income rates:** 5.5% - 7.0% based on attained age
Hedging	Hedged	**Hedge modeling:** Implicit method
	Unhedged	**Hedge modeling:** None
Block maturity	New	**Issue year:** 2022 **Average age:** 66 **Percentage of GMWB contracts taking income:** 20%
	Mature	**Issue year:** 2007 **Average age:** 75 **Percentage of GMWB contracts taking income:** 75%
Moneyness	OTM / ATM / ITEM	**OTM:** Benefit Base is 90%-100% of AV **ATM:** Benefit Base is 100%-110% of AV **ITM:** Benefit Base is 110%-140% of AV
Other	Static inputs	**M/F sex split:** 50/50 **Q/NQ split:** 65/35 **Equity allocation:** 70%

© Oliver Wyman
13

IN-FORCE ARCHETYPES: GMWB/GMDB COMBO

16 different GMWB/GMDB combo archetypes were used in the initial model office testing. 3 cohorts outlined below are the focus for this analysis, based on their representativeness of industry results

Archetype	LB rider	DB rider	Hedging	Guarantee strength	Block maturity	Moneyness
1	Rollup GMWB	ROP GMDB	Implicit	Strong	New	ITM
2	Rollup GMWB	ROP GMDB	Implicit	Strong	New	OTM
3	Rollup GMWB	ROP GMDB	Implicit	Strong	Mature	ITM
4	Rollup GMWB	ROP GMDB	Implicit	Strong	Mature	ATM
5	Rollup GMWB	ROP GMDB	Implicit	Weak	New	ITM
6	Rollup GMWB	ROP GMDB	Implicit	Weak	New	OTM
7	Rollup GMWB	ROP GMDB	Implicit	Weak	Mature	ITM
8	Rollup GMWB	ROP GMDB	Implicit	Weak	Mature	ATM
9	Rollup GMWB	ROP GMDB	None	Strong	New	ITM
10	Rollup GMWB	ROP GMDB	None	Strong	New	OTM
11	Rollup GMWB	ROP GMDB	None	Strong	Mature	ITM
12	Rollup GMWB	ROP GMDB	None	Strong	Mature	ATM
13	Rollup GMWB	ROP GMDB	None	Weak	New	ITM
14	Rollup GMWB	ROP GMDB	None	Weak	New	OTM
15	Rollup GMWB	ROP GMDB	None	Weak	Mature	ITM
16	Rollup GMWB	ROP GMDB	None	Weak	Mature	ATM

Focus for this analysis

© Oliver Wyman
14

FIELD TEST SCENARIO SETS

Model office testing was performed on field test scenario sets 1-6, including the alternative baseline

Field Test Run	Scenario Sets	Inforce Assets and Liabilities	Comparison Scenario set
AAA	AAA ESG as of 12/31/2023	As of 12/31/23	
Set 1 – GOES Baseline	Conning scenarios as of 12/31/23	As of 12/31/23	Baseline (AAA)
Set 2 – Low Rate Shock	Conning scenarios with a starting UST yield curve as of 3/9/20 but with 12/31/23 starting credit spreads.	As of 12/31/23	Set 1
Set 3 – Up Rate Shock	Conning Scenarios with a starting UST yield curve as of 10/31/89 but with 12/31/23 starting credit spreads.	As of 12/31/23	Set 1
Set 4 – Normal Yield Curve	Conning scenarios with a starting UST yield curve as of 12/31/04 but with 12/31/23 starting credit spreads.	As of 12/31/23	Set 1
Set 5 – Down Equity Shock	Conning scenarios as of 12/31/23 (same as Field Test 1)	As of 12/31/23, but modified for a 25% drop in equity markets	Set 1
Set 6 – Alternative Baseline	Conning scenarios as of 12/31/23 but with the alternative yield curve fitting proposed by ACLI	As of 12/31/2023	Set 1

Source: *https://naic.conning.com/scenariofiles*

© Oliver Wyman

SECTION 4

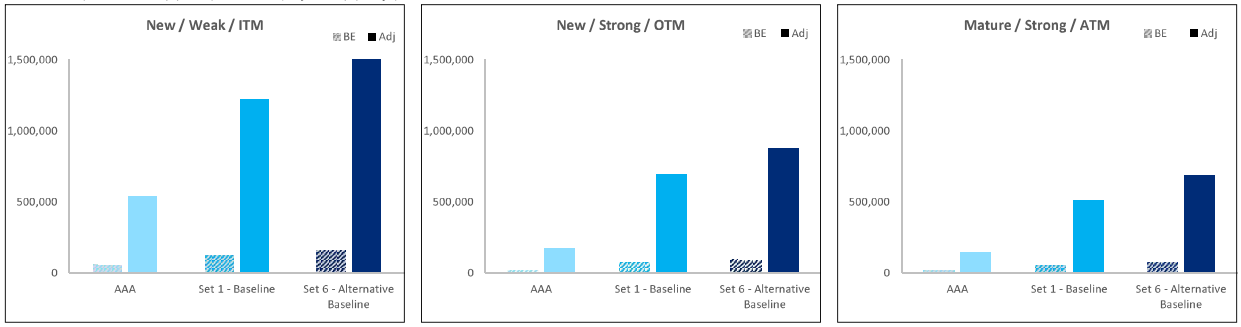
MODEL OFFICE RESULTS

© 2024 National Association of Insurance Commissioners

BASELINE SCENARIOS – RESERVES COMPARISON

Comparison of VM-21 reserves in excess of CSV for all three cohorts, outlining the difference between the AAA ESG, the GOES baseline, and the alternative baseline reserves

VM21 CTE (best efforts) ("BE") and CTE (adjusted) ("Adj") reserves in excess of CSV



CTE70 (adjusted) by archetype (000s)

Archetype	AAA ESG [A]	GOES Set 1 [B]	Goes Alt. Baseline [C]	([B] – [A]) / [A]	([C] – [B]) / [B]
New / Weak / ITM	540	1,223	1,542	126%	26%
New / Strong / OTM	171	693	876	303%	26%
Mature / Strong / ATM	145	509	684	251%	34%

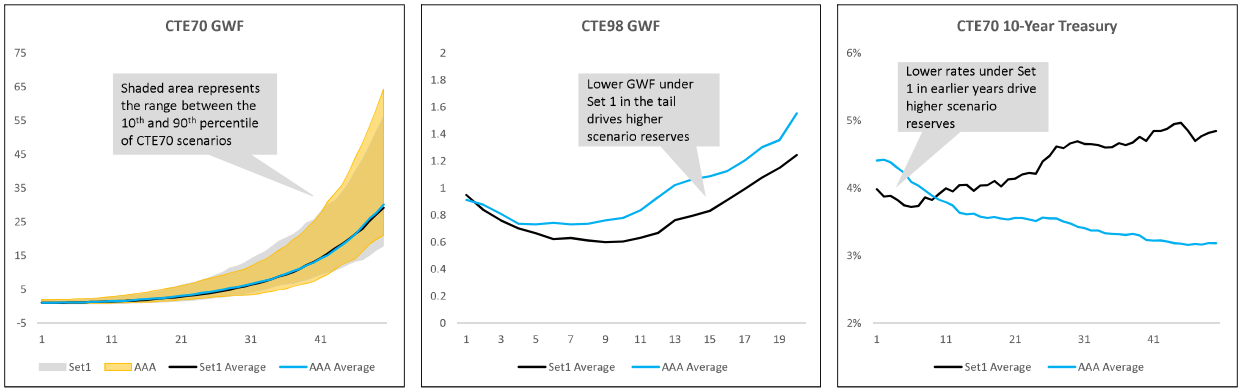
GOES Set 1 produces higher reserves than the AAA ESG as a result of compressed equity returns in the tail and lower Treasury rates in early durations. The alternative baseline produced similar but slightly more adverse results than Set 1

© Oliver Wyman

BASELINE SCENARIOS – SCENARIO ANALYSIS – NEW / WEAK / ITM COHORT

Comparison of average accumulated gross wealth factors ("GWF") and 10-Year Treasury curve for CTE70 and CTE98 scenarios over 50 years of projection for the New / Weak Guarantee / ITM cohort

New / Weak Guarantee / ITM Cohort



Average equity return from GOES scenarios is similar to AAA ESG at the CTE70 level, however tail scenarios are more adverse; lower GOES rates in earlier years are producing adverse results despite reverting to a higher mean in later years

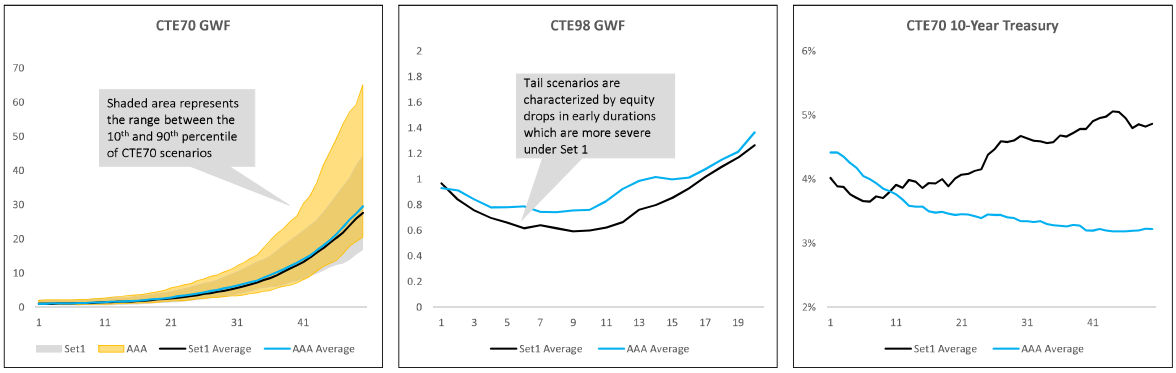
© Oliver Wyman

© 2024 National Association of Insurance Commissioners

BASELINE SCENARIOS – SCENARIO ANALYSIS – NEW / STRONG / OTM COHORT

Comparison of average accumulated gross wealth factors ("GWF") and 10-Year Treasury curve for CTE70 and CTE98 scenarios over 50 years of projection for the New / Strong Guarantee / OTM cohort

New / Strong Guarantee / OTM Cohort



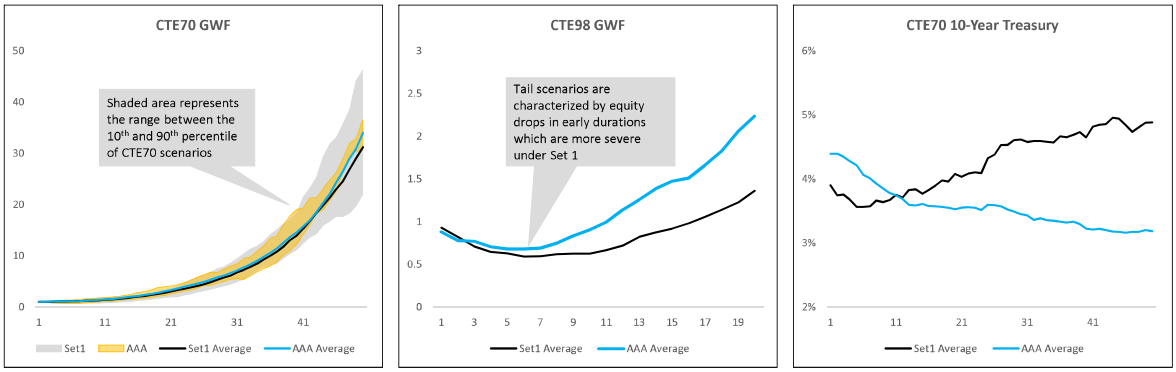
Average equity return from GOES scenarios is similar to AAA ESG at the CTE70 and CTE98 levels, however tail scenarios for GOES are more adverse; lower GOES rates in earlier years are producing adverse results despite reverting to a higher mean in later years

© Oliver Wyman 19

BASELINE SCENARIOS – SCENARIO ANALYSIS – MATURE / STRONG / ATM COHORT

Comparison of average accumulated gross wealth factors ("GWF") and 10-Year Treasury curve for CTE70 and CTE98 scenarios over 50 years of projection for the Mature / Strong Guarantee / ATM cohort

Mature / Strong Guarantee / ATM Cohort



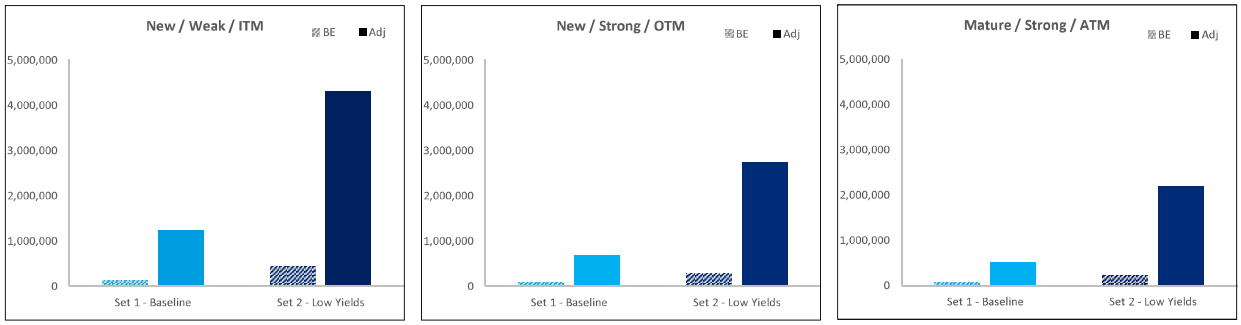
Average equity return from GOES scenarios is similar to AAA ESG at the CTE70 and CTE98 levels but more disbursed and adverse in the tail; lower GOES rates in earlier years are producing adverse results despite reverting to a higher mean in later years

© Oliver Wyman 20

SENSITIVITY SCENARIOS – RESERVES (SET 2)

Comparison of VM-21 reserves in excess of CSV for all three cohorts, outlining the difference between the **GOES baseline**, and the **low starting yield curve** scenario set reserves

VM21 CTE (best efforts) ("BE") and CTE (adjusted) ("Adj") reserves in excess of CSV



CTE70 (adjusted) by archetype (000s)

Archetype	Set 1 [A]	Set 2 [B]	([B] – [A]) / [A]
New / Weak / ITM	1,223	4,304	251%
New / Strong / OTM	693	2,741	295%
Mature / Strong / ATM	509	2,199	331%

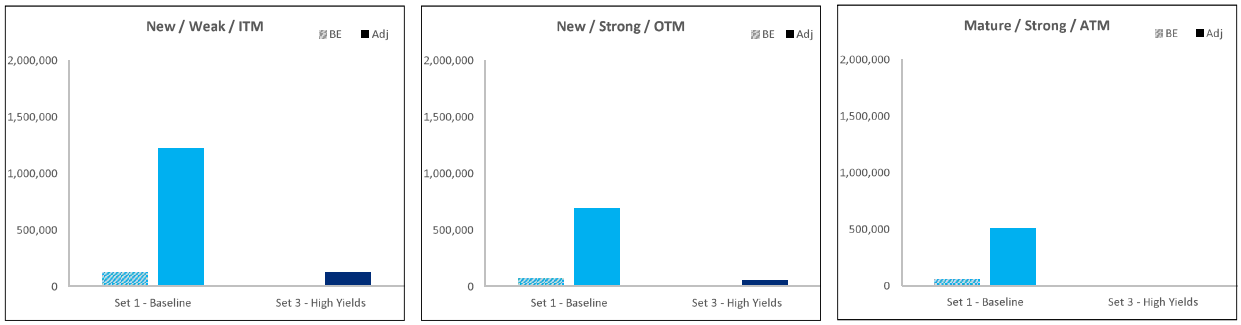
The Set 2 scenarios are producing significantly higher reserves than the baseline scenario set due to the compressed yield curve and high prevalence of negative interest rates for sustained periods

© Oliver Wyman

SENSITIVITY SCENARIOS – RESERVES (SET 3)

Comparison of VM-21 reserves in excess of CSV for all three cohorts, outlining the difference between the **GOES baseline**, and the **high starting yield curve** scenario set reserves

VM21 CTE (best efforts) ("BE") and CTE (adjusted) ("Adj") reserves in excess of CSV



CTE70 (adjusted) by archetype (000s)

Archetype	Set 1 [A]	Set 3 [B]	([B] – [A]) / [A]
New / Weak / ITM	1,223	121	-91%
New / Strong / OTM	693	50	-93%
Mature / Strong / ATM	509	5	-99%

The Set 3 scenarios are producing significantly lower reserves than the baseline scenario set due to the favorable yield curve; we note that a significant portion of scenario reserves are floored at the CSV under this sensitivity

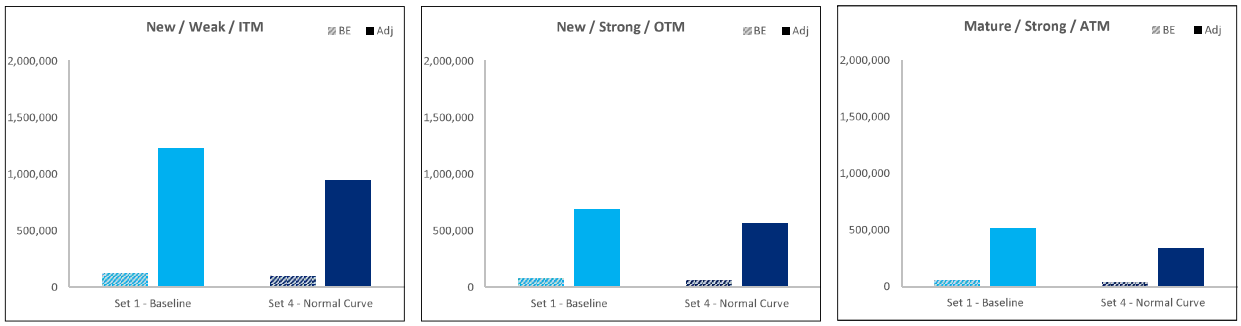
© Oliver Wyman

© 2024 National Association of Insurance Commissioners

SENSITIVITY SCENARIOS – RESERVES (SET 4)

Comparison of VM-21 reserves in excess of CSV for all three cohorts, outlining the difference between the **GOES baseline**, and the **non-inverted yield curve** scenario set reserves

VM21 CTE (best efforts) ("BE") and CTE (adjusted) ("Adj") reserves in excess of CSV



CTE70 (adjusted) by archetype (000s)

Archetype	Set 1 [A]	Set 4 [B]	([B] – [A]) / [A]
New / Weak / ITM	1,223	947	-23%
New / Strong / OTM	693	556	-18%
Mature / Strong / ATM	509	339	-33%

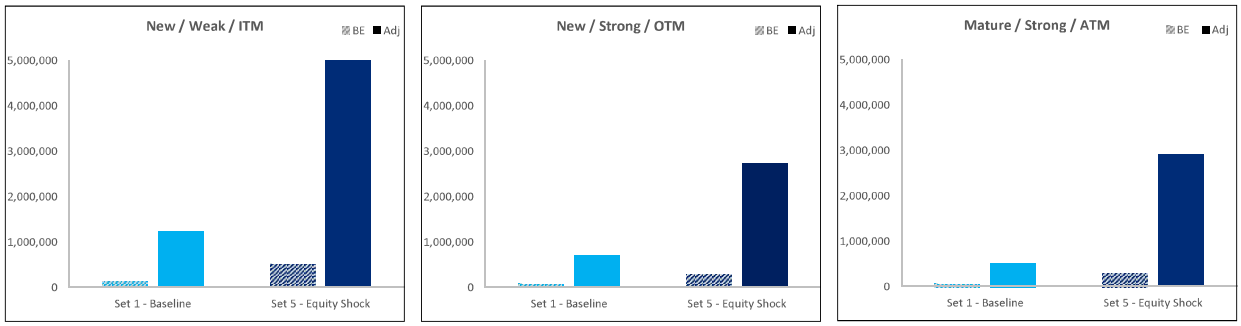
The Set 4 scenarios are producing slightly lower reserves than the baseline scenario set due to slightly higher yields from the non-inverted curve; the reinvestments are anchored to 10-year A & AA Corporate Bond returns

© Oliver Wyman 23

SENSITIVITY SCENARIOS – RESERVES (SET 5)

Comparison of VM-21 reserves in excess of CSV for all three cohorts, outlining the difference between the **GOES baseline**, and the **25% equity shock** scenario set reserves

VM21 CTE (best efforts) ("BE") and CTE (adjusted) ("Adj") reserves in excess of CSV



CTE70 (adjusted) by archetype (000s)

Archetype	Set 1 [A]	Set 5 [B]	([B] – [A]) / [A]
New / Weak / ITM	1,223	5,016	310%
New / Strong / OTM	693	2,726	293%
Mature / Strong / ATM	509	2,899	469%

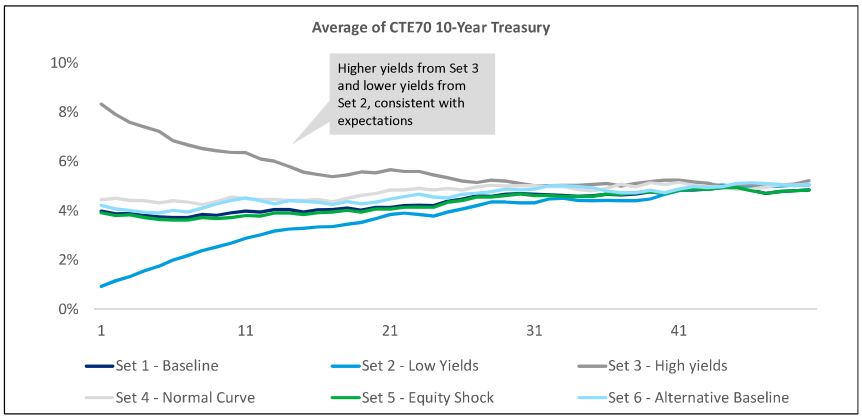
A 25% decrease to the S&P 500 market has a significant impact to results due to the significant immediate increase to the moneyness and decrease in fee base, pushing more scenario reserves beyond the CSV floor

© Oliver Wyman 24

SENSITIVITY SCENARIOS – SCENARIO ANALYSIS

Comparison of 10-Year Treasury curve for CTE70 scenarios for all scenario sets. The new / weak guarantee / ITM cohort is shown below. Scenario distributions for other archetypes are very similar and thus not shown

New / Weak Guarantee / ITM Cohort



10-year Treasury rates in earlier years are consistent with the shocks and are largely the driver of reserve impact; over time, all scenarios converge to similar long-term average due to mean reversion

© Oliver Wyman

APPENDIX

GOES PRESENTATION 2/17/2024 - PHASE 1 RESULTS

© 2024 National Association of Insurance Commissioners

OliverWyman

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

NAIC GOES MODEL OFFICE ANALYSIS

Phase 1 results

February 7, 2024

A business of Marsh McLennan

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

SECTION 1

BACKGROUND | PHASE 1 EXECUTIVE SUMMARY

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

SECTION 1.1

BACKGROUND

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

NAIC GOES ECONOMIC SCENARIO SET EVALUATION

Overview of progress to date

In 2022, a field test examining alternative economic scenario sets under statutory reserve and capital frameworks was conducted across life insurance and annuity products. The results highlighted the expected impact to the industry but **left open questions regarding the company-specific drivers** of changes in the reserves over cash surrender value. **Model office analysis** will be performed alongside **an unaggregated field test** to analyze new GOES candidate scenario sets.

2022 GOES Field Test summary and limitations

Field test summary

- ✓ Between the baseline and field test runs, there was typically a wide range of impacts across participants with some experiencing small changes and others seeing significant increases in excess reserves ("reserves in excess of cash surrender value") and/or capital.
- ✓ Certain drivers of variation in results across participants were identified, such as variable annuity hedging practices and the relationship of VM-20 modeled reserves to net premium reserves.

Limitations

- ✗ Resource intensive for companies to participate and for NAIC to compile results
- ✗ Lack of transparency in to understanding individual company results
- ✗ Limited participation for certain products/frameworks resulted in unknown applicability to overall industry

Two components for evaluating GOES scenario sets

1. Model office analysis (see next page)

- Phase 1: Proof of concept, variable annuity model office developed to capture a range of archetypes and assist with explaining field test variation and demonstrate potential industry impacts. AXIS model used to run archetypes under both the AAA and Conning 1a scenarios as of 12/31/2021.
- Phase 2: Expand archetypes to represent typical in-force VA blocks across additional scenario sets; expand model office development and analysis to life insurance.

2. Unaggregated GOES Field Test

- Candidate scenario sets are planned to be developed ahead of the 2024 NAIC Spring National Meeting for use in model office testing and in an unaggregated field test where results will be presented by participants in regulator only sessions.
- In the interim, as promising scenario sets are developed and vetted, they will be released publicly for companies to test.

© Oliver Wyman

30

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

MODEL AND MODEL OFFICE DEVELOPMENT AND ANALYSIS

Oliver Wyman developed a variable annuity ("VA") AXIS model and "model office toolkit" in a proof-of-concept exercise, with the goal of developing a model with adjustable driving characteristics to explain field test results and analyze potential candidate scenario sets

Current phase

Model build (Phase 0)

- VA model developed in AXIS
- Model office creation tool accepts user input regarding benefits and demographics to quickly generate reserves and capital for different archetypes
- Validation tools are used alongside model to ensure accuracy of results

Proof of concept (Phase 1)

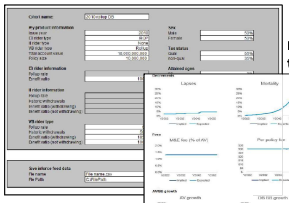
- Defined **driving characteristics** and developed **archetypes** that make up model office
- Generated model office testing results across a range of archetypes, for Test #1a[1], to produce a wide range of results
- Learnings from model office analysis used to draw additional insights into field test results

Expanded analysis (Phase 2)

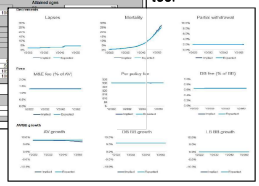
Potential areas identified

- Analyze combinations of archetypes to better represent a hypothetical industry participant
- Include additional scenario analysis, including candidate scenario testing
- Expand archetype analysis to examine additional potential drivers

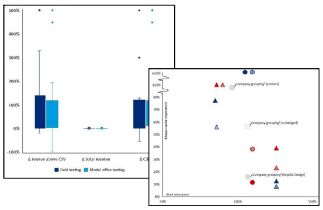
Model office creation tool



Model validation tool



Model office results



1: GEMS Baseline Equity and Corporate model scenarios and Conning Treasury model calibration with generalized fractional floor as of 12/31/21

© Oliver Wyman

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

SECTION 1.2

PHASE 1 EXECUTIVE SUMMARY

© 2024 National Association of Insurance Commissioners

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

EXECUTIVE SUMMARY: PROOF OF CONCEPT (PHASE 1)

Phase 1 model office produced a similar range of results to field testing and was used to draw additional insights into field test results

Analysis performed

Identified moneyness, guarantee strength, block maturity, and hedging approach as potential driving characteristics of variance in VM-21 reserves under different economic scenario sets; developed a model office of 16 GMWB/GMDB archetypes and 6 GMDB archetypes to analyze these drivers and compare against field testing

Produced results for change in reserve metrics (VM-21) and capital levels (C3P2) consistent with field testing, Test #1a, using the 1,000 scenarios set comparing AAA vs Conning 1a scenarios as of 12/31/2021

Key takeaways

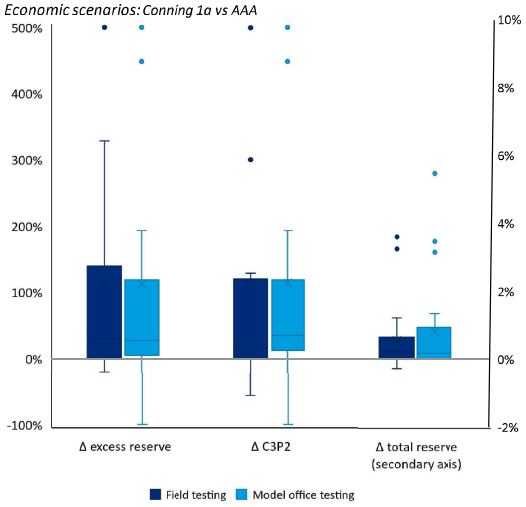
1 *Consistency of results* — **The range of results produced from initial model office testing compare well to field testing:** Model office approach is a viable solution to supplement unaggregated GOES field testing and future industry impact testing for variable annuities

2 *Metrics and analysis* — **In addition to the change in excess reserve, the primary metric used in field testing, the total change in reserve should be considered when interpreting field test results:** Change in excess reserves better highlights the financial impacts while change in total reserves better highlights the impact to the underlying scenario reserves

3 *Drivers of results* — **Differing archetypes and hedging strategies will produce a wide range of results:** Differing block characteristics will impact scenario sensitivity and interaction with the CSV floor. Hedged blocks will generally be less sensitive to changes in scenarios since they are hedging the market risk

Model office compared to field test: change in reserve levels[1]

Economic scenarios: Conning 1a vs AAA



1: Results capped at 500%. Decrease in reserve is a DB only archetype that had zero scenario reserves in excess of CSV for Conning 1a but had one scenario reserve in excess of CSV for AAA

© Oliver Wyman

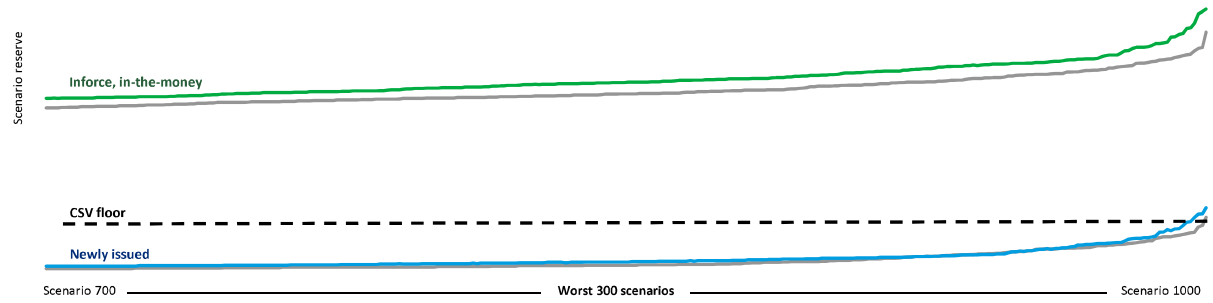
GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

CHANGE IN EXCESS VS CHANGE IN TOTAL SCENARIO RESERVE

Change in excess reserves highlights the financial impacts and is heavily influenced by the CSV floor; change in total reserves highlights the impact to the underlying scenario reserves

Worst 300 of 1000 adjusted scenario reserves

Conning 1a = colored lines, AAA = gray lines



Archetype	Scenario reserve position relative to the CSV floor	Average increase in unfloored scenario reserve	Increase excess reserve	Increase in total reserves
Inforce, in-the-money	High	4%	**8%**	4%
Newly issued	Low	0.2%	**450%**	0.1%

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

OVERVIEW OF CONTENTS

Section	Summary
Section 2 VM-21 & GMXB refresher	*VM-21* • Overview of the scenario reserves and stochastic reserve calculation used in VM-21 • Highlight differences between hedged ("best efforts") and unhedged ("adjusted") scenario reserve runs *GMXB* • Overview of GMWB and GMDB riders used in model office testing • Highlights how equity and interest rate scenarios impact the GMXB benefit
Section 3 Model office development and analysis	*Model office development* • Overview of the key driving characteristics and archetypes developed • Demonstrates the impact the CSV floor has in determining the value of the change in excess reserve • Illustrations of how archetype characteristics can impact scenario sensitivity and the relative position to the CSV *Analysis* • Shows range of results from model office testing compared to field testing in aggregate and across archetypes • Provides explanation behind the variety of results seen in both model office testing and field testing • Demonstrates the importance for considering both the change in excess reserve and the total change in reserve
Appendix	• Contains additional analysis and model specifications • Overview of archetypes used in the model office testing • Contains information on the Oliver Wyman team

© Oliver Wyman

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

SECTION 2

VM-21 REFRESHER | GMXB REFRESHER

© 2024 National Association of Insurance Commissioners

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

SECTION 2.1

VM-21 REFRESHER

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

VM-21 RESERVE REFRESHER: RESERVE COMPONENTS

The primary component of VM-21 reserves is the stochastic reserves, which is made up of scenario reserves

1 Stochastic reserves

- Combination of two CTE70s based on different **scenario reserves**
  - Hedged
  - Unhedged
- Adjusted for error factor
- Simplified terms: Hedged results + Impact of hedging * error factor

Other VM-21 reserve components

2 Additional standard projection amount ("ASPA")

- Additional reserve held if company assumptions are too aggressive relative to prescribed assumptions

3 Pre-tax IMR ("PIMR")

- Allocated PIMR attributed to assets selected

Initial model office testing resulted in an ASPA value of zero due to the buffer component; PIMR assumed to be zero

Scenario reserves overview

- **Scenario reserve =** Starting assets required to fund all future liability cash flows, with no intermediate deficiencies, for a given economic scenario
- Building block to the stochastic reserve, made up of a set of scenario reserves
- Calculated and recorded for each economic scenario (equity, bond fund, and interest rate)
- Projected separately on both a hedged and unhedged basis, for a contract grouping
- Floored at the cash surrender value

© Oliver Wyman

38

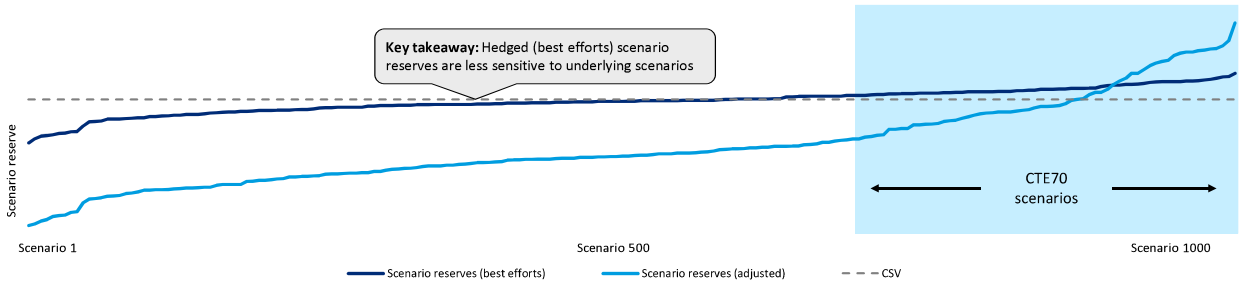
GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

VM-21 RESERVE REFRESHER: STOCHASTIC RESERVE

The stochastic reserve is a combination of CTE70s from scenario reserves on a hedged and unhedged basis

Stochastic reserve = CTE70 (best efforts) + E × max[0, CTE70 (adjusted) – CTE70 (best efforts)]

Illustrative



Component	Details
CTE70 (best efforts)	• CTE70 of **scenario reserves (best efforts)** • Scenario reserve calculation reflects future hedging strategy
CTE70 (adjusted)	• CTE70 of **scenario reserves (adjusted)** • Scenario reserve calculation does not reflect future hedging strategy
Error factor (E)	• Accounts for potential overstatement of the impact of the hedging strategy • Between 5% - 100% based on the model's ability to reflect the parameters of the hedging strategy

© Oliver Wyman 39

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

SECTION 2.2

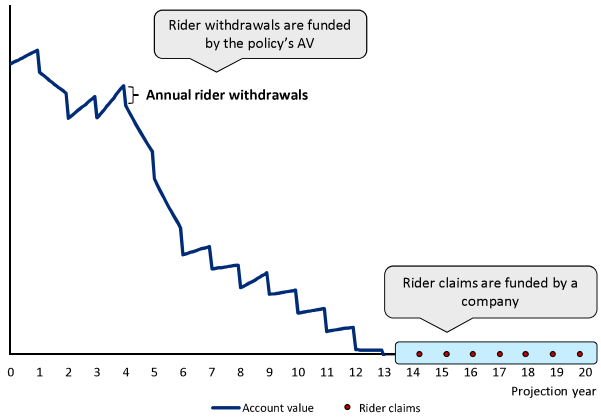
GMXB REFRESHER

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

GMWB RIDER REFRESHER

Underlying equity and interest rate scenarios impact both the timing and discounted value of GMWB claims

GMWB illustration



GMWB details	Commentary
Model office	• Rollup GMWB
GMWB benefit	• Guarantees a withdrawal amount for life regardless of the account value
Impact of equity scenarios on GMWB value	• Impacts performance of equity funds in the VA contract • Fund performance influences the timing of account value depletion-when withdrawals become claims
Impact of interest scenarios on GMWB value	• Impacts performance of bond funds in the VA contract • Impacts the present value of future claims

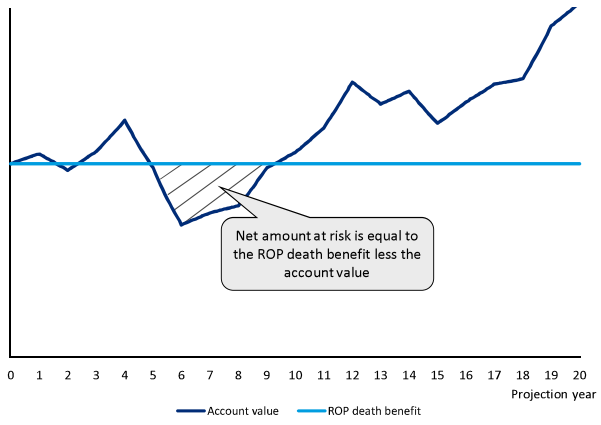
© Oliver Wyman

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

GMDB RIDER REFRESHER

Underlying equity and interest rate scenarios impact both the net amount at risk and discounted value of the death benefit guarantee

ROP GMDB illustration



GMDB details	Commentary
Model office	• Return of Premium ("ROP") GMDB
ROP benefit	• Guarantees the death benefit will be at least equal to the premium deposited, adjusted for withdrawals
Impact of equity scenarios on GMDB value	• Impacts performance of equity funds in the VA contract • Fund performance determines the net amount of risk of the GMDB
Impact of interest scenarios on GMDB value	• Impacts performance of bond funds in the VA contract • Impacts the present value of future claims

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

KEY TAKEAWAYS: VM-21 AND GMXB REFRESHER

Category		Takeaways
1	VM-21 stochastic reserve	• The stochastic reserve is a CTE70 valuation based on underlying scenario reserves calculated with and without hedging *(pg 12)*
2	Scenario reserves	• Starting assets required to fund all future liability cash flows, with no intermediate deficiencies, for a given economic scenario *(pg 12)* • Building blocks for the stochastic reserve *(pg 12-13)*
3	Hedging	• Hedged scenario reserves are generally less sensitive to the underlying scenarios than unhedged scenario reserves *(pg 13)*
4	GMXB riders	• GMWB riders provide a guaranteed withdrawal amount for life regardless of the account value; GMDB riders provide a guaranteed benefit upon death, regardless of the account value *(pg 15-16)* • Exposure to underlying equity and interest rate scenarios is different depending on rider type, e.g., GMWB vs GMDB *(pg 15-16)*

© Oliver Wyman

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

SECTION 3

MODEL OFFICE DEVELOPMENT & ANALYSIS

© 2024 National Association of Insurance Commissioners

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

SECTION 3.1

MODEL OFFICE DEVELOPMENT

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

OBSERVATIONS FROM FIELD TESTING AND MODEL OFFICE OBJECTIVES

Observations from field testing

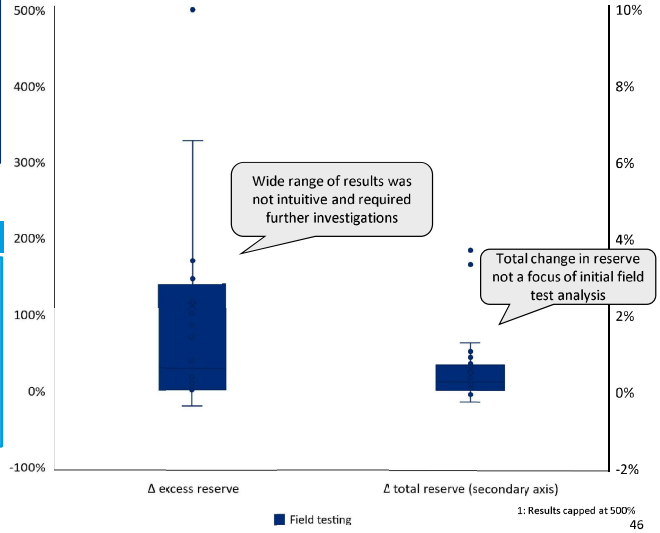
- A wide range of impacts was observed during field testing to the primary metric: increase in excess reserve, between the baseline ("AAA") and field test scenarios
- Macro level observations, particularly how participants reflected future hedging strategies in VM-21, were identified as potential drivers of variance in field test results

Objectives for Phase 1 model office development

- Utilize AXIS modeling software and Oliver Wyman's model office development tool kit to develop a model capable of producing cash flows and VM-21 reserve/capital components
- Develop potential driving characteristics of a liability profile to generate archetypes for model office
- Evaluate macro level observations and use analysis of driving characteristics to develop additional insights into field test results

Field test results: change in reserve levels[1]

Economic scenarios: Conning 1a vs AAA



1: Results capped at 500%

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

MODEL OFFICE DEVELOPMENT: DESIGN

Variable annuity model developed in AXIS to calculate VM-21 reserves at time 0; field testing was used to inform the rider types, moneyness and hedging characteristics included in the model office

Model specifications[1]

Component	Details
Model	• AXIS model • 50-year projection period
Model assumptions	• Prudent assumptions developed using a mix of industry benchmarks, industry experience, and prescribed standard projection assumptions
VM-21 assumptions	• Direct iteration approach used to calculate scenario reserves • Implicit method used for hedge modeling; 10% error factor

Model office development

- Defined **driving characteristics** to analyze characteristics that were not available to analyze in field test data
- Withdrawal and death benefit combo (GMWB/GMDB) was the focus based on prevalence in field test (see rider type and combination)
- Developed **16 GMWB combo archetypes** based on combinations of driving characteristics and 6 GMDB only archetypes[3]

Driving characteristics of valuation results

Rider type and combination from field test results	% of separate account value in field testing
Withdrawal / death benefit combo (GMWB/GMDB)	42%
Death benefit only (GMDB)	41%
Income / death benefit combo (GMIB / GMDB)	9%
Other benefit combinations	9%

Included in model office

GMWB guarantee strength
- Strong
- Weak

Moneyness
- In-the-money ("ITM")
- At-the-money ("ATM")
- Out of-the-money ("OTM")

Block maturity
- New
- Mature

Future hedging strategy
- Implicit hedging
- No hedging

Example archetype:
GMWB combo, newly issued, strong guarantee, ATM, hedged

1: Additional model specification in appendix 2. GMAB/GMDB were 0.4% of the other benefit combinations 3. See Appendix A

© Oliver Wyman

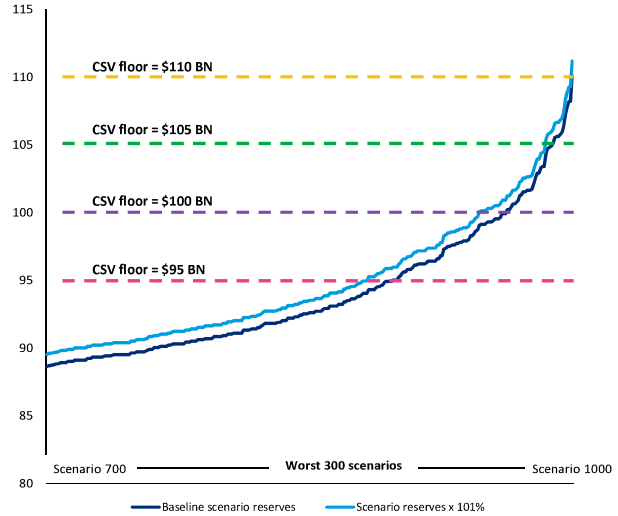
47

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

CTE70 IN EXCESS OF CASH SURRENDER VALUE ("CSV") FLOOR

A 1% change in underlying scenario reserves results in the largest percentage increase to **CTE in excess of CSV** when the cash surrender value floor is highest, as the excess is made up of only a few tail scenarios

Worst 300 of 1000 scenario reserves ($BN)



CTE70[1] in excess of CSV ($M)

CSV ($BN)	Baseline	Baseline x 101%	Increase (%)	Number of S.R. > CSV
110	0.5	6	1100%	1
105	107	186	74%	12
100	685	916	34%	38
95	2,424	2,975	23%	103
0	96,282	97,245	1%	1000

Increase in CTE in excess of CSV decreases as more scenario reserves exceed CSV

1. Scenario reserves in VM-21 are floored at the CSV

© Oliver Wyman

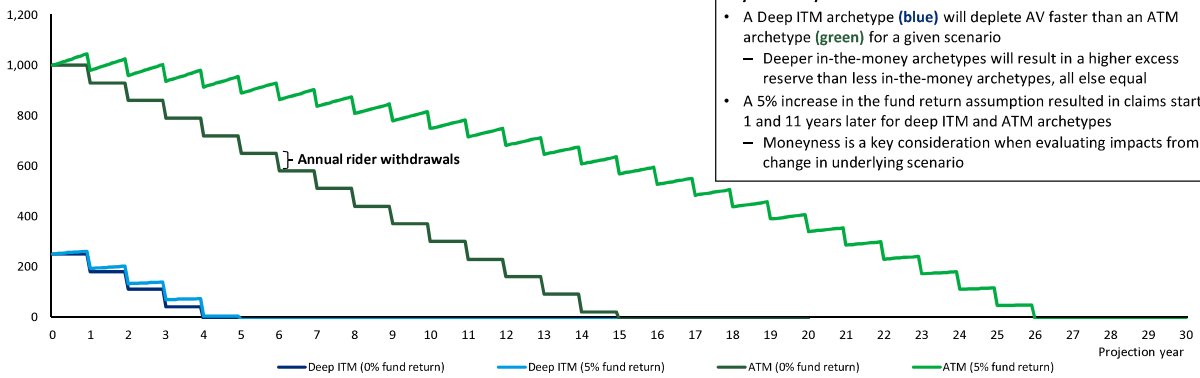
48

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

DRIVING CHARACTERISTIC: MONEYNESS

ITM GMWB contracts will have a higher max withdrawal relative to their account value compared to ATM and OTM GMWB contracts

Illustrative AV (in '000s) for ATM vs deep ITM archetypes under various fund return assumptions



Key takeaways

- A Deep ITM archetype **(blue)** will deplete AV faster than an ATM archetype **(green)** for a given scenario
  - Deeper in-the-money archetypes will result in a higher excess reserve than less in-the-money archetypes, all else equal
- A 5% increase in the fund return assumption resulted in claims starting 1 and 11 years later for deep ITM and ATM archetypes
  - Moneyness is a key consideration when evaluating impacts from change in underlying scenario

Impact of moneyness	Deep ITM[1] (0% fund return)	Deep ITM[1] (5% fund return)	ATM[1] (0% fund return)	ATM[1] (5% fund return)
Starting AV	$250,000	$250,000	$1,000,000	$1,000,000
Max withdrawal benefit	$70,000	$70,000	$70,000	$70,000
Claim start year	4	5	15	26

1: Deep ITM defined as a benefit base ratio (benefit base / account value) greater than 140% and ATM defined as a benefit base ratio between 100% and 110%. Illustration assumes the benefit base is equal to $1,000,000 in all cases.

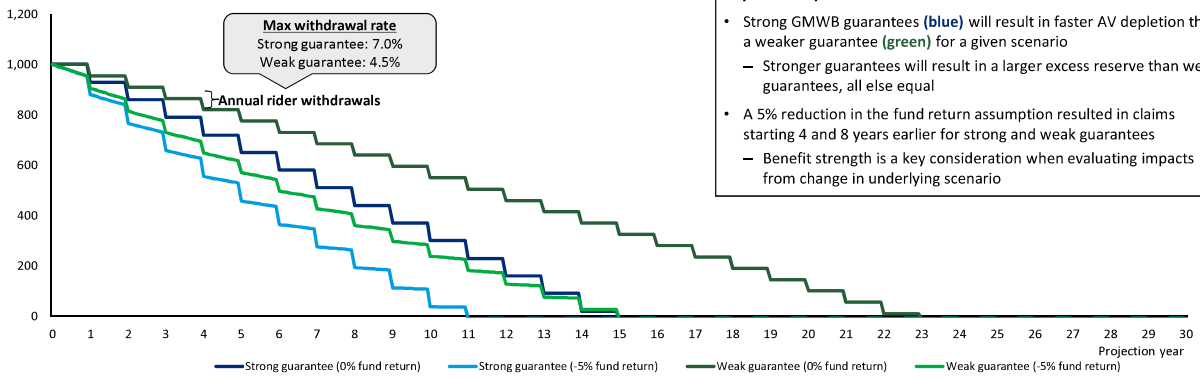
© Oliver Wyman

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

DRIVING CHARACTERISTIC: GMWB BENEFIT STRENGTH

GMWB strength is based on the size of the max withdrawal benefit, driven by withdrawal rates and benefit base features

Illustrative[1] AV (in '000s) for weak vs strong guarantees under various fund return assumptions



Key takeaways

- Strong GMWB guarantees **(blue)** will result in faster AV depletion than a weaker guarantee **(green)** for a given scenario
  - Stronger guarantees will result in a larger excess reserve than weak guarantees, all else equal
- A 5% reduction in the fund return assumption resulted in claims starting 4 and 8 years earlier for strong and weak guarantees
  - Benefit strength is a key consideration when evaluating impacts from change in underlying scenario

Impact of moneyness	Strong guarantee (0% fund return)	Strong guarantee (-5% fund return)	Weak guarantee (0% fund return)	Weak guarantee (-5% fund return)
Starting AV	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Max withdrawal benefit	$70,000	$70,000	$45,000	$45,000
Claim start year	15	11	23	15

1: Illustration assumes the benefit base is equal to $1,000,000 in all cases.

© Oliver Wyman

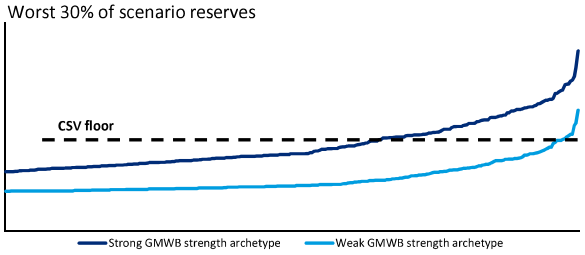
© 2024 National Association of Insurance Commissioners

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

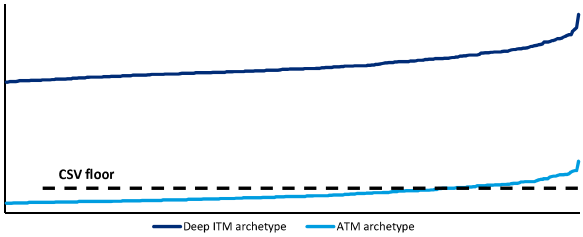
DRIVING CHARACTERSTICS: SCENARIO RESERVES AND CSV FLOOR

Archetype characteristics impact the scenario reserves relative position to the CSV which impacts change in CTE70 in excess of CSV

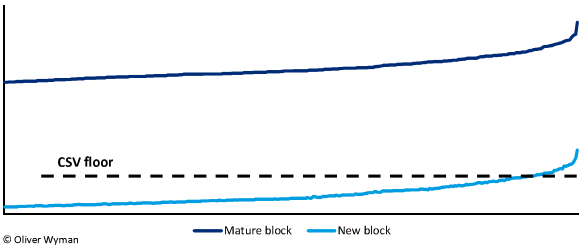
GMWB benefit strength: Strong vs. Weak
Worst 30% of scenario reserves



Moneyness: ITM vs. ATM
Worst 30% of scenario reserves



Block maturity: Mature vs. New
Worst 30% of scenario reserves



© Oliver Wyman

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

KEY TAKEAWAYS: MODEL OFFICE DEVELOPMENT

Category		Takeaways
1	**Objective, design and archetypes**	• Model office archetypes were developed to evaluate macro level observations and develop additional insights into the wide range of results in the primary metric, change in CTE70 in excess of CSV, used to analyze field test results *(pg 20-21)* • Archetypes analyzed are GMWB/GMDB combo riders with a combination of driving characteristics (moneyness, guarantee strength, block maturity) and hedging approach *(pg 21, Appendix B for full listing of archetypes)*
2	**CTE70 in excess of CSV floor**	• The relative position of scenario reserves compared to the CSV floor plays a major factor in determining the value of the change in excess reserve (*pg 22)*
3	**Driving characteristics and archetypes**	• Driving characteristics that make up archetypes have an impact on both relative position of scenario reserves compared to CSV and the sensitivity to changes in underlying scenarios *(pg 23-25)* • Understanding impacts of driving characteristics is a building block for archetype analysis and comparisons to field testing

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

SECTION 3.2

MODEL OFFICE ANALYSIS

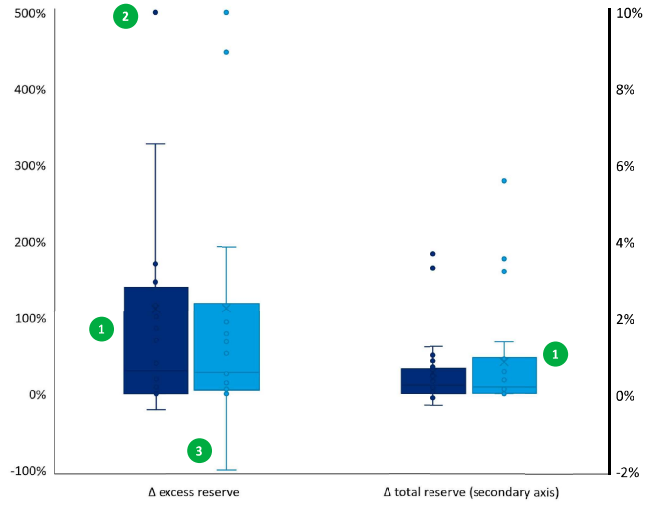
GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

MODEL OFFICE RESULTS COMPARED TO INDUSTRY: CHANGE IN RESERVE

Impact of updating economic scenarios from AAA to Conning 1a across archetypes/industry

Model office compared to field test: change in reserve levels[1]

Economic scenarios: Conning 1a vs AAA



1: Results capped at 500%, includes GMWB combo and GMDB only results

© Oliver Wyman

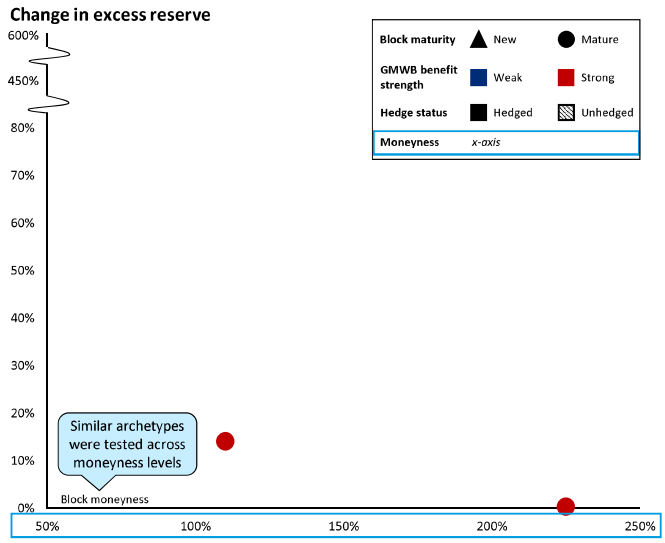
1. Model office testing produced a consistent range of results compared to field testing for **both change in excess reserves** and **change in total reserves**
   - Change in excess reserves has a much wider variance as compared to change in total reserves
   - Range in change in excess reserve is heavily influenced by interaction with CSV floor
2. **Extreme impacts to change excess reserve are present in both model office testing and field testing**
   - Business with excess reserves near zero fall into this category (e.g., new cohorts, weak guarantees, OTM cohorts)
   - Impact to total change in reserve are much less pronounced
3. **Excess reserves and total reserves increased in almost all cases under the Conning 1a scenarios**
   - Examples of decreases in reserves occurred in both model office testing and field testing
   - Model office GMDB-only product had one AAA scenario and zero Conning 1a scenarios in excess of CSV

54

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

ARCHETYPE DEEP DIVE: MONEYNESS

Similar archetypes with different **moneyness** level are displayed at different positions on the x-axis; level of moneyness combined with other characteristics influence impact



Results guide

Mature/Strong/Hedged = Mature + Strong + Hedged

Moneyness information

- Moneyness is defined as benefit base divided by current account value, which is impacted by "historical" fund performance and withdrawals
- A value greater than 100% represents a rider benefit that is larger than account value

Observations

- Model office archetypes with higher moneyness levels have a larger excess reserve and therefore are less sensitive to changes in underlying scenarios

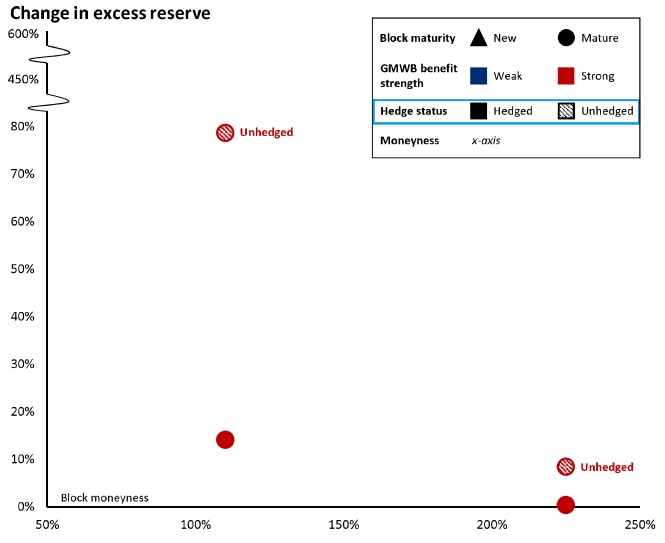
© Oliver Wyman

55

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

ARCHETYPE DEEP DIVE: HEDGE STATUS

Hedge status is indicated using shading; solid results are hedged and shaded results are unhedged



Results guide

Mature/Strong/Hedged = Mature + Strong + Hedged

Mature/Strong/Unhedged = Mature + Strong + Unhedged

Hedge status information

- Hedged results are calculated using a weighted average of both a hedged ("best efforts") and unhedged ("adjusted") CTE70
- Unhedged archetypes only incorporate the unhedged CTE70 calculation when calculating stochastic reserve

Observations

- Model office archetypes that are unhedged have greater sensitivity to a change in the underlying scenarios than similar hedged archetypes
- Hedging of future capital market risks generally mutes the impact of changes to underlying scenarios

© Oliver Wyman

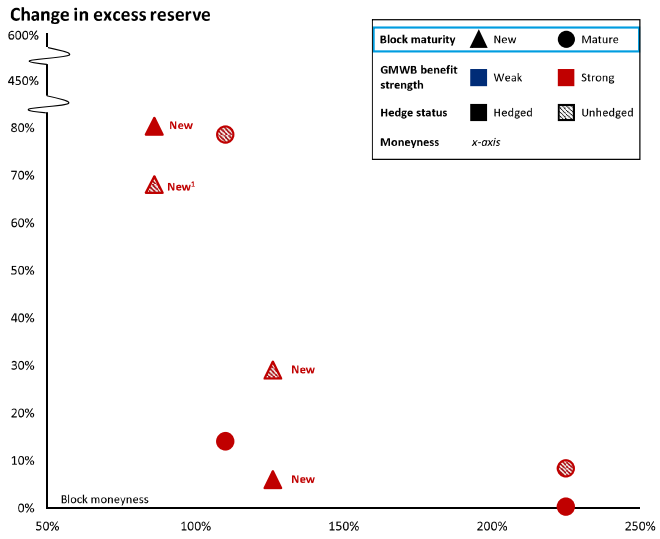
56

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

ARCHETYPE DEEP DIVE: BLOCK MATURITY

"New" and "mature" archetypes are indicated by a triangle and circle, respectively

1: Excess reserve ($M): AAA: $0.1 (hedged), $1.3 (unhedged) , Conning 1a: $0.2 (hedged), $2.2 (unhedged)



Results guide

Mature/Strong/Hedged = Mature + Strong + Hedged

New/Strong/ Hedged = New + Strong + Hedged

Block age information

- "New" archetypes used in model office testing were assumed to be issued more recently, had a younger average age, and smaller number of active withdrawers compared to "mature" archetypes
- "Mature" archetypes used in model office testing were assumed to be issued longer ago, had an older average age, and larger number of active withdrawers compared to "new" archetypes

Observations

- "New" archetypes are less in-the-money compared to similar mature blocks since less contracts are taking withdrawals, leading to smaller excess reserve and more sensitivity to changes in underlying scenarios

1: The unhedged archetype has a greater dollar change in excess reserve but a lower percentage change relative to the hedged archetype because a larger majority of best efforts scenario reserves, which only impact hedge results, are below the CSV floor.

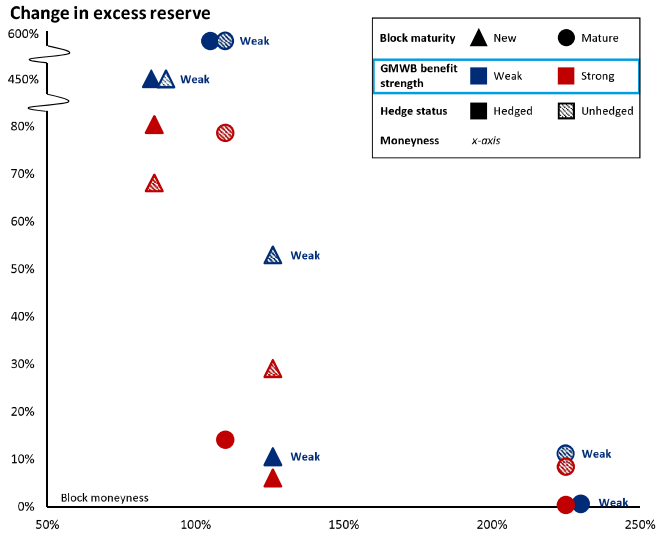
© Oliver Wyman

57

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

ARCHETYPE DEEP DIVE: GMWB BENEFIT STRENGTH

"Weak" and "strong" archetypes are indicated by colors **blue** and **red**



Results guide

Mature/Strong/Hedged = Mature + Strong + Hedged

Mature/Weak/ Hedged = Mature + Weak + Hedged

GMWB benefit strength information

- Weak (strong) archetypes have lower (higher) GMWB rollup and guaranteed withdrawal rates compared to strong (weak) archetypes

Observations

- Model office archetypes with weak GMWB strength are more likely to have a greater change in excess reserve
- Weaker rider benefits lead to a smaller excess reserve and more sensitivity to changes in underlying scenarios

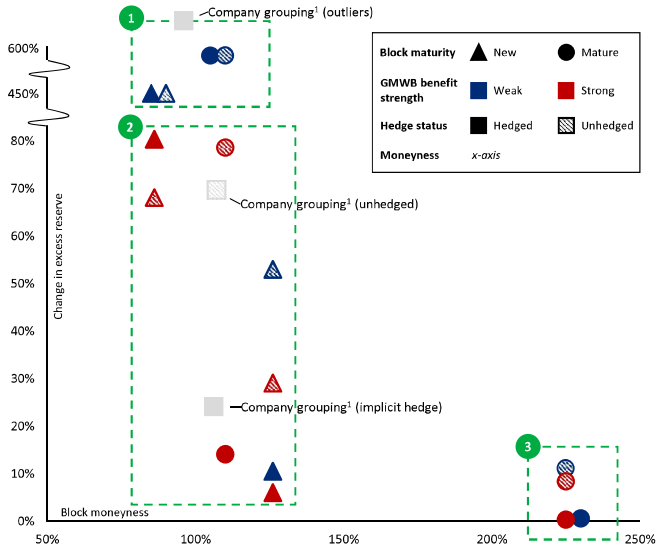
© Oliver Wyman

58

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

CHANGE IN EXCESS RESERVE: ARCHETYPE & FIELD TEST GROUPING

Range of results across archetypes demonstrate model office versatility and are informative when compared to field test impacts



1. Outlier company grouping include companies with **reserves in close proximity to CSV** and had the largest change in excess reserves
   - Model office archetypes that produce similar effects: newer business, weaker benefits
2. Company groupings are made up of a distribution of key characteristics and rider types, leading to wide range of impacts
   - Model office testing confirms that hedging practices (hedged vs unhedged) lead to variations in results
3. Deep-in-the-money (>140%) or mature "runoff business" have a lower change in excess reserves since most scenario reserves are above the CSV floor. Examples of this in field test results were limited but present

1: Grouping of data points from field test results. Each grouping is made up of 3+ normalized data points. Moneyness level for company groupings is based on the reported GMDB/GMWB combo and is calculated using a simple average.

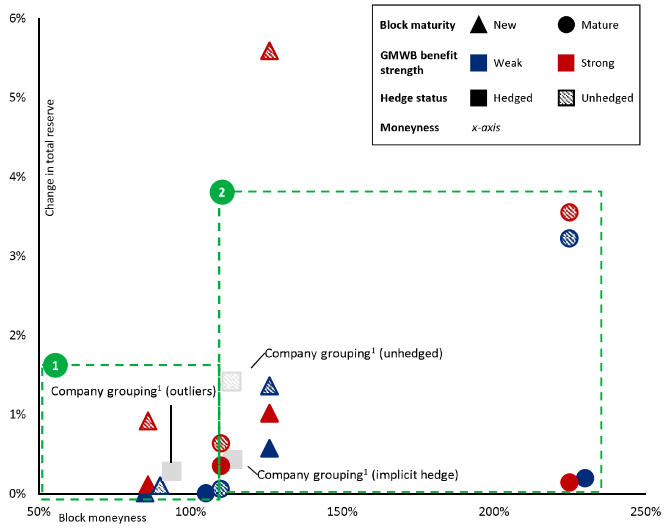
© Oliver Wyman

59

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

CHANGE IN TOTAL RESERVE: ARCHETYPE & FIELD TEST GROUPING

Excess reserves provide a view of potential financial impact to change in underlying scenarios; however, change in total reserves highlights the impact to the underlying scenario reserves



1. "Outliers" company grouping for change in excess reserve are no longer outliers, indicating a similar pattern of scenario reserves between scenario sets
2. The range of change in total reserve in both model office testing and field testing is much tighter compared to change in excess reserve
   - Limited industry data was available to compare to deep ITM business

1: Grouping of data points from field test results. Each grouping is made up of 3+ normalized data points. Moneyness level for company groupings is based on the reported GMDB/GMWB combo and is calculated using a simple average.

© Oliver Wyman

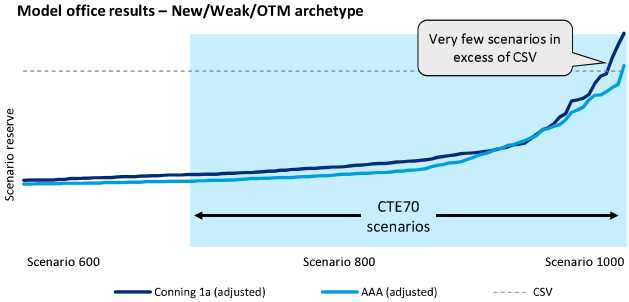
60

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

EXPLANATION OF RESULTS: OUTLIERS

The extreme changes in reserve levels are a result of CSV flooring and more likely to be observed in new or OTM blocks. Outliers were observed in both model office testing and field testing

Model office results – New/Weak/OTM archetype



Model office results – New/Weak/OTM archetype

Component	AAA	Conning 1a	Change
Floored CTE70 (best efforts)	unhedged	unhedged	NA
Floored CTE70 (adjusted)	94,021	94,116	0.1%
Excess reserve	21	116	449%
Total reserve	94,021	94,116	0.1%

Model office and field-testing results

Change in total reserve is minimal in these cases

Cohort	Source	Change in excess reserve	Total change in reserve
New/Weak/OTM/Unhedged archetype	Model office	449%	0.1%
Mature/Weak/ATM/Hedged archetype	Model office	631%	0.0%
Field test grouping[1]	Field testing	1025%	0.4%

1: Grouping of data points from field test results. Each grouping is made up of 3+ normalized data points

© Oliver Wyman

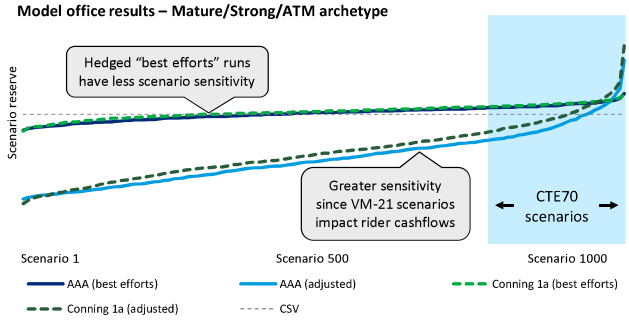
61

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

EXPLANATION OF RESULTS: HEDGED VS UNHEDGED

Hedging programs reduce scenario sensitivity. This trend was observed in both model office testing and field testing

Model office results – Mature/Strong/ATM archetype



Best effort runs are less sensitive to VM-21 scenarios due to hedging

Implicit hedging example	Commentary
Risk-Neutral value of Riders (Used in the best efforts calculation)	• Defined as the average PV(rider claims) – average PV(rider fees) under stochastic risk neutral scenarios • Value is **independent from VM-21 underlying scenarios**
Best efforts scenario reserves	• Risk-neutral value of riders is an upfront cost in the projection, future rider claims and fees are not modeled • Less sensitive to VM-21 scenarios due to the removal of rider cashflows

Model office and field-testing results

Cohort	Source	Change in excess reserve	Total change in reserve
Mature/Strong/ATM/Unhedged archetype	Model office	78.7%	0.6%
Field test grouping[1] – unhedged	Field testing	69.8%	1.3%
Mature/Strong/ATM/Hedged archetype	Model office	14.1%	0.4%
Field test grouping[1] – hedged (implicit)	Field testing	23.8%	0.3%

1: Grouping of data points from field test results. Each grouping is made up of 3+ normalized data points

© Oliver Wyman

62

GOES PRESENTATION 2/7/2024 - PHASE 1 RESULTS

KEY TAKEAWAYS: MODEL OFFICE ANALYSIS

Category		Takeaways
1	Model office approach	• Model office approach produced a range of results across archetypes that align well with initial field test results, making it an appropriate tool to supplement unaggregated GOES field testing *(pg 28)*
2	Impact of archetypes	• Archetype analysis demonstrates how liability characteristics and hedging practices can drive the relative impact to change in excess reserves *(pg 29-32, 36)* • Characteristics that drive excess reserves to lower levels: Newer business, weaker benefits, ATM/OTM *(pg 29-33)*
3	Excess vs total reserve	• In addition to change in excess reserves over CSV, additional metrics and results should be considered when evaluating field test results (e.g., total change in reserve, change in scenario reserves) *(pg 28, 34)* • Change in excess reserves highlights the financial impacts to the industry while change in total reserves highlights the impact to the underlying scenario reserves

© Oliver Wyman

OLIVER WYMAN TEAM

© 2024 National Association of Insurance Commissioners

OLIVER WYMAN TEAM



Dylan Strother, FSA
Senior Principal
Engagement manager
dylan.strother@oliverwyman.com



Yuan Tao, FSA
Principal
VM-21 SME
yuan.tao@oliverwyman.com



Simon Gervais, FSA
Senior Manager
Modeling and analysis lead
simon.gervais@oliverwyman.com



Nick Farber, ASA
Consultant
Modeling and analysis support
nick.farber@oliverwyman.com

© Oliver Wyman

QUALIFICATIONS, ASSUMPTIONS, AND LIMITING CONDITIONS

This report is for the exclusive use of the Oliver Wyman client named herein. This report is not intended for general circulation or publication, nor is it to be reproduced, quoted, or distributed for any purpose without the prior written permission of Oliver Wyman. There are no third-party beneficiaries with respect to this report, and Oliver Wyman does not accept any liability to any third party.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information. The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. Oliver Wyman accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events, or conditions, which occur subsequent to the date hereof.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client. This report does not represent investment advice nor does it provide an opinion regarding the fairness of any transaction to any and all parties. In addition, this report does not represent legal, medical, accounting, safety, or other specialized advice. For any such advice, Oliver Wyman recommends seeking and obtaining advice from a qualified professional.

Draft: 07/25/24

Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
May 15, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met May 15, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Lei Rao-Knight (CT); Philip Barlow (DC); Scott Shover (IN); William Leung (MO); Ben Slutsker (MN); Seong-min Eom (NJ); and Rachel Hemphill and Hattie Wang (TX).

1. Discussed SERT Scenarios

Dan Finn (Conning) presented technical details regarding how the Stochastic Exclusion Ratio Test (SERT) scenarios have been implemented by Conning and a comparison leveraging Matthew Kauffman's suggested approach (Attachment Twenty-Five-A). Matthew Kauffman said the difference between Conning's method and his made sense, and that the Conning approach was a better solution than his Euler approach. The Subgroup decided to move forward using Conning's methodology for SERT Scenarios.

Mark Tenney (Mathematical Finance Company - MFC) asked if the state variables and random numbers would be disclosed with the scenario sets. Finn said Conning will release the initial state variables and the initial vector, which closes the gap between the fitted scenario and initial yield. Finn said they will not be releasing the state variables along the scenario path or the random numbers.

2. Discussed Model Governance

Yanacheak continued the discussion on model governance from the May 1 GOES Subgroup meeting. Bayerle discussed ACLI member feedback noting the need for a clearly defined process governing ongoing operations around the routine monthly process, maintenance to generate scenarios and how those are validated (Attachment Twenty-Five-B). Steve Strommen (Blufftop) suggested adding responsibilities to the governance: 1) The monitoring that GOES is fit for purpose 2) someone needs to design exactly what documentation is going to be provided and keep it available and up to date. Scott O'Neal (NAIC) noted that NAIC is building a section of what will be part of the deliverable of the overall single source documentation to access model documentation and a log of maintenance history.

Tenney discussed his comment letter, highlighting the need for an alternative model that could relate to economic fundamentals in a more predictive way than the GOES model (Attachment Twenty-Five-C). Tenney said alternative models could help identify changing conditions and insights into the plausibility of scenarios, which may suggest the need for a GOES model calibration. Strommen suggested an area of future research is to consider variables, like inflation, that are not part of the model today and should be considered as the model's for fit for purpose is monitored.

Having no further business, the GOES (A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/GOES SG Calls/05 15/May 15 Minutes.doc

© 2024 National Association of Insurance Commissioners



CONNING®

SERT Discussion

Academy Economic Scenarios Work Group
Weekly Meeting

May 10, 2024

www.conning.com | © 2024 Conning, Inc.

Treasury Modelling Approach

GEMS® Model

dX(t) = ((Vega + Lambda0) - (Kappa - Lambda1) * X(t)) dt + Sigma * SQRT(X(t)) * dW(t)

Need a way to simulate this

- Above model is a stochastic differential equation
- Means it's defined in continuous time
- Need to turn it into a discrete form (i.e., one time step at a time) to be able to simulate

© 2024 National Association of Insurance Commissioners

Euler Method

GEMS® Model

dX(t) = ((Vega + Lambda0) - (Kappa - Lambda1) * X(t)) dt + Sigma * SQRT(X(t)) * dW(t)

Euler Discretization Method

ΔX(t) = ((Vega + Lambda0) - (Kappa - Lambda1) * X(t)) Δt + Sigma * SQRT(X(t)) * N(0, 1) * SQRT(Δt)

Simple approximation – not the answer

- Consider a simple example: dX = m * X dt
- The answer to this is X(t) = X(0) * exp(m * t)
- The Euler approximation is X(t) = X(0) * ((1 + m * s) ^ t) where s = step size
- This approximation is
  - Always less than the actual
  - Closer as s gets smaller

CONNING 2

Ways to Improve

Potential ways to improve accuracy

- Can get the Euler arbitrarily close to the actual for one time step
  - Somewhat offset by smaller steps requiring more steps
- Can't eliminate the difference in conditional distributions
  - Euler next periods is always Normal
  - Actual is non-centralized, Chi-Squared

CONNING 3

Ways to Improve

Potential ways to improve accuracy

- Decrease size of the timestep
- Use more robust discretization scheme
  - Stochastic Taylor Expansion
  - Milstein Scheme
  - Milstein Scheme with Heat Kernel
- Direct simulation

CONNING

4

Direct Simulation

Requires a known solution

Allows the use of Standard Simulation Approach

- Invert the simulated unit normal into a uniform [0, 1] variable
- Map that to the desired distribution using the Cumulative Density Function (CDF)

Direct simulation example

- Consider Generalized Brownian Motion: dX = m * X dt + s * X dW
  - The answer to this is X(t) = X(0) * exp((m – 0.5 * (s ^ 2)) * t + s * W)
  - This is a lognormal distribution for any t
- Instead of estimating, we can simply transform our unit-normal N as:
  - X(t) = X(t-1) * exp((m – 0.5 * (s ^ 2)) * s + s * N * (s ^ 0.5))

This is the approach GEMS® uses for the Treasury Model

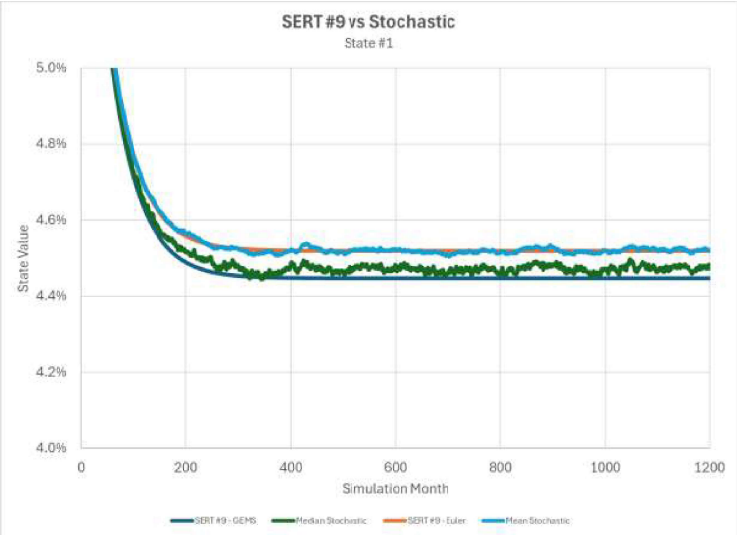
CONNING

5

Impact on SERT Scenario #9 (0 Shocks for all 3 State Variables)

GEMS® direct simulation method has three impacts on projected yields

1. Initially, state variables track median not mean



Prepared by Conning, Inc. Source: GEMS® Economic Scenario Generator scenarios.

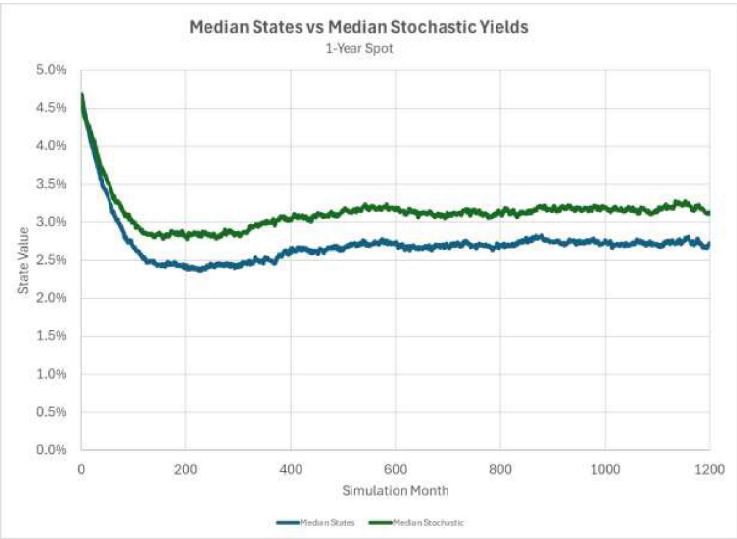
CONNING

6

Impact on SERT Scenario #9 (0 Shocks for all 3 State Variables)

GEMS® direct simulation method has three impacts on projected yields

1. Initially, state variables track median not mean
2. Medians don't add



Prepared by Conning, Inc. Source: GEMS® Economic Scenario Generator scenarios.

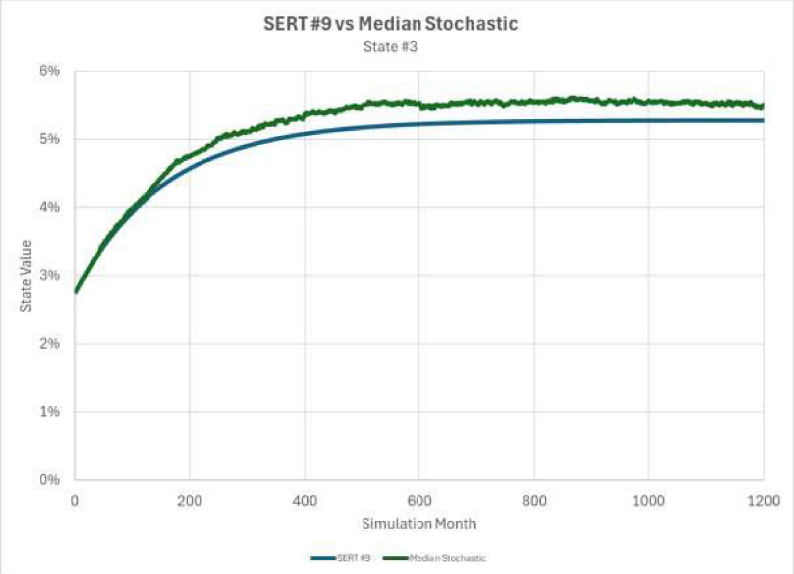
CONNING

7

Impact on SERT Scenario #9 (0 Shocks for all 3 State Variables)

GEMS® direct simulation method has three impacts on projected yields

1. Initially, state variables track median not mean
2. Medians don't add
3. With more variability, Conditional Median and Distributional Median diverge



Prepared by Conning, Inc. Source: GEMS® Economic Scenario Generator scenarios.

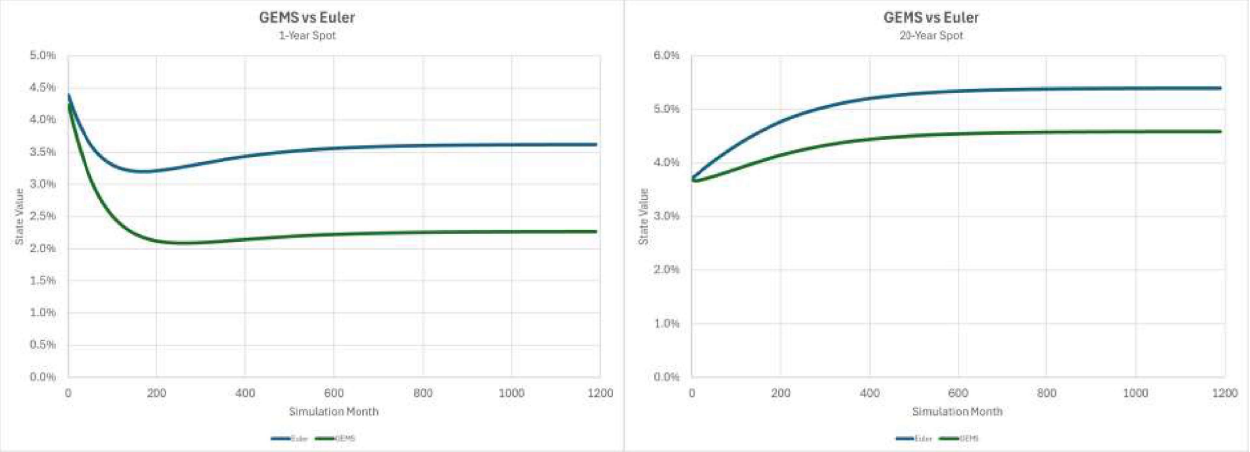
CONNING

8

GEMS® vs Euler for SERT Scenario #9 (0 Shocks for all 3 State Variables)

Combined impact

1. Smaller for longer maturities
2. Impact of little to no weight on some of the state variables



Prepared by Conning, Inc. Source: GEMS® Economic Scenario Generator scenarios.

CONNING

9

Disclosures

Conning, Inc., Goodwin Capital Advisers, Inc., Conning Investment Products, Inc., a FINRA-registered broker-dealer, Conning Asset Management Limited, and Conning Asia Pacific Limited (collectively "Conning") and Octagon Credit Investors, LLC, Global Evolution Holding ApS and its subsidiaries, and Pearlmark Real Estate, L.L.C. and its subsidiaries (collectively "Affiliates" and together with Conning, "Conning & Affiliates") are all direct or indirect subsidiaries of Conning Holdings Limited which is one of the family of companies whose controlling shareholder is Generali Investments Holding S.p.A. ("GIH") a company headquartered in Italy. Assicurazioni Generali S.p.A. is the ultimate controlling parent of all GIH subsidiaries. Conning & Affiliates have investment centers in Asia, Europe and North America.

Conning, Inc., Conning Investment Products, Inc., Goodwin Capital Advisers, Inc., Octagon Credit Investors, LLC, Global Evolution USA, LLC, and PREP Investment Advisers, L.L.C. are registered with the Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940, as amended, and have noticed other jurisdictions they are conducting securities advisory business when required by law. In any other jurisdictions where they have not provided notice and are not exempt or excluded from those laws, they cannot transact business as an investment adviser and may not be able to respond to individual inquiries if the response could potentially lead to a transaction in securities. SEC registration does not carry any official endorsement or indication that the adviser has attained a level of skill or ability.

Conning, Inc. is also registered with the National Futures Association. Conning Investment Products, Inc. is also registered with the Ontario Securities Commission. Conning Asset Management Limited is Authorised and regulated by the United Kingdom's Financial Conduct Authority (FCA#189316). Conning Asia Pacific Limited is regulated by Hong Kong's Securities and Futures Commission for Types 1, 4 and 9 regulated activities; Global Evolution Asset Management A/S is regulated by Finanstilsynet (the Danish FSA) (FSA #8193); Global Evolution Asset Management A/S (London Branch) is regulated by the United Kingdom's Financial Conduct Authority (FCA# 954331); also, Global Evolution Asset Management A/S ("GEAM") is authorized via exemption as a dealer and adviser in certain Canadian provinces: In Canada, while GEAM has no physical place of business, it has filed to claim the international dealer exemption and international adviser exemption in Alberta, British Columbia, Ontario, Quebec and Saskatchewan. Global Evolution Manco S.A. is regulated by The Commission de Surveillance du Secteur Financier (the Luxembourg FSA) (CSSF# S00001031). Conning & Affiliates primarily provide asset management services for third-party assets.

All investment performance information included in this document is historical. Past performance is not a guarantee of future results. Any tax-related information contained in this document is for informational purposes only and should not be considered tax advice. You should consult a tax professional with any questions.

For complete details regarding Conning & Affiliates and their services in the U.S., you should refer to our Form ADV Part 2, which may be obtained by calling us.

Legal Disclaimer

©2024 Conning, Inc. This document and the software described within are copyrighted with all rights reserved. No part of this document may be distributed, reproduced, transcribed, transmitted, stored in an electronic retrieval system, or translated into any language in any form by any means without the prior written permission of Conning & Affiliates. Conning & Affiliates do not make any warranties, express or implied, in this document. In no event shall any Conning & Affiliates company be liable for damages of any kind arising out of the use of this document or the information contained within it. This document is not intended to be complete, and we do not guarantee its accuracy. Any opinion expressed in this document is subject to change at any time without notice.

This document contains information that is confidential or proprietary to Conning & Affiliates. By accepting this document you agree that: (1) if there is any pre-existing contract containing disclosure and use restrictions between you or your company and any Conning & Affiliates company, you and your company will use the information in this document in reliance on and subject to the terms of any such pre-existing contract; or (2) if there is no contractual relationship between you and your company and any Conning & Affiliates company, you and your company agree to protect the information in this document and not to reproduce, disclose or use the information in any way, except as may be required by law.

ADVISE®, FIRM®, GEMS®, CONNING CLIMATE RISK ANALYZER® and CONNING ALLOCATION OPTIMIZER® are registered trademarks of Conning, Inc. in the U.S. Copyright 1990-2024 Conning, Inc. All rights reserved. ADVISE®, FIRM®, GEMS®, CONNING CLIMATE RISK ANALYZER® and CONNING ALLOCATION OPTIMIZER® are proprietary software published and owned by Conning, Inc.

This document is for informational purposes only and should not be interpreted as an offer to sell, or a solicitation or recommendation of an offer to buy any security, product or service, or retain Conning & Affiliates for investment advisory services. The information in this document is not intended to be nor should it be used as investment advice. COD00000098



General Feedback:

- The overarching objective should be to have all parties (regulators, industry, Academy, Conning) engaged in a well-defined and transparent governance process.
- In addition to defining roles and responsibilities, there should also be well defined processes to govern the ongoing operation and maintenance of the generator (for example issue resolution) along with a defined process to work around or prevent potential challenges such as discussion in a public forum due to propriety aspects of the model.
- A major part of these efforts should be the collecting of key documentation from Conning and NAIC and maintaining this documentation up to date to support corresponding production scenario releases. Examples of key documentation could include the model, calibration, and initial curve fitting methodology from Conning, and official exposure documents from NAIC (e.g., scenario stratification, interest rate flooring, SERT scenario method, replace hard interest/equity linkage to correlation-based approach on equity, and acceptance criteria, etc.).

R & R – NAIC GOES (E/A) Subgroup:

- Consider adding guidance around what constitutes material or key items that should be evaluated and monitored.
- Consider adding the following responsibilities:
    - Monitoring that GOES is fit for purpose.
    - Flagging issues that emerge during scenario production.
    - Defining the documentation Conning is responsible for providing in support of GOES.
- Bullet 5 on page 4 should be modified as "… acceptance criteria (and evaluation statistics) that reflect …".
- Vendor (Conning) responsibility should also include plausible off-cycle recalibration that could be deemed necessary by the Subgroup, LATF and/or Life RBC WG.
    - This will be especially important for initial years of usage of the vendor solution in order to address unknown plausible deficiency that may surface under untested initial market conditions that can lead to potential unwarranted disruptive impact on industry-wide reserve/capital valuation.
    - This links to the critical need to establish a formal escalation framework. This will enable regulators and/or industry to expedite the evaluation and solutioning to concerns caused by, if any, plausible major deficiency.
- Bullet 3 on page 7 should explicitly define "timely manner and provide evidence" in order to make it trackable and actionable for effective and timely enforcement.
- Periodic GOES recalibration:
    - Define the process for reviewing, recommending, and approving changes to GOES calibration stemming from period recalibration based on feedback from the subgroup, Conning, and other interested parties. The consideration should include impact analyses for reserves and capital.
    - What event should trigger an off-cycle recalibration? For example, if it is determined that a scenario set does not satisfy the acceptance criteria (primarily the targeting criteria but should also consider evaluation statistics and will need to consider buffers / definition(s) around material deviations), what is the next step?
        - In addition to the 10k scenario set, evaluation/validation will need to be done for any subset(s) posted by Conning.

© 2024 National Association of Insurance Commissioners

- Acceptance Criteria
    - How often are they updated?
    - Do some criteria need to be updated more often than others? E.g., interest rate MRP used to be updated every year?
    - When a big update is made, are there going to be "parallel" productions to validate?
    - How far in advance before year end is this update made? Follow cycle of VM?
    - How will the interest rate MRP be updated? There is range in an evaluation statistic but no specific targeting criteria. Will the range be revisited every [5] years and Conning has flexibility for it to change from valuation date to valuation date as long as it is within that range?

R & R - Conning:

- What will the published tool include? Will it allow for parameters to be changed so a company can do ad hoc analysis around the scenarios or even things like economic sensitivities (e.g., Up/down 100 basis point interest rate shocks) which may be required as part of the company's reporting, risk management, and hedge programs. The AAA scenario generator currently allows for companies to do these required runs.
- Production related governance:
    - Should scenarios encounter issues, will Conning ensure the validation completes by 4PM Central Time on calendar Day 1? If additional time is required, what would be the subsequent deadline? Would any communication regarding any delays be conveyed via NAIC website where the scenarios would be housed?
    - Are there economic quantitative condition(s) (e.g., interest rates drop below -5% where things fully floor out and calibration process cannot replicate those conditions) where we would expect in advance that the routine update process will fail?
    - Process for Escalation:
        - What happens when scenarios break? What is the cut-off date for Conning to address production issues without creating downstream reporting problems for companies?
        - In the event of unresolved issues, what alternative scenarios will be used? Will communication regarding this decision be provided and if so, how?
- The Monthly Conning Scenarios do not reference Stochastic Exclusion Test (SET) and Deterministic Scenarios for VM-20. Will these scenarios or a tool to create them be part of Conning's monthly process?
- Monthly Production and Validation
    - What is included in the validation report? The report should include the tabular statistics, chart, and rationale on any failed criteria in the user-friendly format.
    - There needs to be some criteria to determine if scenarios "pass" or "fail." How would this process work for individual criteria versus a holistic assessment of the scenarios?
    - Who "signs off" on scenarios before production release? Does this require industry input?
    - Consider requesting Conning provide validation reports and statistics to GOES (E/A) Subgroup ahead of publishing to the public for a quick review. If there is concern about this delaying the release of scenario files, then consider either having the GOES (E/A)

© 2024 National Association of Insurance Commissioners

Subgroup or NAIC staff review the validation reports within a reasonable time frame following the scenario files being posted.
    - Consider adding a communication process for any delays in publishing data.
- Periodic GOES recalibration:
    - Recommend to the Subgroup any instances in which they determine the model needs recalibration and the rationale for the recalibration.

R & R – NAIC Staff:

- NAIC staff should assist in maintaining and ensuring appropriate documentation is accessible.

R & R - Subject Matter Experts:

- We agree with having some SMEs outside of Conning and/or NAIC staff review the validation reports in addition to Conning's attestation.
- Consider rewording monthly scenario production responsibility to include scenario validation review along with delivery issues.

© 2024 National Association of Insurance Commissioners

Mathematical Finance Company
QTSM CIR Green's Function Multifactor CIR and Affine Options SIRP ESG RS-ESG DMRP RS-DMRP

May 14, 2024

Honorable Mike Yanacheak
Chair, Generator of Economic Scenarios, GOES Subgroup
National Association of Insurance Commissioners

Re: Model Governance and Forward Calibration

Dear Mr. Mike Yanacheak,

Please accept this comment on the governance of the GOES generator. This discusses the topic of forward calibration to economic data and models based on the microfoundations of economics. This has relevance to the risks of extended low rates and also of low corporate profits and higher default rates on corporate bonds. These scenarios are of especial interest for the risks of offshore reinsurance and pension risk transfer that are invested into risky tranches of collateralized debt obligations. Some of the risk may be missed without forward calibration to the economic microfoundations of the GOES descriptve model type generators.

Sincerely yours,

Mark S. Tenney

618 Trailhead Road, Monument, CO 80132
(703) 474-0551 • marktenneymfc@gmail.com • mfcesg.com

© 2024 National Association of Insurance Commissioners

Generator of Economic Scenarios, GOES, Model Governance
IMF and World Bank 2024 Spring Meetings
Polycrises, Quagmires, Bottom Traps, and Downward Spirals
PQBTDS-
Integration of Global North and South
Lucas Style Critique of Descriptive GOES
Model Backward Calibration
Forward Calibration to Microfoundations
Draft and Preliminary
Comments and Corrections welcome
08:45

Mark S. Tenney

Tuesday 14th May, 2024

© 2024 National Association of Insurance Commissioners

2

Copyright ©2024 All rights reserved. Contact: Mark S. Tenney.
Citizen of the United States
618 Trailhead Road, Monument, CO 80132
Phone number 703 474 0551.
Email: marktenneymfc@gmail.com

Contents

LIST OF FIGURES 4

1 Intro 5
1.1 Forward Calib Intro . . . 5
1 – 1 Polycrisis now or just a threat? . . . 6
1 – 2 Mexico is in a very deep monocrisis on total factor productivity, maybe a polycrisis . . . 6
1 – 3 Canada is in a deep monocrisis on total factor productivity growth . . . 7
1 – 4 Backward calibration misses the crisis in Total Factor Productivity . . . 8
1 – 4.1 Lucas style critique of backward calibration of GOES generator . . . 9
1 – 5 Government interest rates can be low or negative in some scenarios . . . 9
1 – 6 Public model for forward calibration to economic data 9
1.2 Offshore reinsurance and pension risk transfer . . . 10
2 – 1 Senate hearings 2022 . . . 10
2 – 2 IMF Spring Meetings 2024 . . . 10
1.3 IMF World Bank 2024 Spring Meetings . . . 10
3 – 1 Polycrisis at Civil Society Forum Spring 2024 . . . 11
3 – 2 Other related sessions . . . 11
3 – 3 IMF leadership walking back the polycrisis . . . 12
1.4 Zambesi Scenario: Global Capital Flow South . . . 13
4 – 1 Rise in corporate defaults . . . 14
4 – 2 High Risk Collateralized Debt Obligation (CDO) tranches fail . . . 14
4 – 3 Offshore reinsurance fails from risky tranche failures . . 14

© 2024 National Association of Insurance Commissioners

4 – 4 Pension Risk Transfer fails from risky tranche failures . 14
4 – 5 State guarantee funds are overwhelmed and can't make good insurance 15
1.5 Nile Scenario: Global labor floods north 15
5 – 1 Climate change measures are unaffordable even in the Global North 15
5 – 2 Corporate debt defaults rise 15
5 – 3 Even medium risk CDO tranches fail 16
5 – 4 Offshore reinsurance collapses 16
5 – 5 Pension risk transfer collapses 16
5 – 6 State guarantee funds are overwhelmed 16
1.6 Amazon Scenario: Polycrisis south, negatve rates north 16
1.7 Forward Calibration 17
7 – 1 Rise in labor force participation rate of women 18
7 – 2 Rise of non-competes and erosing of worker bargaining power 18
7 – 3 Expansion of corporate bargaining power has reached its limits possibly 19
7 – 4 Retraction of corporate bargaining power scenarios . . 19
7 – 5 Calibration of GOES to microfoundation models, Lucas type critique 20
7 – 6 Microfoundation calibration models maintained by community framework 22
7 – 7 Maintaining schedule of vendor GOES roll out 22

© 2024 National Association of Insurance Commissioners

Chapter 1

Intro

1.1 Forward Calib Intro

The IMF and World Bank 2024 Spring Meetings were in part focused on the polycrisis, as some see it, in the Global South. The IMF and World Bank leadership lost control of the narrative as the week long meetings went on, and many participants said that the polycrisis in the Global South was real, that it was now and it was growing and would not be solved by routine dialogue with the IMF and World Bank. The leadership of the IMF and World Bank attempted to walk back this message at the end of the week.

The IMF and World Bank have been pointing to a global slow down in the growth of total factor productivity. This started in the Global North in the 1970s. In some countries, it has been severe.

In Canada, total factor productivity has not changed since the 1970s. If one assumes even a modest increase in capital effectiveness, this means that labor effectiveness must have gone down in Canada due to the large inflows of labor from the Global South since the 1970s.

Total Factor Productivity at Constant National Prices for Canada (RTFPNACAA632NRUG) https://fred.stlouisfed.org/series/RTFPNACAA632NRUG

"World Must Prioritize Productivity Reforms to Revive Medium-Term Growth Without ambitious steps to enhance productivity, global growth is set to fall far below its historical average"

Nan Li, Diaa Noureldin April 10, 2024 https://meetings.imf.org/en/IMF/Home/Blogs/Articles/2024/04/10/world-must-prioritize-produ

© 2024 National Association of Insurance Commissioners

ctivity-reforms-to-revive-medium-term-growth

Total Factor Productivity at Constant National Prices for United States (RTFPNAUSA632NRUG) https://fred.stlouisfed.org/series/RTFPNAUSA632NRUG

U.S. Total Factor Productivity Slowdown: Evidence from the U.S. States Author/Editor:Roberto Cardarelli ; Lusine Lusinyan https://www.imf.org/en/Publications/WP/Issues/2016/12/31/U-S-Total-Factor-Productivity-Slowdown-Evidence-from-the-U-S-42967

If one assumes that there has been a higher increase in the effectiveness of capital than the rate of increase of total factor productivity, then that implies that there has been a decline in labor effectiveness in the US from the inflows of labor from the Global South.

1 – 1 Polycrisis now or just a threat?

https://www.ndi.org/our-stories/polycrisis-how-unchecked-public-debt-fuels-corruption-and-bad-governance

A session on the IMF. This is more focused on the Global South. "The Polycrisis - How Unchecked Public Debt Fuels Corruption and Bad Governance"

https://www.imf.org/en/Videos/view?vid=6351187004112

A more general view than just the Global South is here.

https://www.weforum.org/agenda/2023/01/polycrisis-global-risks-report-cost-of-living/

1 – 2 Mexico is in a very deep monocrisis on total factor productivity, maybe a polycrisis

Both Canada and Mexico are already in crisis situations in terms of total factor productivity. Mexico's total factor productivity has actually gone down substantially since the 1970s. This is due in part to the drain of young adults to migration to the US.

The IMF and World Bank have began to emphasize that the Global South's problems are in part due to migration to the Global North of their young adults. This robs them of growth and the ability to support their aging populations. It also means they have only a tiny budget to spend on climate change prevention measures.

© 2024 National Association of Insurance Commissioners

https://www.imf.org/en/Blogs/Articles/2024/04/23/latin-americas-shifting-demographics-could-undercut-growth?utm_medium=email&utm_source=govdelivery

Mexico is behind on controlling emissions. https://yaleclimateconnections.org/2024/04/what-is-mexico-doing-about-climate-change/

Gita Gopinath of the IMF and others were emphasizing that the developing world is spending more on debt servicing than on health, education and welfare. Climate change spending comes behind those and is squeezed to a tiny amount.

Total Factor Productivity at Constant National Prices for Mexico (RTFPNAMXA632NRUG) https://fred.stlouisfed.org/series/RTFPNAMXA632NRUG

This decline in Mexico's TFP is remarkable. Together with the large illegal border crossings into the US, Mexico could be considered to be in a polycrisis.

1 – 3 Canada is in a deep monocrisis on total factor productivity growth

Canada has had no growth in total factor productivity since the 1970s. This could be the main reason for considering it in a polycrisis. A monocrisis in total factor productivity inevitably is caused by and manifests itself in other crises and problems. Some other statistics are consistent with this assessment. Some are not.

Average earnings over the period since the 1970s are harder to piece together for Canada. As in the US, there are subperiods in this time that look better than others. Average earnings rise more than median because of excess rises at the top.

Some links on Canadian wage movements that are at odds with each other in some cases follow. Some are distinctly more positive than others.

https://www150.statcan.gc.ca/n1/pub/14-28-0001/2020001/article/00006-eng.htm

https://www150.statcan.gc.ca/n1/pub/75-001-x/1993002/57-eng.pdf

Statcan does not make it easy to find a pieced together long series on median or average earnings and broken out by gender. The following article pulls together disparate data from Statcan and finds little earnings change

© 2024 National Association of Insurance Commissioners

over the period from the 1970s to 2017.

https://globalnews.ca/news/3531614/average-hourly-wage-canada-stagnant/

https://publications.gc.ca/Collection-R/LoPBdP/BP/prb015-e.htm

https://www65.statcan.gc.ca/acyb02/1967/acyb02_19670756015-eng.htm

1 – 4 Backward calibration misses the crisis in Total Factor Productivity

Backward calibration of the Generator of Economic Scenarios (GOES) to descriptive level financial market data misses the forward looking crisis of low total factor productivity. Thus it may embed in the scenario projections parameters too much optimism about future economic outcomes.

If labor effectiveness in the US is falling due to labor inflows from the Global South, then backward looking calibrations of the GOES model to financial market data will miss the fall of corporate profits from declining labor effecitness. This will them miss lower equity returns, higher corporate defaults and much higher defaults and failures of risky tranches of corporate debt obligations that are used in offshore reinsurance and pension risk transfer schemes.

Slow or even declining TFP is a polycrisis generator because it will squeeze corporate earnings, wages, government budgets, climate change measures, and social and economic resilience. This will lead to social and economic fragmentation in both the Global South and Global North.

The squeeze in corporate earnings will lead to rising corporate defaults and to severe losses on risky tranches of CDOs. It will also cause equity indices to grow slower and have longer periods of little growth or even substantial decline in some scenarios. In some scenarios, even medium risk tranches of CDOs will fail to payoff.

These losses will cause offshore reinsurance invested in risky tranches of CDOs to fail. It will also cause failure in pension risk transfer that is invested into risky tranches of CDOs. These can overwhelm state guarantee funds.

If public sector pensions follow the same path of investments and even try some pension risk transfer, there may be shortfalls in state and local pensions. This can place state and local governments under extreme budget

© 2024 National Association of Insurance Commissioners

constraints.

1 – 4.1 Lucas style critique of backward calibration of GOES generator

Macromodels failed in the 1970s due to a lack of microfoundations and a lack of forward looking rational expectations. Lucas of the University of Chicago made a famous critique of these models lack of microundations as the source of their failure. This included a failure to have forward looking rational expectations based on the changing behavior of the agents in an economic model, including workers, corporations, consumers and government.

Descriptive economic scenario generators that lack forward based calibration to economic data and that fail to take account of the global flows of labor and capital will miss extended periods of low or negative rates as well as squeezing of corporate profits and higher rates of corporate defaults and the consequent failure of offshore reinsurance and pension risk transfer based on investment in risky tranches of corporate bond and debt obligations.

1 – 5 Government interest rates can be low or negative in some scenarios

In some scenarios where total factor productivity growth is zero or even negative, the marginal product of capital can be very low or even negative. It can be negative because of declines in the effectiveness of labor or because the US is a safe haven for excess global capital which is then invested even though the marginal return on capital is negative. This is the risky rate of return on capital. Thus government interest rates will be below this negative risky capital return. So US government interest rates can be deeply negative in some scenarios and not change from those levels for extended periods. This is because of the US's unique position as the safe haven of last resort for excess global capital. This can cause US government interest rates to be the most negative in the world for extended periods.

1 – 6 Public model for forward calibration to economic data

There needs to be a complete public model for GOES that can be calibrated to fundamental economic data. The public model can then be used to cal-

© 2024 National Association of Insurance Commissioners

ibrate the vendor private model if that structure is retained. The complete public model has to cover corporate defaults, equity, and interest rates in an integrated framework.

1.2 Offshore reinsurance and pension risk transfer

Offshore reinsurance and pension risk transfer to insurance are based on investing in risky traches of collateralized debt obligations and related instruments. These strategies can fail in the IMF and World Bank flavored scenarios considered here.

Senate interest in offshore reinsurance and pension risk transfer has helped shed light on these.

2 – 1 Senate hearings 2022

https://www.brown.senate.gov/newsroom/press/release/sherrod-brown-continues-push-private-equity-firms-involvement-insurance-industry

https://www.c-span.org/video/?522705-1/hearing-insurance-industry-practices

2 – 2 IMF Spring Meetings 2024

https://www.imfconnect.org/content/imf/en/annual-meetings/calendar/open/2024/04/15/183575.html

This included participation by Steven Seitz, Director US Federal Insurance Office, and Nellie Liang Chair, FSB SCAV and Under Secretary, U.S. Treasury.

Seitz gives a comment around 1:27, that is hours and minutes. The video is for the whole block.

1.3 IMF World Bank 2024 Spring Meetings

At the IMF and World Bank 2024 Spring Meetings, a major focus was on the polycrisis in the Global South. The IMF and World Bank senior leadership

© 2024 National Association of Insurance Commissioners

are reluctant to completely embrace this view. At least one speaker indicated that this is an ongoing dialogue with the IMF and World Bank.

3 – 1 Polycrisis at Civil Society Forum Spring 2024

The Civil Society Forum is part of the IMF and World Bank meetings and is inside their buildings.

Nonetheless, the term was used to describe at least one session.

https://www.imf.org/en/Videos/view?vid=6351187004112

"The Polycrisis - How Unchecked Public Debt Fuels Corruption and Bad Governance"

Thursday April 18, 2024.

3 – 2 Other related sessions

The common framework is an initiative started by the G20 to deal with the debt situation in the developing world.

https://www.imf.org/en/Videos/view?vid=6351419194112 Navigating the Intertwined Debt and Climate Crises - Unveiling and Assessing Solutions

Seminar: Capital flows and growth: where is the money going? Friday, Apr 19, 2024 — 12:30 PM - 1:30 PM https://www.imfconnect.org/content/imf/en/annual-meetings/calendar/open/2024/04/19/182933.html?calendarCategory=T3Blbg==

US debt service costs

https://markets.businessinsider.com/news/bonds/us-debt-economy-outlook-government-spending-deficit-bond-market-treasuries-2023-9?op=1

"It cost the US $695 billion to service its debt the last fiscal year, according to the Office of Management and Budget, or just around 2.5% of US GDP. "

Some interesting comments on the meetings are here.

https://www.politico.com/newsletters/global-playbook/2024/04/19/workers-of-the-imf-unite-00153281

IMF Today has summaries of each day. https://www.imfconnect.org/content/imf/en/meetings/SM24/IMFToday.html

© 2024 National Association of Insurance Commissioners

Richard Quest hosting a lively session on AI. "Seminar: Debate on the Global Economy: The Macroeconomic Implications of AI APRIL " https://www.imf.org/en/Videos/view?vid=6351181584112

3 – 3 IMF leadership walking back the polycrisis

By Saturday morning, April 20, 2024, at the end of the week in the last session, the IMF leadership felt it necessary to walk back the polycrisis talk in many of the sessions during the week. They were worried that the impression had been made that the Global South was bankrupt and that further lending by public or private groups was throwing good money after bad. It was not their intent to scare the investing community into not investing in these countries.

https://www.imfconnect.org/content/imf/en/annual-meetings/calendar/open/2024/04/20/183319.html?calendarCategory=T2ZmaWNpYWwvQnkgSW52aXRhdGlvbg==.UHJlc3M=.V29ybGQgQmFuaw==.T3Blbg==

"Fiscal Forum: Leveraging Fiscal Rules and Frameworks to Navigate Today's Fiscal Challenges"

Saturday, Apr 20, 2024 — 11:00 AM - 12:15 PM

1:09 in -6:42 from end.

Gita Gopinath:

"We don't see a systemic crisis" "Several countries in distress." "Not a systemic debt crisis."

"US deficits very large. Increasing debt levels." "Growth", "Higher interest rates, stronger dollar." "Complications for the world." "Article 4". "Debt ceiling risk. Doesn't help." "US do more in raising revenues."

In effect, they had lost control of the narrative during the week, and the outside groups and speakers had painted a picture much darker than the IMF and World Bank leadership had intended.

US Article 4 consultation from June 15, 2023.

https://www.imf.org/en/Publications/CR/Issues/2023/06/14/United-States-2023-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-534755

1.4 Zambesi Scenario: Global Capital Flow South

In the Zambesi scenario, the IMF and World Bank decide that they want to stimulate global capital to flow south by cutting off global labor flows north. They are able to persuade national governments to implement the total cutoff of labor from outside the developed nations.

Ideally, this would be a total and permanent cutoff without any loopholes or exceptions. Global capital would have no hope for global labors flow north so that they would be forced to invest excess global capital in the Global South.

The name Zambesi Scenario comes from the fact that the Zambesi river flows south. In this scenario, global capital flows south instead of global labor flowing north. In the Nile Scenario, global labor floods north and leads to even worse problems.

Initially, Global Capital, would be resistant to this and continue to invest in safe havens in the Global North. Without labor flows into the Global North this would cause the capital to labor ratio to soar in the Global North. That would reduce the marginal product of capital. If this was continued, the marginal product of capital would fall below the rate of depreciation of capital. In this situation, capital investments would not produce an increase in the stock of capital, because depreciation on capital decreases the stock faster than savings out of output increase it. This is the Solow Swan maximum.

In addition, as the capital to labor ratio rose, wages would rise. The excess global capital trying to find investment would spark start up firms in the Global North, and pull in idle workers including from marginal groups such as the old, minorities, new graduates from high school and college without skills, the long term unemployed, even the homeless. As this process went on, wages would continue to rise and reduce corporate profits.

Large public corporations that have developed excess bargaining power over the last 60 years from the inflow of global labor and the higher labor participation rates of women would see a reversal of their bargaining power. They would no longer be able to transfer costs such as depreciation, and government and social mandates to workers, vendors, and customers. Instead, they would see their corporate profits squeezed. Their profit to GDP ratio would fall and go back to what it was in the 1970s or even less.

© 2024 National Association of Insurance Commissioners

As this went on, and the credibility of the permanent halt in global labor flows north built up, global capital would have no other option but to invest in the Global South. The potential barrier against the flow of global capital to the Global South would have been pierced, tunneled under, and crossed above, so that the flow would be continuous and consistent and achieve a critical mass of change in the Global South.

This would fund debt repayment, health, education and welfare and the most critical item of spending to prevent and alleviate global climate change.

4 – 1 Rise in corporate defaults

Large publicly traded companies are now under pressure. They have lost their bargaining power increase over the last decades that allowed them to transfer depreciation, government and social mandate costs to workers, suppliers and customers. Wages have risen, competitors have sprung up, and their profit margins are squeezed. Many have to default.

4 – 2 High Risk Collateralized Debt Obligation (CDO) tranches fail

The high risk tranches of CDOs fail because some of the corporate names in their pool of assets are failing. The low risk tranches are barely able to survive and the high risk tranches are unable to payoff.

4 – 3 Offshore reinsurance fails from risky tranche failures

Offshore reinsurance has invested in very high risk tranches of CDOs and other collateralized security obligations. As these tranches fail, offshore reinsurance will fail.

4 – 4 Pension Risk Transfer fails from risky tranche failures

Pension risk transfer to insurance has also invested in risky tranches of CDOs. So it too fails.

© 2024 National Association of Insurance Commissioners

4 – 5 State guarantee funds are overwhelmed and can't make good insurance

1.5 Nile Scenario: Global labor floods north

In the Nile scenario, global labor floods north. The restrictions or barriers to immigration are flooded over. Illegals, refugees, the regular flows all continue unabated.

The effectiveness of labor declines and at some critical point, collapses. The low effectiveness of labor flows through to the marginal product of capital, causing it to collapse. In effect, it falls to the levels of the Global South.

The marginal product of capital falls below the rate of depreciation. Because of this, corporate profits are squeezed even though wages have fallen.

5 – 1 Climate change measures are unaffordable even in the Global North

With the loss of labor effectiveness in the Global North, there are no longer funds to pay for Climate Change in either the Global South or North. The Global North can't pay for climate change measures anywhere.

This leads to losses in labor and capital effectiveness on a planetary scale. The Potsdam Institute for Climate Research has estimated that even before catastrophic climate events, there will be losses to economic efficiency and output from incremental climate deterioration.

https://www.pik-potsdam.de/en

https://www.pik-potsdam.de/en/news/latest-news/rainy-days-harm-the-economy

5 – 2 Corporate debt defaults rise

The squeeze on corporate profits leads to corporate defaults. In this scenario, the entire society and economy is collapsing towards Global South levels. The defaults will pick up a momentum and create a polycrisis of default. This is more extreme than in the Zambesi Scenario.

© 2024 National Association of Insurance Commissioners

5 – 3 Even medium risk CDO tranches fail

In the Nile Scenario, not only do risky tranches fail, but medium tranches fail. In some cases, even safe tranches may fail as the crisis in corporate debt expands and accelerates.

5 – 4 Offshore reinsurance collapses

Offshore reinsurance collapses much more than in the Zambesi scenario because even medium and some safe tranches fail to payoff.

5 – 5 Pension risk transfer collapses

Pension risk transfer is caught in the same polycrisis as offshore reinsurance.

5 – 6 State guarantee funds are overwhelmed

In this scenario, not only do state guarantee funds collapse, but the rest of retirement is collapsing due to the simultaneous fall of wages and corporate profits. When the effectiveness of labor goes down, then both wages and corporate profits go down. This is a duocrisis. But this duocrisis in wages and profits then spreads to government revenues and then undermines Social Security, Medicare, and state and local pensions.

1.6 Amazon Scenario: Polycrisis south, negatve rates north

In this scenario, there is a polycrisis in the Global South. This causes global capital to come to the north, especially to the US. Depending on how labor flows in this scenario will affect the subsequent developments in the US.

If global labor flows to the US are limited, then there will be a rise in the capital to labor ratio. This will be like the Zambesi scenario.

In this sub-scenario, marginal returns on capital will fall as in the Zambesi scenario, and the return on risky investment will be low. This will then push down the yield on government bonds to negative levels. US government bond yields could stay negative until the polycrisis abates in the Global South.

© 2024 National Association of Insurance Commissioners

If global labor flows to the north during the polycrisis in the Global South, then labor effectiveness in the Global North will fall. It might even go through a critical point and collapse. In either case, the marginal products of labor and capital will fall. So both wages and profits will fall. The fall in wages will also push down sales and profit margins on sales for corporations.

As in the Nile scenario, the results will be that corporate profits will be squeezed. The lower returns on risky investments may then flow through to US government bond yields, pushing them negative and keeping them there.

If the young adults of the Global South come to the Global North during the polycrisis in the Global South, then the Global South won't be able to get out of the polycrisis. There will be too few able workers. Government budgets will lack revenue. They won't be able to spend on education, health or climate change. Without their young adults as workers and consumers, the corporate sector in the Global South will see sales and profit margins fall. This will further limit their ability to invest.

As the IMF has indicated in its blog, the lack of young adult workers is already a critical problem, even a crisis for Mexico. They need their young adult workers in Mexico, not in Denver. When their young adults are in Denver, that means that the budget for climate change in Mexico will stay dead last among competiting concerns of health, education and supporting the elderly.

1.7 Forward Calibration

Forward calibration is necessary because the events of the last 50 years can't repeat themselves in many cases. The rise of the labor force participation rate of those 25 to 54 could not repeat because the rate for women increased too much to repeat that increase. There has also been a strong movement by law firms to spread non-compete agreements to even the lowest paid most menial job. This reflected the need of the legal profession to find work for lawyers as the number of lawyers increased at a faster pace from the 1970s. This led to an extreme increase in corporate bargaining power. That allowed public corporations to transfer costs of depreciation, government and social mandates to workers in the form of low pay, or to suppliers or customers. That movement is now finding opposition at the state and federal level.

© 2024 National Association of Insurance Commissioners

7 – 1 Rise in labor force participation rate of women

" Infra-Annual Labor Statistics: Labor Force Participation Rate Female: From 25 to 54 Years for United States (LRAC25FEUSM156S) "

https://fred.stlouisfed.org/series/LRAC25FEUSM156S

The total participation rate of men and women aged 25 to 54 is 83.5 percent.

Labor Force Participation Rate - 25-54 Yrs. (LNU01300060) https://alfred.stlouisfed.org/series?seid=LNU01300060

The greater participation by workers from the 1970s to 2024 can't be repeated.

The bargaining power of public corporations had an extreme increase during this time period. That increase in bargaining power can't be repeated from this increase in the supply of workers.

The following looks at all US corporate profits. https://fred.stlouisfed.org/graph/?g=1Pik

https://cdn.pficdn.com/cms/pgim-fixed-income/sites/default/files/2021-04/The%20Evolution%20of%20U.S.%20Corporate%20Profits_2.pdf

Large publicly traded corporations have seen their bargaining power increase more than the overall corporate sector.

Associated with this rise in labor force participation rate is a rise in age of first marriage for men and women and fertility rates that are often below replacement.

7 – 2 Rise of non-competes and erosing of worker bargaining power

During the last 50 years, non-competes have been applied to a surprisingly large percentage of the work-force. The FTC has established a rule to remove most of these agreements.

https://www.ftc.gov/news-events/news/press-releases/2024/04/ftc-announces-rule-banning-noncompetes

"In January 2023, the FTC issued a proposed rule which was subject to a 90-day public comment period. The FTC received more than 26,000 comments on the proposed rule, with over 25,000 comments in support of the FTC's proposed ban on noncompetes. The comments informed the FTC's final rulemaking process, with the FTC carefully reviewing each comment

and making changes to the proposed rule in response to the public's feedback.
"

This process will make it harder for the courts to over-rule this ban.

The reaction of the corporate law firms to this rule is interesting. It sheds light on how the economy has been rigged against workers without mercy. Some of the corporate law firms sound like generals rallying their troops in the cause of retaining non-competes.

https://www.skadden.com/insights/publications/2024/04/ftcs-final-rule-banning-worker-noncompete-clauses

Also a report by CRS.

https://crsreports.congress.gov/product/pdf/LSB/LSB10905

7 – 3 Expansion of corporate bargaining power has reached its limits possibly

This expansion of corporate bargaining power over the last 50 years has allowed them to transfer costs to workers, suppliers and customers. To some extent, that includes even depreciation for the largest firms with the most bargaining power.

This expansion of corporate bargaining power is unlikely to be continued and is meeting organized resistance to try to role it back.

The huge expansion of corporate profits relative to GDP is in part from this ability to transfer costs from corporations to their suppliers, workers and customers. That includes depreciation, which is the key cost retarding growth in the Solow Swann analysis of the limits to growth.

If depreciation costs and other government and social mandate costs are transferred back to the large public corporations from their workers, suppliers and customers then that will reduce sharply the ratio of their corporate profits to GDP.

7 – 4 Retraction of corporate bargaining power scenarios

A retraction of corporate bargaining power and corporate profits will then lead to higher default rates. Those will especially impact the risky tranches of Corporate Debt Obligations, CDOs.

© 2024 National Association of Insurance Commissioners

Offshore reinsurance and pension risk transfer to insurance are heavily investing in risky tranches of CDOs. Thus a retracement of the expansion of bargaining power of large public corporations back to workers, customers and suppliers will raise default rates and undermine the solvency of offshore reinsurance and pension risk transfer.

This requires a calibration of the default rates, equity profits and equity returns and interest rates to reflect this type of shift of bargaining power away from the large public corporations whose bonds are the ones underlying these CDOs.

7 – 5 Calibration of GOES to microfoundation models, Lucas type critique

The Generator of Economic Scenarios, GOES, is a descriptive model not a microfoundations model. Thus it requires calibration to more fundamental models and economic data which are forward looking. These models should have built into them that the labor force participation rate of 25 to 54 has little more room to grow and that the expansion of corporate bargaining power by non-competes is now meeting major resistance.

Scenarios in which these bargaining power transfers from workers, suppliers and customers to large publicly traded corporations are reversed are a major area for the risk analysis of offshore reinsurance and pension risk transfer that are heavily investing in risky tranches of CDOs that assume these trends will continue, when they can't.

Just like descriptive models in macroeconomics need microfoundations to work, so do descriptive financial model need calibration to microfounded forward looking economic models and data. This is a parallel to the Lucas critique of macro model failures in the 1970s.

The Lucas critique was that macro models in the 1970s failed in modeling the business cycle because they were not based on microfoundations, in particular rational expectations. Because of their lack of microfoundations, macro models could not be used to manage business cycles.

The same problem is true of purely descriptive financial models used to project over long time periods. Because they lack microfoundations in economic data, and are not forward looking, they will not be able to produce the deep monocrisis scenarios from the downward spiral of total factory productivity in the Global North and Global South. Nor can they adequately

© 2024 National Association of Insurance Commissioners

model the inter-relationship of the Global North and Global South.

We exist on one planet. And models that ignore this reality will fail in the long term. They may fail even in the short term. The inter-relationship of the Global North and Global South can no longer be ignored in models of the economy of the US. The labor flows from the Global South to the Global North are undermining the economy in both places. They are starving the Global South of young adult workers when they need this. This pushes climate spending to almost zero.

Canada is a perfect test case of the effect on labor effectivness of the flow of labor from the Global South. Canada's total factor productivity has not increased since the mid 1970s. Obviously, capital is more productive and Canada has it. Canada has cell phones, internet, computers, fiber, fuel efficient cars, etc. But despite that manifest technology improvement, its total factor productivity is unchanged for 50 years. This remarkable fact is only explainable by a substantial decrease in labor effectiveness.

The same phenomena has been observed in the Global North but not to the same extreme as Canada for much of that period. However, for the last 20 years, there has been a further flattening of the total factor productivity graph throughout the Global North.

The flattening of total factor productivity in the Global North is now spreading to the Global South, causing its total factor productivity to flatten as well. This could be the start of a downward spiral of total factor productivity between the Global North and Global South. There is at least a flatlining crisis, which may become an absolute decline. The IMF is warning that this deepening monocrisis in total factor productivity is a threat to the entire global enconomy including its ability to spend on health, education, elderly and climate change.

For labor effectiveness, it is a decline already. Canada is a natural experiment to prove that. It had almost zero increase in total factor productivity, an obvious increase in capital effectiveness, and thus a decease in labor effectiveness. This would explain the low growth in total factor productivity and its almost flatlining for the last 20 years in the rest of the Global North.

Some of these microfoundation models can produce scenarios of negative interest rates in the US that persist for decades. If the Global South and Global North get locked into a downward spiral from labor flows from South to North that they can't get out of, then that can produce scenarios of both long term negative rates in the US and squeezed corporate profits with high default rates of corporate bonds and the failure of risky trances of CDOs

© 2024 National Association of Insurance Commissioners

and of offshore reinsurance and risk increasing pension risk transfer based on investing in them.

7 – 6 Microfoundation calibration models maintained by community framework

To model these scenarios, including ones where things get worse, requires calibration of the vendor's GOES generator to models based on economic microfoundations that are capable of producing these scenarios. These models can be maintained by the community of interested parties instead of being an official model. This would give valuable input into the ongoing calibration of the official vendor GOES generator. It would also not lock the calibration process prematurely into one specific microfoundations model. The state of microfoundations models for this purpose is not very advanced. So there is a need for many flowers to bloom in this area.

7 – 7 Maintaining schedule of vendor GOES roll out

Allowing the community to maintain microfoundations models for calibrating the official GOES vendor model will also allow the roll out of the vendor model in its current form to proceed on schedule.

© 2024 National Association of Insurance Commissioners

Bibliography

© 2024 National Association of Insurance Commissioners

Draft: 07/28/24

Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
May 1, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met May 1, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Ted Change (CA); Wanchin Chou (CT); Philip Barlow (DC); Scott Shover (IN); William Leung (MO); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill and Hattie Wang (TX); and Craig Chupp (VA).

1. Discussed Model Governance

Scott O'Neal (NAIC) presented model governance topics related to roles and responsibilities to promote discussion with the goal of consensus regarding the model governance program (Attachment Twenty-Six-A). Weber asked where the documentation of the NAIC Committee Structure and governance process will reside and would it be part of the *Valuation Manual* (VM) and the Life RBC Blanks. O'Neal said that the governance process could be adopted by the Subgroup but may not necessarily need to be part of the VM. O'Neal noted that NAIC Staff will follow-up with Weber's suggestion to look at how other similar processes have been implemented at NAIC. Yanacheak stated it will be important to discuss as a group how the Subgroup should operate procedurally. Yanacheak added that a formal and permanent location could be discussed later when the process is in a less developmental stage.

Yanacheak noted the responsibilities during the validation process are going to be an important part of the process and one of the charges will come down to timeliness and limiting risks from errors. Hal Pedersen (American Academy of Actuaries—Academy) asked how the Subgroup envisions the validation process to work given the potential for issues to occur during scenario production. O'Neal responded that additional details would need to be worked out by the Subgroup, including what needs to happen when an error is discovered by a validation process that could potentially delay a scenario release.

Alan Morris (Academy) asked for details about the monthly validation process as well as the longer-term recalibration process and suggested the industry provide perspective. O'Neal noted that the NAIC is working on an initial draft of validation steps to be performed along with the validation report that will be produced. Randall McCumber (Lincoln Financial Group) asked how the validation report will interact with the acceptance criteria. O'Neal said that it makes sense to incorporate acceptance criteria into the validation, however, the Subgroup will need to discuss the tolerances around the acceptance criteria. Gary Hu (Prudential) suggested adding evaluation statistics to the validation report.

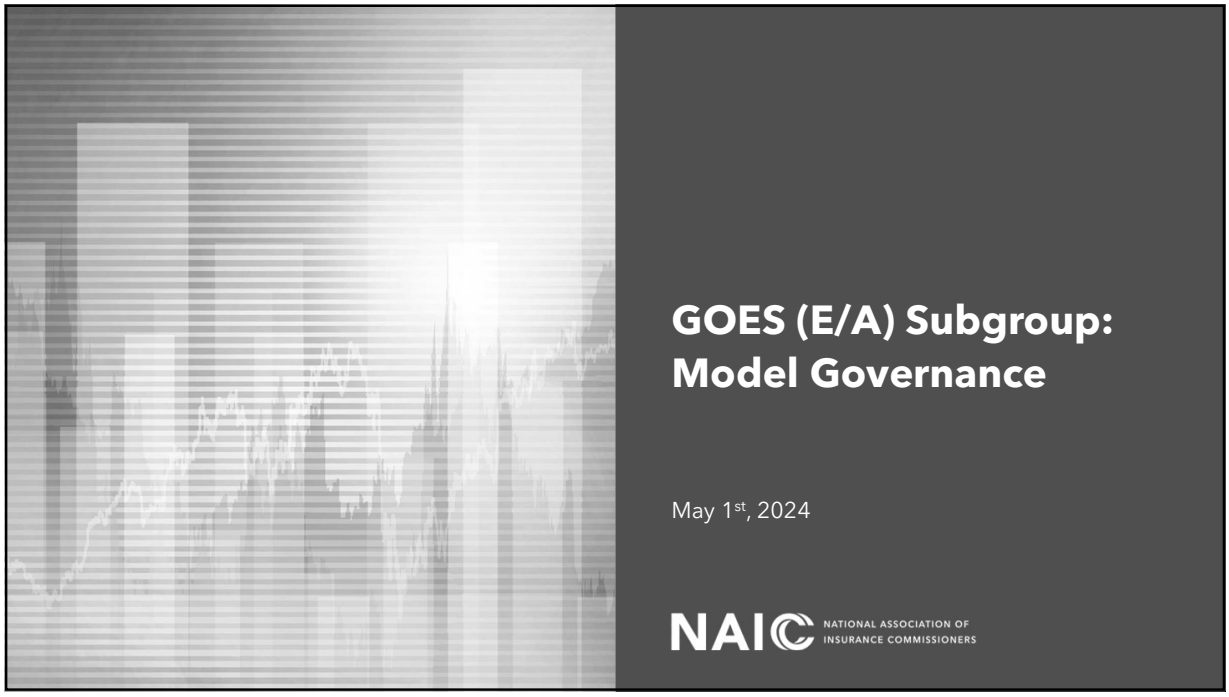
Connie Tang (Retired) asked what the scope of the periodic review ahead of recalibration would include. Yanacheak noted from a governance perspective the Subgroup will need to have a plan that will continue to research and a formal review frequency not longer than the five years that has been initially proposed. O'Neal added that there will be potential to bring model enhancements to the discussion as part of the continued research. Chou suggested a shorter frequency than five years in the beginning.

Morris suggested a mechanism for sharing concerns and escalating issues when the results are coming in contrary to expectations. Yanacheak noted there is not an expectation for a mechanism as formal as a Valuation Manual amendment proposal form, concerns could be raised with the company's primary regulator or brough directly to the Subgroup.

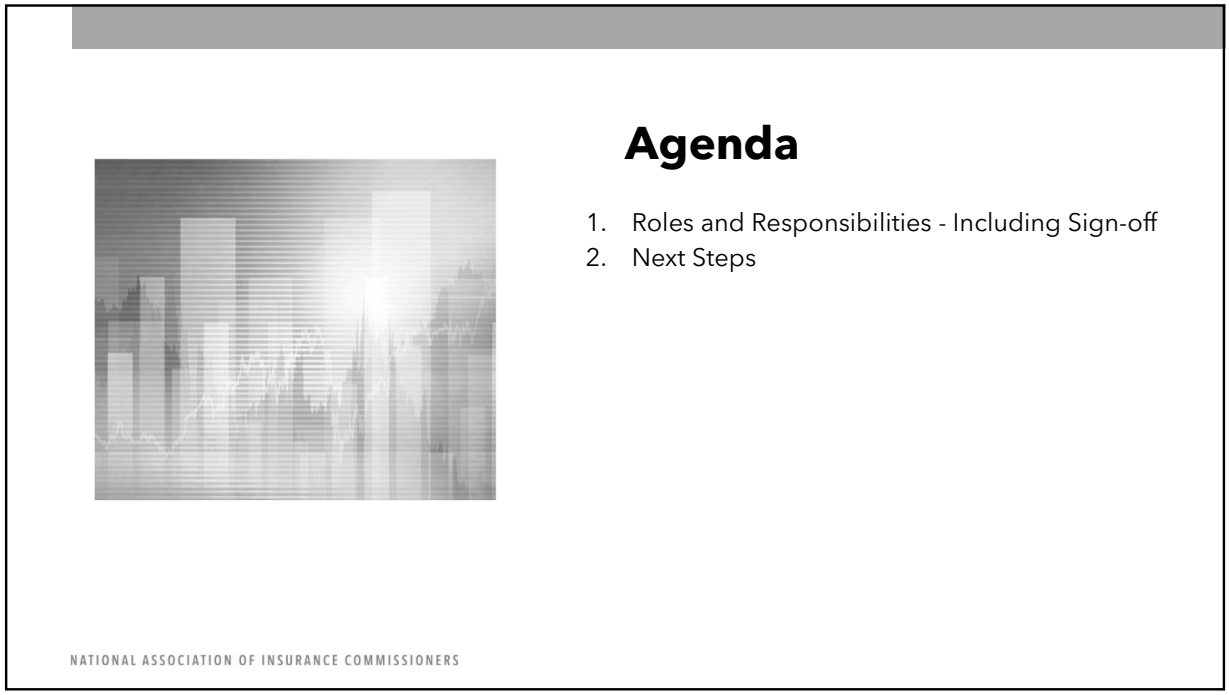
Having no further business, the GOES (A) Subgroup adjourned.

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS



1



2

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Roles and Responsibilities - Overview

Define and document responsibilities for *all* stakeholders involved in the **ongoing production** of scenarios

- **GOES (E/A) Subgroup through NAIC Committee Structure**
- **NAIC staff**
- **Economic Scenario Generator Vendor, e.g., Conning**
- **Subject Matter Experts (industry, Academy, and others)**
- **Interested Parties**

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS **Note:** Adapted from "ACLI Version of AAA Governance Outline" 3

3

Roles and Responsibilities – GOES (E/A) Subgroup

2024 Charges: The Generator of Economic Scenarios (GOES) (E/A) Subgroup of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:

1. **Monitor that the economic scenario governance framework is being appropriately followed by all relevant stakeholders involved in scenario delivery.**
2. **Review material economic scenario generator updates, either driven by periodic model maintenance or changes to the economic environment, and provide recommendations.**
3. **Regularly review key economic conditions and metrics to evaluate the need for off-cycle or significant economic scenario generator updates and maintain a public timeline for economic scenario generator updates.**
4. Support the implementation of an economic scenario generator for use in statutory reserve and capital calculations.
5. **Develop and maintain acceptance criteria that reflect history as well as plausibly more extreme scenarios.**

Additional Details:

- GOES (E/A) Subgroup will own the model governance framework and be responsible for approval of all updates
- GOES (E/A) Subgroup will direct NAIC Staff as necessary to effectuate aspects of the model governance framework

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 4

4

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Roles and Responsibilities – NAIC Committee Structure

Executive (EX) Committee

Life Insurance and Annuities (A) Committee

Financial Condition (E) Committee

Life Actuarial (A) Task Force

Life RBC (E) Working Group

GOES (E/A) Subgroup

- Recommended changes to the Valuation Manual and Life RBC Blanks/Instructions related to the GOES will be considered for adoption by the Life Actuarial (A) Task Force and Life RBC (E) Working group before being considered by their respective parent committees
- In addition to having the final approval on changes from subordinate groups, the Executive (EX) Committee will allocate funding for the NAIC GOES initiative.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 5

5

Roles and Responsibilities - Conning

Monthly Scenario Production: Conning will produce 10,000 scenarios as of each month-end.

- This process must be completed in time to post scenarios and related tools by 4:00 PM Central Time on the first business day of the following month.
- Validation reports and additional statistics are expected to be delivered simultaneously with the scenario files.
- A link to the scenario files, **validation reports**, statistics, related tools, documentation, and training materials will be provided on the NAIC/Conning scenario website. Access will be provided for End Users regardless of whether they have licensed Conning's software.

Sign-off: Conning will attest to NAIC staff that they performed the agreed-upon validation steps ahead of posting the scenario files and post a validation report with each monthly scenario release.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS **Note:** Adapted from "ESG Implementation Project: Background and Deliverables" 6

6

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Roles and Responsibilities - Conning

Periodic GOES Recalibration: Conning will develop parameter updates at a frequency determined by the state regulators *[NAIC Staff Recommendation: 5 years].* The process will include the following steps:

1. Perform research on potential changes as requested by state regulators.
2. Document and present potential changes to state regulators for exposure and adoption. Attend regulator meetings as needed to respond to questions/comments received during the exposure period. Materials to be provided for consideration of changes should include: a) discussion on how changes were vetted for complex interactions between parameters, b) attribution analysis showing the impact of each change, and c) documentation on the above in sufficient detail to allow independent review.
3. Reflect final adopted updates in a timely manner and provide evidence to the NAIC that they were made appropriately.
4. Update documentation impacted by any changes.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS **Note:** Adapted from "ESG Implementation Project: Background and Deliverables" 7

7

Roles and Responsibilities – NAIC Staff

Model Governance Framework:

- Act under the direction of the GOES (E/A) Subgroup to implement and monitor the model governance framework
- Bring governance issues to GOES (E/A) Subgroup for consideration

Monthly Scenario Production:

- Monitors the effectiveness of the validation procedures and recommends changes to the GOES (E/A) Subgroup as necessary

Periodic GOES Recalibration:

- Plan for periodic recalibrations with Conning
- Bring results of recalibrations to public GOES (E/A) Subgroup meetings

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 8

8

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Roles and Responsibilities – Subject Matter Experts and Interested Parties

Model Governance Framework:

- Bring governance issues to GOES (E/A) Subgroup for consideration

Monthly Scenario Production:

- Report any issues with scenario delivery to GOES (E/A) Subgroup and NAIC Staff

Periodic GOES Recalibration:

- Review results of recalibration and provide independent feedback in public sessions of GOES (E/A) Subgroup

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 9

9

Next Steps

1. NAIC Staff and Conning Draft Monthly Scenario Generation Validation Steps
2. NAIC Staff Draft Model Governance Framework

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 10

10

© 2024 National Association of Insurance Commissioners

Draft: 07/26/24

Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
April 17, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met in Apr. 17, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Ted Chang (CA); Philip Barlow (DC); Scott Shover (IN); Bill Carmello (NY); Rachel Hemphill (TX); and Craig Chupp (VA).

1. Provided an Update on the 2024 GOES Field Test

Scott O'Neal (NAIC) provided an update on the status of the generator of economic scenarios (GOES) field test, noting that scenario set #1 had been posted to the NAIC/Conning website. O'Neal said that the remaining field test scenario sets were being reviewed by the NAIC, and that scenario files and associated statistics would continue to be posted once the review is complete.

2. Discussed VM-20 SERT Scenario Methodology

O'Neal said that there had been ongoing technical discussions regarding the implementation of the Valuation Manual (VM)-20, Requirements for Principle-Based Reserves for Life Insurance stochastic exclusion ratio test (SERT) scenarios. Matt Kauffman (Moody's Analytics) noted that he still had some concerns with the SERT scenarios. In particular, Kauffman said that he expected the baseline (no shock) scenario to revert to the long-term target over time and he was not seeing that happen in the released SERT scenarios. Therefore, this called into question not only the baseline scenario, but all of the SERT scenarios. O'Neal noted that additional technical review and discussions of the SERT scenarios would take place until the Subgroup was comfortable with their implementation.

3. Discussed Questions Received on the C3 Phase I GOES Field Test Instructions

O'Neal noted that some participants had asked about the requested comparisons for the modeled C3 Phase I amount to the average "factor-based" C3 Phase I amount determined by formula. O'Neal walked through the risk-based capital (RBC) Instructions to illustrate how the factor-based and modeled amounts were determined and could be compared. Chou asked for a write-up with details of the comparison that could be used by participants to better understand the request.

Having no further business, the GOES (A) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/GOES SG Calls/04 17/April 17 Minutes.docx

© 2024 National Association of Insurance Commissioners

Draft: 07/24/24

Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
April 10, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met in Apr. 10, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Ted Chang (CA); Philip Barlow (DC); Scott Shover (IN); Ben Slutsker (MN); Bill Carmello (NY); Rachel Hemphill (TX); and Craig Chupp (VA).

1. Reviewed Results from the Revised GOES Calibration

Scott O'Neal (NAIC) walked through a presentation (Attachment Twenty-Eight-A) that illustrated how the results from the revised calibration of the generator of economic scenarios (GOES) compared against the acceptance criteria. After reviewing the high- and low-for-long Treasury rate criteria, Hemphill noted that revised calibration showed significant improvements and that further revisions ahead of the field test were unnecessary. Weber, Chang and Yanacheak agreed with Hemphill and, upon hearing no objection from other members, the Subgroup decided to move forward with the revised calibration for use in the field test.

2. Discussed Instructions for the 2024 GOES Field Test

O'Neal walked through revisions that had been made to the field test instructions (Attachment Twenty-Eight-B). After hearing no questions or objections from Subgroup members, Yanacheak noted the Subgroup would move forward with the field test instructions for the 2024 GOES Field Test.

3. Discussed VM-20 Stochastic Exclusion Ratio Test Scenarios

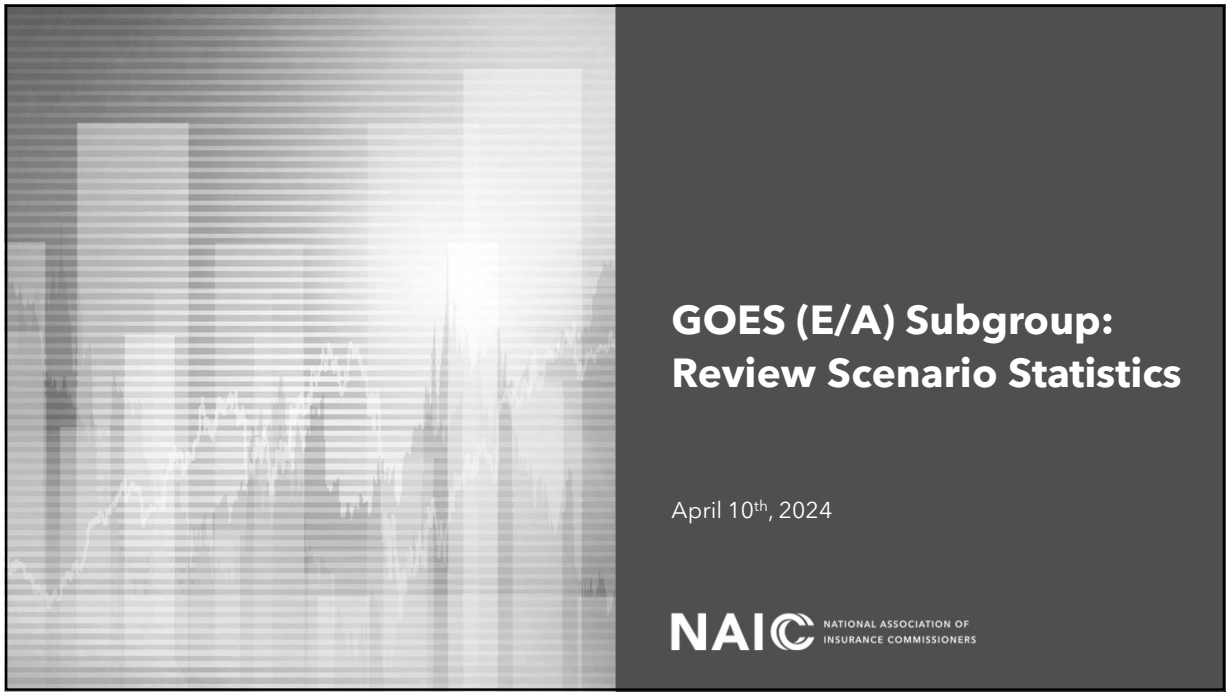
Dan Finn (Conning) discussed the technical implementation of the Valuation Manual (VM)-20, Requirements for Principle-Based Reserves for Life Insurance stochastic exclusion ratio test (SERT) scenarios for the Conning GEMS® software. Iouri Karpov (Prudential) asked how the bond fund returns would work for the new SERT scenarios. Finn replied that 1) the Treasury returns will flow through directly into the bond fund yield, 2) the equity movement will impact the bond fund returns through the regular linkage present in the GEMS® model, and 3) that the transitions, defaults, and recoveries would all be dependent on the expected behavior relevant to the specific SERT scenario at that point in the projection.

Having no further business, the GOES (A) Subgroup adjourned.

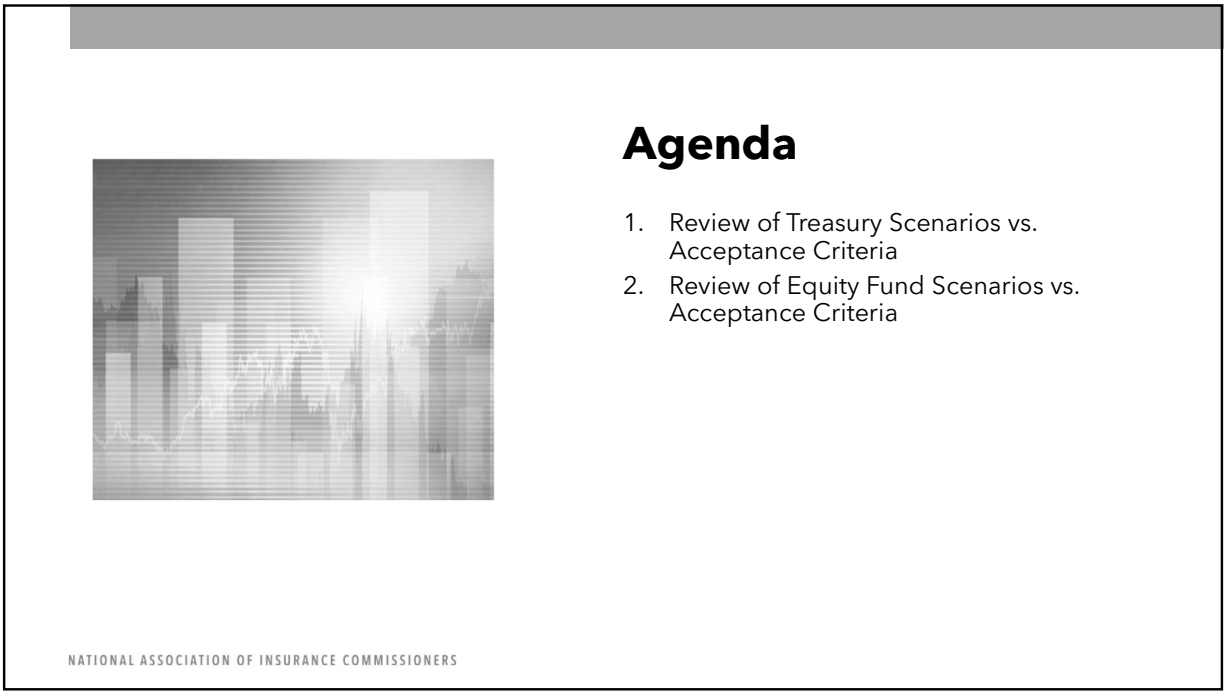
SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/GOES SG Calls/04 10/April 10 Minutes.docx

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS



1



2

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

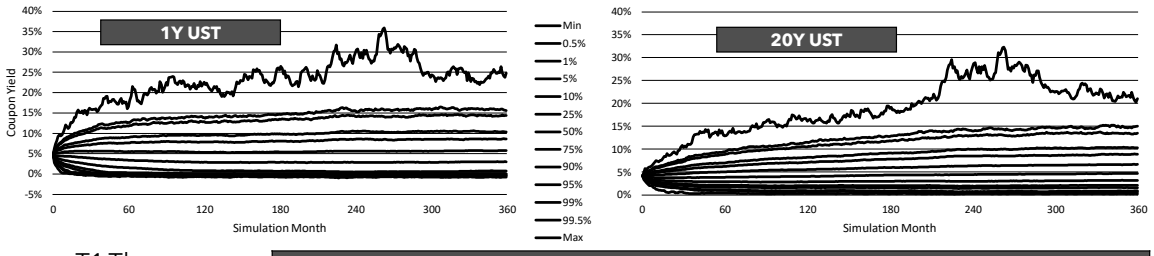
Review of Treasury Scenarios vs. Acceptance Criteria

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

3

Item	Category	Criteria
T1.T	Prevalence of High Rates, Upper Bound on Treasury Rates	a) The scenario set should reasonably reflect history, with some allowance for more extreme high and low interest rate environments b) Upper Bound: i. [18%] is >= [99.5%]-tile on the 1Y yield fan chart, and no more than [0.5%] of scenarios have 1Y yields that go above [18%] in the first 30 years ii. [17%] is >= [99.5%]-tile on the 20Y yield fan chart, and no more than [0.5%] of scenarios have 20Y yields that go above [17%] in the first 30 years

10,000 UST Scenarios as of 12/31/23 Fan Charts by Percentile



T1.Tb	>X%, EOY 30	>X%, any of 1st 30 Years	X% >= 99.5th Percentile
1Y	0.19%	**2.35%**	**16.55%**
20Y	0.1%	**1.25%**	**15.24%**

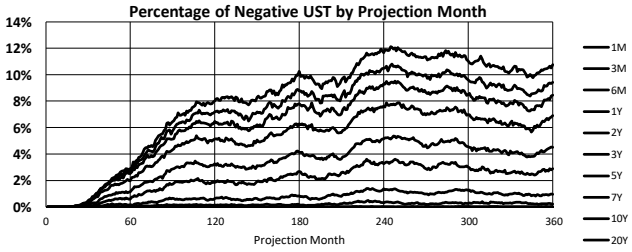
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 4

4

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Item	Category	Criteria
T2.T	Lower Bound on Negative Interest Rates	Apply the following guidance for negative rates: a) Maturities less than 20 years could experience negative interest rates b) Interest rates may remain negative for multi-year time periods c) 1Y rates should generally not be lower than -1.0% d) 20Y rates should generally not be lower than 0.0%

Negative UST Rates, 12/31/23 Scenario Set



a) Maturities greater than 5Y experience negative rates infrequently
b) This criteria is permissive
c) The minimum 1Y UST in the first 30 years is -0.9%
d) The minimum 20Y UST in the first 30 years is 0.2%

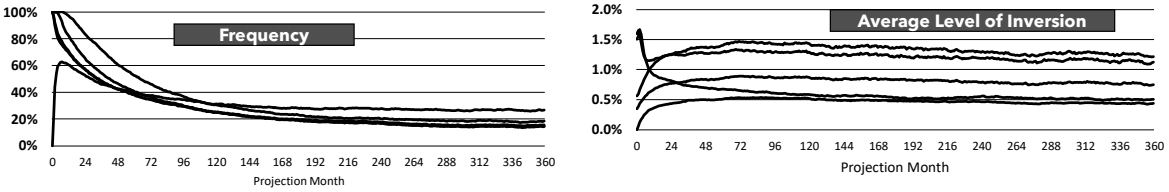
360 month minimum	1M	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	20Y	30Y
12/31/2023	-1.1%	-1.1%	-1.0%	-0.9%	-0.8%	-0.7%	-0.5%	-0.3%	-0.1%	0.2%	0.4%

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

5

Item	Category	Criteria
T3.T	Initial Yield Curve Fit, Yield Curve Shapes in Projection, and Steady State Yield Curve Shape	a) Review initial actual vs. fitted spot curve differences for a sampling of 5 dates representing different shapes and rate levels for the entire curve and review fitted curves qualitatively to confirm they stylistically mimic the different actual yield curve shapes **b) The frequency of different yield curve shapes in early durations should be reasonable considering the shape of the starting yield curve (e.g. a flatter yield curve leads to more inversions).** c) The steady state curve has normal shape (not inverted for short maturities, longer vs shorter maturities, or between long maturities)

Inversion Statistics, 12/31/23 Scenario Set



Historical Inversion Data	1m > 2y	3m > 10y	2y > 10y	10y > 30y	1y > 20y
% Inversions, 4/1953 to 3/2021*	10%	10%	19%	22%	16%
% Inversions, 12/31/21 to 11/21/23**	51%	64%	78%	5%	69%
Average Inversion, 4/1953 to 3/2021*	0.33%	0.54%	0.38%	0.22%	0.63%
Average Inversion, 12/31/21 to 3/26/24**	0.72%	1.21%	0.52%	0.05%	0.69%

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

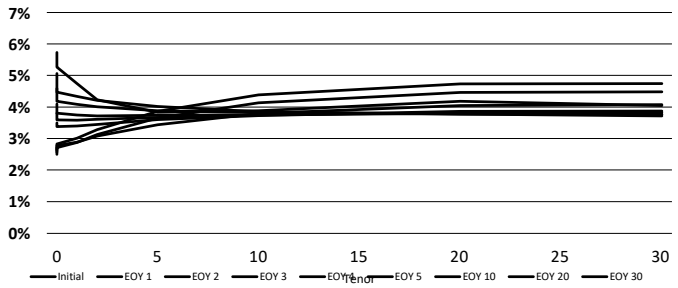
*Based on month-end data **Based on daily data

6

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Item	Category	Criteria
T3.T	Initial Yield Curve Fit, Yield Curve Shapes in Projection, and Steady State Yield Curve Shape	a) Review initial actual vs. fitted spot curve differences for a sampling of 5 dates representing different shapes and rate levels for the entire curve and review fitted curves qualitatively to confirm they stylistically mimic the different actual yield curve shapes b) The frequency of different yield curve shapes in early durations should be reasonable considering the shape of the starting yield curve (e.g. a flatter yield curve leads to more inversions). **c) The steady state curve has normal shape (not inverted for short maturities, longer vs shorter maturities, or between long maturities)**

Median Yields at Selected Projection Months, 12/31/23 Scenario Set



From the graph on the left, you can see that the median yield curve evolves from the inverted starting conditions to the normal yield curve that is targeted in the steady state.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

7

Item	Category	Criteria
T4.T	Low For Long: 12/31/20 Starting Conditions	a) At least 7.5% of scenarios need a 10-year geometric average of the 20-year UST below **1.45%** b) At least 3.75% of scenarios need a 30-year geometric average of the 20-year UST below **1.95%** **Note: As part of the model acceptance process, a given calibration of the GOES will be tested at multiple starting dates. This criteria is relevant for the 12/31/20 starting yield curve.**

A			B		
7.5th Percentile of 10Y Geometric Average	**Criteria**	**Pass / Fail**	**3.75th Percentile of 30Y Geometric Average**	**Criteria**	**Pass / Fail**
1.38%	1.45%	✓Pass	1.84%	1.95%	✓Pass

The calibration is comfortably meeting the low-for-long 12/31/20 calibration criteria.

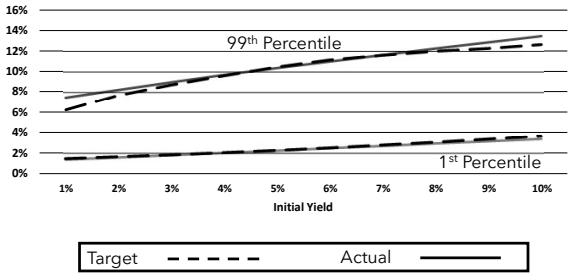
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

8

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Item	Category	Criteria
T5.T	Low- and High-For-Long at Varying Starting Conditions	a) For each scenario, calculate the geometric average of the [20-year] UST yield over the first [10] and [30] years of the projection. b) Calculate the [1st] and [99th] percentiles of the distribution of geometric average rates (for both the 10 and 30-year horizons). c) Look up criteria based on the starting level of the 20-year UST yield (interpolate if necessary).

Geometric Average of 20Y UST over 30 years



	10-Year				30-Year			
	1st Percentile		99th Percentile		1st Percentile		99th Percentile	
Starting Yield of 20Y UST	*Target*	Actual	*Target*	Actual	*Target*	Actual	*Target*	Actual
1%	*0.94%*	0.75%	*3.43%*	4.86%	*1.50%*	1.42%	*6.25%*	7.50%
2%	*1.23%*	1.09%	*5.05%*	6.05%	*1.68%*	1.61%	*7.71%*	8.25%
3%	*1.62%*	1.47%	*6.55%*	7.21%	*1.86%*	1.83%	*8.72%*	8.99%
4%	*2.15%*	1.87%	*7.74%*	8.28%	*2.06%*	2.04%	*9.62%*	9.71%
5%	*2.66%*	2.28%	*8.87%*	9.31%	*2.26%*	2.25%	*10.46%*	10.36%
6%	*3.15%*	2.70%	*9.96%*	10.32%	*2.50%*	2.47%	*11.16%*	11.01%
7%	*3.63%*	3.13%	*11.03%*	11.33%	*2.78%*	2.70%	*11.61%*	11.64%
8%	*4.10%*	3.58%	*12.07%*	12.31%	*3.06%*	2.93%	*11.99%*	12.25%
9%	*4.64%*	4.03%	*13.08%*	13.28%	*3.34%*	3.15%	*12.25%*	12.85%
10%	*5.21%*	4.47%	*14.01%*	14.23%	*3.65%*	3.37%	*12.63%*	13.45%

The calibration meets all of the 10-year geometric average low for long and high for long criteria for varying starting levels. However, there are some misses for the 5% and the 6% starting environments on the high for long criteria.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

9

Review of Equity Scenarios vs. Acceptance Criteria

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

10

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

E1.T Large Capitalization Equity Gross Wealth Factors

	Targets						Simulated						Ratio					
Percentiles	1	5	10	20	30	50	1	5	10	20	30	50	1	5	10	20	30	50
0	0.46	0.25	0.22	0.25	0.29	0.46	0.49	0.21	0.14	0.08	0.17	0.26	1.08	0.87	0.64	0.29	0.57	0.57
1	0.70	0.58	0.60	0.79	1.15	2.82	0.70	0.55	0.53	0.63	0.94	2.17	1.00	0.95	0.88	0.79	0.82	0.77
5	0.82	0.80	0.91	1.36	2.20	6.38	0.82	0.79	0.88	1.29	2.03	5.47	1.00	1.00	0.96	0.95	0.92	0.86
10	0.88	0.93	1.12	1.81	3.08	9.78	0.88	0.92	1.11	1.74	2.93	8.81	1.00	0.99	0.99	0.96	0.95	0.90
15	0.92	1.02	1.28	2.18	3.84	12.94	0.93	1.02	1.28	2.10	3.73	11.91	1.00	1.00	1.00	0.96	0.97	0.92
25	0.99	1.18	1.54	2.81	5.26	19.23	0.99	1.18	1.55	2.80	5.17	18.42	1.00	1.01	1.01	1.00	0.98	0.96
30	1.01	1.24	1.66	3.12	6.01	22.79	1.01	1.25	1.67	3.13	5.89	22.02	1.00	1.00	1.00	1.00	0.98	0.97
50	1.09	1.48	2.15	4.47	9.23	39.98	1.10	1.49	2.17	4.48	9.28	39.64	1.01	1.01	1.01	1.00	1.01	0.99
70	1.17	1.74	2.71	6.30	14.12	68.89	1.18	1.76	2.75	6.36	14.09	69.20	1.01	1.01	1.02	1.01	1.00	1.00
75	1.19	1.82	2.89	6.93	15.88	80.22	1.20	1.83	2.92	6.96	15.89	80.89	1.01	1.01	1.01	1.00	1.00	1.01
85	1.25	2.02	3.36	8.69	21.06	115.31	1.26	2.03	3.40	8.62	21.02	115.56	1.01	1.01	1.01	0.99	1.00	1.00
90	1.28	2.15	3.71	10.09	25.20	147.92	1.30	2.17	3.76	9.97	25.08	145.91	1.01	1.01	1.01	0.99	1.00	0.99
95	1.34	2.37	4.30	12.33	33.19	210.72	1.36	2.39	4.38	12.30	32.53	211.90	1.01	1.01	1.02	1.00	0.98	1.01
99	1.45	2.82	5.64	18.18	53.74	397.23	1.47	2.83	5.68	17.53	50.56	394.09	1.01	1.00	1.01	0.96	0.94	0.99
100	1.76	4.20	8.98	42.03	140.72	1676.94	1.82	4.29	9.32	38.28	120.07	2292.44	1.03	1.02	1.04	0.91	0.85	1.37

The Large Capitalization (S&P 500) equity fund gross wealth factors (GWFs) are largely aligned with the targets across the bulk of the percentile GWF distribution over the projected durations. The first percentile does show some differences, with lower returns over time in the latest equity calibration compared to the targets.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

11

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

June 18, 2024

Generator of Economic Scenarios (GOES) 2024 Field Test

A. Overview

The NAIC is conducting a second-round field test of a new calibration of the generator of economic scenarios (GOES). Unlike the first field test in 2022, the results will not be aggregated and shared publicly. Instead, field test participants will present their results in confidential, regulator-only sessions. Model office testing of the field test scenarios will also be performed by Oliver Wyman and the NAIC to allow for public dissemination of the potential impacts to life insurance and annuity statutory reserves and capital.

B. Field Test Scenario Sets

The field test will include four different scenario sets, with an additional inforce sensitivity for VUL products and business subject to VM-21/C3 Phase II. All of the field test runs will be mandatory (with the exception of field test 5 for business not in scope). For field test runs 2-5, participants may need to make appropriate adjustments to their inforce assets and/or liabilities. The field test does not require that participants perform these adjustments in a certain fashion, rather, it is expected that participants will take advantage of existing processes for sensitivity analysis.

Field Test Run	Scenario Sets	Inforce Assets and Liabilities	Comparison Scenario Set
Baseline Already exists; no new runs needed.	Scenario set(s) the company used for 12/31/23 statutory reporting of reserves and RBC**	As of 12/31/23**	N/A
Field Test 1	Conning scenarios as of 12/31/23**	As of 12/31/23**	Baseline
Field Test 2 – Low Rate Shock	Conning scenarios with a starting UST yield curve as of 3/9/20 but with 12/31/23 starting credit spreads.	As of 12/31/23, but modified as necessary for a different starting UST yield curve.*	Field Test 1
Field Test 3 – Up Rate Shock	Conning scenarios with a starting UST yield curve as of 10/31/89 but with 12/31/23 starting credit spreads.		Field Test 1
Field Test 4 – Normal Yield Curve	Conning scenarios with a starting UST yield curve as of 12/31/04 but with 12/31/23 starting credit spreads.		Field Test 1
Field Test 5 – Down Equity Shock (VM-21/C3P2 and VUL business only)	Conning scenarios as of 12/31/23 (same as Field Test 1)	As of 12/31/23, but modified for a 25% drop in equity markets.*	Field Test 1

© 2024 National Association of Insurance Commissioners

OPTIONAL Field Test 6 – Alternative Initial Yield Curve Fit	Conning scenarios as of 12/31/23 with alternative initial yield curve fitting methodology that emphasizes longer maturities.	As of 12/31/23	Field Test 1
OPTIONAL Field Test 7 – High Credit Spread	Conning scenarios as of with 12/31/23 starting interest rate conditions and starting corporate bond spread environment as of 12/31/2008	As of 12/31/23, but modified as necessary for a different starting corporate bond spread environment*	Field Test 1
OPTIONAL Field Test 8 – Low Credit Spread	Conning scenarios as of with 12/31/23 starting interest rate conditions and starting corporate bond spread environment as of 12/31/2021	As of 12/31/23, but modified as necessary for a different starting corporate bond spread environment*	Field Test 1
OPTIONAL Field Test 9 – Extreme Up Rate with Inversion	Conning scenarios with a starting UST yield curve as of 3/31/80 but with 12/31/23 starting credit spreads.	As of 12/31/23, but modified as necessary for a different starting UST yield curve.*	Field Test 1
OPTIONAL Field Test 10 – Low Equity/Low Interest	Conning scenarios with a starting UST yield curve as of 3/9/20 but with 12/31/23 starting credit spreads.	As of 12/31/23, but modified for a 25% drop in equity markets.*	Field Test 1
OPTIONAL Field Test 11 – Low Equity/High Interest	Conning scenarios with a starting UST yield curve as of 10/31/89 but with 12/31/23 starting credit spreads.	As of 12/31/23, but modified for a 25% drop in equity markets.*	Field Test 1
OPTIONAL Field Test 12 – Up Equity Shock	Conning scenarios as of 12/31/23**	As of 12/31/23, but modified for a 25% increase in equity markets.*	Field Test 1

Scenario sets, SERT scenarios, scenario selection data, documentation, and other information is available at https://naic.conning.com/scenariofiles.

*For field test runs where the starting conditions (interest or equity) are modified from the 12/31/23 conditions, participants may need to make appropriate adjustments to their 12/31/23 inforce assets and/or liabilities. The field test does not require that participants perform these adjustments in a certain fashion, rather, it is expected that participants will take advantage of existing processes for starting yield curve sensitivities. Using FT2 as an example, some participants may elect to enter the 12/31/23 yield curve at time zero for these runs followed by the relevant scenario data based on a 3/9/20 starting Treasury curve to allow their models to make these adjustments. Other participants may make specific adjustments to their inforce assets and/or liabilities as appropriate. Other methodologies may also be appropriate.

© 2024 National Association of Insurance Commissioners

**For companies that perform their C3 Phase I calculations as of 9/30, a 9/30/23 scenario set is available to use in place of the 12/31/23 set.

C. Timeline

A meeting of the GOES (E/A) Subgroup will be held on April, 10th 2024 to review and confirm the scenarios used in the field test. If confirmed by the Subgroup, the field test will run from April 10th through July 10th. Field test participants will present results in confidential, regulator-only sessions starting in July, unless some participants are able to share sooner. Model office analysis will be shared in public meetings of the GOES (E/A) Subgroup or the Life Actuarial (A) Task Force as soon as they are available to share.

D. Product Scope

Companies should include business subject to VM-20, VM-21/ C3 Phase II, and C3 Phase I. The table below shows the values expected to be included in company presentations of results (noting the additional VM-20 guidance in paragraph F).

Field Test Element	**Required for VM-21 and C3 Phase II**	**Required for VM-20**	**Required for C3 Phase 1**
Stochastic Reserve	X	X	
CTE70 Best Efforts	X		
CTE70 Adjusted	X		
Additional Standard Projection Amount	X		
CTE98 (for C3 Phase II)	X		
Deterministic Reserve		X	
NPR		X	
Results from each of the 16 SERT Scenarios, and SERT ratio		X	
Modeled C3 Phase 1 Factor and Amount			X
Average “Factor-Based” C3 Phase I Factor and Amount			X
Additional Metrics: CTE 98, CTE95, CTE 90	X	X	X

E. Scenario Selection

Companies should use a consistent scenario selection approach and number of scenarios between a field test scenario set and the scenario set used in the baseline. Conning has produced an excel-based tool to select scenarios using a significance measure determined based on either 1) the 20-year UST or 2) Gross Wealth Factors from the Large Capitalization equity fund.

© 2024 National Association of Insurance Commissioners

F. VM-20 Net Premium Reserves (NPR), Stochastic Exclusion Ratio Test (SERT) and Deterministic Reserve (DR) Scenarios

Participants should include the NPR for all relevant business included in the field test for comparison to the modeled results.

In addition to full 10,000 scenario sets, SERT and DR scenarios will be provided for field test scenario sets 1-4. For each of the mandatory field test runs:

- The DR and/or SR should be calculated for relevant VM-20 business where companies are required to calculate these values as part of their normal valuations.
- The SERT should be performed for relevant VM-20 business if a participant typically performs this method of the Stochastic Exclusion Test.

G. Confidential, Regulator-Only Participant Field Test Result Discussions

1. Timing - In early July, confidential, regulator-only meetings will be scheduled where participants can share their results with regulators. NAIC Staff will reach out to companies to determine the amount of time desired and schedule these meetings. Company presentations are expected to last only 15 minutes, (not including Q&A), but companies may request up to 30 minutes.

2. Confidentiality - This information is being requested under both the authority of the general examination authority of the Texas Department of Insurance pursuant to Tex. Ins. Code §§ 401.051, et seq., and the Standard Valuation Law, Tex. Ins. Code §§ 425.051, et seq., and is considered to be confidential under these provisions. These provisions also permit the Texas Department of Insurance to share this confidential information with other state regulators and the NAIC, including the Life Actuarial (A) Task Force (LATF), the Life RBC (E) Working Group, the Valuation Analysis (E) Working Group (VAWG), the Generator of Economic Scenarios (GOES) (E/A) Subgroup, and NAIC staff. Your company-specific information will remain confidential pursuant to these statutory provisions.

   With respect to those companies that are only licensed and domiciled in New York and not subject to Texas regulation, should the New York State Department of Financial Services (DFS) receive a public request for the records, DFS would assert Public Officers Law section 87(2)(a) and Insurance Law section 110 to deny the request. Insurance Law Section 110 provides that the Superintendent may share and receive confidential and privileged documents, materials or information with other state, federal, and international regulatory agencies, including the NAIC, its affiliates or subsidiaries. DFS may also assert Public Officers Law 87(2)(d), which is the trade secret/competitive injury exemption of records from public disclosure.

3. Collection of Field Test Results – Presentations and other associated material to be used in the confidential discussions will be shared using the NAIC's secure FTP sites. Participants will be contacted with specific login information and additional instructions regarding submission to the FTP sites. The material will then be shared confidentially and securely to regulators ahead of the discussion.

© 2024 National Association of Insurance Commissioners

4. Identification of Participants for Confidential Discussions – When NAIC Staff reach out to field test participants to schedule the discussions, they will request a full list of individuals from each participating company that will attend the confidential discussions. Individuals identified on this list from each organization, and only these individuals, will be allowed into the Webex meeting for the presentation.

5. Regulator-only, Confidential Webex Discussions – Participants will log in to the Webex meeting at the scheduled time that has been determined in working with NAIC Staff. Participants will first be kept in a Webex waiting room until they are confirmed from the predetermined list from #4 above by NAIC Staff. Participants will then deliver their results presentations while leaving time for regulators to ask questions. After the presentation is completed, participants will be asked to leave the Webex meeting and/or will be removed.

H. Items to Include in the Confidential Discussions

Participants should include, but not limit, their discussions to these topics:

- A summary of results for each of the required field test elements (see Section D) for each field test run, along with comparisons to other scenario set results as noted in Section B.
- Discuss any simplified modeling approaches the company used for field testing that differ from what is used for valuation (e.g. not reflecting hedging, using a different number of scenarios, etc.).
- Discuss whether the results are workable and reasonable from your company's perspective. Point out greatest concerns with the field test results.
- Discuss any results that differ materially from the Oliver-Wyman model office results, and point out the drivers of differences (e.g. is it due to unique product(s)/features that are not represented in the model office, hedging practices, etc.).
- Discuss any other limitations of the model office that you can provide based on your company's results. For example, are there typical product designs that regulators should be aware of that are not reflected in model office results?
- Discuss greatest concerns regarding the GOES implementation and highlight anything you would like to hear more about or learn about regarding GOES implementation.

© 2024 National Association of Insurance Commissioners

Draft: 07/24/24

Generator of Economic Scenarios (GOES) (A) Subgroup
Virtual Meeting
March 27, 2024

The GOES (A) Subgroup of the Life Actuarial (A) Task Force met in Mar. 27, 2024. The following Subgroup members participated: Mike Yanacheak, Chair (IA); Pete Weber, Vice Chair (OH); Ted Chang (CA); Wanchin Chou (CT); Philip Barlow (DC); Scott Shover (IN); William Leung (MO); Bill Carmello (NY); Rachel Hemphill (TX); and Craig Chupp (VA).

1. Reviewed Results from the Current GOES Calibration

Scott O'Neal (NAIC) walked through a presentation (Attachment Twenty-Nine-A) that illustrated how the results from the latest calibration of the generator of economic scenarios (GOES) compared against the acceptance criteria. O'Neal said that the goal of the discussion is to determine whether the current calibration is suitable to be used in a second field test. Brian Bayerle (American Council of Life Insurers--ACLI) then presented the ACLI's review of the new scenario set (Attachment Twenty-Nine-B). Bayerle noted that the ACLI was suggesting two key improvements; 1) targeting higher Treasury rates to meet more of the low- and high-for-long criteria and, 2) revising the equity calibration to align with the parameters used in scenario set six of the first field test.

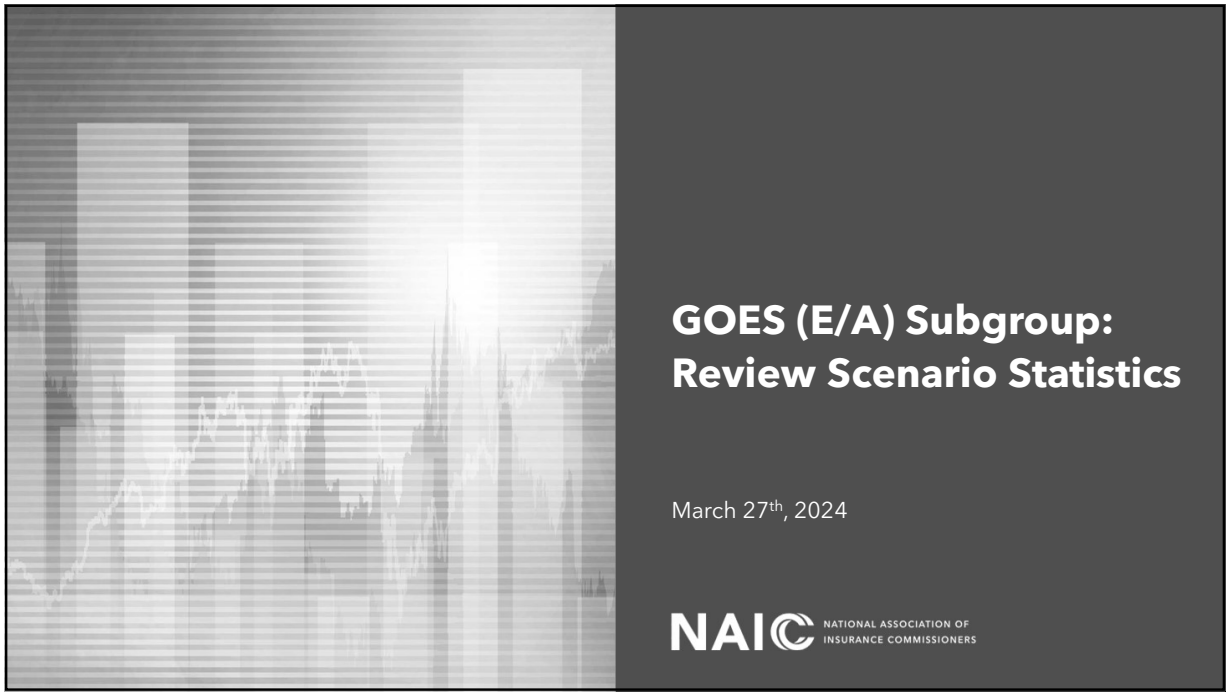
Chang suggested making the ACLI's requested changes to target higher Treasury rates given the potential for improvement on the high-end of the targets. However, Chang felt that the equity calibration recommended by Conning did not need to be changed for the second field test as it met the acceptance criteria. Hemphill agreed with Chang. After hearing no objection from other subgroup members, Yanacheak said that the Subgroup would move forward with Chang's recommendation for the second field test scenarios.

Having no further business, the GOES (A) Subgroup adjourned.

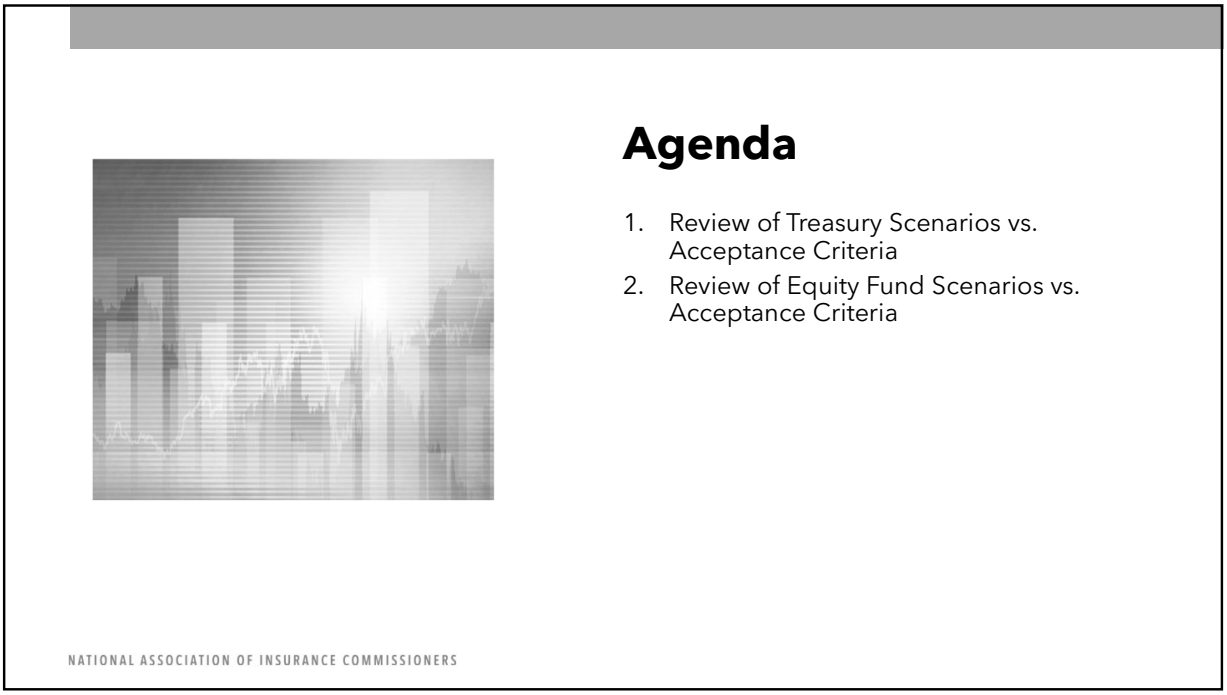
SharePoint/NAIC Support Staff Hub/Member Meetings/A CMTE/LATF/2024-2-Summer/GOES SG Calls/03 27/March 27 Minutes.docx

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS



1



2

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

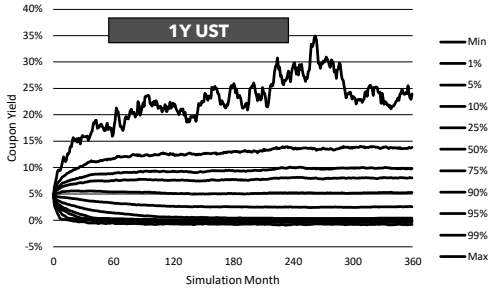
Review of Treasury Scenarios vs. Acceptance Criteria

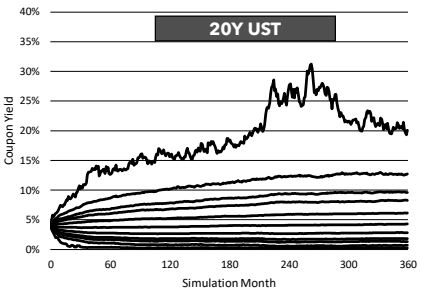
NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

3

Item	Category	Criteria
T1.T	Prevalence of High Rates, Upper Bound on Treasury Rates	a) The scenario set should reasonably reflect history, with some allowance for more extreme high and low interest rate environments b) Upper Bound: i. [18%] is >= [99.5%]-tile on the 1Y yield fan chart, and no more than [0.5%] of scenarios have 1Y yields that go above [18%] in the first 30 years ii. [17%] is >= [99.5%]-tile on the 20Y yield fan chart, and no more than [0.5%] of scenarios have 20Y yields that go above [17%] in the first 30 years

10,000 UST Scenarios as of 12/31/23 Fan Charts by Percentile





T1.Tb	EOY 30	1st 30 Years
1Y	0.1%	**1.0%**
20Y	0.0%	0.1%

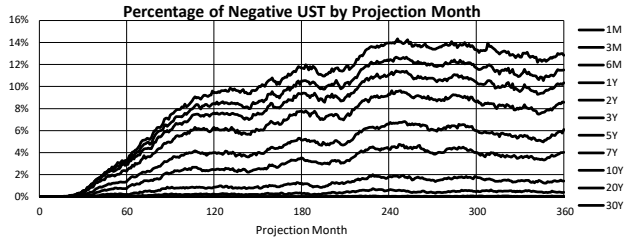
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 4

4

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Item	Category	Criteria
T2.T	Lower Bound on Negative Interest Rates	Apply the following guidance for negative rates: a) Maturities less than 20 years could experience negative interest rates b) Interest rates may remain negative for multi-year time periods c) 1Y rates should generally not be lower than -1.0% d) 20Y rates should generally not be lower than 0.0%

Negative UST Rates, 12/31/23 Scenario Set



a) Maturities greater than 5Y experience negative rates infrequently
b) This criteria is permissive
c) The minimum 1Y UST in the first 30 years is -0.9%
d) The minimum 20Y UST in the first 30 years is 0.2%

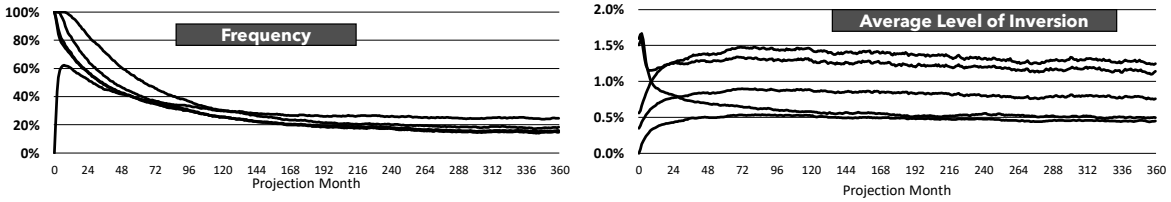
360 month minimum	1M	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	20Y	30Y
12/31/2023	-1.2%	-1.1%	-1.0%	-0.9%	-0.8%	-0.7%	-0.5%	-0.3%	-0.1%	0.2%	0.4%

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

5

Item	Category	Criteria
T3.T	Initial Yield Curve Fit, Yield Curve Shapes in Projection, and Steady State Yield Curve Shape	a) Review initial actual vs. fitted spot curve differences for a sampling of 5 dates representing different shapes and rate levels for the entire curve and review fitted curves qualitatively to confirm they stylistically mimic the different actual yield curve shapes **b) The frequency of different yield curve shapes in early durations should be reasonable considering the shape of the starting yield curve (e.g. a flatter yield curve leads to more inversions).** c) The steady state curve has normal shape (not inverted for short maturities, longer vs shorter maturities, or between long maturities)

Inversion Statistics, 12/31/23 Scenario Set



Historical Inversion Data	1m > 2y	3m > 10y	2y > 10y	10y > 30y	1y > 20y
% Inversions, 4/1953 to 3/2021*	10%	10%	19%	22%	16%
% Inversions, 12/31/21 to 11/21/23**	51%	64%	78%	5%	69%
Average Inversion, 4/1953 to 3/2021*	0.33%	0.54%	0.38%	0.22%	0.63%
Average Inversion, 12/31/21 to 3/26/24**	0.72%	1.21%	0.52%	0.05%	0.69%

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

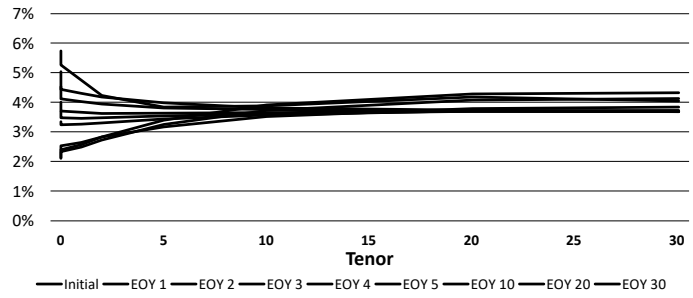
*Based on month-end data **Based on daily data

6

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Item	Category	Criteria
T3.T	Initial Yield Curve Fit, Yield Curve Shapes in Projection, and Steady State Yield Curve Shape	a) Review initial actual vs. fitted spot curve differences for a sampling of 5 dates representing different shapes and rate levels for the entire curve and review fitted curves qualitatively to confirm they stylistically mimic the different actual yield curve shapes b) The frequency of different yield curve shapes in early durations should be reasonable considering the shape of the starting yield curve (e.g. a flatter yield curve leads to more inversions). **c) The steady state curve has normal shape (not inverted for short maturities, longer vs shorter maturities, or between long maturities)**

Median Yields at Selected Projection Months, 12/31/23 Scenario Set



From the graph on the left, you can see that the median yield curve evolves from the inverted starting conditions to the normal yield curve that is targeted in the steady state.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

7

Item	Category	Criteria
T4.T	Low For Long: 12/31/20 Starting Conditions	a) At least 7.5% of scenarios need a 10-year geometric average of the 20-year UST below **1.45%** b) At least 3.75% of scenarios need a 30-year geometric average of the 20-year UST below **1.95%** **Note: As part of the model acceptance process, a given calibration of the GOES will be tested at multiple starting dates. This criteria is relevant for the 12/31/20 starting yield curve.**

A			B		
90th Percentile of 10Y Geometric Average	**Criteria**	**Pass / Fail**	**95th Percentile of 30Y Geometric Average**	**Criteria**	**Pass / Fail**
1.35%	1.45%	✓Pass	1.75%	1.95%	✓Pass

The calibration is comfortably meeting the low-for-long 12/31/20 calibration criteria.

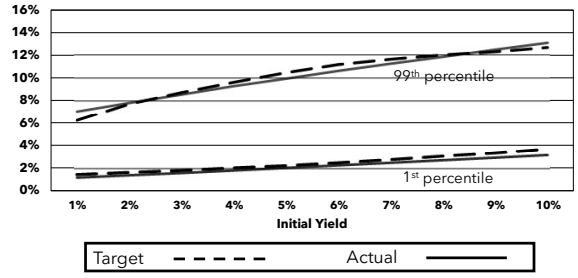
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

8

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Item	Category	Criteria
T5.T	Low- and High-For-Long at Varying Starting Conditions	a) For each scenario, calculate the geometric average of the [20-year] UST yield over the first [10] and [30] years of the projection. b) Calculate the [1st] and [99th] percentiles of the distribution of geometric average rates (for both the 10 and 30-year horizons). c) Look up criteria based on the starting level of the 20-year UST yield (interpolate if necessary).

Geometric Average of 20Y UST over 30 years



	10-Year				30-Year			
	1st Percentile		99th Percentile		1st Percentile		99th Percentile	
Starting Yield of 20Y UST	*Target*	Actual	*Target*	Actual	*Target*	Actual	*Target*	Actual
1%	*0.94%*	0.68%	*3.43%*	4.65%	*1.50%*	1.24%	*6.25%*	7.06%
2%	*1.23%*	1.01%	*5.05%*	5.87%	*1.68%*	1.44%	*7.71%*	7.83%
3%	*1.62%*	1.37%	*6.55%*	7.02%	*1.86%*	1.64%	*8.72%*	**8.57%**
4%	*2.15%*	1.76%	*7.74%*	8.09%	*2.06%*	1.85%	*9.62%*	**9.28%**
5%	*2.66%*	2.18%	*8.87%*	9.12%	*2.26%*	2.06%	*10.46%*	**9.94%**
6%	*3.15%*	2.59%	*9.96%*	10.14%	*2.50%*	2.27%	*11.16%*	**10.60%**
7%	*3.63%*	3.03%	*11.03%*	11.14%	*2.78%*	2.50%	*11.61%*	**11.22%**
8%	*4.10%*	3.46%	*12.07%*	12.12%	*3.06%*	2.72%	*11.99%*	**11.83%**
9%	*4.64%*	3.92%	*13.08%*	13.08%	*3.34%*	2.94%	*12.25%*	12.45%
10%	*5.21%*	4.36%	*14.01%*	14.03%	*3.65%*	3.16%	*12.63%*	13.05%

The calibration meets all of the 10-year geometric average low for long and high for long criteria for varying starting levels. However, there are some misses for the 3% to 8% starting environments on the high for long criteria. In order to meet all of these criteria, Conning could slow down the mean reversion speed or make other potential changes - leading to other tradeoffs.

9

Review of Equity Scenarios vs. Acceptance Criteria

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

10

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

E1.T Large Capitalization Equity Gross Wealth Factors

	Targets						Simulated						Ratio					
Percentiles	1	5	10	20	30	50	1	5	10	20	30	50	1	5	10	20	30	50
0	0.46	0.25	0.22	0.25	0.29	0.46	0.49	0.21	0.14	0.08	0.17	0.26	1.08	0.87	0.64	0.29	0.57	0.57
1	0.70	0.58	0.60	0.79	1.15	2.82	0.70	0.55	0.53	0.63	0.94	2.17	1.00	0.95	0.88	0.79	0.82	0.77
5	0.82	0.80	0.91	1.36	2.20	6.38	0.82	0.79	0.88	1.29	2.03	5.47	1.00	1.00	0.96	0.95	0.92	0.86
10	0.88	0.93	1.12	1.81	3.08	9.78	0.88	0.92	1.11	1.74	2.93	8.81	1.00	0.99	0.99	0.96	0.95	0.90
15	0.92	1.02	1.28	2.18	3.84	12.94	0.93	1.02	1.28	2.10	3.73	11.91	1.00	1.00	1.00	0.96	0.97	0.92
25	0.99	1.18	1.54	2.81	5.26	19.23	0.99	1.18	1.55	2.80	5.17	18.42	1.00	1.01	1.01	1.00	0.98	0.96
30	1.01	1.24	1.66	3.12	6.01	22.79	1.01	1.25	1.67	3.13	5.89	22.02	1.00	1.00	1.00	1.00	0.98	0.97
50	1.09	1.48	2.15	4.47	9.23	39.98	1.10	1.49	2.17	4.48	9.28	39.64	1.01	1.01	1.01	1.00	1.01	0.99
70	1.17	1.74	2.71	6.30	14.12	68.89	1.18	1.76	2.75	6.36	14.09	69.20	1.01	1.01	1.02	1.01	1.00	1.00
75	1.19	1.82	2.89	6.93	15.88	80.22	1.20	1.83	2.92	6.96	15.89	80.89	1.01	1.01	1.01	1.00	1.00	1.01
85	1.25	2.02	3.36	8.69	21.06	115.31	1.26	2.03	3.40	8.62	21.02	115.56	1.01	1.01	1.01	0.99	1.00	1.00
90	1.28	2.15	3.71	10.09	25.20	147.92	1.30	2.17	3.76	9.97	25.08	145.91	1.01	1.01	1.01	0.99	1.00	0.99
95	1.34	2.37	4.30	12.33	33.19	210.72	1.36	2.39	4.38	12.30	32.53	211.90	1.01	1.01	1.02	1.00	0.98	1.01
99	1.45	2.82	5.64	18.18	53.74	397.23	1.47	2.83	5.68	17.53	50.56	394.09	1.01	1.00	1.01	0.96	0.94	0.99
100	1.76	4.20	8.98	42.03	140.72	1676.94	1.82	4.29	9.32	38.28	120.07	2292.44	1.03	1.02	1.04	0.91	0.85	1.37

The Large Capitalization (S&P 500) equity fund gross wealth factors (GWFs) are largely aligned with the targets across the bulk of the percentile GWF distribution over the projected durations. The first percentile does show some differences, with lower returns over time in the latest equity calibration compared to the targets.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

11

ACLI
Financial Security for Life

ACLI Feedback on 2FTv1 Scenario Set

1

1

ACLI

ACLI Assessment of 2FTv1 (3/19/2024 version) Scenario Set[1]

- Equity Model: Recommended Changes
  - Use 1FT Run 6 as starting point and adjust as necessary
- Interest Rate Model: Recommended Changes
  - Target higher rates in calibration to improve T5 results for YE2023
  - Future work to address frequency of negative interest rates
  - Future work to address severity of inversions
- Corporate Model: **No concerns**

1. Analysis using 12/31/2023 scenario set. Additional recommended scenario sets will help assess targeting criteria under different conditions and help inform future work.

2

2

© 2024 National Association of Insurance Commissioners

ACLI

Equity Model

- Overall assessment is the results are deficient due to missing Gross Wealth Factor (GWF) targets at higher durations (20+ years) in the right tails.
  - Given the 12/31/2023 curve starts at a higher rate, its unclear why it has a more severe tail in the 20- and 30-year time horizons
  - Unclear what the calibration is targeting, resulting in more severe equity tail distribution

3

3

ACLI

Equity Model

- ACLI recommends starting with 1FT Run 6 rather than 2FTv1 calibration and adjust as necessary to align with the targeting criteria.
  - 1FT Run 6 did not include the interest-equity relationship, so would be a more reasonable starting point given the regulator decision to adopt the interest-equity correlation approach
  - 1FT Run 6 is calibrated to history, so has a more rational basis
  - It is unclear what the basis for the equity calibration used in 2FTv1
  - Parameters are located in the appendix

4

4

© 2024 National Association of Insurance Commissioners

ACLI

Equity Model

Worst GWF (across 10k scenarios)	1	5	10	20	30
AIRG	0.40	0.37	0.36	0.40	0.46
1FT Run 6	0.43	0.14	0.13	0.31	0.23
2FTv1	**0.49**	**0.21**	**0.14**	**0.08**	**0.17**
Academy Criteria (Average GWF)	**0.46**	**0.25**	**0.22**	**0.25**	**0.29**

1% tail GWF	1	5	10	20	30
AIRG	0.71	0.61	0.66	0.88	1.21
1FT Run 6	0.71	0.57	0.59	0.79	1.20
2FTv1	**0.70**	**0.55**	**0.53**	**0.63**	**0.94**
Academy Criteria (Average GWF)	**0.70**	**0.58**	**0.60**	**0.79**	**1.15**

5% tail GWF	1	5	10	20	30
AIRG	0.83	0.80	0.91	1.40	2.26
1FT Run 6	0.83	0.80	0.92	1.41	2.32
2FTv1	**0.82**	**0.79**	**0.88**	**1.29**	**2.03**
Academy Criteria (Average GWF)	**0.82**	**0.80**	**0.91**	**1.36**	**2.20**

10% tail GWF	1	5	10	20	30
AIRG	0.88	0.92	1.11	1.78	3.04
1FT Run 6	0.89	0.94	1.14	1.85	3.20
2FTv1	**0.88**	**0.92**	**1.11**	**1.74**	**2.93**
Academy Criteria (Average GWF)	**0.88**	**0.93**	**1.12**	**1.81**	**3.08**

- While 12/31/2023 scenarios produce reasonable results for 5th and higher percentile GWFs, the 12/31/2023 scenarios show noticeably more severe than the AAA criteria for the minimum and bottom 1% of the distribution in years 10, 20, 30.
- FT1 Run 6 would be a better starting point, given its alignment to the criteria and calibration. based on history.

5

5

ACLI

Equity Model

ACLI Joint Quadrant Criteria

	10 Years		30 Years	
Quadrant	**Evaluation Statistic**	**2FT**	**Evaluation Statistic**	**2FT**
Low Rate/Low Equity	0.81-0.87	0.79	1.82-2.12	1.71
High Rate/Low Equity	0.87-1.02	0.87	2.12-2.71	2.18

- Joint criteria could be improved for low/low at 30 years; 10 years is slightly outside of target.

6

6

© 2024 National Association of Insurance Commissioners

ACLI

Interest Rate Model

- Overall assessment is that interest rates adequately meet the targeting criteria.
- Note initial yield curve does not meet published rate.
- The T5 results can be improved by targeting slightly higher results (see next slide).
  - This is applicable to 12/31/2023; would need to see results at other valuation dates to see if other adjustments are needed under those circumstances

7

7

ACLI

Percentile	12	60	120	240	360
Min	2.30%	0.92%	0.98%	0.95%	1.16%
1.0%	2.81%	1.93%	**1.73%**	1.72%	**1.84%**
2.5%	2.96%	2.18%	1.98%	1.98%	2.09%
5.0%	3.09%	2.40%	2.20%	2.22%	2.32%
10.0%	3.25%	2.65%	2.50%	2.52%	2.61%
25.0%	3.53%	3.15%	3.05%	3.12%	3.25%
50.0%	3.85%	3.76%	3.79%	3.95%	4.08%
75.0%	4.21%	4.42%	4.64%	4.93%	5.10%
90.0%	4.53%	5.13%	5.52%	5.96%	6.22%
95.0%	4.73%	5.57%	6.12%	6.65%	6.94%
97.5%	4.92%	5.99%	6.70%	7.32%	7.70%
99.0%	5.12%	6.52%	**7.40%**	8.29%	**8.57%**
Max	6.03%	9.31%	9.93%	11.00%	13.82%
Mean	3.88%	3.84%	3.93%	4.13%	4.29%

passes criteria
fails criteria

10-year Geom Avg		30-year Geom Avg	
1st <	99th >	1st <	99th >
2.24%	7.94%	2.10%	9.77%
-0.52%	*-0.54%*	*-0.25%*	*-1.21%*
TRUE	FALSE	TRUE	FALSE

- Targets along the low tail are reasonable and are reasonably passing
- Targets on the high tail could be improved by targeting slightly higher rates; this should not cause the low tail to fail

8

8

ACLI

Appendix

9

9

ACLI

S&P Parameters

	1FT (1a)	1FT (6)	FNM	2FT
Fixed Return	0.015987	0.0793	0.015987	0.082504
Risk Premium Coefficient	3.595725	0.2447	3.595725	0.092565
Variable Jump Intensity	139.5882	2.9186	139.5882	139.5882
Jump Size Mean	-0.0525	-0.1419	-0.0525	-0.0525
Jump Size Volatility	0.0575	0.07	0.0575	0.0575
Initial Value	0.012479	0.0196	0.012479	0.013729
Alpha	0.005774	0.0205	0.005774	0.005774
Beta	0.462695	1.0474	0.462695	0.462695
Sigma	0.07468	0.1318	0.07468	0.07468

- **Initial value**: The initial variance at the start of projection; set equal to target
- **Alpha**: Controls the mean version level of variance process
- **Beta**: Parameter controlling the mean reversion speed of the variance process
- **Sigma**: The instantaneous variance of the variance process

10

10

ACLI

Equity Model

Linkage - 12/31/2021

Run 1a

)	1 Yr	5 Yr	10 Yr	20 Yr	30 Yr
Min	0.50	0.28	0.24	0.39	0.39
1.0%	0.71	0.59	0.59	0.83	1.17
2.5%	**0.77**	**0.68**	**0.75**	1.06	1.60
5.0%	**0.82**	**0.78**	**0.87**	**1.34**	2.11
10.0%	**0.87**	**0.89**	**1.05**	**1.69**	2.86
15.0%					
25.0%	0.97	1.09	1.40	2.54	4.88
30.0%					
50.0%	1.07	1.35	1.88	4.01	8.99
70.0%					
75.0%	1.16	1.64	2.57	6.49	16.98
85.0%					
90.0%	**1.25**	**1.96**	**3.41**	**10.25**	31.70
95.0%	**1.31**	**2.20**	**4.03**	**13.66**	47.46
97.5%	**1.35**	**2.45**	**4.70**	17.57	66.82
99.0%	1.41	2.77	5.65	23.40	101.45
Max	1.81	4.53	13.89	55.97	457.07

No Linkage - 12/31/2021

Run 6

S&P 500	1 Yr	5 Yr	10 Yr	20 Yr	30 Yr
Min	0.43	0.14	0.13	0.31	0.23
1.0%	0.71	0.57	0.59	0.79	1.20
2.5%	**0.77**	**0.68**	**0.76**	1.08	1.73
5.0%	**0.83**	**0.80**	**0.92**	**1.41**	2.32
10.0%	**0.89**	**0.94**	**1.14**	**1.85**	3.20
15.0%					
25.0%	0.99	1.19	1.58	2.90	5.41
30.0%					
50.0%	1.09	1.50	2.17	4.55	9.49
70.0%					
75.0%	1.19	1.82	2.90	6.83	15.89
85.0%					
90.0%	**1.28**	**2.15**	**3.66**	**9.84**	24.35
95.0%	**1.33**	**2.34**	**4.22**	**12.01**	31.69
97.5%	**1.38**	**2.52**	**4.75**	14.36	39.67
99.0%	1.43	2.75	5.37	17.12	51.96
Max	1.79	3.97	9.38	33.26	135.23

No Linkage and reflect 20% correlation - 12/31/2023

Run 2FT

S&P 500	1 Yr	5 Yr	10 Yr	20 Yr	30 Yr
Min	0.49	0.21	0.14	0.08	0.17
1.0%	0.70	0.55	0.53	0.63	0.94
2.5%	**0.77**	**0.68**	**0.71**	0.96	1.39
5.0%	**0.82**	**0.79**	**0.88**	**1.29**	2.03
10.0%	**0.88**	**0.92**	**1.11**	**1.74**	2.93
15.0%					
25.0%	0.99	1.18	1.55	2.80	5.17
30.0%					
50.0%	1.10	1.49	2.17	4.48	9.28
70.0%					
75.0%	1.20	1.83	2.92	6.96	15.89
85.0%					
90.0%	**1.30**	**2.17**	**3.76**	**9.97**	25.08
95.0%	**1.36**	**2.39**	**4.38**	**12.30**	32.53
97.5%	**1.41**	**2.60**	**4.98**	14.50	40.70
99.0%	1.47	2.83	5.68	17.53	50.56
Max	1.82	4.29	9.32	38.28	120.07

- The 12/31/2023 scenarios have more severe equity returns at right tail than both 1FT Run 1a and Run 6. Given the higher initial curve at 12/31/2023 than 12/31/2021, this result seems counterintuitive.

11

11

ACLI

Negative Interest Rates

- **Issue**: Although the frequency of the negative rate improved from 14% in 1FT to 9% in 2FT for the UST1Y, we continue to see excessive % of negative rates occur more than sustained periods.
- **Recommend**: Examine floor options, including development of new floor method. Add targeting criteria to limit sojourn less than 48 months, and 99th percentile in steady state is >=0% for 1 year, 1% for 20 year.

YE2021 Scenarios (First 360 months)
% of Scenarios with Negative Rates in

	1M	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	20Y	30Y
at least 1 month	99%	93%	82%	77%	68%	59%	41%	24%	7%	0%	0%
>= 12 months	83%	74%	68%	61%	52%	43%	26%	13%	3%	0%	0%
>= 24 months	73%	65%	59%	52%	43%	34%	19%	9%	1%	0%	0%
>= 36 months	66%	57%	51%	45%	36%	28%	15%	6%	1%	0%	0%
>= 48 months	59%	51%	45%	39%	31%	23%	11%	4%	0%	0%	0%
>= 60 months	54%	45%	40%	34%	26%	19%	9%	3%	0%	0%	0%
>= 120 months	30%	24%	20%	16%	11%	7%	2%	0%	0%	0%	0%
>= 180 months	15%	11%	9%	6%	4%	2%	0%	0%	0%	0%	0%
>= 240 months	6%	4%	3%	2%	1%	0%	0%	0%	0%	0%	0%
Max neg months	359	356	345	341	332	323	286	219	118	-	-

YE2023 Scenarios (First 360 months)
% of Scenarios with Negative Rates in

	1M	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	20Y	30Y
at least 1 month	65%	61%	58%	53%	44%	34%	18%	8%	1%	0%	0%
>= 12 months	49%	46%	42%	37%	28%	20%	9%	3%	0%	0%	0%
>= 24 months	40%	37%	34%	29%	21%	14%	5%	2%	0%	0%	0%
>= 36 months	33%	30%	27%	22%	15%	10%	4%	1%	0%	0%	0%
>= 48 months	27%	24%	21%	18%	12%	7%	2%	0%	0%	0%	0%
>= 60 months	23%	20%	17%	14%	9%	5%	1%	0%	0%	0%	0%
>= 120 months	8%	6%	5%	4%	2%	1%	0%	0%	0%	0%	0%
>= 180 months	2%	2%	1%	1%	0%	0%	0%	0%	0%	0%	0%
>= 240 months	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Max neg months	320	315	299	287	263	231	173	124	42	-	-

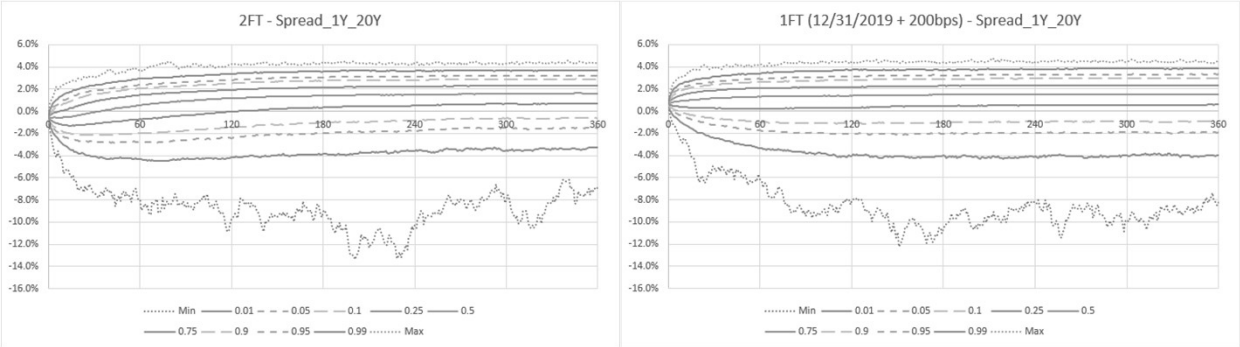
12

12

ACLI

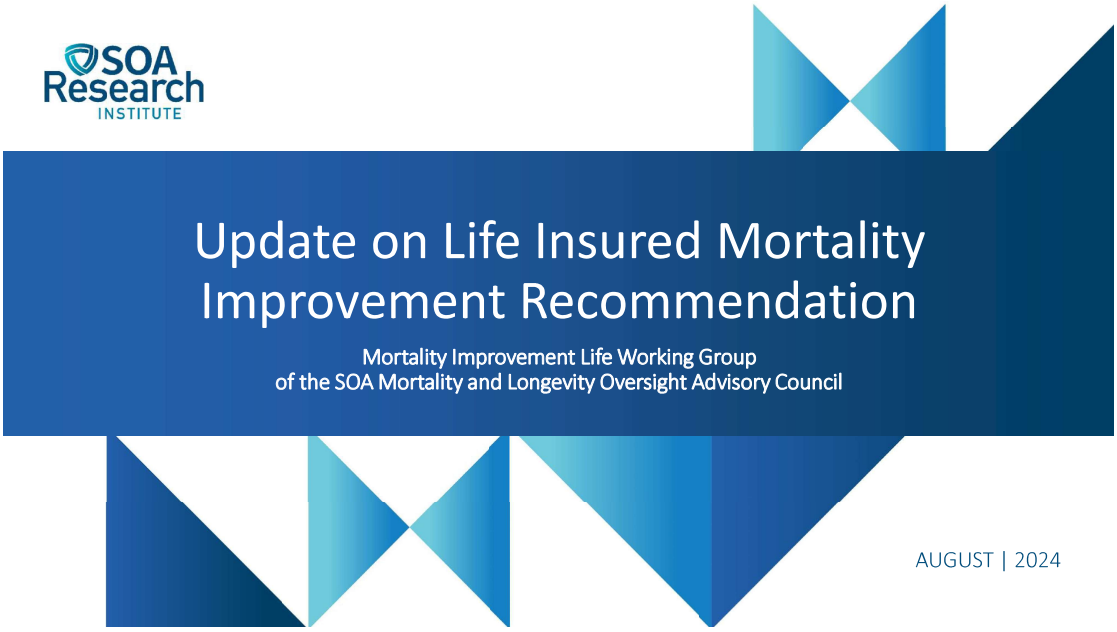
Severity of Inversions

- **Issue**: Severity of inversions excessive but consistent with12/31/2019 + 200bps run.
- **Recommend**: No initial solution but will work with regulators and the Academy. Examine approaches to reduce severity; will still be high when initial curve is inverted. Recommend targeting Academy proposed boundaries.



13

13



Presentation Disclaimer

The material and information contained in this presentation is for general information only. It does not replace independent professional judgment and should not be used as the basis for making any business, legal or other decisions. The Society of Actuaries assumes no responsibility for the content, accuracy or completeness of the information presented.

SOA Research INSTITUTE

© 2024 National Association of Insurance Commissioners

Agenda

- Historical Mortality Improvement (HMI) 2024 Recommendation
- Future Mortality Improvement (FMI) 2024 Recommendation
- Next Steps
  - Future update on recommended approach for estimating a life insured population MI basis

HMI 2024

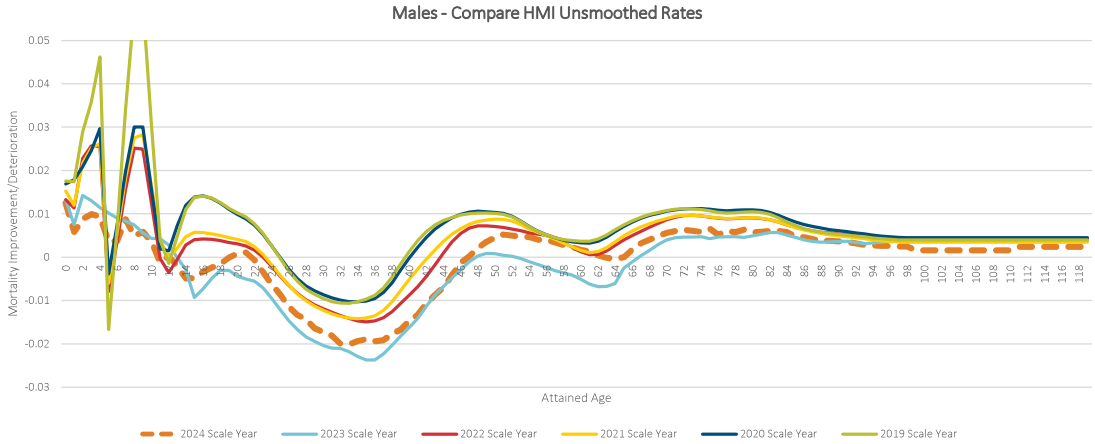
- HMI by attained age and gender
  - General population data - Social Security Administration (SSA)
  - No insured lives adjustment

- HMI unsmoothed scale = average of historical and future components
  - Historical component = 10 years ending in 2022
    - No adjustment made to historical data for COVID impact (moving back to pre COVID standard methodology for 2024)
    - Geometric average – only reflects end points of historical period (2012/2022)
  - Future component = geometric average of SSA Intermediate Projection
    - 20 years – year end 2024-2044

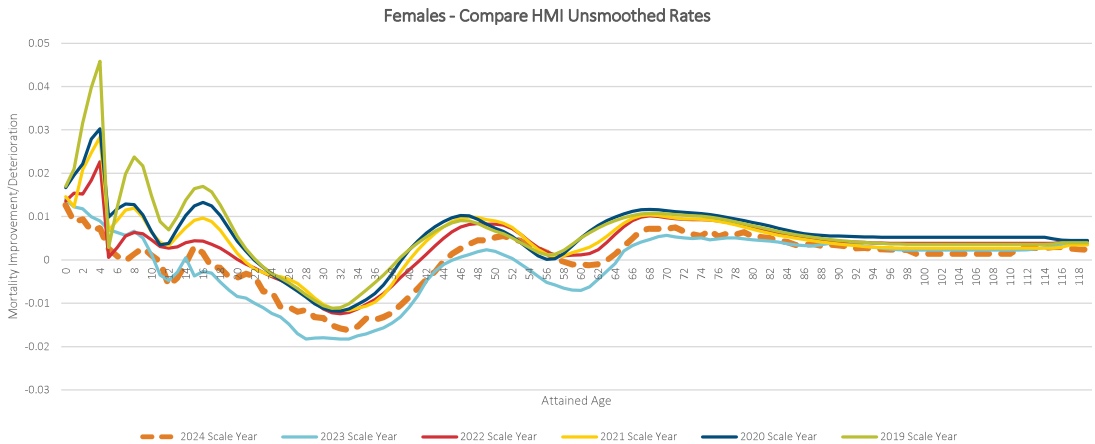
- HMI Smoothed Scale
  - Averaging applied to smooth within age groups
  - 0-20, 30-40, 45-60, 65-84, 90+

© 2024 National Association of Insurance Commissioners

2024 HMI Unsmoothed Scale Comparison to Prior Years

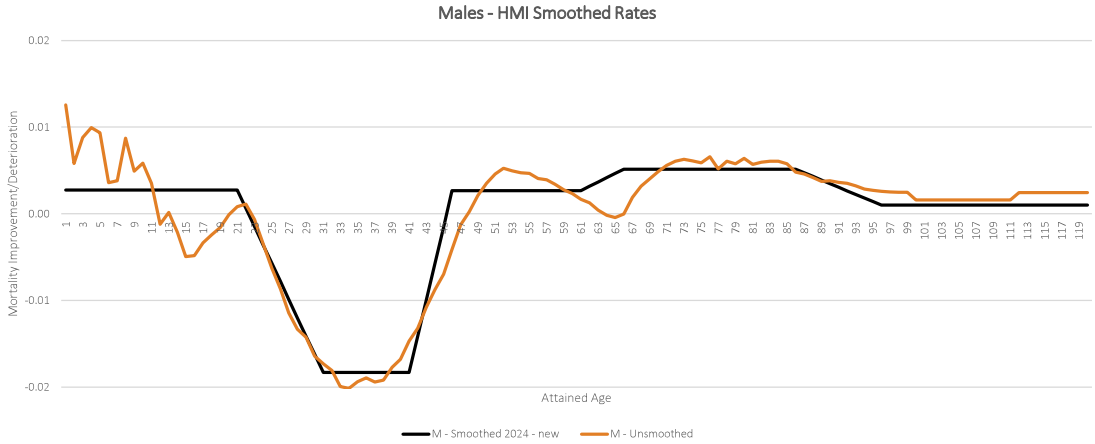


2024 HMI Unsmoothed Scale Comparison to Prior Year Published Scales



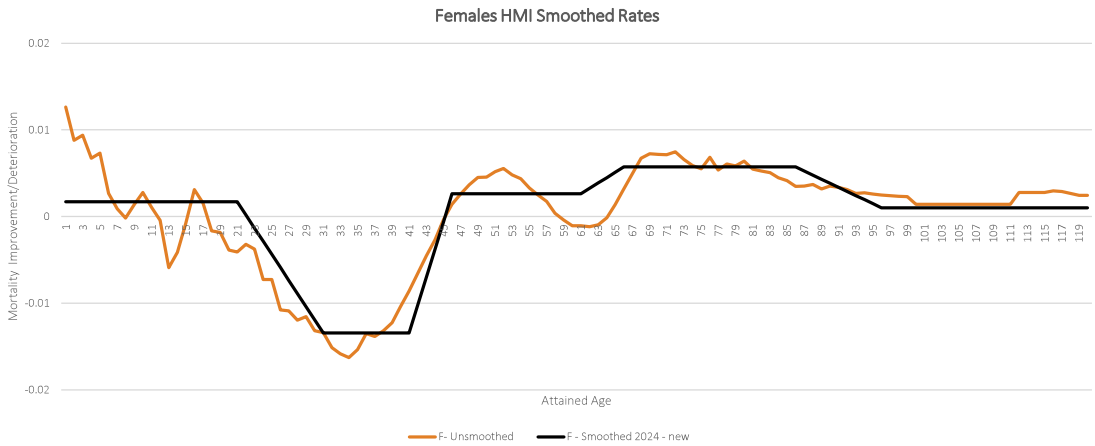
© 2024 National Association of Insurance Commissioners

2024 HMI Smoothed Scale



Same age groupings for females and males so there is some constraint in the averaging ranges, accident and opioid impact and dip continues, age 65 dip

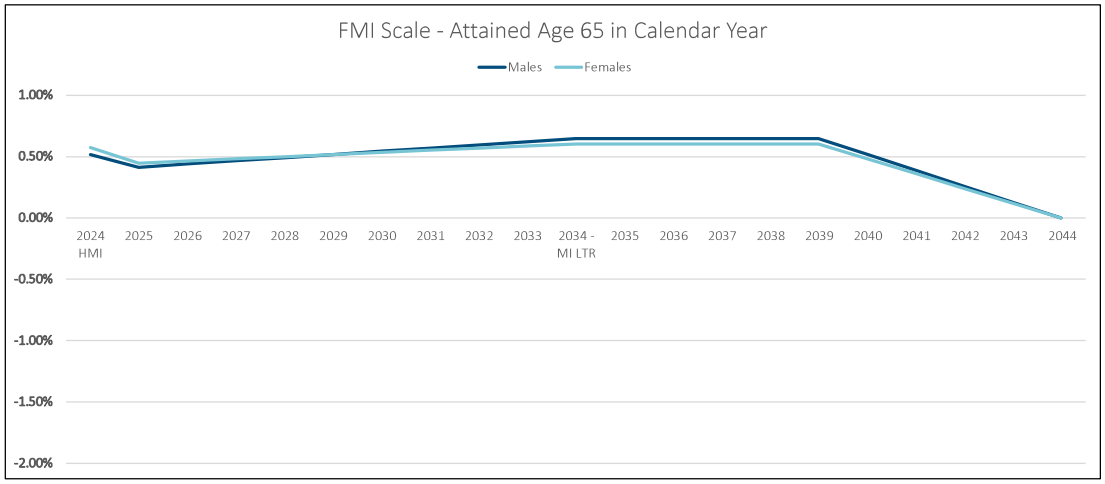
2024 HMI Smoothed Scale



FMI 2024

- FMI by attained age and gender
- 20 years of future improvement (MI rates grade to zero at reserve projection year 20
- For attained ages where HMI for 2024 is positive – apply standard methodology – example is age 65
- Standard Methodology
  - Grade linearly from 2024 HMI Smoothed Scale to long term mortality improvement rate (LTMIR) over the first 10 reserve projection years
    - LTMIR based on Social Security Administration projected mortality between 10 and 15 years from the valuation year
  - Remain level at LTMIR for next 5 reserve projection years
  - Grade linearly to zero FMI for remaining 5 reserve projection years
  - Margin = reduction in base FMI rates of 25%

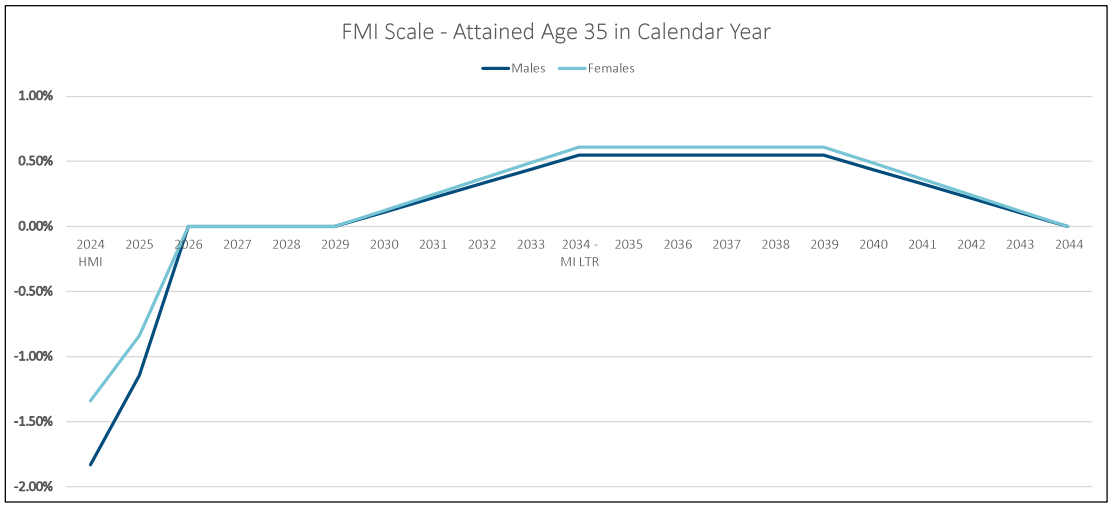
2024 FMI Scale with Margin – Age 65



FMI 2024

- For attained ages where HMI for 2024 remains negative (ages 22- 48 for males, 18-44 for females) – apply past methodology of adjusting to positive mortality improvement at LTMIR over time – example is age 35
- For 2024, adjustment to positive mortality improvement used the following approach:
  - Reach zero improvement level at reserve projection year 2026
  - Remain at zero mortality improvement to year 2029
  - Grade to LTMIR at 2034
  - Remain level at LTMIR to 2039
  - Grade linearly to zero improvement at 2044

2024 FMI Scale with Margin – Age 35



MI Recommendation – Fully Underwritten Business

- Where we started
  - Assumption that there was too much noise in the industry experience data on insured lives to be used to measure insured MI results
  - Reviewed SOA general population socioeconomic decile work
    - Is there a decile that that can be used as a proxy for the life insurance population?
- Initial Considerations
  - Is there a new baseline level of MI post-pandemic?
  - Should the impact of COVID be included/excluded? If excluded, method of exclusion?
  - How much do drug/opioid and smoking status impact the insurance population?
    - Drug/opioid issue (may be more important for key concentration of insured ages)
    - Smoker/nonsmoker differential

SOA Research INSTITUTE

MI Recommendation - Fully Underwritten Business Update

- Peer review of MI Analysis Tool & Predictive Models completed
- Continue investigation of patterns in insured versus general population experience generated by MI analysis tool

SOA Research INSTITUTE

© 2024 National Association of Insurance Commissioners

Contact Information

Marianne Purushotham, FSA, MAAA
Corporate Vice President, Research Data Services
LLGlobal/LIMRA
mpurushotham@limra.com



© 2024 National Association of Insurance Commissioners

OliverWyman

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MODEL OFFICE GOES FIELD TEST

Impact to VM-20 and VM-21 results

August 11, 2024

A business of Marsh McLennan

1

CONFIDENTIALITY

Our clients' industries are extremely competitive, and the maintenance of confidentiality with respect to our clients' plans and data is critical. Oliver Wyman rigorously applies internal confidentiality practices to protect the confidentiality of all client information.

Similarly, our industry is very competitive. We view our approaches and insights as proprietary and therefore look to our clients to protect our interests in our proposals, presentations, methodologies, and analytical techniques. Under no circumstances should this material be shared with any third party without the prior written consent of Oliver Wyman.

© Oliver Wyman

2

TABLE OF CONTENTS

ID	SECTION TITLE	PAGE
1	GOES FIELD TEST SCENARIOS	4
2	VM-20 MODEL OFFICE RESULTS	7
3	VM-21 MODEL OFFICE RESULTS	13
4	VM-20 APPENDIX	21
5	VM-21 APPENDIX	30

© Oliver Wyman

3

GOES FIELD TEST SCENARIOS

4

FIELD TEST SCENARIO SETS

Model office testing was performed on the AIRG scenario set, GOES Field Test scenario sets 1-5 as applicable, and the alternative baseline

Scenario Set	Description	Starting yield curve				
		3-mo	1-yr	10-yr	20-yr	30-yr
AIRG	AIRG as of 12/31/2023	5.40%	4.79%	3.88%	4.20%	4.03%
FT1 GOES Baseline	Conning scenarios as of 12/31/23	*Same as AIRG*				
FT2 Low Rate Shock	Conning scenarios with a starting UST yield curve as of 3/9/20 but with 12/31/23 starting credit spreads	0.33%	0.31%	0.54%	0.87%	0.99%
FT3 Up Rate Shock	Conning Scenarios with a starting UST yield curve as of 10/31/89 but with 12/31/23 starting credit spreads	8.61%	7.76%	7.93%	N/A	7.98%
FT4 Normal Yield Curve	Conning scenarios with a starting UST yield curve as of 12/31/04 but with 12/31/23 starting credit spreads	2.22%	2.75%	4.24%	4.85%	N/A
FT5 Down Equity Shock[1]	Conning scenarios as of 12/31/23 (same as Field Test 1)	*Same as AIRG / baseline*				
FT6 Alternative Baseline	Conning scenarios as of 12/31/23 but with the alternative yield curve fitting proposed by ACLI	*Same as AIRG / baseline*				

1. Scenario Set 5 was not run for VM-20 given it would have no impact to Term or ULSG model office results as there are no equities modeled
Source: *https://naic.conning.com/scenariofiles*

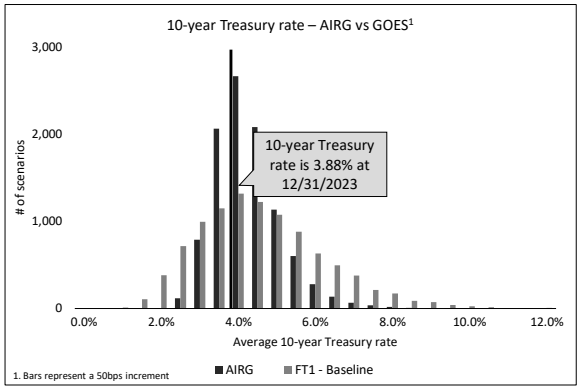
© Oliver Wyman
5

5

COMPARISON OF GOES AND AIRG SCENARIO SETS: INTEREST RATES AND EQUITY RETURNS

Volatility of interest rates across the 10,000 scenario set is increased under the GOES; **median equity growth rates are well aligned** between GOES and AIRG but **tail scenarios are significantly more adverse** under the GOES

Dispersion of average 10-year Treasury rates over 30 years of projection



Comparison of gross wealth factor ("GWF") by percentile and year ((GOES FT1 / AIRG) – 1)

	1-yr	5-yr	10-yr	15-yr	20-yr	25-yr	30-yr	50-yr
Min	22%	-43%	-62%	-77%	-81%	-70%	-64%	-47%
1%	-2%	-10%	-20%	-21%	-30%	-24%	-24%	-33%
2.50%	-2%	-4%	-10%	-10%	-14%	-17%	-19%	-21%
5%	-1%	-1%	-4%	-4%	-8%	-12%	-12%	-14%
10%	0%	-1%	-1%	-3%	-3%	-6%	-5%	-10%
25%	1%	2%	3%	2%	1%	0%	-1%	-4%
50%	2%	3%	3%	3%	2%	2%	3%	2%
75%	1%	1%	2%	1%	2%	1%	1%	0%
90%	0%	-1%	-2%	-1%	-3%	-2%	-2%	-2%
95%	-1%	-3%	-2%	-6%	-5%	-6%	-7%	-4%
97.50%	-1%	-5%	-4%	-7%	-10%	-9%	-9%	-6%
99%	-3%	-7%	-9%	-10%	-13%	-11%	-14%	-3%
Max	-2%	-19%	-24%	-15%	-5%	-37%	-38%	82%

GOES scenarios are showing increased interest rate volatility and lower equity growth rates in the tail in comparison to AIRG

© Oliver Wyman
6

6

VM-20 RESULTS

7

EXECUTIVE SUMMARY: VM-20 MODEL OFFICE GOES IMPACT ANALYSIS

The impact of the enhanced ESG under GOES is amplified for the SERT scenario set due to increased volatility and deterministic shocks; the SR is less impacted given offsetting impacts within the CTE70 scenarios reserve

Analysis performed

Leveraged Term and ULSG model office to produce and analyze the impact of GOES on the calculation of the:
1. Deterministic Reserve ("DR")
2. Stochastic Exclusion Ratio Test ("SERT")
3. Stochastic Reserve ("SR")

Analyzed changes in VM-20 reserves and exclusion test calculations, consistently with field test requirements. A 1,000 scenario subset was picked based on the significance criteria and all results were produced as of the 12/31/2023 valuation date.

Key takeaways

1 **Deterministic applications are more impacted by changes in the ESG**
The SERT scenario set is showing higher rate volatility than under the AIRG, which leads to amplified shocks in the non-baseline scenario and an increase to the DR and SERT results under the GOES

2 **The SERT has a ratio that was determined based on the AIRG scenarios and may need to be revisited**
The 6% SERT ratio was developed under the AIRG and may no longer produce expected results given the higher rate volatility magnifies the impact of the shocks applied and drives the SERT up for the Term and ULSG model office

3 **Applications using the complete set are reasonably close to the AIRG results at the CTE70 level**
The increased rate volatility of the GOES produces a higher CTE98 given only the few extreme scenarios are considered. At the CTE70 level, unlike for VAs there is no CSV flooring at the scenario reserve level under VM-20 and the decrease in reserves for less extreme outcomes mitigates the movement of the SR between the two ESGs.

© Oliver Wyman

8

8

VM-20 MODEL OFFICE DESCRIPTION

Model assumptions and product features were selected based on industry benchmarks to be a simplified representation of products currently offered

Projection model details	▪ **Term:** 20-year term policies issued in 2018
	▪ **ULSG:** Universal life with shadow design lifetime secondary guarantee issued in 2020
	▪ Time 0 reserves held in cash and reinvested at the start date of projection
	▪ Reinvestment strategy uses 50% A/AA corporate bonds
	  ▪ **Term**: 2-year bonds
	  ▪ **ULSG**: 10-year bonds

Best estimate assumptions	▪ Follows industry benchmark assumptions ▪ Mortality experience is 100% credible with 25 years of sufficient data ▪ UL crediting rate is dynamic and based on NAER less a spread, varying for each stochastic scenario
Prudent estimate assumptions	▪ VM-20 prescribed mortality margins based on credibility and sufficient data period ▪ **Term:** 100% shock lapse after level-term period ▪ **ULSG:** Minimal lapse when policy maintained in-force by NLG (i.e. CSV = 0)

© Oliver Wyman 9

9

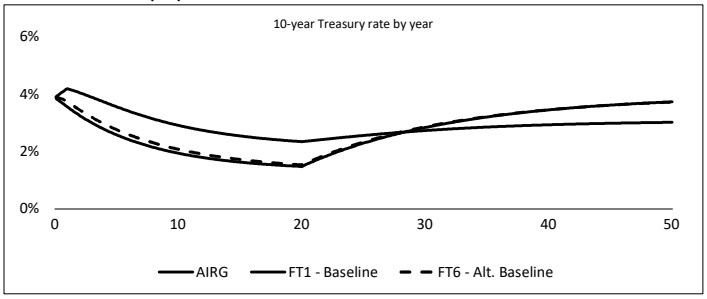
DETERMINISTIC RESERVE – BASELINE SCENARIO IMPACT

The Deterministic Reserve ("DR") is produced using scenario 12 of the SERT scenario set

Term and ULSG Results (000s)

Scenario Set	Term DR	Change from AIRG	ULSG DR	Change from AIRG
AIRG	108		2,325	
FT1 Baseline	129	+19%	2,879	+24%
FT6 Alt. Baseline	134	+24%	2,765	+19%

SERT Scenario #12 (DR)



Commentary

- Per VM-20 Appendix 1 the DR scenario (#12) **shocks Treasury rates for years 1-20** and should be **one standard deviation** from the baseline scenario
- The **volatility of GOES** scenarios result in a significantly **larger downward shock** than under AIRG
- **Long-term rates are higher** in the GOES scenario sets than AIRG
- There is minimal impact to results between the GOES FT1 baseline and FT6 alternative baseline
- **Starting assets are held in cash and reinvested at time 0.** The use of 2-year bonds for Term (10-year bonds for ULSG) allows the analysis to reflect the impact of differences in the yield curve at multiple durations; **more robust Asset-Liability Matching ("ALM") practices would mitigate impacts**
- As a result of the significantly lower rates in earlier durations, GOES baseline scenarios are producing a roughly **20% increase to the DR** for both Term and ULSG

The GOES DR scenario has significantly lower Treasury rates for years 1-20 and results in an increase to the DR for Term and ULSG

© Oliver Wyman 10

10

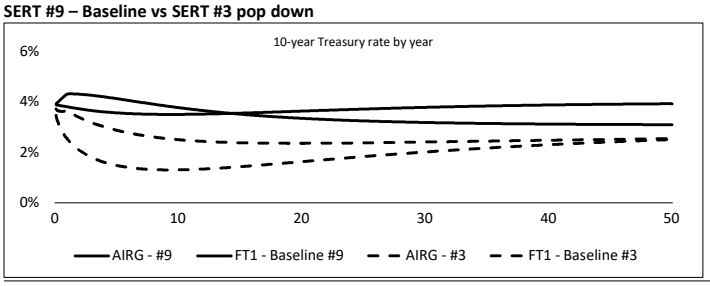
SERT RESULTS – BASELINE

SERT results across the AIRG and GOES Field Test sensitivity scenarios are summarized in the table below, the passing threshold is 6%

Term and ULSG results (000s)

	Term		ULSG	
Scenario Set	Max reserve (#3 pop down)	SERT ratio	Max reserve (#3 pop down)	SERT ratio
AIRG	95	**3.6%**	1,625	**8.6%**
FT1 Baseline	129	**6.3%**	2,281	**19.0%**
FT6 Alt. Baseline	136	**6.6%**	2,240	**20.2%**

SERT #9 – Baseline vs SERT #3 pop down



Commentary

- Under GOES, the **baseline SERT scenario (#9)** which is an un-shocked yield curve, is showing slightly **lower Treasury rates in early projection years** and **higher Treasury rates in later years**, due to a higher mean reversion parameter
- Per VM-20 Appendix 1, the **pop down scenario** is described as having an **interest rate shock** selected to maintain the cumulative shock at the 10% level.
- The **wider dispersion** of Treasury rates under GOES results in a **significantly larger shock to Treasury rates**
- The **maximum reserve** calculation for the SERT is **increased significantly** and results in **higher SERT ratios** than under AIRG for the same liability profile
- The determination of the **SERT ratio may need to be reviewed** or the **scenario generation process may need to be further calibrated** to ensure the Exclusion Test's objectives are appropriately met

Similarly to the DR scenario, the SERT baseline (#9) and pop down (#3) scenario sets are showing a wider dispersion of rates than AIRG

© Oliver Wyman 11

11

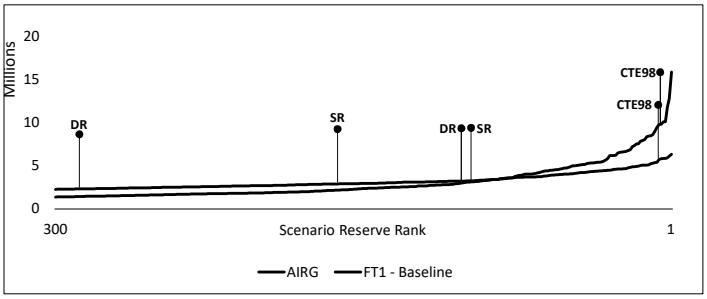
STOCHASTIC RESERVE – BASELINE SCENARIO IMPACT

The Stochastic Reserve ("SR") was produced using a 1,000 scenario subset of the AIRG and GOES scenario sets

ULSG Results (000s)

Scenario Set	DR	Change from AIRG	SR	Change from AIRG	CTE98	Change from AIRG
AIRG	2,325		3,229		5,417	
FT1 Baseline	2,879	**+24%**	3,167	**-2%**	9,336	**+72%**
FT6 Alt. Baseline	2,765	**+19%**	2,847	**-12%**	8,247	**+52%**

CTE70 Scenario Reserves



Commentary

- The GOES scenarios set are producing results that are **largely consistent with AIRG at the CTE70 level**
- The **spread between the "worst" and "best" CTE70 scenario** is much **wider under GOES**, explained by the broader range of yield curve paths
- For nearly **two thirds of the CTE70 scenarios**, the **AIRG is producing higher reserves than under GOES**
- The deep **tail scenarios are significantly more severe under GOES**. In comparison to the AIRG, the CTE98 increases over 70% for FT1 and 50% for FT6
- Given there is **no scenario reserve flooring under VM-20**, The sharp **increase in tail scenario reserves** is partially offset by the small **favorable impact from scenarios below VaR90** where AIRG produced higher reserves than GOES
- Under GOES, the **SR is higher than the DR** by a significantly **smaller margin than under AIRG**, driven by the strengthening of the DR

The impact of the sharp increase in deep tail scenarios is mitigated by the decrease in less adverse scenarios included in the CTE70

© Oliver Wyman 12

12

VM-21 RESULTS

13

EXECUTIVE SUMMARY: VM-21 MODEL OFFICE GOES IMPACT ANALYSIS

The targeted model office was used to draw insights into field test results and develop a better understanding of how the GOES algorithm impacts projections under a range of starting economic conditions

Analysis performed

Leveraged prior archetype analysis to select 3 key cohorts to analyze under the new field test scenario sets:
1. Mature business / Strong guarantee / At-the-money
2. New business / Strong guarantee / Out-of-the-money
3. New business / Weak guarantee / In-the-money

Produced CTE70 and CTE98 results to analyze changes in VM-21 reserves and capital requirements, consistently with field test requirements. A 1,000 scenario subset was picked based on the significance criteria and all results were produced for the 12/31/2023 valuation date.

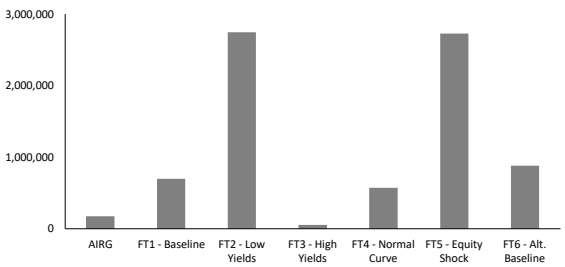
Key takeaways

1 ***FT1 vs AIRG*** **FT1 produces higher reserves than the AIRG:** Analysis of tail scenario confirmed that accumulated Gross Wealth Factors ("GWF") are lower in the FT1 results than in the AIRG scenarios and interest rates are lower in earlier years, both of which lead to higher CTEs

2 ***FT2-5 vs FT1*** **Sensitivity scenario sets produced impacts consistent with expectations:** Lower yield curves lead to higher reserves due to lower reinvestment income, and vice versa; lower equity returns increase reserves due to guarantees becoming more in-the-money

3 ***Alternative baseline vs FT1*** **Alternative baseline produces higher reserves than FT1:** The proposed adjustments to the fit of the yield curve produced higher reserves, given that reinvestment rates are tied to the 10-year Treasury rates and longer tenors do not impact reinvestment rates

CTE70 (adjusted) in excess of CSV by scenario set (New / Strong / OTM)
Economic scenarios: AIRG, GOES Scenario Sets 1-5, alternative baseline



© Oliver Wyman
14

14

MODEL COMPONENTS AND FUNCTIONALITY

Component	Description of functionality
Liability modeling	• Liability cash flows for model office comprised of the following product features: – Base variable annuity contract and a variety of GMxB (GLWB, GMDB, GMIB) with typical features and charges • Modeled on a direct basis only (i.e., without reinsurance)
Asset modeling	• Guardrail VM-21 prescribed strategy: 10-year bonds with ratings A and AA consistent with the guardrail prescribed under VM-21
Calculations	• Outer loop cash flows under best estimate assumptions and input deterministic scenarios • Pre-tax asset and liability projections under input stochastic scenarios reflecting all cashflows under prudent best estimate and VM-21 prescribed assumptions • Inforce asset iteration at valuation date under input stochastic scenarios to achieve no GPVAD • Fair value of living benefit riders on annual timesteps to support implicit hedging approach
Assumption sets	• Best estimate • Prudent best estimate • VM-21 standard projection prescribed
Hedging	• Employs the "cost of reinsurance" method (i.e., implicit method) in the best efforts run, option cost is charged at time 0 and rider fees and claims are removed
Reporting	• Stochastic reserve (CTE70 pre-tax under adjusted and best efforts hedge) • Standard projection add-on under CTEPA method (CTE70 under prescribed in excess of SR, subject to CTE70 – CTE65 unfloored buffer) • C3 at 100% RBC (CTE98 pre-tax and subsequent calculations). Note: C3 will be unsmoothed

© Oliver Wyman 15

15

DRIVING CHARACTERISTICS: SPECIFICATIONS

In-force archetypes were created using a model office creation toolkit and varied by driving characteristics. A wide range was used in determining variation in driving characteristics in order to capture a range of impacts to compare against field testing

Characteristic	Variations	Values
GMWB guarantee strength	Weak guarantee	**Rollup rate:** 3% **Income rates:** 4.0% - 5.5% based on attained age
	Strong guarantee	**Rollup rate:** 7% **Income rates:** 5.5% - 7.0% based on attained age
Hedging	Hedged	**Hedge modeling:** Implicit method
	Unhedged	**Hedge modeling:** None
Block maturity	New	**Issue year:** 2022 **Average age:** 66 **Percentage of GMWB contracts taking income:** 20%
	Mature	**Issue year:** 2007 **Average age:** 75 **Percentage of GMWB contracts taking income:** 75%
Moneyness	OTM / ATM / ITEM	**OTM:** Benefit Base is 90%-100% of AV **ATM:** Benefit Base is 100%-110% of AV **ITM:** Benefit Base is 110%-140% of AV
Other	Static inputs	**M/F sex split:** 50/50 **Q/NQ split:** 65/35 **Equity allocation:** 70%

© Oliver Wyman 16

16

IN-FORCE ARCHETYPES: GMWB/GMDB COMBO

16 different GMWB/GMDB combo archetypes were used in the initial model office testing. 3 cohorts outlined below are the focus for this analysis, based on their representativeness of industry results

Archetype	LB rider	DB rider	Hedging	Guarantee strength	Block maturity	Moneyness
1	Rollup GMWB	ROP GMDB	Implicit	Strong	New	ITM
2	Rollup GMWB	ROP GMDB	Implicit	Strong	New	OTM
3	Rollup GMWB	ROP GMDB	Implicit	Strong	Mature	ITM
4	Rollup GMWB	ROP GMDB	Implicit	Strong	Mature	ATM
5	Rollup GMWB	ROP GMDB	Implicit	Weak	New	ITM
6	Rollup GMWB	ROP GMDB	Implicit	Weak	New	OTM
7	Rollup GMWB	ROP GMDB	Implicit	Weak	Mature	ITM
8	Rollup GMWB	ROP GMDB	Implicit	Weak	Mature	ATM
9	Rollup GMWB	ROP GMDB	None	Strong	New	ITM
10	Rollup GMWB	ROP GMDB	None	Strong	New	OTM
11	Rollup GMWB	ROP GMDB	None	Strong	Mature	ITM
12	Rollup GMWB	ROP GMDB	None	Strong	Mature	ATM
13	Rollup GMWB	ROP GMDB	None	Weak	New	ITM
14	Rollup GMWB	ROP GMDB	None	Weak	New	OTM
15	Rollup GMWB	ROP GMDB	None	Weak	Mature	ITM
16	Rollup GMWB	ROP GMDB	None	Weak	Mature	ATM

Focus for this analysis

© Oliver Wyman

17

17

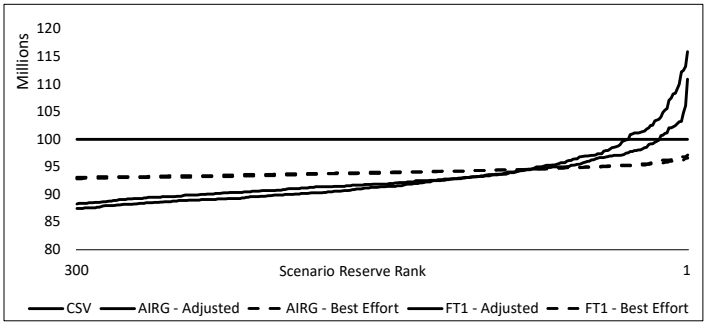
STOCHASTIC RESERVE – BASELINE SCENARIO IMPACT

The Mature / Strong / ATM cohort scenarios reserves for the CTE70 are graphed for AIRG and FT1 under the unfloored adjusted and best effort runs

Unfloored CTE70 adjusted scenario reserve metrics

Scenario Set	CTE70	CTE80	CTE90	CTE95	CTE98
AIRG	93	94	97	99	102
FT1 - Baseline	93	95	99	102	107

Unfloored CTE70 scenario reserves



Commentary

- GOES scenarios are producing **larger adjusted scenario reserves than AIRG for tail scenarios**
- Severity of adverse impact to tail scenarios are the result of **increased volatility to equity returns and Treasury rates under GOES**
  - **Equity returns in tail scenarios are lower** than under the AIRG, leading to increased claims and reduced fees
  - **Treasury rates in tail scenarios are lower than under AIRG and may go negative**, leading to lower investment income and higher discounted claims
  - Deep tail scenarios exhibit low equity returns and Treasury rates
- **CSV flooring at the scenario level has a significant impact under GOES**, preventing impacts from less adverse scenarios from offsetting the increase to tail scenario reserves
- The profile of the underlying inforce may have a significant impact to CTE70 and impact of flooring

Results from the GOES are more adverse than AIRG the further we go in the tail, with a 5% increase to CTE98 adjusted

© Oliver Wyman

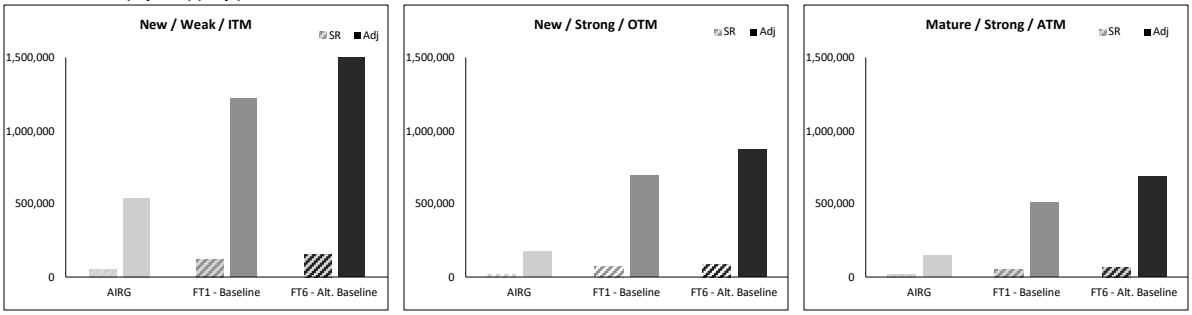
18

18

BASELINE SCENARIOS – RESERVES COMPARISON

Comparison of VM-21 reserves in excess of CSV for all three cohorts, outlining the difference between the **AIRG**, the **GOES baseline**, and the **alternative baseline** reserves

VM21 SR and CTE (adjusted) ("Adj") reserves in excess of CSV



CTE70 (adjusted) by archetype (000s)

Archetype	AIRG [A]	GOES FT1 [B]	GOES Alt. Baseline [C]	([B] – [A]) / [A]	([C] – [B]) / [B]
New / Weak / ITM	540	1,223	1,542	126%	26%
New / Strong / OTM	171	693	876	303%	26%
Mature / Strong / ATM	145	509	684	251%	34%

GOES FT1 produces higher reserves than the AIRG as a result of compressed equity returns in the tail and lower Treasury rates in early durations. The alternative baseline produced similar but slightly more adverse results than FT1

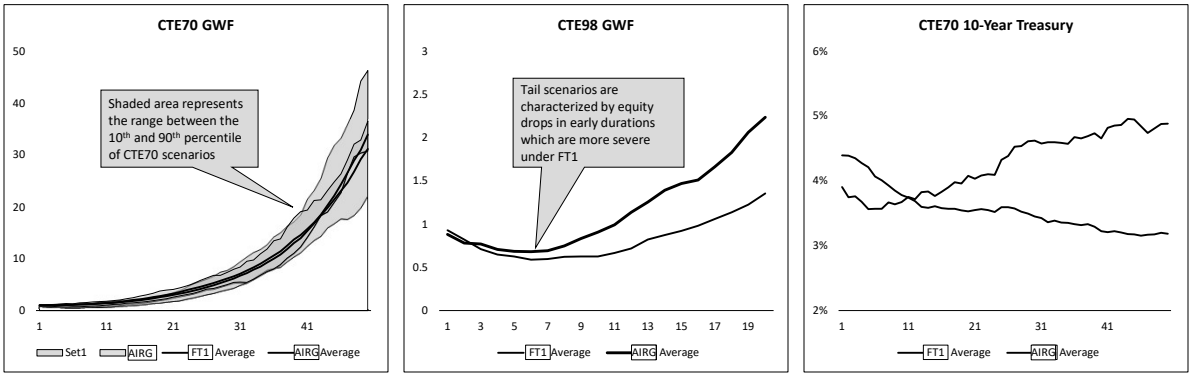
© Oliver Wyman 19

19

BASELINE SCENARIOS – SCENARIO ANALYSIS – MATURE / STRONG / ATM COHORT

Comparison of average accumulated gross wealth factors ("GWF") and 10-Year Treasury curve for CTE70 and CTE98 scenarios over 50 years of projection for the Mature / Strong Guarantee / ATM cohort

Mature / Strong Guarantee / ATM Cohort



Average equity return from GOES scenarios is similar to AIRG at the CTE70 and CTE98 levels but more disbursed and adverse in the tail; lower GOES rates in earlier years are producing adverse results despite reverting to a higher mean in later years

© Oliver Wyman 20

20

VM-20 APPENDIX

21

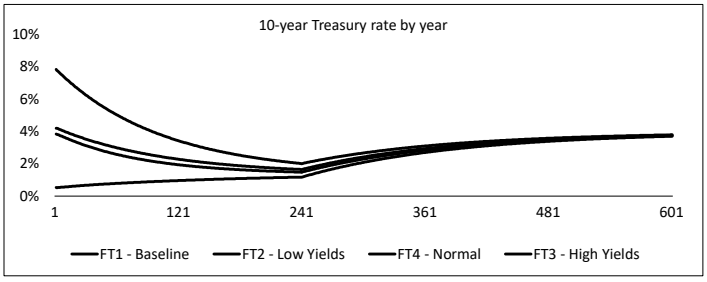
DETERMINISTIC RESERVE – SENSITIVITY IMPACT

The DR for Term and ULSG is sensitive to changes in starting economic conditions as a result of the direct impact to reinvestment rates

Term and ULSG Results (000s)

Scenario Set	Term DR	Change from FT1	ULSG DR	Change from FT1
FT1 Baseline	129		2,879	
FT2 Low Yields	190	+47%	4,908	+70%
FT3 High Yields	66	-49%	1,438	-50%
FT4 Normal	145	+13%	2,579	-10%

SERT Scenario #12 (DR)



Commentary

- Sensitivities represent an immediate **upward/downward shock of 300-400bps** to the yield curve
- Starting conditions have a **magnified impact under the model office testing** given **starting assets are held in cash** and immediately reinvested
- **Long-term rates are consistent** across the GOES scenario sets, having largely the same rates in years 35+
- The normal yield curve results in **lower ULSG DR from increase in 10-year rates**, however the **Term DR increases due to the significant decrease to 2-year rates** in comparison to FT1
- Adverse impact of low rates is amplified on the ULSG block where minimum guarantees are met
- Impacts would be **mitigated by a well-matched ALM strategy**

The GOES sensitivity scenarios are producing results consistent with expectations and commensurate with the level of shock from FT1

© Oliver Wyman
22

22

DETAILED SERT RESULTS (1/6)

For the AIRG, the Term SERT is **3.6%** and the ULSG SERT is **8.6%**

	Term		ULSG	
SERT Scenario	Adjusted DR	PV Benefits	Adjusted DR	PV Benefits
1 – Pop up, high equity	17,249	853,419	493,229	5,172,664
2 – Pop up, low equity	17,249	853,419	493,229	5,172,664
3 – Pop down, high equity	95,431	1,032,560	1,625,270	7,021,762
4 – Pop down, low equity	95,431	1,032,560	1,625,270	7,021,762
5 – Up/down, high equity	41,014	901,337	988,137	5,926,786
6 – Up/down, low equity	41,014	901,337	988,137	5,926,786
7 – Down/up, high equity	77,722	996,295	1,152,120	6,337,214
8 – Down/up, low equity	77,722	996,295	1,152,120	6,337,214
9 – Baseline scenario	61,301	953,527	1,094,300	6,171,967
10 – Inverted yield curves	51,209	925,168	1,019,830	6,025,669
11 – Volatile equity returns	61,301	953,527	1,094,300	6,171,967
12 – DR scenario	77,727	987,319	1,411,780	6,634,456
13 – Delayed pop up, high equity	57,939	949,009	650,896	5,610,208
14 – Delayed pop up, low equity	57,939	949,009	650,896	5,610,208
15 – Delayed pop down, high equity	64,140	957,393	1,423,780	6,584,595
16 – Delayed pop down, low equity	64,140	957,393	1,423,780	6,584,595

© Oliver Wyman 23

23

DETAILED SERT RESULTS (2/6)

For the GOES FT1 (baseline), the Term SERT is **6.3%** and the ULSG SERT is **19.0%**

	Term		ULSG	
SERT Scenario	Adjusted DR	PV Benefits	Adjusted DR	PV Benefits
1 – Pop up, high equity	3,699	830,460	248,628	4,789,552
2 – Pop up, low equity	3,699	830,460	248,628	4,789,552
3 – Pop down, high equity	128,733	1,120,480	2,281,370	8,196,172
4 – Pop down, low equity	128,733	1,120,480	2,281,370	8,196,172
5 – Up/down, high equity	35,482	897,648	923,877	5,894,201
6 – Up/down, low equity	35,482	897,648	923,877	5,894,201
7 – Down/up, high equity	95,110	1,051,560	1,107,580	6,508,717
8 – Down/up, low equity	95,110	1,051,560	1,107,580	6,508,717
9 – Baseline scenario	67,224	978,862	1,083,370	6,302,588
10 – Inverted yield curves	35,072	891,641	925,357	5,943,389
11 – Volatile equity returns	67,224	978,862	1,083,370	6,302,588
12 – DR scenario	96,739	1,038,730	1,765,260	7,291,807
13 – Delayed pop up, high equity	60,784	969,837	383,767	5,376,755
14 – Delayed pop up, low equity	60,784	969,837	383,767	5,376,755
15 – Delayed pop down, high equity	72,314	986,108	1,924,980	7,362,403
16 – Delayed pop down, low equity	72,314	986,108	1,924,980	7,362,403

© Oliver Wyman 24

24

DETAILED SERT RESULTS (3/6)

For the GOES FT2 (low yields), the Term SERT is **1.3%** and the ULSG SERT is **13.2%**

	Term		ULSG	
SERT Scenario	Adjusted DR	PV Benefits	Adjusted DR	PV Benefits
1 – Pop up, high equity	86,437	1,067,910	1,076,410	7,054,036
2 – Pop up, low equity	86,437	1,067,910	1,076,410	7,054,036
3 – Pop down, high equity	159,918	1,222,400	3,397,630	10,406,430
4 – Pop down, low equity	159,918	1,222,400	3,397,630	10,406,430
5 – Up/down, high equity	117,697	1,126,040	2,259,320	8,728,363
6 – Up/down, low equity	117,697	1,126,040	2,259,320	8,728,363
7 – Down/up, high equity	143,737	1,195,310	1,969,770	8,499,278
8 – Down/up, low equity	143,737	1,195,310	1,969,770	8,499,278
9 – Baseline scenario	144,027	1,190,910	2,235,970	8,791,965
10 – Inverted yield curves	98,475	1,076,070	1,828,900	8,079,739
11 – Volatile equity returns	144,027	1,190,910	2,235,970	8,791,965
12 – DR scenario	155,456	1,211,850	3,025,930	9,877,925
13 – Delayed pop up, high equity	137,150	1,181,750	1,143,540	7,390,597
14 – Delayed pop up, low equity	137,150	1,181,750	1,143,540	7,390,597
15 – Delayed pop down, high equity	148,061	1,196,650	3,306,200	10,116,570
16 – Delayed pop down, low equity	148,061	1,196,650	3,306,200	10,116,570

© Oliver Wyman
25

25

DETAILED SERT RESULTS (4/6)

For the GOES FT3 (high yields), the Term SERT is **8.3%** and the ULSG SERT is **19.4%**

	Term		ULSG	
SERT Scenario	Adjusted DR	PV Benefits	Adjusted DR	PV Benefits
1 – Pop up, high equity	(33,288)	706,052	72,637	3,704,300
2 – Pop up, low equity	(33,288)	706,052	72,637	3,704,300
3 – Pop down, high equity	77,232	962,188	1,294,460	5,960,121
4 – Pop down, low equity	77,232	962,188	1,294,460	5,960,121
5 – Up/down, high equity	(15,348)	741,923	286,636	4,100,933
6 – Up/down, low equity	(15,348)	741,923	286,636	4,100,933
7 – Down/up, high equity	40,643	887,458	534,501	4,790,656
8 – Down/up, low equity	40,643	887,458	534,501	4,790,656
9 – Baseline scenario	10,110	807,906	427,374	4,475,089
10 – Inverted yield curves	(5,347)	765,194	389,525	4,362,985
11 – Volatile equity returns	10,110	807,906	427,374	4,475,089
12 – DR scenario	38,800	867,187	894,655	5,192,771
13 – Delayed pop up, high equity	5,411	801,510	96,353	4,017,285
14 – Delayed pop up, low equity	5,411	801,510	96,353	4,017,285
15 – Delayed pop down, high equity	14,371	813,713	955,208	5,144,659
16 – Delayed pop down, low equity	14,371	813,713	955,208	5,144,659

© Oliver Wyman
26

26

DETAILED SERT RESULTS (5/6)

For the GOES FT4 (normal curve), the Term SERT is **6.6%** and the ULSG SERT is **21.1%**

	Term		ULSG	
SERT Scenario	Adjusted DR	PV Benefits	Adjusted DR	PV Benefits
1 – Pop up, high equity	6,258	849,923	121,181	4,449,371
2 – Pop up, low equity	6,258	849,923	121,181	4,449,371
3 – Pop down, high equity	145,429	1,173,560	2,148,180	7,952,060
4 – Pop down, low equity	145,429	1,173,560	2,148,180	7,952,060
5 – Up/down, high equity	41,613	925,015	701,451	5,456,106
6 – Up/down, low equity	41,613	925,015	701,451	5,456,106
7 – Down/up, high equity	110,728	1,101,590	984,999	6,242,408
8 – Down/up, low equity	110,728	1,101,590	984,999	6,242,408
9 – Baseline scenario	78,484	1,018,640	894,911	5,928,428
10 – Inverted yield curves	57,251	960,937	832,806	5,779,862
11 – Volatile equity returns	78,484	1,018,640	894,911	5,928,428
12 – DR scenario	112,727	1,088,010	1,623,410	6,983,448
13 – Delayed pop up, high equity	71,359	1,008,630	276,677	5,100,664
14 – Delayed pop up, low equity	71,359	1,008,630	276,677	5,100,664
15 – Delayed pop down, high equity	84,220	1,026,810	1,753,520	7,004,933
16 – Delayed pop down, low equity	84,220	1,026,810	1,753,520	7,004,933

© Oliver Wyman 27

27

DETAILED SERT RESULTS (6/6)

For the GOES FT6 (alt. baseline), the Term SERT is **6.6%** and the ULSG SERT is **20.2%**

	Term		ULSG	
SERT Scenario	Adjusted DR	PV Benefits	Adjusted DR	PV Benefits
1 – Pop up, high equity	3,105	832,757	182,369	4,625,085
2 – Pop up, low equity	3,105	832,757	182,369	4,625,085
3 – Pop down, high equity	135,689	1,141,120	2,239,610	8,129,965
4 – Pop down, low equity	135,689	1,141,120	2,239,610	8,129,965
5 – Up/down, high equity	36,418	903,522	816,814	5,693,502
6 – Up/down, low equity	36,418	903,522	816,814	5,693,502
7 – Down/up, high equity	101,458	1,070,350	1,059,930	6,412,212
8 – Down/up, low equity	101,458	1,070,350	1,059,930	6,412,212
9 – Baseline scenario	70,605	990,675	999,211	6,144,417
10 – Inverted yield curves	43,427	916,890	888,180	5,886,588
11 – Volatile equity returns	70,605	990,675	999,211	6,144,417
12 – DR scenario	102,269	1,054,930	1,692,090	7,156,675
13 – Delayed pop up, high equity	63,901	981,275	330,632	5,255,209
14 – Delayed pop up, low equity	63,901	981,275	330,632	5,255,209
15 – Delayed pop down, high equity	75,945	998,279	1,837,700	7,201,478
16 – Delayed pop down, low equity	75,945	998,279	1,837,700	7,201,478

© Oliver Wyman 28

28

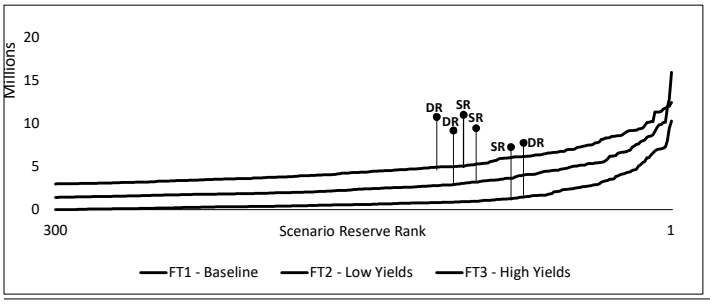
STOCHASTIC RESERVE – SENSITIVITY SCENARIO IMPACT

The Stochastic Reserve ("DR") was produced using the 1,000 scenario subset of the GOES low rate and high rate sensitivity scenario sets

ULSG Results (000s)

Scenario Set	DR	SR (CTE70)	Change from FT1	CTE98	Change from FT1
FT1 Baseline	2,879	3,167		9,336	
FT2 Low Yields	4,908	5,036	+59%	10,556	+13%
FT3 High Yields	1,438	1,237	-61%	6,482	-31%
FT1 Baseline (20Yr)	2,229	2,677	-15%	7,897	-15%

CTE70 Scenario Reserves



Commentary

- Under the GOES **baseline and low rate scenario sets**, the **SR is the dominant reserve** but the DR is producing a similar reserve
- Under the **high rate scenario set, the DR is the binding reserve** and some of the CTE70 scenarios produce a reserve of 0, indicating sufficiency of the DR
- The **severity of the deep tail** in the low rate scenario set is **mitigated by the increase in starting assets**
- The impact of shocks to the starting yield curve is significant at the CTE70 level but reduced at the CTE98 level
- Under an **alternate reinvestment strategy comprised of 20-year bonds**, results stayed largely consistent but the **gap between the DR and SR expanded** reflecting the broader dispersion of rates and impact of flooring

The relationship between the DR and SR is largely maintained across the GOES baseline and sensitivity scenario sets

© Oliver Wyman
29

29

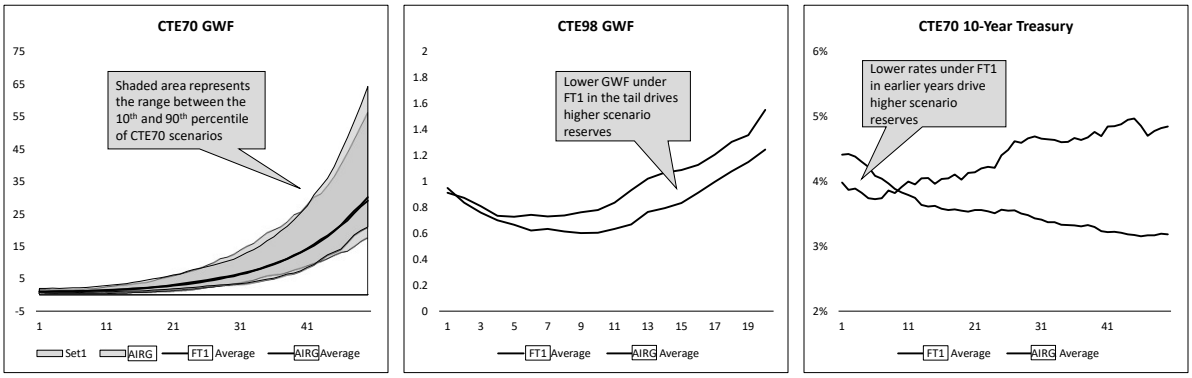
VM-21 APPENDIX

30

BASELINE SCENARIOS – SCENARIO ANALYSIS – NEW / WEAK / ITM COHORT

Comparison of average accumulated gross wealth factors ("GWF") and 10-Year Treasury curve for CTE70 and CTE98 scenarios over 50 years of projection for the New / Weak Guarantee / ITM cohort

New / Weak Guarantee / ITM Cohort



Average equity return from GOES scenarios is similar to AIRG at the CTE70 level, however tail scenarios are more adverse; lower GOES rates in earlier years are producing adverse results despite reverting to a higher mean in later years

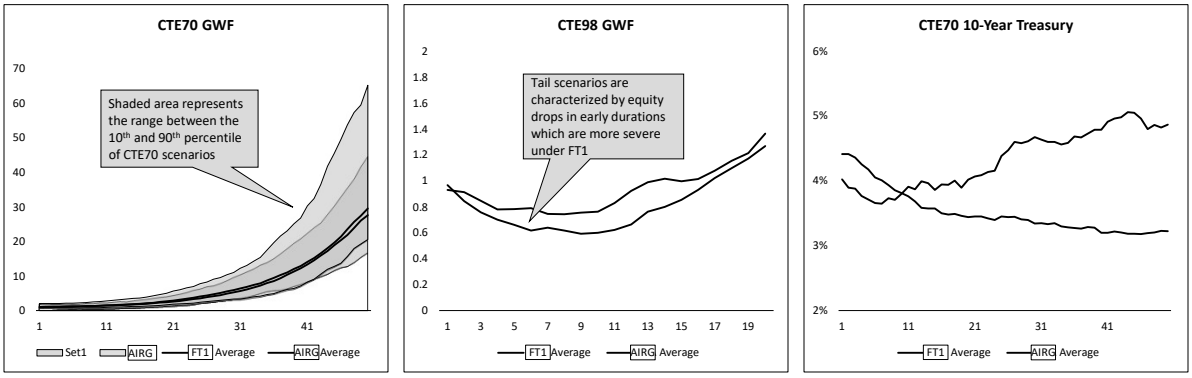
© Oliver Wyman 31

31

BASELINE SCENARIOS – SCENARIO ANALYSIS – NEW / STRONG / OTM COHORT

Comparison of average accumulated gross wealth factors ("GWF") and 10-Year Treasury curve for CTE70 and CTE98 scenarios over 50 years of projection for the New / Strong Guarantee / OTM cohort

New / Strong Guarantee / OTM Cohort



Average equity return from GOES scenarios is similar to AIRG at the CTE70 and CTE98 levels, however tail scenarios for GOES are more adverse; lower GOES rates in earlier years are producing adverse results despite reverting to a higher mean in later years

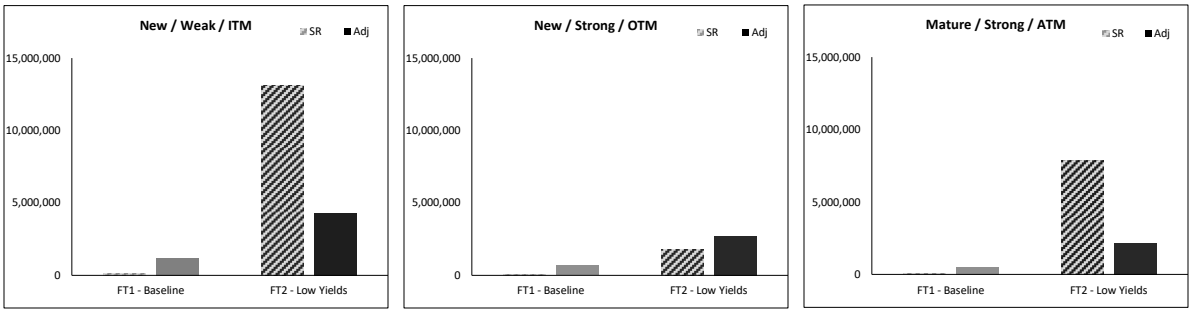
© Oliver Wyman 32

32

SENSITIVITY SCENARIOS – RESERVES (FT2 – LOW YIELDS)

Comparison of VM-21 reserves in excess of CSV for all three cohorts, outlining the difference between the **GOES baseline**, and the **low starting yield curve** scenario set reserves

VM21 SR and CTE (adjusted) ("Adj") reserves in excess of CSV



CTE70 (adjusted) by archetype (000s)

Archetype	FT1 [A]	FT2 [B]	([B] – [A]) / [A]
New / Weak / ITM	1,223	4,304	251%
New / Strong / OTM	693	2,741	295%
Mature / Strong / ATM	509	2,199	331%

The FT2 scenarios are producing significantly higher reserves than the baseline scenario set due to the compressed yield curve and high prevalence of negative interest rates for sustained periods, implicit hedge results are adversely impacted by the low yields

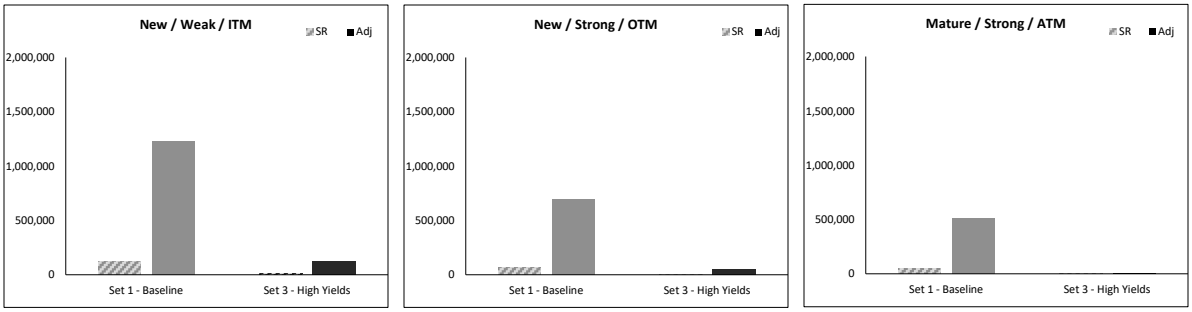
© Oliver Wyman
33

33

SENSITIVITY SCENARIOS – RESERVES (FT3 – HIGH YIELDS)

Comparison of VM-21 reserves in excess of CSV for all three cohorts, outlining the difference between the **GOES baseline**, and the **high starting yield curve** scenario set reserves

VM21 SR and CTE (adjusted) ("Adj") reserves in excess of CSV



CTE70 (adjusted) by archetype (000s)

Archetype	FT1 [A]	FT3 [B]	([B] – [A]) / [A]
New / Weak / ITM	1,223	121	-91%
New / Strong / OTM	693	50	-93%
Mature / Strong / ATM	509	5	-99%

The FT3 scenarios are producing significantly lower reserves than the baseline scenario set due to the favorable yield curve; we note that a significant portion of scenario reserves are floored at the CSV under this sensitivity

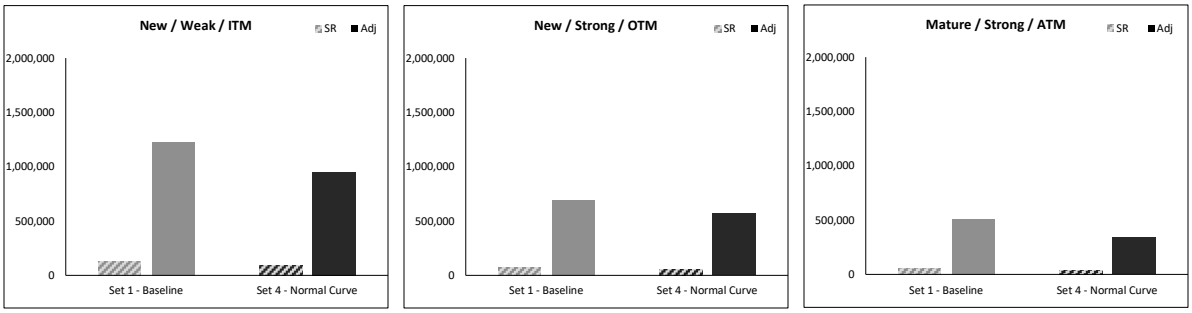
© Oliver Wyman
34

34

SENSITIVITY SCENARIOS – RESERVES (FT4 – NORMAL CURVE)

Comparison of VM-21 reserves in excess of CSV for all three cohorts, outlining the difference between the **GOES baseline**, and the **non-inverted yield curve** scenario set reserves

VM21 SR and CTE (adjusted) ("Adj") reserves in excess of CSV



CTE70 (adjusted) by archetype (000s)

Archetype	FT1 [A]	FT4 [B]	([B] – [A]) / [A]
New / Weak / ITM	1,223	947	-23%
New / Strong / OTM	693	556	-18%
Mature / Strong / ATM	509	339	-33%

The FT4 scenarios are producing slightly lower reserves than the baseline scenario set due to slightly higher yields from the non-inverted curve; the reinvestments are anchored to 10-year A & AA Corporate Bond returns

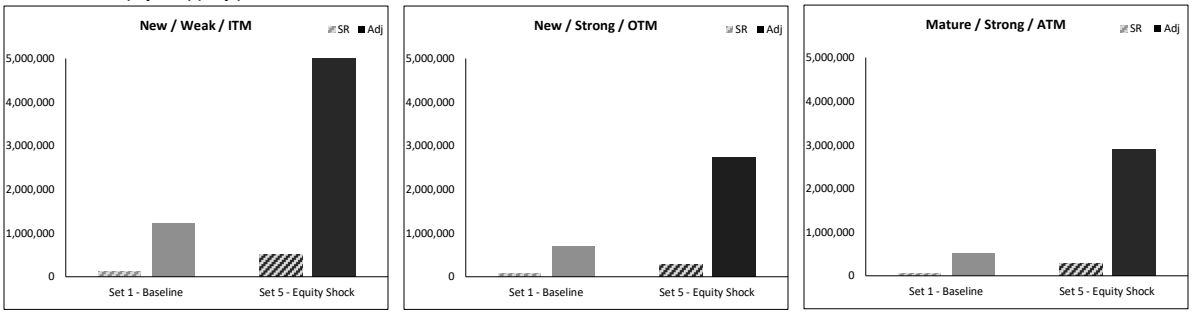
© Oliver Wyman 35

35

SENSITIVITY SCENARIOS – RESERVES (FT5 – EQUITY SHOCK)

Comparison of VM-21 reserves in excess of CSV for all three cohorts, outlining the difference between the **GOES baseline**, and the **25% equity shock** scenario set reserves

VM21 SR and CTE (adjusted) ("Adj") reserves in excess of CSV



CTE70 (adjusted) by archetype (000s)

Archetype	FT1 [A]	FT5 [B]	([B] – [A]) / [A]
New / Weak / ITM	1,223	5,016	310%
New / Strong / OTM	693	2,726	293%
Mature / Strong / ATM	509	2,899	469%

A 25% decrease to the S&P 500 market has a significant impact to results due to the significant immediate increase to the moneyness and decrease in fee base, pushing more scenario reserves beyond the CSV floor

© Oliver Wyman 36

36

OLIVER WYMAN TEAM

37

OLIVER WYMAN TEAM



Dylan Strother, FSA
Senior Principal
Dylan.strother@oliverwyman.com



Yuan Tao, FSA
Principal
Yuan.tao@oliverwyman.com



Simon Gervais, FSA
Senior Manager
Simon.gervais@oliverwyman.com



Nick Farber, ASA
Consultant
Nick.farber@oliverwyman.com

© Oliver Wyman

38

38

QUALIFICATIONS, ASSUMPTIONS, AND LIMITING CONDITIONS

This report is for the exclusive use of the Oliver Wyman client named herein. This report is not intended for general circulation or publication, nor is it to be reproduced, quoted, or distributed for any purpose without the prior written permission of Oliver Wyman. There are no third-party beneficiaries with respect to this report, and Oliver Wyman does not accept any liability to any third party.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information. The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. Oliver Wyman accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events, or conditions, which occur subsequent to the date hereof.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client. This report does not represent investment advice nor does it provide an opinion regarding the fairness of any transaction to any and all parties. In addition, this report does not represent legal, medical, accounting, safety, or other specialized advice. For any such advice, Oliver Wyman recommends seeking and obtaining advice from a qualified professional.

39

SOCIETY OF ACTUARIES RESEARCH UPDATE TO LATF

August 12, 2024

Dale Hall, FSA, MAAA, CERA
Managing Director of Research

1

Presentation Disclaimer

The material and information contained in this presentation is for general information only. It does not replace independent professional judgment and should not be used as the basis for making any business, legal or other decisions. The Society of Actuaries assumes no responsibility for the content, accuracy or completeness of the information presented.

2

2

2015-22 Fixed Rate Deferred Surrender Study

- Study was published in June 2024
- This study was released under Experience Studies Pro, the partnership between the SOA Research Institute and LIMRA
- For access to full report and detailed study results in Tableau, companies must purchase the Standard Data Package (SDP)*
- A short report with high-level insights is available to the public

SOA Research INSTITUTE

*Note that we are working with state regulators to give them access to ES Pro studies; those who want access must sign a confidentiality agreement.

3

3

2015-22 Fixed Rate Deferred Surrender Study

- High-level summary:
  - Observation years studied: 2015-2022
  - Exposure by contract count: 13.4 million
  - Exposure by contract amount: $1.0 trillion
  - Number of surrenders: 900,000
  - Number of companies: 23
- Last study on this type of contract owner behavior was published in 2006
- This experience has been used to help develop the exposed Fixed Rate annuity surrender assumptions for VM-22 field test

SOA Research INSTITUTE

4

4

2015-22 Fixed Rate Deferred Surrender Study

- Surrender experience was analyzed by:
  - Contract owner characteristics:
    - Attained age
    - Sex
    - Contract face amount
    - Market type
    - Issue year
    - Contract year
  - Product characteristics:
    - Current surrender charge
    - Years to surrender charge expiry
    - Guaranteed minimum credited rate
    - Current credited rate
    - MVA feature
    - Rate guarantee period
    - Surrender charge period

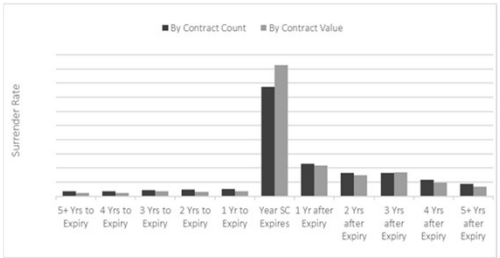
SOA Research Institute

5

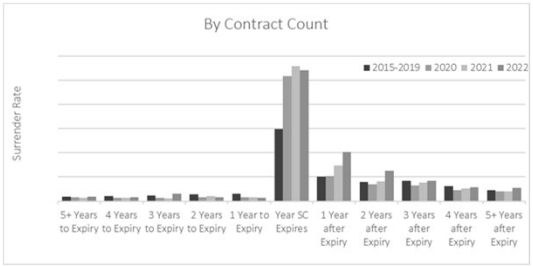
5

2015-22 Fixed Rate Deferred Surrender Study

- Years to surrender charge expiry is a main driver of surrender experience



- Observed even more elevated surrenders in recent calendar years, when interest rates were higher



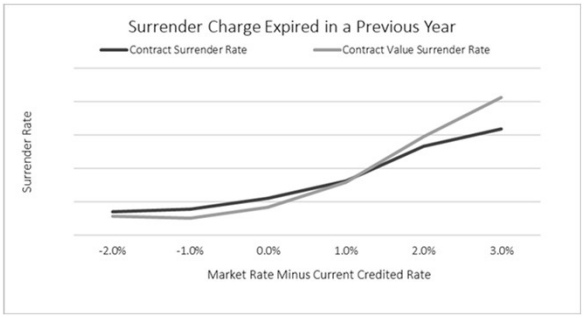
SOA Research Institute

6

6

2015-22 Fixed Rate Deferred Surrender Study

- New analysis with this study examined surrender experience by relationship of market interest rate to current credited interest rate
  - Analysis showed increase in surrender rate as excess of market rate over current rate increased
  - Relationship especially defined in years after surrender charge has expired
  - Market rate by calendar year defined as avg daily 7-year Treasury rate + AA spread



SOA Research INSTITUTE

7

7

2015-22 Fixed Rate Deferred Surrender Study

- The completed study and Tableau dashboard will allow purchasing companies to:
  - View industry-level results
  - Compare their own experience to the industry
  - Compare their own experience to the results for a select group of peer companies
- Company confidentiality is protected via Tableau's suppression capabilities
  - If a single company has too much weight in a results cell, it will be suppressed
  - If a minimum number of companies do not have exposure in a results cell, it will be suppressed

SOA Research INSTITUTE

8

8

Available on SOA website

https://www.soa.org/resources/experience-studies/2024/15-22-frds/

SOA Research INSTITUTE

9

9

2015-2021 Universal Life Premium Persistency Study

- Study was published in July 2024
- This is the latest study released under Experience Studies Pro, the partnership between the SOA Research Institute and LIMRA
- For access to full report and detailed study results in Tableau, companies must purchase the Standard Data Package (SDP)*
- A short report with high-level insights is available to the public

SOA Research INSTITUTE

*Note that we are working with state regulators to give them access to ES Pro studies; those who want access must sign a confidentiality agreement.

10

10

2015-2021 Universal Life Premium Persistency Study

- High-level summary:
  - Observation years studied: 2015-2021
  - Exposure by policy count: 11.9 million
  - Exposure by policy face amount: $4.0 trillion
  - Collected premium studied: $76.6 million
  - Number of companies: 14
- Study is the second in a series of UL policyholder behavior studies
  - The first study was a UL lapse/surrender study and was published in November 2023
  - The premium persistency study includes experience data for 14 companies, while the lapse/surrender study had experience data for 24 companies
    - Not all companies that submitted VM-51 format data for the lapse study were able to provide collected premium information for the premium persistency study

SOA Research INSTITUTE

11

11

2015-2021 Universal Life Premium Persistency Study

- Premium persistency experience was analyzed by the following breakouts:
  - Observation year
  - Policy year
  - Product focus:
    - Lifetime guarantee products
    - Current assumption products
    - Cash accumulation products
  - Product type:
    - IUL, IULSG, Fixed UL, ULSG, VUL, VULSG
  - Attained age and issue age
  - Policy face amount band

SOA Research INSTITUTE

12

12

2015-2021 Universal Life Premium Persistency Study

- Premium persistency analysis was performed on three different bases:

1. Ratio of 'premium collected' to 'planned premium'
2. Ratio of 'premium collected up to planned' to 'planned premium'
   - This caps the premium paid in the current year to planned premium and eliminates the impact of large 'dump in' premium deposits
3. Ratio of 'premium collected' to 'prior year premium collected'

SOA Research INSTITUTE

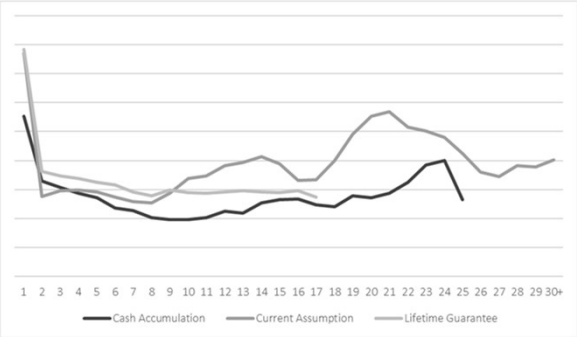
13

13

2015-2021 Universal Life Premium Persistency Study

Example of premium persistency analysis by product focus and policy year:

- Premium collected to planned premium ratio
- Cash accumulation products generally have the lowest ratio
- Current assumption products have highest ratio for policy years 10+
- Lifetime guarantee products have consistent premium persistency ratios over time; these are likely required premiums to keep secondary guarantees in effect



SOA Research INSTITUTE

14

14

2015-2021 Universal Life Premium Persistency Study

- The completed study and Tableau dashboard will allow purchasing companies to:
  - View industry-level results
  - Compare their own experience to the industry
  - Compare their own experience to the results for a select group of peer companies
- Company confidentiality is protected via Tableau's suppression capabilities
  - If a single company has too much weight in a results cell, it will be suppressed
  - If a minimum number of companies do not have exposure in a results cell, it will be suppressed

SOA Research INSTITUTE

15

15

Available on SOA website

https://www.soa.org/resources/experience-studies/2024/15-21-ulpp-ulls/

SOA Research INSTITUTE

16

16

US Population Mortality Observations: Updated with 2022 Experience - Report Delayed

- Late release of numbers by the CDC.
- Need extra time to determine what should be done with the Census Bureau information.
  - 2019 data is still using the 2010 Estimates Base.
  - 2020-2022 are using the 2020 Estimates Base, which is not yet final.
- There are odd observations for groups such as the older groups that aren't rooted in what has happened in the population.

SOA Research INSTITUTE

17

17

US Population Mortality Observations: Updated with 2022 Experience - Plan for Report

- Revise the population values for 2019-2022 to estimate cumulative mortality for the three years and interim portions.
- Retain historical 1999-2009 and 2009-2019 mortality rates and assess the viability of estimated 2019-2022 rates to support the production of the report.
- The fallback option is to wait for the CDC to reissue numbers based on the final 2020 Population Estimates Base (Tentatively Fall of 2024).

SOA Research INSTITUTE

18

18

Additional Life Research

19

19

Experience Studies

Project Name	Objective	Link/Expected Completion Date
2015-21 Fixed Rate Deferred Surrender Study - Report	Complete a study of fixed rate deferred annuity surrender rates.	https://www.soa.org/resources/experience-studies/2024/15-22-frds/
2015-21 Universal Life Premium Persistency Study - Report	Analyze the premium persistency for universal life products - Data collection and validation phase	https://www.soa.org/resources/experience-studies/2024/15-21-ulpp-ulls/
Group Life COVID-19 Mortality Survey Update - 1Q24 Report	Complete an update on a mortality study assessing the impact of COVID-19 on Group Life Insurance.	https://www.soa.org/resources/experience-studies/2024/group-life-covid19-mort-survey/
2009-2015 Individual Life Experience Committee Lapse and Mortality Study	Study mortality and lapse experience in the database of 2009-2015 individual life experience data and release a report with the findings.	8/29/2024
2024 Life Mortality Improvement	Develop AG38 mortality improvement assumptions for YE 2024	9/30/2024
Whole Life/Term Lapse and Surrender - Report	Complete a study of Whole Life/Term Lapse and Surrender	12/18/2024
Life Predictive Mortality Model	The theme is around the sharing and warehousing of PA tools and information, similar to a data science environment.	7/30/2024
ILEC Mortality Experience Report Update for 2009 - 2019	Draft a report updating the ILEC mortality experience reporting for 2019	8/30/2024
US Population Mortality Observations: Updated with 2022 Experience	Explore observations from the release of the 2022 U.S. population mortality data.	9/30/2024
2021-22 Fixed Indexed Annuity Study - Report	Examine lapse and the utilization of guaranteed living withdrawal benefit options on fixed index annuity policies under a Joint SOA/LIMRA project and release Tableau visualizations with the observations from the study.	10/31/2024
2022 Variable Annuity Guaranteed Living Benefit Utilization Study - Data Request	Examine the utilization of guaranteed living benefit options on variable annuity policies under a Joint SOA/LIMRA project.	8/1/2024
Economic Scenario Generator - 2024 Update	Update the AAA Economic Scenario Generator Annually.	7/25/2024
Group Life COVID-19 Mortality Survey Update - 2Q24 Report	Complete an update on a mortality study assessing the impact of COVID-19 on Group Life Insurance.	8/31/2024
GRET for 2025 - Create Factors	Develop the Generally Recognized Expense Table (GRET) for 2025	9/30/2024
Conversion of Mortality and Lapse Experience - Report	Conduct a mortality and lapse experience study on the converted life insurance policies.	12/1/2025

20

20

Practice Research

Project Name	Objective	Link/Expected Completion Date
Mortality and Race	Summarize available literature on mortality and race and discuss actuarial aspects.	https://www.soa.org/resources/research-reports/2024/mortality-and-race-and-ethnicity-us/
Maternal Mortality	Study maternal mortality in US and compare to other countries	https://www.soa.org/resources/research-reports/2024/maternal-mort-lit-review/
2022 Mortality by socioeconomic category update	Update mortality by socioeconomic lifetables with 2020 data and examine the impact of COVID 19 on socioeconomic mortality trends	https://www.soa.org/resources/research-reports/2024/covid-socioeconomic-mortality/
Modeling and Forecasting Premature Cardiovascular Mortality	Examine cardiovacular disease mortality trends	https://www.soa.org/resources/research-reports/2024/modeling-premature-cardiovascular-mortality/
Redesigning the Life Insurance Underwriting Journey with Behavioral Economics - Scor	Test BE wording for underwriting questions to improve honesty in answers and address under-disclosure of medical conditions	https://www.soa.org/resources/research-reports/2024/redesign-life-ins-underwriting/
Statistical Approaches for Imputing Race and Ethnicity	Outline the various approaches for statistically imputing race and ethnicity in the U.S. along with their strengths and weaknesses to help familiarize actuaries with these techniques.	https://www.soa.org/resources/research-reports/2024/stat-methods-imputing-race-ethnicity/
Review of Offshore Life and Annuity Jurisdictions Reinsurance Landscapes	Examine the offshore reinsurance landscapes	10/31/2024
ALM Practices	Conducts a survey of current ALM practices focused on various life insurance company products with attention paid to issues such as general account vs. separate account product distinctions.	9/30/2024
Using Behavioral Science to Improve Consumers' Comprehension and Appreciation of Life Insurance Products - RGA	Test and improve the life insurance communication using BE	7/29/2024
Fairness Metrics for Life Insurance	Identify and discuss a variety of quantitative metrics that could be used to evaluate fairness of life insurance products under different definitions of fairness.	10/31/2024
Mortality and Morbidity Impact of COVID-19 Beyond the Acute Phase	Study and quantify the excess death and excess morbidity impacts of the COVID-19 pandemic beyond the acute phase	9/30/2024
Expert Opinion on Impact of COVID-19 on Future Mortality - Survey 3	Survey panel of experts on short and mid term thoughts on future population and insured mortality	10/1/2024
U.S. Drug Abuse Epidemic: Past Present and Future	Create a resource that examines the evolution of the U.S. drug epidemic and outlook of the impact on future mortality.	1/15/2025

SOA Research INSTITUTE

21

21



22

Negative Interest Maintenance Reserve (IMR) Reflection in Principle-Based Reserving (PBR) and Asset Adequacy Testing (AAT)

Rachel Hemphill, Ph.D., FSA, FCAS, MAAA
PBR Chief Actuary, Texas Department of Insurance (TDI)
Chair: NAIC Life Actuarial (A) Task Force (LATF)

1

1

LATF Past Guidance on Negative IMR

On 10/31/22, the ACLI raised a concern that there was a "double hit" with negative IMR not being admitted but interpreted by companies as needing to be reflected for PBR and AAT/cashflow testing (CFT).

On 12/15/22, LATF approved guidance that negative IMR that is not admitted does not need to be allocated for PBR or AAT.

On 8/31/23, LATF adopted APF 2023-08 clarifying the allocation of negative Interest Maintenance Reserve (IMR) as well as IMR Guidance for year-end 2023 and 2024 and an optional IMR Template.

2

2

Valuation Manual Changes

APF 2023-08 clarified explicitly that any IMR that is not admitted should not be reflected in PBR or AAT/CFT.

Admitted negative IMR would continue to be reflected.

For AAT/CFT, the edits in VM-30 Section 3.B.5 were:

- *5. An appropriate allocation of assets in the amount of the IMR, whether positive or negative, shall be used in any asset adequacy analysis. In performing the allocation, any portion of the total company IMR balance that is not admitted under statutory accounting procedures shall first be removed.*

3

3

LATF Guidance

IMR Guidance

LATF's IMR Guidance clarified that this same treatment should apply for year-end 2023 and 2024, based on the current requirements for an "appropriate" and "reasonable" allocation.

4

4

IMR Reporting Template

Optional IMR Template.

IMR and Relevant Annual Statement Reporting

1 General Account IMR	2 Separate Account IMR	3 RBC	4 General Account Capital and Surplus	5 Admitted net negative (disallowed) IMR

RBC Flag:	Ok		
Capital and Surplus Flag:	Ok		

IMR and Relevant 9/30 Statement Reporting (to be completed if 9/30 data is used for AAT)

1 General Account IMR	2 Separate Account IMR	3 RBC	4 General Account Capital and Surplus	5 Admitted net negative (disallowed) IMR

RBC Flag:	Ok		
Capital and Surplus Flag:	Ok		

5

5

IMR Reporting Template

Optional IMR Template.

Reflection of IMR in Asset Adequacy Testing and Principle-Based Reserving

1 Reporting Basis	2 As of Quarter	3 Amount of IMR Allocated	4 Amount of admitted net negative (disallowed) IMR Allocated	5 IMR Allocation Basis	6 Included in Starting Assets? (Y/N)	7 Does the allocated admitted net negative (disallowed) IMR included in the starting assets generate future income? (Y/N)
VM-30 (AAT)						
VM-21						
VM-20: Term Reserving Category						
VM-20: ULSG Reserving Category						
VM-20: All Other Reserving Category						

6

6

© 2024 National Association of Insurance Commissioners

Reporting Issues seen for Year-End 2024

1. Negative IMR is Admitted, but 0 IMR is reported in the Actuarial Opinion.
2. Negative IMR is Admitted, but IMR is reported as a positive amount in the Actuarial Opinion.
3. Negative IMR is Admitted, but a substantially smaller magnitude IMR is reported as reflected in the Actuarial Opinion.

7

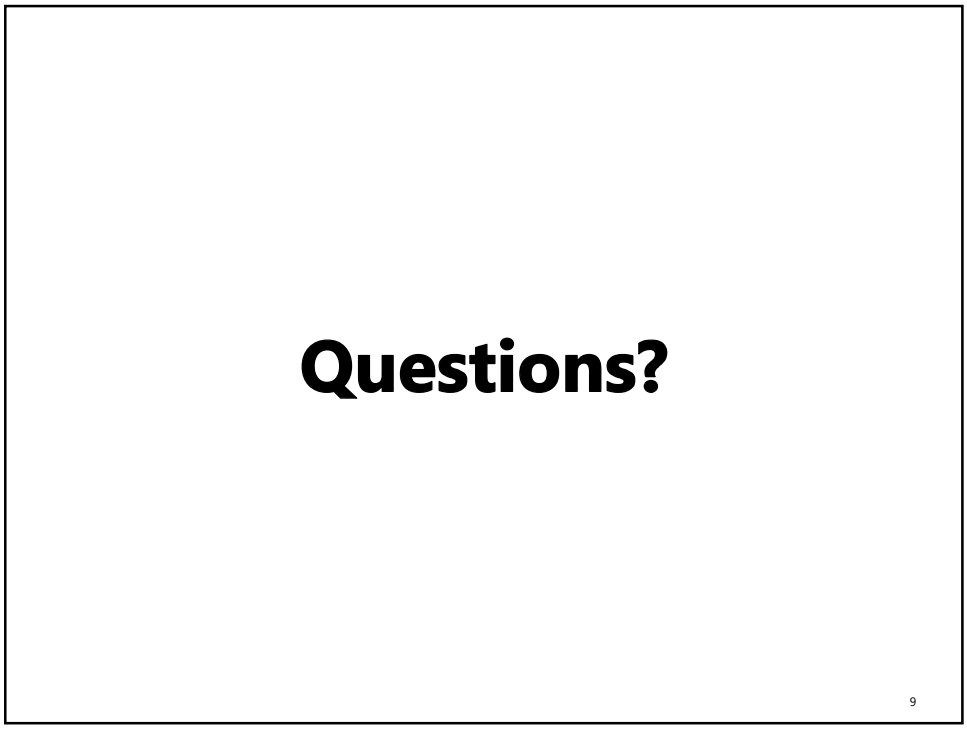
7

Concern and Recommendations

- Concern: Negative IMR is admitted, but overstated reserves (not appropriately adjusted to include the admitted negative IMR) may be used for CFT and PBR.
- Recommendation: Regulators may want to request a reconciliation of reported admitted negative IMR to the reported IMR reflected for PBR and CFT, and may use the IMR Template to do so, from domestic companies that have admitted negative IMR.
- Recommendation: Companies may want to proactively provide a reconciliation of reported admitted negative IMR to the reported IMR reflected for PBR and CFT, and may use the IMR Template.

8

8



9

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Updates on Actuarial Guideline 53

Fred Andersen, FSA, MAAA

8/11/2024

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

1

Notice Regarding Confidentiality

AG 53 provides uniform guidance for the asset adequacy testing, and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements, and continue to remain confidential in nature.

2

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Data Limitations

- Asset information shown in the slides that follow rely on data submitted by companies in their AG 53 templates. The NAIC took steps to review the data for reasonableness. However, the accuracy and reliability of the results are ultimately dependent on the quality of participant submissions.
- Some of the submitted data was adjusted to make it useable and help ensure greater consistency of reporting across companies. For example: 1) units were changed from dollars to millions where necessary; 2) asset types were mapped to those listed in the standard AG 53 template for companies that substituted different asset descriptions; 3) aggregated initial asset summary templates were created for companies that provided templates by segment but not in total; 4) templates submitted as PDFs were converted to Excel.
- Some companies did not submit AG 53 templates or did not complete all of the AG 53 template tabs.

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

3

Agenda

1. Review activities
2. Data summaries
   - Projected Allocations
   - Investments by Tranche
   - Payment in Kind
3. Other Updates

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

4

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Review Activities

- High assumed net yields continue to be a focus
  - Outreach between VAWG and domestic regulators is in progress
- Looking at a wider variety of issues compared to last year
  - Information submitted in response to the Guidance Document and
  - The more refined set of data submitted with the AG 53 templates **(focus for today)**
- Sections of reports addressing Reinsurance Collectability Risk are being reviewed

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

5

Projected Allocations – AG 53 template

Projected Asset Allocation

Asset Type	Year 5	Year 10	Year 20	Year 30
Treasuries and Agencies	0%	0%	0%	0%
Public Non-Callable, Non-Convertible Corporate Bonds[1]	0%	0%	0%	0%
Callable Bonds	0%	0%	0%	0%
Convertible Securities[2]	0%	0%	0%	0%
Floating Rate Corporate Notes	0%	0%	0%	0%
Municipal Bonds	0%	0%	0%	0%
Other Private Bonds	0%	0%	0%	0%
Non-Convertible Preferred Stock	0%	0%	0%	0%
Agency Mortgage Backed Securities	0%	0%	0%	0%
Non-Agency Commercial Mortgage Backed Securities	0%	0%	0%	0%
Non-Agency Residential Mortgage Backed Securities	0%	0%	0%	0%
Collateralized Loan Obligations	0%	0%	0%	0%
Other Asset Backed Securities	0%	0%	0%	0%
Equities or Equity-Like Instruments	0%	0%	0%	0%
Real Estate	0%	0%	0%	0%
Mortgage Loans	0%	0%	0%	0%
Schedule BA Assets - Equity-Like Instruments	0%	0%	0%	0%
Schedule BA Assets - Non-Equity-Like Instruments	0%	0%	0%	0%
Derivative Instruments	0%	0%	0%	0%
Other - Not Covered Above	0%	0%	0%	0%
Total	**0%**	**0%**	**0%**	**0%**

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

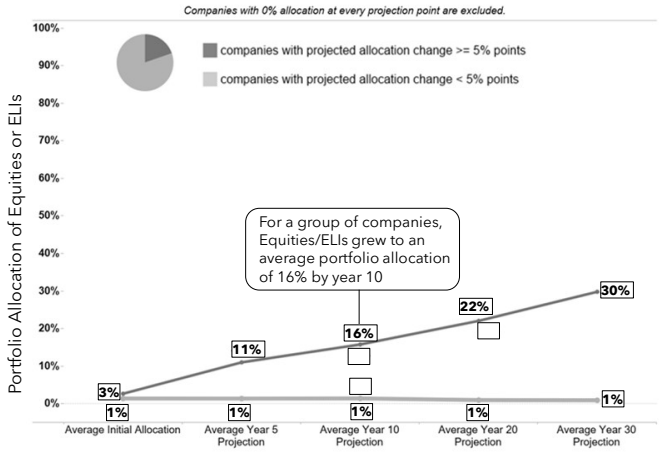
AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

6

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Projected Allocations of Equities or Equity-Like Instruments (ELIs)



- Some companies showed an increasing allocation over time, but most did not

20% of companies investing in Equities/ELIs showed allocations rising by 5% or more from beginning to end

(i.e., allocation at projection year 30 minus initial allocation ≥ 5%)

- As a group, the average allocation changed from 3% to 30% over a 30-year projection

Most (80%) of the companies with Equity/ELI investments had a fairly low and steady allocation across the projection period

- The average allocation was 1% at each reported projection point

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

Issue re: projected allocations

- In some cases, there have been apparent inconsistencies between the projected allocation exhibit and the asset summary exhibit.
- We may pursue further explanation in these cases.

Asset Summary for Asset Adequacy Testing

Asset Type	Amount[1] ($M)	%	P.H.N.Y. Amount ($M)	%	Affiliate[2] Amount ($M)	%	Reinvestment Strategy (%)
Treasuries and Agencies	0.0	0%	0	0%	0	0%	0%
Public Non-Callable, Non-Convertible Corporate Bonds[3]	0.0	0%	0	0%	0	0%	0%
Callable Bonds	0.0	0%	0	0%	0	0%	0%
Convertible Securities[4]	0.0	0%	0	0%	0	0%	0%
Floating Rate Corporate Notes	0.0	0%	0	0%	0	0%	0%
Municipal Bonds	0.0	0%	0	0%	0	0%	0%
Other Private Bonds	0.0	0%	0	0%	0	0%	0%
Non-Convertible Preferred Stock	0.0	0%	0	0%	0	0%	0%
Agency Mortgage Backed Securities	0.0	0%	0	0%	0	0%	0%
Non-Agency Commercial Mortgage Backed Securities	0.0	0%	0	0%	0	0%	0%
Non-Agency Residential Mortgage Backed Securities	0.0	0%	0	0%	0	0%	0%
Collateralized Loan Obligations	0.0	0%	0	0%	0	0%	0%
Other Asset Backed Securities	0.0	0%	0	0%	0	0%	0%
Equities or Equity-Like Instruments	0.0	0%	0	0%	0	0%	0%

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Tranche Ratings – AG 53 template

Tranche Rating and Type for Non-Traditional Assets

Asset Type	CLO	Non-Agency RMBS	Non-Agency CMBS	[Material Other ABS #1]	[Material Other ABS #2]	All Other ABS Assets
Tranche Rating						
AAA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CCC and Lower (Non-Residual)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Unrated (Non-Residual)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Residual	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Allocation across Type						
Broadly Syndicated	0.0%	N/A	N/A	N/A	N/A	N/A
Middle Market	0.0%	N/A	N/A	N/A	N/A	N/A
Payment In Kind (PIK)						
Approximate Percentage of Total Portfolio with PIK Feature	0.0%					
Approximate Percentage of Total Portfolio Currently in PIK Status	0.0%					

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

9

9

Tranche Ratings for Collateralized Loan Obligations (CLOs)

Count of Companies reporting x% of their CLOs in a particular tranche:

	< 20%*	20-39%	40-59%	60-79%	80-100%
AAA	39	38	24	13	9
AA	42	51	15	12	5
A	60	26	23	< 5	< 5
BBB	65	18	5	< 5	< 5
BB	50	5	< 5	< 5	0
B	29	0	0	0	0
CCC and Lower^	14	0	0	0	0
Unrated^	< 5	< 5	0	0	0
Residual	10	< 5	0	0	0

* Excludes 0%
^ Non-Residual

- 39 companies reported that less than 20% of their CLOs are invested in AAA
- A small number of companies invest 100% of their CLOs in the AAA tranche
- Many companies have a small portion of their CLOs in BBB
- Most companies purchase CLOs across a mix of tranche ratings

- ➢ Many companies have CLOs in tranches that are below investment grade
- ➢ The exposures in the below investment grade tranches tend to be small, with exceptions

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

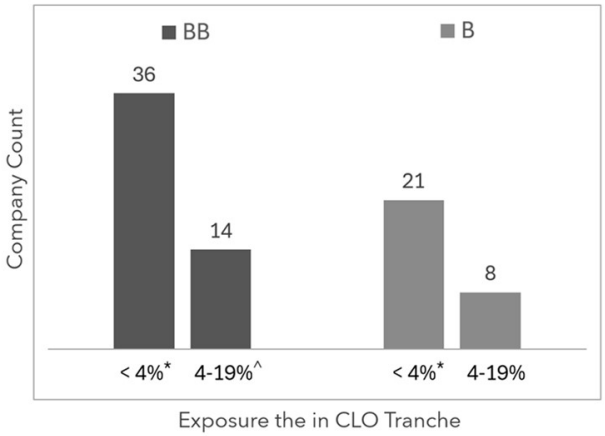
10

10

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Tranche Ratings for Collateralized Loan Obligations (CLOs)

More details for some tranches that are below investment grade:



* Excludes 0%
^ Some companies have more than 19% exposure in BB

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

Payment in Kind (PIK) – AG 53 template

Tranche Rating and Type for Non-Traditional Assets

Asset Type	CLO	Non-Agency RMBS	Non-Agency CMBS	[Material Other ABS #1]	[Material Other ABS #2]	All Other ABS Assets
Tranche Rating						
AAA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CCC and Lower (Non-Residual)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Unrated (Non-Residual)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Residual	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Allocation across Type						
Broadly Syndicated	0.0%	N/A	N/A	N/A	N/A	N/A
Middle Market	0.0%	N/A	N/A	N/A	N/A	N/A
Payment In Kind (PIK)						
Approximate Percentage of Total Portfolio with PIK Feature	0.0%					
Approximate Percentage of Total Portfolio Currently in PIK Status	0.0%					

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Payment in Kind (PIK) – the basics

- An asset with a PIK feature could result in additional debt, equity or some other investment in lieu of cash payments for interest or dividends.
- The presence of a PIK feature in an asset indicates some level of distress or high risk.
- Benefits and risks for the issuer and investor can include:

	Issuer	Investor (insurance company)
Benefit	Conservation of cash, potentially for periods of growth or liquidity constraint	Higher rate of return
Risk	• Rapid increase in debt burden • Diluted equity ownership • Reduced credit rating if the PIK signals financial distress	• Loan may be unsecured and subordinate to the issuer's other debt • Delayed, inconsistent, reduced or no cash interest payments • Large loss from default due to compounded PIK interest added to the debt burden

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

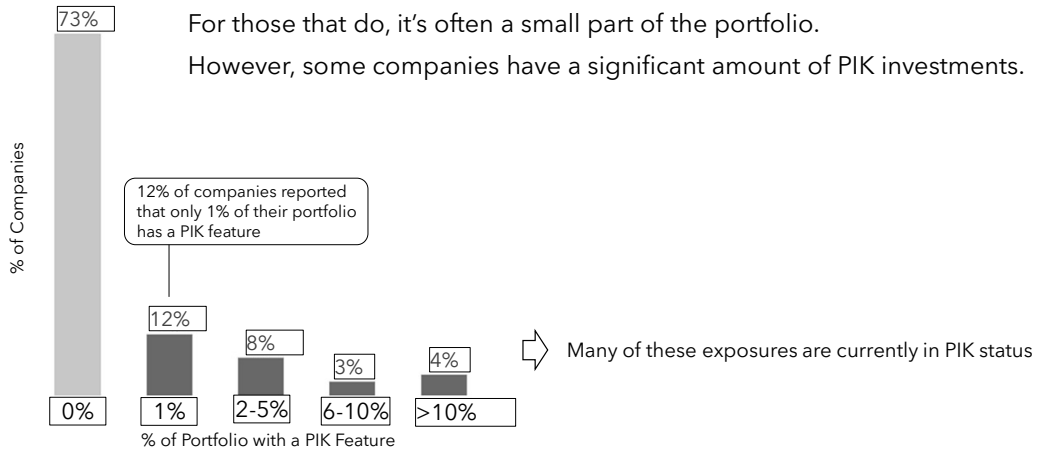
AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

13

13

Payment in Kind (PIK) – AG 53 data summary

- Most companies do not have investments with a PIK Feature.
  For those that do, it's often a small part of the portfolio.
  However, some companies have a significant amount of PIK investments.



NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

14

14

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Reinsurance Collectability Update

- VAWG reviewed targeted companies for YE 2022
- For YE 2023, review was performed on those companies, looking for improvements
- General findings

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

15

Potential Guidance Document additions

- Explanation of any projected allocation deviations from asset summary information
- High-level explanation of process in ensuring alignment of AG 53 assumptions with VM-30 assumptions
- Emphasis that simplifications should not lead to more favorable results
    - e.g., assuming reinvestment in all public, non-callable corporates should not include excessively high assumed net yields

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

16

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Reinsurance Asset Adequacy Testing (AAT)

Life Actuarial Task Force

Fred Andersen, FSA, MAAA

8/11/2024

1

Reinsurance AAT – Today's Discussion

- Move towards developing consensus on concepts
- Walk through strawman Actuarial Guideline (AG) wording

2

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Status of Considerations for Consensus

1. Need for reserve adequacy review beyond or as part of collectability review
2. Materiality threshold for no additional disclosure, attribution analysis, or cash-flow testing
3. More rigorous and/or more frequent analysis to the extent there are significant risks
4. Analysis considerations
5. Aggregation considerations
6. Attribution analysis details
7. Use of information already available
8. Timing of development and implementation of requirements

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

3

3

1. Need for reserve adequacy review

- Beyond or as part of collectability review

- Review involves not just collectability (a.k.a., credit or creditworthiness) related to the reinsurer
- Collectability is only one aspect of ASOP 22, para. 3.1.3
- Rating agencies are likely not analyzing reserve assumptions
- Credit ratings are less meaningful if reserving levels are not adequate

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

4

4

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

1. Need for reserve adequacy review – Initial Recommendation

- LATF participants have communicated the need for US regulators to have information on reasons for reserve decreases due to reinsurance
- Different follow-up options by the domestic regulator may be appropriate, based on their knowledge of the cedant and the transaction
- Proceed with developing an AG on reinsurance AAT

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024
5

5

2. Materiality threshold

- For no additional disclosure, attribution analysis, or cash-flow testing

- Size and impact on company financials will be considered
- Perhaps more "generous" the first year of the AG
  - re: allowing company judgment or having a lower bar to limit analysis and work
- Schedule S, Part 3 can be used to aid in determining materiality
  - Type of reinsurance, type of product
  - Amount in force, reserve credit, modco reserve, funds withheld

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024
6

6

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2. Materiality threshold – Initial Recommendation

- A mix of size / impact on financials and safeguards can determine if and how analysis is performed
- Further discussion on whether CFT should be expected for very large blocks regardless of safeguards such as trusts or funds withheld

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

7

7

3. Risk-based rigor and frequency of analysis

- More rigorous and/or more frequent analysis are applied to the extent there are significant risks, such as
  - VM-30 actuarial memorandum not provided by assuming company to a US regulator
  - Significant reserve decrease due to reinsurance or use of non-primary security to back reserves
  - Collectability risk associated with the reinsurer is significant
  - Perhaps consideration of affiliated status or protections such as trusts or funds withheld
- Generally targeting optimistic judgment on key assumptions or more favorable assumptions where there is not relevant, credible data on key factors
  - Where the optimistic or favorable assumptions lead to a lower level of reserves

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

8

8

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

3. Risk-based rigor and frequency of analysis – Initial Recommendation

- Continue coordinating with interested parties on determining which risks are appropriate to consider when limiting analysis to be performed
- Discuss whether attribution analysis is appropriate as standalone analysis for "moderate risk" cases?

9

4. Analysis considerations

- Rigor
  - Criteria for when cash-flow testing (CFT) is required
  - Attribution analysis in most material cases
    - Where there are significant differences between US statutory reserves and amounts being held by reinsurer without primary security collateral being held for the difference
  - Other types of analysis?
  - Nothing in this AG prevents a state from doing what it's always been allowed to do, requesting CFT where appropriate

10

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

4. Analysis considerations, cont.

- Appointed Actuary should make a statement (perhaps wherever attribution analysis is required):
  - The statement would be on the total reserve amount held being a reasonable estimate of liabilities under moderately adverse conditions
  - With or without consideration of aggregation?
- Frequency
  - Higher risk: annual
  - Lower risk: one time + monitoring
  - How would monitoring potential status changes occur?

4. Analysis considerations – Initial Recommendation

- Continue coordinating with interested parties to:
  - Work out the appropriateness, frequency, and details regarding cash-flow testing
  - Work out the non-primary security backing reserves issue and the relevance to attribution analysis
  - Determine whether the Appointed Actuary should be required to provide a statement on the reasonableness of the Total Reserve to cover moderately adverse conditions

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

5. Aggregation considerations

- Narrative explanation the first year where stand-alone block has deficient reserves due to combining with overly adequate blocks through aggregation.
- How to gain confidence that the other block is actually overly adequate?
- Criteria for use of aggregation
  - Not across counterparties?
  - What if the "overly adequate" block leaves?
- Consider ASOP 22 for guidance
- When do regulators want stand-alone adequacy versus combined?

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

13

13

5. Aggregation considerations – Initial Recommendation

- For sizeable treaties within one counterparty (assuming company), consider combining the cash flows for the purposes of analysis
- Are there treaties of such size and impact that standalone analysis is warranted?
- Likely not allow aggregation of analysis across counterparties
  - But discussions will continue to see if there's some justification

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

14

14

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

6. Attribution analysis details

- Start with Pre-Reinsurance Reserve (US stat for life, known as CARVM for annuities)
- Reserve adjustment from US stat due to assumption differences from baseline:
  - Policyholder behavior assumptions
  - Mortality / longevity assumptions
  - Investment return assumptions versus US stat discount rate

6. Attribution analysis details, cont. (2)

- Other reserve adjustments due to
  - Removal of cash surrender value floor
  - Market value / book value difference due to change in interest rates
  - Moderately adverse to less adverse (or best estimate) conversion
  - Other (other changes to fair value, future cash flows)
- Flexibility for YE 2025 and perhaps beyond
  - Use the "template" or provide similar information explaining reasons for reserve decrease

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

6. Attribution analysis details, cont. (3)

- Result is all of the attribution going from the pre-reinsurance US stat reserve to the post-reinsurance reserve
  - Held by the assuming company or in combination between the assuming company and ceding company
- Commentary would be required regarding the attribution analysis, including re:
  - Total Asset Requirement (TAR) differences between jurisdictions,
  - Any portion of the reserve not backed by primary security
    - Following the definition in Section 4.D. of AG 48
  - Any differences in reflection of expenses, and
  - Any aggregation impact

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

17

17

6. Attribution analysis details – Initial Recommendation

- Allow some flexibility for a company to provide information similar to what would be in the template
- Continue working with interested parties to develop a template that "works" in a high percentage of cases

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

18

18

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

7. Use of information already available

- Reinsurance spreadsheet
  - See Reinsurance Task Force: https://content.naic.org/sites/default/files/committee_related_documents/NAIC%2520-%2520Reinsurance%2520Comparison%2520Worksheet%2520%25206-5-2023_1.xlsx
  - Review, use, coordinate, avoid duplication
  - Before and after reinsurance:
    - Amount of assets
    - Amount of reserves
    - TAR
  - Attribution analysis and CFT would get at the drivers of the reduction in reserves and resulting primary security assets
  - Is this available only for a subset of agreements?

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

19

19

7. Use of information already available, cont.

- ASOP 11 / AG 53 responses for YE 2023
- Coordinating with other jurisdictions, where applicable
  - Would want to ensure insight into, e.g., assumptions, is available

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

20

20

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

7. Use of information already available – Initial Recommendation

- Continue to study the relevance, particularly regarding assumptions, of other information as an appropriate supplement or substitute for attribution analysis or cash-flow testing

21

8. Potential Plan: Timing of Inquiries and Requirements

- Including initial recommendation:
  - 2024: perhaps limited survey / inquiry which can act as a field test
  - YE 2025: new AG effective
    - For treaties effective 1/1/2021 and later?
    - Some flexibility
      - More reliance on company judgment for determining level of rigor of analysis, including materiality (but within criteria established in the AG)
  - YE 2026: The AG could mention more rigor or prescription for year 2

22

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

9. Other issues

- TBD

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

23

23

Draft Skeleton / Strawman Actuarial Guideline

- Provides an idea of how the guideline will look after LATF decides on conceptual issues
- Many iterations, exposures, and public discussion opportunities are anticipated into 2024

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/11/2024

24

24

© 2024 National Association of Insurance Commissioners

Fred Andersen, Minnesota

Some questions to focus on for the strawman draft reinsurance AAT Actuarial Guideline, below:

a) Should the scope of the Guideline be narrow (only including treaties of certain size and impact) or broad and then establish objective and subjective criteria for CFT, less rigorous analysis, or being exempted from analysis within the body?

b) Should at least one-time CFT automatically apply for all of these cases:

- > $5 B reserve credit
- > $1 B & > $2% ceding company gross reserves or $100 M & 10% or $10 M & 20%

Or perhaps not require CFT for large, impactful treaties if certain safeguards are in place?

c) Do we envision attribution analysis as being an alternative to CFT in moderate risk cases or only as being a supplement to other analysis?

d) Does GPV (modeling liabilities but not assets except through a discount rate) have a place on the analysis spectrum even though the focus of the guideline is on asset-intensive business?

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

f) Is it important to analyze risks associated with actual assets supporting reserves if the company is not reliant on aggressive asset returns to support reserves?

g) Should these requirements not apply to reinsurance treaties established prior to a certain date? [Looking at individual treaties, setting that at 2020 or 2021 may leave out a few substantial treaties of interest. Should this mean including more years in the base scope or having a narrower base scope while adding certain treaties in a supplemental scope?]

_____

© 2024 National Association of Insurance Commissioners

AG ReAAT – Straw Man Draft 1

Background

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

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

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

Text

1. Effective date

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

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

2. Scope

   OPTION 1: Narrow scope, some analysis expected for all treaties in the scope

   This Guideline shall apply to all life insurers with:

   A. Reinsurance ceded to entities that are not required to submit a VM-30 memorandum to US state regulators in treaties established 1/1/2016 or later that meet any of the criteria determined <u>by counterparty</u> in subsections (1) through (4) below:

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

© 2024 National Association of Insurance Commissioners

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

(a) $1 billion and

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

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

(a) $100 million and

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

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

(a) $10 million and

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

B. Reinsurance ceded to entities, regardless of treaty establishment date, that results in significant reinsurance collectability risk.

(1) For year-end 2025, significant reinsurance collectability risk is determined according to the judgment of the ceding company's Appointed Actuary

(2) For year-end 2026, [placeholder for more objective guidance?]

OPTION 2: Broader scope for the AG, details on whether analysis is expected is contained in the Analysis sections

This Guideline shall apply to all life insurers with combined reserve credit, funds withheld, and modified coinsurance reserve in excess of: $10 million or 20% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves.

3. Definitions

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

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

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

© 2024 National Association of Insurance Commissioners

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

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

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

G. Total Reserve – The reserve held by the ceding company plus the reserve held by the assuming company minus the amount of reserves held by the assuming company supported with assets other than Primary Security.

Other definitions?

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

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

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

(1) A VM-30 actuarial memorandum not being provided by the assuming company to a U.S. regulator.

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

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

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

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

(a) Rating of counterparty

(b) Capital position and trend of capital position

(c) Regulatory actions against counterparty

(d) Liquidity ratios

(e) Late payments on the agreement

(f) Decline in quality of invested assets

(5) Any potential risks associated with affiliated transactions should be discussed and considered.

C. Risk mitigation - Any potential risks or risk mitigants associated with protections such as trusts or funds withheld may be discussed and considered.

© 2024 National Association of Insurance Commissioners

D. Risk identification for this purpose may involve reinsurance transactions within or outside the U.S.

5. Analysis and Documentation Expectations in Light of Risks

A. Generally, cash flow testing the Total Reserve is most appropriate when there is higher risk, and less rigorous analysis may be appropriate if there is lower risk.

{In what types of cases should CFT be mandatory? Should safeguards such as trusts and funds withheld be considered as a reason not to perform CFT even for the largest, most impactful treaties?}

B. Examples of less rigorous analysis include:

(1) Gross premium valuation or other asset adequacy analysis techniques described in Actuarial Standard of Practice #22

{Is there an example of a type of case where GPV would be expected instead of CFT or attribution analysis if the focus of the AG is on asset-intensive business?}

(2) Attribution analysis

{Are the instances of "moderate risk" where attribution analysis could be the only form of analysis performed?}

C. Some aggregation may be allowed between treaties for a single counterparty subject to the considerations in Section 7.

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

E. Where information on cash flows or any aspect of the analysis is not available, the appointed actuary may use simplifications, approximations, and modeling efficiency techniques if the appointed actuary can demonstrate that the use of such techniques does not make the analysis results more favorable.

6. Attribution Analysis

A. To perform an Attribution Analysis, for each relevant treaty, start with the Pre-reinsurance Reserve and document adjustments from that reserve to get to the Total Reserve.

(1) Adjustments may include the following:

(a) Differences in key assumptions

(i) Policyholder behavior assumptions

(ii) Mortality or longevity assumptions

© 2024 National Association of Insurance Commissioners

(iii) Investment return assumptions versus US statutory discount rates

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

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

(b) Other reserve adjustments due to:

(i) Removal of cash surrender value floor

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

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

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

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

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

C. It may be helpful to perform attribution analysis first between the Pre-reinsurance Reserve and another basis utilized by the cedant (e.g., the cedant's economic basis for the portion of the block ceded) and then from that basis to the Total Reserve.

(1) Please ensure comparison of dollar amounts of different reserves reflect the combined reserve held by the ceding and assuming companies.

D. Provide a narrative explanation, if necessary, to accompany the numbers provided in the attribution analysis template or similar format.

7. Aggregation Considerations

A. Aggregation through subsidy of a Deficient Block by a Sufficient Block should only apply within a counterparty.

{Are there cases where aggregation within a counterparty is inappropriate?}

B. Provide an explanation if additional asset adequacy analysis reserves are not posted related to a Deficient Block, where the reason is aggregation with a Sufficient Block.

C. Where applicable, explain the stability and reliability of a Sufficient Block when it is being used to subsidize a Deficient Block.

8. Documentation

© 2024 National Association of Insurance Commissioners

A. If cash-flow testing is performed, present New York 7 results and key assumptions, along with other results the company selects to disclose.

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

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

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

© 2024 National Association of Insurance Commissioners

Academy Life Practice Council Update

Life Actuarial Task Force (LATF) Meeting

August 12, 2024

Amanda Barry-Moilanen
Policy Analyst, Life

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

AMERICAN ACADEMY of ACTUARIES

1

About the Academy

2

AMERICAN ACADEMY of ACTUARIES

- The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues.
- The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For more information, please visit:

actuary.org

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

AMERICAN ACADEMY of ACTUARIES

2

MS0

2024 Call For Volunteers

3

Visit the website!

- Economic Scenario Generator Subcommittee
- Life Investment and Capital Adequacy Committee
  - C1 Subcommittee
  - C2 Subcommittee
  - LPC Investment Analysis Subcommittee
- LPC Diversity, Equity, and Inclusion Task Force
- Life Experience Committee
- Life GAAP Reporting Committee
- Life Products Committee
  - Index-Linked Variable Annuity Subcommittee
  - Life Underwriting and Risk Classification Subcommittee
  - Life Illustrations Subcommittee
  - Non-Guaranteed Elements Subcommittee
- Life Valuation Committee
  - Variable Annuity Reserves and Capital Subcommittee
  - Annuity Reserves and Capital Subcommittee
  - Life and Health Valuation Law Manual Review Subcommittee
  - Life Reserves Subcommittee
  - PBR Implementation Subcommittee
- Tax Committee

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

3

Annual Meeting—Envision Tomorrow

4

- Join us at Envision Tomorrow *(Oct. 15-16, 2024 | Grand Hyatt Washington, Washington, D.C.)*
- LPC Breakout Sessions
  - Financial Security: Annuities & Long-Term Care
  - Solvency Regulation: How Did We Get Here?

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

4

Slide 3

MS0 Insert “About the Academy Slide” as slide #2.
Matthew Sonduck, 2024-08-05T16:36:01.727

© 2024 National Association of Insurance Commissioners

2024 Life & Health Law Valuation Manual

5

PRIVACY.FLOWCODE.COM

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

5

Recent Activity

6

Released a resource and discussion guide on guaranteed living benefits.

Delivered comments to LATF on “Reinsurance AAT Concepts" and "Reinsurance AAT Attribution Analysis" exposures.

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

6

Recent Activity—(Cont'd)

7

Delivered comments to Financial Accounting Standards Board (FASB) on the exposure draft of Chapter 6: Measurement, of Concepts Statement No. 8, Conceptual Framework for Financial Reporting

Delivered comments to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group on the Oliver Wyman Report on Asset-Backed Securities Residual Tranches exposed by the Working Group at the Spring National Meeting.

Delivered comments to the Variable Annuities Capital and Reserve (E/A) Subgroup on the exposure draft of APF 2024-07 that proposes updates to the VM-21 Standard Projection Amount assumptions.

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

7

Recent Activity—(Cont'd)

8

Delivered comments to LATF on LATF's "AAT Reinsurance Exposure 031724."

Delivered comments to Risk-Based Capital Investment Risk and Evaluation (E) Working Group on the exposed interim residual tranche proposal by Everlake Life Insurance Company.

Delivered comments to the Colorado Division of Insurance on the ACLI draft proposed quantitative testing regulation, "Concerning Quantitative Testing of External Consumer Data and Information Sources, Algorithms, and Predictive Models Used for Life Insurance Underwriting for Unfairly Discriminatory Outcomes."

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

8

Ongoing Activity

9

- Ongoing support for the VM-22 Field Test
- Updating the Model Governance Practice Note
- Updating the Illustrations Practice Note
- Updating the Credit for Life Reinsurance Practice Note
- Updating the Asset Adequacy Analysis Practice Note
- Developing a Non-Guaranteed Elements Practice Note
- Developing a VM-22 Practice Note

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

9

Academy Webinars and Events

10

Recent

- In-person PBR Bootcamp
- Update on NAIC Generator of Economic Scenarios (GOES) Project

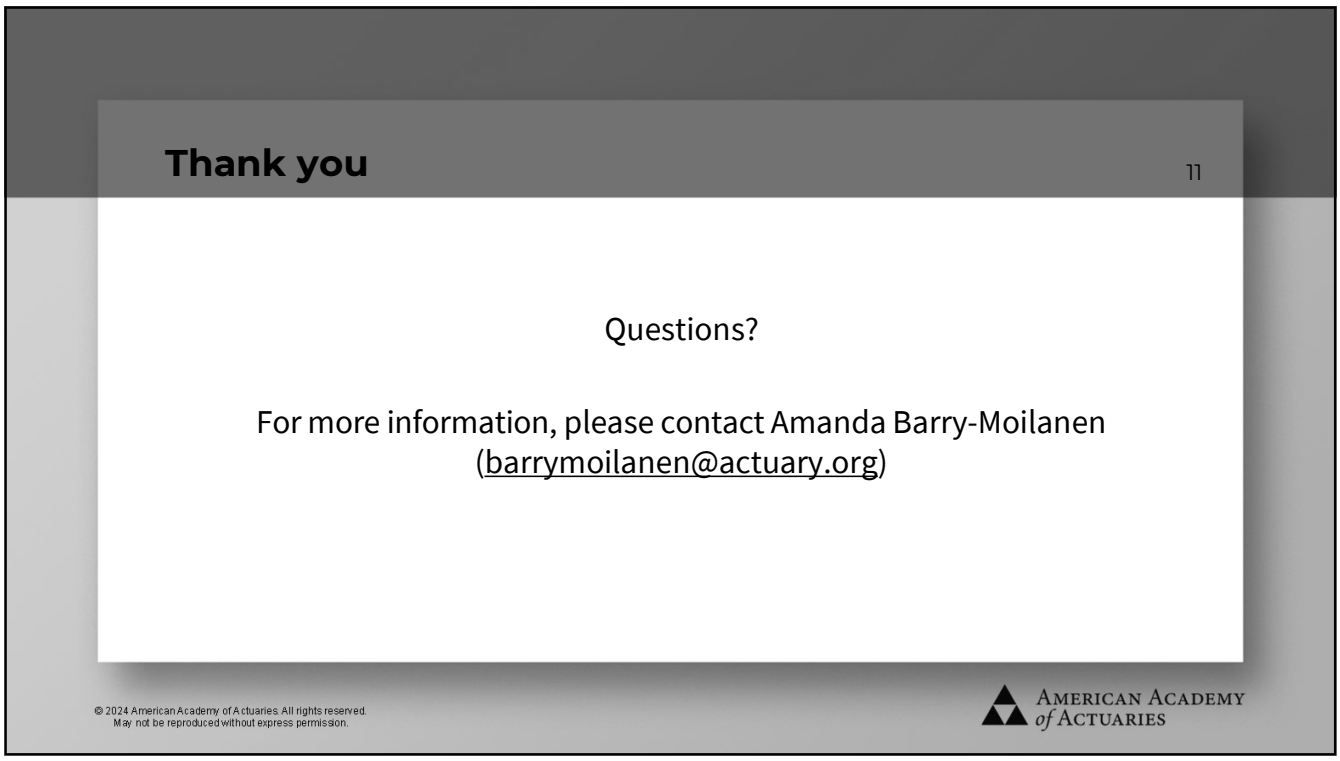
Upcoming

- Additional PBR Webinar(s)
- VM-22 Update Webinar
- Envision Tomorrow

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

10


Thank you
11
Questions?
For more information, please contact Amanda Barry-Moilanen (barrymoilanen@actuary.org)
© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.
American Academy of Actuaries

11

American Academy of Actuaries Response to Knowledge Statement Request

Lisa Slotznick
Darrell Knapp
Rhonda Ahrens

August 12, 2024

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

AMERICAN ACADEMY of ACTUARIES

1

About the Academy

2

AMERICAN ACADEMY of ACTUARIES

- The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues.
- The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For more information, please visit:

www.actuary.org

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

AMERICAN ACADEMY of ACTUARIES

2

Agenda

3

- Background
- Process to date
- Review draft language
- Next steps

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

3

Background

4

Request from LATF at 2023 Fall National Meeting

- LATF requested American Academy of Actuaries recommend knowledge statements for life actuaries signing certain Statements of Actuarial Opinion, including for actuaries serving as appointed actuaries, as illustration actuaries, and as qualified actuaries for principle-based reserves.
- HATF, although not making a formal request, raised a similar discussion in its meeting.

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

4

Process To Date

5

- Styled after the casualty knowledge statements that were developed by the NAIC's Casualty Actuarial Task Force
- Leveraged materials from the Academy's Life and Health Qualification Standards
- Focused on appointed actuaries first, both life and health
- Several regulator-only meetings to discuss preferences and strategy

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

5

Important Considerations

6

- The knowledge statements provided are recommendations in response to the LATF request and the HATF discussion.
- Knowledge statements are not a position of the Committee on Qualifications, and future use and modification of these recommendations are the responsibility of LATF and HATF.
- The knowledge statements focused on additional knowledge that an actuary should have to perform specifically identified tasks. This does not include basic knowledge of actuarial mathematics, accounting, economics, and risk theory that all actuaries should have (primarily knowledge demonstrated prior to the associateship level in either the Society of Actuaries or the Casualty Actuarial Society).
- Fulfillment of the knowledge statements does not imply an actuary is qualified to provide a given opinion. There are additional qualification requirements, and there may be additional knowledge required dependent on the topics covered under the opinion.

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

6

Drafted Language for Appointed Actuary

7

- The knowledge statements are broken down into eight groupings—Actuarial Opinion Scope; Laws, Statutes and Regulations; Policy Forms and Coverages; Principles of Insurance and Underwriting; Reserves; Other Considerations; Reinsurance; and Professionalism and Business Skills.
- The first seven groupings largely coincide with the specific topics mentioned in the U.S. Qualification Standards (policy forms and coverages; dividends and reinsurance; investments and valuations of assets and the relationship between cash flows from assets and related liabilities; statutory insurance accounting; valuation of liabilities; and valuation and nonforfeiture laws).

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

AMERICAN ACADEMY of ACTUARIES

7

Next Steps

8

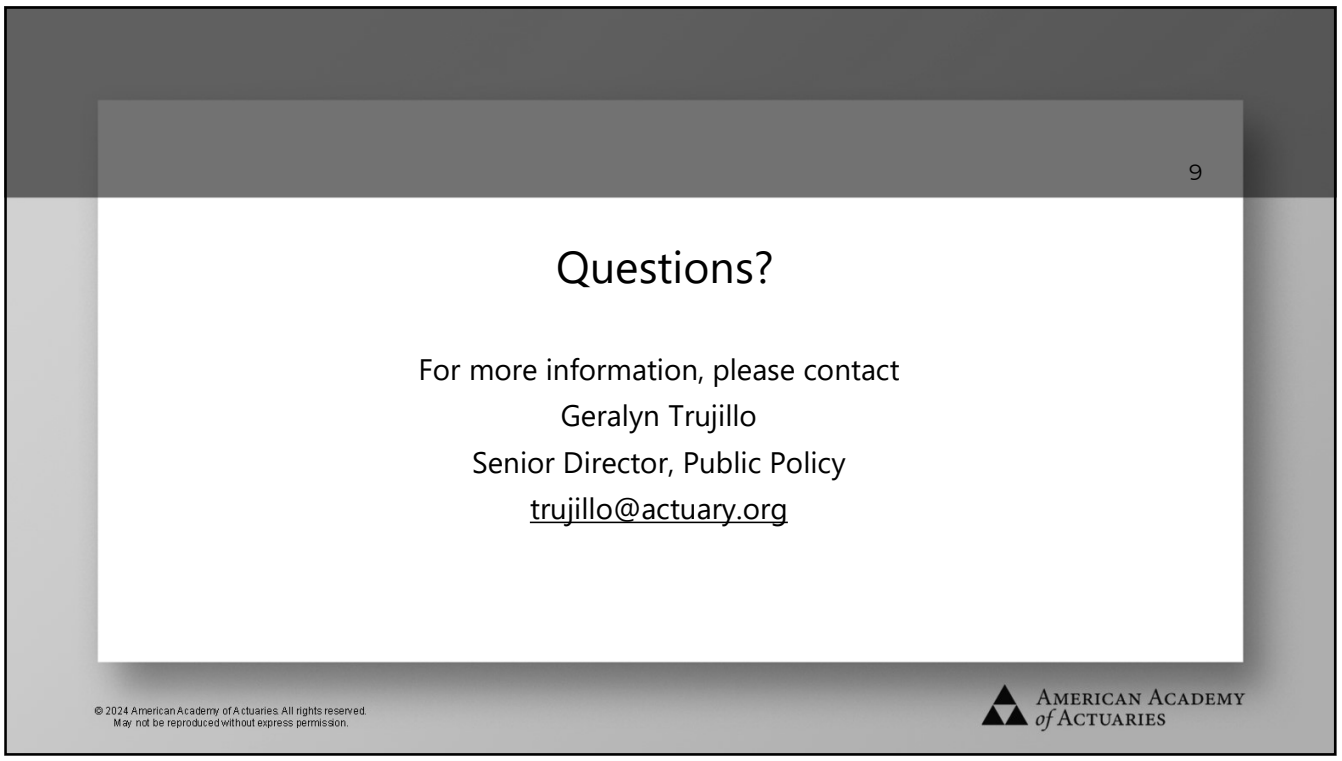
Will continue to draft qualified actuary and illustration actuary knowledge statements (*drafts anticipated before Fall National Meeting).* We anticipate the qualified actuary draft will be a subset of the appointed actuary statement.

In November, the completed drafts will be submitted to LATF.

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

AMERICAN ACADEMY of ACTUARIES

8


9
Questions?
For more information, please contact
Geralyn Trujillo
Senior Director, Public Policy
trujillo@actuary.org
© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.
American Academy of Actuaries

9



August 1, 2024

Rachel Hemphill, Chair
Craig Chupp, Vice Chair
Life Actuarial (A) Task Force
National Association of Insurance Commissioners (NAIC)
1100 Walnut Street, Ste 1000
Kansas City, MO 64106

Re: Draft Knowledge Statements for Life and Health Actuaries

Dear Chair Hemphill and Vice Chair Chupp,

On behalf of the American Academy of Actuaries (Academy),[1] I appreciate the opportunity to share an update regarding the Life Actuarial (A) Task Force's (LATF) request following the Fall National Meeting in Orlando.

In your November 30, 2023, letter, you requested that the Academy develop knowledge statements that outline the knowledge necessary for life actuaries signing certain statements of actuarial opinion, including the roles of appointed actuary, illustration actuary, and qualified actuary for principles-based reserves. After meeting with you and several of the members of LATF and the Health (B) Actuarial Task Force (HATF) to better understand your expectations, the Academy has drafted the attached materials. This draft reflects our initial effort to develop such knowledge statements for appointed actuary roles for the blue blank filings (life). After LATF's review of these knowledge statements, we intend to develop the subsequent knowledge statements for qualified actuary and illustration actuary. We anticipate that the knowledge statements for qualified actuary will be a subset of the knowledge statements for an appointed actuary.

The drafted knowledge statements are intended to reflect a baseline level of knowledge that the actuary should have for a designated role. Meeting this baseline level of knowledge does not imply that an actuary is qualified to issue the specified actuarial opinion. The *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* (USQS) has many components of qualification beyond the baseline level of knowledge. In addition, there

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

1850 M Street NW Suite 300 Washington, DC 20036 | Telephone 202-223-8196 | Facsimile 202-872-1948 | actuary.org

© 2024 National Association of Insurance Commissioners

may be certain situations where the specified actuarial opinion is so limited in scope that some components of the baseline level of knowledge are not necessary.

The knowledge statements were developed by a group of Academy volunteers and have not been subject to a formal exposure process. As such, they should not be interpreted to be prescriptive or to be an interpretation of the USQS.

The Academy is pleased to be able to assist LATF in this analysis. We appreciate your ongoing collaboration and feedback on this effort. Per your original request, we do expect that the final drafts will be submitted to LATF before the end of 2024. If you have any further questions, please feel free to contact Geralyn Trujillo, senior director of public policy (trujillo@actuary.org, 202-785-7875).

Sincerely,

Lisa Slotznick, President
American Academy of Actuaries

cc: Scott O'Neal, NAIC

1850 M Street NW Suite 300 Washington, DC 20036 | Telephone 202-223-8196 | Facsimile 202-872-1948 | actuary.org

Knowledge Statements for Appointed Actuary for Life Blank

These knowledge statements would apply to Appointed Actuary for Life and apply to the Life, Accident and Health Annual Statement, also known as the Life Blank or Blue Blank for the Life A&H Annual Statement and Fraternal Annual Statement.

As stated within the Valuation Manual, Chapter 30 (VM-30), the requirements for an actuary to qualify as the Appointed Actuary and be permitted to sign the Actuarial Opinion, as stated in VM-30, Section 3.A.4., explains that the Appointed Actuary should be:

- A member of the American Academy of Actuaries (Academy);
- Appointed in accordance with the requirements of the Valuation Manual; and
- Meet the qualification standards set forth by the Academy for rendering the opinion.

The Academy qualification standards for rendering the opinion are in the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (USQS), effective January 1, 2022. The standards were revised from prior editions of this qualification standard and therefore specifically apply to actuaries issuing Statements of Actuarial Opinion (SAO) starting on January 1, 2023. Furthermore, such actuaries need to meet the continuing education (CE) requirements before issuing any SAO.

Section 2.1 of the USQS specifies the Basic Education and Experience Requirements, stating that an actuary should have achieved the following:

- Through education or mutual recognition, received a Fellow or Associate designation from either the Society of Actuaries (SOA) or the Casualty Actuarial Society (CAS). It is important to note that this would most likely be the SOA for an actuary issuing an opinion related to the Life/Blue Blank.
- Membership in the Academy.
- Three years of responsible actuarial experience, which is defined as work that requires knowledge and skill in solving actuarial problems.
- Be knowledgeable, through education or documented professional development, of
    1. U.S. Law, including statues, regulations, judicial decisions, and other statements having legally binding authority, applicable to the SAO, and
    2. U.S. actuarial practices and principles.
- Have either
    1. Obtained Fellowship in the CAS or SOA. In addition to obtaining this fellowship, the actuary must:
        i. Have completed education relevant to the subject of the SAO. Such education may have been obtained in attaining the fellowship designation or highest possible designation of a non-U.S. actuarial organization, or by completing additional education relevant to the subject of the SAO; or
        ii. Have a minimum of one year of responsible actuarial experience in the particular subject relevant to the SAO, under the review of an actuary who

© 2024 National Association of Insurance Commissioners

was qualified to issue the SAO at the time the review took place under the USQS in effect at the time.

OR

2. Have a minimum of three years of responsible actuarial experience in the particular subject relevant to the SAO, under the review of an actuary who was qualified to issue the SAO at the time the review took place under the USQS in effect at that time.

Section 3 of the USQS specifies the Specific Qualification Standards beyond those required to satisfy the General or Basic Education and Experience requirements. For issuing Life, A&H, and Fraternal SAO, this includes examinations administered by either the Academy or SOA covering

(a) policy forms and coverages,

(b) dividends and reinsurance,

(c) investments and valuations of assets and the relationship between cash flows form assets and related liabilities,

(d) statutory insurance accounting,

(e) valuation of liabilities, and

(f) valuation and nonforfeiture laws.

Alternatively, this education may be acquired through responsible work or self-study, if another qualified actuary familiar with the work is willing to attest to the knowledge of the opining actuary. To meet the experience requirement, an actuary is required to have at least three years of responsible experience relevant to the Opinion, under the review of another actuary who was qualified to issue the Opinion at the time the review took place.

Note: Because the Life Blank may include Health Reserves, specifically on Exhibits 6 and 8, the life appointed actuary should have exposure to long-duration health products commonly sold by life companies, such as LTC, disability and dread disease products, and therefore will also need to refer to the Health Knowledge Statement.

DRAFTING NOTES: The regulators may allow caveats in the stem since not all statements filed on the Blue Blank will include every item listed in the Knowledge Statement.

To address the regulatory concern of "not knowing what you don't know," a comprehensive listing is a good direction. These knowledge statements should also be seen as a flexible document that keeps old products relevant while being updated to allow for new product concepts along the way

It may be beneficial to include guidance in a cover page or introduction to the knowledge statements that suggests a "best practice" for the actuary, encouraging record keeping of the key items and an explanation of how the actuary met the requirement, such as when they

© 2024 National Association of Insurance Commissioners

achieved a credential or what their 1 or 3 years of experience looked like, which is kept updated. This record is particularly valuable when there are changes within their organization, to help an Appointed Actuary think about and know about when working with a new product.

A. Actuarial Opinion Scope

The Life Actuarial Opinion Scope, per VM-30, Section 3.A.5. states that the scope of the opinion is:

- Exhibit 5 Reserves (Life)
  - Life Insurance
  - Annuities
  - Supplementary Contracts Involving Life Contingencies
  - Accidental Death Benefits
  - Disability Insurance – Active Life Reserves and Disabled Life Reserves
  - Miscellaneous Reserves
- Exhibit 6 Reserves (Accident and Health)
  - Active Life Reserve
  - Claim Reserve
- Exhibit 7
  - Guaranteed Interest Contracts
  - Annuities Certain
  - Supplemental Contracts
  - Dividend Accumulations or Refunds
  - Premium and Other Deposit Funds
- Exhibit 8, Part 1
  - Life
  - Health
- IMR
- AVR
- Unearned Premium Reserve
- Life PBR (VM-20)
- Annuity PBR (VM-21)
- Risk Based Capital (RBC) Requirements, either within the Valuation Manual or otherwise applicable under the Standard Valuation Law
- Forthcoming (applicable) Valuation Manual Sections

- Components of the actuarial opinion and the actuarial memorandum, including types of opinions and prescribed language
- Timing of actuarial opinion and actuarial memorandum

B. Law, Statutes and Regulations

The Appointed Actuary must be able to assess the effect of the legal environment on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties.

© 2024 National Association of Insurance Commissioners

The Appointed Actuary must understand relevant U.S. and state insurance law, regulatory authority, and regulations.

1. Insurance law with respect to its impact on Life, Accident and Health insurance and Fraternal insurers
2. Financial solvency regulation's purpose
3. U.S. federal and state laws and regulations that pertain to the SAO
4. State specific laws, regulations, regulatory authority and rules regarding the preparation of annual statements
5. Principles of statutory accounting and sources of guidance
6. Familiarity with statutory accounting blanks, the NAIC's Accounting Practices and Procedures Manual, including all relevant SSAPs and Actuarial Guidelines.
7. Differentiation between reserves and liabilities
8. Covered versus uncovered liabilities
9. Treatment of reinsurance in statutory accounting, including transfer of risk issues
10. Elements of the RBC formula and the regulatory impact of RBC

C. Policy Forms and Coverages

The Appointed Actuary must be able to assess the effect of insurance coverages and changes therein on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand the types of insurable exposures and related insurance products.

1. Products typically offered by Life, A&H, or Fraternal carriers and associated characteristics including:
    a. Individual Life Insurance
    b. Individual Fixed, Fixed Indexed and Variable Deferred Annuities
    c. Immediate Annuities and Settlement Options, with and without Life Contingencies
    d. Other Supplemental Contracts
    e. Group Life
    f. Group Annuities
    g. GICs and Funding Agreements
    h. Pension Risk Transfer Arrangements
    i. Ancillary Benefits and Riders such as Accidental Death Benefits, Waiver of Premium, etc.
    j. Medical insurance, including individual, small group, large group, self-funded, Medicare advantage, Medicare Part D, Medicare Supplement, Medicaid Managed Care, and short term medical.
    k. Dental and vision insurance.
    l. Disability insurance, both short-term disability and long-term disability
    m. Long-term care.

© 2024 National Association of Insurance Commissioners

n. Other health insurance, including but not limited to, cancer/critical illness and hospital and other fixed indemnity.

2. Features typically offered by Life, A&H or Fraternal carriers and associated characteristics including:
   a. Accelerated Death Benefits
   b. Return of Premium
   c. Critical Illness, Terminal Illness, Long-Term Care and Other Rider Benefits
   d. Guaranteed Death Benefits
   e. Guaranteed Living Benefits
   f. Cash and Nonforfeiture Values

D. Principles of insurance and underwriting

The Appointed Actuary must be able to assess the effect of underwriting and marketing, and changes therein on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand how insurance companies assume risk through marketing and underwriting.

1. Various types of underwriting for each of the coverages and features described in Section C, Policy Forms and Coverages, above, including differences between full underwriting, accelerated underwriting, simplified issue and guaranteed issue.
2. Concept of insurable risk.
3. Product characteristics giving the insured optionality to select against the insurer.
4. Various types of marketing and distribution methods for each of these coverages, as well as the differences in underwriting and/or policyholder behavior that may be associated with each.
5. For products most commonly offered by health carriers and associated characteristics, behavioral choices involved as a form of underwriting, including:
   a. Impact of limited networks and limited coverages
   b. Impact of healthy lifestyle benefits on individual choice
   c. Individual choice relationship to funding sources.
6. Seasonal patterns of claim incurrals for various products.

E. Reserves

The Appointed Actuary must understand and apply reserving methods, analysis, and diagnostics to derive actuarial reserves. Additionally, the Appointed Actuary must understand the company's internal operations and data, external environment, and relevant changes therein. Furthermore, the Appointed Actuary must be able to produce an SAO, an Actuarial Opinion summary, and an Actuarial Report in accordance with the NAIC Annual Statement Instructions and understand and produce the statutory minimum reserve for each product. Also, the Appointed Actuary must

© 2024 National Association of Insurance Commissioners

be knowledgeable of the methods of analysis used, as referred to in VM-30, Section 2.B. This section cites conformance with Actuarial Standards of Practice (ASOPs) and methods of analysis that are deemed appropriate for such purposes by the ASB.

1. All non-modeled reserves, such as formulaic and PBR Net Premium Reserve.
2. Modeled Reserve required by the Valuation Manual (aka Principle-Based Reserve).
    a. Knowledge of models:
        i. Impacts of model simplification.
    b. Knowledge of experience studies and assumption development:
        i. Credibility of data.
        ii. Volatility of assumptions/impact on results.
    c. Appropriate use of margins or assumption pads.
    d. The discount rate and NAER assumptions for PBR reserve, understanding of assets, asset risks, asset returns, reinvestment assumptions.
3. Unearned Premium Reserve.
4. For health products: ALR/Contract Reserve, Unearned Premium Reserve, DLR/Claim Reserve and Premium Deficiency Reserve.
5. Reserves for Base Contract and any riders (if reserved for separately).
6. Interest Maintenance Reserve.
7. Asset Valuation Reserve.
8. Adequacy of Asset Supporting Reserve:
    a. Asset Models and Assumptions related to the asset, risks present in individual assets or types of assets, and return assumptions related to assets.
    b. Reinvestment Assumptions, including the availability of assets in the future for purchase as reinvestment assets, as well as the risks related to the timing of future reinvestments.
    c. How the starting assets and reinvestment strategy impact Net Earned Rate and Discount Rates.
    d. Asset Adequacy Analysis and related SAOs.

F. Other Considerations

1. The Appointed Actuary must understand and the reserving methods for other reserves and liabilities, as well as the placement of various reserve items within the blue blank
2. The Appointed Actuary must understand asset adequacy analysis and how to determine any amount of additional reserves to be established
3. The Appointed Actuary must understand the treatment of reserve changes related to basis, method and assumption changes, and whether they flow through income or surplus, when and how.
4. The Appointed Actuary must understand health reserving considerations (see Health Knowledge Statement, as applicable), to include:
    a. Premium reserves, assets and liabilities typically found in health products, methods for calculating.

© 2024 National Association of Insurance Commissioners

b. Loss reserves, assets and liabilities typically found in health products, methods for calculating (including considerations):
    i. Unpaid claim reserves and liabilities including segmentation into not reported, in course of settlement, due and unpaid and present value of amounts not yet due.
    ii. Contract reserves and gross premium reserves including prescribed minimum assumptions.
    iii. Provider assets and liabilities including the types of contractual provisions that give rise to such assets/liabilities.
c. Claim adjustment expense liability.
d. Elements in calculating premium deficiency reserves.
e. Capitations and risk of provider insolvency.
f. Other actuarial assets often associated with health insurance products, methods for estimating, and necessary conditions for admissibility:
    i. Provider risk sharing receivables
    ii. Loans and advances to providers
    iii. Capitation arrangement receivables
    iv. Pharmacy rebate receivables
    v. Claim overpayment receivables
    vi. Seasonal patterns of claims incurred for various products.

G. Reinsurance

The Appointed Actuary must be able to assess the effect of reinsurance on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand the functions and types of reinsurance, relevant contract features, risk transfer principles, and reinsurance accounting, recognition and collectability issues. The Appointed Actuary must understand basic reinsurance terminology (e.g., limits, retentions/attachment points, quota share, excess of loss, non-proportional, experience refund, allowances, clauses, reinstatements, co-insurance, commissions). The Appointed Actuary must also understand:

1. The function and types of reinsurance.
2. Reinsurance contracts interpretation.
3. Reinsurance contracts to determine the treatment of loss adjustment expenses (LAE) (e.g., within limits, in addition to limits, shared pro rata).
4. Commutations and novations including definition, motivations of parties, accounting treatment, impact (or not) on policyholders.
5. Impact on financial statements from contract qualification criteria for prospective or retroactive reinsurance accounting treatment or deposit accounting treatment.
6. Reinsurance risk transfer testing.
7. Assessing collectability (e.g., sources, rating agencies, letters of credit, news items, amounts in dispute or overdue).
8. The impact of authorized, unauthorized, certified reinsurance on collateral and collectability.

© 2024 National Association of Insurance Commissioners

9. Differences between reinsurance and primary reserving procedures (e.g., adapting methods for available data, type of reinsurance, terms).
10. Factors considered in the evaluation of the applicability of a reinsurance program to an unpaid claim estimate.
11. Possible parameter differences for direct, assumed, gross, ceded and net data (e.g., loss development factors and initial expected loss ratios).
12. Treatment of assets and reserves on the financial statements. (For example, mod-co reserves and assets are held by the cedant; FWH assets, even in a trust, are owned by the cedant; plain-vanilla coinsurance agreements have both parties holding separately calculated assets and liabilities.)
13. Consideration of the treatment of reinsurance by reinsurers outside of US Jurisdiction.

I. Professionalism and Business Skills

The Appointed Actuary must have professional and business skills to enable the Appointed Actuary to perform the required actuarial services in an ethical manner that upholds the reputation of the actuarial profession. The Appointed Actuary must know and adhere to the Code of Professional Conduct, as well as relevant ASOPs and must meet the USQS. The Appointed Actuary must have the professional and business skills to manage the tasks, make informed decisions, communicate effectively with users of the actuary's work products, resolve disagreements, and seek guidance as necessary.

1. Code of Conduct: Familiarity with the Code of Conduct and its application in professional scenarios.
2. USQS: Profound understanding of the USQS.
3. ASOPs and Applicability: Mastery of applicable ASOPs and guidelines for their application. The actuary should refer to the Academy's Applicability Guidelines for help in determining applicable ASOPs.
4. The importance of Documentation of work as discussed in many ASOPs and as required by the Laws and Regulations applicable to the SAO.

Familiarity with the relevant Practice Notes from the Academy is also a valuable component of professionalism.

© 2024 National Association of Insurance Commissioners

2025 GRET Recommendation

Tony Phipps, FSA, MAAA
Chair, SOA Research Institute Committee on Life Insurance Company Expenses
August 12, 2024

Mortality and Longevity

1

1

Agenda

- Methodology
- Recommendation
- Comparison to Prior Years
- Information on Companies in Study

2

2

Presentation Disclaimer

The material and information contained in this presentation is for general information only. It does not replace independent professional judgment and should not be used as the basis for making any business, legal or other decisions. The Society of Actuaries Research Institute assumes no responsibility for the content, accuracy or completeness of the information presented.

SOA Research INSTITUTE

3

3

Methodology

1. Calculate Actual to Expected Expenses
   - Gather data from company Annual Statement submissions - provided by NAIC
   - Apply seed factors to calculate expected expenses.
2. Determine Distribution Channel
   - Survey sent by SOA Research Institute to companies to determine primary distribution channel.
   - For companies that did not respond, used distribution channel previously gathered.
3. Remove outlier companies
4. Analyze data to derive unit expense factors by Distribution Channel

SOA Research INSTITUTE

4

4

Seed Values

Expenses allocated to acquisition and maintenance categories using the same seeds as has been previously used:

- Acquisition/Policy: $200.00
- Acquisition/Face Amount: $1.10
- Acquisition/Premium: 50%
- Maintenance/Policy: $60.00

SOA Research INSTITUTE

5

5

Recommendation for 2025 GRET Factors

Proposed 2025 GRET Factors Based on Average of 2022/2023 Data					
Description	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Company Count
Independent	$204	$1.10	51%	$61	147
Career	227	1.20	57%	68	86
Direct Marketing	239	1.30	59%	72	24
Niche Marketing	131	0.70	33%	39	27
Other*	159	0.90	40%	48	94
* Includes companies that did not respond to this or prior year surveys					378

Current 2024 GRET Factors Based on Average of 2021/2022 Data					
Description	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Company Count
Independent	$198	$1.10	50%	$59	140
Career	206	1.10	52%	62	90
Direct Marketing	217	1.20	54%	65	23
Niche Marketing	132	0.70	33%	40	31
Other*	162	0.90	41%	49	95
* Includes companies that did not respond to this or prior year surveys					379

SOA Research INSTITUTE

6

Comparison to Prior Years

Acquisition per Policy					
Description	2025	Percentage Change	2024	Percentage Change	2023
Independent	$204	3%	$198	10%	$180
Career	227	10%	206	1%	203
Direct Marketing	239	10%	217	10%	197
Niche Marketing	131	-1%	132	-10%	147
Other*	159	-2%	162	6%	153

* Includes companies that did not respond to this or prior year surveys

Acquisition per Unit					
Description	2025	Percentage Change	2024	Percentage Change	2023
Independent	$1.10	0%	$1.10	10%	$1.00
Career	1.20	9%	1.10	0%	1.10
Direct Marketing	1.30	8%	1.20	9%	1.10
Niche Marketing	0.70	0%	0.70	-13%	0.80
Other*	0.90	0%	0.90	0%	0.90

* Includes companies that did not respond to this or prior year surveys

SOA Research INSTITUTE

7

Comparison to Prior Years

Acquisition per Premium					
Description	2025	Percentage Change	2024	Percentage Change	2023
Independent	51%	2%	50%	11%	45%
Career	57%	10%	52%	2%	51%
Direct Marketing	59%	9%	54%	10%	49%
Niche Marketing	33%	0%	33%	-11%	37%
Other*	40%	-2%	41%	5%	39%

* Includes companies that did not respond to this or prior year surveys

Maintenance per Policy					
Description	2025	Percentage Change	2024	Percentage Change	2023
Independent	$61	3%	$59	9%	$54
Career	68	10%	62	2%	61
Direct Marketing	72	11%	65	10%	59
Niche Marketing	39	-3%	40	-9%	44
Other*	48	-2%	49	7%	46

* Includes companies that did not respond to this or prior year surveys

SOA Research INSTITUTE

8

Survey Results

- Percent of survey respondents that that responded that GRET factors are used for individual life sales illustration purposes:

Pecentage of Companies that use GRET Factors	
Survey Year	Percentage
2024	34%
2023	44%
2022	35%
2021	31%
2020	29%
2019	26%
2018	28%
2017	30%

- We believe variation is a result of the mix of respondents and the limited number of responses

SOA Research INSTITUTE

9

9

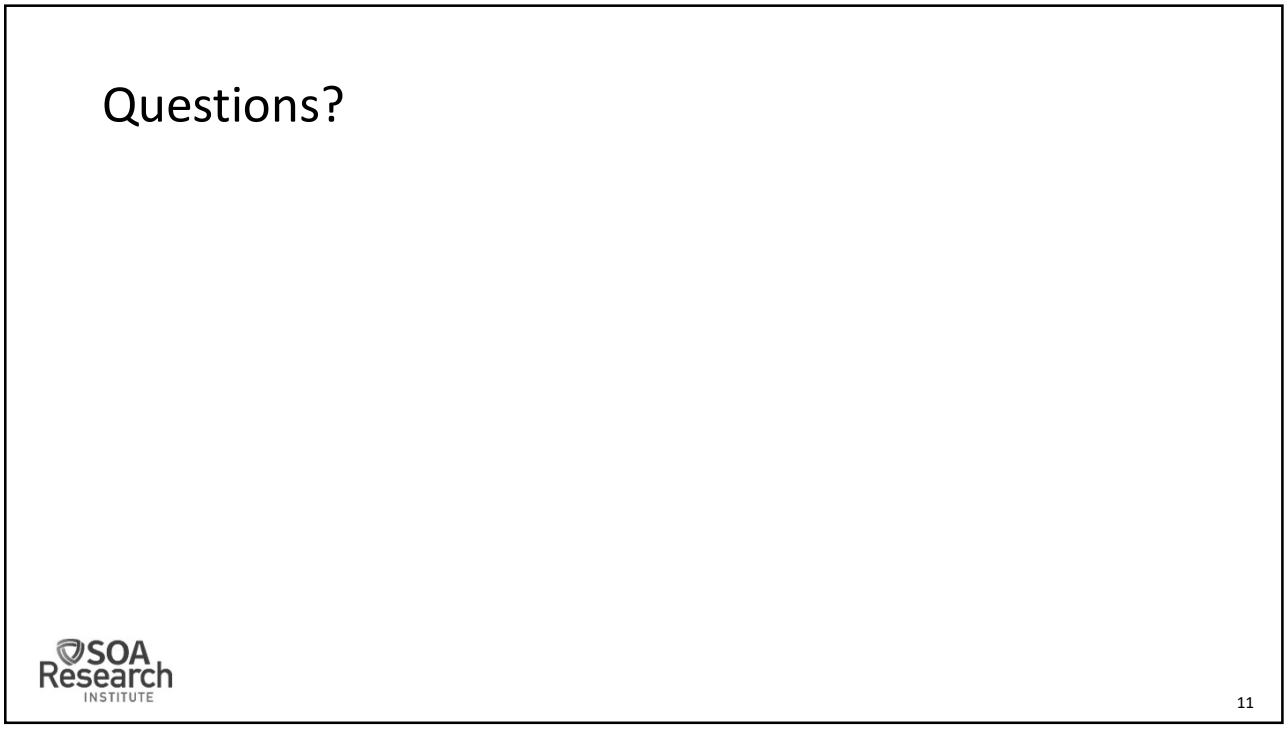
Information on Companies in Study

- NAIC Data extracts included:
  - 2023: 745 companies
  - 2022: 749 companies
- The final companies used in the 2025 GRET calculation was 378, down one from 2024.
- Total ordinary volume issued saw an increase of 3.29% (60.6m) in 2023 after seeing a decrease of 5.12% (91.6m) in the previous year.
- Total ordinary policies issued remained flat (4,262 less policies out of a total of 9.1M)
- This year's survey, 34% of respondents indicated they use GRET factors for individual life sales illustration, returning to the historical range of 31-35%.

SOA Research INSTITUTE

10

10


Questions?
SOA Research INSTITUTE
11

11


SOA Research INSTITUTE

12



8770 W Bryn Mawr Ave, Suite 1000
Chicago, IL 60631
P +1-888-697-3900
soa.org

TO: Rachel Hemphill, Chair, Life Actuarial (A) Task Force

FROM: Pete Miller, ASA, MAAA, Experience Study Actuary, Society of Actuaries (SOA) Research Institute
Tony Phipps, Chair, SOA Research Institute Committee on Life Insurance Company Expenses

DATE: August 1, 2024

RE: 2025 Generally Recognized Expense Table (GRET) – SOA Research Institute Analysis

Dear Ms. Hemphill:

As in previous years, the Society of Actuaries Research Institute expresses its thanks to NAIC staff for their assistance and responsiveness in providing Annual Statement expense and unit data for the 2025 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense-related information reported on each company's 2022 and 2023 Annual Statements. This project has been completed to assist the Life Actuarial Task Force (LATF) in considering potential revisions to the GRET that could become effective for the calendar year 2025. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2022 and 2023. This included data from 749 companies in 2022 and 745 companies in 2023. This decrease resumes the trend of small decreases from year to year. Of the total companies, 378 were in both years and passed the outlier exclusion tests and were included as a base for the GRET factors (379 companies passed similar tests last year).

Approach Used

The methodology for calculating the recommended GRET factors based on this data is similar to that in the last several years. The methodology was last altered in 2015. The changes made then can be found in the recommendation letter sent to LATF on July 30, 2015.

To calculate updated GRET factors, the average of the factors from the two most recent years (2022 and 2023 for those companies with data available for both years) of Annual Statement data was used. For each company, an actual-to-expected (A/E) ratio was calculated. Companies with ratios that fell outside predetermined parameters were excluded. This process was completed three times to stabilize the average rates. The boundaries of the exclusions have been modified from time to time; however, there were no adjustments made this year. Unit expense seed factors (the seeds for all distribution channel categories are the same), as shown in Appendix B, were used to compute total expected expenses. Thus, these seed factors were used to implicitly allocate expenses between acquisition and maintenance expenses, as well as among the three acquisition expense factors (on a direct of ceded reinsurance basis).

Companies were categorized by their reported distribution channel (four categories were used as described in Appendix A included below). There remain a significant number of companies for which no distribution channel was provided, as no responses to the annual surveys have been received from those companies. The characteristics of these companies vary significantly, including companies not currently writing new business or whose major line of business is not individual life insurance. Any advice or assistance from LATF in future years to increase the response rate to the surveys of companies that submit Annual Statements to reduce the number of companies in the "Other" category would be most welcomed. The intention is to continue

© 2024 National Association of Insurance Commissioners

surveying the companies in future years to enable the enhancement of this multiple distribution channel information.

Companies were excluded from the analysis if in either 2022 or 2023, (1) their A/E ratios were considered outliers, often due to low business volume, (2) the average first year and single premium per policy were more than $40,000, (3) they are known reinsurance companies or (4) their data were not included in the data supplied by the NAIC. To derive the overall GRET factors, the unweighted average of the remaining companies' A/E ratios for each respective category was calculated. The resulting factors were rounded, as shown in Table 1.

The Recommendation

The above methodology results in the proposed 2025 GRET values shown in Table 1. To facilitate comparisons, the current 2024 GRET factors are shown in Table 2. Further characteristics of the type of companies represented in each category are included in the last two columns in Table 1, including the average premium per policy issued and the average face amount ($000s) per policy issued.

To facilitate comparisons, the current 2024 GRET factors are shown in Table 2. Further characteristics of the type of companies represented in each category are included in the last two columns in Table 2, including the average premium per policy issued and the average face amount ($000s) per policy issued.

TABLE 1

PROPOSED 2025 GRET FACTORS, BASED ON AVERAGE OF 2022/2023 DATA

DESCRIPTION	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Companies Included	Average Premium Per Policy Issued During Year	Average Face Amt (000) Per Policy Issued During Year
Independent	204	$1.10	51%	61	147	3,008	241
Career	227	1.20	57%	68	86	2,739	218
Direct Marketing	239	1.30	59%	72	24	465	119
Niche Marketing	131	0.70	33%	39	27	649	12
Other*	159	0.90	40%	48	94	869	81
* Includes companies that did not respond to this or prior year surveys					378		

TABLE 2

CURRENT 2024 GRET FACTORS, BASED ON AVERAGE OF 2021/2022 DATA

DESCRIPTION	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Companies Included	Average Premium Per Policy Issued During Year	Average Face Amt (000) Per Policy Issued During Year
Independent	$198	$1.10	50%	$59	140	3,433	222
Career	206	1.10	52%	62	90	2,325	196
Direct Marketing	217	1.20	54%	65	23	767	122
Niche Marketing	132	0.70	33%	40	31	347	10
Other*	162	0.90	41%	49	95	917	80
* Includes companies that did not respond to this or prior year surveys					379		

© 2024 National Association of Insurance Commissioners

In previous recommendations, an effort was made to reduce volatility in the GRET factors from year to year by limiting the yearly change in GRET factors to about ten percent of the prior value. The changes from the 2024 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation.

All GRET factors the Direct Marketing distribution channel and the Acquisition per Unit factor for Career experienced changes greater than ten percent, so the factors for these lines were capped at the ten percent level (or slightly above/below 10% due to rounding of the factor) from the corresponding 2024 GRET values. This volatility occurred due to an increasing median A/E ratio for each distribution channel, which allowed for additional companies with higher A/E ratios to be included in the calculation that were previously dropped. Final GRET A/E medians increased for all distribution types with the largest changes in the Career and Direct Marketing sections.

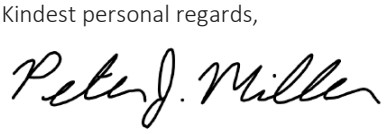
The average premium per policy issued during the year saw a decrease of 518 from last year to this year, accompanying this is a 4,262 policy decrease in policies issued from last year to this year. This increase in A/E medians is due to the 6.4% increase in the average face amount per policy issued for all distribution types.

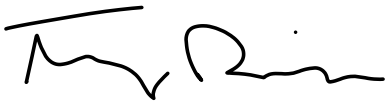
Usage of the GRET

This year's survey, responded to by each company's Annual Statement correspondent, included a question regarding whether the 2024 GRET table was used in its illustrations by the company. Last year, 44% of the responders indicated their company used the GRET for sales illustration purposes, which is much higher than previous years, typically around 31-35% of companies indicate their usage of GRET. This year, 34% of responding companies indicated they used the GRET in 2024 for sales illustration purposes. The range covered all distribution methods, including 20% for Independent, 63% for Career, 80% for Direct Marketing, and 17% for Niche Marketers. Based on the information received over the last several years, the variation in GRET usage appears to be in large part due to the relatively small sample size and different responders to the surveys.

We hope LATF finds this information helpful and sufficient for consideration of a potential update to the GRET. If you require further analysis or have questions, please contact Pete Miller at 847-706-3566.

Kindest personal regards,





Pete Miller, ASA, MAAA
Experience Studies Actuary
Society of Actuaries Research Institute

Tony Phipps, FSA, MAAA
Chair, SOA Research Institute Committee on
Life Insurance Company Expenses

Appendix A – Distribution Channels

The following is a description of distribution channels used in the development of recommended 2023 GRET values:

1. Independent – Business written by a company that markets its insurance policies through an independent insurance agent or insurance broker not primarily affiliated with any one insurance company. These agencies or agents are not employed by the company and operate without an exclusive distribution contract with the company. These include most PPGA arrangements.

2. Career – Business written by a company that markets insurance and investment products through a sales force primarily affiliated with one insurance company. These companies recruit, finance, train, and often house financial professionals who are typically referred to as career agents or multi-line exclusive agents.

3. Direct Marketing – Business written by a company that markets its own insurance policies direct to the consumer through methods such as direct mail, print media, broadcast media, telemarketing, retail centers and kiosks, internet, or other media. No direct field compensation is involved.

4. Niche Marketers – Business written by home service, pre-need, or final expense insurance companies as well as niche-market companies selling small face amount life products through a variety of distribution channels.

5. Other – Companies surveyed were only provided with the four options described above. Nonetheless since there were many companies for which we did not receive a response (or whose response in past years' surveys confirmed an "other" categorization (see below), values for the "other" category are given in the tables in this memo. It was also included to indicate how many life insurance companies with no response (to this survey and prior surveys) and to indicate whether their exclusion has introduced a bias into the resulting values.

© 2024 National Association of Insurance Commissioners

Appendix B – Unit Expense Seeds

The expense seeds used in the 2014 and prior GRETs were differentiated between branch office and all other categories, due to the results of a relatively old study that had indicated that branch office acquisition cost expressed on a per Face Amount basis was about double that of other distribution channels. Due to the elimination of the branch office category in the 2015 GRET, non-differentiated unit expense seeds have been used in the current and immediately prior studies.

The unit expense seeds used in the 2024 GRET and the 2023 GRET recommendations were based on the average of the 2006 through 2010 Annual SOA expense studies. These studies differentiated unit expenses by type of individual life insurance policy (term and permanent coverages). As neither the GRET nor the Annual Statement data provided differentiates between these two types of coverage, the unit expense seed was derived by judgment based this information. The following shows the averages derived from the Annual SOA studies and the seeds used in this study. Beginning with the 2020 Annual Statement submission this information will become more readily available.

2006-2010 (AVERAGE) CLICE STUDIES:

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
Term				
Weighted Average	$149	$0.62	38%	$58
Unweighted Average	$237	$0.80	57%	$76
Median	$196	$0.59	38%	$64
Permanent				
Weighted Average	$167	$1.43	42%	$56
Unweighted Average	$303	$1.57	49%	$70
Median	$158	$1.30	41%	$67

CURRENT UNIT EXPENSE SEEDS:

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$200	$1.10	50%	$60

© 2024 National Association of Insurance Commissioners

HEALTH INSURANCE AND MANAGED CARE (B) COMMITTEE

Health Insurance and Managed Care (B) Committee Aug. 15, 2024, Minutes 6-2
Health Insurance and Managed Care (B) Committee July 26, 2024, Minutes (Attachment One) 6-7
Health Insurance and Managed Care (B) Committee June 13, 2024, Minutes (Attachment Two) 6-8
Health Actuarial (B) Task Force Memorandum to the Committee on a Cost-Sharing Reduction Referral (Attachment Two-A) 6-12
Consumer Information (B) Subgroup July 29, 2024, Minutes (Attachment Three) 6-20
Prior Authorization Consumer Guide (Attachment Three-A) 6-21
Consumer Information (B) Subgroup June 18, 2024, Minutes (Attachment Four) 6-24

© 2024 National Association of Insurance Commissioners

Draft: 8/21/24

Health Insurance and Managed Care (B) Committee
Chicago, Illinois
August 15, 2024

The Health Insurance and Managed Care (B) Committee met in Chicago, IL, Aug. 15, 2024. The following Committee members participated: Anita G. Fox, Chair (MI); Grace Arnold, Co-Vice Chair (MN); Glen Mulready, Co-Vice Chair (OK); Trinidad Navarro (DE); John F. King (GA); Dean L. Cameron (ID); D.J. Bettencourt (NH); Alice T. Kane represented by Viara Ianakieva (NM); Andrew R. Stolfi represented by Alex Cheng and Cassie Soucy (OR); Michael Humphreys (PA); Alexander S. Adams Vega represented by Maria Morcelo (PR); Jon Pike (UT); Mike Kreidler represented by Ned Gaines (WA); and Allan L. McVey (WV). Also participating were: Paul Lombardo (CT); Andria Seip (IA); Joanna Coll (IL); Vicki Schmidt (KS); Kevin P. Beagan (MA); Mary Kwei (MD); Chrystal Bartuska and John Arnold (ND); and Maggie Reinert (NE).

1. Adopted its July 26, June 13, and Spring National Meeting Minutes

The Committee met July 26. During this meeting, the Committee adopted the Regulatory Framework (B) Task Force's revised 2024 charges, which revised the 2024 charges for the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup.

The Committee also met June 13. During this meeting, the Committee took the following action: 1) adopted revisions to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51); 2) adopted revisions to Valuation Manual (VM)-26, Section 3B—Contract Reserves for Credit Disability Insurance; 3) adopted the Health Actuarial (B) Task Force's revised 2024 charges; 4) discussed the Health Actuarial (B) Task Force's findings from its review and discussion of an issue the Committee referred to the Task Force late last year on how possible changes to the cost sharing reduction (CSR) subsidy, like changes to silver loading, could impact plan options and costs to consumers; and 5) heard a presentation from the Center for Insurance Policy and Research (CIPR) on findings from a case study the CIPR completed as part of its Network Adequacy Project: Compensation of Travel Costs for In-Network Care in Mississippi.

Commissioner McVey made a motion, seconded by Commissioner King, to adopt the Committee's July 26 (Attachment One), June 13 (Attachment Two), and March 18 (*see NAIC Proceedings – Spring 2024, Health Insurance and Managed Care (B) Committee*) minutes. The motion passed unanimously.

3. Adopted its Subgroup, Working Group, and Task Force Reports

Commissioner Arnold made a motion, seconded by Commissioner Mulready, to adopt the following reports: 1) the Consumer Information (B) Subgroup, including its July 29 (Attachment Three) and June 18 (Attachment Four) minutes; 2) the Health Innovations (B) Working Group; 3) the Health Actuarial (B) Task Force; 4) the Long-Term Care Insurance (B) Task Force; 5) the Regulatory Framework (B) Task Force; and 6) the Senior Issues (B) Task Force. The motion passed unanimously.

4. Heard a Federal Update

Brian R. Webb (NAIC) provided a federal update on issues of interest to the Committee, beginning with congressional legislative activities. He said the funding for the mental health parity grants to the states to assist them in enforcing the mental health parity requirements under the federal Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008 (MHPAEA) remains elusive. He explained that the grant money, which is $10 million per year for five years, has been authorized but not appropriated. He noted that once

© 2024 National Association of Insurance Commissioners

again, the Senate Committee on Appropriations put in its year-end report that it believes the federal Centers for Medicare & Medicaid Services (CMS) has sufficient funds in its budget to start the grant program without an additional appropriation of funds. He said NAIC Government Relations staff will continue to work to get CMS to fund and start the grant program. Webb said that this year, both the U.S. House of Representatives (House) and the U.S. Senate have maintained the same level of State Health Insurance Assistance Program (SHIP) funding in their respective budget bills. He said that, typically, one chamber zeros out the funding, and the other one funds it. This year, both have included full funding for SHIP in their committee appropriation bills.

Webb said the NAIC recently sent a letter to Congress regarding the enhanced advance premium tax credits (APTCs) under the federal Affordable Care Act (ACA). He explained that the APTCs are currently scheduled to end in 2025. The NAIC letter urges that they be extended past 2025 for many good reasons, the principal reason being that the increased size and availability of the premium tax credits that have been available since the passage of the American Rescue Plan Act of 2021 have resulted in greater enrollment in marketplace plans in state individual health insurance markets. The greater subsidies have enhanced the affordability of coverage for families of modest means as well as those who were previously denied help with coverage costs due to income limits, those above 400% of the federal poverty level. Webb also noted the APTCs on reinsurance programs in states with an ACA Section 1332 waiver.

Webb said Medicare Advantage plan marketing continues to be a big issue and the subject of much discussion. He said NAIC Government Relations staff are continuing to work with the relevant Senate and House committees to add language to year-end Congressional budget legislation to make it clear that CMS can work with states through a cooperative enforcement agreement to enforce the federal rules related to Medicare Advantage marketing. He said some states have requested such an arrangement to address consumer complaints directly.

Webb said that in July, the Federal Trade Commission (FTC) released an interim staff report, "Pharmacy Benefit Managers: The Powerful Middlemen Inflating Drug Costs and Squeezing Main Street Pharmacies." The report is highly critical of pharmacy benefit managers (PBMs), their funding, and their effect on consumers. He said the NAIC Government Relations staff will continue to follow this issue and see if it triggers any additional Congressional legislative activity on PBMs.

Regarding federal rules, Webb said it is anticipated that the new federal rule revamping provisions implementing the MHPAEA and establishing new requirements regarding non-quantitative treatment limitation (NQTL) requirements will be finalized soon. He said the NAIC also continues to look for clarity on the co-payment accumulator issue since the U.S. District Court for the District of Columbia's Sept. 29, 2023, decision vacating the 2021 U.S. Department of Health and Human Services (HHS) Notice of Benefit and Payment Parameters (NBPP) rule to the extent it permitted health plans to use a co-payment accumulator policy and HHS' decision not to enforce the 2020 NBPP rule, which prohibited copay accumulators except where a medically appropriate generic alternative is available. He said it has been rumored that such clarity could be included in the 2026 NBPP rule. He said he is aware of two states enforcing the 2020 NBPP rule, but other states need guidance on the issue.

Webb said the last federal rule he wanted to discuss was the ACA's Section 1557 final rule. He said there continue to be issues related to the final rule's language prohibiting discrimination based on a disability or age and Medicare supplement insurance (Medigap) plans. He said NAIC Government Relations staff have been seeking clarity on this issue from the HHS Office for Civil Rights (OCR) since May, right after the rule was finalized in April. To date, the OCR has not been responsive. He said NAIC Government Relations staff will continue to reach out to the OCR for a meeting to discuss the issue.

Webb next discussed recent court rulings, beginning with *Loper Bright Enterprises v. Raimondo* and *Relentless v. Department of Commerce* (collectively referred to as *Loper Bright*) rulings, which overturned the so-called "Chevron Doctrine." He said it is too early to tell what impact the ruling will have on federal health rules and

© 2024 National Association of Insurance Commissioners

federal rulemaking, but he has already seen the *Loper Bright* ruling mentioned in some court cases related to the ACA Section 1557 rule. Webb said NAIC Government Relations staff continue to track both the *Braidwood v. Becerra* case, which challenged the ACA's preventive service requirements, and the *Pharmaceutical Care Management Association (PCMA) v. Mulready* case, which challenges state insurance regulators' right to regulate PBMs. He said both cases are continuing to make their way through the federal courts, which could have major implications for state insurance regulators.

5. Heard an Update from a Consumer Perspective on Recent State Activity on the Prior Authorization Process

Carl Schmid (HIV+Hepatitis Policy Institute), Stephani Becker (Shriver Center on Poverty Law), and Lucy Culp (Leukemia & Lymphoma Society—LLS) provided an update from a consumer perspective on recent state activity improving the prior authorization process.

Schmid discussed how the prior authorization process impacts patients and providers. He said that according to a 2023 American Medical Association (AMA) survey on prior authorization, 94% of providers said the prior authorization process delays patients' accessing necessary care. He provided additional statistics highlighting the effect of the prior authorization process on providers. He discussed the recommendations from two reports—the Center on Health Insurance Reforms (CHIR) report, "The Good, The Bad, The Costly," and the Network for Excellence in Health Innovation (NEHI) report, "Improving the Prior Authorization Process Recommendations for California," prepared for the California Health Care Foundation (CHCF)—suggesting potential reforms to improve the prior authorization process.

Schmid and Becker discussed prior authorization reform legislation in several states, including California, Illinois, Minnesota, New York, Vermont, and Rhode Island. Becker explained that the Rhode Island law signed in 2023 required the Office of the Health Insurance Commissioner (OHIC) to convene the Administrative Simplification Task Force to make prior authorization recommendations. She said that in its June 28 final report, the OHIC committed to: 1) ensuring uniform interpretation of a reduction in the volume of prior authorization; 2) collecting data in new ways to measure volume reductions; and 3) creating a new public body to serve as a forum for ongoing dialogue between payers and providers to inform prior authorization process improvements. Becker also noted new or strengthened prior authorization laws in Colorado, Maine, Maryland, Minnesota, Mississippi, Oklahoma, Vermont, Virginia, and Wyoming.

Culp discussed CMS's Interoperability and Prior Authorization Final Rule. She explained that the federal rule applies to Medicare Advantage, Medicaid, Children's Health Insurance Program (CHIP), and qualified health plans (QHPs) on the federal marketplaces. The final rule's requirements include: 1) a specific reason for denial; 2) shortened prior authorization response times; 3) public reporting; and 4) automation. Culp noted that the federal final rule does not include prior authorization changes for prescription drugs, but she anticipates CMS issuing a proposed rule for prescription drugs later this year.

Culp also discussed CMS's 2024 Medicare Advantage and Part D Final Rule. She explained that although it applies only to Medicare Advantage plans, she believes its provisions include meaningful changes to the prior authorization process that states can borrow from. She said those changes include: 1) new limits on the use of prior authorization; 2) banning retroactive denials; and 3) continuing prior authorization approvals as long as they remain medically necessary. The final rule also includes limits on the use of artificial intelligence (AI) for prior authorization determinations.

Culp suggested the following next steps for the Committee to consider: 1) charging the Consumer Information (B) Subgroup to modify and use the Subgroup's new consumer prior authorization guide to educate consumers; 2) forming a new Committee working group to share information and work on implementation, best practices, and

© 2024 National Association of Insurance Commissioners

enforcement; and 3) partnering with the Innovation, Cybersecurity, and Technology (H) Committee on the use of AI in the prior authorization process.

Commissioner Mulready said Schmid's remarks characterized the prior authorization process as a barrier to care. He said he thinks of the prior authorization process as more of a checkpoint. He noted that without such checkpoints, there would be no limits on the type and number of health care services provided, which would not help to reduce health care costs. He asked Schmid if he thought there was a role for prior authorization. Schmid said he believes there is a role, but he noted that insurers approve most prior authorization requests. Given this, he questioned why consumers and providers on their behalf are required to go through the prior authorization process if most are approved, which is why he believes the prior authorization process is a barrier to care. Schmid said there is a need to find the appropriate balance because the current prior authorization process appears to be tilted too far toward not providing access to care. Director Fox agreed with Schmid about the need to find a balance between access to care and controlling health care costs.

6. Heard Presentations from the CHIR and AHIP on Health Cost Transparency

Sabrina Corlette (CHIR) and Kelley Schultz (America's Health Insurance Plans—AHIP) presented on health cost transparency. Corlette discussed the importance of health cost transparency in identifying what is driving the growth in health care costs. She referenced *Health Affairs* and RAND Corporation studies suggesting that prices, not consumption, are driving up health care costs. She discussed the different policy options—price regulation, anti-trust oversight/enforcement, and transparency—identified in a September 2022 Congressional Budget Office (CBO) report to promote affordability.

Corlette discussed the federal price transparency rules and how states could use the transparency in coverage (TiC) data collected under federal TiC rules to improve health cost transparency. She said such data could be used: 1) to conduct market scans to identify price outliers and cost drivers; 2) to monitor compliance with anti-trust actions and enforcements; 3) to support employer purchasing efforts; 4) as an independent source of data on median in-network rates for purposes surprise billing; and 5) to conduct rate review. Corlette discussed current problems with the TiC data, such as difficulty finding the data, duplicative or irrelevant data, and lack of standardization. She discussed state-level options to improve TiC data, including: 1) requiring insurers to attest to the completeness or accuracy of the TiC files; 2) hosting a centralized website with links to all insurer TiC files; 3) requiring greater standardization; and 4) using TiC data to inform public-facing reports about health system cost drivers.

Schultz discussed the federal TiC rule requirements—machine-readable files (MRFs), a cost estimator tool, and advanced explanation of benefits (AEOB)—including their drawbacks and opportunities for improving health cost transparency. She also discussed the implementation timeline for the federal TiC rule. Schultz discussed what actions states can take to address health cost transparency, such as: 1) prioritizing solutions that provide direct consumer value; 2) considering approaches to expand consumer awareness and education of tools; 3) avoiding single-state solutions; and 4) engaging on the next iteration of review and updates to the federal MRF requirements.

7. Heard an Update from the CCIIO on its Recent Activities

Ellen Montz (federal Center for Consumer Information and Insurance Oversight—CCIIO) updated the Committee on the CCIIO's recent activities of interest. Her update included a discussion of four main areas: 1) 2024 open enrollment; 2) continued focus on affordability of coverage; 3) improving coverage options; and 4) not losing momentum from the Medicaid unwinding.

© 2024 National Association of Insurance Commissioners

Montz discussed a few recent trends the CCIIO has been seeing: 1) the lower quality of QHP plan enrollment (e.g., more bronze plan enrollment versus silver plan enrollment) despite the availability of APTCs to help lower the cost of premium; and 2) the increase in consumer complaints. To address the increase in consumer complaints, many of which relate to the unauthorized switching of consumers to other plans, she said the CCIIO has taken a number of steps, including: 1) improving agent and broker training and technical assistance; 2) creating data specific to agents and brokers to track enrollment outcomes; 3) leveraging partnerships with stakeholders, like state insurance regulators, to identify fraud and eliminate bad actors; and 4) updating and making technical system changes to block unwanted changes and plan switches. She noted that to date, the CCIIO has suspended 450 agents from participating in the federal marketplace enrollments because of suspected fraudulent activity.

Montz also highlighted CMS' recently launched anti-fraud campaign designed to protect consumers in the marketplace from fraud and provide partners, such as state insurance regulators, with the latest information, tips, and resources to help prevent fraud and educate consumers on what they can do if they suspect fraud.

Montz said the CCIIO is working to finalize the MHPAEA rule. She said the CCIIO plans to begin work soon on the proposed 2026 NBPP rule.

Director Cameron asked Montz if the data the CCIIO is collecting about agents and brokers focuses strictly on federal marketplaces or if it also includes state-based marketplaces. He also asked if the CCIIO is sharing the names of any bad actors with the states based on the data. Montz said state-based marketplaces are responsible for overseeing agents and brokers who enroll consumers through the state-based marketplaces. She said that given that state insurance regulators license agents, the CCIIO is working to ensure data-sharing is in place to inform the states of any bad actors. She acknowledged that such communication is improving and that the CCIIO is working to be able to share not only agent suspensions from enrollment on the federal marketplace but also any complaints the CCIIO receives.

8. Discussed Addressed Priorities and Priorities to be Addressed in Future Meetings

Director Fox said that the Committee member survey conducted at the beginning of 2024 identified several key priorities to address this year. She said that to date, the Committee has discussed network adequacy, ground ambulance, and senior issues, such as long-term care insurance (LTCI). The Committee has also addressed issues related to the improper marketing of Medicare Advantage plans during NAIC staff weekly meetings and meetings with CMS.

Director Fox said that some of the remaining identified priorities were addressed during today's meeting-- health cost transparency and the prior authorization process. Other outstanding priorities identified include: 1) claim denials, which the Committee discussed in 2023; 2) plan benefit design; and 3) issues facing the small group market. She explained that a few of the remaining identified priorities, such as PBMs and mental health parity, are the focus of the Committee's task forces and working groups. She said that as the Committee prepares for its final meeting at the Fall National Meeting, anyone with thoughts or recommendations on any specific topics or presenters that align with any of these remaining priorities should reach out to her or NAIC staff.

Having no further business, the Health Insurance and Managed Care (B) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/National Meetings/2024 Summer National Meeting/08-Bmin.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/29/24

Health Insurance and Managed Care (B) Committee
E-Vote
July 26, 2024

The Health Insurance and Managed Care (B) Committee conducted an e-vote that concluded July 26, 2024. The following Committee members participated: Anita G. Fox, Chair (MI); Glen Mulready, Co-Vice Chair (OK); Trinidad Navarro (DE); John F. King (GA); Dean L. Cameron represented by Shannon Hohl (ID); Joy Y. Hatchette represented by David Cooney (MD); D.J. Bettencourt (NH); Andrew R. Stolfi represented by TK Keen (OR); Michael Humphreys (PA); Alexander S. Adams Vega (PR); Jon Pike (UT); Mike Kreidler (WA); and Allan L. McVey represented by Joylynn Fix (WV).

1. Adopted the Regulatory Framework (B) Task Force's 2024 Revised Charges

The Committee conducted an e-vote to consider adoption of the Regulatory Framework (B) Task Force's 2024 revised charges, which amend the 2024 charges for the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup (*see NAIC Proceedings – Summer 2024, Regulatory Framework (B) Task Force, Attachment One-A*). The motion passed unanimously.

Having no further business, the Health Insurance and Managed Care (B) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/National Meetings/2024 Summer National Meeting/B Cmte 7-26-24 E-Vote MtgMin.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/10/24

Health Insurance and Managed Care (B) Committee
Virtual Meeting
June 13, 2024

The Health Insurance and Managed Care (B) Committee met June 13, 2024. The following Committee members participated: Anita G. Fox, Chair, Kevin Dyke, and Tina Nacy (MI); Grace Arnold, Co-Vice Chair (MN); Glen Mulready, Co-Vice Chair (OK); Trinidad Navarro represented by Susan Jennette (DE); John F. King represented by Teresa Winer (GA); Dean L. Cameron represented by Weston Trexler and Shannon Hohl (ID); Kathleen A. Birrane represented by Jamie Sexton and David Cooney (MD); D.J. Bettencourt represented by Michelle Heaton (NH); Alice T. Kane represented by Viara Ianakieva (NM); Andrew R. Stolfi represented by TK Keen (OR); Michael Humphreys represented by Sandra L. Ykema (PA); Alexander S. Adams Vega represented by Carlos Valles (PR); Jon Pike represented by Tanji J. Northrup (UT); Mike Kreidler represented by Ned Gaines (WA); and Allan L. McVey represented by Joylynn Fix (WV).

1. Received an Update on Health Actuarial (B) Task Force Activities

Dyke said the Health Actuarial (B) Task Force has three items it is presenting for the Committee's adoption: 1) proposed revisions to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51); 2) proposed revisions to Valuation Manual (VM)-26, Section 3B—Contract Reserves for Credit Disability Insurance; and 3) proposed revisions to the Task Force's 2024 revised charges. He said two documents related to the AG 51 proposed revisions were included in the meeting materials: a memorandum to the Committee from the Long-Term Care Insurance (B) Task Force describing the proposed revisions and a document including the proposed revisions. Dyke explained that the AG 51 proposed revisions result from the work of the Health Test Ad Hoc Group of the Health Risk-Based Capital (E) Working Group, which reviewed the health test language within the *Annual Statement Instructions* due to inconsistencies in reporting of health business across the different blanks, as well as a significant amount of health business reported on the life and fraternal blank. Through its evaluation and discussion of changes to the health test, a question was raised regarding whether an entity would still be required to comply with the AG 51 requirements for long-term care insurance (LTCI) business if it moved from the life blank to the health blank. To address the issue, the Long-Term Care Actuarial (B) Working Group revised AG 51 to clarify that regardless of the blank the entity files, AG 51 filing is required by the entity if the criteria stated in the guideline are met. Dyke said the Health Actuarial (B) Task Force adopted the amendment Feb. 20. The Long-Term Care Insurance (B) Task Force adopted the amendment March 16.

Dyke said the next items for the Committee's consideration are the proposed revisions to VM-26, Section 3B—Contract Reserves for Credit Disability Insurance. He outlined the process of adopting *Valuation Manual* amendments and the Committee's role in the adoption before the package of *Valuation Manual* amendments is presented to the full NAIC Membership for adoption at each Summer National Meeting. He said the Health Actuarial (B) Task Force adopted this revision to VM-26, Section 3B, and is requesting Committee adoption because credit disability experience has gradually improved since the original 1997 credit disability study. The 2022 study indicates that the current valuation standard contains claim costs from 190%–276% of actual claim cost experience, based on the Society of Actuary's (SOA's) "2023 Credit Disability Study Report." The variations in the range shown above occur by elimination period and occupation class distributions observed over the period studied, 2014 through 2022. Dyke said the proposed changes to VM-26, Section 6B remove the 12% addition to the 1985 Commissioners Individual Disability Table A (85CIDA) incidence rates for newly issued contracts since the addition of the 12% constitutes a margin that is no longer needed or justified by experience. He said the Health

© 2024 National Association of Insurance Commissioners

Actuarial (B) Task Force exposed the proposed versions for a 45-day public comment period ending March 22. No comments were received. The Health Actuarial (B) Task Force adopted the revisions May 13.

Dyke said the last items for the Committee's consideration are proposed amendments to the Task Force's 2024 charges (*see NAIC Proceedings – Spring 2024, Health Actuarial (B) Task Force, Attachment Two*). He said the amendments reflect that the Long-Term Care Actuarial (B) Working Group now reports to the Long-Term Care Insurance (B) Task Force instead of the Health Actuarial (B) Task Force.

Gaines made a motion, seconded by Heaton, to adopt the: 1) revisions to AG 51; 2) revisions to VM-26, Section 3B; and 3) Task Force's revised 2024 charges. The motion passed unanimously.

2. Discussed the Effects of Changes to CSRs

Director Fox said the next item was to hear the Health Actuarial (B) Task Force's findings from its review and discussion of an issue the Committee referred to the Task Force late last year on how possible changes to the cost-sharing reduction (CSR) subsidy, like changes to silver loading, could impact plan options and costs to consumers. In making that referral, it was the Committee's understanding that the Task Force had already heard from the American Academy of Actuaries (Academy) and other actuarial groups that silver loading has created odd incentives in the market. Because of this, the Committee felt it would be beneficial to know more about how changes in state silver loading policies or other changes, like the elimination of the enhanced subsidies in 2026, could impact consumer choices and the affordability of coverage.

Dyke said that included in the meeting materials is a memorandum from the Task Force to the Committee outlining its findings (Attachment Two-A). He explained that under the federal Affordable Care Act (ACA), CSRs are available for individuals and families purchasing health coverage in the health insurance marketplace with annual incomes below 250% of the federal poverty level (FPL). The federal government funded the cost of offering CSRs until 2017, when the U.S. Attorney General determined that funding was not appropriated by the U.S. Congress. Dyke said that when the funding was stopped, beginning in 2018, the federal Center for Consumer Information and Insurer Oversight (CCIIO) permitted states to allow insurers to increase plan premium rates to address the CSR shortfall. He said a variety of methods emerged to address the funding shortfall.

Dyke explained that the effect on consumer choices and affordability can vary based on the CSR funding methodology due to its resulting impact on premium subsidies or advanced premium tax credits (APTCs). He said that given the various methodologies that may be used to address the funding shortfall, the Task Force sought guidance and heard from the Academy, the CCIIO, and other stakeholders on the matter. He said the Task Force also updated its state survey of CSR loading approaches. Dyke summarized some of those discussions and the state survey results. He noted that the Task Force has never advocated for any particular approach states should take to address the funding shortfall.

Director Fox noted that enrollment in the ACA health insurance marketplace has increased because of the enhanced subsidies. She asked Dyke whether the next step to be considered if the enhanced subsidies end is whether there would be a corresponding decline in enrollment and whether state insurance regulators need to be vigilant and think about ways to get people enrolled in other coverage. Dyke said the Task Force did consider the impact of the enhanced subsidies ending as part of the referral. He noted that this is not a new issue for the Task Force, and there are many studies on it. He also noted that the NAIC is once again in the process of drafting a letter to Congress urging an extension of the enhanced subsidies or making them permanent. Dyke noted that all the things already discussed related to the enhanced subsidies' impact on enrollment in the ACA health insurance marketplace—increased enrollment and greater affordability—could potentially be reversed if they end. As a possible example, he pointed out the results of the Florida Office of Insurance Regulation's study on the

© 2024 National Association of Insurance Commissioners

impact of the enhanced subsidies, which showed that enrollment increased by 51.4% overall from 2021 to 2023. The increase was 67.3% for those with incomes between 100% and 150% of the FPL and 86.9% for those over 400% of the FPL during the same period. He said these results would indicate the probability of a reversal in enrollment numbers if the enhanced subsidies end.

Director Fox said that despite asking for guidance from the CCIIO, the CCIIO has not dictated what methodology a state must use to address the CSR shortfall. As noted in the Task Force's memorandum to the Committee, there are many approaches the states can consider moving forward.

3. Heard a Presentation from the CIPR on Network Adequacy

Director Fox said the Committee would next hear a presentation from Kelly Edmiston (Center for Insurance Policy and Research—CIPR) on a case study the CIPR completed as part of its Network Adequacy Project: Compensation of Travel Costs for In-Network Care in Mississippi. Director Fox explained that she conducted a survey at the beginning of the year, asking Committee members which issues they were interested in learning more about. She said that network adequacy and its maximum time and distance requirements ranked as one of the issues. She said that before the CIPR presentation, Nacy would provide an overview of the network adequacy issue.

Nacy explained what a provider network is and how insurers establish provider networks, including defining and adjusting the number, quality, and type of providers in the network. She discussed the ACA's network adequacy goals and requirements, including maximum time and distance standards and maximum wait-time standards. Nacy explained that the federal Centers for Medicare & Medicaid Services (CMS) will conduct reviews to determine if an insurer satisfies the network adequacy requirements unless a state receives approval from the CMS to conduct its own reviews. To receive such approval, a state's criteria must be as stringent as CMS's network adequacy requirements.

Nacy noted that although her presentation seems to imply that network adequacy is simple and straightforward, state insurance regulators know that it is a challenging and complex issue. She said Edmiston will present a case study reflecting the CIPR's research on network distance issues, which would, hopefully, provide some insight and spark discussions on the issue.

Edmiston said the CIPR has been studying the issue of network adequacy for the past few years. During this meeting, he discussed the findings of a case study the CIPR conducted related to a new regulation in Mississippi requiring insurers to reimburse travel costs for patients who must travel 100 miles or more to access an in-network provider. The new regulations require an economic impact statement (EIS) that provides an estimate of the economic costs of the new regulation. He said the Mississippi Insurance Department requested the CIPR prepare an estimate of the costs to insurers of the regulation (or benefits to policyholders) to be used in the regulations' EIS. Edmiston discussed how the study was conducted. He provided results for one insurer for two provider specialties—allergy and immunology and reproductive endocrinology—from the 75 provider specialties surveyed as part of the study. He explained that the reimbursement costs to an insurer will vary based on whether the insurer has a broad or narrow provider network.

Director Fox asked Edmiston if requiring an insurer to reimburse consumers for travel costs could address an issue for states having insurer network adequacy compliance issues in rural areas. Edmiston said he does not know the impetus for Mississippi's new regulation requiring reimbursement for travel costs, but potentially such a requirement could address that issue for some states.

Nacy asked Edmiston how long it took the CIPR to complete the study, including the required analysis. Edmiston said excluding the time it took for the CIPR to obtain the necessary data, it took a couple of months to complete.

© 2024 National Association of Insurance Commissioners

Nacy said that based on his discussion, it appears the CIPR is looking to obtain software to enable it to conduct more of these types of studies and analyses. She asked Edmiston if the CIPR had thought of other ways to assist the states with this issue. Edmiston said the CIPR is always happy to assist but noted that it seeks to obtain the software primarily to reduce the cost of conducting such studies and analyses to eliminate the need to rely on outside entities, such as Google, to perform the necessary millions of calculations. Commissioner Mulready asked if the CIPR conducted this analysis prior to or after the regulation's adoption. Edmiston answered that the CIPR conducted the analysis prior to its adoption because Mississippi law requires an EIS to be completed as part of the regulation adoption process.

Having no further business, the Health Insurance and Managed Care (B) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/National Meetings/2024 Summer National Meeting/B Cmte 6-13-24 MtgMin.docx

© 2024 National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Director Anita G. Fox, Chair of the Health Insurance and Managed Care (B) Committee

FROM: Kevin Dyke, Chair of the Health Actuarial (B) Task Force

DATE: June 3, 2024

RE: Cost Sharing Reduction (CSR) Referral to the Health Actuarial (B) Task Force Made at the 2023 Summer National Meeting

---

In a September 15, 2023, memorandum, the Health Insurance and Managed Care (B) Committee asked the Health Actuarial (B) Task Force (HATF) to advise the Committee on how the impact of changes in CSR silver-loading policies or the elimination of enhanced subsidies could impact consumer choices and affordability. The Committee asked the HATF to review the issue and report its findings to the Committee.

Impact of Changes to CSR Loading Policies

Under the Affordable Care Act (ACA), cost sharing reductions are available for individuals (and families) purchasing health coverage on the Marketplace with annual incomes below 250% of the federal poverty level (FPL). The cost of offering the CSRs was funded by the federal government until 2017 when it was determined by the Attorney General that funding was not appropriated by Congress. When funding was stopped, the federal Center for Consumer Information and Insurer Oversight (CCIIO) instructed or permitted states to increase plan premiums to address the CSR shortfall. A variety of methods emerged to address the funding shortfall.

The effect on consumer choices and affordability can vary based on the CSR funding methodology due to its resulting impact on premium subsidies, or advanced premium tax credits (“APTCs”). Methods that result in higher silver, on-marketplace premiums produce higher premium subsidies as the subsidies are determined based on the relationship of the second-lowest priced silver plan to the individual’s income. With greater subsidies, subsidy-eligible individuals may have a broader range of affordable plans, including low- or zero-cost plans. For example, when the CSR shortfall is applied only to silver, on-marketplace plans, the subsidies will be higher than if the CSR shortfall is recovered across all plans, or all silver on- and off-marketplace plans. The choice of method for determining the amount of CSR shortfall, such as those identified below in the Academy and Fann/Cruz discussions, can also affect the corresponding premiums and subsidies.

To understand the different CSR methodologies, HATF collected reports from interested parties and conducted conversations with regulators. This included guidance and feedback from the federal CCIIO, the American

Washington, DC 1101 K Street N.W. Suite 650, Washington, DC 20005 p | 202 471 3990
Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
www.naic.org

© 2024 National Association of Insurance Commissioners

Academy of Actuaries (Academy), and Greg Fann and Daniel Cruz, interested actuaries, as well as an updated state survey of CSR-loading approaches.

CCIIO

Since the loss of Federal funding, states have routinely asked CCIIO for specific or general guidance in determining the CSR load. In August 2018, CCIIO issued a bulletin encouraging states to consider offering plans outside of the Marketplace that do not include a CSR load. While the guidance focused on offering off-Marketplace plans without a load, it affirmed that CSR loads are permitted plan level variations for the actuarial value and cost-sharing design of the plan under 45 CFR 156.80(d)(2)(i). Over the years, HATF regulators have asked CCIIO if further guidance would be provided, and representatives indicated only that issuers can and should load for CSR amounts that the federal government will not reimburse and can do so by spreading all of the load across all plans within the single risk pool or applying the load only to the plans that generate CSR deficiencies. Further, they said whichever loading methodology is chosen, the total amount of the load should be actuarially justified, reasonable, and recover any deficiencies."[1]

-

American Academy of Actuaries

In the fall of 2022, the Academy sent a letter to CCIIO offering comments and considerations relating to the CSR load. While the Academy did not advocate for a particular approach, they emphasized the importance of actuarial sound rates and suggested that CSR loads be "calibrated against actual experience to produce results consistent with anticipated incurred costs." They indicated other loading approaches not based on anticipated costs may not be actuarially sound and could produce cross-subsidies between plans not intended by federal regulations. Further, they explained that the choice of approach used in developing the CSR load could potentially lead to over- or under-accounting for the actual unfunded CSRs and recommended avoiding use of a method based on the federal AV calculator as outlined "whenever appropriate data for an actuarially sound methodology is available."

Fann/Cruz

Two actuaries, Greg Fann and Daniel Cruz, have advocated a different approach determining the CSR load on silver Marketplace plans and more broadly, the actuarial value and cost-sharing design plan level adjustments to rates. They suggest that with the elimination of Federal funding, silver level plans cover more paid claims than gold plans and significantly more than bronze plans and should be priced accordingly. Specifically, they believe silver plan level pricing should reflect maximum enrollment in 87 and 94 percent CSR plans as they believe all CSR-eligible individuals on the Marketplace would enroll in a CSR plan and that anyone who is not eligible for a CSR plan would not enroll in silver plans and instead enroll in gold or bronze plans. Fann and Cruz have shared their approach in various forums, including an April 2022 Families USA report and various posts on social media.

State Survey

To understand the various state approaches, HATF updated and enhanced a 2017 survey on CSR-loading guidance. Requested information included whether CSR loading occurs and certain characteristics of state guidance, such as requiring silver loading on or off the Marketplace and/or prescribing a factor for the CSR load. We also asked for a range of CSR factors if no factor was prescribed. Full or partial responses were received from 33 states. The survey showed that majority of states either require or expect funding to occur on silver level policies, either on or off the Marketplace. Nearly all responding states allow issuers to determine an appropriate CSR load, with a few states prescribing the CSR load. A summary of results and selected states who shared their public guidance separately are included in Appendix A. Due to the inclusion of informal guidance from several

[1] [1]CCIIO comments from the March 21, 2023 meeting of the Health Actuarial (B) Task Force

states in the survey, we will provide under separate cover the complete results of the survey in a regulator-only format.

Impact of Elimination of Enhanced Subsidies

Under the Affordable Care Act (ACA), premium tax credits are available to people purchasing health coverage on the Marketplaces with annual incomes between 100% and 400% of the federal poverty level (FPL). The American Rescue Plan Act of 2021 (ARPA) expands premium tax credits to those who are above 400% FPL and also increases subsidies for those making between 100% and 400% FPL for the 2021 and 2022 plan years. The enhanced subsidies were then extended for an additional three years, through the 2025 plan year, by the Inflation Reduction Act of 2022 (IRA).

As a result of these enhanced subsidies, enrollment in the ACA Marketplaces has increased substantially. According to the Florida Office of Insurance Regulation, enrollment increased by 51.4% overall from 2021 to 2023. The increase was 67.3% for those with incomes between 100% and 150% FPL, and by 86.9% for those over 400% FPL during the same period. The dramatic increases for these groups are attributed to the availability of $0 silver plans for those in the 100% to 150% FPL range, and to the provision of some subsidy to those over 400% FPL where previously there was none. As the silver loading for unfunded CSRs increases the premium for silver plans, and therefore the benchmark plan, the impact of the subsidy is greater in states with higher CSR loads.

If these subsidies are not extended beyond the 2025 plan year it will result in increased costs and reduced choices for consumers, including the return of the so-called “subsidy cliff” for those over 400% FPL. The Kaiser Family Foundation published an article in 2022 which analyzed the impact of the removal of the enhanced subsidies prior to the IRA being signed into law. This article highlights that the removal of the enhanced subsidies will have the greatest impact on older members, especially those over 400% FPL.

© 2024 National Association of Insurance Commissioners

Appendix A - Survey Results and Selected State Guidance

Summary of Survey Results

50 states and the District of Columbia were surveyed, 33 responded with the following results:

- All 33 respondents indicated CSR loading occurs
- With respect to requiring CSR loading on silver plans:

Required	14 states (42%)
Not Required but Expected	9 states (27%)
Not Required	9 states (27%)

Selected State Guidance and Reports

(1) Nebraska

Nebraska Department of
Insurance Guidance
Document IGD - - B5

Title: Filing Guidance for Individual and Small Employer Major Medical Plans and Stand-Alone Dental Plans in Nebraska.

Sections: Guidelines for the Development of AV and Cost Share Design of each plan. Additional Requirement for What Needs to Be Provided as Rate Filing Support.

Issue Date: April 20, 2023

The following two sections were added to the final NE DOI Bulletin for filing 2024 ACA Plans.
These contain directions on developing CSR loads and benefit factors, as well as instructions on what should be reported in the SERFF rate filing.

Guidelines for the Development of "Actuarial Value and Cost Sharing Design" of Each Plan:

URRT Wksh 2, Sec. 3, line 3.3: "AV and Cost Sharing Design of the Plan"

- Each specific Plan has an "AV and Cost Sharing Design of the Plan" associated with it, more informally referred to as the plan's "Benefit Factor". This factor is one of the 5 Plan Level Adjustments allowed in CMS 45 CFR 156.80 rating development to adjust an issuer's MAIR (Market Adjusted Index Rate) to reflect the impact of the specific cost sharing of the plan, including Unit Cost and Utilization adjustments.

- The Benefit Factor for each plan must be developed to meet the "Single Risk Pool" rating requirements of the ACA. Benefit Factors must not reflect the differences in

morbidity between members expected to enroll in each plan, and each Benefit Factor should be developed assuming that the same standard population of members is enrolled on every Plan design.

- CMS has delegated to each state's effective rate review function the responsibility for determining how the Cost Sharing Reduction (CSR) benefit costs should be applied in ACA Individual rate setting within that state. The following guidelines are being posted to inform issuers as to what would be considered the acceptable standard for developing and filing Benefit Factors in plan year 2024 Nebraska ACA Individual rate filings.

    - Issuers may set their own CSR rating adjustments as long as they do not deviate from the standards below. The NDOI will no longer enforce the minimum 1.15 CSR load factor standard used in prior years and will not set a uniform CSR load factor for all issuers to use as some states have done. The NDOI has determined that applying such a uniform factor will likely never accurately reflect the correct value for any specific issuer. Issuers should utilize their own experience or other credible data when setting benefit factors, CSR Loads, Induced Demand Factors or other unit cost and utilization adjustments.

    - Issuers may apply formal Induced Demand Factors, or make appropriate utilization adjustments, as long as they meet the ACA Single Risk Pool rating requirements. Expected utilization differences due to member's health status, income levels, or other member case characteristics may NOT be reflected in Induced Demand Factors or other utilization adjustments used to develop the benefit factors.

    - Issuers may maintain Actuarial Soundness of their Index Rate by adjusting for the impacts of morbidity, reduced utilizations due to low-income members, and other causes by using the index rate adjustments listed below. As such, Silver Plan rates should not be adjusted independently to reflect lower utilizations due to more low-income members enrolling on 87% and 94% Silver Plan variants.

        - URRT Wksh 1, Sec. 2: "Morbidity Adjustment".
        - URRT Wksh 1, Sec. 2: "Other" Adjustment.

    - Issuers should assume expected distributions of members among their Silver Plan variants that reflects the most likely distribution that will occur. Simply assuming that all members will be enrolled on the 87% and 94% Silver Plan variants is not accepted as the standard method, though may be accepted if the issuer demonstrates it is the most likely distribution to

occur. Utilizing Nebraska PUF enrollment data from the recent plan year's enrollment among the standard Silver Plan, and the 73%, 87% and 94% variants, may provide a realistic distribution of membership to assume, given that the environment has not changed from the current year to the projected year (ARPA subsidies remain in place, etc.).

Additional Requirement for What Needs to Be Provided as Rate Filing Support:

Transparency of Benefit Factors.

The NDOI is requiring a Public Summary sheet of CSR Loads and Benefit Factors as outlined below. Additionally, the NDOI is requiring CSR Load and Benefit Factor development to be included in issuer's Individual Market rate filings.

(1) Required Individual Market Public Summary Sheet for CSR Loads and Benefit Factors.

This requirement applies to Individual On-Exchange Plans excluding Catastrophic Plans.

Issuers should provide a single Excel sheet in their annual SERFF rate filing containing the following columns of information which will be made Public when NE SERFF rate filings become Public on November 1st, 2023.

- HIOS Plan ID Number
- Metal Level
- AV Factor
- Benefit Factor (The AV Pricing & Cost Sharing Factor)
- Provider Network Adjustment
- CSR Load for Silver Plans, or 1.0 for all Non-Silver Plans
- Induced Demand Factor (plan aggregate for all services)

(2) Required Supporting Development of Benefit Factors and CSR Loads:

This requirement applies to Individual On-Exchange Plans and is not required to be made Public if the issuer submits a valid Trade-Secret Request within the rate filing.

(a) Issuers should provide a high-level summary of the data used for setting Benefit
Factors, including:

- Incurred claim dates

© 2024 National Association of Insurance Commissioners

- Paid claim dates
- Lines of business, States, other Geographic factors
- Incurred Claims and Member Months by Calendar Year, summarized by each major service category (Similar to those used in URRT Worksheet 1, section 1).

Note this should summarize the data actually used to set benefit factors, whether it was from the company's own ACA Individual business, a consultant's health cost guidelines, National Group Business, etc…

(b) At the time of submitting the rate filing, Issuers should provide their complete detailed development of Benefit Factors for each of the following:
Plans with the lowest and highest Benefit Factor within each of the following Metal Levels:

- Bronze & Enhanced Bronze Plans
- Silver Plans
- Gold Plans
- Platinum Plans

(c) For each of the Plans indicated in (2b) above, the complete detailed Benefit Factor development should be included, showing the development from the underlying base experience by service category, including all adjustments or modeling applied to arrive at the final benefit factors. The level of service category included in the supporting development should reflect the level at which benefit factors are developed. This may be at a High-Level Service Category (Inpatient, Outpatient, Physician, Pharmacy,..) or at more refined levels if utilization and unit cost adjustments are applied at a more granular level.

(d) Identify all utilization and unit cost adjustments that have been applied at any step in the process to obtain the final estimated benefit cost factor in the new benefit period. A description and quantitative support should be provided for each adjustment.

Demonstrate how Induced Demand Factors (IDF) or other specific Utilization adjustments were determined and show how they are applied.

For provider contracting changes in the new plan year that result in adjustments to your unit cost assumptions, those adjustments should be documented and quantified.

© 2024 National Association of Insurance Commissioners

(e) For On-Exchange Silver Plans the complete development of the CSR Load should be provided, and should include at least the following:

- Membership distribution assumptions used for enrollment in Base Silver, 73%, 87% and 94% Silver plan variants
- Data source used to determine the distribution (i.e. NE PUF Enrollment Data, Issuer's own experience, or other source)
- Membership adjustments made to the source data
- Utilization adjustments, including a description of any adjustments

(f) Issuers utilizing predictive models, such as GLMs, GAMs or other such predictive models, must provide the required support contained on the NDOI L&H webpage. Any other simulation models, or other models used in the process of setting benefit factors, need to be fully documented.

(2)Texas

Texas Association of Health Plans (axioshq.com)

(3) Washington

https://content.naic.org/sites/default/files/inline-files/cmte_b_ha_tf_related_state_cost_sharing_washington.pdf

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/National Meetings/2024 Summer National Meeting/HATF CSR Memo B Committee Final.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/5/24

Consumer Information (B) Subgroup
Virtual Meeting
July 29, 2024

The Consumer Information (B) Subgroup of the Health Insurance and Managed Care (B) Committee met July 29, 2024. The following Subgroup members participated: David Buono, Chair (PA); T.J. Patton, Vice Chair, (MN); Michelle Baldock (IL); Alex Peck (IN); Terri Smith (MD); Jeana Thomas (MO); Hadiya Swann (NC); Jill Kruger (SD); Jennifer Ramcharan and Vickie Trice (TN); Shelley Wiseman (UT); and Christina Keeley (WI).

1. Discussed a Consumer Guide on Prior Authorization

Buono discussed the work of a drafting group that developed a consumer guide on prior authorization. He thanked the drafting group for its work and said it intended the guide to cover important points while keeping the language clear and simple. He said the guide, once approved, may be modified by states to fit their needs.

The Subgroup reviewed the draft and discussed a number of changes. It added clarifying language about step therapy and a drafting note that points out where states can add additional information about their state laws. The Subgroup also discussed the document's reading level and was satisfied that it measured just below the ninth-grade level.

Patton made a motion, seconded by Keeley, to approve the guide with the changes added (Attachment Three-A). The motion passed unanimously. Joe Touschner (NAIC) said the guide would be shared with the Health Insurance and Managed Care (B) Committee for awareness, and the final version would be sent to Subgroup members and interested parties.

2. Discussed Other Matters

Buono said the Subgroup should expect to work on updates to the *Frequently Asked Questions About Health Care Reform* (FAQ) starting in September, so the document is ready for the beginning of open enrollment. He said the Subgroup has a list of potential projects to take up after that one, including guides on preventive services, limited benefit plans, mental health parity, and the balance billing protections of the federal No Surprises Act (NSA). He said the Subgroup could decide at a future meeting which topic to take up after the FAQ.

Having no further business, the Consumer Information (B) Subgroup adjourned.

NAIC Support Staff Hub/B CMTE/National Meetings/2024 Summer National Meeting/Cons Info 7.29.docx

© 2024 National Association of Insurance Commissioners

Prior Authorization: What It Is, When It's Used, and Your Options

What Is Prior Authorization?

Prior authorization means your health plan requires your doctor or other healthcare provider to get approval *before* they provide health care services or prescribe prescription drugs. Without prior authorization, your health plan may not pay for your treatment or medication.

NOTE: Emergency services don't require prior authorization.

Why Do Health Plans Require Prior Authorization?

Prior authorization serves two purposes. First, it's a check that your plan covers the proposed care. It's also a way the health plan can decide if the care is medically necessary, safe, and cost effective.

What Is Medically Necessary?

A medically necessary service or prescription drug is one that's needed to diagnose or treat an illness, injury, condition, disease, or its symptoms. It must meet accepted standards of medicine. To decide what's medically necessary, your health plan must follow any state and federal laws that apply.

How Do Health Plans Decide What's Safe?

To be safe, procedures, treatments, and prescription drugs must meet the latest clinical standards and guidelines. They must avoid negative interactions between drugs you're already taking or treatments you're receiving.

What If My Health Plan Has Concerns with a Proposed Treatment or Medication?

The health plan may deny the request, ask for more information, recommend another approach, or talk with your provider to agree on the most appropriate care plan. Your health plan might suggest other tests based on clinical guidelines before it makes a decision.

Could My Health Plan Deny Prior Authorization Because of Cost?

Yes. Health plans may deny prior authorization when similar drugs or services are equally safe and effective but cost less. For example, a health plan may approve a drug only if you try a less expensive drug first and that drug isn't effective or causes side effects. This may be called step therapy.

Do I Need Prior Authorization to Continue a Treatment I'm Currently Receiving?

You may. Your health plan may require your provider to confirm that ongoing services or medications would continue to help you.

What Medications and Services Require Prior Authorization?

Your health plan has a list of medications and services that typically require prior authorization. You can find the list in printed plan documents and/or online.

Does Medicare Require Prior Authorization?

© 2024 National Association of Insurance Commissioners

Original Medicare (Medicare Part A and Part B) generally does not require prior authorization.

Medicare Advantage and Medicare prescription drug plans (Part D) may require prior authorization.

How Long Do Prior Authorization Decisions Take?

How long it takes to get a prior authorization decision depends on how urgently you need the care. If your need is urgent, you or your provider can ask for an expedited (or quick) review. State or federal rules may limit the time a health plan can take to make decisions.

What Rules Must Plans Follow About Prior Authorization?

Health plans' prior authorization policies must follow federal and state laws. Depending on your state, these laws may address:

- How quickly health plans must respond to requests for prior authorization and appeals,
- What types of professionals may review and approve or deny a prior authorization request,
- What information a health plan must share with you and your provider when it denies a prior authorization request, and
- How long a prior authorization approval may last before you must ask for a new authorization.

How Do I Ask for Prior Authorization?

Your health care provider can make the prior authorization request. In some cases, your provider will request that you start the prior authorization process.

If your provider submits the request, they will send the required information to the health plan. You may need to fill out forms for your provider's office to use. A prior authorization form will include information about you, your medical conditions, and your health care needs. It's important to fill out the form completely and accurately. Missing or wrong information could delay your request or result in a denial.

If you submit the prior authorization request, ask your health plan how to do that. Make sure you meet the deadlines your health plan gives you. Keep copies of all documents and communications sent and received. Note dates and the names and titles of people you speak with. You may need this information if the request is denied. Keep a record of approved prior authorizations in case you need to ask for another one in the future.

Can I Appeal If I Think My Prior Authorization Was Incorrectly Denied?

You may appeal a health plan's prior authorization decision. Before starting the appeal process, call your health plan to learn why the prior authorization was denied. Check that all the requested information was received and was correct. If a simple error was the problem, such as missing information, correcting the error might be a quick fix.

If all information is correct and nothing is missing, you'll need to partner with your provider's office to start an appeal. Give the office the reason for the denial. Ask if there's other information that could support the prior authorization request. If so, you or your provider can follow your health plan's instructions to submit an appeal.

© 2024 National Association of Insurance Commissioners

For more information about how to appeal a prior authorization decision, contact [your state Insurance Department] to help guide you through the process or help you file a complaint if appropriate.

Drafting Note: State laws or rules are referenced in three answers (What is Medically Necessary?, How Long Do Prior Authorization Decisions Take?, and What Rules Must Plans Follow About Prior Authorization?). States may wish to provide specific information on state laws or link to additional information. The final answer on appeals includes a reference to the state department of insurance, where it may be helpful to add contact information.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/National Meetings/2024 Summer National Meeting/Prior Authorization Guide.docx

© 2024 National Association of Insurance Commissioners

Attachment Four
Health Insurance and Managed Care (B) Committee
8/15/24

Draft: 6/26/24

Consumer Information (B) Subgroup
Virtual Meeting
June 18, 2024

The Consumer Information (B) Subgroup of the Health Insurance and Managed Care (B) Committee met June 18, 2024. The following Subgroup members participated: David Buono, Chair (PA); T.J. Patton, Vice Chair (MN); Michelle Baldock (IL); Terri Smith (MD); Jeana Thomas (MO); Hadiya Swann (NC); Jill Kruger (SD); Shelley Wiseman (UT); and Christina Keeley and Jody Ullman (WI). Also participating was: Susan Jeanette (DE).

1. Heard Introductory Remarks

Buono and Patton introduced themselves as the Subgroup's new chair and vice chair. Buono described his background with the Pennsylvania Insurance Department and his work on consumer issues. Patton shared his history with the Minnesota Department of Commerce and his work managing consumer assistance. Both said they are eager to develop materials for use by state insurance regulators with the Subgroup.

2. Discussed Guides on Prior Authorization

Buono discussed the work of a drafting group working on a consumer guide on prior authorization. He said the drafting group has made progress, and he hopes the drafting group will have a draft to share with the Subgroup after one or two additional meetings. He invited state insurance regulators and interested parties to join the drafting group's upcoming meetings.

Buono said that the drafting group had discussed developing two guides: one for consumers and one for state insurance regulators. He asked Subgroup members whether a guide for state insurance regulators would be useful. The Subgroup decided to defer to the drafting group on this question.

3. Discussed Other Matters

Buono said that in addition to the prior authorization guide and updates to the *Frequently Asked Questions about Health Care Reform*, the Subgroup should consider additional projects for the remainder of 2024 or 2025. He said two potential projects would produce consumer guides on the federal No Surprises Act (NSA) or mental health parity protections. He asked the Subgroup what additional topics should be considered.

Subgroup members and interested parties suggested a variety of potential topics for consumer materials, including coverage of preventive services, education on self-funded versus fully-insured plans, alternative payment models, making updates to the Subgroup's existing health insurance shopping tools, and limited benefit plans like short-term, limited duration (STLD), discount plans, and health care sharing ministries (HCSMs). Subgroup members also supported the idea of producing guides on the NSA and mental health parity. Buono said that he and Patton would discuss the suggestions and come back to the Subgroup with a proposal for its next project.

Having no further business, the Consumer Information (B) Subgroup adjourned.

© 2024 National Association of Insurance Commissioners

HEALTH ACTUARIAL (B) TASK FORCE

Health Actuarial (B) Task Force Aug. 12, 2024, Minutes 6-26
Health Actuarial (B) Task Force May 13, 2024, Minutes (Attachment One) 6-30
Valuation Manual (VM)-26, Credit Disability Reserve Requirements Update Proposal (Attachment One-A) 6-31
Presentation from the American Academy of Actuaries (Academy) on Drivers of 2025 Federal Affordable Care Act (ACA) Health Insurance Premium Changes (Attachment Two) 6-32
Update from the Society of Actuaries (SOA) Research Institute (Attachment Three) 6-51
Update from the Academy Health Practice Council (Attachment Four) 6-74
Presentation from the Academy on Health Knowledge Statements (Attachment Five) 6-83

© 2024 National Association of Insurance Commissioners

Draft: 8/16/24

Health Actuarial (B) Task Force
Chicago, Illinois
August 12, 2024

The Health Actuarial (B) Task Force met in Chicago, IL, Aug. 12, 2024. The following Task Force members participated: Anita G. Fox, Chair, represented by Kevin Dyke (MI); Jon Pike, Vice Chair, represented by Ryan Jubber (UT); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ali Zaker-Shahrak (CA); Andrew N. Mais represented by Paul Lombardo (CT); Gordon I. Ito represented by Kathleen Nakasone (HI); Doug Ommen represented by Klete Geren (IA); Dean L. Cameron represented by Weston Trexler (ID); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Josh Carlson (KS); Joy Y. Hatchette represented by Brad Boban (MD); Robert L. Carey represented by Marti Hooper (ME); Chlora Lindley-Meyers represented by William Leung (MO); Eric Dunning represented by Margaret Garrison (NE); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Judith L. French represented by Laura Miller (OH); Michael Humphreys represented by Shannen Logue (PA); Cassie Brown represented by R. Michael Markham (TX); Scott A. White represented by David Shea (VA); and Mike Kreidler represented by Lichiou Lee (WA).

1. Adopted its May 13 Minutes

Dyke said the Task Force met May 13. During this meeting, the Task Force took the following action: 1) adopted its Spring National Meeting minutes; and 2) adopted an amendment proposal form (APF) to revise Valuation Manual (VM)-26, Credit Life and Disability Reserve Requirements, Section 3.B. Contract Reserves for Credit Disability Insurance.

Miller made a motion, seconded by Trexler, to adopt the Task Force's May 13 minutes (Attachment One). The motion passed unanimously.

2. Heard a Presentation from the Academy on Drivers of 2025 Federal ACA Health Insurance Premium Changes

Cori Uccello (American Academy of Actuaries—Academy) gave a presentation (Attachment Two) on drivers of 2025 federal Affordable Care Act (ACA) health insurance premium changes. She said the Academy's recent issue brief, *Drivers of 2025 Health Insurance Premium Changes*, and her presentation today are intended to describe how premiums might change in the upcoming plan year and are not intended to be used or relied upon by actuaries or insurers for rate filings.

3. Heard an Update on SOA Research Institute Activities and SOA Education Redesign

Achilles Natsis (Society of Actuaries—SOA) gave an update (Attachment Three) on SOA Research Institute activities.

Ann Weber (SOA) said in the spring of 2023, the SOA announced its plans for an SOA Fellow, Society of Actuaries (FSA) educational redesign project. She said the project entails taking educational material for actuaries who want to be qualified to sign NAIC reserve statements from the FSA educational syllabus and moving the material to an optional certificate program. She said after the announcement was made, the SOA worked with a small group of Task Force members to discuss what content would remain in the general FSA syllabus and what would be moved to the certificate program. Weber said these discussions helped the SOA to determine what material would remain in the underlying FSA program and what would be moved to the certificate syllabus. She said a joint Academy/SOA task force was formed, and it has reviewed how webinars covering relevant topics for qualified actuaries will interplay with the SOA FSA educational redesign. She said both the Academy and SOA boards will issue the final

© 2024 National Association of Insurance Commissioners

report of the joint task force in coming weeks. Weber said another part of the work related to the education redesign is the Academy's development of a health knowledge statement. She said the knowledge statement will be useful because it will detail what the Academy believes is important for a qualified actuary to know and to assure regulators that the Academy is providing the appropriate education for qualified actuaries. Weber said a life knowledge statement was presented at the Aug. 12 meeting of the Life Actuarial (A) Task Force, and the SOA looks forward to reviewing the life and health knowledge statements. She said the SOA plans to begin using the redesigned FSA educational program in 2025. Dyke said the Task Force will need to discuss how it wants to incorporate the health knowledge statement into whatever regulatory mechanism is most appropriate, such as the *Valuation Manual* or instructions for the annual statement.

4. Heard an Update from the Federal CCIIO

Beth Karpiak (federal Center for Consumer Information and Insurance Oversight—CCIIO) said the federal Centers for Medicare & Medicaid Services (CMS) released a public memorandum October 2023 that described Bright HealthCare (Bright) and Friday Health Plans (Friday) unpaid benefit year (BY) risk adjustment (RA) charges. She said Friday is in liquidation in several states and continues to owe RA charges for BY 2022 in Colorado, Georgia, Nevada, New Mexico, North Carolina, Oklahoma, and Texas. She said Friday continues to owe RA charges for BY 2023 in Colorado, Georgia, Nevada, North Carolina, and Oklahoma. Karpiak said CMS is filing proofs of claims with the court-appointed receivers handling the liquidations in each state to assert its claims to these debts in accordance with applicable state laws. She said last week, CMS provided payment RA payment estimates for 2023 medical loss ratio (MLR) reporting to RA payment issuers and their departments of insurance (DOIs) in states where Friday had BY 2023 RA charges in Colorado, Georgia, Nevada, North Carolina, and Oklahoma. She said CMS assumed there would be no payment from Friday for these charges.

Karpiak said Bright has continued to meet the requirements of the payment plans established for BY 2022 RA charges in Alabama, Colorado, Florida, Illinois, Nebraska, Oklahoma, Utah, and Virginia. She said Bright exited the market in 2023, with only small group run-out with default charges in Arizona, Colorado, Nebraska, and Tennessee.

Karpiak said the BY 2023 summary report on risk adjustment transfers, including the high-cost risk pool (HCRP), was released July 22. She said invoices for these charges will be sent to insurers this month, and the corresponding RA appropriation payments will be sent in September. She said CMS consulted with states to anticipate if any insurers will not be able to pay BY 2023 RA charges and provided these estimates for the 2023 MLR reporting.

Karpiak said the summary report of the BY 2022 risk adjustment data validation (RADV) adjustments to RA state transfers was released May 29, invoicing for these charges will begin in September, and the RA proration payments for RADV adjustments will begin in November. She said in response to stakeholder feedback regarding the delayed release of BY 2023 RADV samples due to the BY 2023 RA data submission extension, CMS recently announced an approximately two-week extension to the BY 2023 RADV initial validation audit submission deadlines for package 1 and package 2.

Karpiak said the proposed rulemaking for the 2026 Notice of Benefit and Payment Parameters (NBPP) is in process, and CMS expects to release the final version before the end of the year. She said CMS does not anticipate the 2026 NBPP to differ significantly from previous years' NBPPs.

Brent Plemons (CCIIO) said CMS posted preliminary rate change information for 2025 ACA policies on Aug. 1. He said the information posted includes the overall requested rate change, the redacted actuarial memorandum, and a consumer justification narrative that explains the drivers of the rate increase in cases where the increase is 15% or greater. He said 379 submissions were received for the individual market, and 361 submissions were received for the small group market. Plemons said the national weighted average rate increase is 6.6% for the individual

© 2024 National Association of Insurance Commissioners

market and 9.2% for the small group market. He said that examination of submissions of Worksheet 1 of the Uniform Rate Review Template (URRT) shows a national average total cost and utilization trend of 7%, with 6.4% medical and 10.1% pharmacy. He said rate filings containing qualified health plans (QHPs) in states with exchanges served by the healthcare.gov platform must be finalized by Aug. 14, and in states with exchanges not served by the healthcare.gov platform, rate filings must be finalized by the date set by the state, provided that date is no later than Oct. 15. Plemons said rate filings that do not contain QHPs must be finalized by Oct. 15. He said CMS intends to post final rate change information by Nov. 1.

5. Heard an Update from the Academy's HPC

Matthew Williams (American Academy of Actuaries—Academy) gave an update (Attachment Four) on recent Academy Health Practice Council (HPC) activities.

Dyke said that since the Long-Term Care Actuarial (B) Working Group now reports to the Long-Term Care Insurance (B) Task Force, it may be preferrable for the Academy to report on HPC activities related to long-term care insurance (LTCI) to the Long-Term Care Actuarial (B) Working Group in the future.

6. Heard a Presentation from the Academy on Health Knowledge Statements

Lisa Slotznick (Academy), Darrell Knapp (Academy), and Rhonda Ahrens (Thrivent) gave a presentation (Attachment Five) on health knowledge statements.

Dyke said the Task Force has not previously discussed the use and implementation of health knowledge statements. He said the Task Force will schedule a meeting to discuss prior to the Fall National Meeting.

7. Heard an Academy Professionalism Update

Maryellen Coggins (PricewaterhouseCoopers LLP), the Academy's Committee on Qualifications (COQ) chair, said the COQ issued the most recent update to the U.S. Qualification Standards (USQS) in 2021 and updated the frequently asked questions (FAQ) in 2022. She said the USQS specifies the qualifications for issuing a Statement of Actuarial Opinion (SAO), which is defined as an opinion expressed in the course of performing actuarial services and an opinion that is expected to be relied upon. She said the USQS is not limited to regulatory required opinions.

Coggins said that in 2024, the COQ has been focused on ways to improve the clarity and readability of the USQS, some of which will be incorporated into the USQS the next time it is open for updates. She said feedback received indicates that actuaries carefully read the USQS itself, but sometimes do not read the FAQ, which have proven to provide answers to many of the questions raised in the past. She said as a result of this feedback, the COQ is looking at ways to better integrate the FAQ into the USQS. She said the COQ has a strong interest in ensuring that actuaries are qualified to do their work, and it is monitoring draft proposals for potential changes to the education underlying U.S. actuarial credentials in the context of how the USQS might apply to these changes. She said the COQ is committed to providing appropriate qualification guidance for actuaries and contributing to the basic and continuing education (CE) necessary for U.S. actuaries to become qualified and to maintain their qualification over time.

Coggins said the COQ has received 13 questions about the USQS covering primarily CE and specific qualification requirements in the first half of 2024. She said 43 questions were received in 2023. She said the COQ typically receives more than half of all questions in a given year in the last half of the year, when actuaries are completing their CE requirements. Coggins said for each question received, the COQ determines whether the question and answer should be added to the FAQ or if a direct one-on-one response is sufficient. She said questions on specific qualification requirements may be forwarded to the Actuarial Board for Counseling and Discipline (ABCD) and

© 2024 National Association of Insurance Commissioners

become requests for guidance. She said the current USQS states that if an actuary was qualified under a prior version of the USQS, their qualification remains in force, but for new actuaries, qualification became dependent in part on the completion of an actuarial credential rather than membership in an actuarial organization. She said one requirement in the 2021 USQS that affects all actuaries is the completion of one hour of bias CE annually. She said the Academy will offer webinars that count towards bias and professionalism CE credits. She said bias and professionalism CE credits can also be obtained through self-study of materials on the Academy's website and other sources.

Dyke, chair of the Actuarial Standards Board (ASB) for 2024, said the purpose of the ASB is to set standards for appropriate actuarial practice in the U.S .through the development and promulgation of Actuarial Standards of Practice (ASOPs). He said the ASB's *Boxscore* publication provides updates about the ASB's activities.

Dyke said ASOP No. 28, Statements of Actuarial Opinion Regarding Health Insurance Assets and Liabilities, was exposed for comment with a small revision to make its scope consistent with proposed changes to ASOP No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves. He said changes to ASOP No. 28 have been adopted and will be effective Oct. 1. He said ASOP No. 49, Medicaid Managed Care Capitation Rate Development and Certification, is currently under review by an ASB task force and is scheduled to be presented to the ASB in March 2025. Dyke said revisions to ASOP No. 45, The Use of Health Status Based Risk Adjustment Methodologies, will be effective in late 2024, concurrent with the exposure for comment of ASOP No. 12, Risk Classification (for All Practice Areas).

Dyke said revisions to ASOP No. 12, Risk Classification (for All Practice Areas), were exposed for comment in January, with a comment deadline of May 1. He said an ASB task force is currently reviewing comments received. He said revisions to ASOP No. 7, Analysis of Life, Health, or Property/Casualty Insurer Cash Flows, were exposed for comment with a comment deadline of June 1. He said an ASB task force is currently reviewing comments received. He said the ASB continues to review ASOP No. 41, Actuarial Communications, after having received comments on its first exposure. Dyke said another draft exposure of ASOP No. 41 is expected after revisions resulting from comments received are made.

Dyke said the ASB has reduced the number of ASOPs pending revision from 18 to 12.

John Schubert (Deloitte Consulting LLP), ABCD chair, said the ABCD responds to members' requests for guidance, particularly as they relate to qualifications to sign SAOs, and hopes that this aspect of the ABCD's work results in better quality work and fewer issues for state insurance regulators. He said the ABCD deals with any potential violations of the Academy's Code of Professional Conduct through investigations and recommendations to the actuarial organizations that the subjects of the inquiries are members of. He said the actuarial organizations, not the ABCD, administer any resulting discipline. He said the ABCD conducts education and outreach through professionalism webinars throughout the year, and it also contributes professionalism articles to the Academy's *Contingencies* magazine.

8. Discussed Other Matters

Dyke said a presentation by Nebraska on Medicare supplement underwriting and rating issues scheduled to be given today by Michael Muldoon (NE) has been postponed due to Muldoon's retirement from the Nebraska DOI. He said the presentation will be rescheduled for a future Task Force meeting.

Having no further business, the Health Actuarial (B) Task Force adjourned.

Member Meetings/B CMTE/HATF/2024_Summer/8-12-24 HATF/HATF Minutes 08-12-24.docx

© 2024 National Association of Insurance Commissioners

Draft: 6/7/24

Health Actuarial (B) Task Force
Virtual Meeting
May 13, 2024

The Health Actuarial (B) Task Force met May 13, 2024. The following Task Force members participated: Anita G. Fox, Chair, represented by Kevin Dyke (MI); Jon Pike, Vice Chair, represented by Ryan Jubber (UT); Ricardo Lara represented by Ali Zaker-Shahrak (CA); Michael Conway represented by Eric Unger (CO); Michael Yaworsky represented by Kyle Collins (FL); Doug Ommen represented by Klete Geren (IA); Dean L. Cameron represented by Weston Trexler (ID); Amy L. Beard represented by Scott Shover (IN); Robert L. Carey represented by Marti Hooper (ME); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Judith L. French represented by Craig Kalman (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Dave Yanick (PA); Cassie Brown represented by Aaron Hodges (TX); Scott A. White represented by Julie Fairbanks (VA); and Mike Kreidler represented by Lichiou Lee (WA).

1. Adopted its Spring National Meeting Minutes

Hodges made a motion, seconded by Trexler, to adopt the Task Force's March 15 minutes (*see NAIC Proceedings – Spring 2024, Health Actuarial (B) Task Force*). The motion passed unanimously.

2. Adopted a VM-26 Credit Disability Update Proposal

Dyke said that on Feb. 20, the Task Force exposed an amendment proposal form (APF) (Attachment One-A) to revise Valuation Manual (VM)-26, Credit Life and Disability Reserve Requirements, Section 3.B. Contract Reserves for Credit Disability Insurance, for a public comment period ending March 22. No comments were received on the exposure.

Shover made a motion, seconded by Unger, to adopt the APF and forward it to the Life Actuarial (A) Task Force for consideration. The motion passed.

Having no further business, the Health Actuarial (B) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/B CMTE/HATF/2024_Summer/HATF/5-13 HATF/HATF Minutes 05-13-24.docx

© 2024 National Association of Insurance Commissioners

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

Christopher H. Hause, FSA, MAAA Principal at Hause Actuarial Solutions and Chair of the Society of Actuaries' Credit Insurance Experience Committee.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

Valuation Manual, section VM-26, Section 3.B. Contract Reserves for Credit Disability Insurance.

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

Please see attached redline and "clean" version of the proposed changes.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

Credit Disability experience has gradually improved since the original (1997) credit disability study. The 2022 study indicates that the current valuation standard contains claim costs that are from 190% to 276% of actual claim cost experience, based on the SOA's "2023 Credit Disability Study Report." The variations in the range shown above occur by elimination period and occupation class distributions observed over the period studied (2014 through 2022). The proposed changes to VM-26 remove the 12% addition to the 1985 CIDA incidence rates for newly issued contracts, since the addition of the 12% constitutes a margin that is no longer needed or justified by experience.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
Notes:			

W:\National Meetings\2010\...\TF\LHA\

© 2024 National Association of Insurance Commissioners

Attachment Two
Health Actuarial (B) Task Force
8/12/24

Drivers of 2025 Health Insurance Premium Changes

Presentation at the NAIC Summer National Meeting Health Actuarial Task Force (HATF) Session

August 12, 2024

Cori E. Uccello, MAAA, FSA, FCA, MPP
Senior Health Fellow
American Academy of Actuaries

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Agenda

- Background on the rate development process
- Drivers of 2025 premium changes
- Overview of rate filing information

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Premium Rate Development Process

- Analyze prior health spending
- Adjust data to reflect future trends
- Use data to project future costs

Insurers develop premium *rates*, not premium *increases*. The rate review process assesses whether premium *rates* are reasonable.

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Premium Development Components

- Who is covered—the composition of the risk pool
- Projected medical costs
- Other premium components—administrative costs, taxes, profit/risk charge
- Laws and regulations

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

2025 Premium Rate Change Factors

- Medical trend factors
  - Major factors: inflation, increasing prescription drug spending
- Risk pool composition factors
  - Risk pools are likely to be relatively stable, with minimal effect on premiums
- Other factors
  - Local market dynamics and state-based policies

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Medical Trend Factors

- Inflation
  - After years of significant increases, general inflation has returned to historical norms
  - Assumptions possibly higher for insurers with multiyear provider contracts recently or soon up for renewal
- Increased prescription drug spending
  - Higher price growth than for medical services
  - The high cost of GLP-1s and their long-term use, if covered

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Medical Trend Factors (cont.)

- Gene therapy treatments
  - Treatment costs can be in the $millions
  - Not typically covered by individual and small group market plans
  - Small impact on premiums unless coverage expands

- Adult dental coverage
  - New rules that states can include adult dental coverage as an EHB starting in 2027
  - At that point, any related premium changes depend on state decisions and coverage specifics

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Medical Trend Factors (cont.)

- COVID-19
  - Treatment and testing costs are better understood and are part of the underlying claims used to project 2025 claims
  - Unlikely to contribute to premium changes for 2025 and beyond

- No Surprises Act
  - Plan members can't be billed unexpectedly for certain out-of-network care, including at in-network facilities
  - Effects on provider network development and prices still unclear
  - Minimal effect on 2025 premiums

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Risk Pool Composition Factors

- Medicaid eligibility redeterminations
  - Because of uncertainty, few adjustments made to 2024 premiums
  - Enrollment shifts from Medicaid = improved risk pool profile (but effects on premiums likely to be small)
  - Impact can vary widely by state
- Enhanced premium subsidies
  - Higher subsidies (especially when combined with CSR loads) = Low- and moderate-income individuals gained access to free or low premium plans
  - Risk pool improvements likely incorporated into 2024 premiums
  - Expiration of 2025 enhanced subsidies = likely 2026 premium increases

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Risk Pool Composition Factors (cont.)

- Contraction of short-term limited duration (STLD) plans
  - STLDs more attractive to healthy individuals
  - Trump-era rules allowed individuals to remain in STLD plans for three years
  - New rules for 2025 will reduce maximum allowable duration to four months
  - If STLD enrollees enroll instead in individual market, could slightly lower premiums
- Extension of coverage to DACA recipients
  - 100,000 uninsured DACA recipients soon eligible for marketplace or basic health plans
  - Minimal premium effects, but impact could vary geographically

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Risk Pool Composition Factors (cont.)

- ICHRAs and QSERHAs
  - Shift workers (and dependents) from group coverage to individual market coverage
  - If small employers with high-cost members take up this option, could improve small group risk pool and worsen individual market risk pool
  - Take-up likely to be higher where individual market premiums are less than group premiums
  - Effect on premiums small unless take-up among employers (especially large employers) increases
- Self-funding and level funding among small employers
  - Shifts among small employers from ACA-compliant coverage to alternative funding arrangements could worsen small group risk pool
  - Likely to have nominal effect on 2025 small group premiums

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Other Factors

- State and local factors
  - Local market conditions
  - State-based policies, such as:
    - Medicaid expansion status
    - State reinsurance programs
    - State benefit requirements
    - Public option programs
    - Supplemental premium or cost-sharing subsidies

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Other Factors (cont.)

- Change Healthcare cyberattack
  - Delays in claims information may have made it more difficult for issuers to incorporate info from early 2024 claims activity into initial 2025 rate filings
  - Federal regulators delayed certain rating and risk adjustment deadlines, which could reduce or eliminate effects of the cyberattack on pricing

- CSR load factor
  - Nationwide, the percentage of enrollees eligible for most generous silver plan CSR variant has increased
  - Insurers might increase load to reflect shift

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Rate Filing Components and Where to Find Them

Rate filing components
- Part 1: Uniform Rate Review Template (URRT)
- Part 2: Written Explanation of the Rate Increase
- Part 3: Actuarial Memorandum

Where rate filing information is available
- State Department of Insurance (DOI) website
- CMS rate review website at http://ratereview.healthcare.gov
- NAIC Systems for Electronic Rates and Forms Filing (SERFF) database

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Part 1: Uniform Rate Review Template (URRT)

- Summarizes data used to determine rate increases for entire single risk pool
  - States may release URRT via SERFF and/or DOI website
  - CMS releases data from the URRTs in a public use file
- A few states have state-specific templates that include more detailed information
  - States may release additional information via SERFF and/or DOI website
  - Proprietary information may be redacted

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Part 2: Written Explanation of the Rate Increase

- Brief description of the data and assumptions used in the URRT and an explanation of the main factors causing the rate increase
- Federal government requires only if proposed increases exceed 15%
- Some states require for all proposed rate increases
- Available at the CMS rate review website and potentially SERFF

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Part 3: Actuarial Memorandum

- More detailed and technical information documenting actuarial assumptions, justifications, and methods
- Possible federal and state versions
  - Federal—based on URRT instructions
  - State—any additional state requirements regarding required exhibits and rate development process information
- Available on SERFF, CMS rate review website, and possibly the state Department of Insurance website
  - Proprietary information may be redacted

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Questions?

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Thank You

For more information, please contact
Matthew J. Williams, JD, MA
Senior Policy Analyst, Health
American Academy of Actuaries
williams@actuary.org

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.



SOCIETY OF ACTUARIES RESEARCH UPDATE TO HATF

August 12, 2024

Achilles Natsis, FSA, MAAA
Health Research Actuary

© 2024 National Association of Insurance Commissioners

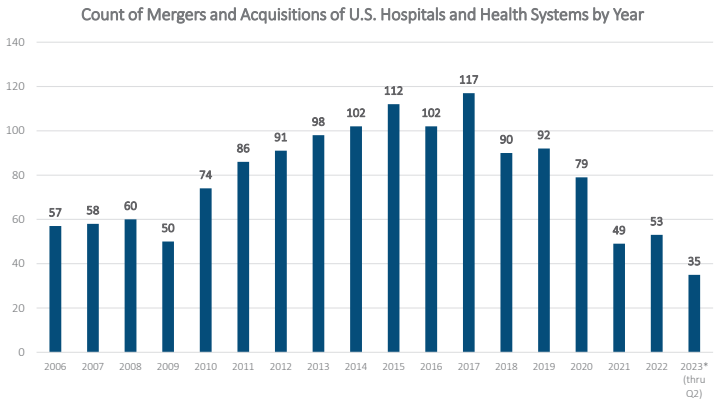
Presentation Disclaimer

The material and information contained in this presentation is for general information only. It does not replace independent professional judgment and should not be used as the basis for making any business, legal or other decisions. The Society of Actuaries assumes no responsibility for the content, accuracy or completeness of the information presented.

SOA Research INSTITUTE

2

Healthcare Provider Consolidation and Shortage Impact to Morbidity



- 1,887 hospital mergers between 1998 and 2021
- 68% of community hospitals in 2023 are part of a larger system
- 61% of mergers are within the same state
- 77% of hospital markets are highly concentrated

SOA Research INSTITUTE

3

CONCENTRATION OF HOSPITAL MARKETS

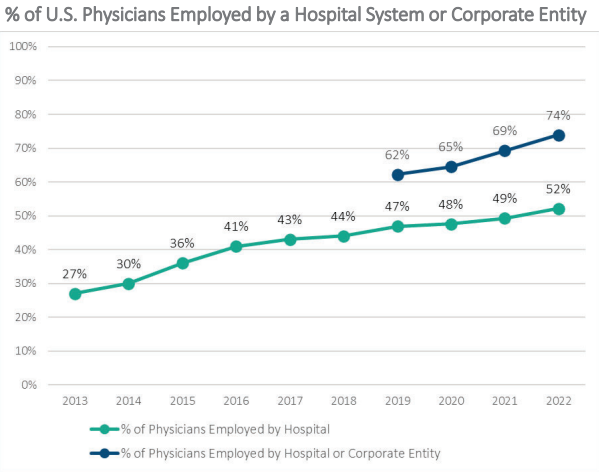
Rank by Population	States	Metropolitan Area	Population (000s)	2021 Hospital HHI
1	NY-NJ-PA	New York-Newark-Jersey City	19,618	775
2	CA	Los Angeles-Long Beach-Anaheim	12,872	1,059
3	IL-IN-WI	Chicago-Naperville-Elgin	9,442	1,356
4	TX	Dallas-Fort Worth-Arlington	7,944	1,889
5	TX	Houston-The Woodlands-Sugar Land	7,340	2,550
6	DC-VA-MD-WV	Washington-Arlington-Alexandria	6,374	1,156
7	PA-NJ-DE-MD	Philadelphia-Camden-Wilmington	6,241	1,226
8	GA	Atlanta-Sandy Springs-Roswell	6,222	2,007
9	FL	Miami-Fort Lauderdale-West Palm Beach	6,139	1,359
10	AZ	Phoenix-Mesa-Scottsdale	5,016	3,161
11	MA-NH	Boston-Cambridge-Newton	4,901	2,123
12	CA	Riverside-San Bernardino-Ontario	4,668	657
13	CA	San Francisco-Oakland-Hayward	4,580	1,867
14	MI	Detroit-Warren-Dearborn	4,346	2,129
15	WA	Seattle-Tacoma-Bellevue	4,034	1,419
16	MN-WI	Minneapolis-St. Paul-Bloomington	3,694	2,281
17	FL	Tampa-St. Petersburg-Clearwater	3,291	1,966
18	CA	San Diego-Carlsbad	3,276	2,441
19	CO	Denver-Aurora-Lakewood	2,986	2,414
20	MD	Baltimore-Columbia-Towson	2,836	1,411
21	MO-IL	St. Louis	2,801	2,527
22	FL	Orlando-Kissimmee-Sanford	2,764	3,773
23	NC-SC	Charlotte-Concord-Gastonia	2,756	3,030
24	TX	San Antonio-New Braunfels	2,655	3,228
25	OR-WA	Portland-Vancouver-Hillsboro	2,509	2,580
1 to 25	**Weighted Average**		**139,304**	**1,716**
26 to 183	**Weighted Average**		**100,465**	**3,244**
64	FL	Cape Coral-Fort Myers	822	6,804
71	NC	Wilmington	746	7,719
117	IL	Peoria	396	5,648
129	SC	Spartanburg	346	5,910
130	NE	Lincoln	342	5,963
140	TN-VA	Kingsport-Bristol-Bristol	311	7,590
153	MI	Kalamazoo-Portage	261	5,626
158	WA	Bellingham	231	6,692
163	TN	Johnson City	210	8,246
180	MO-KS	St. Joseph	120	6,219
Total	**Weighted Average**		**239,769**	**2,356**

- Herfindahl-Hirschman Index (HHI) Concentration (Sum of squares of provider market share% 0 – 10K)
  - >2,500: **High**
  - 1,500 to 2,500: **Moderate**
  - 0 to 1,500: **Not Concentrated**
- 25 Largest metros are 47% less concentrated than all other metros
- Handful of large transactions in 2022-2023 among top 25 metros
  - Chicago, Charlotte, Denver, Minneapolis, Oakland, St Louis

SOA Research INSTITUTE

4

CONCENTRATION OF PHYSICIAN MARKETS



- 2008 – 66% of physicians worked in a solo or group practice
- 2016 – Concentration of Physicians:
  - PCPs – 39% of metro areas were highly concentrated
  - Specialists – 65% of metro areas were highly concentrated

SOA Research INSTITUTE

5

REASONS FOR CONSOLIDATIONS / ACQUISITIONS

- Legislative Changes – ACA; MACRA
  - Encouraged formation of ACOs allowing for increased risk taking
  - Most ACOs are vertically integrated organizations
- Financial Distress / Growing Operating Costs
  - 40% of transactions between 2015 and 2019 involved a hospital that was financially challenged or financially distressed
  - 50% of hospitals had a negative operating margin in 2021
- Potential for Economies of Scale / Increased Market Power
  - Ability to attain higher rates in negotiations with insurance companies
- Integration of Care / Capital Investments
  - Steerage of Referrals
  - IT and other capital upgrades (i.e., Electronic Health Records)
- Regulatory Constraints
  - Physician practices acquisitions below threshold for reporting to FTC
  - A small number of states require final merger approval from the state government

SOA Research INSTITUTE

6

© 2024 National Association of Insurance Commissioners

CONSOLIDATIONS – COST & UTILIZATION IMPACTS

Cost Impacts

- ↑ Billed charges / negotiated prices with commercial payers - **8-17%** increases for Hospitals, up to **20%** for Physicians.
- ↑ Capital Expenses (e.g., IT, EMR Systems)
- ↑ Commercial insurance premiums – Increase in ownership of physician practices was associated with a **12% increase** in ACA marketplace premiums
- ↑ Site of service differentials (facility fees) – represent **25% of the price increase**
- ↓ Operating Costs due to efficiencies for duplication of administrative and clinical services – **Reductions of 3% to 7%** for an acquired hospital

Utilization Impacts

- ↑ Inpatient and outpatient referrals increase due to coordination of care – referrals to specialists employed by the acquiring system **increased by 52%** following an acquisition, while **referrals to other competing systems fell 7%** on average; overall market-wide **increase in specialist visits, 23%**
- ↑ Recently acquired Physician Practices saw increases in new patients and longer visits with existing patients **unique patients increased by 26%**, as **new patients increased by 38%** and **existing patients had a 9% increase in visits billed for longer visits**
- ↑ Inpatient and outpatient referrals increase due to coordination of care and steerage – **10% of cases** are shifted away from ASCs to hospitals;
- ↓ Closure of Services – **8.4% decrease in patient volume** following privatization of the hospital
- ↑↓ Varying Impacts across populations –following a merger there are drops in Medicare **(-5%)** and Medicaid **(-15%)** admissions. Also, lower physician acceptance rates in Medicaid **(60%)** and Medicare **(83%)**.

SOA Research INSTITUTE

7

PROVIDER SHORTAGES

% of U.S. Population in a County Designated as a Geographic Health Professional Shortage Area

Census Region	Primary Care	Dental Health	Mental Health
Northeast	10%	0%	5%
Midwest	25%	4%	40%
South	13%	5%	24%
West	58%	21%	68%
Nationwide	25%	8%	34%

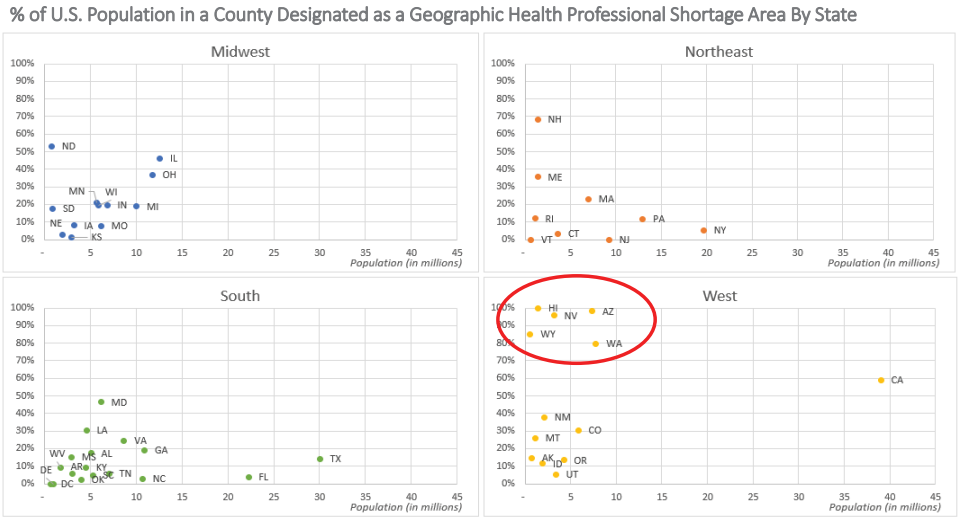
- Physicians: Expected shortage by 2034 of 18k to 48k for PCPs and 21k to 77k non-PCPs
  - Offset by expected growth in NPs and PAs
- Nurses: Expected 100k shortage by 2026
- Nursing Aids and Medical Assistants: Expected 3.2m shortage by 2026

SOA Research INSTITUTE

8

© 2024 National Association of Insurance Commissioners

PROVIDER SHORTAGES (continued)



SOA Research INSTITUTE

9

REASONS FOR SHORTAGES

- Demographics – Aging of the Population – Increasing Demand
  - From 2019 to 2034, U.S. population expected to grow 11%, while 65+ expected to grow 42%
- Demographics – Aging of the Provider Base – Reducing Supply
  - 40% of currently active physicians will exceed the traditional retirement age of 65 within the next decade
- Burnout / Leaving the Profession Early – Reducing Supply
  - In 2022, 40% of physicians and 49% of nurses reported feeling burned out
- Educational and Training Slots Not Keeping Pace with Demand
  - From 2006 to 2016, Medical school openings increased 21% and residents and fellows increased 13%
  - In 2022, nursing schools turned away 90k+ applications due to insufficient staff and resources
- Closure of Services
  - Following a merger, studies show there are often decreases for inpatient pediatric services, maternity care, neonatal care, surgical care, intensive care, psychiatric care, and cardiac surgery
  - Rural areas are most impacted

SOA Research INSTITUTE

10

© 2024 National Association of Insurance Commissioners

PROVIDER SHORTAGES – COST & UTILIZATION IMPACT

- Cost
  - Foregone care due to travel time and low access rates can exacerbate health conditions
  - Member costs due to longer distances to seek OB and specialty care
  - Use of more emergent services due to primary care shortages

- Utilization
  - Lower access rates for Medicaid population than Medicare and Commercial patients
  - Increasing wait times, which are larger in rural areas
  - Facility closures and reduction in service offerings (primarily in rural areas)
  - Telehealth and in-store clinics emerging to pick up the slack

SOA Research INSTITUTE

11

© 2024 National Association of Insurance Commissioners

Available on SOA website

https://www.soa.org/resources/research-reports/2023/provider-consolidation-shortage/

SOA Research INSTITUTE

12

Reimagining Pharmacy Financing - Background

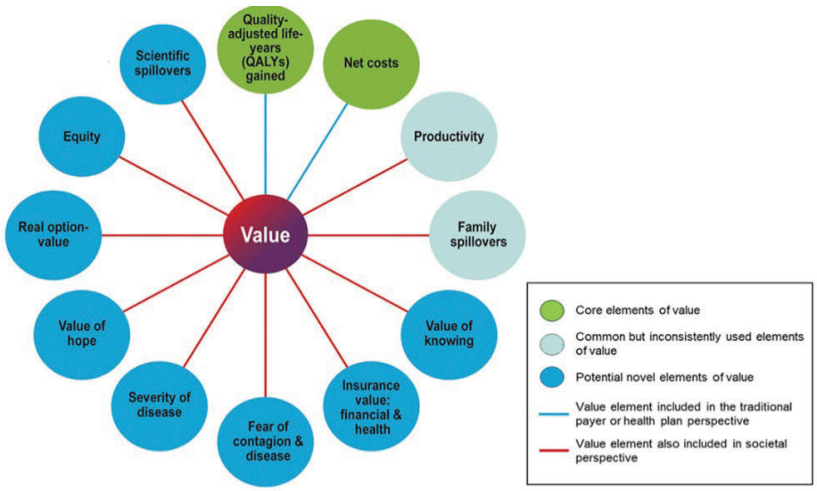
- Reimagining Pharmacy Workshop held on 3/25/23 in Chicago
  - Discussed how to attack the issue of pharmacy costs with different industry experts
  - Participant backgrounds included:
    - Health economics outcomes researchers
    - Clinical pharmacists
    - Medical doctors
    - Health actuaries
    - Benefits consultants
    - Brokers
  - Discussion focused on:
    - How to define and measure the value of prescription drugs
    - How the value of drugs should impact pharmacy financing
    - Developing new methodologies for pharmacy financing
  - Link to the conference report below:
  - https://www.soa.org/4904ae/globalassets/assets/files/resources/research-report/2023/reimagining-pharmacy-finance.pdf

SOA Research INSTITUTE

13

Reimagining Pharmacy Financing: Defining Value

The ISPOR* Value Flower



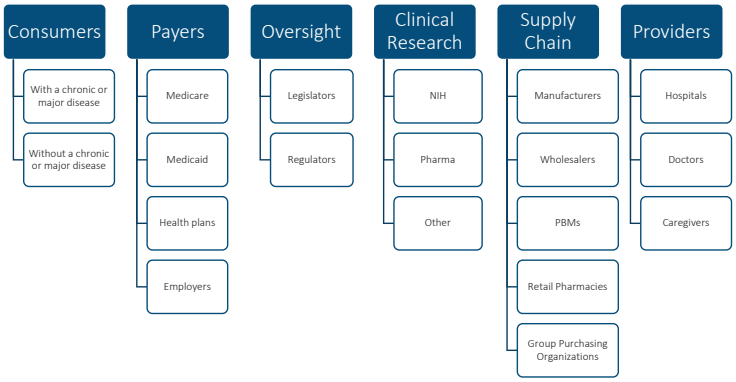
SOA Research INSTITUTE

* International Society for Pharmacoeconomics and Outcomes Research

14

Reimagining Pharmacy Financing: Defining Value

- Definition of Value varies by Stakeholders



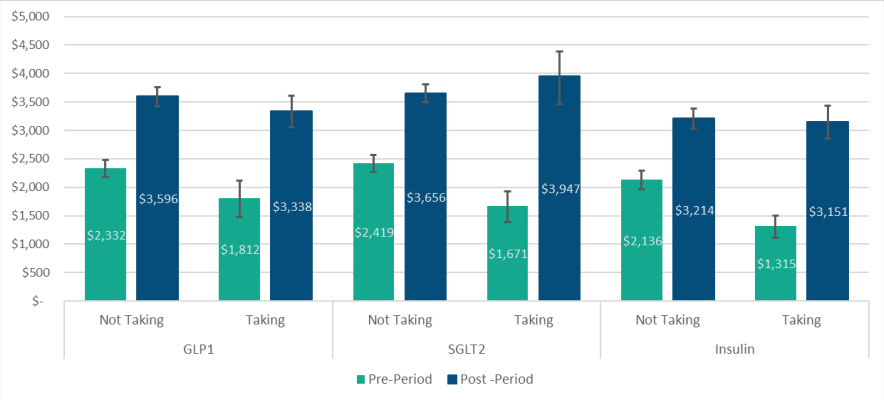
- Help create or determine value
- Impact supply and demand of drugs
- Influence cost and utilization of drugs

SOA Research INSTITUTE

15

Measuring Value: Diabetes Drugs

2021 INDEX PERIOD ALLOWED COST PMPM COMPARISONS



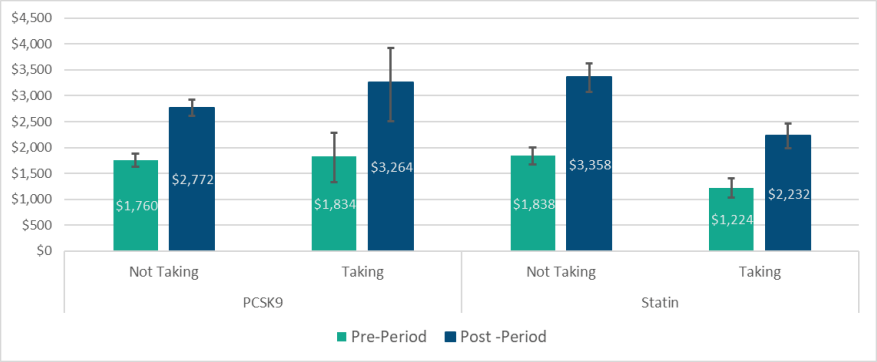
- Compared PMPM Costs Pre- and Post Diagnosing Event
- Compared patients taking a drug to those not taking the drug with similar risk profiles post diagnosis
- GLP1's and Insulin most effective in reducing costs
- Taker Cost may be overstated due to absence of Drug Rebates

SOA Research INSTITUTE

16

Measuring Value: Hypercholesterolemia Drugs

2021 INDEX PERIOD ALLOWED COST PMPM COMPARISONS



- Compared PMPM Costs Pre- and Post Diagnosing Event
- Compared patients taking a drug to those not taking the drug with similar risk profiles post diagnosis
- Statins most effective in reducing costs
- Taker Cost may be overstated due to absence of Drug Rebates

SOA Research INSTITUTE

17

Rewarding Value: Defining Success and Measuring Value

- Goal was to create Financing structures to reward values using current infrastructure
- Key components of a successful program include:
  - Increasing Transparency
  - Encouraging Competition
  - Mitigating total cost of care (TCOC) increases
  - Aligning stakeholder incentives
- Components of value to be measured:
  - Total Cost of Care
  - Incorporating QALYs and other ISPOR Value Flower Components
  - Components must be easily measurable
  - Proxy values can be developed to include additional value elements

SOA Research INSTITUTE

18

Rewarding Value: Considerations in Application

- Drug Prices are negotiated between payers and manufacturers
- Price Setting Considerations include:
  - Drug Portfolio vs. Single Drug
  - Fee for Service (FFS) vs. Shared Savings and Risk
  - Considerations of shared savings include:
    - How to split the savings
    - Bonuses vs. penalties
    - Use of Provider Incentives
- Risk Management needed for Payers to handle very expensive drugs
- Actuarial Health Technology Assessments
  - Needed to value drugs up front
- Technology Curve
  - Different stage of uptake can result in different utilization and pricing
- Value Stack
  - Compare incremental value vs. incremental cost of new drugs to determine ROI

SOA Research INSTITUTE

19

Available on SOA website

https://www.soa.org/resources/research-reports/2024/reimagining-pharmacy-financing/

SOA Research INSTITUTE

20

Additional Health Research

© 2024 National Association of Insurance Commissioners

Experience Studies & Practice Research

Project Name	Objective	Expected Completion Date
Reimagining Pharmacy Financing	A follow-up to the Reimagining Pharmacy gathering in the Spring, this research will look to define and measure the value of different drugs for the same drug class and then also suggest methodologies for rewarding value.	https://www.soa.org/resources/research-reports/2024/reimagining-pharmacy-financing/
Statistical Approaches for Imputing Race and Ethnicity	Outline the various approaches for statistically imputing race and ethnicity in the U.S. along with their strengths and weaknesses to help familiarize actuaries with these techniques.	https://www.soa.org/resources/research-reports/2024/stat-methods-imputing-race-ethnicity/
Medicaid Underwriting Margin - COVID Update	Update the Medicaid Underwriting Margin Model with data through CY 2023 and incorporating data from the COVID PHE and the beginning of the PHE Unwinding.	https://www.soa.org/resources/research-reports/2024/medicaid-underwriting-margin-model/
Actuarial Weather Extremes - Drought Around the World in Early 2024	Highlight observations for extreme weather events across North America	https://www.soa.org/resources/research-reports/2019/weather-extremes/
Long Term Care Population Research Model	Assesses the impact of reform proposals for LTC system changes on stakeholders including consumers.	10/15/2024
HCCI Quick Hit - Specialty Pharmacy Trends	This research will examine some key specialty drugs to look at how increases in uptake in drugs worth between 10K and 200K are driving current pharmacy trend.	10/1/2024
HIV + Medicare	This research involves evaluating the impact of HIV positive individuals on Medicare Advantage.	9/15/2024
Assessing and Valuing the Impact of Technology in HealthCare	Examines the way actuaries value Technology within the Healthcare System	10/31/2024
The Impact of Social Determinants of Health on Risk Adjustment	Analyzes the potential impact of SDOH factors on Risk Adjustment	10/31/2024

SOA Research INSTITUTE

22


SOA
Research
INSTITUTE

American Academy of Actuaries Health Practice Council (HPC) Updates Summer 2024

August 12, 2024
Health Actuarial (B) Task Force (HATF) Meeting

Matthew Williams, JD, MA
Senior Health Policy Analyst, Health
American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

About the American Academy of Actuaries

The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues.

The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For more information, please visit: www.actuary.org

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

Activity Since Spring National Meeting

3

Webinars:

- April: Continuous Medicaid Unwinding: What's Next for the Health Care Markets in 2024?
- May: Medicare's Financial Outlook and the Effects of Growing Enrollment in Medicare Advantage
- June: 2025 Final Rules for Exchanges
- July: Drivers of 2025 Health Insurance Premium Changes

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

Key Takeaways from Federal Hill Visits

4

Federal Hill and Agency Visits in April

- How to improve affordability of care and coverage
- How to improve health care access and outcomes
- Market trends
- How will emerging treatments be covered and what will their costs be?
- Intersection of Artificial Intelligence and health

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

NAIC Engagement

5

Health Risk-Based Capital (HRBC) (E) Working Group Meetings

- June 6 meeting: Continued discussion on comments received on draft factors on the H3—Health Care Receivables project
- July 25 meeting: Verbal updates shared on the H2—Underwriting Review project, with final report still intended by year-end

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

NAIC Engagement

6

Long-Term Care Actuarial (B) Working Group

- Comments provided on "Minnesota Approach as a Candidate for a Single LTCI Multistate Rate Review (MSA) Approach"

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

Envision Tomorrow - 2024 Academy Annual Meeting 7

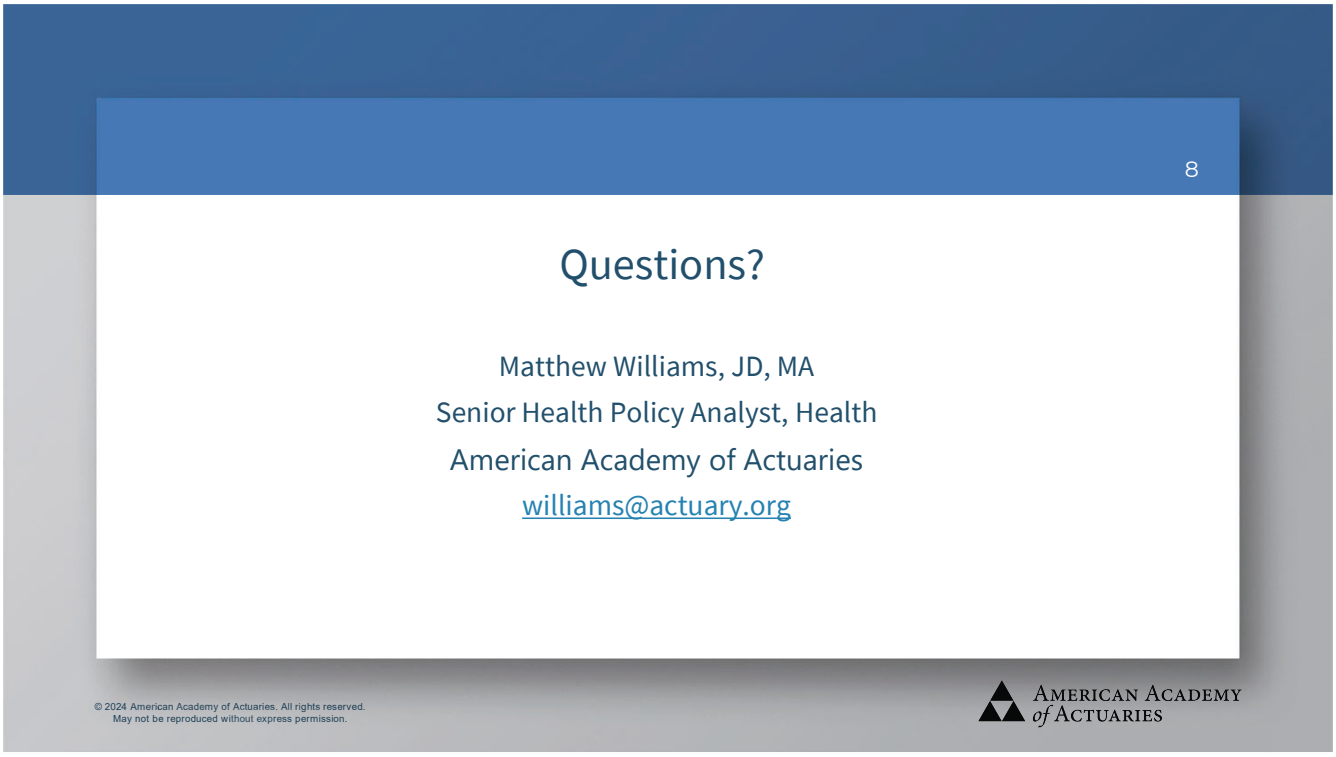
Oct. 15-16 at the Grand Hyatt in Washington, D.C.

Health-specific breakout sessions:

- Broadening the Focus: Incorporating Indirect Costs/Savings and Non-Financial Outcomes
- Integration of Care for Dual-Eligible Beneficiaries across Medicare and Medicaid
- Regulating the Affordable Care Act: What's New for 2025?

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries


8
Questions?
Matthew Williams, JD, MA
Senior Health Policy Analyst, Health
American Academy of Actuaries
williams@actuary.org
© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.
American Academy of Actuaries

Policy Priorities for 2024

9

- Health equity
- Public health challenges
- Insurance coverage and benefit design
- Health care costs and quality
- Medicare sustainability
- Long-term services and supports
- Financial reporting and solvency
- Professionalism

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

American Academy of Actuaries Response to Knowledge Statement Request

Lisa Slotznick
Darrell Knapp
Rhonda Ahrens

August 12, 2024

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

About the Academy

2

AMERICAN ACADEMY of ACTUARIES

- The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues.
- The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For more information, please visit:

www.actuary.org

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

AMERICAN ACADEMY of ACTUARIES

Agenda

3

- Background
- Process to date
- Review draft language
- Next steps

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

Background

Request from LATF at 2023 Fall National Meeting

- LATF requested American Academy of Actuaries recommend knowledge statements for life actuaries signing certain Statements of Actuarial Opinion, including for actuaries serving as appointed actuaries, as illustration actuaries, and as qualified actuaries for principle-based reserves.
- HATF, although not making a formal request, raised a similar discussion in its meeting.

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

Process To Date

5

- Styled after the casualty knowledge statements that were developed by the NAIC's Casualty Actuarial Task Force
- Leveraged materials from the Academy's Life and Health Qualification Standards
- Focused on appointed actuaries first, both life and health
- Several regulator-only meetings to discuss preferences and strategy

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

Important Considerations

- The knowledge statements provided are recommendations in response to the LATF request and the HATF discussion.
- Knowledge statements are not a position of the Committee on Qualifications, and future use and modification of these recommendations are the responsibility of LATF and HATF.
- The knowledge statements focused on additional knowledge that an actuary should have to perform specifically identified tasks. This does not include basic knowledge of actuarial mathematics, accounting, economics, and risk theory that all actuaries should have (primarily knowledge demonstrated prior to the associateship level in either the Society of Actuaries or Casualty Actuarial Society).
- Fulfillment of the knowledge statements does not imply an actuary is qualified to provide a given opinion. There are additional qualification requirements, and there may be additional knowledge required dependent on the topics covered under the opinion.

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

Drafted Language for Appointed Actuary

7

- The knowledge statements are broken down into six groupings—Principles of Insurance and Underwriting; Principles of Ratemaking; Statutory Insurance Accounting and Expense Analysis; Premium, Loss, Expense, and Contingency Reserves (and Actuarial Assets); Social Insurance; and Professionalism and Business Skills.
- The first five groupings correspond to the specific topics mentioned in Section 3 of the U.S. Qualification Standards. Professionalism and Business Skills was added as an additional topic to highlight the importance of professionalism in the appointed actuary role.

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries

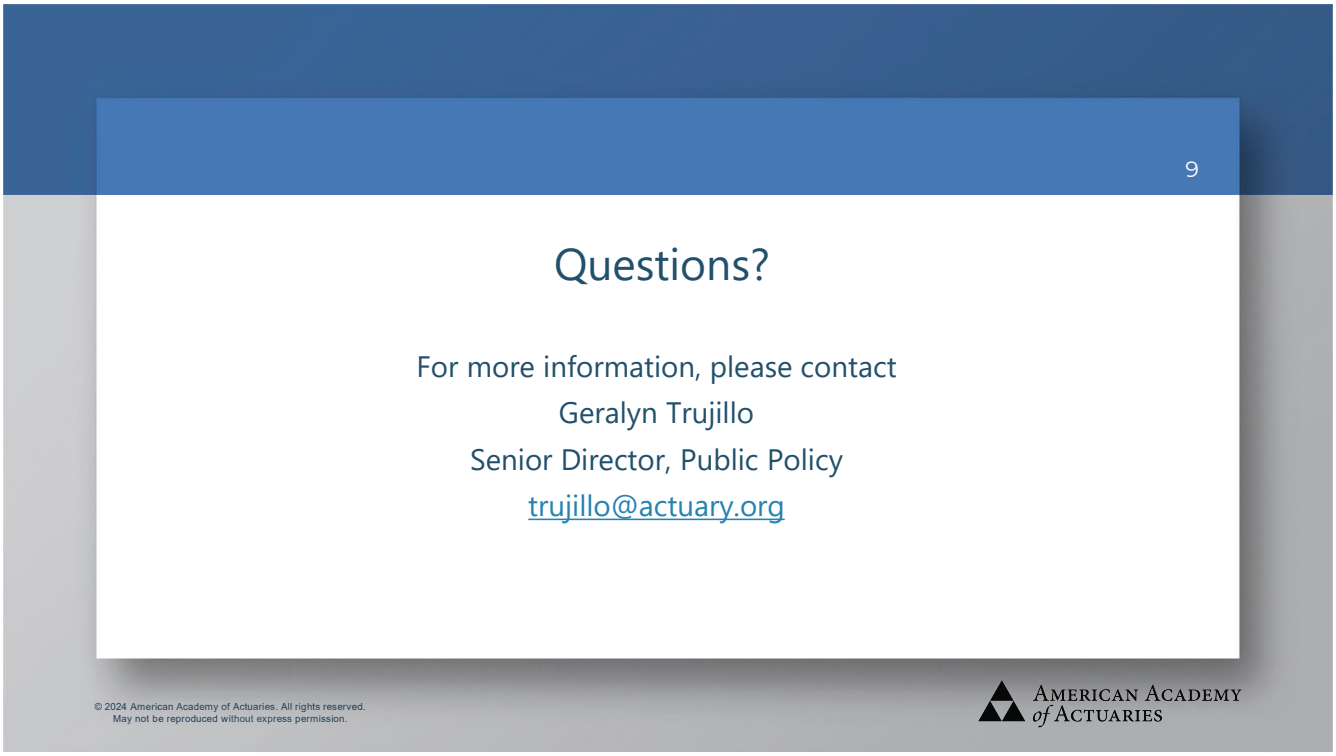
Next Steps

Will continue to draft qualified actuary and illustration actuary knowledge statements (*drafts anticipated before Fall National Meeting)*. We anticipate the qualified actuary draft will be a subset of the appointed actuary statement.

In November, the completed drafts will be submitted to LATF.

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

American Academy of Actuaries


9
Questions?
For more information, please contact
Geralyn Trujillo
Senior Director, Public Policy
trujillo@actuary.org
© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.
American Academy of Actuaries

LONG-TERM CARE INSURANCE (B) TASK FORCE

Long-Term Care Insurance (B) Task Force Aug. 13, 2024, Minutes 6-93
Long-Term Care Actuarial (B) Working Group Aug. 12, 2024, Minutes (Attachment One) 6-96
Long-Term Care Actuarial (B) Working Group July 2, 2024, Minutes (Attachment One-A) 6-100
America's Health Insurance Plans (AHIP) and American Council of Life Insurers (ACLI) Comment Letter (Attachment One-A1) 6-102
Virginia State Corporation Commission's (SCC's) Bureau of Insurance Comment Letter (Attachment One-A2) 6-110
Genworth Life Insurance Company (GLIC) Comment Letter (Attachment One-A3) 6-112
Washington State Office of the Insurance Commissioner Comment Letter (Attachment One-A4) 6-121
Robert Darnell Comment Letter (Attachment One-A5) 6-123
Washington State Office of the Insurance Commissioner Comment Letter (Attachment One-B) 6-129
American Academy of Actuaries (Academy) Comment Letter (Attachment One-C) 6-131
Missouri Department of Commerce and Insurance (DCI) Comment Letter (Attachment One-D) 6-136
GLIC and GLIC of New York Comment Letter (Attachment One-E) 6-137
ACLI and AHIP Comment Letter (Attachment One-F) 6-140
Single Long-Term Care Insurance (LTCI) Multistate Rate Review Approach Presentation (Attachment One-G) 6-144
Delaware Education Project on Reduced Benefit Options (RBOs) in LTCI (Attachment Two) 6-149
Presentation on the Results of the RBOs and Consumer Notices Research Project (Attachment Three) 6-151

© 2024 National Association of Insurance Commissioners

Draft: 8/19/24

Long-Term Care Insurance (B) Task Force
Chicago, Illinois
August 13, 2024

The Long-Term Care Insurance (B) Task Force met in Chicago, IL, Aug. 13, 2024. The following Task Force members participated: Andrew N. Mais, Chair, represented by Paul Lombardo (CT); Grace Arnold, Vice Chair, represented by Fred Andersen (MN); Lori K. Wing-Heier represented by Sarah Bailey (AK); Mark Fowler represented by Sanjeev Chaudhuri and Dusty Smith (AL); Barbara D. Richardson (AZ); Ricardo Lara represented by Ahmad Kamil (CA); Karima M. Woods represented by Philip Barlow (DC); Trinidad Navarro (DE); Gordon I. Ito represented by Kathleen Nakasone (HI); Doug Ommen represented by Andria Seip (IA); Dean L. Cameron represented by Weston Trexler (ID); Amy L. Beard represented by Scott Shover (IN); Sharon P. Clark represented by Shaun Orme (KY); Timothy J. Temple represented by Crystal Lewis and Frank Opelka (LA); Kevin P. Beagan (MA); Robert L. Carey represented by Marti Hooper (ME); Chlora Lindley-Myers represented by William Leung and Amy Hoyt (MO); Mike Causey represented by Robert Croom (NC); Jon Godfread represented by Chrystal Bartuska (ND); Eric Dunning represented by Martin Swanson and Maggie Reinert (NE); D.J. Bettencourt represented by Michelle Heaton and Jennifer Li (NH); Justin Zimmerman represented by Seong-min Eom (NJ); Scott Kipper represented by Jack Childress (NV); Judith L. French represented by Laura Miller (OH); Andrew R. Stolfi represented by Alex Cheng (OR); Elizabeth Kelleher Dwyer represented by Patrick Smock (RI); Michael Wise represented by Brian Fomby (SC); Larry D. Deiter represented by Jill Kruger (SD); Carter Lawrence represented by Scott McAnally (TN); Cassie Brown represented by R. Michael Markham and Debra Diaz-Lara (TX); Jon Pike represented by Tomasz Serbinowski, Ryan Jubber, Shelley Wiseman, and Tanji J. Northrup (UT); Scott A. White represented by Julie Fairbanks (VA); Kevin Gaffney represented by Isabelle Keiser and Marcia Violette (VT); Mike Kreidler represented by John Haworth (WA); Nathan Houdek represented by Darcy Paskey (WI); and Allan L. McVey represented by Joylynn Fix (WV).

1. Adopted its Spring National Meeting Minutes

Haworth made a motion, seconded by Bailey, to adopt the Task Force's March 16 minutes (*see NAIC Proceedings – Spring 2024, Long-Term Care Insurance (B) Task Force*). The motion passed unanimously.

The Task Force also met June 20 in regulator-to-regulator session, pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings.

2. Heard an Update on LTCI Industry Trends

Andersen said several factors impacting long-term care insurance (LTCI) company solvency and premium rates are being monitored. The rising cost-of-care inflation, particularly the impact on inflation-protected products, results in a higher portion of maximum daily benefits being utilized. This is a highly impactful trend, especially in home health care. Partially offsetting this trend is increased investment returns due to higher interest rates. There is still uncertainty in morbidity and morbidity incidence improvements. In certain circumstances, companies are allowed to model future rate increase approvals as part of reserve adequacy testing. Efforts to understand state insurance regulators' rate reviews and approvals, including what insurers plan to request, will help to ensure the modeling is correct. Another monitored area is the performance of assets supporting LTCI blocks of business, including insurers' investments in alternative complex assets. Finally, wellness initiatives and their impacts on long-term care (LTC) events are viewed as positive; however, the impact on net financial gains or losses from decreases in LTC events is still unknown.

3. Adopted the Report of the Long-Term Care Actuarial (B) Working Group

© 2024 National Association of Insurance Commissioners

3. Adopted the Report of the Long-Term Care Actuarial (B) Working Group

Andersen said the Long-Term Care Actuarial (B) Working Group met Aug. 12. During this meeting, the Working Group discussed replacing the current LTCI multistate rate review approach with a single methodology within the Long-Term Care Insurance Multistate Rate Review Framework (LTCI MSA Framework). The Working Group received comments from state insurance regulators and interested parties on the methodology and agreed action needed to be taken. As blocks of business age for policyholders who have had policies for 20 or more years, are over the age of 80, and have faced cumulative rate increases of 400% or more (85/25/400 issue), there are concerns about these policyholders receiving future rate increases. There is consensus at the Commissioner, Task Force, and Working Group level that the 85/25/400 issue should be addressed. The Working Group exposed two alternative approaches from Minnesota and Missouri for a 45-day public comment period ending Sept. 27.

Serbinowski said the 85/25/400 issue is a policy issue for the Task Force rather than an actuarial issue. Lombardo said the cost-sharing aspect of the approach is included in the current LTCI MSA Framework, so the intent is not to introduce a new concept. He said many Commissioners have indicated the issue of cumulative rate increases should be addressed. In order to lower the slope of the cumulative rate increases at the 25-year duration, rate increases at earlier durations increase. The Working Group is cognizant that LTC policies are issue-age-rated, not duration-rated. The Working Group does not want to create a discrimination issue. Lombardo said this is a way to adjust the current methodology and develop an approach that Commissioners have been calling for. He said he and Andersen have had many conversations and given presentations to Commissioners on this issue and have not heard objections. He said he recognizes this issue is not actuarial but that actuaries work on policy issues as part of their daily role. Any proposal from the Working Group to update the LTCI MSA Framework would go through the Task Force, Health Insurance and Managed Care (B) Committee, and Executive (EX) Committee and Plenary.

Commissioner Navarro made a motion, seconded by Fix, to adopt the report of the Long-Term Care Actuarial (B) Working Group, including its Aug. 12 and July 2 minutes (Attachment One). The motion passed unanimously.

4. Received an Overview of Consumer Education on RBOs

Commissioner Navarro said Delaware recently implemented an education project on reduced benefit options (RBOs) in LTCI (Attachment Two). He said this presentation was well received by local media, the Alzheimer's Association, and other aging associations in Delaware. Genworth Life Insurance Company provided training for Delaware staff. The Delaware Department of Insurance (DOI) developed a new website. The first point of contact for consumers is the Delaware Medicare Assistance Bureau (DMAB). The next level of contact is the Delaware Consumer Services Division, and then the deputy attorney general that is assigned to the DOI. The DOI cannot offer financial advice but can explain LTCI and RBOs. The new website contains additional information links. Lombardo said he looks forward to hearing more from Delaware at a future meeting about how the new program is working.

5. Received a Presentation on the Results of the RBOs and Consumer Notices Research Project

Brenda Rourke (NAIC) provided an overview of the research project being conducted by the Center for Insurance Policy and Research (CIPR) on RBOs, consumer notices, and consumer choices (Attachment Three). Rourke said that, in summary, the study results indicated that participants were more likely to accept the rate increase over an RBO if they:

- Received a prior rate increase.
- Thought the letter was clear and easy to read.
- Thought the RBO options were clear.
- Said they had enough information and were in control of their choice.
- Had confidence and belief in their knowledge and skills.
- Believed their loved ones and others with LTCI would make the same choice.

© 2024 National Association of Insurance Commissioners

- Had more financial knowledge.
- Were less likely to take risks.
- Believed they are likely to need LTC.

Rourke said the letter to consumers about the rate increase and RBOs alone did not impact consumers' choices. Rourke said the next steps for the study include: 1) continuing to model the data using multivariate analysis; 2) studying the perception of clarity of the letters and if there are ways to improve the current RBO checklists; and 3) discussing ways to better educate policyholders about their choices.

Lombardo said the CIPR will be asked to present the results of future work on this project during a future Task Force meeting.

Having no further business, the Long-Term Care Insurance (B) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/LTCI TF/2024 SummerNM LTCI TF/LTCITF 081324 Minutes.docx

© 2024 National Association of Insurance Commissioners

Attachment One
Long-Term Care Insurance (B) Task Force
8/13/24

Draft: 8/15/24

Long-Term Care Actuarial (B) Working Group
Chicago, Illinois
August 12, 2024

The Long-Term Care Actuarial (B) Working Group of the Long-Term Care Insurance (B) Task Force met in Chicago, IL, Aug. 12, 2024. The following Working Group members participated: Paul Lombardo, Co-Chair (CT); Fred Andersen, Co-Chair (MN); Sanjeev Chaudhuri (AL); Sarah Bailey (AK); Thomas Reedy (CA); Stephen Flick (DC); Weston Trexler (ID); Scott Shover (IN); Josh Carlson (KS); Marti Hooper (ME); Kevin Dyke (MI); William Leung (MO); Margaret Garrison (NE); Jennifer Li (NH); Bill Carmello and Neil Gerritt (NY); Laura Miller (OH); Andrew Schallhorn (OK); Timothy Hinkel (OR); Glorimar Santiago (PR); R. Michael Markham (TX); Tomasz Serbinowski (UT); Allan L. McVey and Joylynn Fix (WV); and Rebecca Rebholz (WI).

1. Adopted its July 2 and Spring National Meeting Minutes

Lombardo said the Working Group met July 2 and March 15. During its July 2 meeting, the Working Group took the following action: 1) discussed comments received on the exposure of the Minnesota approach with any suggested adjustments as a candidate for a single long-term care insurance (LTCI) multistate rate review approach methodology for use in multistate actuarial (MSA) filing reviews and 2) exposed the Minnesota approach with any suggested adjustments to the cost-sharing formula to address large rate increases for policyholders at roughly age 85 with a policy duration of 25 years (85/25 issue) as a candidate for a single LTCI multistate rate review approach for a 30-day public comment period ending Aug. 1.

Dyke made a motion, seconded by Fix, to adopt the Working Group's July 2 (Attachment One-A) and March 15 (*see NAIC Proceedings – Spring 2024, Long-Term Care Insurance (B) Task Force*) minutes. The motion passed unanimously.

2. Heard an Update on and Discussed a Single LTCI Multistate Rate Review Approach

Lombardo presented comments received on an exposure of the Minnesota approach with any suggested adjustments to the cost-sharing formula to address large rate increases for policyholders at roughly age 85 with a policy duration of 25 years (85/25 issue) as a candidate for a single LTCI multistate rate review approach. He said comments were received from the Washington State Office of the Insurance Commissioner (Attachment One-B), the American Academy of Actuaries (Academy) (Attachment One-C), the Missouri Department of Commerce and Insurance (Attachment One-D), Genworth Life Insurance Company and Genworth Life Insurance Company of New York (Attachment One-E), and the American Council of Life Insurers (ACLI)/America's Health Insurance Plans (AHIP) (Attachment One-F). Jan Graeber (ACLI) said the combination of implicit and explicit cost-sharing elements in the Minnesota approach makes it challenging to accurately quantify the level of cost-sharing that will result and can also mask the level of rate increase that is needed. She said ACLI/AHIP want to ensure that an adopted single approach is transparent and consistently applied.

Andersen said that in the past few MSA filing reviews, the MSA team has provided a metric using the dollar amount impact on financials for the block of business before and after the MSA recommended increase that can be used as a method to quantify actual cost-sharing rather than percentages.

© 2024 National Association of Insurance Commissioners

Andersen gave a presentation (Attachment One-G) with background on the Minnesota approach and a proposal for revising the approach's current cost-sharing formula to address the 85/25 issue, as well as cumulative rate increases greater than 400%. He said the current formula is no haircut for the first 15% of the cumulative rate increase, 10% for the portion of the cumulative rate increase between 15% and 50%, 25% for the portion of the cumulative rate increase between 50% and 100%, 35% for the portion of the cumulative rate increase between 100% and 150%, and 50% for the portion of the cumulative rate increase in excess of 150%. He said his proposal is a 5% haircut for the first 100% of the cumulative rate increase, 20% for the portion of the cumulative rate increase between 100% and 400%, and 80% for the portion of the cumulative rate increase in excess of 400%. He said this is intended to reduce rate increases for policyholders around the 85/25/400 area.

Lombardo said he and Andersen think the proposal is a first draft to reach some level of compromise between insurers and policyholders while addressing the 85/25/400 issue. He said the proposal will impact different companies in different ways. He said he, Andersen, and others do not believe there is a single solution that every company and regulator will support. Lombardo said the proposal will be exposed for public comment, and the Working Group intends to work toward presenting a final proposal for amending the MSA framework to use a single approach to be voted on for adoption by the Working Group at the Fall National Meeting. He said any changes will only affect the MSA review process under the MSA framework and will not change states' ability to conduct their own rate increase review processes.

Leung said he is concerned that the proposal does not address very large rate increases that will still be considered unreasonable, even after applying the proposed cost-sharing. He said he is also concerned that the formula will treat companies that have received no rate increases in the past differently than companies with past cumulative rate increases. He said he thinks the cost-sharing modifications proposed in the Missouri Department of Commerce and Insurance comment letter address these concerns. Andersen said the implicit cost-sharing through the blending of the if-knew and makeup premiums in the Minnesota approach will likely resolve any issues with exorbitant rate increases prior to the application of the proposed explicit cost-sharing factors. He said he does not think it is likely that there will be a mature LTCI block that has not had any rate increases in the past requesting a large rate increase. Andersen said the Minnesota approach has been successfully used for over 250 rate increase filings and for nine MSA filings.

Serbinowski said the proposed cost-sharing factors produce results similar to those from the informal 300% cap on rate increases that the Utah Insurance Department implemented in 2016. He said the 300% cap is no longer enforced. He said the cost-sharing factors are the most arbitrary element of the Minnesota approach, are non-actuarial in nature, and he is not sure that the Working Group is the best forum to address a policy issue rather than an actuarial one. He said he is also concerned that two similarly situated companies may end up being granted far different rate increases depending on whether they filed for an increase before or after the implementation of the proposed new cost-sharing factors. He said he finds it difficult to support the proposal.

Fix said regulators need to do something to address the current issues with LTCI rate increases and that all regulators can find reasons to not support the proposal. She said states will not give up their rights to final approval of rate increases under the MSA process. She said that if an unforeseen rate increase request situation occurs and the MSA process does not appropriately address it, the process does not need to be used. She said that since consistent application of the process is a concern for regulators and industry, perhaps the MSA team can create a training program to teach regulators exactly how to conduct a rate increase review using the MSA process. She said West Virginia fully supports the MSA process using the Minnesota approach as a single LTCI MSA review approach methodology. Lombardo agreed that whatever single approach is ultimately adopted, there should be training for regulators in the application of the MSA process so there is a complete

© 2024 National Association of Insurance Commissioners

understanding among states as to how each state is applying the methodology. He said MSA training can help address industry concerns about inconsistent application of the MSA process. Andersen said the MSA framework includes a structure for an MSA associate program, and this can be used to train the states on the application of the MSA process.

Chaudhuri said having an adopted MSA framework that uses a single approach and that also includes non-actuarial aspects, such as cost-sharing, will be helpful for commissioners and others because it can be used as a starting point for making policy decisions based on non-actuarial elements.

Miller said she agrees there should be an MSA process training program so that regulators can fully understand the process before deciding whether to adopt it. She said she is not confident that she understands how all the elements of the process work and is not comfortable voting for adoption without this knowledge. She asked why 85, 25, and 400 were chosen as points where action needs to be taken.

Lombardo said that a vote will not be called today, and there will be further exposure of changes to the Minnesota approach for comment. Andersen said that age 85 and duration 25 are not meant to be defined cutoff points, but many of the rate increase complaints received are from policyholders generally at that age and duration. He said that after examining various LTCI block component averages, cumulative rate increases at a threshold of 400% tend to happen for policyholders at age 85, duration 25. He said his proposed cost-sharing factor changes the focus to more on the 400% threshold but benefits age 85, duration 25 policyholders as a by-product of their application. He said the focus of the changes is to reduce higher cumulative rate increases regardless of a policyholder's age or duration. Miller said she supports having a framework that will allow regulators to explain rate increase evaluations to their commissioners, even if portions of it are non-actuarial.

Graeber said she is concerned that under the MSA process, rate increase evaluations will be interpreted as actuarial when elements, such as cost-sharing, are policy-driven. She said she thinks the actuarially justified rate increase needs to be disclosed and what policy decisions were applied that reduced the actuarially justified increase. Miller asked Graeber if she thinks the Working Group is not the appropriate venue for making cost-sharing recommendations. Graeber said in the past, the Working Group only dealt with actuarial issues, and she believes the Long-Term Care Insurance (B) Task Force was formed to consider policy-related issues at a commissioner level. Lombardo said the MSA process, a single approach, and addressing the 85/25 issue have been discussed with many commissioners, and they all approve of the Working Group developing potential solutions to these issues. He said the cost-sharing elements are already part of the Minnesota approach as used in the MSA framework, and the Working Group is only proposing modifications to cost-sharing factors that have been in use to reflect the LTCI block cohorts that commissioners have expressed concerns about. He said before any factor modifications can be implemented, they will need to be approved at the commissioner level through the Executive (EX) Committee and Plenary.

Commissioner McVey said he thinks the MSA process will work to help regulators solve the issues they face with LTCI rate increases. He said regulators are at a point where something must be done to address the issues, and the Working Group has been tasked with developing the best alternative. He said insurers need to work with regulators to develop the best solution possible. Graeber said she understands the Working Group is acting on direction from commissioners, and she wants to ensure that the MSA process is transparent by stating the actuarially justified rate increase and also the reasons why cost-sharing was applied to reduce the increase. She said that she wants it to be clear that commissioners are ultimately the ones making the policy decisions applied to a rate increase request.

© 2024 National Association of Insurance Commissioners

Lombardo said the final decision on the level of rate increase lies with the commissioner of any given jurisdiction. He said that nothing in the MSA process changes this. He said commissioners need to be able to explain the complicated details of an LTCI rate increase to policyholders in a way they can understand, and the MSA framework helps accomplish this. Lombardo said having a single approach to be used in the MSA process eliminates the complications of explaining why multiple approaches were used and how their weights were assigned in developing the rate increase. He said more consistency is needed among states so there can be more predictability in the LTCI market that will hopefully attract new insurers to offer LTCI products. He said that the MSA framework is intended to be subject to revision over time, and whatever the Working Group presents at the Fall National Meeting is not necessarily the final version of the MSA approach.

3. Exposed Proposals for Modifications to Minnesota Approach Cost-Sharing Factors

Lombardo said modifications to the cost-sharing factors used in the Minnesota approach as proposed by Andersen and Leung will be exposed for a 45-day public comment period ending Sept. 27.

Having no further business, the Long-Term Care Actuarial (B) Working Group adjourned.

Member Meetings/B CMTE/HATF/2024_Summer/8-12-24 LTCAWG/LTCAWG Minutes 08-12-24.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/16/24

Long-Term Care Actuarial (B) Working Group
Virtual Meeting
July 2, 2024

The Long-Term Care Actuarial (B) Working Group of the Long-Term Care Insurance (B) Task Force met July 2, 2024. The following Working Group members participated: Paul Lombardo, Co-Chair (CT); Fred Andersen, Co-Chair (MN); Sarah Bailey (AK); Stephen Flick (DC); Lilyan Zhang (FL): Scott Shover (IN); Nicole Boyd (KS); Marti Hooper (ME); Kevin Dyke (MI); William Leung (MO); David Yetter (NC); Michael Muldoon (NE); Jennifer Li (NH); Neil Gerritt (NY); Craig Kalman and Laura Miller (OH); Jim Laverty and Shannen Logue (PA); Aaron Hodges and R. Michael Markham (TX); Tomasz Serbinowski (UT); Rebecca Rebholz (WI); and Joylynn Fix (WV). Also participating was: Julie Fairbanks (VA).

1. Discussed Comments on a Single LTCI Multistate Rate Review Approach

Lombardo presented comments received from America's Health Insurance Plans (AHIP) and the American Council of Life Insurers (ACLI) (Attachment One-A1), the Virginia State Corporation Commission's Bureau of Insurance (Attachment One-A2), Genworth Life Insurance Company (Attachment One-A3), the Washington Office of the Insurance Commissioner (Attachment One-A4), and Robert Darnell (Attachment One-A5) on the exposure of the Minnesota approach with any suggested adjustments as a candidate for a single long-term care insurance (LTCI) multistate rate review approach methodology for use in multistate actuarial (MSA) filing reviews.

There was discussion on Virginia's comment that the MSA recommendation provide catch-up percentages separate from the overall rate increase. Yetter said he prefers seeing the rate increase plus the catch-up.

Jan Graeber (ACLI) said the ACLI Long-Term Care Insurance Committee will meet later this month to discuss potential ideas to ensure consumers continue to receive valuable long-term care coverage while addressing affordability concerns fairly and soundly. She said ACLI is dedicated to finding a solution that will address the Working Group's concerns. In response to the assertion in the ACLI/AHIP comments that a single methodology cannot work in all cases and that the Minnesota approach results in insufficient rate increases for older blocks of LTCI, Andersen said feedback from the Working Group is that it results in excessive rate increases for older blocks. He asked if this is what ACLI/AHIP views as the main weakness of the approach or if they have identified other weaknesses. Graeber said ACLI/AHIP thinks there are cases where the cost-sharing aspect of the Minnesota approach results in insufficient increases, and they have not identified any specific concerns with it, but they want to preclude any adjustments to the methodology that are non-actuarial in nature.

Andersen said he appreciates the cost of delay issue raised in Genworth's comments, and the MSA team is relying on a decision made at the commissioner level on the balance between fairness to consumers and preventing insurer financial distress, as well as bringing rates to similar levels among states. He said there is nothing in the MSA Framework that would prevent a state from working out a solution for a cost of delay issue with an insurer.

Andersen said the Minnesota and Texas approaches have a long history, have both been publicly vetted over the past eight years, and both were adopted as part of the MSA Framework. He said the Minnesota approach has been used to review over 250 filings and seems to have worked well. Andersen said it has also worked well for many filings in the pilot and adopted versions of the MSA Framework. He said the MSA team has heard from regulators that the Minnesota Approach yields increases that are too large, and insurers have said it yields increases that are not large enough. He said he thinks no single methodology will completely satisfy both parties.

© 2024 National Association of Insurance Commissioners

Andersen said an issue that has emerged is large rate increases for policyholders at roughly age 85 and policy duration 25, which is referred to as the 85/25 issue. In Minnesota, he is exploring state adjustments to the Minnesota approach to mitigate these larger increases and proposes that the MSA Framework also do so in a way that does not create discrimination issues. He and Lombardo have had many discussions with commissioners and regulatory actuaries, and the response has been unanimous that this issue should be pursued. Advantages to the Minnesota approach as a candidate for a single methodology are that it is well-understood and documented, has been in use for over eight years, and that simple adjustments to weightings for the cost-sharing factors could address the 85/25 issue. He said there may be benefits to reducing the insurer's cost-sharing in earlier policy durations, as it may reduce financial distress for younger blocks in years to come and prevent large rate increases for older aged policyholders later in the block's life. He said a possible solution would be to reduce insurer cost-sharing for policyholders with lower cumulative rate increases and increase insurer cost-sharing for policyholders with higher cumulative increases. He said this will provide two levers to mitigate the 85/25 issue, one currently and the other later in the life of the block.

Lombardo said the Working Group and the Long-Term Care Insurance (B) Task Force have established the goal of adopting a single methodology for use in the MSA Framework by the end of this year and to address the 85/25 issue in the process. He said the MSA Framework will always be open for revision, and the Working Group and MSA Team will remain open to considering modifications that will produce better results for all stakeholders. He said even if the Working Group and Task Force adopt a single methodology and a way to address the 85/25 issue, these issues and others will continue to be worked on in the future. He said this is a necessary two-step process that needs to occur to have a better opportunity for more regulators to understand the concept of using a single methodology in the MSA Framework and to potentially get more regulator support going forward.

Fix said she agrees with Andersen and Lombardo and thinks that a change must be made. She said a modified Minnesota approach for use as a single methodology provides a balanced solution to the majority of the issues regulators are facing. Miller said she also agrees and thinks that regulators need to not only consider the actuarial aspects of rate increase review, but also consider the harm that can come to consumers from the way insurers price these products. She asked why age 85 and duration 25 were singled out and if the intent is to have a single cost-sharing modification for policyholders at or greater than age 85, duration 25, or if the modification will vary by age and duration. Andersen said under his proposal, there will not be anything explicit at age 85, duration 25, but it will reflect the ages and durations in a block where larger cumulative increases are seen. He said these policyholders will be the ones who benefit from the adjustment. Lombardo said 85 and 25 were chosen as an easy way to describe the issue and are not meant to apply exclusively to such policyholders. Miller suggested reducing duration 25 to a smaller number. Logue said Pennsylvania recognizes these issues are problematic and that there is no perfect solution to them. He supports the Working Group's efforts toward implementing a single approach.

2. Exposed a Single LTCI Multistate Rate Review Approach for Comment

Lombardo said the Working Group will expose the Minnesota approach with any suggested adjustments to the cost-sharing formula to address the 85/25 issue as a candidate for a single LTCI multistate rate review approach methodology for use in MSA filing reviews for a 30-day public comment period ending Aug. 1. He said the Working Group will discuss comments received during its Aug. 12 meeting.

Having no further business, the Long-Term Care Actuarial (B) Working Group adjourned.

Meetings/Member Meetings/B CMTE/HATF/2024_Summer/7-2-24 LTCAWG/LTCAWG Minutes 07-2-24.docx

© 2024 National Association of Insurance Commissioners

May 3, 2024

Paul Lombardo, Co-Chair, NAIC Long-Term Care Actuarial Working Group
Fred Andersen, Co-Chair, NAIC Long-Term Care Actuarial Working Group

Dear Paul and Fred,

The American Council of Life Insurers (ACLI)[1] and the America's Health Insurance Plans[2] (AHIP) appreciate the opportunity to comment on the NAIC Long-Term Care Actuarial Working Group (LTCAWG) exposure titled "Recommendation on a single MSA actuarial approach after regulator feedback Document."

ACLI and AHIP recognize the challenges you face in responding to some legislators and consumers facing a large rate increase on LTC policies. In addition, we commend the significant effort by the LTCAWG trying to create an acceptable uniform approach to review LTC rate increase filings with the goal of bringing consistency and efficiency to the process.

At this stage, there are differing opinions regarding the most suitable methodology for the multi-state rate review (MSRR) team. Moreover, many states are hesitant to adopt the MSRR approach over their own methods and the likelihood of a substantial number of states adopting the MSRR recommendation is uncertain.

The diversity among the various blocks of business within the industry makes it challenging for a single approach to effectively cater to all. Factors such as variations in block average ages and durations, initial pricing adequacy, and historical rate adjustments requested and approved indicate that a "one size fits all" approach will not appeal to a broad segment of the market. The current MSRR methodology, aimed at achieving consistency in rates, disproportionately disadvantages older blocks with a history of denials and delays in review. Introducing the proposed changes would likely worsen this situation.

As stated in our prior communications, our primary concern is the inclusion of non-actuarial factors in the rate filing review process. As an industry, we cannot endorse anything that effectively alters the terms and conditions of policies regarding an insurer's ability to adjust future premium rates arbitrarily. Allowing political or social considerations to override sound actuarial principles sets a risky precedent, potentially leading to unintended consequences in the future. We worry that such unintended consequences could possibly include some insurers seeking legal/regulatory recourse.

Finally, any limitations being considered by the NAIC should be done via model statute or properly promulgated regulations rather than guidelines or as part of the MSRR framework. An NAIC model regulation (Model #641) aimed at strengthening the pricing of LTC insurance already exists and could be amended if necessary.

[1] The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

[2] AHIP is the national association whose members provide health care coverage, services, and solutions to hundreds of millions of Americans every day. We are committed to market-based solutions and public-private partnerships that make health care better and to help create a space where coverage is more affordable and accessible for everyone.

© 2024 National Association of Insurance Commissioners

Based on these concerns, we question the success envisioned by the NAIC in 2019 when they adopted the charge of developing a consistent national approach for reviewing LTC insurance rates that result in actuarially appropriate increases being granted by the states in a timely manner, can truly be achieved. A possible outcome is a continued assortment of approaches that fail to satisfy insurers, regulators, or policyholders.

We remain open to exploring alternative solutions that address rate increase filings, policyholder concerns, and highlight the continued value of policies even with premium rate increases. As illustrated in the recommendation section of this letter, highlighting the continuing value of the policies even with premium rate increases can be an effective tool to help address concerns raised by legislators and consumers.

Executive Summary

As insurers, we have a fundamental obligation to ensure the financial sustainability of the products we provide to consumers. Actuarially sound rates are essential to achieving this goal, and deviating from these principles would compromise our ability to fulfill our contractual obligations.

We understand your concerns for consumer protection; however, we must also recognize that insurance products inherently involve risk and personal responsibility. In the case of LTC insurance, policyholders may face premium increases that are necessary to ensure the insurer's financial sustainability. While many policyholders may be able to adjust their benefits or premiums to manage costs, there may always be some who are unable to afford the increases and must lapse their coverage. It is essential to remember that LTC insurance products are designed to provide a safety net, not a guaranteed benefit.

We also understand that affordability is a critical issue, particularly for older age policyholders. However, arbitrarily prohibiting large rate increases on targeted segments of the LTC market may not be the most effective solution.

The section below provides a potential framework for a solution, which highlights the value of LTC coverage.

ACLI and AHIP Recommendation

When evaluating LTC products, it's essential for all stakeholders to consider the value they provide to consumers. Consumer protection efforts should strike a balance between safeguarding consumers and allowing for consumer choice, acknowledging that LTC products can play a vital role in supporting individuals' LTC needs.

Pricing LTC coverage involves complex actuarial assumptions and calculations. Rather than delving into technical details, we recommend sharing the importance and value of LTC coverage with policymakers and lawmakers. This approach enables them to understand the benefits and make informed decisions that support consumers' needs. By taking a nuanced approach, we can ensure that consumers have access to valuable products that meet their needs while also being protected from unintended consequences.

Rather than imposing benefit caps or restricting premium increases, we suggest focusing on measures that promote consumer education, flexibility, and choice. This could include:

- Clear and transparent communication about premium increases and benefit adjustments
- Options for policyholders to adjust their benefits or premiums to manage costs

- Support for policyholders who are struggling to afford their premiums

Below are several illustrations, based on realistic policy information, which demonstrate the value that LTC insurance can provide.

Scenario 1

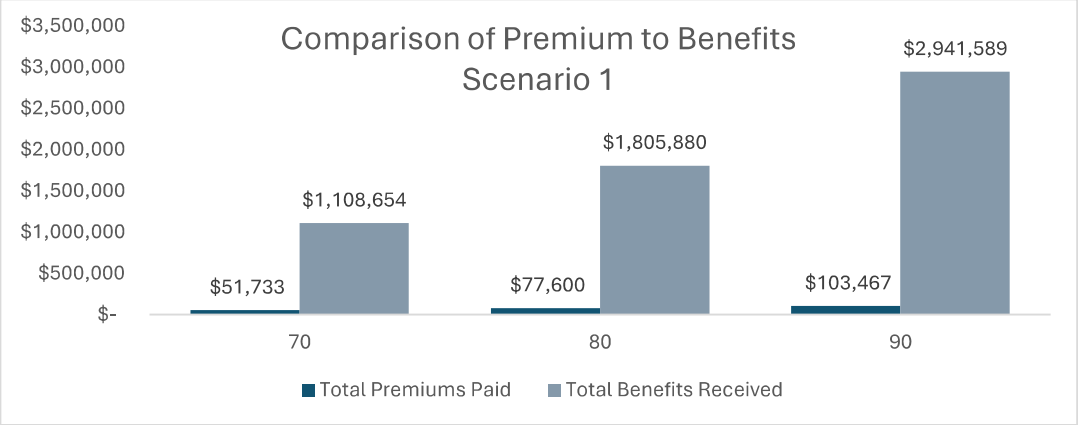
To illustrate the potential value, consider a policyholder who purchased the policy at age 50, with an original monthly maximum benefit of $6,964 and 5% compounded annual inflation protection. The elimination period is 90 days, and the benefit period is 5 years. The annual premium at issue is $2,587. The following table provides a comparison of potential premium paid to benefits received, assuming age at claim of 70, 80, and 90 years, and claims continue for 5 years.

Assumptions:

- Premiums are paid annually
- Inflation protection is 5% compounded annually
- Benefit period is 5 years
- Elimination period is 90 days
- No Premium Increases

Age at Claim	Total Premiums Paid	Total Benefits Received	Benefit-to-Premium Ratio
70	$ 51,733	$1,108,654	21.43
80	$ 77,600	$1,805,880	23.27
90	$ 103,467	$2,941,589	28.43

Note: The benefit-to-premium ratio increases significantly over time due to the compounding effect of inflation protection.



Scenario 2 – Same as Scenario 1 with Premium Increases

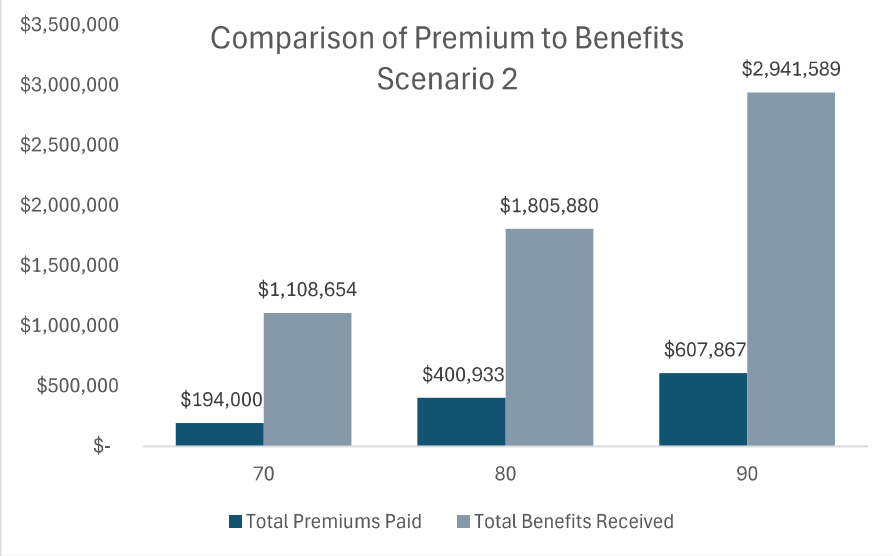
The policyholder purchased the policy at age 50, with an original monthly maximum benefit of $6,964 and 5% compounded annual inflation protection. The elimination period is 90 days, and the benefit period is 5 years. The initial annual premium at issue is $2,587. Rate increases of 100%

are filed in years 6, 11, and 16. The following table compares the potential premium paid to benefits received, assuming age at claim of 70, 80, and 90 years, and claims continue for 5 years.

Assumptions:

- Policy purchased at age 50
- Original monthly maximum benefit: $6,964
- 5% compounded annual inflation protection
- Elimination period: 90 days
- Benefit period: 5 years
- Initial Annual Premium: $2,587
- Premium increases by 100% each year at years 6, 11, and 16
- Claims continue for 5 years

Age at Claim	Total Premiums Paid	Cumulative Premium Increase	Total Benefits Received	Benefit-to-Premium Ratio
70	$194,000	700%	$1,108,654	5.71
80	$400,933	700%	$1,805,880	4.50
90	$607,867	700%	$2,941,589	4.84



In contrast to Scenario 1, the initial annual premium increases 700%. While this is a significant amount, it's essential to consider the value of the coverage provided and the potential benefits received. In this scenario, depending on age at claim, the policyholder could receive over 5 times the total premiums paid in benefits, highlighting the importance of actuarial soundness in setting insurance premiums.

Considerations for Consumers

If the insurance company announces a 100% premium increase, the policyholder should carefully consider the following factors when deciding whether to keep or drop the coverage:

© 2024 National Association of Insurance Commissioners

1. Affordability: With a 100% premium increase, the initial annual premium would double to $5,173 in year 6, and would double again in years 11, and 16. The policyholder must assess whether they can afford such a significant increase.
2. Inflation Protection: The 5% compounded annual inflation protection may be higher than the increase in cost of care. The policyholder should assess whether a reduction in inflation protection could be appropriate for their situation.
3. Policy Terms: Review the policy terms to understand flexibility in adjusting benefits to help mitigate the increase in premiums.
4. Financial Situation: Assess the policyholder's current financial situation, income, and expenses to determine if they can absorb the increased premium costs.
5. Health Status: Consider the policyholder's current health status and potential future care needs, weighing the importance of maintaining coverage against the increasing costs.

By carefully evaluating these factors, the policyholder can make an informed decision about whether to keep the coverage, adjust the benefits, or explore alternative solutions.

Scenario 3 – Same as Scenario 2 with Premium Increases and Benefits Capped

The assumptions are the same as Scenario 2; however, rather than approving the actuarially justified 100% increase in premium in years 6, 11, and 16, assume that premium increases were capped at 40% per year in years 6, 11, and 16. In addition, assume that the company became financially unsustainable and the policies were assumed by the state guaranty fund, which caps total benefits at $350,000.

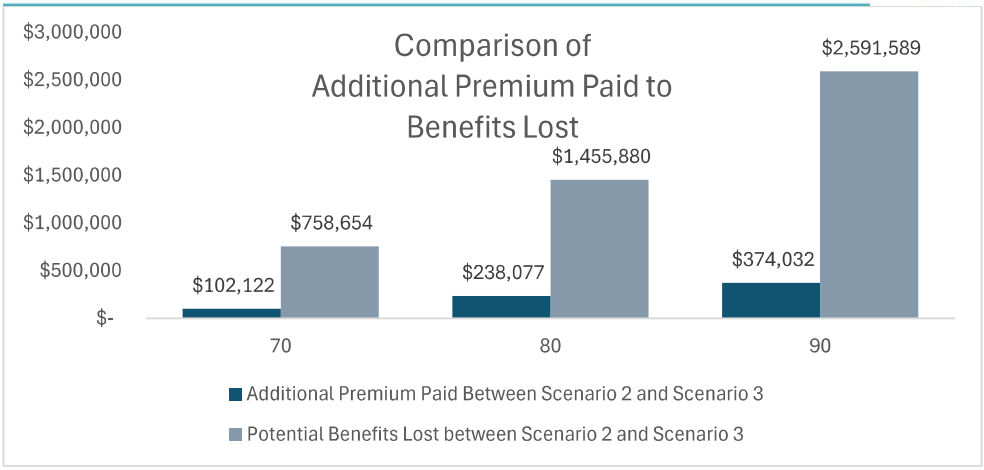
Assumptions:

- Policy purchased at age 50
- Original monthly maximum benefit: $6,964
- 5% compounded annual inflation protection
- Elimination period: 90 days
- Benefit period: 5 years
- Initial Annual Premium: $2,587
- Premium increases by 40% each year at years 6, 11, and 16
- Total benefits received capped at $350,000

Age at Claim	Total Premiums Paid	Cumulative Premium Increase	Total Benefits Received	Benefit-to-Premium Ratio
70	$ 91,878	174%	$350,000	3.81
80	$ 162,857	174%	$350,000	2.15
90	$ 233,835	174%	$350,000	1.50

Age at Claim	Additional Premium Paid Between Scenario 2 and Scenario 3	Potential Benefits Lost between Scenario 2 and Scenario 3	Benefits Lost/Additional Premium Paid
70	$ 102,122	$ 758,654	7.43
80	$ 238,077	$ 1,455,880	6.12
90	$ 374,032	$ 2,591,589	6.93

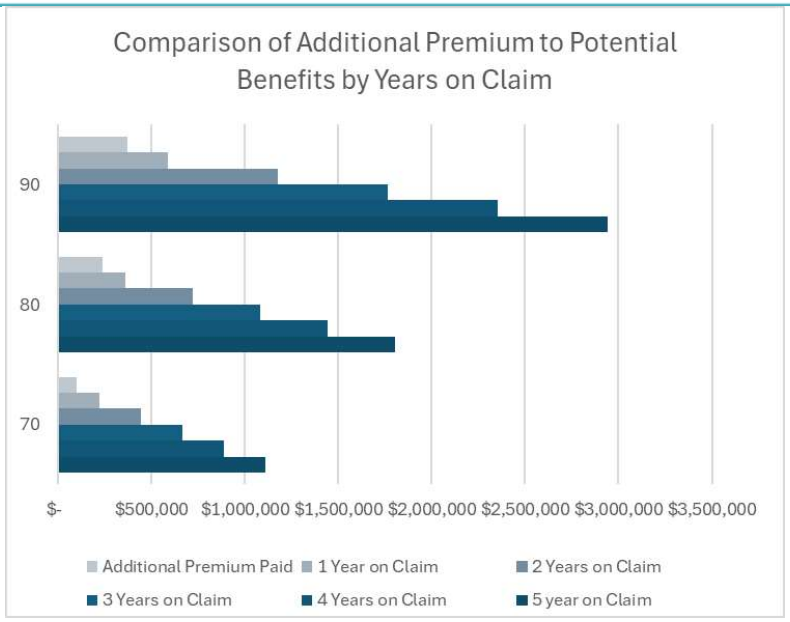
© 2024 National Association of Insurance Commissioners



This above table highlights that without a benefit cap (but with high premium increases) actually provides more consumer protection because it:

- Empowers consumer choice: Without a benefit cap, consumers have the flexibility to reduce their benefits (and corresponding premiums) if they feel the premium increases are too high.
- Avoids forced benefit cuts: By not capping benefits, consumers are not forced to accept reduced benefits due to regulatory restrictions on premium increases and guaranty fund limits.
- Encourages personal responsibility: Consumers can take ownership of their long-term care planning and make informed decisions about their benefits and premiums.
- Supports actuarial sustainability: The table without a benefit cap assumes actuarially justified rate increases, ensuring the insurer's financial sustainability and our ability to fulfill our contractual obligations.
- Empowering consumers to make their own choices about benefits and premiums can be a more effective way to allow policyholders to protect their interests.

© 2024 National Association of Insurance Commissioners



Summary

Consumers facing significant rate increases on LTC policies must have the ability to make informed decisions that align with their financial circumstances and risk tolerance. Factors such as financial situation, health status, policy features, and future care needs should be carefully considered before deciding whether to maintain coverage, adjust benefits, or lapse the policy.

Actuarial justification plays a crucial role in ensuring the financial stability of insurers and protecting the interests of consumers. Deviating from actuarial principles may lead to inadequate premiums, jeopardizing insurer stability and consumer protection.

Furthermore, delaying approval of actuarially justified rates poses significant risks to insurers and policyholders alike. Proactive oversight and timely approval of actuarially justified rate adjustments are essential to maintain market confidence and protect consumers from sudden premium hikes or lapses in coverage.

While addressing affordability issues for older age policyholders is important, it is crucial to maintain a focus on actuarial soundness and fairness in setting premiums. Empowering consumers with knowledge, flexibility, and support can help strike a balance between consumer protection and insurer stability.

© 2024 National Association of Insurance Commissioners

In conclusion, we urge regulators to prioritize actuarially justified rate increases and policies that empower consumer choice within the insurance market. By doing so, we can ensure the long-term viability and sustainability of insurance products while promoting fair outcomes for consumers.

Thank you for considering these important issues.

Sincerely,





Jan Graeber
Senior Actuary, ACLI

Ray Nelson
Consultant for AHIP

From: Julie Fairbanks
To: King, Eric
Cc: White, Scott A.; Blauvelt, Julie; Smith, Greg; Chupp, Craig
Subject: FW: Long-Term Care Actuarial (B) Working Group Exposure - Comments Due May 3
Date: Monday, May 6, 2024 3:36:22 PM
Attachments: image001.png
Single actuarial approach_comments_recom_022024.pdf

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Good afternoon Eric,

VA's comments are below. I apologize for submitting them a few days late.

Virginia is supportive of the development of a single MSA actuarial approach based on the concepts outlined in the attachment. In regards to the recommendations that the WG is planning to incorporate into the single actuarial method, VA would like to provide the following suggestions:

Regarding #4 and the catch up provision for attaining a similar rate level upon states, VA would prefer that the MSA team continue to provide recommended rate increases for approval and separately provide catch up percentages for individual states. This will allow the states to evaluate the specifics of previous rate increase approvals and whether to apply catch up percentages .

Regarding # 8, we agree with having a solvency provision for state consideration but it should be separate from the basic analysis.

In addition to the recommendations in the attached, it would be helpful for states to have a clear understanding of how the MSA team arrives at a recommended increase so that each state can determine whether the recommendation complies with their regulatory requirements and have the ability to apply the same approach to other filings to ensure consistency. This would be especially helpful when considering multiple filings from the same insurer.

Thank you,
Julie

Julie R. Fairbanks, CIE, FLMI, AIRC, MCM
Chief Insurance Market Examiner – Market Regulation
Life and Health Division
Bureau of Insurance
804-371-9385
julie.fairbanks@scc.virginia.gov

The designation at the bottom of this communication is solely for internal use by the SCC. This designation does not control the recipient's use or disclosure of this communication, and it does not affect any obligation the recipient may have to maintain confidentiality.

Confidential

From: King, Eric <EKing@naic.org>
Sent: Sunday, March 17, 2024 10:36 AM
To: King, Eric <EKing@naic.org>
Subject: Long-Term Care Actuarial (B) Working Group Exposure - Comments Due May 3

To: Long-Term Care Actuarial (B) Working Group Members, Interested Regulators, and Interested Parties

The Working Group requests comments on the Minnesota Approach with any suggested adjustments as a candidate for a Single LTCI Multistate Rate Review Approach. The Minnesota Approach is described here: https://content.naic.org/sites/default/files/documents/ltci-msa-framework.pdf

Suggested adjustments should be related to the concepts contained in the attached recommendation on a single MSA actuarial approach after regulator feedback document.

Please provide comments to eking@naic.org by Friday, May 3.

CONFIDENTIALITY NOTICE

This message and any attachments are from the NAIC and are intended only for the addressee. Information contained herein is confidential, and may be privileged or exempt from disclosure pursuant to applicable federal or state law. This message is not intended as a waiver of the confidential, privileged or exempted status of the information transmitted. Unauthorized forwarding, printing, copying, distribution or use of such information is strictly prohibited and may be unlawful. If you are not the addressee, please promptly delete this message and notify the sender of the delivery error by e-mail or by forwarding it to the NAIC Service Desk at help@naic.org.

Genworth Life Insurance Company & Genworth Life Insurance Company of New York
Response to MSA Single Method Exposure Draft
May 3, 2024

Executive Summary

The promulgation of a single MSA methodology, if accompanied by detailed and comprehensive implementation guidance, provides the opportunity for additional clarity and predictability for both industry and regulators in how to manage inforce business going forward.

This submission of comments on the Exposure Draft does not constitute either agreement with the principles of the current Minnesota Method, nor endorsement of the Minnesota Method as the final single methodology. Our purpose is to provide feedback based on Genworth Life Insurance Company's and Genworth Life Insurance Company of New York's (collectively, "Genworth" or the "Company") experience, to request clarification where needed, and to recommend adjustments that may benefit all stakeholders.

While Genworth appreciates the opportunity to provide specific methodology suggestions, lack of sufficient detail in the existing MSA Framework guidance makes it difficult to create a reliable baseline from which to establish any modeling or quantification of impact. While the Company continues to believe that a single methodology or "one size fits all" approach is not suitable for addressing all LTC rate filings across the industry, the suggestions and improvements described below would create a more predictable and sustainable methodology and provide clarity for insurers that are contemplating use of the MSA process.

If the Actuarial Working Group (AWG) intends to move to a single approach based on the Minnesota Method, it is imperative that the MSA standardize application of that method.

Genworth has experienced significant variability in approach from regulators attempting to use the Minnesota Method in recent years, as a result of guidance that has either changed over time, is unclear in its intended implementation, or otherwise introduces subjectivity that leads to widely varying results. We recommend standardization of the following components of the Methodology:

- **Weighting**. Genworth believes a single, unified weighting factor may be the most direct and transparent approach to achieve the intended cost-sharing. A comprehensive weighting should account for advanced attained ages, the age of the block, and solvency considerations.
- **Cost-Sharing**. Genworth agrees with the need for an adjustment to the final increase to provide relief for solvency considerations. The current additional cost-sharing approach, waived entirely for unspecified solvency concerns, penalizes insurers when higher increases are necessary while rewarding states that have been slow to approve past requests, both of which only exacerbate solvency risks. Introducing various types of cost-sharing at different steps in the process with undefined determinants results in adding risk to the ongoing management of inforce blocks of business due to unpredictable rate increases.
- **Solvency.** The current guidance does not provide clearly defined objective criteria for when an adjustment for solvency should be made, resulting in an unknown and arbitrary threshold when

© 2024 National Association of Insurance Commissioners

such an adjustment is permitted or otherwise is deemed no longer necessary. The current approach could be modified to more directly address solvency considerations, such as need for future rate increases to support margin sufficiency in Cash Flow Testing (CFT).

- **Implementation Date**. The current guidance does not provide clarity on the use of an assumed implementation date for when a rate increase may take effect. As the time value of rate increases can significantly impact the value to the company, an explicit adjustment should be allowed, especially when rate reviews continue for an extended period of time past the valuation date of the projected cash flows.
- **Aggregate vs. Sample Policy Methods.** The current Framework does not describe the decisions for when each method should be used, and when circumstances would prohibit use of the Aggregate Method. As there are also no examples of how the Sample Policy Method should be applied, we have generally seen the Aggregate Method used in all situations where regulators have utilized the Minnesota Method. In absence of specific guidance, the presence of the Sample Policy Method creates the appearance of a separate methodology without clarity for when either approach is the limiting factor.
- **Discount Rate.** For current Present Values (PVs), the "average corporate bond yields" are not defined, which has led to various approaches in application. Since rate increases are requested in an effort to support margin sufficiency, use of investment returns assumed in CFT should be permitted.
- **Waiver of Premium**. The inclusion or exclusion of Waiver of Premium (WOP) benefits should be consistent with original pricing methodology. If a company included WOP as a claim benefit and grossed up premiums when setting original rates which were approved for use by a regulator, such an approach should be permissible in subsequent rate increase calculations.

If an additional modification is deemed necessary for higher attained ages, we prefer that modification occur at an aggregated, or "block," level.

The most equitable approach to providing premium increase relief for policyholders at higher attained ages is through a block-level adjustment based on an average (or median) age of the policyholders within that block, rather than differentiating rate increases based on an arbitrary attained age.

While cross-state premium equity may be desirable, a universal rate level target ignores the cost of delay and may not always be the best solution for ongoing management of a block of policies.

We encourage the focus on rate equivalence, but recognize that equal treatment of policyholders may not entail identical nationwide rate levels. We believe it's important to leave the issue of rate history and potential adjustments on the table for future discussion.

Phased approvals over multiple years when granting the full requested increase, as opposed to frequent filings with smaller approvals, best balances insurer needs with policyholder transparency.

Genworth understands the potential impact to policyholders of large increases implemented in a single year; however, timely implementation remains the most prudent approach to ensuring continued claims-paying ability, and reduces the need for additional future increases. Phased increases can frequently result in higher future increase needs, due to reduction in expected premiums combined with the aging

© 2024 National Association of Insurance Commissioners

of the block. That being said, “pre-approving” multiple increases phased in over multiple years can at least provide some additional transparency to the policyholder when compared to smaller increases approved one at a time.

The “wait-and-see” approach of approving increases well below requested and justifiable amounts, especially when such approvals are phased, puts undue pressure on insurers and endangers the viability of the industry. So while phasing of increases can be reasonable in certain circumstances, it is not necessarily prudent universally.

© 2024 National Association of Insurance Commissioners

Genworth Response to MSA Single Method Exposure Draft

Genworth and its predecessor companies have been issuing Long Term Care insurance policies since 1974. Through the first quarter of 2024, the Company has paid over 370,000 claims totaling $30B. Through the processing of these claims, the Company has gained significant knowledge and understanding of claim behavior.

While pursuing rate increases necessary to sustain financial viability, the Company continues to invest in people and resources to support our policyholders, with initiatives that enhance customer experience and overall well-being of our policyholders:

- Our **Stable Premium Options** offer meaningful coverage while mitigating significant portions of the rate increases, while providing a rate guarantee upon election (in some cases, offering a lifetime rate guarantee).
- Our **Coverage Needs Estimator** is an online tool that helps policyholders evaluate their potential costs of care and compare those costs to their policy benefits.
- Our **Live Well | Age Well** program offers personalized support to policyholders who may be nearing claim eligibility, with the goal of helping policyholders live healthier longer at home.
- Our **CareScout Quality Network** is a network of high-quality caregivers that offers preferred pricing for policyholders. This network is expected to be available nationwide by year-end.

Ultimately, premium rate increases remain the strongest lever available to address LTC liability experience pressures. As an industry, we must recognize that the extremely long lead time between underwriting and credible claims experience (30+ years) may result in large adjustments in premium requirements. Such experience uncertainty is exactly why LTC policies are permitted to be written as guaranteed renewable, which expressly contemplates that rates may be changed in the future due to actual experience emerging different than original pricing assumptions. Insurance pricing relies on a multitude of assumptions regarding policyholder behavior, the costs of future heath care, and future market conditions, including the interest rate environment, all of which change drastically over such long time horizons. Given the long-tail nature of the product and the guaranteed renewable regulatory framework, it is neither reasonable nor logical to impute to an insurer at the time of original pricing knowledge of how experience would unfold many years in the future.

Below please find direct responses to your eight recommendations.

1. Generally have lower rate increases for those at very advanced ages with high-duration policies that have had substantial past rate increases.

Genworth Perspective: Genworth appreciates the concern for older policyholders and recognizes that premium rate increases can be challenging for some individuals. To provide relief, the Company has developed and made available numerous policyholder alternative options that offer policyholders the ability to mitigate the impacts of a premium increase while maintaining meaningful coverage. Since 2022, rate increase requests in most cases are differentiated by both Benefit Increase Option (BIO) and Benefit Period (BP), to align the highest increases with the benefit features facing the most adverse experience.

© 2024 National Association of Insurance Commissioners

Charging different premiums to policyholders with the same benefit features who differ only by attained age would be incredibly onerous to implement. Our systems are not built to add a new risk class not part of the original pricing, like attained age, and to differentiate premiums along these constraints. It would be costly, time-consuming, and add risk to our processes to try to add such functionality at this point in our history.

Proposed Solution: Genworth supports using Product Block as a differentiating feature that can provide relief to advanced age policyholders. As product blocks typically have finite issue years and consistent marketing, the makeup of the policyholders within a block should provide sufficient comparability that would enable an approach to targeted rate increases.

2. Do not dismiss aspects of proposals labeled as "non-actuarial" by the ACLI.

Consider all proposals made thus far regarding incorporation into a single actuarial approach.

Genworth Perspective: Genworth is committed to adhering to sound actuarial practice, as promulgated in official industry regulations as well as standard industry practice. When evaluating a methodology, it is critically important to distinguish fundamental actuarial concepts (premium sufficiency, regulation limitations on increases, rate increase impacts on solvency, etc.) from non-actuarial considerations (consumer protection, annual approval caps, cost sharing, etc.). Conflating the two perspectives can lead to misunderstandings by broader audiences about the actuarial justification or financial basis for a rate increase.

3. Balance between consumer protection and preventing further financial distress for insurers.

Genworth Perspective: Genworth appreciates the balance regulators seek to achieve as they navigate their dual mandate to protect consumers by approving fair premiums while also ensuring the claims-paying ability of insurers. We believe insurer solvency is the ultimate form of consumer protection and remains an essential part of any discussion on rate increases. And while Genworth appreciates the opportunity to comment on the current MSA methodology, the Company would like to reiterate that this response does not imply agreement with any method that employs the use of an if-knew premium for purpose of determining a rate increase that should be approved.

Genworth also understands the desire to increase the insurer's burden as cumulative rate increases rise, however, significant cost-sharing is achieved through the inherent blending with if-knew premium increases. Per requirements, assumption changes must be supported by changes in experience. Insurers are precluded from additional requests if experience doesn't change. However, if experience emerges differently than expected, this is the very circumstance for which the rate increase was intended. Through the current cost-sharing, insurers are also not permitted the full amount of the increase if experience is too unfavorable, which results in double penalty. The current cost-sharing provision also increases the insurer's burden in states that have been slower to approve past increase requests.

There is also concern for the "hidden cost-sharing" where past increases are backed out after the blending occurs. In situations where past increases are higher than the If-Knew calculation, backing out such increases after blending creates an implied negative rate increase for the If-Knew portion

© 2024 National Association of Insurance Commissioners

(effectively a premium *reduction*). As this effect is not explicitly addressed in the MSA Framework, it becomes an additional source of unintended cost-sharing. Given that the reason for beginning the rate increase exercise is due to deteriorating experience, anything that implies a premium reduction is counterproductive and potentially invalidates the foundation of the methodology.

Proposal: Combine all types of cost-sharing into a single step to provide clarity, ease of calculation, and improved standardization. The three main concerns addressed by cost-sharing include: percentage of block remaining; attained age of policyholders; and relative solvency of the insurer. All three of these components can be combined to create a unified cost-sharing result that achieves a balance between the If-Knew portion of the rate increase and the makeup portion of the rate increase.

The current guidance lacks definition or criteria for when a carrier is eligible for unique consideration due to its solvency or financial position. Genworth believes that clear criteria, and perhaps a quantitative solvency assessment, may help achieve a more objective solution to address the dual mandate. These criteria ought to contemplate the amount of assumed future rate increases needed to support asset adequacy margin sufficiency. Additionally, criteria should be developed for when a carrier that previously received this unique consideration is no longer eligible. The impact of the solvency considerations in the current framework can be significant, and without clear guidance for gaining or losing this eligibility, carriers have significant uncertainty about the outcome of the method.

Additionally, it should be noted that the requirement of the 58/85 test as described under Rate Stabilization guidance is an additional limiter that ensures a certain level of cost sharing, where applicable. The current Framework guidance does not recognize the existing regulations on this topic.

Finally, to address the impact of the "hidden cost-sharing," past increases should be backed out of the If-Knew and Makeup portions before blending. If past increases are higher than the If-Knew increases, then the If-Knew contribution should be floored at 0%, as it is not reasonable for any methodology to suggest that a rate decrease is appropriate when regulations and experience demonstrate an increase is needed.

4. Continue including a catch-up provision in a single actuarial approach for attaining a similar rate level between states.

Align with actuarial soundness, consumer fairness, insurers' financial sustainability, and regulatory considerations.

Genworth Perspective: Genworth supports the goal of achieving cross-state premium equity. Premium equity entails, at a minimum, moving states to a similar (if not entirely equivalent) rate level. However, in some cases, it is reasonable to consider the timing and amount of past approvals across states in determining equitable premiums. If a state has had higher premiums than another state for an extended period of time, it would not always be equitable for both states to simply proceed at an equal revised future rate level going forward, as policyholders in the more proactive state would end up paying higher lifetime premiums for equal coverage. We appreciate that this is not always practical and therefore we encourage the focus to remain on rate equivalence as a first step. However, we believe it's important to leave the issue of rate history and potential adjustments on the table for future discussion. Differing rates of approvals can create a hindrance to progress, where states do not want to feel like they are

© 2024 National Association of Insurance Commissioners

burdening their constituents when other states have been slow to approve, without the possibility of ultimate equity.

5. Continue to encourage buy-in from states on the MSA actuarial approach.

Perhaps LTC Task Force leadership could have individual meetings with states that tend to approve the lowest rate increases, providing information and addressing questions.

Acknowledge that some states that perform detailed reviews of state filings will tend to review and consider their own method and compare with the MSA recommendation; some states are committed to following the MSA recommendation. States that aren't able to perform detailed reviews are more likely to rely on the MSA.

Genworth Perspective: Genworth has seen a variety of interpretations of what states call the "Minnesota Method" with little to no consistency. The guidelines, as detailed in the MSA Framework (and AWG White Paper before it), leave room for interpretation that has led to vastly different results depending on the reviewer and their degree of subjective assessment. Guidelines should be issued with sufficient specificity such that the results of a single rate increase request filing would be equivalent no matter who reviewed it. The current approaches leave insurers with little clarity regarding the end result, which adds another layer of complexity and uncertainty to ongoing management of the policies.

For Rate-stabilized products, regulators often use the Margin for Adverse Experience (MAE) as an additional form of optional cost-sharing (similar to the solvency consideration). Multiple states have removed MAE from the calculation to determine the approved increase. If the single MSA method is intended to take the place of rate stabilization guidance when assessing rate increases, the guidance should explicitly address the inclusion of margin.

Proposal: Provide additional guidance in specific areas where subjectivity has been, or can be, introduced.

- **Margin**: develop clear guidelines on when additional margin should be included in projections. Per rate stabilization guidelines, an MAE should be included in applicable policies.
- **Waiver of Premium**: create a universal requirement to either include or exclude WOP. If a product was priced with the inclusion of WOP as a benefit, future pricing exercises should continue to include it. Removing WOP in subsequent pricing of increases creates an additional aspect of implicit cost-sharing.
- **Discount Rate**: For current PVs, the "average corporate bond yields" are not defined, which has led to various approaches. The most common approach is to use the same rate for both "original PV" and "current PV", defaulting to the rate used in original pricing for all discounting. If a different rate is in fact a requirement, a more specific and relevant rate should be permitted. Since rate increases are requested in an effort to support margin sufficiency, use of investment returns assumed in Cash Flow Testing should be permitted to meet such requirement.
- **Aggregate vs. Sample Policy Methods**: The current Framework does not describe when each method should be used. No examples of how the Sample Policy method should be applied are included in the Framework. As a result, the Aggregate Method is the only method we've seen used (including in our most recent MSA filing submission). Within the Sample Policy Method, the concept of "profit" is not fully defined and provides no guidance on how it could be derived. If

© 2024 National Association of Insurance Commissioners

there are unique situations when such a method should be deemed necessary, the implementation guidance should spell out such criteria and illustrate with examples.

- **Implementation Date**: As detailed in the White Paper, "delays in implementing actuarially justified rate increases due to either a carrier failing to file a needed rate increase, or delays in the regulatory approval of a needed rate increase, can pose a potential solvency risk." Insurers should be permitted to use a likely implementation date in the projections, and update the implementation date for prolonged rate review timelines to avoid additional financial strain and more closely mimic the impact of the rate increases.

  The following example, based on a recent filing, uses the MSA Framework Template to Illustrate the impact of moving the implementation date (valuation date discounting) forward one year. In our experience, the lag between the data used in a given filing to the ultimate approval and implementation of the rate increase is well over the single year shown in this simplified example. As demonstrated below, the impact of a 1-year delay in implementation has a material impact on the result of the calculation. Such adjustments should be explicitly permitted within the MSA guidance.

MSA Framework Methodology Steps	2022 Implementation	2023 Implementation
(1) If-Knew Rate Increase (Since Issue)	127.20%	127.20%
(2) Make Up (Standard Solve)	1185.60%	1305.80%
(3) Percentage of Issued Policies Inforce	56.80%	56.80%
Blended RI = {2} * {3} + ({1} * (1-{3}))	**728.70%**	**797.00%**
Include Cost Sharing Provision	**492.70%**	**537.10%**
- Cumulative Rate Increase to Date	239.20%	239.20%
LTC MSA Framework Blended If Knew With Cost-Sharing	**74.70%**	**87.8%**

6. Pre-approve and phase in rate increases over a reasonable period of time as opposed to requiring annual re-filings.

Part of the reason is pre-approved phased-in rate increases transparently enable policyholders to make well-informed decisions about their LTC policy based on the most likely future rates.
Also, pre-approved phase-ins eliminate work effort for companies and regulators that often provides little value.

Genworth Perspective: For larger increases, Genworth believes it is sometimes reasonable, though not always preferable, to phase increases in over a number of years (usually two to three years) if the regulator chooses to approve on that basis. This approach works best when there is agreement between the company and regulator that future filings are not planned, meaning a sufficient approval is being granted to prevent an immediate refiling. Otherwise, phasing causes unnecessary delays in future filings, driving up the ultimate level of increase needed to achieve a similar financial impact if implemented immediately.

7. If-knew weighting and additional cost-sharing considerations

© 2024 National Association of Insurance Commissioners

Study impacts on rates and solvency of various weights (including the Utah proposal) as well as the potential effects of eliminating an explicit cost-sharing provision.

Proposal: To provide a clear and consistent approach, we recommend a combined cost-sharing calculation that accounts for age of the block, attained age of the policyholders, and solvency considerations. The current weighting methodology results in an immediate and drastic convergence between the much lower If-Knew premium level based solely on the aging of the block. This adjustment should be made more gradual, and combined with an adjustment for higher attained ages, since the two concepts are also frequently highly correlated. A final adjustment can be made for solvency considerations, where a rate increase is adjusted either up or down based on the value of future rate increases needed to support margin.

Genworth would appreciate the opportunity to model various scenarios and approaches and propose more concrete formulas. However, additional clarity on the baseline Framework are necessary before modeling such approaches.

8. Maintain the flexibility of having a solvency provision but continue having the application be very rare.

Proposal: While a solvency provision can provide relief for insurers that rely heavily on future rate increases for financial sustainability, a subjective assessment for when such a provision applies creates a challenging position for management of the block. A more consistent, fair, and predictable approach would be to embed an adjustment for solvency considerations into the unified cost-sharing calculation. Applying such a factor based on objective financial criteria avoids a sudden impact when the provision is deemed no longer applicable based on a subjective assessment that can vary from one review to the next, and creates a fairer environment for an adjustment that can be used consistently across all insurers.

© 2024 National Association of Insurance Commissioners

Recommendation on a single MSA actuarial approach after regulator feedback:

Recommendations based on apparent consensus:

1. Generally have lower rate increases for those at very advanced ages with high-duration policies that have had substantial past rate increases.

   Appropriate implementation to avoid administrative and discrimination concerns may be to adjust the method for older blocks (which tend to have older policyholders that have been subject to substantial past rate increases) instead of differentiating rate increases by age within a block.

   Recognize that high-duration policyholders have:

   - tended to have the most benefit from what proved to be underpricing due to the number of underpriced premiums paid;
   - tended to have been the most surprised by the magnitude of cumulative rate increases compared to any that could have been expected when the policy was issued.

2. Do not dismiss aspects of proposals labeled as "non-actuarial" by the ACLI.

   Consider all proposals made thus far regarding incorporation into a single actuarial approach.

3. Balance between consumer protection and preventing further financial distress for insurers.

   Further analysis may be necessary to assess certain attractive proposal aspects how they maintain this balance.

4. Continue including a catch-up provision in a single actuarial approach for attaining a similar rate level between states.

   Align with actuarial soundness, consumer fairness, insurers' financial sustainability, and regulatory considerations.

5. Continue to encourage buy-in from states on the MSA actuarial approach.

   Perhaps LTC Task Force leadership could have individual meetings with states that tend to approve the lowest rate increases, providing information and addressing questions.

   Acknowledge that some states that perform detailed reviews of state filings will tend to review and consider their own method and compare with the MSA recommendation; some states are committed to following the MSA recommendation. States that aren't able to perform detailed reviews are more likely to rely on the MSA.

6. Pre-approve and phase in rate increases over a reasonable period of time as opposed to requiring annual re-filings.

© 2024 National Association of Insurance Commissioners

Part of the reason is pre-approved phased-in rate increases transparently enable policyholders to make well-informed decisions about their LTC policy based on the most likely future rates.

Also, pre-approved phase-ins eliminate work effort for companies and regulators that often provides little value.

Recommendations, but split views among regulators:

7. If-knew weighting and additional cost-sharing considerations

   Study impacts on rates and solvency of various weights (including the Utah proposal) as well as the potential effects of eliminating an explicit cost-sharing provision.

8. Maintain the flexibility of having a solvency provision but continue having the application be very rare.

© 2024 National Association of Insurance Commissioners

Long-Term Care Insurance
An Actuarial Approach to Rate Increases

The MSA "method" has an overriding fatal characteristic: it is non-actuarial. This has been documented a number of times by the American Academy of Actuaries ("**AAA**").

This article refers to Long Term Care ("**LTC**") insurance policies. The primary objective is to use actuarial methods to determine if a rate increase is justified. Regulations are based on Loss Ratios. We should also realize that a policy form will probably have several classes. Classes need to be split if the selections are optional. The intent is to make sure the less expensive classes are not subsidizing the more expensive classes.

Whether Pre-Rate Stability or Post-Rate Stability, separate classes exist depending on the:

A) Policy Form: the initial rate filing defines the loss ratio ("**L/R**") for the entire form, but a policy form is usually not a single class. Loss ratios for different classes within a policy form will need to be calculated.

B) Premium Classes
   I) Premium-paying-period: L/R's differ by paid-up option, for example: Single-Pay, 10-Pay, Paid-up at Age 65, and Lifetime Pay are four different classes
   II) Survivorship: premium classes differ based on the Survivorship option; for example: lifetime-pay with survivorship and lifetime-pay without survivorship are two different classes
   III) Number of lives: single-life and joint-life are two different classes.

C) Benefit Classes
   I) Federal tax qualified ("**TQ"**): Yes, No and Pre-TQ are three different classes
   II) Coverage: Facility-only, Home-Care only and Comprehensive are three different classes
   III) Indemnity vs. Reimbursement: these are two different classes
   IV) Restoration of Benefits ("**ROB**"): with and without ROB are two different classes (note: commercial valuation systems assume all policies have ROB, thus, the liabilities for policies without the ROB benefit are often overstated).

D) Benefit Options
   I) Unlimited (or Lifetime) Benefit Period: benefit periods of 10 or more years could be merged with the Unlimited Benefit Period
   II) 5% Compound Inflation Protection option.

   These two classes are generally the most expensive options. Segregation of these classes allows the reviewer to ascertain that these two classes are not heavily subsidized by less expensive classes.

© 2024 National Association of Insurance Commissioners

E) Rate Increase: Classes are separated by their initial filing and any approved rate increase.

All combinations of A) through D) should be considered separate classes if the choices are optional.

Initial Points Re: Rate Increase Filings

I) Pre-Rate Stability: The L/R for any rate increase filing cannot be less than the prior rate increase filing.
II) Post-Rate Stability: The L/R for any rate increase filing cannot be less than the prior rate increase filing or 85%.

First Rate Increase: Intro

Classes should be calculated individually and in total (for the form). With the first rate increase, two initial L/R's should be calculated for each class:

I) The expected L/R based on the assumed distribution of sales
II) The expected L/R based on the actual distribution of sales.

The minimum initial L/R should be the greater of these two. This prevents a company from intentionally misrepresenting the expected L/R, or, more likely, not getting the distribution they were hoping for.

The Margin for Adverse Experience ("**MAE**") (minimum of 10%) should be included with all initial filings to help avoid rate increases. The MAE should not be added to any rate increase filings.

For a rate increase filing: in-force policies that are paid-up (that is, the policies for which no further premium is due) should not be included. Paid-up policies are now the responsibility of the company and any premium deficit of paid-up policies cannot be charged to the premium-paying policyholders.

For each policy form, if any class has less than 5% of the total number of in-force policies, that class is immaterial. The rate increase for any immaterial class should be determined by the similar material class.

First Rate Increase

For the first rate increase and for each class, there will be two projected premium streams: the initial premium and the premium for the rate increase. The initial premium will have a historical portion and a projected portion. Similarly, claims will have historical claims and two pieces for the projection: claims that were initially projected and the additional claims from the new assumptions. For the Active Life Reserves (**ALR**), most companies do not change their reserve factors, yet the reserves will still change due to: 1) the new projection, 2) if the requested rate increase is adjusted, and 3) policyholder behavior.

From the projected premiums and claims, new L/R's may be calculated for each class and in total. A new maximum L/R may be calculated using:

1) the original loss ratio and the anticipated premium from the original premium
2) the projected rate-increase premium and its associated L/R (this L/R will not be less than 80% for pre-Rate Stability and 85% for post-Rate Stability).

© 2024 National Association of Insurance Commissioners

Overview

For any rate increase, there will probably be several classes. For each class, there will be separate premium streams for the initial premium and each rate increase. Each premium stream will have its own loss ratio requirement, so each premium stream must be kept separate. The loss ratio is determined by the filing (initial or rate increase). From rate-increase filing to rate-increase filing, the L/R cannot decrease. To keep rate increases to a minimum, rate increases should not be delayed – this is the company's responsibility.

For all premium streams: the proposed rate increase will be affected by policyholder behavior. Policyholder behavior will lead to additional lapses and reduced premiums and liabilities due to benefit reductions.

For each premium stream (initial, first rate increase, second rate increase, …) the accumulated premium and L/R may be used to calculate the overall loss ratio. For each class and the total: if, after the requested rate increase, the loss ratio is too low, the requested rate increase may need to be adjusted downward.

L/R Calculations for the Rate Increase

Within each material class, there will be premium streams associated with the initial premium and each rate increase. For each prior rate increase there is a historic L/R and a new L/R associated with the current rate increase. Applying these L/Rs to each associated premium stream provides the minimum loss ratio for the class. The rate increase may be adjusted downward if the L/R after the proposed rate increase is too low.

Calculations for Surplus

For each class, the "surplus" (ALR + PVF Premium – PVF Claims – PVF Expenses) (**PVF** = Present Value of Future) may be calculated, and summed for all classes. Overall surplus for the product may be analyzed to determine if the rate increase needs further adjustment.

Each premium stream will be divided by historical and projected. The projected premiums will be impacted by the proposed rate increase with expected shock lapses and expected benefit reductions. ALR should be calculated before the rate increase, after the rate increase, and after the adjusted rate increase (Note: the ALR before and after the rate increase are usually the same as companies do not usually change the ALR factors due to the rate increase – the ALR is usually changed only due to policyholder behavior, and policyholder behavior changes only: 1) due to the rate increase and 2) any adjustment that is made to the rate increase). These will be used to calculate the surplus for each class, and in total for the filing.

© 2024 National Association of Insurance Commissioners

ALR

New assumptions affect the premium and should also impact the ALR. However, most companies do not change the ALR factors due to a rate increase. The thought is that the new premiums and the current ALR should be sufficient for the block of business. However, in many cases, the present value of the premium and the ALR is not sufficient for the block of business. This should be analyzed to determine if the rate increase needs to be larger (perhaps as large as the requested rate increase, but not larger than the requested rate increase) to make the block sufficient.

L/R's Cannot Decrease

A decreasing L/R is somewhat related to Bait and Switch. What would be easier than to sell a product with a high L/R and then rate increase the policies to a low L/R as policyholders attain age 80 -- forcing policyholders to lapse just before the average age of claim.

Similarly, some companies may have a high expected L/R and give a "partial" rate increase to lower the L/R and then give another rate increase to further lower the L/R. This process is unfair to the policyholder as the final rate is higher than if the first rate increase had been given. If a policyholder must lapse due to inability to afford, they should have early knowledge so that they can lapse sooner rather than later.

Post-Rate Stability

During the 1990's, a number of agent-owned companies were selling LTC benefits. Many of these companies began their sales in Florida, with an aging population. Often, these companies utilized quick issuance and paid their claims rapidly: features often advertised to the public. These actions encouraged the public to apply for their policies. One of the more prominent carriers was known for approving applications that had been disapproved by non-agent owned companies. The initial premium rates were very competitive. This company began a habit of giving a rate increase in the second policy year, and paying a first-year commission on the rate increase. Many agents accepted this policy, feeling fully compensated because they were paid a full commission on the initial premium and the premium increase. Unsuspecting policyholders were surprised by the rapid rate increase. Understandably, these rapid rate increases led to many complaints at various state Departments of Insurance ("**DOI**").

Rate Stability was enacted to solve this issue. The primary impact was the minimum 85% L/R requirement for any rate increase. Long-term care is an expensive product for companies to administer. With a loss ratio of 85%, an expense ratio of 10 - 12% and premium taxes of 2-3%, companies could have little expectation of making a profit on their LTC product. Thus, to make a profit, a company could not have an initial 'loss leader' premium and follow that with a large rate increase to create the profit.

Initial Premiums Prior to "Rate Stability" Regulations

In the early days of LTC, there was very little experience to draw upon for expected claim costs. Most experience assumptions came from Medicare policies. With hindsight, we now realize that Medicare policies understated the claim period and overstated the lapse and mortality rates. As data was collected from LTC policies, these differences were recognized – and the data improved over time. The needs for LTC data updates continues.

© 2024 National Association of Insurance Commissioners

In the 1990's average issue ages were often in the 70's. As tax-qualification was approved, carriers were aware that lapse rates appeared to be overstated, and claims were beginning to look higher than expected. Unfortunately, the carriers delayed rate increases because they did not want to give rate increases to the elderly without being assured of the adverse data trends. By the time that Rate Stability became regulations, the need for rate increases was formally realized by most carriers. As the carriers began to file rate increases, the state DOI's also were against raising rate for the elderly. Thus, rate increases were doubly delayed, leading to larger rate increases due to their late filings and later approval. Today, there are cumulative rate increases that exceed 500%.

Actuarial Equivalency

LTC policies build a large ALR. The ALR is calculated with the initial policy premiums is funded with policyholder premiums (and not with the company's monies).

Generally, lapses are regarded as being due to policyholder circumstances. However, as rate increases become very large, policyholders cannot be expected to continue to afford the rate increases. On the positive side, policyholders continue to realize the value of their policy and try to keep them in-force, although often with lowered benefits as they cannot afford the premium for the benefits they originally purchased. When the policyholders lower their benefits, their ALR is reduced as well. However, since the policyholders funded the reserve, the reserve should belong to the policyholders. When policyholder benefits are lowered, the decrease in reserve should be used to fund the benefits that remain (termed "actuarially equivalent"). Today, this is not required in the model regulations (although some states may require the reserve decrease to be used for the remaining policyholder benefits). In states where Actuarial Equivalency is not required, companies are permitted to do whatever they want with the reserve decrease.

An example of Actuarial Equivalency is when a policyholder is allowed to lower their Inflation Protection option going forward (the current benefit level is not reduced), and accept a lower Inflation Protection interest rate going forward . . . and their premium is not increased. An example is:

> A block of business has a 5% Compound Inflation Protection interest rate and an ALR of a billion dollars. An offer to lower the Compound Inflation Protection interest rate (going forward) from 5% to 3% might be made so that the policyholder's premium does not increase. This is generally termed a Landing Spot (where the going forward inflation protection interest rate is lowered from the original interest rate to a "Landing Spot" [in this example, the 5% initial Inflation Protection Interest Rate is lowered, for future policy years, to 3%]). For all policyholders with the 5% inflation protection interest rate, the current reserve is a billion dollars. If all the policyholders choose the Landing Spot, the reserve is lowered from $1,000,000,000 to $600,000,000. Without Actuarial Equivalency, the decrease in the reserve ($1,000,000,000 - $600,000,000 = $400,000,000) is given to the company to do whatever they want with the $400,000,000. With Actuarial Equivalency, the initial reserve for the Landing Spot should be the current reserve of $1,000,000,000.

In the example, Actuarial Equivalency increases the Landing Spot from 3.0% to 3.5%, the carrier's reserve did not change, and the policyholders were able to use the entire reserve (that they funded with their prior premiums). Similarly, for any group that reduces their benefits, the accompanying

© 2024 National Association of Insurance Commissioners

reserve reduction could be used to decrease the benefit reduction, giving the policyholder the benefit of their prior funding of the ALR.

At a minimum, for Actuarial Equivalency, the company should hold the reserve reduction as a separate amount. The amount should increase with investment earnings and be used to lower any future rate increase.

Today's Regulatory Environment

LTC carriers are removing themselves from the LTC marketplace. There were some early mistakes (no LTC data, carrier delay of filing a rate increase). But these have, for the most part, been rectified. However, some states continue to delay rate increase approval. Although carriers see the need for the product as the population ages, they tend to view LTC as a product where they cannot make a positive return. Thus, many, if not most carriers, are no longer accepting new sales. It appears there are no new carriers entering the marketplace.

Rate Increase Variance by State

State differences in regulations and definitions affect premium rate increase filings. Past history of some states approving all or a majority of rate increase filings versus states that either deny or approve only a small portion of the requested rate increase has resulted in large variances in premiums on a state by state basis. Policyholders in one state could be paying significantly more or less than policyholders with the exact same coverage in a different state. Companies are striving to achieve the same L/R in all states taking into consideration prior rate increase filings and the large variances that are the result of state approvals or disapprovals. The goal to achieve level rates across all state is neither reasonable nor actuarial.

Solutions to a Necessary, but Rapidly Dying, Product

We need insurers – but they are a dying breed. Consumers need a way to pre-fund potential long-term care services and expenses. We should work towards a solution that works for both the public and the carriers.

© 2024 National Association of Insurance Commissioners

Arscott, Erin

From: Gaines, Ned (OIC) <Ned.Gaines@oic.wa.gov>
Sent: Thursday, July 18, 2024 12:52 PM
To: King, Eric
Cc: Kropelnicki, Jenny; Kreidler, Mike (Cmrs. Private)
Subject: RE: Long-Term Care Actuarial (B) Working Group Exposure - Comments Due August 1

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Hi Eric,

On behalf of Commissioner Kreidler please see Washington's comments below. Please let me know if you have any questions.

Regarding the Minnesota Approach with adjustments to haircut percentages or cumulative rate increase ranges of the cost-sharing formula; we don't have an issue with the percentages outlined in the MSA rate review proposal. Our concern is that the Minnesota approach considers some recoupment of past losses via rate increases for current policyholders. Past losses are almost entirely from people who are on claim and thus not paying premiums. Charging current policyholders for those losses puts the burden on the wrong people and appears to violate actuarial standards.

Thank you.

Ned Gaines
CIE, CICSR, MCM, ACP, ACS,, AIC, AINS, AIRC, PLCS
Deputy Commissioner
Rates, Forms & Provider Networks Division
Washington State Office of the Insurance Commissioner
360.725.7126
ned.gaines@oic.wa.gov

Protecting Insurance Consumers
www.insurance.wa.gov | twitter.com/WA_OIC | email/text alerts | https://wa-oic.medium.com/

From: King, Eric <EKing@naic.org>
Sent: Tuesday, July 2, 2024 11:53 AM
To: King, Eric <EKing@naic.org>
Subject: Long-Term Care Actuarial (B) Working Group Exposure - Comments Due August 1

External Email

To: Long-Term Care Actuarial (B) Working Group Members, Interested Regulators, and Interested Parties:

© 2024 National Association of Insurance Commissioners

The Working Group requests comments on the Minnesota Approach with adjustments to haircut percentages or cumulative rate increase ranges of the cost-sharing formula as a candidate for a Single LTCI Multistate Rate Review Approach. The adjustments are intended to increase cost-sharing burden for the company where cumulative rate increases are very high (which tends to be the case for higher-age policyholders, higher-duration policies) and potentially decrease cost-sharing burden for the company for lower-duration policies.

The Minnesota Approach, including the current cost-sharing formula, is described here: https://content.naic.org/sites/default/files/documents/ltci-msa-framework.pdf

Please provide comments to eking@naic.org by Thursday, August 1.

CONFIDENTIALITY NOTICE

This message and any attachments are from the NAIC and are intended only for the addressee. Information contained herein is confidential, and may be privileged or exempt from disclosure pursuant to applicable federal or state law. This message is not intended as a waiver of the confidential, privileged or exempted status of the information transmitted. Unauthorized forwarding, printing, copying, distribution or use of such information is strictly prohibited and may be unlawful. If you are not the addressee, please promptly delete this message and notify the sender of the delivery error by e-mail or by forwarding it to the NAIC Service Desk at help@naic.org.



July 23, 2024

Fred Andersen, Co-Chair
Paul Lombardo, Co-Chair
Long-Term Care Actuarial (B) Working Group (LTCAWG)
Long-Term Care Insurance (B) Task Force
National Association of Insurance Commissioners (NAIC)

Via email: eking@naic.org

Re: Minnesota Approach as a Candidate for a Single Long-Term Care Insurance (LTCI) Multistate Rate Review Approach

Dear Co-Chairs Andersen and Lombardo,

On behalf of the American Academy of Actuaries' (Academy)[1] Long-Term Care (LTC) Committee (Committee) we offer the following comments in response to your July 2 request for comments on the Minnesota approach by the NAIC's LTCAWG:

> The Working Group requests comments on the Minnesota Approach with adjustments to haircut percentages or cumulative rate increase ranges of the cost-sharing formula as a candidate for a Single LTCI Multistate Rate Review Approach.[2] The adjustments are intended to increase cost-sharing burden for the company where cumulative rate increases are very high (which tends to be the case for higher-age policyholders, higher-duration policies) and potentially decrease cost-sharing burden for the company for lower-duration policies.

Non-Actuarial Considerations

In evaluating the Minnesota approach, the Committee notes that the method includes both actuarial and non-actuarial considerations. The April 2022 LTCI Multistate Rate Review (MSA) Framework includes several paragraphs regarding non-actuarial considerations in Section V.F. ("Non-Actuarial Considerations"):

> The Long-Term Care Insurance (EX) Task Force continues to review and consider non-actuarial considerations affecting states' approval or disapproval of LTCI rate changes to develop consensus among jurisdictions and develop recommendations for application of these considerations. These considerations include such topics as:

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

[2] https://content.naic.org/sites/default/files/documents/ltci-msa-framework.pdf

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

© 2024 National Association of Insurance Commissioners

1. Caps or limits on approved rate changes.
2. Phase-in of approved rate changes over a period of years.
3. Waiting periods between rate change requests.
4. Considerations of prior rate change approvals and disapprovals.
5. Limits or disapproval on rate changes based solely or predominately on the number of policyholders in a particular state.
6. Limits or disapproval on rate changes based on attained age of the policyholder.
7. Fair and reasonableness considerations for policyholders.
8. The impact of the rate change on the financial solvency of the insurer.

As these items are based on pragmatic considerations, rather than mathematical principles of actuarial science, defining them as "actuarially justified" seems inappropriate. Of particular concern to the Committee are comments cited in the minutes of the February 20, 2024, LTCAWG Virtual Meeting:

> (Co-Chair) Andersen said the general consensus received from Working Group members and regulators is to not dismiss aspects of proposals labeled as "non-actuarial" by the American Council of Life Insurers (ACLI), and that the Working Group should consider all proposals made thus far regarding incorporation into a single actuarial approach. Lombardo said he has received feedback from regulators that these should be considered new actuarial techniques and not necessarily non-actuarial. He said going forward, such things can be considered actuarial in nature even if historically they were not.

The Committee would be very interested in learning more about any new actuarial techniques being proposed for use in LTC rate regulation. However, we do not believe that applying retrospective modifications to existing rate regulation of in-force policies, solely for the purpose of reducing actuarially determined rate increases on certain subsets of insureds, can be considered a purely actuarial approach. It is not clear which specific subsets of insureds will be affected, or whether these represent appropriate classes of insureds under the filed premium rate structure of the policies. Overall, we believe that designation of an item as being "actuarial" in nature should be based on mathematical principles of actuarial science, not policy or pragmatic considerations.

As stated in our October 8, 2021, comment letter,

> We believe that the Minnesota approach embeds implied policy decisions that are not actuarial in nature. While the calculations themselves may require actuarial methods, … the approach embeds non-actuarial considerations that seek a "fair and reasonableness consideration," the level of which is not clearly defined. Also, as the approaches labeled "if-knew / makeup approach" and "cost-sharing formula" are public policy decisions that are not specified in adopted model law, defining them as "actuarially justified" seems inappropriate.

It is not clear how moving to a single approach will address the above concerns. The MSA Review is a recommendation only, as an individual state retains the ability to perform additional analyses after receiving the report. Should a single approach be adopted for the MSA Review, it is the Committee's strong recommendation that the approach be based on actuarial fundamentals. Should an approach that entails comparing multiple methods be used, clear guidance that helps guide regulators to determine the best method for a given filing must be developed.

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

© 2024 National Association of Insurance Commissioners

Working Group Recommendations

As the Committee reviewed the February 2024 exposure, "Recommendation on a single MSA actuarial approach after regulator feedback," we offer the following comments on considerations No. 1 to No. 7:

RECOMMENDATION BASED ON APPARENT CONSENSUS:

1. **Generally have lower rate increases for those at very advanced ages with high-duration policies that have had substantial past rate increases.**

   Appropriate implementation to avoid administrative and discrimination concerns may be to adjust the method for older blocks (which tend to have older policyholders that have been subject to substantial past rate increases) instead of differentiating rate increases by age within a block.

   Recognize that high-duration policyholders have:

   - **tended to have the most benefit from what proved to be underpricing due to the number of underpriced premiums paid;**
   - **tended to have been the most surprised by the magnitude of cumulative rate increases compared to any that could have been expected when the policy was issued.**

Committee Comments: It is not clear exactly how the Minnesota Approach would be adjusted to get to the "appropriate implementation." We recommend that any concrete proposal take into account the provisions of ASOP No. 12, *Risk Classification*.

2. **Do not dismiss aspects of proposals labeled as "non-actuarial" by the ACLI.**

   Consider all proposals made thus far regarding incorporation into a single actuarial approach.

Committee Comments: Please see our comment above regarding Non-Actuarial Considerations.

3. **Balance between consumer protection and preventing further financial distress for insurers.**

   Further analysis may be necessary to assess certain attractive proposal aspects how they maintain this balance.

Committee Comments: We recognize that the method and framework may include both actuarial and non-actuarial components to address consumer protection concerns and prevent further financial distress for insurers. Please see our comments above regarding Non-Actuarial Considerations.

4. **Continue including a catch-up provision in a single actuarial approach for attaining a similar rate level between states.**

   Align with actuarial soundness, consumer fairness, insurers' financial sustainability, and regulatory considerations.

© 2024 National Association of Insurance Commissioners

Committee Comments: We agree that a catch-up provision is appropriate to address disparities across states. However, using a catch-up provision which looks solely at current rate equity does not consider historical state regulatory decisions. This would include scenarios where a company may have filed for an appropriate rate increase and the request was denied or limited in approval. By considering only the current rate, an unintended consequence could result that encourages states to delay approving rate increases.

5. **Continue to encourage buy-in from states on the MSA actuarial approach.**

   Perhaps LTC Task Force leadership could have individual meetings with states that tend to approve the lowest rate increases, providing information and addressing questions.

   Acknowledge that some states that perform detailed reviews of state filings will tend to review and consider their own method and compare with the MSA recommendation; some states are committed to following the MSA recommendation. States that aren't able to perform detailed reviews are more likely to rely on the MSA.

Committee Comments: We agree with the goal to encourage buy-in from states, leading to greater consistency and predictability of LTC rate regulation across more jurisdictions. It is not clear from the description how much state regulatory buy-in will increase by limiting the MSA Review to a single methodology. As noted in our previous comments on the MSA from October 2021:

> Insurers may want to file rate increase requests in non-participating states concurrently with the MSA Review filing so that the insurer does not needlessly delay the filing and review process in non-participating states. It is unclear if and how insurers will know which states are Participating States in the MSA Review, and whether states will decide on participation in the MSA review each time any rate increase request is submitted.

A growing number of states now ask about the Texas/PPV and Minnesota Methods in their own reviews. If the LTCAWG introduces additional policy decisions into the methodology, it is possible that this will have a more significant impact beyond filings submitted through the MSA and participating states alone. This reinforces the need for clear guidance about what is a non-actuarial/policy decision, so that these states know this when asking for information outside of an MSA rate review.

6. **Pre-approve and phase in rate increases over a reasonable period of time as opposed to requiring annual re-filings.**

   Part of the reason is pre-approved phased-in rate increases transparently enable policyholders to make well-informed decisions about their LTC policy based on the most likely future rates.

   Also, pre-approved phase-ins eliminate work effort for companies and regulators that often provides little value.

Committee Comments: We agree with these comments. The Committee would note, as we did in our July 26, 2021, comment letter, that phasing-in a rate increase should ordinarily result in ultimate rates higher than if a single actuarial equivalent rate increase were implemented. Additionally, it is not clear, under a phased-in approach for an increase with the catch-up provision, which would take precedence: ensuring similar rate levels or actuarial equivalence of the proposed rate increase. If the latter, the ultimate rate level would be higher for states where the catch-up provision has been applied.

© 2024 National Association of Insurance Commissioners

RECOMMENDATIONS, BUT SPLIT VIEWS AMONG REGULATORS:

7. **If-knew weighting and additional cost-sharing considerations**

   Study impacts on rates and solvency of various weights (including the Utah proposal) as well as the potential effects of eliminating an explicit cost-sharing provision.

Committee Comments: It is not clear exactly how the weights or cost-sharing in the Minnesota Approach would be adjusted. We recommend that any concrete proposal take into account the provisions of ASOP No. 12, *Risk Classification*.

*****

The Committee welcomes the opportunity to speak with you in more detail and answer any questions you have regarding these comments on finding a single MSA approach. If you have any questions or wish to discuss these comments further, please contact Matthew Williams, the Academy's senior health policy analyst (williams@actuary.org).

Sincerely,

Andrew Dalton, MAAA, FSA
Chairperson, LTC Committee
American Academy of Actuaries

CC: Eric King, Health Actuary, NAIC

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

© 2024 National Association of Insurance Commissioners

Attachment One-D
Long-Term Care Insurance (B) Task Force
8/13/24

RE: Long-Term Care Actuarial (B) Working Group Exposure - Comments Due August 1

LW Leung, William <William.Leung@insurance.mo.gov>
To King, Eric
Cc Rehagen, John; LeDuc, Jo; Murrah, Chris; Lombardo, Paul; Andersen, Fred

Reply | Reply All | Forward

Thu 7/25/2024 4:27 PM

You replied to this message on 7/25/2024 6:23 PM.

Single Formula example 2.xlsx
.xlsx File

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Good afternoon Eric,

Missouri is supportive of the development of a single MSA actuarial approach exposed and believe the following adjustments will be appropriate:

a) The cumulative rate increase should be no more than 600% after all the adjustments and cost sharing.

b) Each rate increase filing should not increase the cumulative rate increase by more than 100% from that of the current rate.

Adjustment a) can be achieved by increasing the cost sharing when cumulative rate is more than 500%. For example, increase the cost sharing from 50% to 90% when CRI exceeds 500% and further increase to 95% when CRI exceeds 1000%. The cost sharing is increased to 100% when CRI exceeds 5000%.

Potential Cost-Sharing Formula for Typical Circumstance Cumulative Rate Increase (CRI) since issue date is haircut by:								
		Current					Propose	
		100000%					100000%	
CRI	Hair cut	Applicable CRI	with Hair cut		CRI	Hair cut	Applicable CRI	with Hair cut
15%	0	15%	15%		15%	0	15%	15%
50%	10%	35%	32%		50%	10%	35%	32%
100%	25%	50%	38%		100%	25%	50%	38%
150%	35%	50%	33%		150%	35%	50%	33%
300%	50%	150%	75%		300%	40%	150%	90%
500%	50%	200%	100%		500%	50%	200%	100%
1000%	50%	500%	250%		1000%	90%	500%	50%
5000%	50%	4000%	2000%		5000%	95%	4000%	200%
100000%	50%	95000%	47500%		100000%	100%	95000%	0%
CRI allowed		100000%	50042%		CRI allowed		100000%	557%

Below is an example of the result from a recent filing where the blended cumulative rate increase was 3811%:

		Propose	
		3811%	
CRI	Hair cut	Applicable CRI	with Hair cut
15%	0	15%	15%
50%	10%	35%	32%
100%	25%	50%	38%
150%	35%	50%	33%
300%	40%	150%	90%
500%	50%	200%	100%
1000%	90%	500%	50%
5000%	95%	2811%	141%
100000%	100%	0%	0%
CRI allowed		3811%	497%

Incidentally, the adjustment above also lowers the hair cut from 50% to 40% when the cumulative rate increase is >150% and <=300%. This is one of the desired feature in the request attached to the exposure.

Adjustment b) is demonstrated below using the details in the development of the maximum allowable rate increase from a recent MSA filing.

Minnesota (Blended if-Knew/Make-up) Approach	current	Propose
Loss ratio at the original premium level	61.5%	61.5%
Minimum loss ratio applicable to the form	60%	60%
If Knew Increase	142%	142%
Make-up increase	10153%	10153%
Remaining policyholders percentage	37%	37%
Blended increase	3811%	3811%
Cost sharing increase	1947%	1947%
Past rate increase	514%	514%
Cumulative rate increase limited to 100% ORI		614%
Rate Increase under MN approach in % of CR	233%	16%
Max Justified Rate Increase = (1+MUI)/(1+PRI)-1	1571%	1571%
Maximum allowable rate increase	233%	16%

These two changes fit in very well with the current framework.

The examples used are real life examples. I can change the numbers if you see there is any potential confidentiality conflicts.

An excel spread sheet is included for easy testing of or modification to these changes.

Genworth Life Insurance Company & Genworth Life Insurance Company of New York Response to Request for Comment on Rate Increase Cost-Sharing August 1, 2024

The Working Group requests comments on the Minnesota Approach with adjustments to haircut percentages or cumulative rate increase ranges of the cost-sharing formula as a candidate for a Single LTCI Multistate Rate Review Approach. The adjustments are intended to increase cost-sharing burden for the company where cumulative rate increases are very high (which tends to be the case for higher-age policyholders, higher-duration policies) and potentially decrease cost-sharing burden for the company for lower-duration policies.

As outlined in the letter submitted May 3, 2024, Genworth believes that additional clarity and detail is needed regarding the existing MSA Framework to properly consider a proposal for a single methodology. Specifically, the areas regarding weighting, cost-sharing, solvency, discount rate, and the use of the sample policy method vs. the aggregate method lack sufficient detail to properly assess the methodology as a predictable and reliable approach. Genworth appreciates that discussion is ongoing for many of these open items and submits the following comments on the current exposure as a continuation of our previous comments.

Genworth would like to further demonstrate the impacts of the various elements of cost-sharing with an example, and a proposed refinement. Below is a walkthrough of a theoretical example of a pre-Rate Stability product with a history of past rate increases. These examples demonstrate the impacts of the various elements of cost-sharing with the use of two different approaches to dealing with prior cumulative rate increases, which has been a source of confusion in applying the MN method historically. It is Genworth's intention that these examples will highlight the extent to which differing interpretations of these various factors can affect the final outcome, emphasizing the need for the requested clarity in the method.

The below assumptions and cash flow modeling approaches are key components that influence the outcome of the Minnesota method. Genworth has historically handled these components as follows and many regulators have accepted this interpretation as an acceptable application of the Minnesota Method.

- Discount Rate: A 4% discount rate is utilized, consistent with the Statutory Valuation rate a typical pre-Rate Stability block might see during issuing years and loss ratio regulation guidance, to not receive additional rate increase relief due to changes in interest rates.
- Margin for Moderately Adverse Experience (MAE): As the example shown is based on a pre-Rate Stability (RS) product, the projections do not include margin for MAE. MAE would be expected to be included on all post-RS products, as expressly required by model regulation.
- Aggregate Method: While the MSA Framework details two potential approaches, it is our experience that the Aggregate Method (as opposed to the Sample Policy Method) is more straightforward and widely understood. We do not believe that the Sample Policy Method is sufficiently explained in the MSA Framework, and therefore have utilized the Aggregate Method.
- Waiver of Premium (WOP): In this example, we have not removed either the premium or benefits associated with waived premium, which is consistent with the pricing of our products. Removal of WOP benefits during a rate increase exercise without adjusting the original pricing targets could amount to an additional form of cost-sharing.
- Rate Increase Implementation Date: These examples assume the make-up rate increase will be implemented after considering the time necessary for the preparation and submission of a filing,

© 2024 National Association of Insurance Commissioners

regulator review and approval, and the administrative work required to implement the approval. Some interpretations of the MN method have assumed the approval would be implemented on the valuation date, which is not a realistic assumption.

Example A: MSA Framework Method of Handling Prior Rate Increases

Steps	Description	Rate Increase Result	Lifetime Loss Ratio
	Prior Cumulative Rate Increases	*325%*	
	Best Estimate Projections		*95%*
	Since Inception If-Knew	*127%*	
1	Make-Up Cumulative Justified Rate Increase	2042%	
2	MSA Blended Cumulative Rate Increase	1215%	
3	MSA Blended Cumul RI - with Add'l Cost-Sharing	649%	
4	MSA Blended RI - backout Prior Rate Increases	76%	84%

- Step 1: The cumulative rate increases needed to get the block back to a lifetime loss ratio of 60%. Note that the incremental increase above the already implemented rate increases would be only 404%.
- Step 2: Blending the If-Knew rate increase with the make-up increase
- Step 3: Applying the cost-sharing factor to the blended amount
- Step 4: Backing out prior cumulative rate increases of 325%

Example B: Backing Out Prior Rate Increases Before Additional Cost-Sharing

Steps	Description	Rate Increase Result	Lifetime Loss Ratio
	Prior Cumulative Rate Increases	*325%*	
	Best Estimate Projections		*95%*
	Since Inception If-Knew	*127%*	
1	Make-Up Justified Rate Increase	404%	60%
2	Blended Rate Increase (Floored If-Knew)	229%	70%
3	Blended RI with Add'l Cost-Sharing	156%	76%

This is an alternative approach to the steps outlined in the MSA Framework examples that we believe better applies the intended principles in a format that is transparent, easy to replicate, and makes reasonable adjustments such as eliminating instances where rate decreases are suggested.

- Step 1: The prospective rate increase needed to get the block back to a lifetime loss ratio of 60% (can be calculated by removing the 325% prior cumulative rate increases from the 2042% make-up cumulative increase in Example A)
- Step 2: Since the prior cumulative rate increases are greater than the If-Knew result, it is most reasonable to back out the prior rate increases and floor the If-Knew portion of the calculation at 0%, less the methodology suggest a rate *decrease* is appropriate (which is illogical given the exercise was initiated by a deterioration in experience). If the If-Knew portion were not floored at 0%, the result would be a Blended Rate Increase of 209%, implying an If-Knew contribution of (47)%.

© 2024 National Association of Insurance Commissioners

- Step 3: The resulting rate increase is then reduced by the additional cost-sharing provision

As seen in the above examples, a 404% prospective increase is justified and supported by regulations. Cost-sharing is applied in a variety of ways:

1. Blending with If-Knew, a hypothetical rate increase that relies on historical fictional premiums which cannot be collected by the company to pay actual claims.
2. Not flooring the If-Knew contribution at 0% when it is lower than prior justified and approved cumulative increases. In Example B, not flooring the if-knew contribution at 0% would mean that a (47)% rate increase was being used in the weighting, driving down the blended increase from 229% to 209%.
3. Additional cost-sharing. As seen in Example B, the LLR is driven up to 71% before the additional cost-sharing factors are applied, well above the 60% to which the block was originally priced. This does not suggest that a 71% LLR is always a reasonable target for a block of LTC, but an 11% increase in the LLR is a significant level of cost sharing already being produced.
4. Backing out cumulative increases after applying the additional cost-sharing. As shown in Example B, the highest amount that could be requested is 404%, but applying the additional cost-sharing provision to the calculation prior to backing out prior increases applies a haircut based on a much higher percentage (in Example A, based on 1215%). The difference resulting from backing out the cumulative increases before vs. after the additional cost-sharing is a reduction in the rate increase from 146% and LLR of 77% (derived from Step 2 Example B, not shown) to a rate increase of 76% while driving the LLR up to 84% (Step 4 of Example A). For older blocks of business, this blended amount will typically be quite large, and therefore the additional cost-sharing will have a natural pull to a 50% haircut given the low and narrow cost-sharing bands.
5. Implementation delay. As the MSA Framework examples are silent on use of realistic implementation date in the calculations, use of the cash flow valuation date as the implicit assumed rate increase date results in an increase to the LLR due to the natural lag from valuation date to actual implementation date.

Conclusion

The end result of these various haircuts and elements of cost-sharing in this example is that the LLR goes down from 95% to 85% when following the MSA Framework as currently described (and applying the modeling components mentioned above). In a more transparent and intuitive stepwise approach, the LLR may go down to 76%, though still far above the pricing LLR of 60%, representing significant cost-sharing. On older blocks, the results of the MSA Framework approach to cost-sharing are much more severe and can result in an LLR above 100%. Any further impacts from universal removal of WOP (as has been suggested), exclusion of margin for MAE from Rate Stability products, changing the discount rate, use of the Sample Policy method, arbitrary lifetime rate caps, or attained age limitations all serve to further deteriorate the financial position of LTC carriers. The additional cost-sharing provision, not grounded in any specific actuarial or analytical methodology, is already arbitrary, applied after blending with the non-actuarial If-Knew rate increase, and rewards states that have been slow to approve past rate requests, further driving cross-state premium inequities.

© 2024 National Association of Insurance Commissioners

August 1, 2024

Paul Lombardo, Co-Chair, NAIC Long-Term Care Actuarial Working Group
Fred Andersen, Co-Chair, NAIC Long-Term Care Actuarial Working Group

Dear Paul and Fred,

We appreciate the opportunity to provide comments on the ongoing discussions and exposures related to the potential adoption of the Minnesota Method as the single Long-Term Care Insurance (LTCI) Multistate Rate Review (MSRR) approach and addressing policyholders who may have seen significant rate increases at later attained ages. ACLI and AHIP members are committed to adhering to sound actuarial practices and support efforts to achieve clarity and predictability in the MSRR process. This has been a challenging process, and we truly appreciate regulators' efforts.

The current exposure requests comments *"on the Minnesota Approach with adjustments to haircut percentages or cumulative rate increase ranges of the cost-sharing formula as a candidate for a Single LTCI Multistate Rate Review Approach."*

We appreciate the efforts made by the NAIC Long-Term Care Actuarial Working Group to standardize the MSRR process for LTC rate filings. Our comments below aim to enhance transparency regarding existing cost-sharing levels and to address some concerns with the Minnesota Method.

Concerns with the Adoption of the Current Minnesota Method

Our concern with the formal adoption of the current Minnesota Method as the single approach without addressing clarifications and refinements are described below. We believe that by keeping the door open for further discussion and refinement, we can develop a methodology that aligns with actuarial principles and provides the necessary clarity and predictability for both insurers and regulators.

Areas of concern include:

- Cost-Sharing Implications: The current Minnesota Method contains multiple cost-sharing aspects, including the "if-knew" premiums, blending approaches, and cost-sharing factors. It is important to acknowledge and address these elements when considering additional limitations on rate increase levels.
- Transparency and Complexity: The cost-sharing aspects in the current Minnesota Method are embedded within multiple calculations, making it challenging to quantify the actual level of cost sharing that currently exists.
- Lack of Detailed Guidance: The existing MSRR framework lacks sufficient detail (e.g. treatment of waiver of premium, inclusion of moderately adverse experience, decisions regarding use of aggregate vs. sample policy methods), making it challenging to establish a

© 2024 National Association of Insurance Commissioners

reliable baseline for modeling or quantifying impacts. This has resulted in varied interpretations and inconsistent application of the Minnesota Method across states and insurers, leading to different outcomes based on subjective assessments. This inconsistency adds complexity and uncertainty for insurers.

- Unique Characteristics of LTC Blocks of Business: The prescriptive cost sharing table within the current Minnesota Method lacks flexibility to address the unique circumstances of different LTC blocks, products, and policyholder demographics.
- LTC Blocks Should be Self-Sustaining: The Minnesota Method can produce results that may not be self-sustaining (i.e. the method can produce rate increases that result in a lifetime loss ratio in excess of 100%), which may result in insufficient rates.

Request for Clarifications and Further Engagement

We were hoping that the clarifications raised in earlier comment letters would be addressed before proceeding with the adoption of the Minnesota Method as the single MSRR approach. It is crucial to address these issues before any formal adoption, including:

- Address Open Questions from May 3 Comments
    - We encourage the working group to provide detailed responses to the questions and concerns raised in the May 3 comment letters submitted by various stakeholders. This will help ensure that the methodology is fully understood, transparent, and consistently applied.
- Provide Transparency on Cost Sharing Mechanisms
    - Ensure that there is a clear understanding by all stakeholders of the existing cost-sharing mechanisms embedded in the Minnesota Method, including how any potential adjustments would impact both insurers and policyholders.
- Facilitate Discussion on Clarification of Certain Aspects of the MSRR and Methodological Refinements to Increase Transparency and Uniformity
    - We encourage a thorough review of potential refinements to the current Minnesota Method to address regulatory concerns of large cumulative rate increases at later durations and attained ages.
    - Provide clarification with respect to treatment of:
        - Explicit Inclusion of MAE: Develop clear guidelines on when and how additional margins should be included in projections.
        - Standardization of Waiver of Premium based on original product pricing.
        - Relevant Discount Rates: Permit the use of investment returns assumed in Cash Flow Testing for present value calculations.
        - Aggregate vs. Sample Policy Methods: Clarify when each method should be used.
        - Recognition of a feasible implementation date when finalizing the rate increase proposal.





Potential Refinements to the Current Minnesota Method

One approach, described below, maintains the core principles of the Minnesota Method and refines the method by:

- eliminating the costs associated with terminated policies and
- introducing more precise recognition of block dynamics while providing similar flexibility to address more mature blocks.

This proposed approach is consistent with sound actuarial principles, simpler to apply, and may be more intuitive and accessible to those who are not experts in LTC experience and pricing analysis. It provides a clearer understanding of the actual rate increase needed, removing the embedded cost sharing included in the Minnesota Method (e.g., the blending step). This makes any cost sharing analysis and decisions more explicit and specific to each company/block of business, enhancing transparency and equity across blocks.

.

Key Concepts:

1. Assess Total Lifetime Experience: Base the assessment on the most recent assumptions to ensure accuracy.
2. Calculate If-Knew Premium on Only Active Lives: At this premium rate, active insureds would pay only the amount that should have been paid since inception of the policy. This approach represents an element of cost sharing and provides no level of recognition for the deficiency of past premiums associated with terminated policies.
3. Calculate Make-Up Premium on Only Active Lives: Exclude losses associated with terminated lives from the calculation, directly addressing concerns raised by regulators.
    a. The incremental make-up premium reflects the accumulated past premiums the active policyholders would otherwise have paid, spread over the remaining future payment period.
    b. At this rate level, active policyholders are receiving actuarially appropriate benefits for the premiums paid and maintain the opportunity to reduce benefits to adjust the premiums, again maintaining actuarially appropriate benefits relative to premiums.
4. Apply Rate Increase Mitigation or Cost Sharing Adjustments to Incremental Make-Up Premium Only: Make these adjustments explicit and subject to discussion between the regulator and the company, based on the specific aspects of a company's profile and block of business.

We believe that incorporating these modifications will lead to a more predictable, sustainable, and transparent methodology for all stakeholders.

We are currently working on modeling the above refinements to demonstrate their impact on various blocks of business.

© 2024 National Association of Insurance Commissioners

Summary

Our primary concerns are:

- the adoption of the current Minnesota Method as the single approach without first addressing the clarifications and refinements needed.
- the need for transparency with respect to the degree of cost sharing that is contained in the Minnesota Method.

We believe that by keeping the door open for further discussion and refinement, we can develop a methodology that provides the necessary clarity and predictability for both insurers, regulators and policyholders.

Thank you for considering these important issues.

Sincerely,





Jan Graeber
Senior Actuary, ACLI

Ray Nelson
Consultant for AHIP

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Multi-State Actuarial LTC rate increase review method

Fred Andersen, FSA, MAAA

8/12/2024

1

Background re: all cost sharing in MN approach

- Implicit and explicit cost sharing
  - Blending away from the makeup premium is one form of cost sharing (implicit)
    - This aspect ensures any rate increase will not lead to improved financial expectations for the company from original pricing
      - This aspect also ensures the policyholder is still getting "bang for the buck" even after a rate increase
      - The rate increase is a reflection of increased costs associated with the policy
        - Otherwise, the rate increase would not be approved
  - The cost-sharing formula is additional (and explicit) cost sharing
    - To address that very high rate increases over time were very likely not presented to the consumer as a possibility at the time of sale

2

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Background re: cost-sharing formula

- Increases the company burden as cumulative rate increases rise
- The cumulative-since-issue, blended if-knew / makeup premium-based increase is reduced by a "haircut" percentage
  - No haircut for the first 15%.
  - 10% for the portion of cumulative rate increase between 15% and 50%
  - 25% for the portion of cumulative rate increase between 50% and 100%
  - 35% for the portion of cumulative rate increase between 100% and 150%
  - 50% for the portion of cumulative rate increase in excess of 150%.
- The formula was developed in 2015

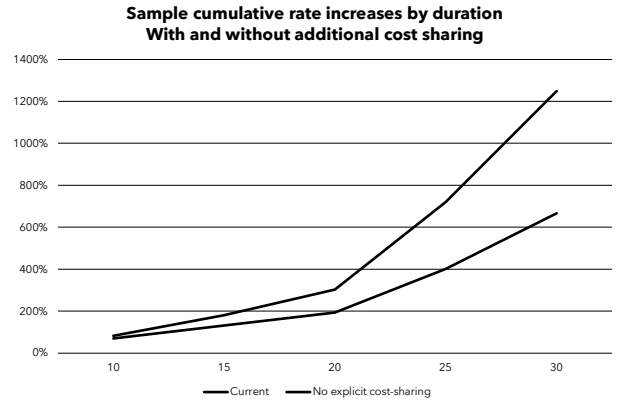
NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/12/2024

3

3

Background re: cost-sharing formula

- For a typical block of business, pattern of rate increases with and without additional cost sharing:



NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/12/2024

4

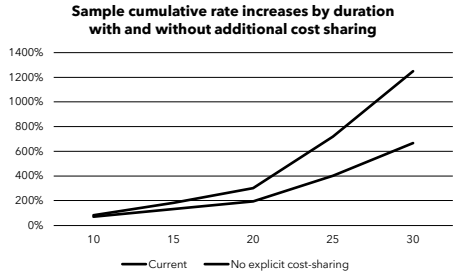
4

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Re-analysis of cost-sharing formula, 9 years later

- Effective at reducing rate increases from those without additional cost sharing
- Increasingly concerning level of cumulative rate increases as blocks approach duration 25
  - The cumulative rate increases are not leveling off
  - Graphical example of the "85/25" issue, a.k.a., the "85/25/400" issue



NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/12/2024

5

5

Re-analysis of cost-sharing formula, 9 years later

- The original formula did not contemplate cumulative rate increases reaching or exceeding 400% over time
- Led to 85/25/400 issue
- Analysis shows that adjusting the parameters of the formula may help address the issue

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/12/2024

6

6

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Proposed revision to cost-sharing formula to address "85/25" issue

- Adjust ranges and percentages in the explicit cost-sharing formula
  - The higher the percentage, the higher the burden for the policyholder
  - The lower the percentage, the higher the burden for the company

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/12/2024
7

7

Proposed revision to cost-sharing formula to address "85/25/400" issue

- Current:
  - No haircut for the first 15%.
  - 10% for the portion of cumulative rate increase between 15% and 50%
  - 25% for the portion of cumulative rate increase between 50% and 100%
  - 35% for the portion of cumulative rate increase between 100% and 150%
  - 50% for the portion of cumulative rate increase in excess of 150%.
- Proposal:
  - 5% haircut for the first 100%
  - 20% haircut for the portion of cumulative rate increase between 100% and 400%
  - 80% haircut for the portion of the cumulative rate increase in excess of 400%

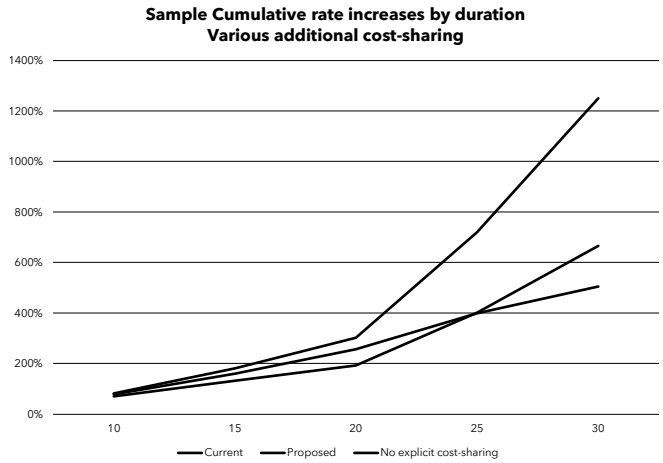
NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
8/12/2024
8

8

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Result of proposed revisions



NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

8/12/2024

9

9

Next Steps

- Discuss if the revised additional cost-sharing appropriately addresses the 85/25/400 issue
- Discuss any other potential consequences
- Analyze results for blocks other than the sample block
  - e.g., Older, newer, richer benefits, less rich benefits, different histories of rate increases
- Propose any alternatives

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

8/12/2024

10

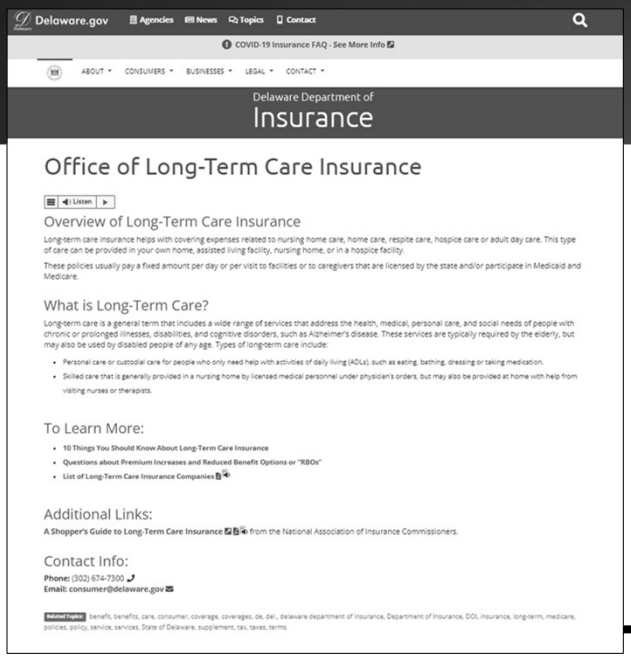
10

© 2024 National Association of Insurance Commissioners

The Delaware Department of Insurance Office of Long-Term Care Insurance

Trinidad Navarro
Commissioner, Delaware Department of Insurance
August 2024

1



Launched website:

Office of Long-Term Care Insurance - Delaware Department of Insurance - State of Delaware

Trained staff provide consumer assistance with RBOs

2

© 2024 National Association of Insurance Commissioners

Delaware Office of Long-Term Care Insurance

New Website Provides Contact Information:

Phone: (302) 674-7300
Email: consumer@delaware.gov

Links To Additional LTC and RBO Information:

- ***10 Things You Should Know About Long-Term Care*** Consumer Alerts - Delaware Department of Insurance - State of Delaware
- ***Questions About Premium Increases and Reduced Benefit Options or "RBOs"*** Questions About Long-Term Care Insurance: - Delaware Department of Insurance - State of Delaware
- ***List of Long-Term Companies*** LTC-Insurance-List.pdf (delaware.gov)
- ***Shopper's Guide To Long-Term Care Insurance from the NAIC*** publication-ltc-lp-shoppers-guide-long-term.pdf (naic.org)

Delaware Department of Insurance

3

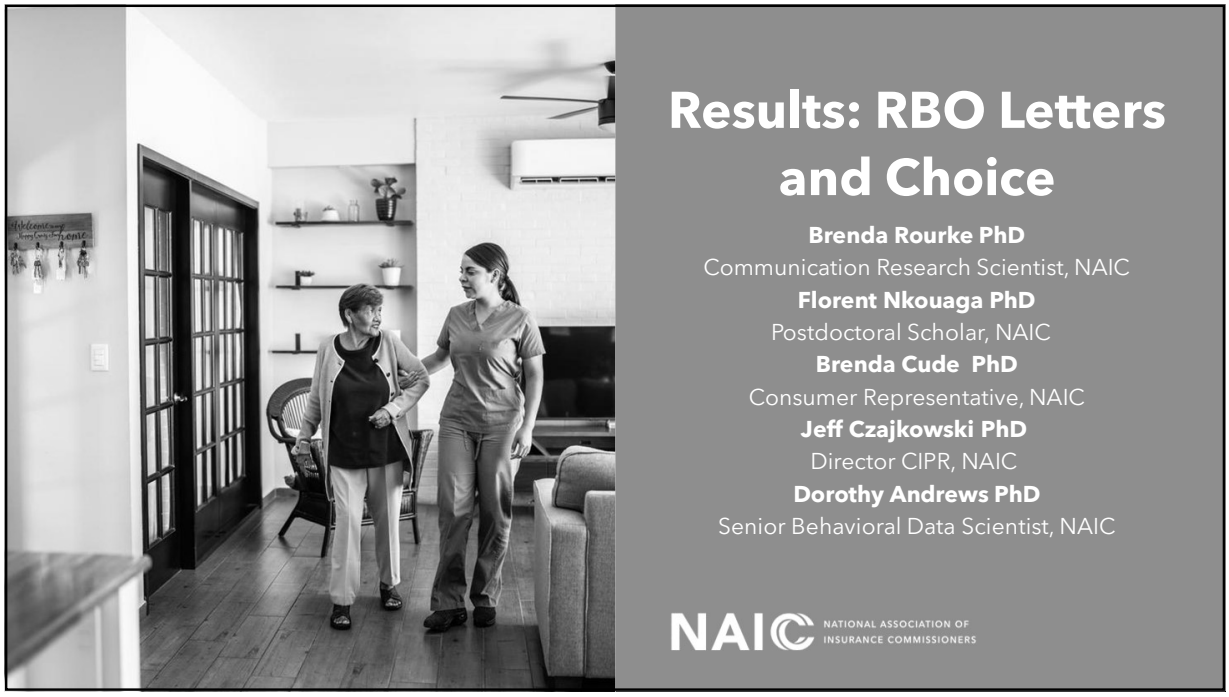
Delaware Office of Long-Term Care Insurance

- Delaware's new Office of Long-Term Care Insurance further supports the many NAIC initiatives involving LTC and RBOs in particular
- The new Office of Long-Term Care Insurance works in direct coordination with Delaware's Medicare Assistance Bureau (DMAB) which provides information, counseling, and assistance to consumers with Medicare
- DOI Staff were recently provided an in-depth training by industry on RBOs, what they are, and how they work.
- DOI Staff and counsel have direct and immediate access to industry executives to provide consumers with specific policy level assistance with RBO's or any other matter related to their particular LTC policy

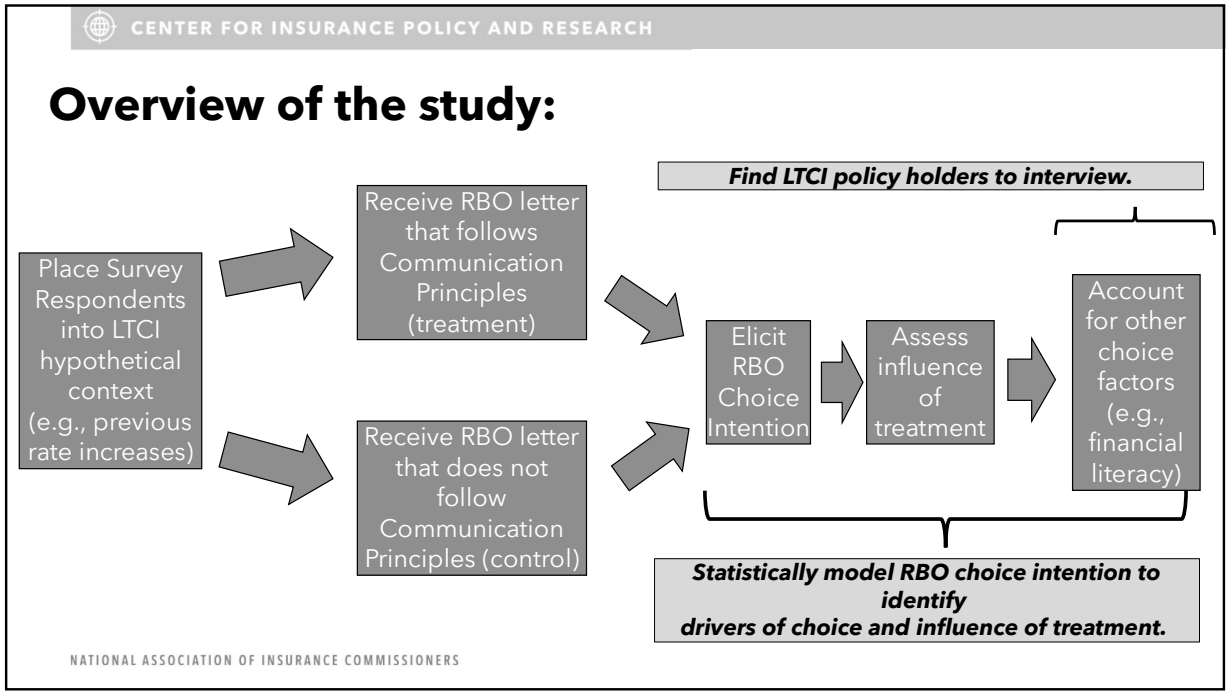
Delaware Department of Insurance

4

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS



1



2

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

CENTER FOR INSURANCE POLICY AND RESEARCH

The participants:

Note: Half of the participants were placed in a context that asked them to imagine they are 80 years old.

N= 1118
Female = 581
Male= 537

Zone	n	Percent
Northeast	380	34%
Southeast	201	18%
Midwest	396	35%
Western	141	13%
Total	**1118**	

Age	n	Percent
55 - 64	385	34%
65 - 74	492	44%
75 - 84	220	20%
85 or older	21	2%
Total	**1118**	

66% of the sample is 65 or older.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

(see the reference slides for more demographics)

3

CENTER FOR INSURANCE POLICY AND RESEARCH

The interview participants:

9 Interviews Complete

The interviews were one hour long and focused on:
- Perceptions of LTCI
- Their need for care
- Rate increases
- Perceptions of the RBO choice
- The letters they have received.

Demographics

Gender:
Female = 7
Male = 2

Age:
65- 74 = 3
75 -84 = 6

Income:
$150,000 and over = 3
$100,000 - 124,999 = 1
$75,000 - 99,999 = 3
$25,000 – 49,999 = 1
N/A - 1

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

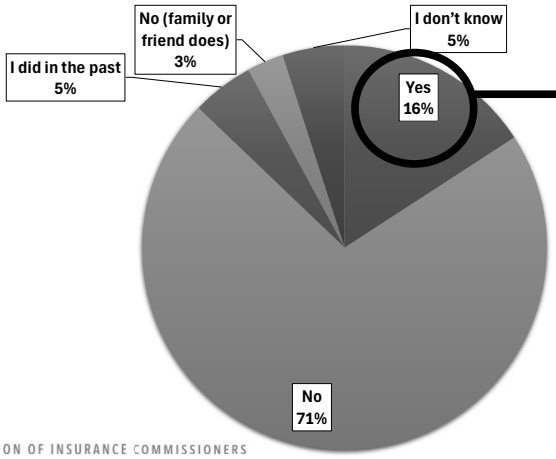
4

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

CENTER FOR INSURANCE POLICY AND RESEARCH

Survey Respondents: Percent of LTCI Policyholders



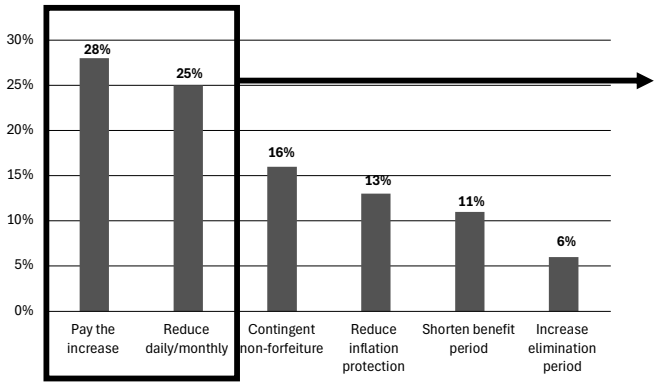
12% after we defined a traditional long-term care insurance policy.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

5

CENTER FOR INSURANCE POLICY AND RESEARCH

RBO Choice:



- This pattern holds for those that have LTCI and those that no not.
- This is also consistent with previous LTCI reports.

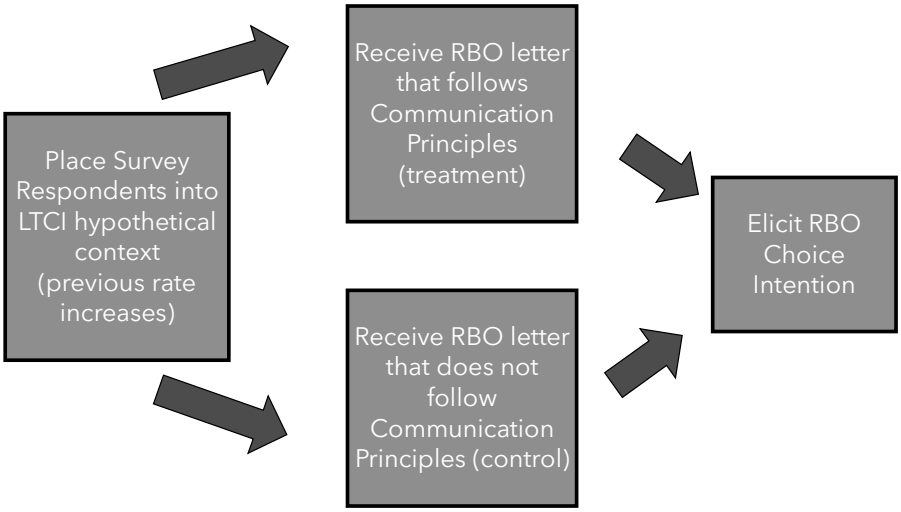
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

6

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

CENTER FOR INSURANCE POLICY AND RESEARCH



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

7

CENTER FOR INSURANCE POLICY AND RESEARCH

The Context and Letter:

✓ Participants were more likely to accept a rate increase if they were placed in the context that stated they had a prior rate increase.

✗ The letter that followed the communication principles and guidelines did not impact choice.

Interview Responses:

- Participants in the higher income ranges had the means to manage the increase (for now).
- They see the value in the policy they have.
- They have spoken to trusted advisors about what they should do.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

8

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS



9

CENTER FOR INSURANCE POLICY AND RESEARCH

Overall perceptions of the letter and RBO's:

43% - *Indicated that the RBO choices were somewhat to extremely clear.*

46% - *The tone of the letter was unfair and unconcerned or somewhat unfair and unconcerned.*

43% - *The letter was clear and easy to read or somewhat clear and easy to read.*

Note: Participants that received a letter that followed the checklist did rate the letter higher in clarity and readability.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

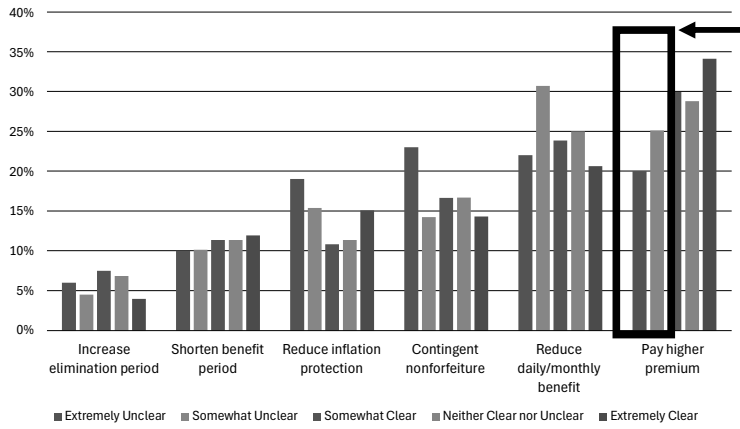
10

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

CENTER FOR INSURANCE POLICY AND RESEARCH

Perceptions of the clarity of RBO options impacted choice:



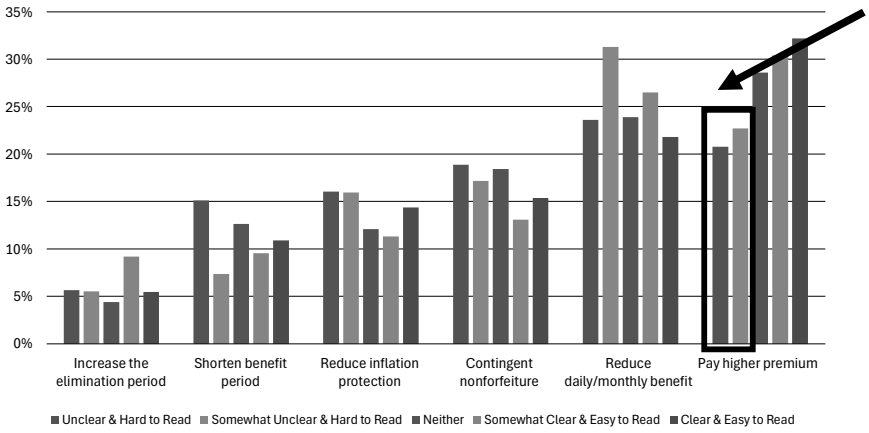
Those that felt the RBO options were ***extremely unclear were less likely to select - pay the higher premium.***

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

11

CENTER FOR INSURANCE POLICY AND RESEARCH

Perceptions of the letter:



Those who felt the letter was ***unclear and hard to read were less likely pay the higher premium.***

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

12

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

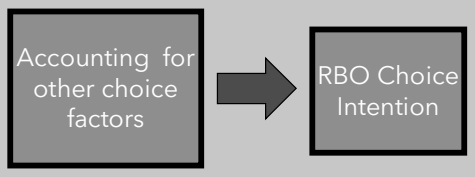
CENTER FOR INSURANCE POLICY AND RESEARCH

Interview Responses:

- They understand the letters because of their background but they have suggestions for improvement.
  - Tables and how the information is displayed.
  - Use simpler language to benefit the public.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

13



Attitudes and Control:

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

14

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

CENTER FOR INSURANCE POLICY AND RESEARCH

Theory of Planned Behavior:

54% **- *Behavioral Control:*** *Felt extremely confident to somewhat confident and agreed that they understood the impact of the options and had the knowledge and skills to make this choice.*

57% **- *Attitudes:*** *Were displeased to somewhat displeased and felt the options were unjust.*

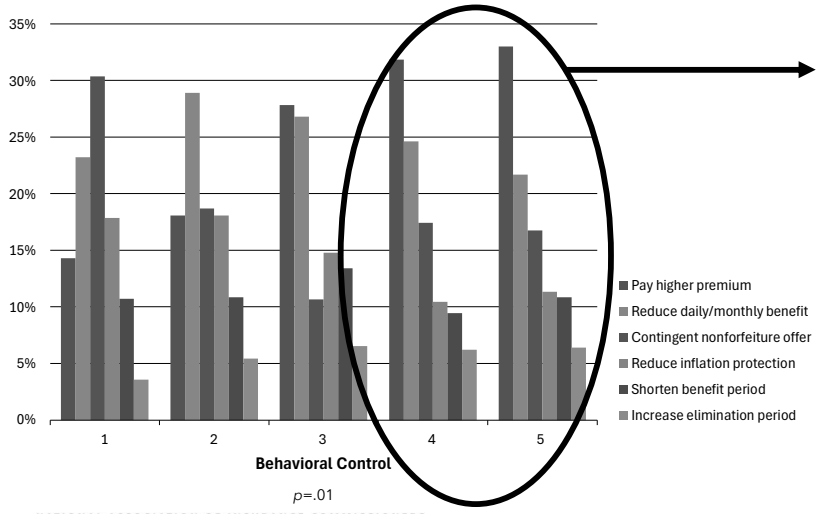
55% **- *Normative Beliefs:*** *Felt that others with long-term care insurance and those important to them would make the same choice.*

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

15

CENTER FOR INSURANCE POLICY AND RESEARCH

Behavioral Control and Choice:



Those who are confident and believe they have the knowledge and skills were also ***more likely to take the premium increase.***

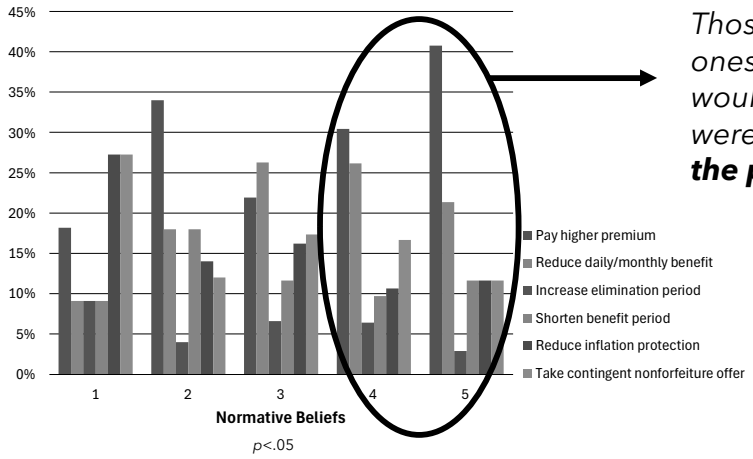
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

16

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

CENTER FOR INSURANCE POLICY AND RESEARCH

Normative Beliefs and Choice:

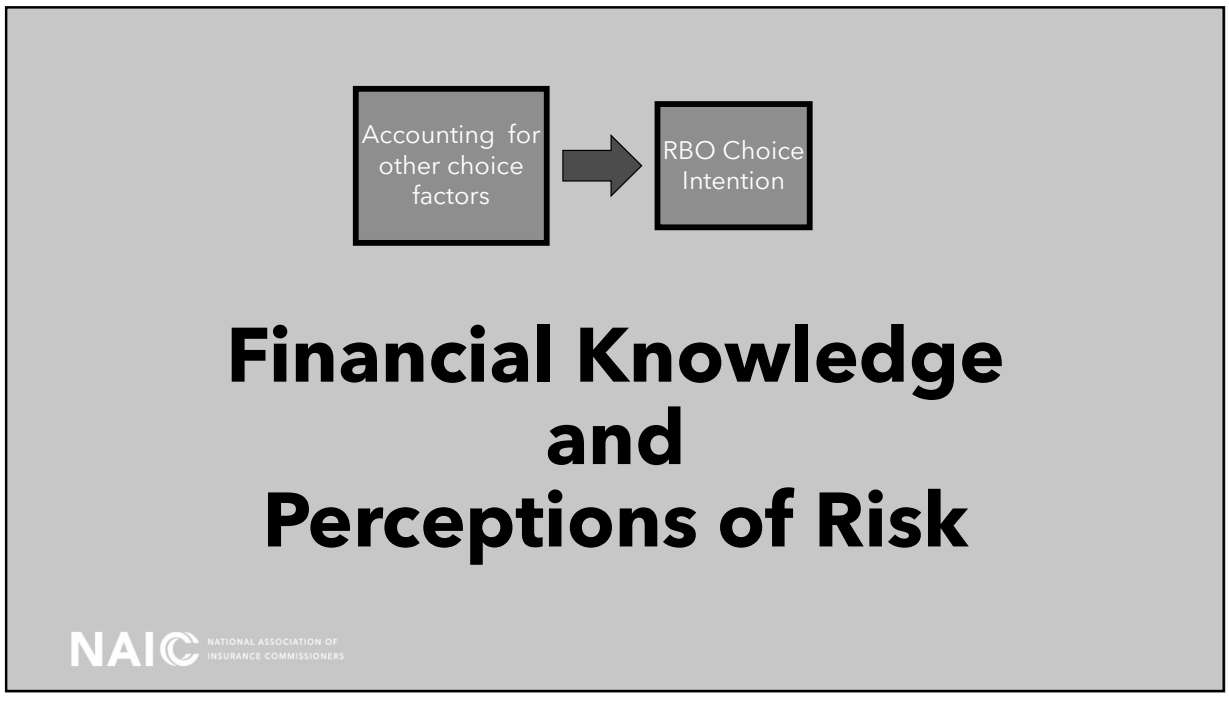


p<.05

Those who believed their loved ones and others with LTCI would make the same choice were ***more likely to choose the premium increase.***

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

17



18

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

CENTER FOR INSURANCE POLICY AND RESEARCH

Financial knowledge and perceptions of risk:

- Those with more financial knowledge *are more likely to accept the premium increase.*
- Those that are less willing to take risk *are more likely to accept the premium increase.*
  - *62% of the sample are low risk takers.*
- As perceptions of the need for care increase so does the choice *to accept the higher premium.*

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

19

CENTER FOR INSURANCE POLICY AND RESEARCH

Interview Responses:

- Several of the respondents said that they know they will need long-term care.
  - They have a medical condition.
  - They cared for others that needed this care.
- They want to decide where they go when they need care.
- They don't want to be a burden to their family (financially or physically).

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

20

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

CENTER FOR INSURANCE POLICY AND RESEARCH

Summary of the Findings

Participants were more likely to accept the rate increase if they:

- Received a prior rate increase.
- Thought the letter was clear and easy to read.
- Thought the RBO options were clear.
- Said they had enough information and were in control of their choice.
- Had confidence and belief in their knowledge and skills.
- Believed their loved ones and other with LTCI would make the same choice.
- Had more financial knowledge.
- Were less likely to take risks.
- Believed they are likely to need long-term care

The letter alone did not impact choice.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

21

CENTER FOR INSURANCE POLICY AND RESEARCH

Next Steps:

- Continue to model the data using multivariate analysis.
- Perception of the clarity of the letters matters.
  - Are there ways to improve the checklist?
- Confidence in knowledge and skills is important.
  - Having enough information and financial knowledge.
  - Discuss ways to better educate policyholder about their choice.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

22

© 2024 National Association of Insurance Commissioners

REGULATORY FRAMEWORK (B) TASK FORCE

Regulatory Framework (B) Task Force Aug. 13, 2024, Minutes 6-163
Regulatory Framework (B) Task Force July 1, 2024, Minutes (Attachment One) 6-166
Regulatory Framework (B) Task Force Adopted 2024 Revised Charges (Attachment One-A) 6-167
Accident and Sickness Insurance Minimum Standards (B) Subgroup July 29, 2024, Minutes (Attachment Two) 6-169
Section 8E(4) Suggested Revisions (Attachment Two-A) 6-171
Accident and Sickness Insurance Minimum Standards (B) Subgroup July 15, 2024, Minutes (Attachment Three) 6-174
Accident and Sickness Insurance Minimum Standards (B) Subgroup June 24, 2024, Minutes (Attachment Four) 6-176
Maine Comments on Draft Revisions to the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171) (Attachment Four-A) 6-178
Accident and Sickness Insurance Minimum Standards (B) Subgroup April 22, 2024, Minutes (Attachment Five) 6-210
Accident and Sickness Insurance Minimum Standards (B) Subgroup April 8, 2024, Minutes (Attachment Six) 6-212
Accident and Sickness Insurance Minimum Standards (B) Subgroup March 25, 2024, Minutes (Attachment Seven) 6-214
Mental Health Parity and Addiction Equity Act (MHPAEA) (B) Working Group March 17, 2024, Minutes (Attachment Eight) 6-216
Pharmacy Benefit Manager Regulatory Issues (B) Subgroup June 7, 2024, Minutes (Attachment Nine) 6-218
Pharmacy Benefit Manager Regulatory Issues (B) Subgroup May 2, 2024, Minutes (Attachment Ten) 6-220
Pharmacy Benefit Manager Regulatory Issues (B) Subgroup Draft Revised 2024 Charges (Attachment Ten-A) 6-223

Draft: 8/19/24

Regulatory Framework (B) Task Force
Chicago, Illinois
August 13, 2024

The Regulatory Framework (B) Task Force met in Chicago, IL, Aug. 13, 2024. The following Task Force members participated: Glen Mulready, Chair (OK); Ann Gillespie, Vice Chair, represented by Erica Weyhenmeyer (IL); Lori K. Wing-Heier represented by Sarah Bailey (AK); Mark Fowler represented by John Buono (AL); Michael Conway represented by Kate Harris and Debra Judy (CO); Andrew N. Mais represented by Jared Kosky (CT); Karima M. Woods represented by Howard Liebers (DC); Doug Ommen represented by Andria Seip (IA); Dean L. Cameron represented by Shannon Hohl (ID); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Craig VanAalst (KS); Sharon P. Clark represented by Shaun Orme (KY); Robert L. Carey represented by Robert Wake and Marti Hooper (ME); Chlora Lyndley-Myers represented by Amy Hoyt (MO); Mike Causey represented by John Hoomani (NC); Jon Godfread represented by Chrystal Bartuska (ND); Eric Dunning represented by Martin Swanson and Maggie Reinert (NE); D.J. Bettencourt represented by Michelle Heaton (NH); Judith L. French represented by Laura Miller (OH); Michael Humphreys represented by Shannen Logue (PA); Larry D. Deiter represented by Jill Kruger (SD); Cassie Brown represented by R. Michael Markham, Debra Diaz-Lara, and Rachel Bowden (TX); Jon Pike represented by Tanji J. Northrup, Ryan Jubber, and Shelley Wiseman (UT); Scott A. White represented by Julie Blauvelt (VA); Mike Kreidler represented by Ned Gaines (WA); Nathan Houdek represented by Rebecca Rebholz and Jennifer Stegall (WI); and Allan L. McVey represented by Joylynn Fix (WV). Also participating was: Patrick Smock (RI).

1. Adopted its July 1 and Spring National Meeting Minutes

The Task Force met July 1 and adopted by e-vote its 2024 revised charges, which amend the 2024 charges for the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup.

Swanson made a motion, seconded by VanAalst, to adopt the Task Force's July 1 (Attachment One) and March 16 (*see NAIC Proceedings – Spring 2024, Regulatory Framework (B) Task Force*) minutes. The motion passed unanimously.

2. Adopted its Subgroup and Working Group Reports

Gaines made a motion, seconded by Logue, to adopt the following reports: 1) the Accident and Sickness Insurance Minimum Standards (B) Subgroup, including its July 29 (Attachment Two), July 15 (Attachment Three), June 24 (Attachment Four), April 22 (Attachment Five), April 8 (Attachment Six), and March 25 (Attachment Seven) minutes; 2) the Employee Retirement Income Security Act (ERISA) (B) Working Group; 3) the Mental Health Parity and Addiction Equity Act (MHPAEA) (B) Working Group, including its March 17 (Attachment Eight) minutes; and 4) the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup, including its June 7 (Attachment Nine) and May 2 (Attachment Ten) minutes. The motion passed unanimously.

3. Heard a Presentation from CHIR on Facility Fees

Rachel Swindle (Center on Health Insurance Reforms—CHIR) discussed outpatient facility fee billing reforms and options for the states to address the issue. She explained that facility fees are a second fee that hospitals charge in addition to the health care professional's bill. She said that entities charging such fees assert that the fees are to cover hospital overhead costs. Swindle described the issues involved in charging facility fees, such as consumer out-of-pocket cost exposure and the lack of transparency in billing and ownership. She also discussed potential

© 2024 National Association of Insurance Commissioners

solutions, including: 1) site-neutral payment; 2) billing transparency; 3) public reporting; and 4) consumer notification requirements.

Swindle provided an overview of state outpatient facility fee reforms, explaining that some states, such as Colorado, Connecticut, Maryland, and Washington, have implemented multiple strategies to address the issue. She highlighted a few of those state reforms: 1) facility fee prohibitions; 2) requiring billing transparency; and 3) public oversight. Swindle also identified states that have implemented certain outpatient facility fee reforms. She discussed additional CHIR resources and publications that have been developed on outpatient facility fees.

4. Discussed *Loper Bright* and Potential Implications on Health Insurance-Related Regulations

William G. Schiffbauer (Schiffbauer Law Office) provided an overview of *Loper Bright Enterprises v. Raimondo* and *Relentless v. Department of Commerce* (collectively referred to as *Loper Bright*) rulings, which overturned the so-called "Chevron Doctrine." He also discussed its potential implications on federal health insurance-related regulations.

Schiffbauer explained that the Chevron Doctrine stems from a ruling in *Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc.* (*Chevron*), which required federal courts to defer to a federal agency's reasonable interpretation where statutory text is ambiguous or silent. He said the case involved a challenge to a federal agency rule under the federal Administrative Procedure Act (APA). In its ruling, the court established a two-step analysis for federal courts to follow when conducting judicial reviews of such challenges. Schiffbauer said the Chevron Doctrine adopted a presumption of an implied delegation of interpretative authority to a federal agency without reference to any provision in the APA.

Schiffbauer explained how the *Loper Bright* ruling overturned the Chevron Doctrine and its two-step analysis. He said that in overturning the Chevron Doctrine, the majority opinion stated that *Chevron* defies the command of the APA that the reviewing court, not the agency whose action it reviews, is to decide all relevant questions of law and statutory interpretation. *Chevron* requires a court to ignore, not follow, the reading the court would have reached had it exercised its independent judgment, as required by the APA.

Schiffbauer highlighted several health insurance-related regulations, including the federal Affordable Care Act's (ACA's) Section 1557 federal regulations, the ACA's cost-sharing and deductible regulations, and Medicare hospital payment rules that could be affected by the overturning of the Chevron Doctrine. He suggested that moving forward, federal agency rules upheld in prior court decisions using *Chevron* may still be challenged under the APA and de novo review by a federal court. He noted that the Supreme Court of the U.S. has already vacated several appellate court *Chevron* decisions pending review and remanded them for further consideration under *Loper Bright*. Schiffbauer suggested that state agencies might examine judicial review provisions and deference case law under their state administrative procedure acts and consider the lessons of *Loper Bright*.

5. Heard a Presentation from BPC and AHIP on the New Collaborative Multi-Stakeholder Initiative PHtP

Anand Parekh (Bipartisan Policy Center—BPC) and Kate Berry (America's Health Insurance Plans—AHIP) discussed Promoting Health Through Prevention (PHtP), a new collaborative multi-stakeholder initiative. Parekh explained that AHIP and a coalition of preeminent public and private health organizations launched PHtP to encourage people to get the recommended preventive services available with no out-of-pocket cost under the ACA because preventive services save lives. He discussed the current uptake for certain preventive services and how there is room for improvement. The lack of patient education is a major factor contributing to the low uptake of preventive services, and PHtP aims to address this issue. Parekh described how participants in the PHtP initiative are using multiple communication approaches to raise awareness about the importance of preventive services.

© 2024 National Association of Insurance Commissioners

Berry discussed the health organizations participating in the PHtP initiative. She described the PHtP's ongoing actions, including: 1) expanding participation; 2) identifying strategies/timing for additional communications; 3) conducting targeted outreach for different populations and/or types of screenings; and 4) exploring fundraising to support broader advertising and outreach. She also highlighted opportunities for the states and related stakeholder engagement by promoting the MyHealthfinder tool and leveraging existing social media tools.

Commissioner Mulready asked where to find the MyHealthfinder tool, which Berry explained can be accessed at *https://health.gov/myhealthfinder*. Commissioner Mulready noted that PHtP released a press release announcing the new initiative. He asked about other ways state insurance regulators and other stakeholders could promote the initiative. Berry said the PHtP has social media messages and other white-label media she would be happy to share.

Having no further business, the Regulatory Framework (B) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/National Meetings/2024 Summer Meeting/RFTF 8-13-24 MtgMin.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/2/24

Regulatory Framework (B) Task Force
E-Vote
July 1, 2024

The Regulatory Framework (B) Task Force conducted an e-vote that concluded July 1, 2024. The following Task Force members participated: Glen Mulready, Chair (OK); Ann Gillespie represented by Erica Weyhenmeyer, Vice Chair (IL); Lori K. Wing-Heier represented by Sarah Bailey (AK); Mark Fowler (AL); Andrew N. Mais represented by Jared Kosky (CT); Karima M. Woods (DC); Doug Ommen represented by Andria Seip (IA); Dean L. Cameron (ID); Amy L. Beard represented by Alex Peck (IN); Vicki Schmidt (KS); Sharon P. Clark (KY); Kevin P. Beagan (MA); Robert L. Carey represented by Robert Wake (ME); Chlora Lyndley-Myers represented by Jo LeDuc (MO); Mike Causey represented by Robert Croom (NC); Jon Godfread represented by Chrystal Bartuska (ND); Eric Dunning represented by Martin Swanson (NE); D.J. Bettencourt represented by Michelle Heaton (NH); Scott Kipper (NV); Judith L. French represented by Laura Miller (OH); Andrew R. Stolfi represented by TK Keen (OR); Michael Humphreys represented by Jodi Frantz (PA); Larry D. Deiter (SD); Cassie Brown represented by Rachel Bowden (TX); Jon Pike (UT); Scott A. White represented by Julie Blauvelt (VA); Mike Kreidler represented by Ned Gaines (WA); Nathan Houdek (WI); and Allan L. McVey represented by Joylynn Fix (WV).

1. Adopted its 2024 Revised Charges

The Task Force conducted an e-vote to consider adoption of its 2024 revised charges, which amend the 2024 charges for the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup (Attachment One-A). The motion passed unanimously.

Having no further business, the Regulatory Framework (B) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/National Meetings/2024 Summer Meeting/RFTF 7-1-24 E-Vote MtgMin.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/2/24
Adopted by the Health Insurance and Managed Care (B) Committee, July 26, 2024
Adopted by the Regulatory Framework (B) Task Force, July 1, 2024
Adopted by the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup, June 7, 2024

2024 Revised Proposed Charges

REGULATORY FRAMEWORK (B) TASK FORCE

The mission of the Regulatory Framework (B) Task Force is to: 1) develop NAIC model acts and regulations for state health care initiatives; and 2) consider policy issues affecting state health insurance regulation.

Ongoing Support of NAIC Programs, Products, or Services

1. The **Regulatory Framework (B) Task Force** will:
   A. Coordinate and develop the provision of technical assistance to the states regarding state-level implementation issues raised by federal health legislation and regulations.
   B. Review managed health care reforms, their delivery systems occurring in the marketplace, and other forms of health care delivery. Recommend appropriate revisions to regulatory jurisdiction, authority, and structures.
   C. Consider the development of new NAIC model laws and regulations and the revision of existing NAIC model laws and regulations, including those affected by federal legislation and final federal regulations promulgated pursuant to such legislation.
   D. Continue to review NAIC models recommended for revision by the former Affordable Care Act (ACA) Model Review (B) Working Group and, as appropriate, appoint a working group or subgroup to revise the NAIC model(s) prioritized for revision in 2024.
   E. At the direction of the Health Insurance and Managed Care (B) Committee, through the work of the Employee Retirement Income Security Act (ERISA) (B) Working Group, monitor, analyze, and report developments related to association health plans (AHPs).
   F. Monitor, analyze, and report, as necessary, developments related to short-term, limited-duration (STLD) coverage.

2. The **Accident and Sickness Insurance Minimum Standards (B) Subgroup** will:
   A. Review and consider revisions to the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171).

3. The **ERISA (B) Working Group** will:
   A. Monitor, report, and analyze developments related to ERISA, and make recommendations regarding NAIC strategy and policy with respect to those developments.
   B. Monitor, facilitate, and coordinate with the states and the U.S. Department of Labor (DOL) efforts related to sham health plans.
   C. Monitor, facilitate, and coordinate with the states and the DOL regarding compliance and enforcement efforts regarding the ACA that relate to ERISA.
   D. Review the *Health and Welfare Plans Under the Employee Retirement Income Security Act: Guidelines for State and Federal Regulation* (ERISA Handbook) and modify it, as necessary, to reflect developments related to ERISA. Report annually.

© 2024 National Association of Insurance Commissioners

REGULATORY FRAMEWORK (B) TASK FORCE *(continued)*

4. The **Mental Health Parity and Addiction Equity Act (MHPAEA) (B) Working Group** will:
   A. Monitor, report, and analyze developments related to the MHPAEA, and make recommendations regarding NAIC strategy and policy with respect to those developments.
   B. Monitor, facilitate, and coordinate best practices with the states, the DOL, and the U.S. Department of Health and Human Services (HHS) related to the MHPAEA.
   C. Develop and provide resources to the states to support a greater understanding of laws, policies, and market conditions related to the MHPAEA.
   D. Provide supplemental resources to support documentation and reporting in the MHPAEA chapter of the *Market Regulation Handbook*.
   E. Coordinate with and provide input to Market Regulation and Consumer Affairs (D) Committee groups, as necessary, regarding mental health parity market conduct examinations.

5. The ~~**Pharmacy Benefit Manager Regulatory Issues (B) Subgroup**~~**Pharmaceutical Benefit Management Regulatory Issues (B) Working Group** will:
   ~~A. Develop a white paper to: 1) analyze and assess the role pharmacy benefit managers (PBMs), pharmacy services administrative organizations (PSAOs), and other supply chain entities play in the provision of prescription drug benefits; 2) identify, examine, and describe current and emerging state regulatory approaches to PBM business practices, such as price transparency and reporting requirements, rebating, and spread pricing, including the implications of the *Rutledge v. Pharmaceutical Care Management Association (PCMA)* decision on such business practices; and 3) discuss any challenges, if any, the states have encountered in implementing such laws and/or regulations.~~
   ~~B. Consider developing a new NAIC model to establish a licensing or registration process for PBMs. Based on issues identified in the white paper, the Subgroup may consider including in the new NAIC model provisions on PBM prescription drug pricing and cost transparency.~~
   A. Serve as a forum to educate state insurance regulators on issues related to pharmacy benefit manager (PBM) regulation and other stakeholders in the prescription drug ecosystem.
   B. Gather and share information, best practices, experience, and data to inform and support dialogue and information-sharing among state insurance regulators on issues related to PBM regulation, such as examinations and contracting, and pharmaceutical drug pricing and transparency.
   C. As the subject matter experts (SMEs) and to promote uniformity across the states, while remaining sensitive to variation in state approaches, develop a chapter for inclusion in the *Market Regulation Handbook* establishing examination standards for PBMs and related regulated entities for referral and consideration by the Market Conduct Examination Guidelines (D) Working Group.
   D. Maintain a current listing of PBM laws and regulations and case law for reference by state insurance regulators.
   E. Disseminate materials and reports, via the NAIC, to the states and the U.S. territories wishing to use the information gathered by the Working Group.
   F. Monitor, facilitate, and coordinate with the states and federal agencies to ensure compliance and enforcement efforts regarding PBMs.

NAIC Support Staff: Jolie H. Matthews/Jennifer R. Cook

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/National Meetings/2024 Summer Meeting/011_RFTF Adopted Rev 2024 Charges Adpted by RFTF 7-1-24.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/2/24

Accident and Sickness Insurance Minimum Standards (B) Subgroup
Virtual Meeting
July 29, 2024

The Accident and Sickness Insurance Minimum Standards (B) Subgroup of the Regulatory Framework (B) Task Force met July 29, 2024. The following Subgroup members participated: Andy Schallhorn, Co-Chair (OK); Rachel Bowden, Co-Chair (TX); Stephen Flick (DC); Carson Gaines (FL); Robert Wake (ME); Camille Anderson-Weddle (MO); Martin Swanson and Maggie Reinert (NE); Andreea Savu (SC); Heidi Clausen and Shelley Wiseman (UT); and Anna Van Fleet and Jamie Gile (VT).

1. Discussed Additional Comments Received on Draft Revisions to Model #171

Before beginning its discussion of the comments submitted by Wake on the May 3 draft of proposed revisions to the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171) (*see NAIC Proceedings – Summer 2024, Regulatory Framework (B) Task Force, Attachment Four-A*), the Subgroup reviewed Bowden's revisions to Section 8E(4) (Attachment Two-A). Bowden said the revisions reflect the Subgroup's discussion during its July 15 meeting. She said that in addition, she suggests that the Subgroup consider moving the language defining "home health care agency" in Section 8E(4)(k)(i) to Section 6—Policy Definitions. After discussion, the Subgroup accepted Bowden's revisions to Section 8E(4) and her suggestion to move the definition of "home health care agency" to Section 6. The Subgroup also agreed to correct a spelling error and delete the word "chux," which is a product brand name for disposable absorbent pads, and replace it with "disposable absorbent pads."

The Subgroup next discussed Wake's comments on Section 8H(8)—Short-Term, Limited-Duration Health Insurance Coverage concerning the notice requirements necessary when rescinding a policy. After discussion, the Subgroup agreed to clarify this provision by adding language separating the rescission notice requirements from the cancellation notice requirements to require a carrier to provide "a notice of rescission to an insured in writing with an appeal period of [thirty (30) days]." The Subgroup discussed Wake's comments and suggested revisions to the drafting note for Section 8H. After discussion, the Subgroup accepted Wake's suggested revision of adding a new sentence at the beginning of the drafting note. The Subgroup decided to delete the remainder of the drafting note language and requested NAIC staff add language alerting the states that they should review any relevant federal regulations establishing requirements for short-term, limited-duration (STLD) coverage that could differ from the state's requirements.

The Subgroup next discussed Wake's suggested revisions to Section 9A(1)—Required Disclosure Provisions. Wake suggested revising this provision to clearly state that the disclosures required under Section 9 may be modified as needed for accuracy and clarity "and only with the approval of the commissioner." The Subgroup accepted his suggested revision. The Subgroup also accepted Wake's non-substantive revisions to Section 9A(2). The Subgroup discussed Wake's suggested revisions to the drafting note for Section 9A(2). After discussion, the Subgroup accepted his suggested revisions but decided not to accept the suggested revisions that would have added language suggesting that the states should review "any applicable NAIC models" that may have provisions on readability and accessibility.

The Subgroup next discussed Wake's suggestions to delete the drafting note for Section 9A(3) requiring the disclosure of hospital indemnity coverage, make the phrase "fixed dollar benefits" prominent, and add the language to the substantive provision itself. The Subgroup accepted the suggested revision.

© 2024 National Association of Insurance Commissioners

The Subgroup next discussed how the federal notice and disclosure requirements for hospital indemnity and other fixed indemnity coverage would work with state notice and disclosure requirements for such coverage. The Subgroup concluded that given the issue's complexity and other factors, such as current and future litigation related to the federal rules establishing the notice and disclosure requirements, it would not be practical to include the federal language. During the discussion, it was suggested that the Subgroup consider adding drafting notes to the relevant provisions alerting the states to the issue.

Having no further business, the Accident and Sickness Insurance Minimum Standards (B) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/Accident and Sickness Subgrp/Accident and Sickness Ins Min Stds Subgrp 7-29-24 MtgMin.docx

© 2024 National Association of Insurance Commissioners

SECTION 8E(4) SUGGESTED REVISIONS FROM JULY 15 MEETING

(4) A policy that provides coverage ~~for each insured person~~ on an expense-incurred basis for cancer-only coverage, or for cancer in combination with one or more other specified diseases, ~~on an expense incurred basis~~ shall provide coverage for each insured person for services, supplies, care and treatment of cancer, consistent with the requirements in this paragraph.

(a) Coverage ~~in which~~ may be limited to amounts not in excess of the usual and customary charges, with a deductible amount not in excess of $[X], ~~and~~ an overall aggregate benefit limit of not less than $[X], and a benefit period of not less than three (3) years.~~,~~ ~~shall provide~~including

(b) A policy must include at least the ~~following~~ minimum ~~provisions~~benefits specified in this subparagraph. ~~,~~ Coverage under clauses (i) - (xiv) of this subparagraph ~~which~~ may be subject to cost sharing by the insured person not to exceed twenty percent (20%) of covered charges when rendered on an out-patient basis:

(i~~a~~) Treatment by, or under the direction of, a licensed physician, surgeon, or other health care professional acting within the scope of their license;

Drafting Note: States should review their laws and regulations to determine whether to use the word "acting" or "performing" in Paragraph (3)(a)(ii) above. Some states use the word "acting," while others use the word "performing."

(ii~~b~~) Tests, procedures, and other medical services and supplies used in diagnosis and treatment;

~~(c) Hospital room and board and any other hospital furnished medical services or supplies;~~

(iii~~d~~) Blood transfusions and their administration, including expense incurred for blood donors;

(iv~~e~~) Drugs and medicines prescribed by a physician, including but not limited to, chemotherapy, including both oral and IV administered, immunotherapy, targeted therapies, and chemotherapy supportive drugs;

~~(f) Professional ambulance for service to or from a hospital nearest able to appropriately treat the condition;~~

(v~~g~~) Private duty services of a licensed nurse provided in a hospital;

~~(h) May include coverage of any other expenses necessarily incurred in the treatment of the disease; however, Subparagraphs (a), (b), (d), (e) and (g) plus at least the following also shall be included, but may be subject to copayment by the insured person not to exceed twenty percent (20%) of covered charges when rendered on an out-patient basis;~~

(vi~~h~~i) Durable medical equipment deemed necessary by the attending physician for the treatment of the disease;

(vii~~j~~i) Emergency transportation if in the opinion of the attending physician it is necessary to transport the insured to another locality for treatment of the disease; and

(viii~~j~~k) (i) Home health care that is necessary care and treatment provided at the insured person's residence by a home health care agency or by others under arrangements made with a home health care agency. The program of treatment shall be prescribed in writing by the insured person's attending physician, who shall approve the program prior to its start. **(move to Section 6 policy definitions)** A "home health care agency" (1) is an agency approved under Medicare, or (2) is

© 2024 National Association of Insurance Commissioners

licensed to provide home health care under applicable state law, or (3) meets all of the following requirements:

(I) It is primarily engaged in providing home health care services;

(II) Its policies are established by a group of professional personnel (including at least one physician and one licensed nurse);

(III) A physician or a registered nurse provides supervision of home health care services;

(IV) It maintains clinical records on all patients; and

(V) It has a full-time administrator.

Drafting Note: State licensing laws vary concerning the scope of "home health care" or "home health agency services" and should be consulted. In addition, a few states have mandated benefits for home health care including the definition of required services.

(ii) Home health includes, but is not limited to:

(I) Part-time or intermittent skilled nursing services provided by a registered nurse or a licensed practical nurse;

(II) Part-time or intermittent home health aide services that provide supportive services in the home under the supervision of a registered nurse or a physical, speech or hearing occupational therapists;

(III) Physical, occupational or speech and hearing therapy; and

(IV) Medical supplies, drugs and medicines prescribed by a physician and related pharmaceutical services, and laboratory services to the extent the charges or costs would have been covered if the insured person had remained in the hospital.

(ix~~lk~~) Physical, speech, hearing and occupational therapy;

(x~~ml~~) Special equipment including hospital bed, toilette, pulleys, wheelchairs, aspirator, chux**,(disposable absorbent pads**) oxygen, surgical dressings, rubber shields, colostomy and ileostomy appliances;

(xi~~nm~~) Prosthetic devices including wigs and artificial breasts;

(xii~~on~~) Nursing home care for noncustodial services;

(xiii~~op~~) Reconstructive surgery when deemed necessary by the attending physician; ~~and~~

(xiv~~pq~~) Hospice services, as defined in paragraph (2)(m) above; and~~.~~

(xve) Hospital room and board and any other hospital furnished medical services or supplies;

(xvif) Professional ambulance for service to or from a hospital nearest able to appropriately treat the condition;

(d~~c~~) A policy ~~M~~may include coverage of any other expenses necessarily incurred in the treatment of the disease.

Drafting Note: Policies that offer transportation and lodging benefits for an insured person should not condition those benefits on hospitalization.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/National Meetings/2024 Summer Meeting/Section 8E(4) Suggested Revisions – July 15 Meeting.docx

© 2024 National Association of Insurance Commissioners

Attachment Three
Regulatory Framework (B) Task Force
8/13/24

Draft: 7/31/24

Accident and Sickness Insurance Minimum Standards (B) Subgroup
Virtual Meeting
July 15, 2024

The Accident and Sickness Insurance Minimum Standards (B) Subgroup of the Regulatory Framework (B) Task Force met July 15, 2024. The following Subgroup members participated: Andy Schallhorn, Co-Chair (OK); Rachel Bowden, Co-Chair (TX); Carson Gaines (FL); Camille Anderson-Weddle and Amy Hoyt (MO); Martin Swanson and Maggie Reinert (NE); Shari Miles (SC); Heidi Clausen and Shelley Wiseman (UT); Mary Block and Jamie Gile (VT); and Ned Gaines (WA).

1. Discussed Additional Comments Received on Draft Revisions to Model #171

The Subgroup continued its discussion of the comments submitted by Robert Wake (ME) on the May 3 draft of proposed revisions to the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171) beginning with the comments on Section 8A(11)—Supplementary and Short-Term Health Insurance Minimum Standards for Benefits (*see NAIC Proceedings – Summer 2024, Regulatory Framework (B) Task Force, Attachment Four-A*). Jolie Matthews (NAIC) said Wake's comments on Section 8A(11) question the meaning of the language "irrespective of total disability," whether it means the policy must pay accidental death and dismemberment benefits even if the insured is NOT totally disabled or whether the policy must pay accidental death and dismemberment benefits if the insured IS totally disabled. She said the language is existing Model #171 language. The Subgroup discussed the comments. After discussion, the Subgroup decided to leave the language unchanged because it felt the language was clear. It requires a carrier to pay accidental death and dismemberment benefits regardless of whether the insured is totally disabled, and if the insured has disability income protection coverage and is totally disabled, the carrier must pay benefits in accordance with the terms of that policy because they are two separate policies and two separate provisions.

The Subgroup next discussed Wake's comments on Section 8C(1)—Disability Income Protection Coverage. The Subgroup discussed the comments noting that Wake made similar comments to Section 8A(2)(d). After discussion, the Subgroup agreed to delete the words "to receive Social Security benefits" for consistency with the revision made to Section 8A(2)(d). The Subgroup next discussed the comments on Section 8C(3). The Subgroup agreed that the suggested revisions clarified the language. The Subgroup next discussed Wake's comments on Section 8E(2)(h)—Specified Disease Coverage. The comments suggest revising the provision to clarify which NAIC model should be specifically referenced with respect to "the NAIC uniform provision." The Subgroup accepted the suggested revisions. The Subgroup also accepted clarifying revisions to Section 8E(2)(j) and Section 8E(2)(l). The Subgroup next discussed Wake's comments on Section 8E(2)(m) suggesting that the word "facility" is the wrong word to use with respect to hospice care. After discussion, the Subgroup decided to delete the word "facility" and replace it with "provider."

The Subgroup next discussed Wake's suggested revisions to Section 8E(4). Wake suggests reorganizing Section 8E(4) to clarify which types of benefits in a cancer-only policy are subject to the copayment provisions in Section 8E(4)(h). The Subgroup discussed the suggested revisions. After discussion, the Subgroup agreed to reorganize the language based on Wake's comments and the Subgroup's discussion. Bowden volunteered to provide language reflecting the Subgroup's discussion for its review during its next meeting on July 29.

The Subgroup next discussed Wake's comments on Section 8E(6)(a) suggesting that the existing Model #171 language in this provision is nonsensical. After discussion, the Subgroup agreed to correct the language by deleting the words "on behalf of insured persons." The Subgroup discussed and accepted Wake's suggested clarifying

© 2024 National Association of Insurance Commissioners

revisions to Section 8E(6)(b). The Subgroup discussed Wake's comments on the drafting note for Section 8E(6)(b), questioning the inclusion of skin cancer as a specific example of a specified disease a commissioner can approve as an exception to requiring equal coverage for all subtypes of a specified disease. The Subgroup accepted his suggestion to delete the reference to skin cancer.

The Subgroup discussed and agreed to accept Wake's revised Section 8G(1)—Limited Benefit Health Coverage suggestion to revise the provision to use the statutory term "limited benefit health coverage." The Subgroup also accepted Wake's suggestion to use the word "policies" instead of "plans" for accuracy when referring to limited long-term care insurance in the drafting note for Section 8G(2).

The Subgroup next discussed Wake's suggested revisions to the drafting note for Section 8G. The Subgroup agreed that revisions should be made for accuracy. William Schiffbauer (Schiffbauer Law Office) agreed to send NAIC staff the suggested revisions.

The Subgroup next discussed Wake's comments on Section 8H—Short-Term Limited-Duration Health Insurance Coverage. The Subgroup accepted Wake's non-substantive, clarifying revisions to Section 8H(1), Section 8H(2), Section 8H(4)(b), Section 8H(4)(d), and Section 8H(5). The Subgroup discussed Wake's comments on Section 8H(6) that suggest the Subgroup consider deleting the last sentence which specifies the amount a carrier must refund a consumer when a plan is rescinded. The Subgroup accepted his suggested revisions. The Subgroup also accepted Wake's corresponding suggested revisions to Section 8H(6)'s drafting note.

Having no further business, the Accident and Sickness Insurance Minimum Standards (B) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/Accident and Sickness Subgrp/Accident and Sickness Ins Min Stds Subgrp 7-15-24 MtgMin.docx

© 2024 National Association of Insurance Commissioners

Attachment Four
Regulatory Framework (B) Task Force
8/13/24

Draft: 7/18/24

Accident and Sickness Insurance Minimum Standards (B) Subgroup
Virtual Meeting
June 24, 2024

The Accident and Sickness Insurance Minimum Standards (B) Subgroup of the Regulatory Framework (B) Task Force met June 24, 2024. The following Subgroup members participated: Andy Schallhorn, Co-Chair (OK); Rachel Bowden, Co-Chair (TX); Howard Liebers (DC); Robert Wake (ME); Amy Hoyt (MO); Maggie Reinert (NE); Andreea Savu (SC); Heidi Clausen and Shelley Wiseman (UT); and Anna Van Fleet and Jamie Gile (VT).

1. Discussed Additional Comments Received on Draft Revisions to Model #171

The Subgroup discussed additional comments from Wake on the May 3 draft of proposed revisions to the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171) beginning with the comments on Section 3A—Applicability and Scope (Attachment Four-A). Wake explained that for clarity, he suggests adding the words "residents of" this state instead of "in" this state. He also suggests adding the word "offered." After discussion, the Subgroup accepted his suggested revisions. Additionally, Wake suggests deleting the words "unless otherwise specified is included in the definition of 'short-term health insurance' under the Act." The Subgroup accepted the suggested revision. Wake also suggests non-substantive revisions to Section 3C(3) to the reference to the U.S. uniformed services health care program, TRICARE. The Subgroup accepted the suggested revisions.

The Subgroup next discussed Wake's comments on whether to include a definition of "short-term, limited duration insurance" in Section 5C—Definitions. Wake expressed concern that the definition appears to be more of a minimum standard rather than a definition. After discussion, the Subgroup decided to revise Section 5C to provide a cross-reference to the definition for this term in Model #171's companion model act, *Supplementary and Short-Term Health Insurance Minimum Standards Model Act* (#170).

The Subgroup next agreed to accept Wake's suggestion to delete the word "rehabilitory" in Section 6C(2)—Policy Definitions in the policy definition of "hospital" and replace it with "rehabilitative." The Subgroup next discussed Wake's comments on the last sentence in the policy definition of "physician" in Section 6I(1). Wake expressed concern that the language would require insurers to recognize certain types of providers as physicians. The Subgroup discussed his comments. After discussion, the Subgroup agreed to add at the end of the first sentence the words "and may not be defined more narrowly than applicable state licensing laws" and delete the last sentence. The Subgroup also agreed to add a new subsection, which Bowden suggested, to the end of Section 7—Prohibited Policy Provisions stating: "A policy shall not limit an insured's choice of health care provider if the provider is licensed or otherwise qualified under state law and the services to be provided are within the health care provider's scope of practice."

The Subgroup next discussed Wake's comments on the inconsistent use of the term "workers' compensation" throughout the model. NAIC staff agreed to review the model to ensure the references to the term are consistent.

The Subgroup next discussed Wake's comments on Section 7D suggesting that it be revised to add the words "the following permitted exclusions" for clarity. The Subgroup agreed to make the suggested revisions. The Subgroup also agreed to make the same revision to the drafting note for Section 7D(2). Additionally, the Subgroup agreed to make non-substantive revisions to Section 7D(5) and Section 7D(6). The Subgroup next discussed Wake's comments on Section 7D(7) concerning the provision on chiropractic care. Jolie Matthews (NAIC) pointed out that this provision is existing language in Model #171 except for the proposed revision clarifying that the provision

© 2024 National Association of Insurance Commissioners

refers to “chiropractic” care. After discussion, the Subgroup decided to leave the language unchanged. The Subgroup next discussed Wake’s comments Section 7D(12) suggesting that it be revised to include the language in the proposed drafting note to clearly state the limitations of the territorial limitation exclusion. The Subgroup accepted the suggested revisions.

The Subgroup next discussed and accepted Wake’s suggested non-substantive revisions to Section 7E and Section 7F.

The Subgroup next discussed Wake’s suggested revisions for Section 8A—Supplementary and Short-Term Health Insurance Minimum Standards for Benefits. He suggests reorganizing and revising Section 8A(2)(c) and Section 8A(2)(d) for clarity. Matthews noted that some of the language is existing language in Model #171. The Subgroup discussed the suggested revisions. After discussion, the Subgroup agreed to make the clarifying revisions, including reorganizing the provisions.

The Subgroup discussed and accepted Wake’s clarifying revisions to the drafting note for Section 8A(2) and Section 8A(3). The Subgroup also discussed and accepted Wake’s clarifying revisions to Section 8A(6), Section 8A(7), and Section 8A(8).

Having no further business, the Accident and Sickness Insurance Minimum Standards (B) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/Accident and Sickness Subgrp/Accident and Sickness Ins Min Stds Subgrp 6-24-24 MtgMin.docx

© 2024 National Association of Insurance Commissioners

Attachment Four-A
Regulatory Framework (B) Task Force
8/13/24

ADDITIONAL COMMENTS AND SUGGESTED REVISIONS FROM MAINE

Draft: 5/3/24
Model#171

The revisions to this draft reflect changes made from the existing model. Any comments on this draft should be sent by email only to Jolie Matthews at jmatthews@naic.org.

MODEL REGULATION TO IMPLEMENT THE SUPPLEMENTARY AND SHORT-TERM HEALTH INSURANCE MINIMUM STANDARDS MODEL ACT

Table of Contents

Section 1. Purpose
Section 2. Authority
Section 3. Applicability and Scope
Section 4. Effective Date
Section 5. Definitions
Section 6. Policy Definitions
Section 7. Prohibited Policy Provisions
Section 8. Supplementary and Short-Term Health Minimum Standards for Benefits
Section 9. Required Disclosure Provisions
Section 10. Requirements for Replacement of Individual Supplementary and Short-Term Health Insurance
Section 11. Separability

Section 1. Purpose

The purpose of this regulation is to implement [insert reference to state law equivalent to the NAIC- *Supplementary and Short-Term Health Insurance Minimum Standards Model Act*] (the Act) to standardize and simplify the terms and coverages, to facilitate public understanding and comparison of coverage, to eliminate provisions that may be misleading or confusing in connection with the purchase and renewal of the coverages or with the settlement of claims and to provide for full disclosure in the marketing and sale of supplementary and short-term health insurance, as defined in the Act. This regulation is also intended to assert the commissioner's jurisdiction over limited scope dental coverage and limited scope vision coverage, and to provide for disclosure in the sale of those coverages.

Section 2. Authority

This regulation is issued pursuant to the authority vested in the commissioner under [insert reference to state law equivalent to NAIC *Supplementary and Short-Term Health Insurance Minimum Standards Model Act* and any other appropriate section of law regarding authority of commissioner to issue regulations].

Section 3. Applicability and Scope

A. This regulation applies to all individual and group insurance policies and certificates providing hospital indemnity or other fixed indemnity, accident only, specified accident, specified disease, limited benefit health and disability income protection, referred to collectively in Section 1 of the Act and hereafter, as "supplementary health insurance," delivered or issued for delivery in this state on and after [insert effective date] that are not specifically exempted from this regulation. This regulation applies to short-term, limited-duration insurance coverage offered, delivered or issued for delivery ~~in~~ to residents of this state regardless of the situs of the delivery of the contract on and after [insert effective date]~~, which, unless otherwise specified, is included in the definition of "short-term health insurance" under the Act~~. **Okay 6/24/24**

B. This regulation applies to limited scope dental coverage and limited scope vision coverage only as specified.

C. This regulation shall not apply to:

© 2024 National Association of Insurance Commissioners

(1) Medicare supplement policies subject to [insert reference to state law equivalent to the Model Regulation to Implement the NAIC *Medicare Supplement Insurance Minimum Standards Model Act*];

(2) Long-term care insurance policies subject to [insert reference to state law equivalent to the NAIC *Long-Term Care Insurance Model Act*];

(3) TRICARE ~~formerly known as Civilian Health and Medical Program of the Uniformed Services~~ (Chapter 55, T~~t~~itle 10 of the United States Code) ~~(CHAMPUS)~~ supplement insurance policies; or

(4) Limited long-term care insurance policies subject to [insert reference to state law equivalent to the NAIC *Limited Long-Term Care Insurance Model Act*].

Drafting Note: TRICARE supplement insurance is not subject to federal regulation. TRICARE supplement policies are sold only to eligible individuals as determined by the Department of Defense and are tied to TRICARE benefits. In general, states regulate TRICARE supplement insurance policies under the state group or individual insurance laws.

D. The requirements contained in this regulation shall be in addition to any other applicable regulations previously adopted.

Section 4. Effective Date

This regulation shall be effective on [insert a date not less than 120 days after the date of adoption of the regulation]. The amendments to this regulation shall apply to any policies [or certificates] issued on or after the effective date of the adoption of the amended regulation.

Section 5. Definitions

For purposes of this regulation:

A. "Excepted benefits" means coverage listed at section 2791(c) of the Public Health Service Act (PHSA) or subsequently added by regulation where authorized.

B. "Medicare" means The Health Insurance for the Aged Act, Title XVIII of the Social Security Amendments of 1965, as then constituted or later amended.

C. "Short-term, limited-duration insurance" means health insurance coverage offered or provided within the state pursuant to a contract by a health carrier, regardless of the situs of the delivery of the contract, that has an expiration date specified in the contract that is less than [X days or months] after the original effective date and, taking into account any extensions that may be elected by the policyholder with or without the carrier's consent, has a duration of no longer than [X days or months] after the original effective date of the contract. **Eliminate the words in the definition and include a cross-reference to the definition in the Model Act**.

Section 6. Policy Definitions

A. (1) Except as provided in this regulation, a supplementary health insurance or a short-term limited duration insurance policy delivered or issued for delivery to any person in this state and to which this regulation applies shall contain definitions respecting the matters set forth below that comply with the requirements of this section.

© 2024 National Association of Insurance Commissioners

(2) Except as provided in this regulation, to the extent these definitions are used in a policy [or certificate], definitions used in a policy [or certificate] may vary from the definitions in this section, but not in a manner that restricts coverage.

B. "Convalescent nursing home," "extended care facility," "skilled nursing facility," "assisted living facility" or "continued care retirement community" means in relation to its status, facility and available services.

(1) A definition of the home or facility shall not be more restrictive than one requiring that it:

(a) Be operated pursuant to law;

(b) Be approved for payment of Medicare and/or Medicaid benefits or be qualified to receive approval for payment of Medicare and/or Medicaid benefits, if so requested;

(c) Be engaged in providing, in addition to room and board accommodations, skilled nursing care under the supervision of a duly licensed physician;

(d) Except for an "assisted living facility" or a "continued care retirement community," provide continuous twenty-four-hour-a-day nursing service by or under the supervision of a registered nurse; and

(e) Maintain a daily medical record of each patient.

(2) The definition of the home or facility is permitted but is not required to exclude:

(a) A home, facility or part of a home or facility used primarily for rest;

(b) A home or facility for the aged and/or for the care of individuals with a substance use disorder; or

(c) A home or facility primarily used for the care and treatment of mental diseases or disorders, or for custodial or educational care.

Drafting Note: The laws of the states relating to nursing and extended care facilities recognized in health insurance policies are not uniform. Reference to the individual state or federal Medicare or Medicaid law may be required in structuring this definition.

C. "Hospital" means in relation to its status, facilities and available services or to reflect its accreditation by the Joint Commission.

(1) The definition of the term "hospital" shall not be more restrictive than one requiring that the hospital:

(a) Be an institution licensed to operate as a hospital pursuant to law;

(b) Be primarily and continuously engaged in providing or operating, either on its premises or in facilities available to the hospital on a prearranged basis and under the supervision of a staff of licensed physicians, medical, diagnostic and major surgical facilities for the medical care and treatment of sick or injured persons on an in-patient basis for which a charge is made; and

(c) Provide twenty-four-hour nursing service by or under the supervision of registered nurses.

(2) The definition of the term "hospital" is permitted but is not required to exclude:

(a) Convalescent homes or, convalescent, rest or nursing facilities;

(b) Facilities affording primarily custodial, educational or rehabilitory care;

(c) Facilities for the aged or individuals with a substance use disorder; or

(d) A military or veterans' hospital, a soldiers' home or a hospital contracted for or operated by any national government or government agency for the treatment of members or ex-members of the armed forces, except for services where a legal liability for the patient exists for charges made to the individual for the services.

Drafting Note: The laws of the states relating to the type of hospital facilities recognized in health insurance policies are not uniform. References to individual state law may be required in structuring this definition.

D. (1) "Injury" means a bodily injury resulting from an accident, independent of disease, which occurs while the coverage is in force.

(2) The definition shall not use words such as "external, violent, visible wounds" or similar words of characterization or description.

(3) The definition may state that the disability shall have occurred within a specified period of time (not less than thirty (30) days) of the injury, otherwise the condition shall be considered a sickness.

(4) The definition may provide that "injury" shall not include an injury for which benefits are provided under workers' compensation, employers' liability or similar law; or under a motor vehicle no-fault plan, unless prohibited by law; or injuries occurring while the insured person is engaged in any activity pertaining to a trade, business, employment or occupation for wage or profit.

E. "Mental or nervous disorder" means any condition or disorder defined by categories listed in the most recent edition of the Diagnostic and Statistical Manual of Mental Disorders (DSM) or its successor.

F. "Nurse" may be defined so that the description of nurse is restricted to a type of nurse, such as an advance practice nurse, a registered nurse, a licensed practical nurse, or a licensed vocational nurse. If the words "nurse," "advance practice nurse," "trained nurse" or "registered nurse" are used without specific instruction, then the use of these terms requires the insurer to recognize the services of any individual who qualifies under the terminology in accordance with the applicable statutes or administrative rules of the licensing or registry board of the state.

Drafting Note: States may want to consider ~~if~~ whether the functions of an advance practice nurse fall under this definition or the definition of "physician" in Subsection I.

G. "One period of confinement" means consecutive days of in-hospital service received as an in-patient, or successive confinements when discharge from and readmission to the hospital occurs within a period of time not more than ninety (90) days or three times the maximum number of days of in-hospital coverage provided by the policy to a maximum of 180 days.

H. "Partial disability" means that, due to a disability, an individual:

(1) Is unable to perform one or more but not all of the "major," "important" or "essential" duties of the individual's employment or existing occupation, or may be related to a percentage of time worked or to a specified number of hours or to compensation; and

(2) Is in fact engaged in work for wage or profit.

I. (1) "Physician" means and includes words such as "qualified physician" or "licensed physician." And may not be defined more narrowly than applicable state licensing laws. ~~The use of these terms~~

~~requires an insurer to recognize and to accept, to the extent of its obligation under the contract, all providers of medical care and treatment when the services are within the scope of the provider's licensed authority and are provided pursuant to applicable laws and .~~

Add in the Texas prohibited language to Section 7 at the end.

(2) The definition or concept may exclude the insured, the owner, the assignee, any person related to the insured, owner or assignee by blood or marriage, any person who shares a significant business interest with the insured, owner or assignee, or any person who is a partner in a legally sanctioned domestic partnership or civil union with the insured, owner or assignee.

Drafting Note: The laws of the states relating to the type of providers' services recognized in health insurance policies are not uniform. References to the individual state law may be required in structuring this definition.

J. ~~(1)~~ "Preexisting condition" means a condition for which medical advice or treatment was recommended by a physician or received from a physician within a [two-] year period preceding the effective date of the coverage of the insured person."

Drafting Note: This definition does not prohibit an insurer, using an application or enrollment form, including a simplified application form, designed to elicit the health history of a prospective insured and on the basis of the answers on that application or enrollment form, from underwriting in accordance with that insurer's established standards and in accordance with state law. It is assumed that an insurer that elicits a health history of a prospective insured will act on the information and if the review of the health history results in a decision to exclude a condition, the policy or certificate will be endorsed or amended by including the specific exclusion. This same requirement of notice to the prospective insured of the specific exclusion will also apply to insurers that elect to use simplified application or enrollment forms containing questions relating to the prospective insured's health. This definition does, however, prohibit an insurer that elects to use a simplified application or enrollment form, with or without a question as to the proposed insured's health at the time of application or enrollment, from reducing or denying a claim on the basis of the existence of a preexisting condition that is defined more restrictively than above.

K. "Residual disability" means in relation to the individual's reduction in earnings and may be related either to the inability to perform some part of the "major," "important" or "essential duties" of employment or occupation, or to the inability to perform all usual business duties for as long as is usually required. A policy that provides for residual disability benefits may require a qualification period, during which the insured must be continuously totally disabled before residual disability benefits are payable. The qualification period for residual benefits may be longer than the elimination period for total disability. In lieu of the term "residual disability," the insurer may use "proportionate disability" or other term of similar import that in the opinion of the commissioner adequately and fairly describes the benefit.

L. "Sickness" means sickness, illness, or disease of an insured person that first manifests itself after the effective date of insurance and while the insurance is in force. A definition of sickness may provide for a probationary period that shall not exceed thirty (30) days from the effective date of the coverage of the insured person. The definition may be modified to exclude sickness or disease for which benefits are provided under a ~~worker's~~ workers' compensation, occupational disease, employers' liability or similar law.

M. "Total disability"

(1) A general definition of total disability shall not be more restrictive than one requiring that the individual who is totally disabled not be engaged in any employment or occupation for which he or she is or becomes qualified by reason of education, training or experience; and is not in fact engaged in any employment or occupation for wage or profit.

(2) Total disability may be defined in relation to the inability of the person to perform duties but may not be based solely upon an individual's inability to:

(a) Perform "any occupation whatsoever," "any occupational duty," or "any and every duty of his occupation"; or

(b) Engage in a training or rehabilitation program.

(3) An insurer may require the complete inability of the person to perform all of the substantial and material duties of his or her regular occupation or words of similar import. An insurer may require care by a physician other than the insured or a member of the insured's immediate family.

Section 7. Prohibited Policy Provisions

A. (1) Except as provided in this subsection, a policy shall not contain provisions establishing a probationary or waiting period during which coverage under the policy is excluded or restricted.

(2) A policy, other than an accident only policy, may exclude coverage for a loss due to a preexisting condition, as defined in Section 6J, for a period not to exceed twelve (12) months following the issuance of the policy or certificate. The twelve-month limitation is not required if the condition was disclosed during the application or enrollment process and specifically excluded by the terms of the policy or certificate, or when the insured knowingly made a material misrepresentation during the application or enrollment process.

(3) A policy, other than an accident only policy or a short-term, limited duration health insurance policy~~plan~~, may specify a probationary or waiting period not to exceed six (6) months for specified diseases or conditions and losses resulting from disease or condition related to hernia, disorder of the reproductive organs, varicose veins, adenoids, and tonsils, except when the specified diseases or conditions are treated on an emergency basis.

B. A disability income protection policy may contain a "return of premium" or "cash value benefit" option so long as the return of premium or cash value benefit is not reduced by an amount greater than the aggregate of claims paid under the policy; and the insurer demonstrates that the reserve basis for the policies is adequate. No other policy subject to the Act and this regulation shall provide a return of premium or cash value benefit, except return of unearned premium upon termination or suspension of coverage, retroactive waiver of premium paid during disability, payment of dividends on participating policies, or experience rating refunds.

Drafting Note: This provision is optional and the desirability of its use should be reviewed by the individual states.

C. Policies providing hospital indemnity or other fixed indemnity coverage shall not contain provisions excluding coverage because of confinement in a hospital operated by the federal government.

D. A policy shall not limit or exclude coverage by type of illness, accident, treatment or medical condition, except ~~as~~ for the follow~~s~~ing permitted exclusions:

Drafting Note: States should review the provisions of this subsection carefully to determine if any of the exceptions to limiting or excluding coverage by type of illness, accident, treatment or medical condition included in the subsection should apply to short-term, limited-duration health insurance coverage.

(1) Preexisting conditions or diseases, except for congenital anomalies of a covered dependent child;

(2) Mental or emotional disorders, alcoholism and drug addiction;

Drafting Note: This provision is optional. States should review the desirability of ~~its use~~permitting such exclusions.

(3) Pregnancy, except for complications of pregnancy, other than for policies defined in Section 8C of this regulation;

(4) Illness, treatment or medical condition arising out of:

(a) War or act of war (whether declared or undeclared); participation in a felony, riot or insurrections; service in the armed forces or units auxiliary to it;

(b) Suicide (sane or insane), attempted suicide or intentionally self-inflicted injury;

(c) Non-commercial or recreational aviation;

(d) With respect to short-term nonrenewable policies, interscholastic sports; and

(e) With respect to disability income protection policies, incarceration.

Drafting Note: What should be an allowable exclusion in disability income protection insurance policies generates much debate. States should be aware that some argue for exclusion of certain diseases or conditions that are difficult to diagnose or are potentially subject to frequent claims (e.g., carpal tunnel and chronic fatigue syndromes). Others argue that carriers have the ability to detect fraudulent claims and deny payment on that basis without singling out specific conditions for blanket exclusion.

(5) Cosmetic surgery, except ~~that "cosmetic surgery" shall not include~~for reconstructive surgery when the service is incidental to or follows surgery resulting from trauma, infection or other diseases of the involved part, and reconstructive surgery because of congenital disease or anomaly that has resulted in a functional defect;

(6) Foot care in connection with corns, calluses, flat feet, fallen arches, weak feet, chronic foot strain or asymptomatic complaints of the feet;

(7) Chiropractic care in connection with the detection and correction by manual or mechanical means of structural imbalance, distortion, or subluxation in the human body for purposes of removing nerve interference and the effects of it, where the interference is the result of or related to distortion, misalignment or subluxation of, or in the vertebral column;

Drafting Note: States should examine any existing "freedom of choice" statutes that require reimbursement of treatment provided by chiropractors, and make adjustments if needed.

(8) Benefits provided under Medicare or other governmental program (except Medicaid), a state or federal ~~workmen's~~ workers' compensation, employers liability or occupational disease law, or motor vehicle no-fault law; services rendered by employees of hospitals, laboratories or other institutions; services performed by a member of the covered person's immediate family; and services for which no charge is normally made in the absence of insurance;

(9) Dental care or treatment, except where the provision of dental services is medically necessary due to the underlying covered medical condition or clinical status of the covered person, including but not limited to, reconstructive surgery;

(10) Eye glasses, hearing aids and examination for the prescription or fitting of them;

(11) Rest cures, custodial care, transportation and routine physical examinations;

(12) Territorial limitations, provided that they do not exclude coverage for services rendered within the United States and its territories or possessions; and

~~**Drafting Note:** The intent of paragraph (12) above is to have this exclusion or limitation of coverage would apply to territories outside of the United States. This exclusion or limitation of coverage is not intended to apply to the U.S. territories.~~

(13) Genetic testing not ordered by a medical provider, and not used to diagnose or treat a disease.

Drafting Note: Some of the exclusions set forth in this provision may be unnecessary or in conflict with existing state legislation and should be deleted.

E. Notwithstanding Subsection D of this section, t~~T~~his regulation shall not impair or limit the use of waivers to exclude, limit or reduce coverage or benefits for specifically named or described preexisting diseases, physical condition or extra hazardous activity. Where waivers are required as a condition of issuance, renewal or reinstatement, signed acceptance by the insured is required unless on initial issuance the full text of the waiver is contained either on the first page or specification page.

F. The enumeration in this section of specific precluded p~~P~~olicy provisions ~~precluded in this section~~ shall not be construed as a limitation on the authority of the commissioner to disapprove other policy provisions in accordance with [cite Section 4B of the *Supplementary and Short-Term Health Insurance Minimum Standards Act*] that in the opinion of the commissioner are unjust, unfair or unfairly discriminatory to the policyholder, beneficiary or a person insured under the policy.

G. A policy providing a type of supplementary health insurance that is not defined as a "~~"~~plan~~"~~" under the *Coordination of Benefits Model Regulation* (#120) shall not include a coordination of benefits provision or any other provision that allows it to reduce its benefits based on the existence of other coverage its insured may have.

Drafting Note: Former Subsection B in this section established provisions related to the issuance of a policy or rider for additional coverage as a dividend under specified circumstances. Subsection B was deleted because insurers rarely offer consumers policy dividends as a benefit on policies covered by this regulation. Such provisions are common in life insurance policies. If policy dividends are available on policies covered by this regulation in your state, you should look to the treatment of dividends in life insurance. Generally, consumers should be allowed to take the policy dividend as a cash payment, but insurers may offer the consumer additional policy benefits in lieu of a cash payment at the option of the consumer.

Section 8. Supplementary and Short-Term Health Insurance Minimum Standards for Benefits

The following minimum standards for benefits are prescribed for the categories of coverage noted in the following subsections. A~~a~~ supplementary or short-term health insurance policy or certificate shall not be delivered or issued for delivery in this state unless it meets the required minimum standards for the specified categories or the commissioner finds that the policies or contracts are approvable as limited benefit health insurance and the outline of coverage complies with the outline of coverage in Section 9H of this regulation.

This section shall not preclude the issuance of any policy or contract combining two or more categories of excepted benefits set forth in [cite state law equivalent to Section 5B and C of the NAIC *Supplementary and Short-Term Health Insurance Minimum Standards Model Act*].

A. General Rules

(1) A "noncancellable," "guaranteed renewable," or "noncancellable and guaranteed renewable" individual supplementary policy shall not provide for termination of coverage of the spouse solely because of the occurrence of an event specified for termination of coverage of the insured, other than nonpayment of premium. In addition, the policy shall provide that in the event of the insured's death, the spouse of the insured, if covered under the policy, shall become the insured.

Drafting Note: States should review the use of the term "spouse" in paragraph (1) above and replace it or add additional terms in accordance with state law or regulations.

(2) (a) The terms "noncancellable," "guaranteed renewable," or "noncancellable and guaranteed renewable" shall not be used without further explanatory language in accordance with the disclosure requirements of Section 9A.

(b) The terms "noncancellable" or "noncancellable and guaranteed renewable" may be used only in an individual supplementary policy that the insured has the right to continue in force by the timely payment of premiums set forth in the policy until the age of sixty-five (65) or until eligibility for Medicare, during which period the insurer has no right to make unilaterally any change in any provision of the policy while the policy is in force.

~~(c) An individual supplementary policy or individual accident only policy that provides for periodic payments, weekly or monthly, for a specified period during the continuance of disability resulting from accident or sickness may provide that the insured has the right to continue the policy at least until the insured has reached full retirement age, as defined under the federal Social Security Act, to receive Social Security benefits, while actively and regularly employed.~~

(~~d~~c) Except as provided ~~above~~in subparagraph (d) of this paragraph, the term "guaranteed renewable" may be used only in a policy that the insured has the right to continue in force by the timely payment of premiums until the age of sixty-five (65) or until eligibility for Medicare, during which period the insurer has no right to make unilaterally any change in any provision of the policy while the policy is in force, except that the insurer may make changes in premium rates by classes.

(~~c~~d) An individual supplementary policy or individual accident-only policy that provides for periodic payments, weekly or monthly, for a specified period during the continuance of disability resulting from accident or sickness may be designated as "guaranteed renewable if it provides that the insured has the right to continue the policy, while actively and regularly employed, at least until the insured has reached full retirement age, as defined under the federal Social Security Act, ~~to receive Social Security benefits, while actively and regularly employed~~.

(3) In an individual supplementary policy covering ~~the~~ a married couple or civil union couple, the age of the younger spouse shall be used as the basis for meeting the age and durational requirements of the definitions of "noncancellable" or "guaranteed renewable." However, this requirement shall not prevent termination of coverage of the older spouse upon attainment of the stated age so long as the policy may be continued in force as to the younger spouse to the age or for the durational period as specified in the policy.

Drafting Note: The references to "married couple" and "civil union couple" in
legally recognized marital relationship or domestic partnership recognized in the state. States should revise the language accordance with state law or regulations.
additional terms in accordance with state law or regulations.

Drafting Note: For Paragraphs (2) and (3) above, coverage ~~as defined under~~subject to Title XXVII of the federal Service Act (PHSA), as enacted by HIPAA and amended by the Affordable Care Act, ~~or applicable state law~~ renewable except for reasons stated in ~~Part B Section~~ PHSA § 2742 (42 U.S.C. § 300gg-42)of ~~Service Act) as amended by HIPAA or applicable state law~~, unless it is an excepted benefit as described in ~~Part B Sections~~ § 2791~~2721, 2763 and 2791~~(c) (42 U.S.C. § 300gg-91(c)) ~~of Title XXVII as amended by HIPAA, the ACA or~~. aA law may impose requirements that mirror or exceed the federal requirements.

(4) When accidental death and dismemberment coverage is part of the individual supplementary insurance coverage offered under the contract, the insured shall have the option to include all insureds under the coverage and not just the principal insured.

(5) If a policy contains a status-type military service exclusion or a provision that suspends coverage during military service, the policy shall provide, upon receipt of written request, for refund of premiums as applicable to the person on a pro rata basis.

(6) ~~Except for non-payment of premium, in the event the insurer cancels or refuses to renew, p~~Policies providing pregnancy benefits shall provide for an extension of benefits, in the event the insurer cancels or refuses to renew for reasons other than non-payment of premium, as to pregnancy commencing while the policy is in force and for which benefits would have been payable had the policy remained in force.

(7) Policies providing convalescent or extended care benefits following hospitalization may~~shall not~~ condition the benefits upon admission to the convalescent or extended care facility within a specified time after discharge from the hospital, as long as the required admission date ~~period of~~is not less than thirty (30) days after discharge from the hospital.

(8) In individual supplementary or short-term health insurance policies, coverage shall continue for a dependent child who is incapable of self-sustaining employment due to intellectual or physical disability on the date that the child's coverage would otherwise terminate under the policy due to the attainment of a specified age for children and who is chiefly dependent on the insured for support and maintenance. The policy may require that within thirty-one (31) days ~~of~~after the date the ~~company~~ insurer receives due proof of the disability in order for the insured to elect to continue the policy in force with respect to the child, or that a separate converted policy be issued at the option of the insured or policyholder.

(9) A policy providing coverage for the recipient in a transplant operation shall also provide reimbursement of any medical expenses of a live donor to the extent that benefits remain and are available under the recipient's policy or certificate, after benefits for the recipient's own expenses have been paid.

(10) A policy may contain a provision relating to recurrent disabilities; but a provision relating to recurrent disabilities shall not specify that a recurrent disability be separated by a period greater than six (6) months.

(11) Accidental death and dismemberment benefits shall be payable if the loss occurs within ninety (90) days from the date of the accident, irrespective of total disability. Disability income protection benefits, if provided, shall not require the loss to commence less than thirty (30) days after the date of accident, nor shall any policy that the insurer cancels or refuses to renew require that it be in force at the time disability commences if the accident occurred while the coverage was in force.

(12) Specific dismemberment benefits shall not be in lieu of other benefits unless the specific benefit equals or exceeds the other benefits.

(13) An accident-only policy providing benefits that vary according to the type of accidental cause shall prominently set forth in the outline of coverage and the disclosure materials required under Section 9 of this regulation the circumstances under which benefits are payable that are lesser than the maximum amount payable under the policy.

(14) Termination of the policy shall be without prejudice to the right to receive benefits for a continuous loss that commenced while the policy or certificate was in force. The continuous total disability of the insured may be a condition for the extension of benefits beyond the period the policy was in force, limited to the duration of the benefit period, if any, or payment of the maximum benefits.

(15) A policy providing coverage for certain illnesses and injuries may not define covered illnesses and injuries in a way that is misleading or includes unfair exclusions. For example, a policy providing coverage for fractures or dislocations may not provide benefits only for "full or complete" fractures or dislocations.

B. Hospital Indemnity or Other Fixed Indemnity Coverage

(1) "Hospital indemnity or other fixed indemnity coverage" provides benefits as a result of hospital confinement or other health-related events and based on a fixed dollar amount, regardless of the amount of expenses incurred, without coordination with any other health coverage.

(2) "Hospital indemnity coverage" may provide a single lump sum benefit for hospital confinement of not less than $[X], and/or daily benefit for hospital confinement on an indemnity basis in an amount not less than $[X] per day and not less than [X] days during each period of confinement for each person insured under the policy.

Drafting Note: Paragraph (2) above provides a framework for the state insurance regulators to establish minimum benefit amounts they feel are appropriate for hospital indemnity coverage. When setting these minimum benefit amounts, state insurance regulators should be mindful to not set a benefit amount so low such that the product does not provide a meaningful benefit to the consumer or set a benefit amount so high that a consumer could be led to believe the product is comprehensive major medical coverage. State insurance regulators can address this issue by requiring that this coverage is not offered, marketed, or sold as a substitute for, or an alternative to, comprehensive major medical coverage, and requiring the use of disclosures that this coverage is supplementary insurance.

(3) Coverage shall not be excluded due to a preexisting condition for a period greater than twelve (12) months following the effective date of coverage of an insured person unless the preexisting condition is specifically and expressly excluded.

Drafting Note: Hospital indemnity or other fixed indemnity coverage is supplementary coverage. Any hospital indemnity or other fixed indemnity coverage, therefore, must be payable regardless of other coverage. The same general rule should apply so that group insurance cannot reduce its benefits because of the existence of hospital indemnity or other fixed indemnity coverage. Section 3H(4) of the *Coordination of Benefits Model Regulation* states that the definition of a plan (for the purposes of coordination of benefits)…shall not include individual or family insurance contracts…." States should consider using this language to prevent benefit reductions that could otherwise occur because of the existence of hospital indemnity or other fixed indemnity coverage purchased by the insured.

Drafting Note: For indemnity products that are triggered by a variety of health events and provide a variety of daily benefit dollar amounts, state insurance regulators should examine the amount payable per day and the total amount payable per year or lifetime to determine whether an indemnity product's benefits could be mistaken for comprehensive major medical coverage. Indemnity products should not be offered, marketed, or sold as an alternative to, or substitute for, or replacement for major medical coverage. It is the marketing of supplementary coverage as an alternative, substitute or replacement for comprehensive major medical coverage that presents the unfair trade practice, and not the supplementary coverage itself when it is offered and marketed as supplementary excepted benefits coverage and accurately described to the consumer.

C. Disability Income Protection Coverage

"Disability income protection coverage" is a policy that provides for periodic payments, no less frequently than monthly, for a specified period during the continuance of disability resulting from either sickness or injury or a combination of them that:

(1) ~~Provides that a plan is prohibited from~~Does not ~~reducing~~ reduce periodic payments based on age, except ~~that a plan may reduce periodic payments provided that such reductions do not take place until~~if the individual has reached full retirement age, as defined under the federal Social Security Act, to receive Social Security benefits~~;~~

Drafting Note: Age 62 was removed so that retirement age would align with the federal Social Security Act full retirement age.

(2) Contains an elimination period no greater than:

(a) Fifty percent (50%) of the benefit period in the case of coverage providing a benefit of one hundred and eighty (180) days or less;

(b) Ninety (90) days in the case of a coverage providing a benefit of one hundred and eighty (180) days to one year;

(c) One hundred and eighty (180) days in the case of coverage providing a benefit of more than one year but not greater than two (2) years; or

(d) Three hundred and sixty five (365) days in all other cases during the continuance of disability resulting from sickness or injury;

(3) Has a period of time of at least three (3) months for which it is payable during disability ~~of at least three (3) months~~. No reduction in benefits shall be put into effect because of an increase in Social Security or similar benefits during a benefit period; and

(4) Where a policy provides both total disability benefits and partial disability benefits, only one elimination period may be required.

D. Accident Only Coverage

"Accident only coverage" is a policy that provides coverage, singly or in combination, for death, dismemberment, disability, injury, or hospital and medical care caused by accident. Accidental death and double dismemberment amounts under the policy shall be at least $[X] and a single dismemberment amount shall be at least $[X].

E. Specified Disease Coverage

(1) "Specified disease coverage" pays benefits for the diagnosis and treatment of a specifically named disease or diseases. A specified disease policy must meet the following rules in paragraph (2) and one of the following sets of minimum standards for benefits:

(a) Insurance covering cancer only or cancer in conjunction with other conditions or diseases must meet the standards of Paragraph (4), (5) or (6) of this subsection.

(b) Insurance covering specified diseases other than cancer must meet the standards of Paragraphs (3) and (6) of this subsection.

(2) General Rules

Except for cancer coverage provided on an expense-incurred basis, either as cancer-only coverage or in combination with one or more other specified diseases, the following rules shall apply to specified disease coverages in addition to all other rules imposed by this regulation. In cases of conflict between the following and other rules, the following shall govern:

(a) Policies covering a single specified disease or combination of specified diseases may not be sold or offered for sale other than as specified disease coverage under this section.

(b) Any policy issued pursuant to this section that conditions payment upon pathological diagnosis of a covered disease shall also provide that if the pathological diagnosis is medically inappropriate, a clinical diagnosis will be accepted instead.

(c) Notwithstanding any other provision of this regulation, specified disease policies shall provide benefits to any covered person not only for the specified disease or diseases, but also for any other conditions or diseases~~,~~ directly caused or aggravated by ~~the~~ a specified disease~~s~~ or the treatment of the specified disease.

© 2024 National Association of Insurance Commissioners

(d) Individual supplementary policies containing specified disease coverage shall be at least guaranteed renewable.

(e) No policy issued pursuant to this section shall contain a waiting or probationary period greater than thirty (30) days. A specified disease policy may contain a waiting or probationary period following the issue or reinstatement date of the policy or certificate in respect to a particular covered person before the coverage becomes effective as to that covered person.

(f) An application or enrollment form for specified disease coverage shall contain a statement above the signature of the applicant or enrollee that a person to be covered for specified disease is not covered also by any Title XIX program (Medicaid, MediCal or any similar name). The statement may be combined with any other statement for which the insurer may require the applicant's or enrollee's signature.

Drafting Note: States may prohibit individuals who are covered by a Title XIX program from enrolling in a specified disease policy. However, this would not prohibit an individual who purchases a specified disease policy and later becomes eligible for coverage under a Title XIX program from utilizing the benefits of the specified disease policy to which the individual may be entitled to receive.

(g) Payments may be conditioned upon an insured person's receiving medically necessary care, given in a medically appropriate location, under a medically accepted course of diagnosis or treatment.

(h) ~~Except for the NAIC uniform provision regarding other insurance with this insurer, b~~Benefits for specified disease coverage shall be paid regardless of other coverage, except as permitted by [insert reference to state law equivalent to Section 3B(3) of the NAIC *Uniform Individual Accident and Sickness Policy Provision Law*, regarding multiple policies with the same insurer].

Drafting Note: Specified disease coverage is recognized as supplementary coverage. Any specified disease coverage, therefore, must be payable in addition to and regardless of other coverage. The same general rule should apply so that group insurance cannot reduce its benefits because of the existence of specified disease coverage. Section 3H(4) of the *Coordination of Benefits Model Regulation* states that the definition of a "plan" (for the purpose of coordination of benefits) "shall not include individual or family insurance contracts." States should consider using this language to prevent benefit reductions that could otherwise occur because of the existence of specified disease coverage purchased by the insured.

(i) After the effective date of the coverage (or applicable waiting period, if any) benefits shall begin with the first day of care or confinement if the care or confinement is for a covered disease even though the diagnosis is made at some later date. The retroactive application of the coverage may not be less than ninety (90) days prior to the diagnosis.

(j) Policies providing expense benefits shall not use the term "actual" when the policy only pays up to a limited amount of expenses. Instead, the term "charge," "expense," or substantially similar language should be used that does not have the misleading or deceptive effect of the phrase "actual charges" or "actual expenses."

(k) "Preexisting condition" shall not be defined to be more restrictive than the following and shall be consistent with the provisions of Section 7B of the Act: "Preexisting condition means a condition for which medical advice, diagnosis, care or treatment was recommended or received from a physician within the six (6) month period preceding the effective date of coverage of an insured person."

(l) Coverage for specified diseases will not be excluded due to a preexisting condition for a period greater than six (6) months following the effective date of coverage of an insured person unless ~~the~~ a named preexisting condition is specifically excluded.

(m) Hospice Care.

(i) "Hospice" means a ~~facility~~ provider licensed, certified or registered in accordance with state law that provides a formal program of care that is:

(I) For terminally ill patients whose life expectancy is less than six (6) months;

(II) Provided on an inpatient or outpatient basis; and

(III) Directed by a physician.

(ii) Hospice care is an optional benefit. However, if a specified disease insurance product offers coverage for hospice care, it shall meet the following minimum standards:

(I) Eligibility for payment of benefits when the attending physician of the insured provides a written statement that the insured person has a life expectancy of six (6) months or less;

(II) A fixed-sum payment of at least $[X] per day; and

(III) A lifetime maximum benefit limit of at least $[X].

(iii) Hospice care does not cover nonterminally ill patients who may be confined in a:

(I) Convalescent home;

(II) Rest or nursing facility;

(III) Skilled nursing facility;

(IV) Rehabilitation unit; or

(V) Facility providing care or treatment for persons suffering from mental disorders~~-~~, who are aged, or who have a substance use-related disorder.

(3) The following minimum benefits standards apply to non-cancer coverages:

(a) Coverage for each insured person for a specifically named disease (or diseases) with a deductible amount not in excess of $[X] and an overall aggregate benefit limit of no less than $[X] and a benefit period of not less than [two (2) years] for at least the following incurred expenses:

(i) Hospital room and board and any other hospital~~-~~ furnished medical services or supplies;

(ii) Treatment by a licensed physician, surgeon, or other health care professional acting within the scope of their license;

© 2024 National Association of Insurance Commissioners

Drafting Note: States should review their laws and regulations to determine whether to use the word "acting" or "performing" in Paragraph (3)(a)(ii) above. Some states use the word "acting," while others use the word "performing."

(iii) Private duty services of a licensed nurse;

(iv) Tests, procedures, and other medical services and supplies used in diagnosis and treatment;

(v) Professional ambulance for service to or from a hospital nearest able to appropriately treat the condition;

(vi) Blood transfusions, including expense incurred for blood donors;

(vii) Drugs and medicines prescribed by a physician;

(viii) Durable medical equipment deemed necessary by the attending physician for the treatment of the disease;

(ix) Emergency transportation if in the opinion of the attending physician it is necessary to transport the insured to another locality for treatment of the disease; and

(x) May include coverage of any other expenses necessarily incurred in the treatment of the disease.

(b) Coverage for each insured person for a specifically named disease (or diseases) with no deductible amount, and an overall aggregate benefit limit of not less than $[X] payable at the rate of not less than $[X] a day while confined in a hospital and a benefit period of not less than 500 days.

(4) A policy that provides coverage on an expense-incurred basis ~~for each insured person~~ for cancer-only coverage or for cancer in combination with one or more other specified diseases ~~on an expense incurred basis~~ shall provide coverage for each insured person for services, supplies, care and treatment of cancer, ~~in~~ which may be limited to amounts not in excess of the usual and customary charges, with a deductible amount not in excess of $[X], and an overall aggregate benefit limit of not less than $[X] and a benefit period of not less than three (3) years, ~~shall provide~~including at least the following minimum ~~provisions~~benefits, [which may be subject to cost sharing by the insured person not to exceed twenty percent (20%) of covered charges when rendered on an out-patient basis:]

(a) Treatment by, or under the direction of, a licensed physician, surgeon, or other health care professional acting within the scope of their license;

Drafting Note: States should review their laws and regulations to determine whether to use the word "acting" or "performing" in Paragraph (3)(a)(ii) above. Some states use the word "acting," while others use the word "performing."

(b) Tests, procedures, and other medical services and supplies used in diagnosis and treatment;

(c) Hospital room and board and any other hospital-furnished medical services or supplies;

(d) Blood transfusions and their administration, including expense incurred for blood donors;

(e) Drugs and medicines prescribed by a physician, including but not limited to, chemotherapy, including both oral and IV administered, immunotherapy, targeted therapies, and chemotherapy supportive drugs;

© 2024 National Association of Insurance Commissioners

(f) Professional ambulance for service to or from a hospital nearest able to appropriately treat the condition;

(g) Private duty services of a licensed nurse provided in a hospital;

~~(h) May include coverage of any other expenses necessarily incurred in the treatment of the disease; however, Subparagraphs (a), (b), (d), (e) and (g) plus at least the following also shall be included, but may be subject to copayment by the insured person not to exceed twenty percent (20%) of covered charges when rendered on an out patient basis;~~ keep language in (h) 7/15/24 except for the first clause. Leave that in (q).

(h~~i~~) Durable medical equipment deemed necessary by the attending physician for the treatment of the disease;

(~~j~~i) Emergency transportation if in the opinion of the attending physician it is necessary to transport the insured to another locality for treatment of the disease; and

(j~~k~~) (i) Home health care that is necessary care and treatment provided at the insured person's residence by a home health care agency or by others under arrangements made with a home health care agency. The program of treatment shall be prescribed in writing by the insured person's attending physician, who shall approve the program prior to its start. A "home health care agency" (1) is an agency approved under Medicare, or (2) is licensed to provide home health care under applicable state law, or (3) meets all of the following requirements:

(I) It is primarily engaged in providing home health care services;

(II) Its policies are established by a group of professional personnel (including at least one physician and one licensed nurse);

(III) A physician or a registered nurse provides supervision of home health care services;

(IV) It maintains clinical records on all patients; and

(V) It has a full-time administrator.

Drafting Note: State licensing laws vary concerning the scope of "home health care" or "home health agency services" and should be consulted. In addition, a few states have mandated benefits for home health care including the definition of required services.

(ii) Home health includes, but is not limited to:

(I) Part-time or intermittent skilled nursing services provided by a registered nurse or a licensed practical nurse;

(II) Part-time or intermittent home health aide services that provide supportive services in the home under the supervision of a registered nurse or a physical, speech or hearing occupational therapists;

(III) Physical, occupational or speech and hearing therapy; and

(IV) Medical supplies, drugs and medicines prescribed by a physician and related pharmaceutical services, and laboratory services to the extent the

charges or costs would have been covered if the insured person had remained in the hospital.

(~~j~~k) Physical, speech, hearing and occupational therapy;

(~~m~~l) Special equipment including hospital bed, toilette, pulleys, wheelchairs, aspirator, chux, oxygen, surgical dressings, rubber shields, colostomy and eleostomy appliances;

(~~n~~m) Prosthetic devices including wigs and artificial breasts;

(~~o~~n) Nursing home care for noncustodial services;

(o~~p~~) Reconstructive surgery when deemed necessary by the attending physician; ~~and~~

(p~~q~~) Hospice services, as defined in paragraph (2)(m) above; and~~.~~

(q) May include coverage of any other expenses necessarily incurred in the treatment of the disease.

Drafting Note: Policies that offer transportation and lodging benefits for an insured person should not condition those benefits on hospitalization.

(5) (a) The following minimum benefits standards apply to cancer coverages written on a per diem indemnity basis. These coverages shall offer insured persons:

(i) A fixed-sum payment of at least $[X] for each day of hospital confinement for at least [365] days;

(ii) A fixed-sum payment ~~equal~~of at least ~~to~~ [X%] the hospital inpatient benefit for each day of hospital or nonhospital outpatient surgery, chemotherapy and radiation therapy, for at least 365 days of treatment; and

(iii) A fixed-sum payment of at least $[X] per day for blood and plasma, which includes their administration whether received as an inpatient or outpatient for at least 365 days of treatment.

(b) Benefits tied to receipt of care in a skilled nursing home or to receipt of home health care are optional. If a policy offers these benefits, they must equal or exceed the following:

(i) A fixed-sum payment equal to [X%] the hospital in-patient benefit for each day of skilled nursing home confinement for at least 100 days.

(ii) A fixed-sum payment equal to [X%] the hospital in-patient benefit for each day of home health care for at least 100 days.

(iii) Benefit payments shall begin with the first day of care or confinement after the effective date of coverage if the care or confinement is for a covered disease even though the diagnosis of a covered disease is made at some later date (but not retroactive more than thirty (30) days from the date of diagnosis) if the initial care or confinement was for diagnosis or treatment of the covered disease.

(iv) Notwithstanding any other provision of this regulation, any restriction or limitation applied to the benefits in (b)(i) and (b)(ii) whether by definition or otherwise, shall be no more restrictive than those under Medicare.

(6) The following minimum benefits standards apply to lump-sum indemnity coverage of any specified disease:

(a) These coverages must pay indemnity benefits ~~on behalf of insured persons of~~ for a specifically named disease or diseases. The benefits are payable as a fixed, one-time payment made within thirty (30) days of submission to the insurer of proof of diagnosis of the specified disease. Dollar benefits shall be offered for sale only in even increments of $[X].

Drafting Note: Policies that offer extremely high dollar benefits may induce fraud and concealment on the part of applicants for coverage. The commissioner should avoid approving these policies in light of the fact that these policies are not intended to be comprehensive coverage and are not intended to be sold as such. Policies offering extremely low dollar amounts, however, may offer illusory coverage that may not be understood by consumers. State insurance regulators can address this issue by requiring that this coverage is not offered, marketed, or sold as a substitute for, or alternative to, comprehensive major medical coverage, and requiring the use of disclosures that this coverage is supplementary coverage.

(b) Where coverage is advertised or otherwise represented to offer generic coverage of a disease or diseases, the same dollar amounts shall be payable regardless of the particular subtype of the disease ~~with one exception. In the case of~~unless there are clearly identifiable subtypes with significantly lower treatment~~s~~ costs, in which case lesser amounts may only be payable ~~so long as~~if the policy clearly differentiates that subtype and its reduced benefits.

Drafting Note: The purpose of requiring equal coverage for all subtypes of a specified disease is to ensure that specified disease policies actually provide what people reasonably expect them to. In approving ~~skin cancer or other~~ exceptions, commissioners should consider whether a specified disease policy might mislead if it treats a subtype of a disease differently from the rest of the specified disease.

F. Specified Accident Coverage

"Specified accident coverage" is a policy that provides coverage for a specifically identified kind of accident (or accidents) for each person insured under the policy for accidental death or accidental death and dismemberment combined, with a benefit amount not less than $[X] for accidental death, $[X] for double dismemberment $[X] for single dismemberment.

G. Limited Benefit Health Coverage

(1) "Limited benefit health coverage" is a policy or contract, other than a policy or contract covering only a specified disease or diseases, that provides benefits that are less than the minimum standards for benefits required under Subsections B, D,- and F. These policies or contracts may be delivered or issued for delivery in this state only if the outline of coverage required by Section 8H of this regulation is completed and delivered as required by Section 8B of this regulation and the policy or certificate is clearly labeled as a limited benefit policy or certificate as required by Section 8A(17). A policy covering a single specified disease or combination of diseases shall meet the requirements of Section 7E and shall not be offered for sale as ~~a~~ "limited benefit health coverage."

(2) This subsection does not apply to policies designed to provide coverage for long-term care or to Medicare supplement insurance, as defined in [insert reference to state law equivalent to the NAIC *Long-Term Care Insurance Model Act* and *Medicare Supplement Insurance Minimum Standards Model Act*].

Drafting Note: The NAIC *Long-Term Care Insurance Model Act* defines long-term care insurance as a policy that provides coverage for not less than twelve months. If a state allows issuance of policies that provide benefits similar to long-term care insurance for a period of less than twelve months, then those policies should be considered limited long-term care insurance

~~plans~~policies, and should be subject to the *Limited Long-Term Care Insurance Model Act* (#642) and its implementing regulation, the *Limited Long-Term Care Insurance Model Regulation* (#643).

Drafting Note: This regulation permits the combining of excepted benefit-type products described in this section. However, it should be noted that ~~the combination of~~combining coverages ~~might not qualify as "excepted benefits" under HIPAA, as amended by the ACA, thus making those combination products subject to HIPAA requirements, as amended by the ACA, and ACA requirements, such as guaranteed availability, guaranteed renewability, and premium rating restrictions. In addition, combining other types of products not~~ described in this section with other coverages, whether or not described in this section, could cause the combined product ~~not~~ to fail to meet the requirements ~~be considered an~~for excepted benefits under HIPAA, ~~as amended by the ACA~~, or for similar exemptions under state law. ~~-type product and~~This would mean that major medical insurance requirements under federal and state law may apply, such as guaranteed availability, guaranteed renewability, and premium rating restrictions. State insurance regulators ~~can address this issue by~~should also requir~~inge~~ that ~~this~~ supplementary coverage is not offered, marketed, or sold as a substitute for, or alternative to, comprehensive major medical coverage, ~~and~~ including enforcement of the requirements in this regulation~~ing~~ ~~the use of~~for disclosures that this coverage is supplementary coverage.

~~———~~H. Short-Term, Limited-Duration Health Insurance Coverage

(1) "Short-term, limited-duration health insurance" means health insurance coverage offered or provided ~~within~~ to residents of the state pursuant to a contract with a health carrier, regardless of the situs of the contract, that has an expiration date specified in the contract that is less than [X] [days or months] after the original effective date and, taking into account any extensions that may be elected by the policyholder with or without the carrier's consent, has a duration no longer than [X] [days or months] after the original effective date of the contract.

(2) (a) ~~A s~~Short-term, limited-duration health insurance ~~plan~~ must comply with the benefit and coverage requirements of this state, including, if the state requires, providing benefits and coverage of state-mandated benefits and being subject to the state's external and internal review requirements.

(b) A short-term, limited-duration health insurance plan must have:

(i) An annual or lifetime limit of no less than [$1,000,000];

(ii) A coinsurance requirement of no more than fifty percent (50%) of covered charges; and

(iii) A family maximum out-of-pocket limit of not more than [X] per year.

Drafting Note: The annual and lifetime limit and the out-of-pocket limits should vary depending on the specific state interest. For states that have severely limited coverage time frames with limited renewals or extensions, smaller annual and lifetime limits and out-of-pocket maximums should apply.

(3) Short-term, limited-duration health insurance cannot be issued if it would result in an individual being covered by a short-term, limited duration plan for more than [X] months [in any 12-month period].

(4) Short-term, limited-duration health insurance, including individual policies and group certificates:

(a) May not be marketed as guaranteed renewable;

(b) Must be marketed as either nonrenewable, or renewable for a limited term without re-underwriting ~~at the option of the policyholder or insured person, if the insured person contributes to the premium~~;

(c) Must clearly state the duration of the initial term and the total maximum duration, including any renewal options;

(d) May not be modified after the date of issuance, except by signed acceptance of the policyholder or certificate holder ~~the insured person~~, if the ~~insured person~~policyholder or certificate holder contributes to the premium; and

(e) If the coverage is renewable, the individual policy or group certificate must:

(i) Include a statement that the insured has a right to continue the coverage in force by timely payment of premiums for the number of terms listed;

(ii) Include a statement that the carrier will not increase premium rates or make changes in provisions in the policy or certificate on renewal based on individual health status; and

(iii) Include a statement that the carrier, at the time of renewal, may not deny renewal based on individual health status.

(5) A short-term, limited-duration health insurance carrier may not include a waiting period or a probationary period. ~~The effective date of the plan when benefits and coverage under the plan are in effect.~~

(6) A carrier may not rescind a short-term limited duration health insurance plan during the coverage period except if the insured intentionally fails to disclose a prior diagnosis of a health condition or if the insured intentionally fails to disclose the insured was previously covered under a short-term limited duration health insurance plan. If the plan is rescinded, the carrier must refund all premium payments to the insured to the extent that they exceed ~~all payments less~~ claims paid ~~up to the total premium amount made by or on behalf of the insured prior to the rescission date or the expiration date of the short-term limited duration health insurance~~under the rescinded policy or certificate.

States should be aware that the language in paragraph (6) concerning an insured's failure to disclose prior coverage under a short-term, limited-duration health insurance plan will need to be tailored to the state's laws and regulations concerning such disclosures of prior coverage. ~~Also, with respect to language in paragraph (6) concerning the amount that should be refunded to the insured in the event of a rescission, the expectation is that the carrier does not bill the insured for the amount between the claims paid and the premium paid in the situation where the amount of the claims paid amount paid in premium.~~

(7) A carrier may not cancel a short-term, limited-duration health insurance plan during the coverage period except in the following circumstances:

(a) Nonpayment of premium;

(b) Violation of the carrier's published policies approved by the commissioner;

(c) An insured's commitment of fraudulent acts as to the carrier;

Drafting Note:

(d) An insured's material breach of the ~~health plan~~insurance contract; or

(e) A change or implementation of a federal or a state law or regulation that no longer permits the continuing offering of the coverage.

difference in the exceeds the

(8) In the event of a cancellation or rescission of a short-term, limited-duration health insurance plan, the carrier must notify the insured in writing [thirty (30) days] prior to the cancellation date or in writing a notice of rescission with an appeal period of [thirty (30) days].

Drafting Note: The timeframe for notifying the insured of a cancellation or rescission is bracketed because states may have different timeframes for such notices.

Drafting Note: States should carefully examine their health insurance markets to determine the appropriate maximum term and duration for such plans and whether additional definitions or standards may be needed. [~~Subsection H does not include a potential maximum length of coverage for short-term, limited-duration insurance.~~ Some states have prohibited the sale of such products, while others have set the maximum duration of coverage at less than 12 months, such as establishing a three-month maximum. Subsection H does not include a potential maximum length of coverage for successive, separately purchased short-term, limited-duration insurance. ~~In addition, s~~Some states provide that such coverage may not be renewed or extended beyond the established term, or have otherwise limited total duration, while other states have no such provisions regarding renewal or extension]. Leave the Bob sentence and add language about the federal landscape.

Section 9. Required Disclosure Provisions

A. General Rules

(1) Any disclosures, and the documents to which they refer, shall be delivered in the written medium the applicant requests. These documents shall be provided before the applicant submits a completed application.

(2) (a) All applications, policies, and certificates for coverage of supplementary or short-term health insurance shall include a prominent disclosure statement, as required by this section, that reflects the type of coverage being provided.

(b) The disclosures required by this section may be modified only as approved by the commissioner and as needed to improve the accuracy and clarity of the disclosure.

Drafting Note: Because states may have different statutory requirements for short-term, limited duration insurance coverage, states should carefully review the disclosure statement requirements in this section for such coverage to ensure it accurately reflects a state's specific requirements. States also should be aware that proposed federal regulations for short-term, limited duration insurance coverage and hospital indemnity or other fixed indemnity coverage include specific disclosure statement requirements for these coverages and recognize that the disclosure statement requirements in this section may need to contain additional information as required by applicable state law, rules, or guidance. A state also may need to require disclosure language to reflect any additional requirements a state may have, such as requirements regarding minimum essential coverage or special enrollment periods for expiration or loss of eligibility for this coverage.

(c) The disclosure statement shall be in a ~~S~~sans-~~S~~serif font, in a font size at least equal to the size type used for headings or captions of sections of the document.

(d) In the application, the disclosure statement shall be placed in close proximity to the applicant's signature block ~~on the application~~.

(e) In the policy and certificate, the disclosure statement shall be placed on the first page ~~of the policy or certificate~~.

(f) In this section, the term "prominent" means one or more methods are used to draw attention to the language, including using a larger font size, leading, underlining, bolding, or italics.

Drafting Note: States should review their existing readability and accessibility laws and regulations and any applicable NAIC models to help to ensure the statements above are readable and accessible to potential applicants, including those with

disabilities such as blindness or macular degeneration, deafness or hearing loss, learning disabilities, cognitive limitations, limited movement, speech disabilities, photosensitivity, and combinations of these.

(3) For hospital indemnity coverage, the application, policy, and certificate shall include a disclosure statement that reads as follows, with the phrase "fixed dollar benefits" made prominent:

"This [policy] [certificate] pays fixed dollar benefits as a result of a covered hospitalization due to a sickness or injury. The benefit amounts are not based on the cost of your medical expenses. These benefits are designed to be paid to the [policyholder] [certificate holder]. They are not intended to be paid directly to providers. This [policy] [certificate] is not major medical insurance and does not replace it. Read the description of benefits provided along with your [enrollment form /application] carefully."

~~**Drafting Note:** The words "fixed dollar benefits" should be prominent.~~

(4) For other fixed indemnity coverage, the application, policy, and certificate shall include a disclosure statement that reads as follows:

"This [policy] [certificate] pays fixed dollar benefits as a result of covered events d
amounts are not based on the cost of your medical expenses. These benefits are designed to be paid to the [policyholder] [certificate holder]. They are not intended to be paid directly to providers. This [policy] [certificate] is not major medical insurance and does not replace it. Read the description of benefits provided along with your [enrollment form /application] carefully."

(5) For disability income protection coverage, the application, policy, and certificate shall include a disclosure statement that reads as follows:

"This [policy] [certificate] provides periodic payments [weekly, bi-weekly, or monthly] for a set length of specific period of time while you are disabled from a covered sickness or injury. Read the description of benefits provided along with your [enrollment form/application] carefully."

(6) For accident only coverage, the application, policy, and certificate shall include a disclosure statement that reads as follows, with the phrase "from a covered accident" made prominent:

"This [policy] [certificate] pays benefits for covered injuries from a covered accident. It does not provide benefits resulting from sickness. These benefits are designed to be paid to the [policyholder] [certificate holder]. They are not intended to be paid directly to providers. This [policy] [certificate] is not major medical insurance and does not replace it. Read the description of benefits provided along with your [enrollment form /application] carefully."

~~**Drafting Note:** The words "from a covered accident" in the first sentence should be prominent.~~

(7) For specified disease coverage, the application, policy, and certificate shall include a disclosure statement that reads as follows:

"This [policy] [certificate] pays limited benefits as a result of the diagnosis or treatment of a covered disease specified in the [policy] [certificate]. These benefits are designed to be paid to the [policyholder] [certificate holder]. They are not intended to be paid directly to providers. This [policy] [certificate] is not major medical insurance and does not replace it. Read the description of benefits provided along with your [enrollment form /application] carefully."

(8) For specified accident coverage, the application, policy, and certificate shall include a disclosure statement that reads as follows:

"This [policy] [certificate] provides benefits for a specifically identified type of accident as named in the policy. It does not provide benefits resulting from sickness. These benefits are designed to be paid to the [policyholder] [certificate holder]. They are not intended to be paid directly to providers. This [policy] [certificate] is not major medical insurance and does replace it. Read the description of benefits provided along with your [enrollment form /application] carefully."

(9) For limited benefit coverage, the application, policy, and certificate shall include a disclosure statement that reads as follows:

"The [policy] [certificate] pays limited benefits as a result of a covered event as specified in the [policy] [certificate]. These limited benefits are designed to be paid to the[policyholder] [certificate holder]. They are not intended to be paid directly to providers. This [policy] [certificate] is not major medical insurance and does not replace it. Read the description of benefits provided along with your [enrollment form /application] carefully."

(10) For limited scope dental coverage, the application, policy, and certificate shall include a disclosure statement that reads as follows, with the sentence "It is not intended to cover all dental expenses." made prominent:

"The [policy] [certificate] provides dental benefits only. It is not intended to cover all dental expenses. Read your [policy] [certificate] carefully to understand what dental services it covers and any cost-sharing that may be your responsibility."

~~**Drafting Note:** The sentence "It is not intended to cover all dental expenses." should be prominent.~~

(11) For limited scope vision coverage, the application, policy, and certificate shall include a disclosure statement that reads as follows, with the sentence "It is not intended to cover all vision expenses." made prominent:

"The [policy] [certificate] provides vision benefits only. It is not intended to cover all vision expenses. Read your [policy] [certificate] carefully to understand what vision services are covered and any cost-sharing that may be your responsibility."

~~**Drafting Note:** The sentence "It is not intended to cover all vision expenses." should be prominent.~~

(12) For short-term health insurance, the application, policy, and certificate shall include a disclosure statement that reads as follows:

"IMPORTANT: This is short-term health insurance. This is temporary insurance. **It is not comprehensive health insurance.** Read your policy carefully to make sure you understand what is covered and any limitations on coverage.

- This insurance might not cover or might limit coverage for:
  - Preexisting conditions; or
  - Essential health benefits (such as pediatric, hospital, emergency, maternity, mental health, and substance use services, prescription drugs, or preventive care).
- You will not qualify for federal financial help to pay for premiums or out-of-pocket costs.
- You are not protected from surprise medical bills.
- When this policy ends, you might have to wait until an open enrollment period to get comprehensive health insurance.

Visit HealthCare.gov online or call 1-800-318-2596 (TTY: 1-855-889-4325) to review your options for comprehensive health insurance. If you're eligible for coverage through your employer or a family member's employer, contact the employer for more information. Contact the [State] department of insurance if you have questions or complaints about this policy."

(13) Each policy of individual supplementary or short-term health insurance subject to this regulation, as provided in Section 3A of this regulation, shall include a renewal, continuation or nonrenewal provision. The language or specification of the provision shall be consistent with the type of contract to be issued. The provision shall be appropriately captioned, shall appear on the first page of the policy, and shall clearly state the duration, where limited, of renewability and the duration of the term of coverage for which the policy is issued and for which it may be renewed.

(14) All riders or endorsements added to a policy after date of issue or at reinstatement or renewal that reduce or eliminate benefits or coverage in the policy shall require signed acceptance by the policyholder. After date of policy issue, any rider or endorsement that increases benefits or coverage

with a concomitant increase in premium during the policy term must be agreed to in writing signed by the policyholder, except if the increased benefits or coverage is required by law. The signature requirement in this paragraph applies to group supplemental health insurance certificates only where the certificate holder also pays the insurance premium.

(15) Where a separate additional premium is charged for benefits provided in connection with riders or endorsements, the premium charge shall be set forth in the policy or certificate and the combined total premium clearly identified as such.

(16) A policy or certificate that provides for the payment of benefits based on standards described as "usual and customary," "reasonable and customary," or words of similar import shall include a definition of the terms and an explanation of the terms in its accompanying outline of coverage.

(17) If a policy or certificate contains any limitations with respect to preexisting conditions, the limitations shall appear as a separate paragraph of the policy or certificate and be labeled as "Preexisting Condition Limitations."

(18) All policies and certificates, except single-premium nonrenewable policies and as otherwise provided in this paragraph, shall have a notice prominently printed in a ~~S~~sans-s ~~S~~serif font on the first page of the policy or certificate or attached to it stating clearly that the policy or certificate holder shall have the right to return the policy or certificate within thirty [30] days of its delivery and to have the premium refunded if, after examination of the policy or certificate, the policyholder or certificate holder is not satisfied for any reason. ~~The statement may be made prominent in one or more methods to draw attention to the language, including using a larger font size, leading, underlining, bolding, or italics.~~

Drafting Note: This ~~section~~ paragraph should be included only if ~~the~~ it is consistent with applicable state ~~has~~ law~~legislation granting authority~~.

(19) If age is to be used as a determining factor to reduce the benefits made available in the policy or certificate as originally issued, that fact shall be prominently set forth in the outline of coverage. ~~The statement may be made prominent in one or more methods to draw attention to the language, including using a larger font size, leading, underlining, bolding, or italics.~~

(20) If a policy or certificate contains a conversion privilege, it shall comply, in substance, with the following: The caption of the provision shall be "Conversion Privilege" or words of similar import. The provision shall indicate the persons eligible for conversion, the circumstances applicable to the conversion privilege, including any limitations on the conversion, and the person who may exercise the conversion privilege. The provision shall specify the benefits to be provided on conversion or may state that the converted coverage will be as provided on a policy form then being used by the insurer for that purpose.

(21) (a) Outlines of coverage delivered in connection with policies defined in this regulation as hospital -indemnity or other fixed indemnity (Section 8B), specified disease (Section 8E), or limited benefit health coverages (Section 8G) to persons eligible for Medicare by reason of age shall contain, in addition to the requirements of Subsections D and F, the following language, which shall be printed on or attached to the first page of the outline of coverage, with the sentence "This is not a Medicare Supplement policy." made prominent:

This is not a Medicare Supplement policy. If you are eligible for Medicare, ask the company for the Guide to Health Insurance for People with Medicare.

~~**Drafting Note:** The sentence "This is not a Medicare Supplement policy." should be prominent. It may be made prominent in one or more methods, including using a larger font size, leading, underlining, bolding, or italics.~~

Drafting Note: States may want to review the disclosure language in paragraph (21)(a) above for consistency with the consumer disclosure language in Appendix C of the *Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act* (#651).

(b) An insurer shall deliver to persons eligible for Medicare any notice required under [insert reference to state law equivalent of Section 17D of the *Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act*].

Drafting Note: States that permit individuals under the age of 65 with Medicare coverage to purchase Medicare supplement policies ~~to~~ should review how ~~they~~ insurers should provide the notices required under paragraph (21)(a) to these individuals.

(22) Insurers shall give a person applying for specified disease insurance a Buyer's Guide approved by the commissioner at the time of application enrollment and shall obtain all recipients' written acknowledgement of the guide's delivery.

B. Outline of Coverage Requirements

(1) An insurer shall deliver an outline of coverage to an applicant prior to the sale of all applicable plans as required in Section 6 of the Act.

(2) If an outline of coverage was delivered at the time of application or enrollment and the policy or certificate is issued on a basis which would require revision of the outline, a substitute outline of coverage properly describing the policy or certificate must accompany the policy or certificate when it is delivered and contain the following statement in no less than twelve (12) point ~~S~~sans ~~S~~serif ~~font~~ type, immediately above the company name, with the sentence "It is different from the outline of coverage you received when you [applied] [enrolled]." made prominent:

"NOTICE: Read this outline of coverage carefully. It is different from the outline of coverage you received when you [applied][enrolled]. The coverage you applied for was not issued."

~~**Drafting Note:** The sentence "It is different from the outline of coverage you received when you [applied] [enrolled]." should be prominent. It may be made prominent in one or more methods, including using a larger font size, leading, underlining, bolding, or italics.~~

(3) In any case where the prescribed outline of coverage is inappropriate for the coverage provided by the policy or certificate, an alternate outline of coverage shall be submitted to the commissioner for prior approval. In such instances, no policies may be sold or renewed until approved by the commissioner.

(4) Advertisements may fulfill the requirements for outlines of coverage if they satisfy the standards specified for outlines of coverage in Section 6H of the Act as well as this regulation.

C. Hospital Indemnity or Other Fixed Indemnity Coverage (Outline of Coverage)

An outline of coverage, in the form prescribed below, shall be issued in connection with policies or certificates meeting the standards of Section 8B of this regulation. The items included in the outline of coverage must appear in the sequence prescribed and be stated clearly and concisely:

[COMPANY NAME]

[Hospital Indemnity] [Other Fixed Indemnity] Coverage

The benefits in this [policy] [certificate] are limited. They are intended to supplement your other health insurance coverage. They are not intended to cover all expenses.

OUTLINE OF COVERAGE

(1) Read your [policy][certificate] carefully. This outline of coverage briefly describes your coverage's important features. It is not the insurance contract. The [policy] [certificate] itself details your rights and obligations and those of your insurance company. It is important that you read your [policy] [certificate] carefully!

(2) [Hospital indemnity] [Other fixed indemnity] coverage is designed to pay a fixed dollar benefits as a result of a ~~-~~covered ~~-~~[hospital stay] [event] due to a sickness or injury. The benefits may be limited in ways described in the [policy] [certificate]. ~~-~~The fixed dollar benefit may be less than the [hospital stay's] [event's] cost.

(3) [A brief specific description of the benefits in the following order:

(a) When the benefits are payable;

(b) The duration of benefits described in (a); and

(c) The fixed dollar amount of the benefits.]

(4) [A description of any policy provisions that exclude, eliminate, restrict, reduce, limit, delay or in any other manner operate to qualify payment of the benefit, described in Paragraph (3) above.]

(5) [A description of policy provisions respecting renewability or continuation of coverage, including age restrictions or any reservation of right to change premiums.]

(6) [Any benefits provided in addition to the fixed dollar [hospital] [event] benefit.]

~~**Drafting Note**: The above descriptions shall be stated clearly and concisely.~~

D. Disability Income Protection Coverage (Outline of Coverage)

An outline of coverage, in the form prescribed below, shall be issued in connection with policies or certificates meeting the standards of Section 8C of this regulation. The items included in the outline of coverage must appear in the sequence prescribed and be stated clearly and concisely:

[COMPANY NAME]

Disability Income Protection Coverage

OUTLINE OF COVERAGE

(1) Read your policy carefully. This outline of coverage briefly describes your coverage's important features. It is not the insurance contract. ~~-~~The [policy] [certificate] itself details your rights and obligations and those of your insurance company. It is important that you read your [policy] [certificate] carefully!

(2) Disability income protection coverage is designed to pay a benefit for disabilities resulting from a covered sickness or injury. The benefit may be limited in the ways described in the [policy] [certificate]. The benefit might not fully replace your income.

(3) [A brief specific description of the benefits contained in this policy.]

(4) [A description of any policy provisions that exclude, eliminate, restrict, reduce, limit, delay or in any other manner operate to qualify payment of the benefits described in Paragraph (3) above.]

(5) [A description of policy provisions respecting renewability or continuation of coverage, including age restrictions or any reservation of right to change premiums.]

~~**Drafting Note**: The above descriptions shall be stated clearly and concisely.~~

E. Accident-Only Coverage (Outline of Coverage)

An outline of coverage in the form prescribed below shall be issued in connection with policies or certificates meeting the standards of Section 8D of this regulation. The items included in the outline of coverage must appear in the sequence prescribed and be stated clearly and concisely:

[COMPANY NAME]

Accident-Only Coverage

The benefits in this [policy] [certificate] are limited.
They are intended to be separate from your other health insurance coverage.

They are not intended to cover all expenses.

OUTLINE OF COVERAGE

(1) Read your [policy][certificate] carefully. This outline of coverage briefly describes your coverage's important features. It is not the insurance contract. The [policy] [certificate] details your rights and obligations and those of your insurance company. It is important that you read your [policy] [certificate] carefully!

(2) Accident-only coverage pays benefits for covered injuries from a covered accident. It does not provide benefits resulting from sickness. The benefits may be limited in ways described in the [policy] [certificate].

(3) [A brief specific description of the benefits~~.~~ and a description of any deductible or copayment provisions applicable to the benefits described.]

~~**Drafting Note**: The above description of benefits shall be stated clearly and concisely, and shall include a description of any deductible or copayment provision applicable to the benefits described. Proper disclosure of benefits that vary according to accidental cause shall be made in accordance with Section 8A(13) of this regulation.~~

(4) [A description of any policy provisions that exclude, eliminate, restrict, reduce, limit, delay or in any other manner operate to qualify payment of the benefits described in Paragraph (3) above. Proper disclosure of benefits that vary according to the type of accidental cause shall be made in accordance with Section 8A(13) of this regulation.]

(5) [A description of policy provisions respecting renewability or continuation of coverage, including age restrictions or any reservations of right to change premiums.]

~~**Drafting Note**: The above descriptions shall be stated clearly and concisely.~~

F. Specified Disease or Specified Accident Coverage (Outline of Coverage)

An outline of coverage in the form prescribed below shall be issued in connection with policies or certificates meeting the standards of Sections 8E and F of this regulation. The coverage shall be identified by the

appropriate bracketed title. The items included in the outline of coverage must appear in the sequence prescribed and be stated clearly and concisely:

[COMPANY NAME]

The benefits in this [policy] [certificate] are limited. They are intended to supplement your other health insurance coverage. They are not intended to cover all expenses.

OUTLINE OF COVERAGE

Read the Buyer's Guide to Specified Disease Insurance to review the possible limits on benefits in this type of coverage

(1) Read your [policy] [certificate] and [outline of coverage] carefully. This outline of coverage briefly describes your coverage's important features. It is not the insurance contract. The [policy] [certificate] details your rights and obligations and those of your insurance company. It is important that you read your [policy] [certificate] carefully!

(2) [Specified disease][Specified accident] coverage is designed to pay limited benefits as a result of the diagnosis or treatment of a [covered disease] or a [specifically identified type of accident]. ~~-~~Read the Buyer's Guide to Specified Disease Insurance to review the possible limits on benefits in this type of coverage.

(3) [A brief specific description of the benefits, including dollar amounts and a description of any deductible or copayment provisions applicable to the benefits described.~~-~~] Proper disclosure of benefits that vary according to the type of accidental cause shall be made in accordance with Section 8A(13) of this regulation.

~~**Drafting Note**: The above description of benefits shall be stated clearly and concisely, and shall include a description of any deductible or copayment provisions applicable to the benefits described. Proper disclosure of benefits that vary according to accidental cause shall be made in accordance with Section 8A(13) of this regulation.~~

G. Limited Benefit Health Coverage (Outline of Coverage)

An outline of coverage, in the form prescribed below, shall be issued in connection with policies or certificates which do not meet the minimum standards of Sections 8B, D and G of this regulation. The items included in the outline of coverage must appear in the sequence prescribed and be stated clearly and concisely:

[COMPANY NAME]

Limited Benefit Health Coverage

The benefits in this [policy] [certificate] are limited. They are intended to supplement your other health insurance coverage. They are not intended to cover all expenses.

OUTLINE OF COVERAGE

(1) Read your [policy][certificate] carefully. This outline of coverage briefly describes your coverage's important features. It is not the insurance contract. The [policy] [certificate] itself details your rights and obligations and those of your insurance company. It is important that you read your [policy] [certificate] carefully!

(2) Limited benefit health coverage pays limited benefits as a result of a covered benefit. This [policy] [certificate] is not major medical insurance and does not replace it.

(3) [A brief specific description of the benefits, including dollar amounts and a description of any deductible or copayment provisions applicable to the benefits described. Proper disclosure of benefits that vary according to the type of accidental cause shall be made in accordance with Section 8A(13) of this regulation.]

~~**Drafting Note**: The above description of benefits shall be stated clearly and concisely and shall include a description of any deductible or copayment provisions applicable to the benefits described. Proper disclosure of benefits that vary according to accidental cause shall be made in accordance with Section 8A(13) of this regulation.~~

(4) [A description of any provisions that exclude, eliminate, restrict, reduce, limit, delay or in any other manner operate to qualify payment of the benefits described in Paragraph (3) above.]

(5) [A description of provisions respecting renewability or continuation of coverage, including age restrictions or any reservations of right to change premiums.]

~~**Drafting Note:** The above descriptions shall be stated clearly and concisely.~~

~~———~~H. Short-Term, Limited Duration Coverage (Outline of Coverage)

An outline of coverage, in the form prescribed below, shall be issued in connection with policies or certificates meeting the standards of Section 8H of this regulation. The items included in the outline of coverage must appear in the sequence prescribed and be stated clearly and concisely:

[COMPANY NAME]

Short-Term, Limited Duration Coverage

The benefits in this [policy] [certificate] are limited. They are not intended to cover all expenses.

The [policy] [certificate] may not cover preexisting conditions.

OUTLINE OF COVERAGE

(1) Read your [policy] [certificate] carefully. This outline of coverage briefly describes your coverage's important features. It is not the insurance contract. The [policy] [certificate] itself details your rights and obligations and those of your insurance company. It is important that you read your [policy] [certificate] carefully!

(2) This is a short-term, limited duration [policy] [certificate]. This is temporary insurance. It is not comprehensive health insurance. It might not cover or might limit coverage for preexisting conditions. It might not cover essential health benefits such as pediatric, hospital, emergency, maternity, mental health, substance use services, prescription drugs, or preventive care. Read your [policy] [certificate] carefully to make sure you understand what is covered and any limitations on coverage.

(3) [A brief specific description of the benefits in the following order:

(a) Benefits covered by the plan, including required cost-sharing;

(b) Benefits that are not covered by the plan;

(c) Notice that cost-sharing limitations do not apply to benefits not covered by the plan; and

(d) Duration of benefits described above.]

(4) [A description of provisions that exclude, eliminate, restrict, reduce, limit, delay, or in any other manner operate to qualify payment of the benefits described in paragraph (3) above. Proper disclosure of benefits that vary according to the type of accidental cause shall be made in accordance with Section 8A(13) of this regulation.]

(5) [A description of provisions respecting renewability or continuation of coverage, including age restrictions or any reservation of right to change premiums.]

~~**Drafting Note:** The above descriptions, including those of benefits, shall be stated clearly and concisely, and shall include a description of any deductible or copayment provisions applicable to the benefits described. Proper disclosure of benefits that vary according to accidental cause shall be made in accordance with Section 8A(13) of this regulation.~~

I. Limited Scope Dental Coverage (Outline of Coverage)

An outline of coverage in the form prescribed below shall be issued in connection with dental ~~plan~~ care policies and certificates. The items included in the outline of coverage must appear in the sequence prescribed and be stated clearly and concisely:

(1) Read your [policy][certificate] carefully. This outline of coverage briefly describes your coverage's important features. It is not the insurance contract. The [policy] [certificate] itself details your rights and obligations and those of your insurance company. It is important that you read your [policy] [certificate] carefully!

(2) Limited scope dental coverage pays benefits for dental benefits only. It is not intended to cover all dental expenses. Read your [policy] [certificate] carefully to understand what dental services it covers and any cost-sharing that may be your responsibility.

(3) [A brief specific description of the benefits.]

(4) [A description of any provisions that exclude, eliminate, restrict, reduce, limit, delay or in any other manner operate to qualify payment of the benefits described in Paragraph (3) above.]

(5) [A description of provisions respecting renewability or continuation of coverage, including age restrictions or any reservations of right to change premiums.]

~~**Drafting Note:** The above descriptions shall be stated clearly and concisely.~~

J. Limited Scope Vision Coverage (Outline of Coverage)

An outline of coverage in the form prescribed below shall be issued in connection with vision ~~plan~~ care policies and certificates. The items included in the outline of coverage must appear in the sequence prescribed and be stated clearly and concisely:

(1) Read your [policy][certificate] carefully. This outline of coverage briefly describes your coverage's important features. It is not the insurance contract. The [policy] [certificate] itself details your rights and obligations and those of your insurance company. It is important that you read your [policy] [certificate] carefully!

(2) Limited scope vision coverage pays benefits for vision benefits only. It is not intended to cover all vision expenses. Read your [policy] [certificate] carefully to understand what vision services it covers and any cost-sharing that may be your responsibility.

(3) [A brief specific description of the benefits.]

(4) [A description of any provisions that exclude, eliminate, restrict, reduce, limit, delay or in any other manner operate to qualify payment of the benefits described in Paragraph (3) above.]

(5) [A description of provisions respecting renewability or continuation of coverage, including age restrictions or any reservations of right to change premiums.]

~~**Drafting Note:** The above descriptions shall be stated clearly and concisely.~~

Section 10. Requirements for Replacement of Individual Supplementary and Short-Term Health Insurance Coverage

A. An application form shall include a question designed to elicit information as to whether the insurance to be issued is intended to replace any other supplementary or short-term health insurance subject to this regulation, as provided in Section 3A of this regulation, presently in force. A supplementary application or other form to be signed by the applicant containing the question may be used.

B. Upon determining that a sale will involve replacement, an insurer, other than a direct response insurer, or its agent shall furnish the applicant, prior to issuance or delivery of the policy, the notice described in Subsection C below. The insurer shall retain a copy of the notice. A direct response insurer shall deliver to the applicant, upon issuance of the policy, the notice described in Subsection D below. ~~In no event, h~~However, ~~will the~~this notice ~~s be~~is not required in the solicitation of ~~the following types of policies:~~ accident-only policies or the replacement of ~~and~~ single-premium nonrenewable policies.

C. The notice required by Subsection B above for an insurer, other than a direct response insurer, shall provide, in substantially the following form:

Notice to Applicant About Replacement of [Supplementary] [Short-Term] Health Insurance

According to [your application] [information you have provided], you intend to lapse or otherwise end the supplementary or short-term health insurance you have now and replace it with a policy the [insert company name] Insurance Company will issue. For your own protection, you should know how replacing your policy with a new one might affect your coverage.

(1) A new policy might not pay claims that the policy you have now would pay. A new policy might not cover health conditions that you might have now (preexisting conditions) or might not cover them right away. A new policy might cover some but not all the costs related to treating preexisting conditions.

Drafting Note: This subsection may be modified if preexisting conditions are covered under the new policy.

(2) Talk with your current insurance agent or company representative about replacing your policy. It is in your best interest to be sure you understand how replacing your policy could affect your future coverage.

(3) If you decide to buy a new policy, be sure to truthfully and completely answer all questions on the application about your medical/health history. If you do not, the company could deny any future claims and refund your premium as though your policy had never been in force. Check that the information on your application is complete and correct before you sign it.

The above "Notice to Applicant" was delivered to me on:

_____
(Date)

_____

(Applicant's Signature)

D. The notice required by Subsection B of this section for a direct response insurer shall be as follows:

Notice to Applicant About Replace of [Supplementary] [Short-Term] Health Insurance

According to [your application] [information you have provided], you intend to lapse or otherwise end the supplementary or short-term health insurance you have now and replace it with the attached policy issued by [insert company name] Insurance Company. Your new policy gives you thirty days to decide at no cost if you want to keep the policy. For your own protection, you should know how replacing your policy with a new one might affect your coverage.

(1) A new policy might not pay claims that the policy you have now would pay. A new policy might not cover health conditions you have now (preexisting conditions) or might not cover them right away. A new policy might cover some but not all the costs related to preexisting conditions.

(2) Talk with your insurance agent or company representative about replacing your policy. It is in your best interest to be sure you understand how replacing your policy could affect your future coverage.

(3) [To be included only if the application is attached to the policy]. If you decide to buy a new policy, read the copy of the attached application and be sure that all questions are answered fully and correctly. If they are not, the company could refuse to pay an otherwise valid claim. Carefully check the application and write to [insert company name and address] within ten days if any information is not correct and complete, or if any past medical history has been left off the application.

[COMPANY NAME]

Drafting Note: The sentence "Your new policy gives you thirty days to decide at no cost if you want to keep the policy." should only be required if the state has adopted Section 9A(18).

Section 11. Separability

If any provision of this regulation or the application thereof to any person or circumstance is for any reason held to be invalid, the remainder of the regulation and the application of the provision to other persons or circumstances shall not be affected thereby.

W:\Drafts\04 – Model Laws, Regulations & Guidelines\# 171 – Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act\MO171 Maine Comments.docx

© 2024 National Association of Insurance Commissioners

Draft: 5/7/24

Accident and Sickness Insurance Minimum Standards (B) Subgroup
Virtual Meeting
April 22, 2024

The Accident and Sickness Insurance Minimum Standards (B) Subgroup of the Regulatory Framework (B) Task Force met April 22, 2024. The following Subgroup members participated: Andy Schallhorn, Co-Chair (OK); Rachel Bowden, Co-Chair (TX); Howard Liebers (DC); Christina Jackson (FL); Martin Swanson (NE); Tanji J. Northrup, Heidi Clausen, and Shelley Wiseman (UT); Anna Van Fleet, Mary Block, and Jamie Gile (VT); and Ned Gaines (WA).

1. Discussed the Dec. 1, 2023, Comments Received on Draft Revisions to Model #171

The Subgroup continued its discussion of the Dec. 1, 2023, comments submitted on the Oct. 12, 2023, draft of proposed revisions to the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171), beginning with the Schiffbauer Law Office's suggestion to delete the work "available" in Section 9A(1)—Required Disclosure Provisions and replace it with "provided." William Schiffbauer (Schiffbauer Law Office) said he suggests this revision because he believes the word "available" is ambiguous and the word "provided" is clearer. He said for Section 9A(2)(d), he also suggests for clarity replacing the words "in close proximity" and replacing it with "directly above." After discussion, the Subgroup accepted the first suggested revision to replace the word "available" with "provided" in Section 9A(1). The Subgroup discussed the potential consequences of replacing "in close proximity" with "directly above" in Section 9A(2)(d). During the discussion, Subgroup members discussed how such a change would work with the recently adopted federal consumer disclosure requirements and whether it would be feasible. After additional discussion, the Subgroup decided not to accept the suggested revision because it might not be feasible to implement and would limit flexibility.

The Subgroup next discussed the Schiffbauer Law Office comments on Section 9C(2)—Hospital Indemnity or Other Fixed Indemnity Coverage (Outline of Coverage). Schiffbauer said he suggests revising the language to match the disclosure language for this product in Section 9A(3) and (4). Jolie H. Matthews (NAIC) explained that the language in Section 9C(2) does not mirror the language in Section 9A(3) and (4) because the provisions are structured differently. The Subgroup discussed the suggested comment. After discussion, Schiffbauer withdrew his comments.

The Subgroup next discussed the Schiffbauer Law Office comment's on Section 9E(2)—Accident Only Coverage (Outline of Coverage) suggesting the Subgroup add "or injury" because it would tie this provision back to the definition of "injury" in Section 6D—Policy Definitions. The Subgroup discussed the suggested revision. After discussion, the Subgroup decided not to accept it because Section 9E(2) includes language stating that "accident only coverage pays for benefits for covered injuries." Given this, adding "or injury" is unnecessary.

The Subgroup next discussed the Schiffbauer Law Office comments on Section 9F(2)—Specified Disease or Specified Accident Coverage (Outline of Coverage). Schiffbauer said he suggests revising the language to match the disclosure language for this product in Section 9A(3) and (4). Matthews said the suggested comments on this section are like those for Section 9C(2). After discussion, the Subgroup asked NAIC staff to review the language for consistency.

© 2024 National Association of Insurance Commissioners

Matthews said the Subgroup has discussed all the Dec. 1, 2023, comments on the proposed revisions to Model #171 and no additional comments have been received. She said she will distribute a final draft of proposed revisions to Model #171 reflecting the Subgroup's discussions to date. She said stakeholders will have at least two weeks to review the final draft prior to the Subgroup holding a meeting to consider adoption of the revised model.

Having no further business, the Accident and Sickness Insurance Minimum Standards (B) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/Accident and Sickness Subgrp/Accident and Sickness Ins Min Stds Subgrp 4-22-24 MtgMin.docx

© 2024 National Association of Insurance Commissioners

Draft: 4/29/24

Accident and Sickness Insurance Minimum Standards (B) Subgroup
Virtual Meeting
April 8, 2024

The Accident and Sickness Insurance Minimum Standards (B) Subgroup of the Regulatory Framework (B) Task Force met April 8, 2024. The following Subgroup members participated: Andy Schallhorn, Co-Chair (OK); Rachel Bowden, Co-Chair (TX); Howard Liebers (DC); Christina Jackson (FL); Martin Swanson and Maggie Reinert (NE); Heidi Clausen and Shelley Wiseman (UT); and Jamie Gile (VT).

1. Discussed the Dec. 1, 2023, Comments Received on Draft Revisions to Model #171

Before continuing its discussion of the Dec. 1, 2023, comments submitted on the Oct. 12, 2023, draft of proposed revisions to the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171), the Subgroup reviewed proposed revisions to Section 8A intended to reflect the Subgroup's discussion of the term "spouse" during its March 25 meeting. Jolie H. Matthews (NAIC) said that as discussed during the March 25 meeting, she added a drafting note to Section 8A(1) and Section 8(A)(3) where the term "spouse" is used directing states to review the use of the term "spouse" and replace it or add additional terms in accordance with state law or regulations. She explained that there was an existing proposed drafting note for Section 8A(3) concerning the addition of the terms "married couple" and "civil union couple." Matthews said she revised that drafting note to reflect the Subgroup's discussion of the term "spouse" in Section 8A(1). After discussion, the Subgroup accepted the suggested revisions.

The Subgroup continued its discussion of the Dec. 1, 2023, comments beginning with the Schiffbauer Law Office's suggestion to add additional language to the drafting note in Section 8B(2). William Schiffbauer (Schiffbauer Law Office) said he suggests the Subgroup adds a sentence to the drafting note explaining that state insurance regulators can address consumer confusion about the coverage excepted benefit products provide by requiring insurers to not offer, market, or sell these products as a substitute for, or an alternative to, comprehensive major medical coverage and requiring consumer disclosures that this type of coverage is supplementary insurance. After discussion, the Subgroup accepted the suggested revision.

The Subgroup next discussed the Schiffbauer Law Office's suggested clarifying revisions to the drafting notes at the end of Section 8B by: 1) deleting the word "supplemental" and replacing it with "supplementary;" 2) deleting the word "resemble" and replacing it with "could be mistaken for;" and 3) deleting the word "developed" and replacing it with "offered." After discussion, the Subgroup accepted the suggested revisions.

The Subgroup next discussed the NAIC consumer representatives' comments on Section 8C—Disability Income Protection Coverage. Lucy Culp (The Leukemia & Lymphoma Society—LLS) said the NAIC consumer representatives suggest incorporating the language in the drafting note for Section 8C(2) into the subsection's substantive provisions. She said the NAIC consumer representatives also suggest clarifying the language in Section 8C(3). The Subgroup agreed that the drafting note language should be incorporated into Section 8C(2). After discussion, the Subgroup agreed to revise Section 8C(2) to read as follows: "(2) Contains an elimination period no greater than: (a) Fifty percent (50%) of the benefit period in the case of a coverage providing a benefit of one hundred and eighty (180) days or less; (b) Ninety (90) days in the case of a coverage providing a benefit of one hundred and eighty (180) days to one year; (c) One hundred and eighty (180) days in the case of coverage providing a benefit of more than one year but not greater than two (2) years; or (d) Three hundred sixty five (365) days in all other cases during the continuance of disability resulting from sickness or injury." To clarify Section 8C(3), the Subgroup also agreed to delete the word "maximum."

© 2024 National Association of Insurance Commissioners

The Subgroup next discussed the Schiffbauer Law Office's suggestion to add the word "injury" to Section 8D—Accident Only Coverage for consistency with other provisions in the revised model. After discussion, the Subgroup accepted the suggested revision.

The Subgroup next discussed the NAIC consumer representatives' and Schiffbauer Law Office's suggested revisions to Section 8E—Specified Disease Coverage. The NAIC consumer representatives suggest clarifying Section 8E(1) by adding a cross-reference to paragraph (2). The Subgroup accepted the suggested revision. The Schiffbauer Law Office suggests the same revisions to the drafting note for Section 8E(6)(a) as those made to the drafting note for Section 8B(2). The Subgroup accepted the suggested revisions.

The Subgroup next discussed the Schiffbauer Law Office's suggested revisions to the drafting note for Section 8G—Limited Benefit Health Coverage. The first suggested revision seeks to clarify the language in the drafting note's second sentence, which discusses situations when excepted benefit-type products may be combined with other types of products. After discussion, the Subgroup decided not to accept the suggested revision because the suggested language seemed more confusing than clarifying. The Subgroup accepted the second revision, which added the same language the Subgroup agreed to add to the drafting notes for Section 8B(2) and Section 8E(6)(a).

The Subgroup next discussed the comments received on whether it should retain the proposed language in Section H—Short-Term, Limited-Duration Health Insurance Coverage establishing requirements for canceling a short-term, limited-duration (STLD) plan. During its initial discussions of this provision, the Subgroup preliminarily added the language but requested that NAIC staff flag it for future discussion after it completed its review of all the initial comments received on the model. The Subgroup received two comments on this provision—the Health Benefits Institute (HBI) and the NAIC consumer representatives. Both the HBI and the NAIC consumer representatives suggest retaining the provision because it is an important consumer protection provision. The Subgroup agreed.

The Subgroup next discussed the NAIC consumer representatives' comments, alerting the Subgroup that the revised model does not include minimum standards for limited-scope vision coverage and limited-scope dental coverage. The Subgroup discussed the comments. During the discussion, the Subgroup noted that Section 5—Minimum Standards for Benefits of the *Supplementary and Short-Term Health Insurance Minimum Standards Model Act* (#170), which is the companion model act to Model #171, does not provide for the establishment of minimum standards for these coverages and during the revision process for Model #170, no one suggested adding language to this provision to require the establishment of such standards.

Having no further business, the Accident and Sickness Insurance Minimum Standards (B) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/Accident and Sickness Subgrp/Accident and Sickness Ins Min Stds Subgrp 4-8-24 MtgMin.docx

© 2024 National Association of Insurance Commissioners

Draft: 4/4/24

Accident and Sickness Insurance Minimum Standards (B) Subgroup
Virtual Meeting
March 25, 2024

The Accident and Sickness Insurance Minimum Standards (B) Subgroup of the Regulatory Framework (B) Task Force met March 25, 2024. The following Subgroup members participated: Andy Schallhorn, Co-Chair (OK); Rachel Bowden, Co-Chair (TX); Howard Liebers and Stephen Flick (DC); Christina Jackson (FL); Camille Anderson-Weddle (MO); Maggie Reinert (NE); Heidi Clausen and Shelley Wiseman (UT); Anna Van Fleet, Mary Block, and Jamie Gile (VT); and Ned Gaines (WA).

1. Discussed the Dec. 1, 2023, Comments Received on Draft Revisions to Model #171

The Subgroup continued its discussion of the Dec. 1, 2023, comments submitted on the Oct. 12, 2023, draft of proposed revisions to the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171) beginning with the NAIC consumer representatives' comments on Section 7D. Section 7D prohibits insurers from limiting or excluding coverage by type of illness, accident, treatment, or medical condition except as provided in the section. Lucy Culp (The Leukemia & Lymphoma Society—LLS) reiterated the NAIC consumer representatives' objection to the inclusion of "mental or emotional disorders, alcoholism, and drug addiction" and "suicide (sane or insane), attempted suicide, or intentionally self-inflicted injury" as allowable limitations or exclusions from coverage for any type of supplemental or short-term policies. The Subgroup discussed the NAIC consumer representatives' comments. During the discussion, some Subgroup members noted that the removal of the permitted limitation or exclusion of coverage for "mental or emotional disorders, alcoholism, and drug addiction" or "suicide (sane or insane), attempted suicide, or intentionally self-inflicted injury" for these products could adversely impact the availability and affordability of such products for consumers. The Subgroup discussed how Vermont does not permit these limitations or exclusions for disability products. After additional discussion, the Subgroup decided to leave Section 7D unchanged.

The Subgroup next discussed Section 7E. Section 7E allows insurers to issue waivers that exclude or limit coverage for certain preexisting conditions or extra hazardous activities. The NAIC consumer representatives suggest deleting Section 7E because they find it unnecessary and at odds with the Subgroup's purpose, which is to set minimum standards. The NAIC consumer representatives suggest the Subgroup adopt minimum standards and not permit insurers to offer waivers limiting or excluding coverage under Section 7E. The Subgroup discussed the comments submitted regarding Section 7E. The American Council of Life Insurers (ACLI) suggests retaining Section 7E because if the Subgroup removes it, then most likely, consumers with preexisting conditions will be denied coverage completely rather than the consumer obtaining coverage except for the preexisting disease, physical condition, or extra hazardous activity that is subject to the waiver. America's Health Insurance Plans (AHIP) also suggests retaining Section 7E because, without such a provision, there would be nothing in Model #171 outlining the structure or use of waivers or for the consumer disclosure and acceptance of such a waiver. After additional discussion, the Subgroup decided to retain Section 7E.

The Subgroup next discussed the use of the term "spouse" in Section 8A. During its previous discussions of this provision, the Subgroup discussed the use of the term "spouse" and possible alternative terms to use in its place, considering the varying interpretations and meanings of the term from state to state. After extensive discussion, the Subgroup decided to retain the term "spouse" and add a drafting note suggesting that the states, when reviewing the language in Section 8A, insert replacement or additional terms in accordance with the state's laws or regulations.

© 2024 National Association of Insurance Commissioners

The Subgroup next discussed whether to move Section 8A(10), which is a provision permitting insurers to include in a policy a provision related to recurrent disabilities, to another section in Model #171. During its previous discussions of this provision, the Subgroup had initially considered moving Section 8A(10) to another section in Model #171 related to disability policies because it seemed to be applicable only to those types of policies. The Subgroup discussed the comments received on this issue. The comments from the ACLI and AHIP suggest leaving Section 8A(10) in its current place in Model #171 because its provisions could apply to other types of policies in addition to disability policies. After additional discussion, the Subgroup decided to leave Section 8A(10) in its current place.

The Subgroup next discussed Schiffbauer Law Office's suggestion to delete "triggered by" in Section 8B(1) and replace it with "as a result of." William Schiffbauer (Schiffbauer Law Office) explained that he is suggesting this revision to be consistent with other proposed revisions in Model #171. After discussion, the Subgroup accepted his suggested revision.

Having no further business, the Accident and Sickness Insurance Minimum Standards (B) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/Accident and Sickness Subgrp/Accident and Sickness Ins Min Stds Subgrp 3-25-24 MtgMin.docx

© 2024 National Association of Insurance Commissioners

Draft: 3/27/24

Mental Health Parity and Addiction Equity Act (MHPAEA) (B) Working Group
Phoenix, Arizona
March 17, 2024

The MHPAEA (B) Working Group of the Regulatory Framework (B) Task Force met in Phoenix, AZ, March 17, 2024. The following Working Group members participated: Erica Weyhenmeyer, Chair (IL); Jane Beyer, Vice Chair (WA); Crystal Phelps (AR); Gio Espinosa (AZ); Cara Cheevers and Debra Judy (CO); Kurt Swan (CT); Stephen Flick (DC); Elizabeth Nunes (GA); Andria Seip (IA); Julie Holmes (KS); Mary Kwei (MD); T.J. Patton (MN); Teresa Kroll (MO); Robert Croom and Ted Hamby (NC); Chrystal Bartuska and Karri Morris (ND); Ralph Boeckman and Erin Porter (NJ); Viara Ianakieva (NM); Kyla Dembowski (OH); Ashley Scott and Landon Hubbart (OK); Caroline Boehm (PA); Jill Kruger (SD); Rachel Bowden (TX); Heidi Clausen and Shelley Wiseman (UT); Julie Fairbanks (VA); Rebecca Rebholz (WI); Joylynn Fix (WV), and Jill Reinking (WY).

1. Heard Presentations on Opioid Use Disorder and Medication for Opioid Use Disorder

Weyhenmeyer said that state insurance regulators perform detailed analysis of coverage policy and claims data, but they lack health care providers' knowledge of diseases like opioid use disorder and effective treatments for it. She said expert physician speakers would help educate the Working Group on the effects of opioid use disorder and the evidence that supports treatment for the disorder.

Dr. Jesse Ehrenfeld (American Medical Association—AMA) said the overdose epidemic is a critical issue for the nation. He said patients with mental illness and substance use disorder need the help of parity laws that are intended to protect them. He shared data on the rising numbers of overdose deaths and the large share of deaths caused by illicit fentanyl. He said more than 100,000 people die per year due to the epidemic of overdose.

Dr. Ehrenfeld described resources from the AMA on opioids, including reports on pregnant women and justice-involved individuals, a toolkit for policymakers, and a report with statistics on the epidemic. He reviewed key trends in opioid use disorder, including reduced opioid pain prescriptions, the end of barriers to prescribing like the X waiver, the success of naloxone, and remaining barriers to care like prior authorization. He said the AMA is happy to work with state insurance regulators to strengthen state or federal parity laws if regulators do not believe they grant sufficient authority. He urged states to impose significant monetary penalties on health plans for parity violations.

Dr. Ehrenfeld said that workforce challenges exist for mental health, but in comparison to medical crises like cardiac arrest, mental health treatment is not immediate and does not have appropriate follow-up. He said medical decisions are not questioned by health plans when the decisions follow the standard of care. He said that too often, health plans have no problem denying or delaying care for mental health conditions.

Dr. Marcus Bachhuber (Center for Evidence-based Policy) presented on medications for opioid use disorder. He described the effects of opioid use as doses increase and the increasing occurrence of withdrawal for patients. He said substance use disorders share many features with other chronic medical illnesses, such as periods of remission and relapse.

Dr. Bachhuber reviewed treatments for opioid use disorder. He said there was an early recognition that opioid use is different from other drug use disorders. He noted the history of treatments, including municipal morphine

© 2024 National Association of Insurance Commissioners

clinics, methadone clinics, and the development of buprenorphine and injectable naloxone. He showed the effects of medications on the opioid receptors in the brain.

Dr. Bacchuber said that medication treatment for opioid use disorder is effective and lifesaving and that treatment retention is similar to other chronic conditions. He said methadone and buprenorphine generally have similar outcomes and that naltrexone requires a patient to undergo withdrawal before treatment. He said the three medications are delivered to different patients in different settings depending on the clinical circumstances, and there is not one optimal treatment for everyone.

Dr. Bacchuber covered the rules for prescribing the three medications and their dose and quantity limits. He said limitations on duration of therapy can disrupt treatment and put patients at risk for overdose death.

Dr. Bacchuber said state insurance regulators have used parity exams to compare health plans' coverage of medications to opioid use disorder with coverage for opioids for treatment of pain, as well as with other medications. He said states have found differences such as excluding methadone, applying different prior authorization requirements, or placing all medications on a high tier.

Dr. Bacchuber shared additional resources on the three medications, including from the Substance Abuse and Mental Health Services Administration (SAMHSA), the American Society of Addiction Medicine (ASAM), and the Center for Evidence-based Policy.

Beyer said state Medicaid programs often use information from the Center for Evidence-based Policy for setting coverage standards and that the same information can support the work that state insurance regulators do in mental health parity.

Seip asked whether generic equivalents exist for the drugs Dr. Bacchuber discussed. He said methadone is a generic, there are generic forms of buprenorphine, and only the brand form of naltrexone is approved for the treatment of opioid use.

2. Discussed Other Matters

Joe Feldman (Cover My Mental Health) said he is working to learn more about consumer complaints to state insurance regulators. He asked members of the Working Group to share how consumers can use the services their state departments of insurance (DOIs) provide. He said he will present at the Summer National Meeting on obstacles that consumers face in accessing mental health services.

Having no further business, the MHPAEA (B) Working Group adjourned into regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to continue work on its goals.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/MHPAEAWG Min 3.17.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/1/24

Pharmacy Benefit Manager Regulatory Issues (B) Subgroup
Virtual Meeting
June 7, 2024

The Pharmacy Benefit Manager Regulatory Issues (B) Subgroup of the Regulatory Framework (B) Task Force met June 7, 2024. The following Subgroup members participated: Joylynn Fix, Chair (WV); Ashley Scott, Vice Chair (OK); Kayla Erickson and Jeanne Murray (AK); Willard Smith (AL); Amy Seale (AR); Paul Lombardo (CT); Stephen Flick (DC); Sheryl Parker (FL); Andria Seip (IA); Erica Weyhenmeyer (IL); Vicki Schmidt (KS); Sharon P. Clark (KY); Chad Arnold and Joe Stoddard (MI); Norman Barrett Wiik (MN); Cynthia Amman and Amy Hoyt (MO); Robert Croom (NC); Cheryl Wolff (NE); Tim Stroud (NJ); Renee Blechner (NM); Jennifer Boyle, Kristina Magne, and Krista Porter (NY); TK Keen (OR); Jodi Frantz (PA); Elliott G. Webb (TN); Tanji J. Northrup (UT); Jennifer Kreitler and Ned Gaines (WA); Jennifer Stegall (WI); and Jill Reinking (WY).

1. Adopted its Revised 2024 Charges

Fix said that following the Subgroup's May 2 meeting during which the Subgroup discussed the comments received on its draft 2024 revised charges, the Subgroup met in regulator-to-regulator session to have an open and honest discussion, particularly on the draft 2024 revised charge 5C to review and consider revisions to the *Health Carrier Prescription Drug Benefit Management Model Act* (#22). She said that during this discussion Subgroup members and interested regulators indicated a more urgent need to have the Subgroup develop standardized market conduct examination standards for pharmacy benefit managers (PBMs) rather than reviewing Model #22. Fix explained that many state insurance departments now have the authority to conduct PBM market conduct examinations, but there currently is no guidance to assist state insurance regulators in conducting such examinations. She noted that such examination standards would have to include flexibility to reflect differences in state law. She also noted that in developing these examination standards, the Subgroup will rely on its expertise as the subject matter experts on PBMs and the prescription drug ecosystem, but it would also rely on the market conduct examination expertise of some of its members as well as industry and other stakeholder input, which will be essential to the Subgroup's work.

Fix said that prior to this meeting, NAIC staff distributed the revised draft 2024 revised charges, deleting the proposed 2024 revised charge 5C, which was to review and consider revisions to Model #22, and adding a new proposed 2024 revised charge in its place to "develop a chapter for inclusion in the *Market Regulation Handbook* establishing examination standards for PBMs and related entities for referral and consideration by the Market Conduct Examination Guidelines (D) Working Group." She said the Subgroup received comments from America's Health Insurance Plans (AHIP) and the Pharmaceutical Care Management Association (PCMA).

Kris Hathaway (AHIP) said that as noted in its comment letter, AHIP had questions about the process and how the Subgroup envisioned working with the Market Conduct Examination Guidelines (D) Working Group as it develops the proposed new PBM market conduct examination standards chapter for the *Market Regulation Handbook*. She said that in addition, AHIP has concerns about standardizing the PBM examination standards given the different approaches states have taken. To address this concern, AHIP suggests adding the words "while remaining sensitive to variation in state approaches" to the draft 2024 revised charge 5C. In response to AHIP's first question about the process, Fix said she envisions the Subgroup developing the new chapter and referring it to the Market Conduct Examination Guidelines (D) Working Group for its consideration. She anticipates the Market Conduct Examination Guidelines (D) Working Group will accept the referral and the Subgroup's draft PBM market conduct examination standard chapter for its consideration, and after receipt, the Working Group will follow its normal process of exposing the document for comment and discussing any comments and suggested revisions during

© 2024 National Association of Insurance Commissioners

open meetings prior to considering its adoption. Fix said she supported adding AHIP's suggested language to the revised draft 2024 revised charge 5C to reflect the different approaches states have taken.

Chris Petersen (Arbor Strategies LLC), speaking on behalf of the PCMA, said the PCMA appreciates the revisions to the draft 2024 revised charges. He said the PCMA welcomes the opportunity to work with the Subgroup as it moves forward with the charge 5C to develop PBM market conduct examination standards for inclusion in the *Market Regulation Handbook*. He noted the PCMA's experience in this area, particularly on what works and what does not work in the various states from a national perspective. Randi Chapman (Blue Cross and Blue Shield Association—BCBSA) said that although it did not submit written comments, the BCBSA wanted to provide comments during this meeting expressing its appreciation for the work the Subgroup has done to develop the draft 2024 revised charges. She said the BCBSA also looks forward to working with the Subgroup as it works to develop a PBM market conduct examination standards chapter.

After discussion, the Subgroup agreed to revise the draft 2024 revised charge 5C to add the language suggested by AHIP, which would have the charge read as follows: "As the subject matter experts and to promote uniformity across the states, while remaining sensitive to variation in state approaches, develop a chapter for inclusion in the *Market Regulation Handbook* establishing examination standards for PBMs and related entities for referral and consideration by the Market Conduct Examination Guidelines (D) Working Group."

Weyhenmeyer made a motion, seconded by Northrup, to adopt the draft 2024 revised charges (*see NAIC Proceedings – Summer 2024, Regulatory Framework (B) Task Force, Attachment One-A*). The motion passed unanimously.

Having no further business, the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/PBM Regulatory Issues Subgrp/PBM Reg Issues MtgMin 6-7-24.docx

© 2024 National Association of Insurance Commissioners

Draft: 5/23/24

Pharmacy Benefit Manager Regulatory Issues (B) Subgroup
Virtual Meeting
May 2, 2024

The Pharmacy Benefit Manager Regulatory Issues (B) Subgroup of the Regulatory Framework (B) Task Force met May 2, 2024. The following Subgroup members participated: Joylynn Fix, Chair (WV); Ashley Scott, Vice Chair (OK); Kayla Erickson and Sarah Bailey (AK); Anthony Williams and Yada Horace (AL); Amy Seale (AR); Paul Lombardo and Michael Shanahan (CT); Sheryl Parker and Samantha Heyn (FL); Andria Seip (IA); Erica Weyhenmeyer (IL); Craig VanAalst (KS); Daniel McIlwain (KY); Nina Hunter (LA); Chad Arnold, Tina Nacy, and Joe Stoddard (MI); Norman Barrett Wiik (MN); Chlora Lindley-Myers and Amy Hoyt (MO); Cheryl Wolff (NE); Renee Blechner (NM); Alice McKenney (NY); Ted Hamby (NC); TK Keen (OR); Shannen Logue and Sandy Ykema (PA); Elliott G. Webb (TN); Tanji J. Northrup, Heidi Clausen, and Shelley Wiseman (UT); Jennifer Kreitler (WA); Nathan Houdek and Jennifer Stegall (WI); and Jill Reinking (WY). Also participating was: Chrystal Bartuska (ND).

1. Discussed the April 19 Comments Received on its Draft Proposed Revised 2024 Charges

Fix said the purpose of this meeting is for the Subgroup to hear from stakeholders who submitted comments on the Subgroup's draft proposed 2024 revised charges (Attachment Ten-A). She said the Subgroup received comments from America's Health Insurance Plans (AHIP), the NAIC consumer representatives, the Healthcare Distribution Alliance (HDA), the National Association of Chain Drug Stores (NACDS), the National Community Pharmacists Association (NCPA); the North Dakota Insurance Department, and the Pharmaceutical Care Management Association (PCMA).

Samatha Burns (AHIP) said that, as discussed in its comment letter, AHIP recommends that the Subgroup remain a subgroup and not change to a working group. She said the term "working group" implies this will be a long-term commitment instead of gathering relevant information, completing the task, and ending within the next few years. Burns said AHIP also recommends specifically listing the supply chain entities—drug manufacturers and pharmacy services assistance organizations (PSAOs)—rather than the less prescriptive "stakeholders." She said this more descriptive listing will prompt Subgroup members to consider the various entities and potential topics to discuss for further education. Burns said AHIP recommends the proposed charge to review and consider revisions to the *Health Carrier Prescription Drug Benefit Management Model Act* (#22) be eliminated given the history related to the development and the NAIC membership's failure to adopt the proposed [State] Pharmacy Benefit Manager Licensure and Regulation Model Act. She noted that removing the charge does not preclude the Subgroup from discussing it. Deleting the charge merely eliminates the requirement for the Subgroup to review the model.

Will Dane (HDA) said the HDA believes the Subgroup's proposed 2024 revised charges provide a thoughtful approach to further the Subgroup's work as it transitions to the Pharmacy Benefit Management Regulatory Issues (B) Working Group and supports their adoption. He said the HDA stands ready to be a resource to the Working Group, as necessary, as it moves forward with its work.

Carl Schmid (HIV+Hepatitis Policy Institute), speaking on behalf of the NAIC consumer representatives, said the NAIC consumer representatives submitted a comment letter to the Regulatory Framework (B) Task Force for its consideration during its meeting at the Spring National Meeting expressing strong support for the draft revised 2024 proposed charges. He said that because Model #22 failed to include provisions directly regulating pharmacy benefit managers (PBMs) or specifically address the significant role that PBMs play in prescription drug benefit plan design and delivery, the NAIC consumer representatives strongly support its review and update to reflect the changing times since it was adopted. Schmid noted that although the states have taken differing steps in regulating

© 2024 National Association of Insurance Commissioners

PBMs, consumers can benefit from and need an agreed-upon minimum level of protection by state insurance regulators.

Joel Kurzman (NCPA) said the NCPA is generally supportive of the proposed 2024 revised charges; however, based on its priorities, the NCPA suggests the Subgroup remain focused on PBMs rather than including other stakeholders in the prescription drug ecosystem and prioritize all its activities on the enforcement of existing PBM state insurance laws. He said the NCPA believes a focus on enforcement of existing PBM state laws is a topic most stakeholders can appreciate and brings practical value to state insurance regulators. Kurzman also said that if the Subgroup decides to revisit Model #22, the NCPA believes the most relevant possible addition would be a section establishing enforcement provisions. He noted that given the Subgroup's previous discussions related to the proposed [State] Pharmacy Benefit Manager Licensure and Regulation Model Act and the PBM white paper, the NCPA prefers the Subgroup focus on the other proposed 2024 revised charges, especially those pertaining to best practices, to assist state insurance regulators in overseeing and enforcing state PBM laws.

Sandra Guckian (NACDS) reiterated the NACDS's belief about the importance of PBM licensure and the state insurance regulatory environment. She said that while the emergence of greater regulation of PBM actions is essential, so too is a regulatory structure that adequately equips the states to respond to potential law violations, whether through fines or other civil penalties, license revocation, or both. Guckian said the Subgroup can establish such a regulatory structure by adding such provisions to Model #22. She said the NACDS also supports the NCPA's comments and urges the Subgroup to maintain its focus on PBMs, particularly enforcement of current PBM state insurance laws, to continue to help protect patients and patient access to pharmacies in communities nationwide.

Bartuska said the North Dakota Insurance Department suggests the Subgroup consider revising the proposed 2024 revised charge concerning its potential review of Model #22 to remove the words "and consider any necessary updates to" and "out of" and substitute the words "due to." She said that with these suggested revisions, the proposed 2024 revised charge would read: "Review the *Health Carrier Prescription Drug Benefit Management Model Act* (#22) due to the emergence of greater regulation in the prescription drug ecosystem." She said the North Dakota Insurance Department believes these suggested revisions remove the pressure on the Subgroup to feel compelled to offer updates to Model #22 when its focus should be on a thorough review of the model during the remainder of the year.

Chris Petersen (Arbor Strategies LLC), speaking on behalf of the PCMA, said the PCMA believes it is important for the Subgroup to expand its focus to look at all the stakeholders in the prescription drug supply chain and their relationship with each other to identify all the factors possibly affecting the cost of prescription drugs. He said that as stated in its comment letter, the PCMA does not believe it is appropriate to include a charge suggesting the Subgroup's successor working group review and consider updates to Model #22 because it would be premature, and, as already discussed, no state has adopted it in its entirety. Petersen also said Model #22 does not contemplate regulating PBMs. He said given these concerns, the proposed 2024 revised charge concerning the potential review of Model #22 should be deleted.

Seip asked Petersen why the PCMA believes the Subgroup's focus should be expanded to include all stakeholders in the prescription drug supply chain. Petersen said the PCMA believes expanding the Subgroup's focus to include all the stakeholders would allow it to better understand all the factors that go into the cost of prescription drugs. He said the PCMA believes PBMs reduce the cost of drugs, while other stakeholders in the prescription drug supply chain suggest PBMs increase the cost. Petersen said that if the Subgroup focuses its work on all the parties to the transaction, it will be able to see what portion of costs are attributed to each party. He said the Subgroup needs to understand how the entire prescription drug supply chain works and how each part impacts prescription drug costs. Seip asked Petersen for the source of the graphic included in the PCMA's April 18 comment letter stating

© 2024 National Association of Insurance Commissioners

that prescription drug manufacturers and pharmacies retain 90% of each dollar that enters the prescription drug ecosystem. Petersen said he did not have that information but would follow up with the Subgroup.

Charise Richard (Pharmaceutical Research and Manufacturers of America—PhRMA) said that although PhRMA did not submit written comments on the Subgroup's proposed revised 2024 charges, she wants the Subgroup to know that PhRMA supports the Subgroup's efforts to better understand PBM practices and their central role in the prescription drug supply chain. She noted PhRMA's disappointment that the PBM white paper omitted several patient-centered solutions to the issues being discussed. She said that, despite this, PhRMA hopes that over time, the Subgroup will find solutions that better help patients to afford their prescriptions.

Weyhenmeyer expressed support for redesignating the Subgroup as a working group. She explained that in assisting to develop the Subgroup's proposed 2024 revised charges, the Subgroup would mirror the work of the Mental Health Parity and Addiction Equity Act (MHPAEA) (B) Working Group and have ongoing work on a complex issue of interest to all the states for which it will serve as a forum and provide an opportunity for state insurance regulator and stakeholder discussion and ongoing education. Wolff expressed support for the North Dakota Insurance Department comments about reviewing Model #22. She said Nebraska's PBM laws were a carefully crafted compromise among all the parties. Given this, she does not foresee Nebraska changing its PBM laws based on revisions to an NAIC model.

Having no further business, the Pharmacy Benefit Manager Regulatory Issues (B) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/PBM Regulatory Issues Subgrp/PBM Reg Issues MtgMin 5-2-24.docx

© 2024 National Association of Insurance Commissioners

Pharmacy Benefit Manager Regulatory Issues (B) Subgroup Draft Revised 2024 Charges

The Pharmaceutical Benefit Management Regulatory Issues (B) Working Group will:

A. Serve as a forum to educate state insurance regulators on issues related to pharmacy benefit manager (PBM) regulation and other stakeholders in the prescription drug ecosystem.
B. Gather and share information, best practices, experience, and data to inform and support dialogue and information-sharing among state insurance regulators on issues related to PBM regulation, such as examinations and contracting, and pharmaceutical drug pricing and transparency.
C. Review and consider any necessary updates to the *Health Carrier Prescription Drug Benefit Management Model Act* (#22) out of the emergence of greater regulation in the prescription drug ecosystem.
D. Maintain a current listing of PBM laws and regulations and case law for reference by state insurance regulators.
E. Disseminate materials and reports, via the NAIC, to the states and the U.S. territories wishing to use the information gathered by the Working Group.
F. Monitor, facilitate, and coordinate with the states and federal agencies regarding compliance and enforcement efforts regarding PBMs.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/RFTF/PBM Regulatory Issues Subgrp/Draft PBM Working Group Charges 5-10-24.docx

© 2024 National Association of Insurance Commissioners

This page intentionally left blank.

© 2024 National Association of Insurance Commissioners

SENIOR ISSUES (B) TASK FORCE

Senior Issues (B) Task Force Aug. 13, 2024, Minutes 6-226
Senior Issues (B) Task Force July 18, 2024, Minutes 6-235

© 2024 National Association of Insurance Commissioners

Draft: 8/22/24

Senior Issues (B) Task Force
Chicago, Illinois
August 13, 2024

The Senior Issues (B) Task Force met in Chicago, IL, Aug. 13, 2024. The following Task Force members participated: Scott Kipper, Chair (NV); Peni "Ben" Itula Sapini Teo, Vice Chair (AS); Lori K. Wing-Heier represented by Sarah Bailey (AK); Mark Fowler represented by John Buono (AL); Ricardo Lara represented by Emily Smith (CA); Andrew N. Mais represented by Paul Lombardo (CT); Karima M. Woods represented by Colin Johnson (DC); Trinidad Navarro represented by Jessica Luff (DE); Michael Yaworsky represented by Alexis Bakofsky (FL); Doug Ommen represented by Andria Seip (IA); Dean L. Cameron represented by Shannon Hohl (ID); Amy L. Beard represented by Scott Shover (IN); Vicki Schmidt represented by Julie Holmes (KS); Sharon P. Clark represented by Shaun Orme (KY); Timothy J. Temple represented by Ron Henderson (LA); Kevin P. Beagan (MA); Joy Y. Hatchette represented by Jamie Sexton (MD); Robert L. Carey represented by Marti Hooper (ME); Anita G. Fox represented by Renee Campbell (MI); Chlora Lindley-Myers represented by Amy Hoyt (MO); Grace Arnold represented by Sherri Mortensen-Brown (MN); Mike Chaney represented by Bob Williams (MS); Mike Causey represented by John Hoomani (NC); Jon Godfread represented by Chrystal Bartuska (ND); Eric Dunning represented by Martin Swanson (NE); D.J. Bettencourt represented by Michelle Heaton (NH); Alice T. Kane represented by Blanca Ramirez (NM); Judith L. French represented by Laura Miller (OH); Glen Mulready represented by Mike Rhoads (OK); Andrew R. Stolfi represented by Tricia Goldsmith (OR); Michael Humphreys represented by Michael Gurgiolo (PA); Alexander S. Adams Vega represented by Brenda Perez (PR); Larry D. Deiter represented by Jill Kruger (SD); Carter Lawrence represented by Scott McAnally (TN); Cassie Brown represented Debra Diaz-Lara (TX); Jon Pike represented by Tanji Northrup (UT); Scott A. White represented by Julie Blauvelt (VA); Tregenza A. Roach (VI); Kevin Gaffney represented by Emily Brown (VT); Mike Kreidler represented by Todd Dixon (WA); Nathan Houdek represented by Darcy Paskey (WI); and Allan L. McVey represented by Joylynn Fix (WV).

1. Adopted its July 18 and Spring National Meeting Minutes

The Task Force met July 18. During this meeting, the Task Force took the following action: 1) discussed Medicare supplement insurance (Medigap) guarantee issue and provider withdrawals from Medicare Advantage plans; and 2) discussed the impacts of Section 1557 of the Affordable Care Act (ACA) and the application of non-discrimination rules to Medigap.

Swanson made a motion, seconded by Bartuska, to adopt the Task Force's July 18 (Attachment One) and March 16 (*see NAIC Proceedings – Spring 2024, Senior Issues (B) Task Force*) minutes. The motion passed unanimously.

2. Heard a Presentation on SHIPs

Commissioner Kipper said state health insurance assistance programs (SHIPs) are a vital component in helping consumers navigate health care. Vicki Dufrene (Louisiana Department of Insurance [DOI]) said she has seen a lot of changes in these programs throughout the years. She thanked the Task Force and the NAIC for their constant support of SHIPs, not only in Louisiana but the 54 different SHIPs that are available across the country. She said her department is housed within the Louisiana Department of Insurance and falls under the purview of Deputy Commissioner Ron Henderson under the Office of Consumer Advocacy and Diversity, which allows staff to help educate the Medicare population, caregivers, providers, agents, and others.

Dufrene said when it comes to long-term care (LTC), she had a call regarding an LTC policy with an individual trying to understand their benefits and the premiums that they are going to be facing. She said they discussed the

© 2024 National Association of Insurance Commissioners

matter, and it is fortunate that Louisiana is a partnership state, so its Medicaid program does help provide some services that help those individuals make the determination between keeping their high-premium policy with a reduction in benefits or dropping the policy so they can afford other life necessities. She said this particular individual retired from a chemical plant so they had the financial backing to keep the policy, but they reduced some of the benefits.

Dufrene said she started her job when she was 34 years old, and after the first week, she went home and told her husband they needed long-term care insurance (LTCI). She said she comes from a family where both sets of grandparents had some form of dementia or Alzheimer's disease. She said that as she looked at the policy and began to understand it, she knew in the years to come, she was not going to be able to afford this policy or the benefits. She believes LTCI is a good policy, but it has priced itself out for the average citizen, which is sad because folks will have to rely on their state Medicaid programs, which do not have the funding or the facilities to house people who truly need LTC. She said nursing homes are not prepared for these people, and they will go into a lockdown unit, and that's where they stay while their family hopes their loved one is receiving some type of care. She said there is nothing set in place for those individuals to get better care for their loved ones or go into specialized nursing homes that focus on dementia patients or those with mental challenges. She said she hopes this is something the Task Force will look into.

Dufrene said in preparation for the 2024/2025 Medicare annual open enrollment period, she hopes regulators and those with SHIPs within their departments of insurance (DOIs) will provide them the support needed because this upcoming enrollment period is going to be a wild ride trying to make sure that consumers understand the Medicare prescription drug payment plan. She said that the MA plans and prescription drug plans available for next year are not going to be as nice as they have been in the past.

Dufrene said she hopes the Task Force will continue to rally for federal SHIP funding. She said the $55 million that is available in funding is spread among the 54 SHIPs and certainly does not go as far as it did years ago. She said her office is 100% federally funded, and the amount of money they receive is a little over $700,000, which leaves little wiggle room for expenses. She said she knows all SHIPs struggle, and some do receive state funding, and she applauds those that do. She thanked the Task Force for all the support it has given to SHIPs and hopes it will continue to fight for the program because it is the best program out there.

Swanson thanked Dufrene for attending the meeting and said he is proud of Nebraska's SHIP program as well. He said the Nebraska DOI is struggling with fraud, and he sees it on a national level as well, where catheter braces are being sent without authorization. He said that elbow, wrist, and knee braces were sent to his mother's home a couple of weeks ago without authorization from her or her doctor. He said it is under investigation right now with the Office of Inspector General (OIG), and he asked Dufrene if she could comment on what a SHIP does in these particular instances.

Dufrene said every state has a Senior Medicare Patrol (SMP), which is a fraud unit. In some states, it may be housed within the SHIP, and in other states, such as Louisiana, Mississippi, Georgia, and possibly, Florida, it is housed within a different entity. She has heard of individuals getting fraudulent durable medical equipment (DME), and those individuals then work with their state fraud sections. She has received information on various fraud issues where companies have nurses administer tests on individuals so the company can count them as services provided, and Medicare reimburses the company. She said this DME fraud issue was a hot topic at the most recent SHIP/SMP conference in New Orleans last month.

Bartuska asked if the other states that have SHIP directors within their insurance departments are as concerned as much as North Dakota is regarding the new payment plan options, Medicare plan finder, and how those systems are going to communicate when it comes to the new Medicare Part D. She asked if there was anyone from the

© 2024 National Association of Insurance Commissioners

federal government in the meeting that could provide more information but also said she presumed the Medicare plan finder topic came up during the SHIP/SMP conference in New Orleans.

Dufrene said supposedly, the Centers for Medicare & Medicaid Services (CMS) and Medicare plan finder will have calculators at the end of September that should help these offices look at an individual's medications. She said this is called "smoothing," and although it may be a benefit to the individual, SHIP administrators need to access the system and become familiar with it before giving advice and recommendations to individuals. She used her father as an example, as he has some high-priced medications, but he also has five generic medications that are tier-one, so they are no cost. If she completes this smoothing process for her father, those generics will be factored in, and it could be more costly for him than more cost-effective. She hopes the calculators are released early enough so SHIP administrators can become familiar with their functionality before they help a beneficiary.

Seip asked if CMS gave a backup plan. Dufrene said no. The open enrollment period is October through December, while January through March is typically the Medicare Advantage open enrollment period. This time period will become the annual "file-a-complaint" period because this is when beneficiaries will file a complaint regarding receiving misinformation, which then was placed into plans that are no longer cost-effective for them, or they may file a complaint saying the information they received was completely inaccurate with the agent or company.

In July, Dufrene was told by CMS that the plans are reaching out to policyholders who have the higher-cost medications, are in the gap, and have gone into catastrophic to introduce the smoothing process to them. However, the policyholder's plan may not work for them next year, so they may need to change it, so while she applauds CMS for being proactive, she is leery that the policyholders are not going to receive the best information available.

Commissioner Kipper said this discussion has been incredibly informative. He said in his state, the SHIP program is housed in its aging division under its health and human services area, and his DOI could use better coordination with SHIP. It is clear that the Task Force needs to continue to work closely with SHIPs, both individually and collectively. He extended a regular invitation to SHIP directors to speak to the Task Force, as it continues to be incredibly supportive of federal funding for SHIPs.

3. Discussed Medigap Guarantee Issue and Provider Withdrawals from Medicare Advantage Plans

Commissioner Kipper said he hoped for representation from the Medicare Drug & Health Plan Contract Administration Group (MDHPCAG) at the meeting to answer questions from the Task Force, but no one from the group was in attendance. He said provider withdrawals from Medicare Advantage plans is a growing problem, and it was recently reported that seven Medicare Advantage plan participants are withdrawing from the plan, which leaves challenges for consumers. The Task Force has asked CMS and the federal government if the NAIC can offer greater oversight on Medicare Advantage plans, as a critical point for Medicare Advantage plans is approaching.

Swanson said since the Task Force's July 18 meeting, the Nebraska DOI learned that some hospitals in Western and possibly Eastern Nebraska have decided not to contract with their Medicare Advantage plans, which would leave beneficiaries in question. Hospital administrators are frustrated as they try to understand what the next steps are for enrollees, as well as SHIP administrators, agents, producers, departments, and others. He said there are many questions, including whether these beneficiaries are going to be able to get back into their original Medicare plans, whether they are going to get a guaranteed issue (GI) back into Medigap, and whether this is done on a case-by-case basis and how this process would work. Swanson said it has been wonderful to work with Derrick Claggett at CMS on this issue, but this is not his area of expertise, and unfortunately, he has been the one to handle many hospital administrators' questions. Swanson said the DOI is frustrated with the lack of answers and guidance from CMS on this issue.

© 2024 National Association of Insurance Commissioners

Swanson said there are retirees with limited incomes who were placed on this plan based upon what their employer did, such as Union Pacific in North Platte, NE, which is a huge employer. He said it is unknown what will happen next. He said the offices of Rep. Adrian Smith (R-NE) and Sen. Deb Fisher (R-NE) have made inquiries, and there are many concerned people in Nebraska who need answers. Swanson suggested the Task Force write a letter to CMS asking what this process is, how these things are determined, and when it will make a final determination.

Henderson echoed Swanson's comments and has been seeing the same thing happen in Louisiana. He said a couple of the main plans are terminating contracts with rural health hospitals, which will cause a large problem going forward. He asked how the beneficiaries will be serviced in their communities when there is no hospital contracted with Medicare Advantage plans that they signed up with years ago.

Seip asked if any additional detail can be given as to why representation from MDHPCAG is not here and what is the delay in hearing from them. She asked if they are working on a response, or if they are just not being responsive. She said it would be helpful to know so the next steps can be planned

Commissioner Kipper said it was his understanding MDHPCAG simply backed out of sending any representation. He said he did not know if this was for budgetary reasons or if it was simply deliberate. He said he will ask Derrick Claggett (CMS) if he has any further information, but he does not want to unnecessarily castigate them but said it is interesting that they are not in attendance when they knew that this was going to be a bone of contention for the Task Force. He asked Torian if he had any additional information.

Torian said he did not have any additional information, but Claggett is in attendance, and he might be able to provide some insight. He said this is not his area and does not know why MDHPCAG backed out. Commissioner Kipper said Claggett has been a great mentor to the NAIC and, in his opinion, an honest broker, and the Task Force appreciates everything he has done for and with this Task Force and the NAIC. He said he knows this is not an easy couple of questions coming up, but he appreciates his attempt to answer them.

Claggett said he is a senior advisor for Medicare and CMS, and his group is responsible for all aspects of enrollment for Parts A, B, C, and D. He said his group manages the enrollment provisions that allow consumers to migrate in and out of Medicare. He said that his colleagues from MDHPCAG were originally scheduled to be here, but he found out a couple of days ago that they were not going to be able to attend, and he apologized for their absence. He said he understands the significance of the issue, the passion behind it, and the individuals who are affected and impacted in a very negative way.

Claggett said he can offer a peripheral answer as to how a significant provider network change occurs. He said his enrollment group is responsible for establishing special enrollment periods that allow people to migrate in and out of Medicare Advantage plans. However, this particular policy is linked to MDHPCAG's determination that a significant provider network change has occurred. Once that determination is made by MDHPCAG, a special election period (SEP) is automatically granted for the beneficiaries that are impacted. He said that SEP does, in the case of a significant network provider change, allow for GI into Medigap, and therefore, consumers are not required to move from one Medicare Advantage plan to another. They also have the option of moving back to Medicare. The SEP is granted automatically simply because a significant provider network change has occurred. Once MDHPCAG makes that determination, the plan then notifies the beneficiaries. The logistics occur within CMS, so states do not have the responsibility of notifying the individuals.

Claggett said there are plan notices, which include information on how the individual receives a GI into Medigap from any insurance company; however, it is all contingent upon what happens in MDHPCAG. He can only speculate that MDHPCAG is reviewing a number of these significant provider network changes and could be encumbered with them, or it is examining particular nuances of the different significant provider network changes, and they

© 2024 National Association of Insurance Commissioners

are developing a comprehensive response. Some states have contacted their congressional representatives, and he has forwarded all that information to MDHPCAG. He said he does not know any further information about what is happening at MDHPCAG or why they have not responded.

CMS also has another SEP, where the secretary of the Department of Health and Human Services (HHS) has the authority to establish SEPs under exceptional circumstances. He is not sure if states are aware of this particular SEP, which is granted on a case-by-case basis. Claggett said CMS would grant this SEP on an individual basis if a beneficiary's access to services is impacted, if it is going to affect their continuity of care, or if it is going to prevent them from having a continuous stream of services. He said CMS would review supporting details and documentation to determine the eligibility for this SEP on a case-by-case basis, and individuals can call 1-800-Medicare and explain their situation, such as if their provider is leaving the network, and this would cause significant disruption. He said that particular SEP, when granted, will provide GI for that individual to join a Medicare Advantage plan.

Claggett said he wanted to make the Task Force aware that he knows this is peripheral to what happens in the black box with MDHPCAG, but he did want to offer whatever he could from an enrollment policy perspective that could be offered to individuals who are being impacted adversely by situations such as these. He said he is open to questions about the enrollment process but cannot address any of the issues around the determinations for significant provider network changes.

Bartuska asked if it is the insurer or if the plan is the one that needs to notify CMS that they are pulling out of a certain area or market. Claggett said typically the plan will notify CMS that there is a significant provider withdrawal in the middle of the year. Bartuska asked if that is when it triggers CMS to determine if that qualifies for open enrollment in that type of situation. Claggett said that is correct, and CMS would then work with the regional office and the area that is more familiar with the matter. There are boots on the ground in the regional offices to help determine whether or not it is deemed to be significant. Bartuska asked if there are guidelines and requirements for the carriers to notify CMS within a certain timeframe because this is happening to beneficiaries without knowledge that their plan is no longer in their area, and they are in the hospital. She said that does no good for them and asked if there are any guidelines that mandate carriers notify CMS within a certain time frame, such as 30 or 45 days, to get that process expedited to the beneficiaries. Claggett said he is unable to answer this because this would be in the purview of the MDHPCAG.

Swanson asked about the HHS secretary's ability to declare essentially an emergency and is that only on an individual basis, or can the secretary declare it without a request from an individual. Claggett said it is an individual case-by-case determination. He said the individual would call, and it could be that one individual is impacted adversely. For example, they were being treated for a chronic condition for the last three months, and their doctor is no longer available. He said this person can be granted an SEP, and it comes with the option to move to a Medicare Advantage plan or the option to go back to Medicare with GI. He said another individual could not have a chronic care condition but was treated by a doctor four months ago, and they may not get the SEP with GI. He understands the impact this is having on consumers and wants to make sure the Task Force, SHIPs, and other interested parties are aware of this option, and that it may work for beneficiaries who find themselves in this situation.

Seip said we are all well aware of how important this issue is and how detrimental it is to individuals. She said Iowa, being a rural state, is faced with provider contracting issues and the Medicare Select issue. She said she agrees with Swanson about sending a letter to CMS because she is concerned that key CMS leaders have not offered support or a solution. She also supports regulators contacting their congressional delegation as an additional option.

© 2024 National Association of Insurance Commissioners

Torian read a question from the WebEx chat from Arizona asking if there is a specific division that a beneficiary should contact to request this SEP. Claggett said beneficiaries can contact 1-800-Medicare, and they will route their call to the appropriate representative.

Dufrene responded to Bartuska's comments that the carriers do not have to send a letter to the beneficiaries that are going to be affected by the termination, and that it is incumbent upon the facility. She said in their annual notice of change letters that will be coming out in late September or early October, that information should be outlined; however, most consumers do not go through every single piece of mail. It is going to be incumbent upon SHIPs to work with the providers that they know are being terminated to get that information out to beneficiaries to let them know what their options are moving forward.

Bill Schiffbauer (Schiffbauer Law Firm) said there are a couple of things to consider when thinking about a letter. The number of solutions that have been discussed is dependent on individual case-by-case issues, which means the individual has to be aware. He asked if the department or SHIP is aware when it is an individual case. He said a general public statement from the administration about solutions is needed. Schiffbauer pointed to the *Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act* (#651), which all states have adopted and is a federal minimum standard because it is incorporated into the Social Security Act (SSA). There are several provisions that allow the HHS secretary to specify special circumstances or guidelines in some of these cases, such as when an individual changes their place of residence or other changes in circumstances that are specified by the secretary. He said another provision in Model #651 states that the individual can demonstrate, in accordance with guidelines established by the secretary, that the Medicare Advantage plan violated a provision of the organization's contract or misrepresented plans and provisions.

Schiffbauer said Section 12B(2)(e) of Model #651 states, "The individual meets such other exceptional conditions as the Secretary may provide." He said it seems to be a general statement that could be made, and it does not say it has to be by a rule, so it could be a bulletin or a letter that is more of general applicability based on these exceptional conditions, which these seem to be unanticipated changes, particularly with providers deciding to get out of the network versus the Medicare Advantage plan withdrawing.

Schiffbauer said that could be one of the considerations if a letter asks the administration for a more general statement that doesn't depend on the individual realizing that they have a right to the bureaucracy to make a determination for that one individual.

Claggett said this provision, U.S. Code Section 1882(s)(3)(B), is where the secretary may provide all of these provisions that have been discussed today, including the significant provider network change, and they are codified as exceptional circumstances that are outside of the typical GI that was discussed, such as in the choosing a Medicare policy guide, the trial rights and the 12-month trial right for Medicare Advantage at the inception of enrollment in Medicare, then the first-time trial right, then bankruptcy and insolvency, and then moving out of the area's network if it is select. He said those are codified specifically by statute, and these and many other exceptional circumstances are actually written regulations to support those exceptional circumstances. He said if the Task Force wishes to request the secretary to expand it in this particular case or to expand the provisions under the significant provider network change, they certainly can.

Seip made a motion, seconded by Swanson, to send a letter to CMS seeking information, guidance, and clarification on this topic to help states help their beneficiaries. The motion passed.

4. Discussed the Impacts of Section 1557 of the ACA and the Application of Nondiscrimination Rules to Medigap

Brian Webb (NAIC) said the final Section 1557 rule was published on April 26, 2024, and it prohibits discrimination on the basis of race, color, national origin, sex, age, and disability. He said the big difference with this new rule is

that it applies to all carrier plans that receive money from the federal government. He said the scope is much broader. For example, if a carrier receives ACA funding, it would apply to all the plans it offers, including Medigap plans, excepted benefit plans, and short-term, limited-duration (STLD) plans. He said the effective date generally is July 5, but the NAIC is most concerned about the provisions for plan years beginning on or after Jan. 1, 2025.

Webb said regulators are considering the rates and designs for these plans and are approving these plans for sale, reissuance, or renewal after that date. Regulators are receiving questions from carriers as to how these various provisions apply to plans beginning next year, such as asking if they cannot discriminate based on age They are asking if they can rate based on age after that initial period, or if they can rate based on health status, such as a disability, or if they can rate based on gender. They are asking if the rule means they can have a plan that only provides benefits to those over 65.

Webb said there are eligibility rules, and many states allow for some plans to be sold only to people aged 65 and over. Carriers are questioning if that is discriminatory. He said the rule also includes network adequacy and asked what it means to have adequate networks to prevent discrimination based on all of these considerations. The NAIC has contacted the HHS Office of Civil Rights (OCR) for answers since they are the primary enforcers of this rule.

Webb said in the NAIC comment letter sent two years ago when this original rule was proposed, the NAIC asked for clarification on how this would impact Medigap plans, as well as excepted benefit plans and others. He said the final rule states that when the OCR is investigating a discriminatory design feature in Medigap, it will evaluate the covered entities' legitimate non-discriminatory reasons for the challenge feature. He said the OCR is the enforcer, and when a discriminatory complaint is filed, it will review the plan to see if it has discriminatory designs. If the reason for the discrimination is based on a federal or state law requirement where the state law allows rating based on age or health status, for example, the OCR will take this information into account when evaluating the design feature. He said that the OCR has made it clear that Section 1557 would preempt a state's Medigap requirement law that compelled conduct prohibited by Section 1557.

Webb said state regulators have asked many questions, and the NAIC has reached out to the OCR, asking for clarification and guidance. As the NAIC receives plans and rates or plans that will be renewed next year or sold next year, he asked what the rules are. He asked what state regulators should be looking for, what is prohibited, or if it is going to be on a case-by-case basis, as this paragraph seems to imply. He said the NAIC has received no guidance.

Webb said the NAIC has talked to the leaders in charge of policy at the OCR since April, trying to get clarification, and the NAIC was recently bumped up to the director's office of the OCR. It has been attempting to meet with them to receive clarification so state regulators know what they should be enforcing. This rule would impact network adequacy, so clarification is needed there as well. He asked what the OCR would be doing about the network adequacy of Medigap plans in states and what they are expecting from state regulators. He said there are a lot of questions, and the NAIC has zero answers at this point.

Hohl said with Medigap, the network is Medicare, so then Medicare would be the network, unless it is a special type of Medigap. She asked whether Medicare’s network is adequate. Webb said Hohl was correct. Outside of the special Medigap plans, that network would not apply to Medigap.

Jackson Williams (Dialysis Patient Citizens—DPC) said the scenario that should concern regulators is one where an under aged 65 beneficiary in a state with no GI for under aged 65 beneficiaries could apply for a policy and, if denied, make a complaint to the OCR. He said he wants to make clear his organization has no plans to do something like this. However, any lawyer or rights-conscious person who comes down with an illness and becomes qualified for Medicare could do that. If the OCR upheld the violation, health insurers subject to Section 1557 would

© 2024 National Association of Insurance Commissioners

have to sell to disabled beneficiaries under age 65, but life insurance companies would not. He said this would fracture the Medigap market in those states to only have GI for primarily health insurance companies but not life insurance or property/casualty (P/C) companies that also sell Medigap, and health insurers who object to Section 1557 would probably have to drop out of the Medigap market. He said he does not believe Section 1557 prohibits age rating for Medigap, but an outright refusal to deal with a consumer based on them being under the age of 65 should be illegal, and the best way to prevent problems like this is for every state to enact laws or regulations guaranteeing issue to under aged 65 beneficiaries.

Schiffbauer said there is a fundamental issue with Section 1557. The provision that extends the reach of Section 1557 to all operations of a company is not in the statutory language of Section 1557. It is in the predecessor language of the Civil Rights Act amendments. He said if one applies the principles of the *Loper Bright Enterprises v. Raimondo* ruling by the U.S. Supreme Court, missing statutory text is a very important issue that has been created. He said in the regulation itself, in the preamble, the OCR extends this provision to all operations by saying it is reasonable to infer that these provisions in other sections of the statute, which are not in the statutory language of Section 1557, can be applied. He said under the Loper Bright ruling, the court would look at the statutory language and say this language is missing. Then there is a situation where the OCR has fractured the Medigap market with an inference, and the resolution of this is not an easy one to contemplate.

Schiffbauer said one option are for plans, within both the Medicare Advantage and the Medigap markets, could be to sue on the basis of Loper Bright, but there would be a lot of reluctance because of the optics. He said another option would be for the OCR to withdraw that provision and recognize what the Loper Bright decision has done, but that seems highly unlikely. He said a third option could be for the OCR to issue a regulation or amendment that gives an exception to actuarially based medical underwriting, and that it is not intended to be discriminatory but is based on actuarial principles in terms of cost, age, and the medical needs and claims that are anticipated.

Schiffbauer said the fundamental issue here is that the OCR has overreached by not having a statutory text as the basis of this, and they are making an inference saying it is in these other statutes that were enacted in 1984. He said there is a fundamental issue that has to be dealt with, and there are no easy answers, but this situation is caused by an over-exuberant bureaucracy that thought it could make an inference it really cannot anymore.

Meghan Stringer (AHIP) said AHIP is supportive of the underlying principles of this rule to ensure access to affordable health care for everyone but is also very concerned about the potential impacts of this rule both on the affordability of premiums and the ability of its members to continue to offer these products and stay competitive in the market. It is clear there are many questions both covered entities and regulators have about what exactly this means for Medigap carriers and the Medigap product in states. She said AHIP members want to sell products that they know are compliant with the law and do not want to guess and hope for the best. She said they want to start out with compliance and hope the OCR will provide some type of guidance and clarification. AHIP has shared these concerns with the agencies.

Stringer said additional clarification is needed around age rating and the way the final rule incorporates the age act exceptions via reference. AHIP wants to know what that means, how it works for each of these plans, and the way their rating systems are set up. She said many of its members with plans that are covered entities under this rule may be reaching out to regulators to file new products, and she said AHIP asks that the NAIC work with it closely as they make their best efforts to comply with this rule, even though there is still pretty substantial uncertainty about what full compliance looks like.

Commissioner Kipper asked Webb what options are available to question this final rule or make suggestions. Webb said an option is to send a letter to the OCR, asking for further guidance on how these provisions are to be implemented and enforced. He said the rule is in place but still has to be enforced, and there may be some leeway

© 2024 National Association of Insurance Commissioners

to figure out how it will be applied and the role of state laws. Webb said this is not just a Medigap issue, as there are other questions on STDL plans and network advocacy more broadly, so this is an option for state regulators.

Swanson made a motion, seconded by Commissioner Teo, to send a letter to the OCR seeking answers and guidance on Section 1557 and non-discrimination. The motion passed.

5. Discussed Other Matters

Kruger and Bartuska, on behalf of the Dakotas and the Task Force, wished Swanson a happy birthday. Swanson thanked them and asked the Task Force and others to keep in contact with SHIPs about the DME scams. He said they are ramping up again big time, and everyone should be aware. If anyone has these scams in their jurisdictions, they should work with SHIPs and fraud units and notify the OIG.

Having no further business, the Senior Issues (B) Task Force adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 7/24/24

Senior Issues (B) Task Force
Virtual Meeting
July 18, 2024

The Senior Issues (B) Task Force met July 18, 2024. The following Task Force members participated: Scott Kipper represented by Jack Childress, Chair (NV); Peni Itula Sapini Teo, Vice Chair (AS); Lori K. Wing-Heier represented by Sarah Bailey (AK); Mark Fowler (AL); Ricardo Lara represented by Emily Smith (CA); Karima M. Woods represented by Stephen Flick (DC); Trinidad Navarro (DE); Michael Yaworsky represented by Anoush Brangaccio (FL); Doug Ommen represented by Andria Seip (IA); Dean L. Cameron represented by Shannon Hohl (ID); Vicki Schmidt represented by Craig VanAalst (KS); Sharon P. Clark (KY); Timothy J. Temple represented by Vicki Dufrene (LA); Kevin P. Beagan (MA); Joy Y. Hatchette represented by Jamie Sexton (MD); Timothy N. Schott (ME); Anita G. Fox represented by Renee Campbell (MI); Grace Arnold represented by Cam Jenkins (MN); Chlora Lindley-Myers represented by Amy Hoyt (MO); Mike Chaney represented by Bob Williams (MS); Mike Causey represented by Robert Croom (NC); Jon Godfread represented by Chrystal Bartuska (ND); Eric Dunning represented by Martin Swanson (NE); D.J. Bettencourt represented by Maureen Belanger (NH); Alice T. Kane represented by Viara Ianakieva (NM); Judith L. French represented by Tynesia Dorsey (OH); Glen Mulready represented by Mike Rhoads (OK); Michael Humphreys represented by Shannen Logue (PA); Cassie Brown represented by Rachel Bowden (TX); Jon Pike represented by Tomasz Serbinowski (UT); Scott A. White represented by Julie Blauvelt (VA); Kevin Gaffney represented by Mary Block (VT); Mike Kreidler (WA); Nathan Houdek represented by Jennifer Stegall (WI); and Allan L. McVey represented by Joylynn Fix (WV).

1. Discussed the Medigap GI and Provider Withdrawals from Medicare Advantage Plans

Commissioner Teo, at the request of Commissioner Kipper, chaired this meeting. Swanson said a major hospital in Nebraska decided not to retain Medicare Advantage plans and got rid of their contracts. He said the hospital thought the Nebraska Department of Insurance (DOI) would have a say in getting people back onto original Medicare plans. He said the DOI did not think it could do that, but after speaking with the federal Centers for Medicare & Medicaid Services (CMS), it was verified they could do that. He said it was up to CMS to decide whether a special enrollment period (SEP) would be triggered under the scenario of a contract being severed.

Swanson said there is no resolution yet but that the heart of the issue is how CMS determines that an SEP is triggered under the new guidance recently issued and the enrollee can return to original Medicare. He said he believes that would also include Medigap but asked what the process that CMS engages in is and what happens in the meantime.

Swanson asked if other states' hospitals have decided they are no longer going forward with Medicare Advantage plans and, if so, what their experiences have been. He said he believes it comes down to a time and distance standard and how many Medicare Advantage plans are available within that.

Bartuska said she has heard of certain hospitals in her state also not taking a particular carrier's Medicare Advantage plans, which is related to an issue North Dakota has seen where a carrier withdrew their Medicare cost plan. Then, consumers were not allowed to go into other plans as a result of qualifying for a guaranteed issue (GI) open enrollment scenario when a carrier pulls out of a certain county. She said the issue of when an insurer has to discontinue a certain product because it is too populated in a certain area under federal guidelines should fall on the federal government to determine if these scenarios qualify for not only an open enrollment situation but, more importantly, a GI situation.

© 2024 National Association of Insurance Commissioners

Rhoads asked Swanson if he could go over CMS' explanation again. Swanson said the process is that the hospital notified CMS, as did the carrier. He said CMS gave the proper email box for the information from the hospital to go to; however, the hospital has not heard back yet on a resolution. He said the CMS representative for the area and the company is aware of it and is working with the folks back in DC about whether an SEP under the new guidance is warranted to get these enrollees back into original Medicare.

Bartuska said they reached out to their CMS contact, and he told them to email them every time this situation or scenario arises because then they will have to look into the whole network adequacy, and if these hospitals are not taking this insurance, then there is a whole network issue. She said North Dakota's State Health Insurance Assistance Program (SHIP) department is in its DOI, and some people have to be veered away from some carriers because that consumer will not be in the network. She said it is important to clarify to SHIP clients that they should carefully look at the network before purchasing a plan. She said the intent is not necessarily to veer people into insurance but that people do need doctors. Swanson said Nebraska's SHIP department is not in the state DOI, so he cannot give any advice on this issue.

Rhoads said the only advice is that within that 12-month trial period, they can go back to their original Medicare plan. He said they have these exits in Oklahoma with some health systems, and there is typically a lead-up of around six months. He said an announcement is made, and then on a future effective date, they will no longer accept any of those Medicare Advantage plan enrollees. He asked if that is also the case in Nebraska and North Dakota.

Swanson said there is notification, and CMS is pleased that there are plenty of months ahead of open enrollment, but he does not know the answer to the second part of the question. Rhoads asked David Torian (NAIC) if the Task Force could get something going with CMS. Torian replied that it could.

Dufrene said Louisiana was notified by one of its rural hospitals that it has also been told by a carrier that it is severing its contract and that hospital has talked to another rural hospital that has received the same letter. She said the initial hospital in question has been able to get the carrier to push the termination date closer to the end of the year so that the SHIP has time to work with the beneficiaries and advise them of their options.

Hohl said Idaho has worked with its CMS regional office. If CMS has determined that the network would no longer be adequate, the plan is sometimes discontinued mid-year, which itself would trigger the SEP for another Medicare Advantage plan or potentially go back to original Medicare. She said Idaho has not had any issues working with CMS on this as long as it was demonstrated that it had a significant enough impact on the network that people needed to have the option to move or that the plan was sometimes discontinued. She said this is certainly an issue the Task Force should all be aware of and was glad the Task Force is talking about it, particularly if it runs into it more and more in rural areas, but she said Idaho has so far been able to work through it with CMS to give people options.

Commissioner Teo asked Torian if this was something to be discussed further at the Summer National Meeting. Torian replied that it could be part of the agenda, as this is a serious issue. Torian asked whether enrollees can go to Medigap as well as their original Medicare plans if an SEP is triggered by Medicare Advantage plans being dropped. He said there seems to be more clarification needed.

2. Discussed Section 1557 of the ACA and the Application of Non-Discrimination Rules to Medigap

Brian Webb (NAIC) said this is an issue that goes back to the NAIC's comments on the draft Section 1557 rule back in October 2022. He said the NAIC, at that time, raised concerns about the proposed rule, which would apply non-discrimination rules not just to those plans that receive federal funds but to any plans of a company that receives

federal funds. He said it would apply to all accepted benefit plans (such as Medigap plans) if any part of a company received federal funds.

Webb said the NAIC took issue with the underlying idea that all funds are just fungible. He said if you are receiving federal funds for an Affordable Care Act (ACA) plan or a Medicare Advantage plan, you can just move that money around to your accepted benefit plans. He said that is not how it works, and the NAIC noted that it is actually done by markets, by plans. He said when the final rule came out earlier this year, the U.S. Department of Health and Human Services (HHS) Office of Civil Rights (OCR) still kept the application to all plans so if any part of a company receives federal funds and this is raising some alarm, especially for Medigap. He said that if you cannot discriminate or rate based on things like age, this could create a market where some Medigap carriers can age-rate while others cannot, creating an unfair playing field.

Webb said it also brings into question why they would not be able to do that for Medigap when they always have been able to, as age is often something they can rate on even in the ACA. He said that is what the question and final rule really did not address, and the NAIC continues to reach out to the OCR to see if we can have some conversations on this as well as some other issues, but for today's purposes, the concerns are about the impact this could have on Medigap plans.

Swanson asked about ongoing litigation on this issue. Webb said the courts made three different decisions related to this particular rule. He said two of them are specific to the sex discrimination definition—one of those an injunction has been applied nationally and the other one more regionally. He said there is a case regarding the application of the rule on Section 1557, but that seems to only apply to at least Texas and Montana right now. He said it is something that is being discussed, although the specific issue of application of the rule in question has not been the focus of those court cases.

Webb said the NAIC continues to reach out to the OCR on this issue to see if it can get more guidance on this and asked if states are hearing from insurance companies regarding whether this issue has been raised and what potential impact it could have. Rhoads said Oklahoma has not.

Bonnie Burns (Consultant to Consumer Groups) said she is concerned about the marketing that is going to take place for this open annual enrollment period and is also concerned about how Section 1557 elements are going to figure into the marketing once agents understand there is an issue. She said she would like to hear more from the states about what they are hearing about this issue or if it has not yet filtered down to the agent community.

Burns said that if the effective date of Section 1557 has already passed, then those insurers need to comply with those non-discrimination issues for this next SEP. She asked if some companies will not be able to underwrite or age rate Medigap while other companies can. Webb said there was a 60-day period, so it became effective 60 days from when this was published in May. He said that, after that date, carriers are prohibited from discriminating based on all those various categories. He said if they are rating based on those and they receive federal funds for any of their portion, then they could be in violation of Section 1557.

Burns asked how states will deal with this if the insurers have to comply with Section 1557 and how consumer groups will know whether they can or cannot underwrite or age rate. Webb said there is no guidance from the OCR about how to implement and enforce this, and that is one of the NAIC's big questions, and there is no answer. Burns asked what states are going to do. Webb said that currently, if there is a complaint, they can review it to determine whether that company is in violation, but there is no clarity as to what states' role in this is overall. He said this is a federal regulation, so the NAIC is not quite sure of the states' role right now. Burns asked if that means consumers and consumer groups advising consumers are on their own.

© 2024 National Association of Insurance Commissioners

Swanson said states are on their own at the moment. He said they do not have guidance from the OCR, and there is litigation that will throw a little bit of wrinkle into this. He said he would imagine the plans will publish their plan documents depending on how this goes, and then the SHIPs will take that information as best they can. He said if companies are asked if they are getting federal funds and think they are subject to it, states will have to make some filings at some point to reflect that, which will take quite some time. He said it will not be an overnight process and, especially with ongoing litigation, there will be a lot of confusion for a while. He said that the season is getting closer, and without any guidance, it could very well be an issue, but Nebraska cannot offer any guidance because it doesn't have its own yet.

Amy Killelea (Individual Consumer Advocate) said she agrees with Burns's concerns but that as a consumer representative focused on health insurance access for all, especially the vulnerable, she is excited about the prospect of Section 1557. She said this is a civil rights framework in the ACA and, as it relates to the court cases raised earlier, Section 1557 is a statutory provision that was not created by administrative rule. She said there is an administrative rule that gives contours to it, but that is strongly tethered to statutory language.

Killelea said that in terms of application to Medigap, she is glad the NAIC is having this conversation because consumer representatives are interested in the application of the Section 1557 non-discrimination provisions, not just to Medigap but also to the short-term plan rules and accepted benefits. She said she applauds the OCR for its intentional and exhaustive discussion of the application of the civil rights framework to these types of benefits.

Killelea said it is explicit in the preamble that there is not an intention to overturn the entire market but that the intention is to apply non-discrimination principles across the board to major medical and other health products and that is an overall win for consumers. She said in terms of litigation, there has been litigation for every piece of the ACA over the past decade or longer, and there will continue to be litigation, but Section 1557, as a statute, was not at issue, and there is no injunction on Section 1557. She said it is in full force and is a protection for consumers in every state.

Killelea said in the final rule, there are staggered implementation dates. She said the non-discrimination and health insurance coverage pieces track the usual plan year and ACA effective dates, so by the first day of the first plan year beginning on or after January 2025. She said she would conjecture that this would also apply to the Medicap market. She said that it is important to note and that it would allow for some lead time. She said that as a consumer representative, she looks forward to working with the NAIC, industry, and anyone who wants to sit and think about practical approaches everyone can support to ensure the provisions are implemented appropriately.

Burns said she would like to comment on the earlier topic of the SEP, especially as it relates to marketing because there is a new article from KFF that discusses past marketing efforts.

Burns said her concern is that many people will be inadvertently enrolled in Medicare Advantage plans and then be locked into those plans as the plans and providers go to war with each other because there are health care systems and medical groups consistently withdrawing from Medicare Advantage plans. She said there are Medicare Advantage plans terminating certain providers, particularly in rural areas. She said she has a real concern about the marketing that will happen, especially because of the legal freeze on HHS's efforts to control agent commissions. She said there needs to be much more discussion about this.

Having no further business, the Senior Issues (B) Task Force adjourned.

© 2024 National Association of Insurance Commissioners

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE

Property and Casualty Insurance (C) Committee Aug. 15, 2024, Minutes 7-2
Cannabis Insurance (C) Working Group May 8, 2024, Minutes (Attachment One) 7-11
Cannabis Insurance (C) Working Group Dec. 19, 2023, Minutes (Attachment One-A) 7-17
Cannabis Insurance (C) Working Group Nov. 14, 2023, Minutes (Attachment One-A1) 7-23
Joint Meeting of the Catastrophe Insurance (C) Working Group and the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group Aug. 13, 2024, Minutes (Attachment Two) 7-24
Transparency and Readability of Consumer Information (C) Working Group Aug. 8, 2024, Minutes (Attachment Three) 7-32
Revised Premium Increase Transparency Guidance Exposure Document (Attachment Three-A) 7-41
Comment Letters on the Previously Exposed Premium Increase Transparency Guidance (Attachment Three-B) 7-47

© 2024 National Association of Insurance Commissioners

Draft: 8/22/24

Property and Casualty Insurance (C) Committee
Chicago, Illinois
August 15, 2024

The Property and Casualty Insurance (C) Committee met in Chicago, IL, Aug. 15, 2024. The following Committee members participated: Alan McClain, Chair, and Russ Galbraith (AR); Michael Conway, Co-Vice Chair, represented by Kate Harris (CO); Michael Yaworsky, Co-Vice Chair, and Virginia Christy (FL); Mark Fowler (AL); Andrew N. Mais and George Bradner (CT); Amy L. Beard represented by Victoria Hastings (IN); Vicki Schmidt (KS); Mike Chaney represented by Andy Case (MS); D.J. Bettencourt represented by Christian Citarella (NH); Alice T. Kane represented by Melissa Robertson (NM); Scott Kipper represented by Gennady Stolyarov (NV); Andrew R. Stolfi represented by Cassie Soucy (OR); Larry D. Deiter (SD); Tregenza A. Roach (VI); Kevin Gaffney (VT). Also participating were: Ken Allen (CA); Cynthia Amann (MO); and Michael McKenney (PA).

1. Adopted its Spring National Meeting Minutes

Commissioner Mais made a motion, seconded by Director Deiter, to adopt the Committee's March 18 minutes (*see NAIC Proceedings – Spring 2024, Property and Casualty Insurance (C) Committee*). The motion passed unanimously.

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

A. Casualty Actuarial and Statistical (C) Task Force

Citarella said private flood insurance is becoming a prominent and needed coverage. While the Task Force was happy to see the Private Flood Insurance Supplement (Supplement) in the Property/Casualty (P/C) Annual Statement Blank to aid state insurance regulators in understanding the private market, insurers are not consistently reporting this information. Additionally, it is likely that the international data does not provide the same information as the Supplement in the annual statement.

Citarella said the NAIC Rate Model Review Team director, Kris DeFrain, reported to the Task Force that the team is booked nine months out. This is a much longer timeline than their goal of 30 days. Most importantly, the Rate Model Review Team cannot accept any new rate submissions for at least the next six months while they are reviewing filings that have already been submitted.

Citarella said the possibility of hiring more actuaries has been proposed to NAIC senior management for possible consideration during the budget process. Senior management would like the commissioners to consider the value of this service and whether they want to staff the team so that reviews are done in 30 days or less. Senior management would also like suggestions on how to potentially fund this program, as well as changes that can be made to make the service more cost-efficient. While the Executive (EX) Task Force will discuss this issue in the budgeting process, the Casualty Actuarial and Statistical (C) Task Force is asking the Committee to provide input into the process and communicate the needs and importance of this team to the state insurance regulators. Citarella said state department of insurance (DOI) resources are often limited. The Rate Model Review Team is helping state insurance regulators as rating models continue to increase in complexity and the frequency in which they need to be reviewed, making the Rate Model Review Team indispensable.

© 2024 National Association of Insurance Commissioners

B. Surplus Lines (C) Task Force

Director Deiter summarized that the Task Force exposed the surplus lines service process form for a 30-day public comment period ending Sept. 13. The modifications from the original Uniform Consent to Service of Process (Form 12) primarily addressed an issue related to the location of parties for potential lawsuits. The language within the new surplus lines service process form aligns with the language of the newly adopted *Nonadmitted Insurance Model Act* (#870). The amendments to the International Insurers Department (IID) Plan of Operation were also adopted. He summarized that the Plan of Operation provides guidance and requirements for non-U.S. insurers currently on or seeking admission to the *Quarterly Listing of Alien Insurers*. The Task Force adopted its 2025 charges and the Surplus Lines (C) Working Group's 2025 charges. Director Deiter indicated that new minimum requirements were presented for exempt commercial purchasers, effective Jan. 1, 2025. Lastly, he summarized that the Task Force heard a presentation from the National Association of Public Insurance Adjusters (NAPIA) regarding concerns with anti-public adjuster endorsements within certain policies.

C. Title Insurance (C) Task Force

Commissioner Gaffney said the Task Force met Aug. 14. The Task Force anticipates adopting the updated *Survey of State Insurance Laws Regarding Title Data and Title Matters* at the Fall National Meeting.

Looking into fraud trends, industry is experiencing increased wire fraud from advances in artificial intelligence (AI) combined with a fast-paced real estate market and the prevalence of consumers communicating and transacting via mobile phones. Fraudsters are using AI to draft nearly pitch-perfect emails or voicemails to approach the buyer.

Additionally, there have been several title-related federal activities since President Biden said his administration would eliminate title insurance fees for federally backed mortgages during his State of the Union Address in March. Following this, the U.S. House of Representatives (House) Financial Services Subcommittee held a hearing that included discussion about the Federal Housing Finance Agency's (FHFA's) pilot program to waive traditional title insurance, effectively allowing Federal National Mortgage Association (Fannie Mae) to self-insure.

In May, the Federal Home Loan Mortgage Corporation (Freddie Mac) began allowing attorney opinion letters (AOLs) to replace title insurance in most states. Following this, the bipartisan bill, Protecting America's Property Rights Act (H.R. 5837), was introduced into the House. This bill requires title insurance on all loans purchased by Freddie Mac and Fannie Mae.

In June, NAIC staff responded to Rep. Emmanuel Cleaver (D-MO), addressing his concerns about title insurance, AOLs, and consumer protection. The letter emphasized the Task Force's efforts to analyze the benefits and risks of alternatives to title insurance and its commitment to educating consumers.

On June 13, Rohit Chopra (Consumer Financial Protection Bureau—CFPB) testified before the House Committee on Financial Services about the CFPB's role in regulating title insurance and the importance of disclosures in the Real Estate Settlement Procedures Act (RESPA). Rep. Blaine Luetkemeyer (R-MO) argued that insurance is regulated at the state level and that title insurance is outside their authority. Chopra emphasized that the CFPB does have authority over disclosure practices related to mortgage insurance but respects the state model for the business of insurance.

On July 10, following White House directives to reduce housing costs, the Federal Insurance Office (FIO) held a title insurance roundtable. Commissioner Chlora Lindley-Myers (MO) and Commissioner Doug Ommen (IA) participated. The overarching themes were the demands for more competition, transparency, and consumer protection in the title insurance sector. The FIO is not contemplating further action at this time.

© 2024 National Association of Insurance Commissioners

Commissioner Roach asked if replacing title insurance is to save buyers' fees and if AOLs are without cost. Commissioner Gaffney responded that if the title insurance cost is eliminated, there is still a cost associated with AOLs. AOLs are often backed by surplus lines market products. The Task Force has requested but has been unable to obtain documents on how AOLs address consumer protection. Commissioner Roach said the title-related federal activities should be assessed against traditional title insurance. However, he acknowledged they do not have the jurisdiction to require the information.

D. Workers' Compensation (C) Task Force

Commissioner McClain said the Task Force met Aug. 8 and heard an update on the state of the workers' compensation market from the National Council on Compensation Insurance (NCCI). The workers' compensation industry is quite strong; the combined ratios have been under 90% for the past seven years. Commissioner McClain said the Task Force will be meeting in person at the Fall National Meeting.

E. Cannabis Insurance (C) Working Group

Allen said the Working Group met May 8. There continues to be a lot of activity regarding cannabis issues in U.S. Congress (Congress). Most financial services sectors continue to be reluctant to do business with cannabis-related businesses due to marijuana's federal classification as a Schedule I controlled substance under the Controlled Substances Act (CSA). The Secure and Fair Enforcement Regulation (SAFER) Banking Act of 2023 has had the most momentum in addressing these issues. The bill passed the Senate Banking Committee with bipartisan support but faces challenges in reaching a consensus with all members.

Additionally, in May 2024, the U.S. Department of Justice (DOJ) formally moved to reclassify marijuana as a Schedule III substance alongside drugs like ketamine by sending a proposed rule to the Federal Register. The Drug Enforcement Administration (DEA) took comments on the proposal through July 22. It received over 40,000 comments. The process for a potential approval is anticipated to be lengthy.

In looking at the cannabis market, expansion has been driven by newer markets, mainly in the Northeast and Midwest. Growth and prices have declined substantially in mature markets, mainly in the West and Northeast. Sophisticated products sold by multistate brands account for the majority of sales. Medical-use cannabis is anticipated to continue declining as more states allow for recreational use.

Regarding insurance availability, directors and officers (D&O) and cyber coverage are becoming more affordable with better coverage. Reinsurance capacity has increased. Key person coverage, product contamination, and cannabis-focused specialty solution programs with language specific to cannabis are also becoming available. Admitted general liability and product liability coverages are available in 10–15 states. Outdoor crop coverage remains unavailable outside of parametric coverage. However, parametric coverage is now available in more states. Auto insurance is still problematic and expensive. Property coverage is limited and commonly self-insured. Life insurance remains difficult to find.

F. Catastrophe Insurance (C) Working Group

Amann said the Working Group and the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group met in joint session Aug. 13. FEMA presented updates to its Community Rating System (CRS) and will provide a more detailed webinar Aug. 22. FEMA also provided information on its new direct-to-consumer (D2C) product.

Amann said Brian Powell (CIPR) provided an update on the Center of Excellence's (COE) resilience hub. The Working Group will begin meeting monthly with the COE and Climate and Resiliency (EX) Task Force to ensure group collaboration and prevent project repetition or overlap. Dave Snyder (American Property Casualty Insurance

© 2024 National Association of Insurance Commissioners

Association— APCIA) presented information about why insurance prices have increased, how policyholders might lower their premium cost, and discussed mitigation discounts. There was also discussion about how risk mitigation plans are important not only for the individual but for the whole community.

Amann said the Working Group is nearing completion on the Catastrophe Insurance Modeling Primer (Primer). The purpose of the Primer is to offer a document providing the fundamental concepts surrounding probabilistic catastrophe models and to serve as a bridge to available training from the COE.

In terms of the next steps, the Primer is currently being reviewed by experts at the COE and others. Once feedback is received, the drafting group plans to reconvene at the beginning of September with the goal of exposing the Primer to the Working Group, interested state insurance regulators, and interested parties before year-end 2024. The Working Group anticipates adopting the Primer on or before the Fall National Meeting.

G. Terrorism Insurance Implementation (C) Working Group

The Working Group had nothing to report as it has not met since the Spring National Meeting.

H. Transparency and Readability of Consumer Information (C) Working Group

Bradner said the Working Group is working on a guidance document for states wishing to implement a disclosure notice process for insurers to explain to policyholders why their premium for either personal auto or homeowners policy increased.

The guidance uses a bifurcated approach to allow insurers time to implement the needed processes. In Phase One, insurers need to notify policyholders of their right to request an explanation for their rate increase. Instructions on how this should be done are included in the guidance. Once a policyholder provides a written request for an increase at the policy's renewal, insurers must provide reasonable explanations for premium increases. This is in line with current industry practices.

Bradner said the guidance recommends Phase Two begin three years after Phase One. In Phase Two, notice is triggered when the renewal premium increases by 10% or more or upon the policyholder's written request for any increase. Insurers must send the disclosure notice at least 30 days before the renewal date. Notices must have reasonable explanations and include the primary factors, which are defined in the guidance, of the premium increase. A suggested template for auto and homeowners disclosure notices is also included in the guidance.

For both phases, insurers must respond to a policyholder's written request for explanation no later than 30 days for the first request and 20 days for subsequent requests. To address industry concerns, the guidance clarifies that insurers should make every effort to respond prior to the renewal date, but the premium due date will not be altered.

The Working Group made substantial revisions to the guidance document based on comment letters it received during its previous exposure period in February. The most substantial change was combining the capping and non-capping guidance documents into one guidance document that applies to both. Additional revisions focused on improved clarity and readability. During the Working Group's virtual meeting Aug. 8, it exposed the revised guidance document with comments due Aug. 30. The Working Group's intent is for the guidance document to be adopted before the Fall National meeting.

Stolyarov said Nevada is in the early stages of working on a regulation for the disclosure of rate increases, particularly for homeowners policies. He asked if the guidance written by this Working Group could be adapted to the text of a regulation or referenced in some way. Stolyarov said Nevada has written the preliminary text of

© 2024 National Association of Insurance Commissioners

the proposed regulation. He asked if there could be some coordination between Nevada's approach and the NAIC guidance. Bradner responded that this is possible. He also noted that Indiana and Washington have provided guidance to the industry about reporting, which could provide additional guidance for Nevada.

Commissioner Schmidt made a motion, seconded by Commissioner Gaffney, to adopt the following reports of the following task forces and working groups: Casualty Actuarial and Statistical (C) Task Force; Surplus Lines (C) Task Force; Title Insurance (C) Task Force; Workers' Compensation (C) Task Force; Cannabis Insurance (C) Working Group (Attachment One); Catastrophe Insurance (C) Working Group; and Transparency and Readability of Consumer Information (C) Working Group (Attachment Two). The motion passed unanimously.

3. Heard a Federal Update

Shana Oppenheim (NAIC) said the federal government, Congress, White House, and federal agencies continue to be active in several areas that impact the P/C market, including natural disasters and housing affordability, cannabis banking, title insurance, and marine insurance of illicit oil shipments.

On the legislative side of the natural disaster and housing affordability front, several bills are providing funding, tax incentives, and research for state mitigation and resilience programs to address property insurance market challenges arising from natural disasters that have been introduced in both the House and Senate. Oppenheim said that given the August recess Congress is currently in and the limited calendar year before the election, as well as the fact that it is an election year, she does not expect any of those to pass this Congress. Congress has also held several hearings in the past few months on housing affordability and the insurance component of housing and title insurance. Additionally, the FHFA's pilot program allows Fannie Mae to self-insure the title insurance on mortgages to reduce costs. Overall, there is an increased interest in housing affordability and, specifically, how to reduce costs, including targeting insurance and title insurance.

The FHFA initiated a stakeholder engagement process to address concerns over property insurance requirements following recent clarifications. It aims to gather feedback from the mortgage, insurance, and community association sectors, focusing initially on compliance challenges related to a property's replacement cost valuation and claims settlement practices.

Switching to another issue of interest to the P/C market, there continues to be a push for cannabis financial services legalization. Senate Majority Leader Chuck Schumer (D-NY) has indicated that he does plan to bring the SAFER Banking Act to the Senate floor soon. It is uncertain as to whether the Act will pass. The rescheduling of cannabis from a Schedule I to a Schedule III drug, which is being contemplated by the DOJ, could lead to significant tax breaks and increase access to capital for cannabis markets. The rescheduling does not affect the need for the SAFER Banking Act because there is still going to be a need for insurance and banking access within the cannabis industry.

Oppenheim said the Stopping Illicit Oil Shipments Act of 2023 (H.R. 6365) was introduced by Rep. Maxine Waters (D-CA). The Act would require the Office of Terrorism and Financial Intelligence within the U.S. Department of the Treasury (Treasury Department) to issue rules about unverified ship registrants in insurance contracts. This would require the Treasury Department to report to Congress.

Commissioner Roach asked if there is any support from the DOJ to move cannabis from a Schedule I drug to a Schedule III drug. Oppenheim said it will be going through the public exposure process, and she speculates it will likely happen. She said that Congress does not really have anything to do with it; however, there might be some interplay between the overruling of the Chevron deference and whether challenges can be brought under the authorizing statutes that allow the governing agencies to make that move. There has not been much conversation in Congress about this topic.

© 2024 National Association of Insurance Commissioners

4. Heard an Update on the PCMI Data Call

Commissioner McClain said the Property & Casualty Market Intelligence (PCMI) Data Call was issued March 8. Data was due June 6, although some extensions were given. Filings have been received from most of the insurance companies.

Commissioner McClain said that NAIC staff have been reviewing files and have followed up with many companies about data anomalies. In some cases, insurers needed to refile. This process continues to ensure there is a good data set to analyze. The state insurance regulator steering committee meets regularly to provide input on the analysis of the data. State insurance regulators started with a series of questions last fall related to affordability and availability, changing trends and coverages, and deductibles, among other things. States will have access to the raw data to conduct their own analysis. The NAIC also plans to issue a summary analysis later this year.

5. Heard a Presentation on Homeowners Insurance Markets

Robert Gordon (APCIA) said it is well known that property insurance markets are deteriorating, and the industry's profitability is down. He said homeowners and private passenger auto (PPA) lines have seen high losses. These lines have had low to negative returns on net worth, well below other sectors, as reported in the *Report on Profitability by Line by State* (Profitability Report).

Gordon said homeowner losses are being driven by a rise in exposure values and replacement costs; the natural variability that comes with any five-year sample of catastrophe experience; effects of climate change; and impacts of man-made loss drivers, such as social inflation and legal and regulatory factors. He noted that inflation and rebuilding costs are up. He explained that when looking at U.S. insured losses from 2008–2023, general inflation and economic growth/urbanization were the largest drivers, followed by societal and behavioral trends, inflation costs for repair, material, and climate change. He also noted that the costs of legal system abuse are increasing.

Gordon noted that housing affordability is at low levels, and insurance accounts for about 6.5% of homeownership compared to 64% for mortgage, 14% for utilities, 11% for property taxes, and 4% for maintenance. He said homeowner insurers are dealing with these stresses through product design by sometimes using actual cash value (ACV), changing deductibles, and limiting individual perils.

As for solutions, Gordon said state insurance regulators should not suppress rates, as that contracts capital and encourages overbuilding. He said reinsurers have ample disaster capital on the sidelines, and government-subsidized backstops displace private markets and mask socially beneficial climate risk signals. He said insurers are leading efforts to make communities more resilient and to mitigate risks. They are working with federal and state policymakers, supporting resiliency and mitigation programs, and advocating for stronger building codes and land use policies. Companies are also advocating for financial support to increase resilience for vulnerable populations and investing in climate and renewable technologies. He said the changes to building codes led to significant cost savings following Hurricane Ian compared to what the storm would have caused in the 1970s.

Commissioner Yaworsky said it seems leaders in the industry experience a challenge in separating out, for example, the growing population that is up against climate-impacted or severe weather-impacted areas and muddling those losses together to frame a picture today that climate change is the main driver of these impacts. As shown in this presentation, the areas where climate change is the main driver in those impacts, the entire bundle of challenges that are raising the cost of insurance or putting pressure on the industry in this totality places it at about a 1% impact point.

© 2024 National Association of Insurance Commissioners

Commissioner Yaworsky said the challenge for both industry and state insurance regulators is to convey climate change as accurately as possible when talking about the actual wet global weather and weather patterns that emerge over time so that it is possible to truly tackle the issues, which can include things like the fact that we have a growing population center that is brushing up against more extreme areas with more extreme weather.

Stolyarov said he represents Nevada, with minimal catastrophic loss experience; however, recently, Nevada has had real wildfire loss potential. He said the answer proposed in the presentation of essential rate increases as adequately addressing the risk of catastrophe loss potential might not actually be the answer. Stolyarov said the increase in capacity on the part of the insurer level might be the answer because of how insurance pricing works. He said the premium could have a catastrophe load built into the base rate to account for the expected value of the risk of catastrophe loss. He said there might be a little margin for conservatism, but in a good year, if no catastrophe happens, the portion of the premium dedicated to the catastrophe load does not get stored away in some catastrophe loss fund for future years; it gets paid as dividends perhaps, or it might get used for sheer repurchases or other current expenditures.

Stolyarov said that 10 or 50 years later, when a catastrophe occurs, there is no prior premium to pay for the losses. He said if a rate increase is based on catastrophe losses and the state insurance regulator approves the rate filing, then the money is likely never going to be used to pay for catastrophe losses. Stolyarov asked if there would not be a better solution where insurers could set up dedicated catastrophe loss funds where these assets are locked away and used only for paying for a catastrophe, whether that be this year, five years, or 10 years down the line. This way, states may not have to be faced with rate increase requests every time a major catastrophe happens, or a model predicts that it might happen.

Gordon said that, as an industry, they have supported some of that so that consumers can build up some tax-free catastrophic accounts. Generally, though, when investors look at markets and decide how to allocate capital, whether it is insurers, reinsurance, or alternative capital, they do look at the long-term profitability of the market so it is not just what happened in the last year, but what happened over a long period of time and what the models say is going to happen in the future to decide.

Commissioner Roach said he lives in an area of the Virgin Islands where there is already restricted and shrinking coverage for P/C exposures, but these areas are still prone to the impacts of climate change. He asked whether the APCIA sees more coverage declining or increasing costs of coverage. Commissioner Roach also asked what some of the objective considerations were being made to make the determination to deny coverage due to climate change. He asked what some of the objective considerations being made are when there's a denial of climate change coverage.

Gordon said the APCIA brought together a group of chief executive officers (CEOs) in a catastrophic risk insurability working group to try to understand catastrophic cyber, terrorism, pandemic, wildfire, and windstorm risks, among others. The CEOs concluded that the weather would be very insurable if the government allowed the private marketplace to work. They felt confident that they could bring enough capital to the market, even with the increasing costs being caused by climate change, if they were allowed to charge the right rate.

Gordon said the problem is there is always this tension because of the affordability aspect; just because insurers can bring in more capital at the right rate to provide coverage does not mean it is going to address the concern about how homeownership is getting more and more out of reach for consumers. Gordon said the question is how you make that coverage affordable for as many people as you can. That gets back to mitigation, resiliency, and the ability to offer more coverage options that can help consumers. It is hard for states to fix inflation or the weather, but hopefully, things like the cost of the legal system and regulatory costs can find the right balance to get an efficient system.

© 2024 National Association of Insurance Commissioners

Commissioner Roach said he is preparing himself as an insurance regulator for when consumers can get coverage, and climate change is the undue response. Gordon said he believes it is an affordability issue and that climate change over time is going to make coverage less and less affordable, which is a concern to the APCIA. He said, however, that some perils, like wildfire, are impacted by climate change more than others. Gordon believes that it is important to recognize this in public policy discussions.

McKenney said that he noticed the presentation discussed underwriting results but not investment returns. He said he believes investment returns have been high and asked about their impact. Gordon said that the easiest way to look at the impact of investment returns is to look at the industry surplus; it took a $72 billion hit in 2022, and the global reinsurance industry took a 12% hit on its capital. He said that the surplus is currently at about the same nominal level that it was two years ago, but in real terms, it is less, and compared to the demands, it is a lot less. Gordon said there have been some investment returns, but not every insurer has been putting all their money into profitable investments. Gordon said insurers cannot always depend on market returns, and the thing to look at is the real surplus and the capital available compared to the growth in the economy and the insurance demand. He said that right now, the surplus is still declining in real terms and has not caught up to demand.

McKenney said the presentation indicated that coverage is being moved toward ACV and higher deductibles to help deal with some of the cost issues. He said that Fannie Mae has recently put out a bulletin indicating that it does not accept ACV and that deductibles cannot be higher than a certain amount. McKenney said he has talked with another low-income mortgage loan servicer that has similar deductible requirements. He asked how state insurance regulators should view the strategy of moving toward less coverage that perhaps some mortgage lenders are not accepting. McKenney said the last thing state insurance regulators want is for insurers to write business for a policyholder and then move them to a high deductible or ACV, only to have their mortgage lender force place the insurance.

Gordon said the APCIA has been talking extensively about the ACV issue, not only with Fannie Mae and Freddie Mac but with the FHFA trying to get the rule to recognize and allow how the market works. He said this issue is reminiscent of a similar problem that occurred following some of the Florida hurricanes a couple of decades ago. Gordon said that insurers had to create a separate wind deductible to make insurance affordable. He said Fannie Mae and Freddie Mac did not want to recognize this, and there was a fight with Congress, those mortgage lenders, the state insurance regulators, and the insurance markets before all parties found a workable solution. Gordon said the APCIA is holding constructive, good-faith dialogues to work out this issue. Gordon said it is clear that roof replacements have become the primary cost of non-catastrophic homeowners' losses from hail, thunderstorms, etc. He said there has also been an enormous amount of roofing fraud. Gordon said that this issue must be worked out. He believes the APCIA will arrive at a solution with the FHFA.

Cate Paolino (National Association of Mutual Insurance Companies—NAMIC) gave a presentation and said several pressures are converging to create a new era of risk for the P/C industry, including extreme weather, inflation, and the legal system. She explained that severe convective storm losses have increased by nearly 9% annually since 1990. She said the solution should be bending the loss curve down using hazard and migration measures, including building codes and Insurance Institute for Business and Home Safety (IBHS) building standards. She also noted that people have been moving to coastal areas over the past 50 years.

Paolino noted that unintended consequences should be avoided, such as recent activities by FHFA that consider allowing replacement cost policies. She also noted a rise in nuclear legal verdicts and third-party litigation funding. Paolino said reforms such as the ones Florida took to improve the legal landscape have improved, as at least 19 Florida insurers have filed for rate decreases or no increases in 2024.

Paolino said solutions include a multi-pronged approach to bend the curve through a package of mitigation and resiliency steps, from grants to savings accounts, from building codes to land use, and from collaborating with

© 2024 National Association of Insurance Commissioners

other agencies; retaining discipline with respect to fundamentals like risk-based pricing, consumer choice, and market-based competition; and putting guardrails around litigation and taking steps to combat legal system abuse.

Amy Bach (United Policyholders—UP) asked for time to provide perspectives on the presentation at the next meeting. She asked if the Committee has looked at ways of reducing non-essential coverages, such as contents and other structures, as an alternative so that it is still delivering products that provide indemnification to restore mortgage collateral, which, at the end of the day, is why those letters require that level of coverage.

Paolino responded that the question and concern NAMIC has is where the requirement for coverage is above and beyond the amount of the loan. Stepping back to Bach's question about other possibilities, Paolino said she believes that having diversity in the marketplace on a whole range of issues is a positive, and though NAMIC cannot necessarily have conversations with members about what they do in the marketplace, they can convey state insurance regulators' questions in her report.

Ken Klein (Consumer Advocate) said he is interested in why Paolino equates a large verdict with a wrong verdict. He asked if the worst actors are being emboldened and policyholders are being harmed by reforms addressing nuclear verdicts, assuming the system is working correctly. Paolino said there were more items she could have referred to but did not. She said the piece by the Institute for Legal Reform (ILR) points to not only the size of the verdict but also to some of the processes around the process of how litigation unfolds to increase the award. Paolino believes there are several different components beyond nuclear verdicts that would make for an interesting conversation.

Gordon said the U.S. is an enormous outlier across the globe in terms of the amount of money that gets sucked out of the legal system and goes to lawyers instead of policyholders or injured victims. He said the APCIA's members want a fair and cost-effective legal system. Gordon said the APCIA is always looking for ways to improve the efficiency of the legal system. He said that the APCIA also recognizes the increasing legal costs while seeing homeownership becoming less and less available to consumers. He said that the property reinsurance market has been stabilizing, but the casualty reinsurance market is hardening again. Gordon said the reserve development from increasing legal costs is becoming worse, which is an emerging problem.

Commissioner Yaworsky said he appreciated the recognition of the number of insurers that have either filed annual filings of zero or a reduction. He noted that this past week, he got an update that there are now 43 companies in the state of Florida that have filed for reduction since its tort reform was enacted. Commissioner Yaworsky said the reforms Florida put into place are biting hard into that space when waste for abuse in the legal environment is discussed, and Florida is seeing positive impacts. He said he believed the goal was to bring Florida back to a rational system. Commissioner Yaworsky said Florida had a law that incentivized anyone, in any situation, to litigate regardless of the merits of their claim, and this precipitated enormous costs.

Commissioner Yaworsky said that, as an example, he believed that in 2022, the pure raw cost to the insurance industry, which was receiving $20 billion in direct written premiums, spent about $2.5 billion defending litigation. He said this was ultimately passed on to the policyholder. He said just by restoring rationality and Florida rejoining 48 other states on a contingency fee-based system, there seem to be dramatic impacts on the cost of insurance in Florida. Commissioner Yaworsky said Florida's system and the reinsurance market were stabilizing, and the reinsurance market, with the average rate of the cost of reinsurance risk-adjusted for the first time in seven or eight years, has gone down. He said Florida is excited to see a stable return for its consumers and would be happy to speak to anyone about the merits.

Having no further business, the Property and Casualty Insurance (C) Committee adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 6/17/24

Cannabis Insurance (C) Working Group
Virtual Meeting
May 8, 2024

The Cannabis Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met May 8, 2024. The following Working Group members participated: Tyler McKinney, Chair (CA); TK Keen, Vice Chair (OR); Austin Childs and Nathan Hall (AK); Catherine Reaves (DE); C.J. Metcalf (IL); Deborah Ivory (MS); Randall Currier (NJ); Elouisa Macias (NM); Gennady Stolyarov (NV); Sebastian Conforto (PA); Carlos Vallés (PR); Beth Vollucci (RI); Karla Nuissl (VT); and Michael Walker (WA).

1. Adopted its Dec. 19, 2023, Minutes

Currier proposed the phrase "for a jewelry store" be removed from the first paragraph on the fourth page of the Working Group's Dec. 19, 2023, minutes.

Currier made a motion, seconded by Walker, to adopt the Working Group's Dec. 19, 2023, minutes (Attachment One-A) with the aforementioned revision. The motion passed unanimously.

2. Heard an Update on Cannabis-Related Legislative Activities

Alex Swindle (NAIC) stated that there continues to be a lot of activity on cannabis issues in the U.S. Congress (Congress). Members of Congress from states where cannabis is legal have historically supported giving the cannabis industry access to insurance and banking services. Most financial services continue to be reluctant to do business with cannabis-related businesses due to the federal classification of marijuana as a Schedule I controlled substance under the Controlled Substances Act (CSA). This leaves many legal businesses unable to access insurance bank accounts or lines of credit. The result is that most cannabis businesses operate on a cash basis, which is very risky. A few bills have been introduced over the years to address this. However, the Secure and Fair Enforcement Regulation (SAFER) Banking Act has had the most momentum. This bill provides protection for federally regulated financial institutions that serve state-sanctioned marijuana businesses. Under the bill, a federal banking regulator may not penalize a depository institution for providing banking services to a state-sanctioned marijuana business. The bill also prohibits a federal banking regulator from requesting or requiring a depository institution to terminate a deposit account unless: 1) there is a valid reason, such as the regulator has cause to believe that the depository institution is engaging in an unsafe or unsound practice; and 2) reputational risk is not the dispositive factor. Additionally, proceeds from a transaction conducted by a state-sanctioned marijuana business are no longer considered proceeds from unlawful activity. Furthermore, a financial institution, insurer, or federal agency may not be held liable or subject to asset forfeiture under federal law for providing a loan, mortgage, or other financial service to a state-sanctioned marijuana business.

The SAFER Banking Act would improve the transparency and accountability of these businesses by enabling their financial information to be tracked and reported. The text of the bill also provides protections for insurers engaging in the business of insurance with a state-sanctioned marijuana business or service provider of the relevant legal jurisdiction against being held liable pursuant to any federal law or regulation solely for providing a financial service or for further investing any income derived from such a financial service. The language of the SAFER Banking Act also expands these protections to insurers that "otherwise engage with a person in a transaction permissible pursuant to a law (including regulations)," Sec. 5(c), language that is not in the U.S. House of Representatives' (House's) Secure and Fair Enforcement (SAFE) Banking Act of 2023. The bill passed the U.S. Senate Committee on Banking, Housing, and Urban Affairs (Senate Banking Committee) with bipartisan support.

© 2024 National Association of Insurance Commissioners

It has 35 cosponsors from both sides of the aisle but could still face some challenges in reaching a consensus with all members from both parties. House leadership has made some efforts to bundle the bill with other legislation.

In 2022, President Biden ordered the U.S. Department of Health and Human Services (HHS) to study the effect of moving marijuana from a Schedule I substance to a Schedule III substance under the CSA. In May 2024, the U.S. Department of Justice (DOJ) formally moved to reclassify marijuana by sending a proposed rule to the federal register recognizing the medical uses of cannabis and acknowledging that it has less potential for abuse. The plan would not legalize marijuana for recreational use. The Drug Enforcement Agency (DEA) will next take public comment on the proposal in a potentially lengthy process. It would then need to be reviewed by an administrative judge, and the final rule would be published. If approved, the rule would move marijuana to a Schedule III substance alongside ketamine and some anabolic steroids. Attorney General Merrick Garland's approval of the plan signals that the Biden Administration is prioritizing the reschedule. There are some efforts to entirely remove cannabis from scheduling through congressional actions. However, these seem unlikely to gain support.

McKinney asked if the timeframe for the rule is known. Swindle stated that the timing is unclear and potential approval for the rule will be a long road.

3. Heard a Presentation from BDSA on Trends and Emerging Issues in the Cannabis Space

Roy Bingham (BDSA) stated that BDSA uses point-of-sale and transactional information data from almost 2,000 regulated dispensaries nationwide. It cleanses and catalogs the data because there are no standardized skew bar codes in the cannabis industry yet. From this data, BDSA is able to identify very accurate industry trends and projections of categories and subcategories of products. It also conducts a semiannual survey on consumer behavior trends and consumption patterns. Before this, the cannabis industry did not have the type of data commonly found in other industries. From this data, BDSA develops market forecasting state-by-state.

Due to federal prohibition, BDSA also uses publicly available information to identify locations and provide information to its clients, who are the leading cannabis companies. It works with 28 of the top 30 cannabis companies. There are complexities around the industry with hemp-derived intoxicating cannabinoid products. Many of these products are similar to what is available in dispensaries and are popular in states that do not have licensed and regulated adult-use or medical cannabis. Cannabis prices have been stabilizing and reflect the volatile nature of local supply and demand. When a new market is launched, you typically have a period of short supply because the growers do not have enough supply yet. Then, there is a steady price decline. Prices have declined substantially in the most mature markets, such as California and Colorado. The price decline also reflects competition from illicit markets that operate side-by-side. Cannabis products have become sophisticated. Only about a quarter of sales are from cannabis flower, and much of it is now branded. Packaged vaporizer products and edibles are also branded like any other consumer packaged goods. Investors have been eagerly awaiting federal reform to enter the market. Many anticipate the rescheduling will happen by November. Federal reform would also allow institutions to touch the plant and get started on researching health benefits.

New market expansion is what has been driving the industry. Cannabis is fully legal in most of the states in the western and northeast portions of the U.S. 36 states have legalized it for medical use. The majority of U.S. adults are positive about cannabis consumption. Nearly half of adults in the U.S. have access to recreational cannabis. About half of adults have consumed it in the past six months. When a state first legalizes cannabis, consumption is usually around 30% of the population and then steadily rises. Detailed surveys have shown that the majority of people consume on at least a weekly basis. Consumption occurs on a broad demographic profile. Many recreational users consume cannabis products to treat issues such as pain, anxiety, or trouble sleeping. They no longer have to register for a medical card if they are in a recreational-use state. For this reason, medical-use cannabis is declining and is anticipated to continue doing so.

© 2024 National Association of Insurance Commissioners

Globally, the cannabis market is anticipated to grow 10% per year and reach $58 billion globally by 2028. The U.S. market is anticipated to grow 10% to $32 billion in 2024, due largely to new recreational markets like New York and New Jersey. Additionally, strong growth is anticipated in Michigan. Florida and Ohio are expected to become recreational-use states. Growth in mature markets, which tend to be in the West, has been slow due to price reductions. At the same time, the Northeast and Midwest markets are growing rapidly. Growth in California has been negatively impacted by its massive illicit market. It is difficult for consumers to differentiate between a regulated and non-regulated location. Legal states bordering non-legal states are benefiting from consumers crossing state lines to purchase cannabis.

By volume, mature recreational-use markets still had the highest sales in 2023. California led with over $5 billion in sales, and Michigan was close behind with over $3 billion. However, emerging markets are close behind the recreational-use giants. Florida brought in $2.5 billion in medical sales alone, roughly a 16% increase over 2022. Illinois had just under $2 billion in sales.

Price compression has been a big story over the past two years. Although it has affected all legal markets, emerging markets are still holding much higher average retail prices than more mature ones. New Jersey and New York hold the highest prices. Prices are expected to hold more stable in emerging markets amid tight market conditions (such as limited cultivation capacity and restricted licensing). It is worth noting, however, that New Jersey has massively expanded the number of licensed businesses, which will likely lead to price decreases once many of these new businesses get online.

Discounting is widespread, with the five largest categories (flower, pre-rolled, vape, edible, and extracts) all having sold prices about 30% lower than the list price. Multistate brands are the majority of sales in major markets. While some mature markets see a strong presence of “home-grown” brands, Oregon was the lone state to have more than 50% of sales come from single-state brands.

4. Heard a Presentation from Jencap on Insurance Availability, Coverage Trends, and New Risks in the Cannabis Space

Erich Schutz (Jencap Specialty Insurance Services—Jencap) stated that the entrance of some new reinsurers into the market has increased the availability and affordability of named storm and wind/hail coverage over the last two years. Directors and Officers (D&O) and cyber coverage are becoming more affordable with better coverage. However, bonds related to banking or loans, such as default-type bonds, are unavailable. Additionally, outdoor crop coverage remains unavailable outside of parametric coverage, with an extremely high minimum premium coverage. Parametric crop coverage is usually only suitable for unique placements for savvy operations with significant outdoor exposures. On the positive side, parametric crop coverage is now available in more states than just Florida. Reinsurance capacity has increased. Additionally, due to losses from equipment breakdown coverages, insurers are capping equipment breakdown to $1 million or excluding it. Multi-line excess insurance limit products for cannabis-related businesses are not as available as in other markets. Some combinations, such as excess coverage for workers’ compensation and auto, can be found together. However, there is no one robust product that provides all excess limit coverage needs.

Coverage take-up is greatest for compulsory coverages, such as workers’ compensation, general liability, and property. In states such as California, where product liability coverage is not necessarily required, cannabis-related businesses are more likely to just secure general liability coverage. Property coverage is the most likely coverage to be self-insured. Of the coverages most companies should have, cyber is the least requested coverage. Life insurance is still very difficult for cannabis-related businesses to find. Auto insurance is still problematic and expensive, especially in states with no risk pool and fixed rates, such as Massachusetts and Michigan. There is

© 2024 National Association of Insurance Commissioners

much room for state insurance regulators to encourage surplus lines carriers to enter markets where admitted auto coverage is not compulsory. This is especially true in the hemp space since hemp is a federally legal product and can be transported across state lines and internationally. Brokers also have difficulty finding international coverage, whether it is a domestic policy with a worldwide extension that will defend an insured in a foreign country or protection against a lawsuit that is alleged outside the U.S. and tried in the U.S.

Key person coverage has recently become available in the cannabis space. Brokers are seeing increased requests for personal cyber, kidnap and ransom, and travel coverages from high-net-worth cannabis professionals. Cannabis-focused specialty solution programs with language specific to cannabis are also becoming available. Coverage for product contamination is also emerging in the cannabis space. There are a number of coverages available on a minor package basis in the admitted market, including general liability, auto, and property. Admitted general liability and product liability coverages are available in 10–15 states. Property is limited. Mature markets, such as California, Colorado, Illinois, Massachusetts, Michigan, Oregon, and Washington, are most likely to be able to support an admitted market. The way an admitted market is implemented and regulated matters. California is a good example of state insurance regulators reaching out to surplus lines carriers and working to transition them to admitted carriers. Michigan is a good example of where the carrier led to charge to provide the admitted coverage mandated by the state's law. However, the Michigan carrier's paper was downgraded last year, resulting in a vacuum in the space and forcing a lot of insurers to rewrite their policies and face issues with their banks for not meeting loan conditions.

Jencap released its *Preparing for the Future of Cannabis Insurance* white paper in 2023, in which it examined four different scenarios of federal cannabis reform. Rescheduling to Schedule III would allow cannabis-related businesses to have access to traditional banking sources. It would also lower their tax rate by about 30–50% by resolving issues with Section 280E of the Internal Revenue Code (IRC). Section 280E currently prevents businesses selling illegal drugs, such as cannabis, from deducting common business expenses such as rent, utilities, and payroll. However, it would also mean that cannabis would be regulated like a pharmaceutical drug; thus, medical cannabis dispensaries would have to compete with pharmacy stores like CVS. This would likely lead to most medical cannabis dispensaries going out of business. Consumers would likely want to shop at pharmacy stores where they can get their medical cannabis and other prescription medications. Unlike CVS stores, medical dispensaries are also not equipped to deal with DEA regulations and lack the infrastructure and knowledge to ship over state lines. Additionally, medical cannabis manufacturers would likely struggle as they lack the knowledge and finances to go through a now-required Food and Drug Administration (FDA) trial.

Pharmacies should not be permitted to sell medical cannabis before cannabis is federally rescheduled. Georgia allowed private pharmacies in its state to dispense low-potency cannabis. The private pharmacies immediately lost their insurance because their insurance carriers did not allow them to sell federally illegal marijuana. As mentioned earlier, Michigan's mandate that cannabis businesses carry product liability insurance coverage by licensed and admitted carriers is another troubled regulation, focusing on the classification of coverage as admitted or nonadmitted rather than the quality of the coverage and financial strength of the insurer. In March 2024, AM Best downgraded the Financial Strength Rating of the primary admitted cannabis insurer to C (Weak) from B+ (Good). This resulted in a panic among cannabis businesses and a flurry of refiled forms to remain compliant. State insurance regulators could help brokers and underwriters in the insurance industry by assisting with more communication and collaboration to prevent these types of problematic circumstances. The industry needs its insurance and cannabis regulators to be in lockstep with each other. This includes addressing the issues in Georgia, Michigan, and other states where there are overly restrictive regulations for cannabis that are impacting insurance availability and pricing.

© 2024 National Association of Insurance Commissioners

5. Heard a Presentation on the Work of the IIHS and HLDI on the Legalization of Marijuana for Recreational Use

Matt Moore (Highway Loss Data Institute—HLDI) stated that he is representing the Insurance Institute for Highway Safety (IIHS) and HLDI, which U.S. auto insurers fully fund. Member companies provide them with their coverage and claims data on a monthly basis for both automobiles and motorcycles insured for private use. The data is then scrubbed clean and homogenized in order to conduct studies that can inform insurance customers and/or contribute to the national dialogue around highway safety. At the National Advanced Driving Simulator at the University of Iowa, researchers dosed study participants with both alcohol and marijuana and observed their driving behavior. Those dosed only with alcohol engaged in driving behaviors that are likely to increase crash risk, particularly speeding. By contrast, those only dosed with marijuana exhibited no change in several at-risk driving behaviors, including speeding. They also had greater following distance and drove below the speed limit, which are behaviors associated with reduced crash risk.

The HLDI published two studies analyzing changes in collision claim frequencies in Colorado, Oregon, and Washington, relative to nearby states following the inception of legal recreational use. The results indicated that for all three states, the legalization of retail marijuana sales was correlated with increases in collision claim frequency. However, those increases attenuate over time. The most current study expanded on the 2018 study by including collision loss data through 2019 and adding Nevada as a study state. The study found the legalization of retail marijuana sales is associated with increases in collision claim frequencies in Colorado, Nevada, and Washington but a decrease in Oregon. The collision claim frequency in Colorado was 7.2% higher than in Nebraska, Utah, and Wyoming after legalization. Similarly, claim frequency in Washington state increased by 5.6% compared with Idaho and Montana. For Nevada, claim frequency was 5.4% higher than in Idaho and Utah. However, in Oregon, collision claim frequency decreased by 3.5% compared with Idaho and Montana.

A single analysis that combined these four states was also conducted. In this analysis, the study states were compared with other western states whose monthly collision claim frequencies were highly correlated with the frequencies for each study state before legalization. Using this approach, the legalization of retail sales was associated with a 3.8% increase in collision claim frequency.

The IIHS conducted a similar set of analyses using police-reported crashes to examine differences between injury-producing crashes and fatal crashes. Similar to the results of the HLDI studies, there are some differences between states, and there are differences over time. It found that marijuana legalization was associated with a 5.9% increase in fatal crashes in the five study states.

Stolyarov asked how the percentage of fatal crash rates could exceed either the retail sales or the recreational use. Moore said the slide does not include individual study control states and each time period. He offered to email the full study to anyone who requested it (mmoore@hldi.org).

The HLDI and IIHS studies do not address the critical issue of finding the true relationship between the likelihood of crashing when dosed with marijuana. This is critical because impairment is not necessarily scientifically linked to marijuana use as it is to alcohol use. Results from a 1985 IIHS study that looked at drivers killed in crashes illustrate the complexity. The study found that those who tested positive for alcohol were deemed to be responsible for the crash 92% of the time. Those who tested positive for alcohol and marijuana were deemed to be responsible for the crash 95% of the time. Those who tested negative for both were found to be at fault 71% of the time. However, those who tested positive for just marijuana were only at fault 53% of the time.

© 2024 National Association of Insurance Commissioners

A federally funded study published in 2015 examined the relationship between crash risk and marijuana and found a 28% increase in crash risk when no variables were controlled. After adjusting for demographic variables, the study found a 5% increase in crash risk, similar to increases found in the collision claim frequency data and the fatal crash data. However, after adjusting for demographic variables and alcohol use, there was no change in crash risk associated with marijuana use.

To further examine the relationship between marijuana and crash risk, the IIHS partnered with medical centers in California, Colorado, and Oregon. The partnership evaluated injured drivers who were in a motor vehicle crash (cases) and medical patients not in a motor vehicle crash (controls). The study results found that, among the crash survivors, the self-reported substance use in the cases group was much lower than among the control group. Additionally, actual tested consumption of these substances was higher than the self-reported use for both groups. However, the use of alcohol or alcohol and marijuana represented an outsized portion of the risk.

A critical problem in states legalizing marijuana for recreational use is there is no accepted, rapid test that law enforcement can use in the field to test for impairment that is on par with tests for alcohol impairment. This makes testing and/or enforcement of marijuana laws difficult. Alcohol is still responsible for about 30% of fatal crashes. The IIHS messaging around marijuana is that enforcing existing speed and driving-while-impaired laws is an effective way of addressing problems related to marijuana impairment.

Having no other business, the Cannabis Insurance (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024_Summer/Cannabis/5-CannabisWG.docx

© 2024 National Association of Insurance Commissioners

Draft: 12/20/23

Cannabis Insurance (C) Working Group
Virtual Meeting
December 19, 2023

The Cannabis Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met Dec. 19, 2023. The following Working Group members participated: Katey Piciucco, Chair (CA); Michael Conway, Vice Chair, represented by Bobbie Baca (CO); Austin Childs (AK); Christina Miller (DE); Ryan Blakeney (MS); Randall Currier (NJ); Ravin Collins, Michael Drummonds, and Jan Vitus (OR); Sebastian Conforto (PA); Carlos Vallés (PR); Beth Vollucci (RI); Karla Nuissl (VT); and Michael Walker (WA).

1. Adopted its Nov. 14 Minutes

Currier made a motion, seconded by Walker, to adopt the Working Group's Nov. 14, 2023, minutes (Attachment One-A1). The motion passed unanimously.

2. Heard an Update on Cannabis-Related Legislative Activities

Shanna Oppenheim (NAIC) stated that earlier this year, the U.S. Senate (Senate) Committee on Banking, Housing, and Urban Affairs pushed through an amended version of the federal Secure and Fair Enforcement Regulation (SAFER) Banking Act, a bipartisan legislative bill. The SAFER Banking Act would create federal safe harbors for financial institutions to accept deposits from state-sanctioned marijuana business operators, potentially mitigating some dangers of running a cash-only business and giving cannabis businesses access to insurance. The NAIC issued a letter in support of this legislation. However, the bill seems dead for 2023, as Montana Sen. Steve Daines, a key Republican backer of the long-stalled legislation, publicly admitted recently. Bipartisan bicameral negotiations continue, with staff meeting as recently as last week.

Key holdups include that the U.S. House of Representatives (House) Republicans are frustrated with how the Senate changed a bill the lower chamber had already passed seven times. Section 10 has been in the House bill since 2019 when it was added as a sweetener for Republicans. It was originally the text of Rep. Blaine Luetkemeyer (R-MO)'s Financial Institution Customer Protection Act, which was introduced in response to the Obama-era initiative Operation Choke Point, which the Republican Party lawmakers said unfairly targeted gun retailers and payday lenders. The latest version of Section 10 gives the federal banking regulator discretion to discuss with the depository institution issues such as financial condition, governance, consumer protection, internal controls, unsafe or unsound conditions, anti-money laundering, or countering the financing of terrorism, which some Republican members see as giving the regulator too much discretion.

In late November, Luetkemeyer said, "I'm very disappointed in the Senate's actions to date." Luetkemeyer is a member of the House Financial Services Committee and the author of language in the bill designed to ensure banks do not refuse the business of industries they dislike, such as gun shops. His approval of language changes is likely key to getting Financial Services Chairman Patrick McHenry (R-NC) and House Speaker Mike Johnson (R-LA) on board.

The fact that the Senate did not loop in the House Republicans on its changes has also exacerbated tensions between the chambers on this bill. Additionally, the replacement of former House Speaker Kevin McCarthy (R-CA), who voted for the Cannabis Banking bill twice, with Speaker Johnson, who has consistently opposed cannabis banking bills further complicates the legislative dynamics.

© 2024 National Association of Insurance Commissioners

Lawmakers are still expressing optimism about the bill's prospects. Majority Leader Chuck Schumer (D-NY) has not yet put it on the Senate floor and likely will not do so until spring—barring another international crisis. The Senate is currently mired in immigration talks and funding for Ukraine and Israel, leaving little bandwidth for cannabis banking. Sen. Kyrsten Sinema (D-AZ), a critical negotiator in SAFER, is also a key negotiator in the immigration talks.

Sen. Schumer needs roughly two weeks on the Senate floor to get it passed. However, because cannabis reform is still controversial in the Senate, it is unlikely the minority would agree to expedited consideration of the bill on the floor. Because the Senate would not be able to conduct other business while considering the bill, the majority leader needs a window of time in which other immediate must-do items like government funding or a defense supplemental are not at the top of the agenda. There are two huge funding deadlines in January and February to keep the government running. After those, there could optimistically be space to take up cannabis banking in March or April.

On the regulatory front, in late August, the U.S. Department of Health and Human Services (HHS) recommended rescheduling marijuana from a Schedule I substance to a Schedule III substance under the Controlled Substances Act (CSA). If marijuana is rescheduled as a Schedule III drug, businesses that "manufacture, distribute, dispense, and possess medical marijuana" would be able to do so legally under the CSA, subject to state and federal licensing and manufacturer registration schemes. Further, such rescheduling would render certain manufacturers subject to increased U.S. Food and Drug Administration (FDA) oversight, including requiring manufacturer registration and compliance with current good manufacturing practices. The FDA likely would release additional regulations regarding composition, labeling, and advertising. Research limitations also may decrease, which could further encourage innovation in the industry. The recommendation comes seven years after the U.S. Drug Enforcement Agency (DEA) declined to initiate rulemaking to reschedule marijuana.

At the executive level, as of December 2023, the governors of six states (Colorado, Illinois, Louisiana, Maryland, New Jersey, and New York) have jointly written a letter to President Biden urging him to reschedule marijuana by the end of the year. Election-year politics may make this move more likely.

Currier asked for clarification on which agency proposed the rescheduling. Oppenheim stated HHS recommended rescheduling marijuana from a Schedule I substance to a Schedule III substance under the CSA. The DEA declined to initiate rulemaking to reschedule marijuana.

Walker asked if rescheduling marijuana would make it more palatable to the U.S. Congress. Oppenheim stated it would not necessarily be more palatable because the rescheduling pertains to medical marijuana. Additionally, Speaker Jonson remains a staunch opponent of cannabis.

3. Heard a Presentation on ALM's Cannabis Insurance Coverage Specialist Designation

Steve Hallo (Property/Casualty 360—PC360) stated the Cannabis Insurance Coverage Specialist (CICS) is a designation tailored for insurance producers, agents, risk managers, and professionals within the cannabis industry, including growers, suppliers, manufacturers, and dispensary operators. It was developed by ALM staff, including the team at PC360 and subject matter experts (SMEs), a number of whom have spoken to the Working Group before. The program aspires to foster a forward-thinking mindset among professionals, ultimately contributing to the growth and resilience of the cannabis business ecosystem. To date, there are 24 CICS holders from across the insurance ecosystem, from agents to folks at carriers.

The designation is broken down into six courses, which cover workers' comp issues, banking and financial services, real estate, claims handling, and risk management. The Legal and Regulatory Issues lesson delves into variations

© 2024 National Association of Insurance Commissioners

in state-by-state legislation concerning legalization and regulation, examines key legislative acts responding to legalization, and explores court cases influenced by or impacting the progression of legalization. The Cannabis and Insurance lesson explores the impact of cannabis on the insurance industry, specifically focusing on workers' compensation and product liability insurance, examining exclusions related to insurance and cannabis, and identifying risks for insurers in this context. The Workers' Compensation course section includes an overview of the workers' compensation system as well as a deep dive into the workers' compensation system as it pertains to cannabis. It also touches on challenges around the National Council on Compensation Insurance (NCCI) classification systems. Workers' compensation premiums are determined by unique 4-digit class codes, each associated with a specific description and rate, tailored to the nature of the work performed. The NCCI manages nearly 800 such classification codes. Historically, the absence of adequate classification codes for diverse employee roles within the cannabis sector posed a challenge, and although progress has been made, there remains room for improvement.

NCCI organizes classifications into five overarching industry categories: Manufacturing, Contracting, Office and Clerical, Goods and Services, and Miscellaneous. Common classifications encompass retail stores, outside salespersons, clerical office employees, clubs, and various educational institutions. Notably, NCCI lacks dedicated classifications for the cannabis industry; however, in legalized states, some existing classifications have been enhanced, and insurers may opt for industry classifications resembling cannabis operations. This section also covers the impact of cannabis legalization on workers' compensation exposures. The Real Estate and Cannabis Insurance lesson discusses various types of cannabis-related properties and their aspects, as well as articulates different zoning regulations pertaining to cannabis, with specific examples from Michigan and Oklahoma. Other portions of this section review cannabis lease contracts, address insurance aspects regarding real estate and cannabis, and aim to help users understand the products and completed operations policy.

The Claims Handling module encompasses claims on specific insurance topics, details the claims handling process for various types of insurance in the context of cannabis, and explores issues of fraud and ethics in insurance claims related to cannabis. The Real Claim 1 lesson involves the common issue of dispensaries struggling to secure bank accounts due to federal cannabis illegality and money laundering regulations. Despite adhering to good-faith claims practices and confirming coverage, a bank refused to honor an insurance settlement check, putting the adjuster and insurer in an ethical dilemma. To resolve this, the money was wired to the insured's account, highlighting the absurdity of the bank accepting a wire transfer but rejecting a paper check. The insurer and adjuster found relief despite navigating obstacles posed by federal regulations.

The Real Claim 2 lesson involves a claim that involved a dispensary robbery, requiring standard procedures to determine the stolen amount. The insured initially failed to provide evidence, leading to the closure of the claim. Subsequently, suspicious receipts with red flags for fraud were submitted. Despite fears of government intervention, the insured's reluctance to disclose distributor information complicated the claim handling. Nevertheless, by adapting procedures and considering the insurer's fiduciary duty, the claim was managed in good faith, highlighting the distinctive challenges in handling cannabis claims.

The Delta-8 and Other Hemp-Derived Tetrahydrocannabinol (THC) module includes potential blind spots. The module discusses that Delta-8 is a THC isomer that results in a less intense experience than Delta-9 THC. Some studies suggest it can offer a clear-headed high, letting you enjoy the benefits of Cannabidiol (CBD) while staying focused. Delta-8 THC currently occupies a legal gray area, stemming from the regulatory framework established by the 2018 Farm Bill, which removed hemp and its byproducts from the list of controlled substances due to their low THC levels (less than 0.3%).

The Farm Bill makes no explicit mention of Delta-8 THC, but hemp and commercial entities advocates have strategically leveraged this gap to legally market Delta-8 products. Consequently, Delta-8 THC has emerged as the

© 2024 National Association of Insurance Commissioners

fastest-growing commodity within the hemp industry, highlighting the industry's adept navigation of legal nuances and exploitation of regulatory gaps. As of November, 17 states explicitly ban or severely restrict the sale of Delta-8 products.

Risks faced and coverage needs are also covered by the designation. The Property Risks Faced by Retailers, Growers, and Manufacturers section of the course also breaks down the biggest property risks cannabis businesses face based on where they are in the supply chain.

The Retail: Theft and Vandalism lesson discusses that, when reviewing the submission and application, the carrier wants to know what has been implemented to reduce the ability of anyone to damage the building. Any deterrents are considered for pricing; conversely, a lack of proper deterrents may affect pricing or the ability to get coverage. For example, cultivation risks include heat, fire, vandalism, pollution, and mold. Pollution and mold are excluded perils under the property form (pollution coverage is discussed later in this course). Heat and fire are a risk from the bulbs used for cultivation, the generators used, or the sheer amount of electricity used in these facilities. Extractors' and manufacturers' risks include explosion and fire. The carrier wants to know the differentiators that will keep the extractor's or manufacturer's operations from starting a fire or having an explosion.

While commercial lines get most of the attention when it comes to discussions about cannabis and insurance, there are implications for personal lines. From a homeowner's standpoint, growing cannabis at home introduces potential issues, particularly if it involves large indoor operations. Improper ventilation can lead to mold or mildew problems, while the use of elaborate high-voltage grow lights increases the risk of fire hazards. The handling of losses depends on factors such as the legality of cannabis growing in the state, the nature of the damage (accidental, deliberate, or due to neglect), and whether the grow operation is for personal use or sale. Homeowners insurance is designed to cover personal risks, but it may not extend to commercial operations, especially if the homeowner is growing cannabis for sale. Growing an illegal plant could lead to policy exclusions for losses related to criminal activities, and intentionally setting a fire would not be covered. Assuming the loss was accidental, the grow was for personal use, and it was legal in the state, the homeowner's insurance should provide coverage. For outdoor grow operations, coverage for damaged or stolen plants is likely, but specific liability limits apply, usually set at 5% of the home value and contingent on the loss occurring during a covered peril.

Case law varies on covering losses related to destroyed or stolen marijuana plants, with some courts granting damages while others cite federal illegality to deny coverage. To ensure proper coverage, homeowners with extensive grow operations are encouraged to consult with an insurance agent. Additionally, considering liability, homeowners in states with strict liability laws should be aware that serving cannabis to guests could hold them accountable for accidents, emphasizing the importance of understanding state laws.

The intersection of cannabis use and auto insurance presents a significant challenge, primarily when a driver faces arrest for driving under the influence (DUI). Regardless of whether the impairment is caused by alcohol, cannabis, or prescription medication, from an insurance standpoint, a DUI can wreak havoc on the driver's auto premiums. However, the complexity deepens when it comes to cannabis-related DUI cases due to the absence of a reliable roadside intoxication test.

Unlike alcohol, where a breathalyzer can quickly determine intoxication levels, cannabis lacks a similarly straightforward testing method. Bloodwork, often a go-to solution, falls short as cannabis remains detectable in the blood long after the intoxicating effects have subsided. The mere presence of THC in the bloodstream does not definitively prove impairment during driving. In the absence of foolproof roadside toxicology tests, law enforcement officers often resort to field sobriety tests to assess impairment, underscoring the pressing need for more effective methods.

© 2024 National Association of Insurance Commissioners

A less obvious way cannabis usage can impact auto insurance premiums is through one's occupation, particularly if the individual works in the cannabis industry. In several states, a driver's employment industry serves as a valid criterion for assessing risk. If an insurance company discovers that an insured individual is employed by a cannabis-related business, it might leverage this information to justify higher premium rates. This dual challenge—the lack of a reliable roadside test and the influence of occupation on premium rates—underscores the intricate relationship between cannabis use and the realm of auto insurance.

There is a THC breathalyzer technology emerging as a potential solution. Presented at last year's Risk World conference by Hound Labs, Inc., the breathalyzer can detect marijuana within a three-hour window after use, offering a more precise timeframe. After this period, THC becomes nearly undetectable on the breath. This advancement could be instrumental in determining not just whether an employee used cannabis but also when, which provides valuable insights for employers.

While breathalyzers can indicate if a person has consumed a THC-containing product during the past three hours, the ability to prove intoxication persists. Unlike alcohol intoxication, which can be determined based on established scientific methods, the case is not so cut and dry from marijuana, as there is an established spectrum of THC intoxication. Many sources believe that THC breathalyzers could serve more as a tool to prevent accidents on the job as opposed to being used in defense. For example, roofers could blow before getting on a ladder.

In recent years, there has been a growing interest in exploring psychedelic drugs as a potential alternative for treating both injury recovery and mental health issues. This momentum is fueled by the legalization of certain psychedelics, including psilocybin, the main psychoactive compound in "magic" mushrooms. Similar to cannabis, research on the potential applications of psychedelic drugs is limited and not very current. However, this was not always the case. Extensive research took place starting in the 1950s, but as psychedelics became embraced by the counterculture, concerns about substance abuse led to federal prohibition in the late 1960s. The shift in legal status resulted in a swift halt to research on these substances.

The limited available information primarily focuses on a few mental health disorders, including treatment-resistant depression, anxiety, addiction, post-traumatic stress disorder (PTSD), and potential applications for pain. While most studies related to pain management focus on cluster headaches, there is growing interest in whether psychedelics can effectively address chronic pain. The Psychedelics and Health Research Initiative (PHRI) at the University of California San Diego is actively conducting research in this area. Preliminary findings from the initiative suggest that psychedelics may lead to "significant, meaningful, and lasting reductions" in chronic pain conditions, ranging from complex regional pain to phantom limb pain, according to researchers at PHRI.

Some researchers have posited that psychedelics, which have been shown to promote neuroplasticity, are in a way rewiring the brain to better manage and demote pain. Virtual reality (VR) is also showing promise as a drug-free pain management tool in much the same way. Other researchers suggest that psychedelics might be working further down, and in some way hitting an internal reset button that helps modulate how the user experiences pain. As with any emerging therapy, the full suite of risks associated with using psychedelics remains unknown. Many experts posit most risks in psychedelic therapy are short-term, including issues such as headaches, elevated heart rates, nausea, and vomiting. However, there is some evidence that suggests hallucinogens could lead to permanent heart damage. Despite the need for extensive research on the potential benefits and risks of psychedelic therapies, certain aspects are established. Psychedelics exhibit low toxicity levels, and there is limited potential for abuse. Nevertheless, ongoing investigation is crucial to fully understand the effects and potential risks.

One less risky way to help injured workers recover is using VR technology, which has shown an ability to reduce

© 2024 National Association of Insurance Commissioners

dependence on prescription painkillers, alleviate anxiety, and depression, enhance sleep quality, and expedite the recovery process. Much like psychedelics, VR uses neuroplasticity to address maladaptive signals like pain, depression, anxiety, and PTSD obstructing the path to recovery. By establishing neural pathways around these impediments, VR therapy enables the brain to relegate such signals to a lower priority, facilitating a more effective recovery process. In a study conducted by one of the companies providing VR therapy, patients experienced a pain reduction of approximately 40%, and this relief persisted for hours afterward. Significantly, 69% of the study participants successfully reduced or eliminated their reliance on painkillers, showcasing the potential of VR therapy in curbing opioid utilization among patients undergoing rehabilitation.

Currier asked if industry was past the issue of coverage availability. Hallo stated it is getting better but there are still some policies with unexpected exclusions for cannabis.

Walker asked if there were any trends on who was taking the designation. Hallo stated it was mostly risk managers followed by agents.

Summer Jenkins (One General Agency—OGA) stated OGA, as an insurance provider of emerging products, is seeing an increasing number of businesses using psychedelic therapy.

Beau Whitney (Whitney Economics) stated his company has done a lot of work on data with North American Industry Classification System (NAICS) classifications. The Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), and Census Bureau have demonstrated little interest in deploying more granular NAICS codes, despite the many federal requirements on data gathering. States will have to gather data independently, and it will not be uniform from state to state. Updates to NAICS occur every four years, so we will not see improvements in data-gathering systems for another 3.5 years at a minimum. Whitney said he has published extensively on the economics of hemp-derived cannabinoids and can be reached at beau@whitneyeconomics.com for more information. He also stated data from the National Institutes of Health (NIH) and HHS show a decrease in healthcare expenditures with cannabis use because it is a more proactive treatment. The use of psychedelics is showing much less of a decrease in healthcare expenditures. A comprehensive nationwide survey Whitney Economics performed showed cannabis operators' delinquent accounts receivables are significantly impacting their ability to service debt. Additionally, cannabis users are increasingly from an older demographic because they are seeking an alternative to opioids for pain management. Further, data shows Delta-8 is a high percentage of total cannabis industry sales because it requires no license and is readily available online and over-the-counter due to it not triggering interstate commerce restrictions. This raises safety and potency concerns because these products are untested and unregulated.

Hallo stated use of medical cannabis can be less expensive than opioids. In one workers' compensation insurance claim, a court ruled a plaintiff could use cannabis instead of opioids to control life-long pain. The cost of opioids for life was $500,000 as compared to $20,000 for cannabis. Older generations may prefer Delta-8 due to its milder cognitive effect than THC-derived products.

Having no other business, the Cannabis Insurance (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024_Spring/Cannabis/12-CannabisWG.docx

© 2024 National Association of Insurance Commissioners

Draft: 11/21/23

Cannabis Insurance (C) Working Group
E-Vote
November 14, 2023

The Cannabis Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee conducted an e-vote that concluded Nov. 14, 2023. The following Working Group members participated: Ricardo Lara, Chair, represented by Katey Piciucco (CA); Nathan Hall (AK); Angela King (DC); Christina Miller (DE); C.J. Metcalf (IL); Ryan Blakeney (MS); Randall Currier (NJ); Raven Collins and Jan Vitus (OR); Beth Vollucci (RI); and Michael Walker (WA).

1. Adopted its Nov. 14 Minutes

The Working Group conducted an e-vote to consider adoption of its July 18 minutes (*see NAIC Proceedings – Summer 2023, Property and Casualty Insurance (C) Committee, Attachment Three*). The motion passed unanimously.

Having no further business, the Cannabis (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/Fall 2023/Cannabis/E-Vote/11-Cannabis.docx

© 2024 National Association of Insurance Commissioners

Attachment Two
Property and Casualty Insurance (C) Committee
8/15/24

Draft: 8/21/24

Joint Meeting of the Catastrophe Insurance (C) Working Group
and the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group
Chicago, Illinois
August 13, 2024

The Catastrophe Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met in Chicago, IL, Aug. 13, 2024, in joint session with the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group of the Property and Casualty Insurance (C) Committee. The following Working Group members participated: Chlora Lindley-Myers, Chair, represented by Cindy Amann and Jo LeDuc (MO); Mike Causey, Vice Chair, represented by Angela Hatchell and Jackie Obusek (NC); Jimmy Gunn and Travis Taylor (AL); Lisa Watson (AR); Lucy Jabourian and Tina Shaw (CA); Wanchin Chou and Amy Waldhauer (CT); Virginia Christy, Nicole Crockett, Richie Frederick, and Bob Lee (FL); Jerry Bump (HI); Travis Grassel (IA); Marsha Hanson, Lisa Wood, and Chris Hollenbeck (KS); Timothy J. Temple (LA); Jackie Horigan (MA); Kory Boone (MD); Aaron Cooper (MS); Marissa Krafthefer and Melissa Robertson (NM); Tom Botsko (OH); Glen Mulready (OK); Cassie Soucy (OR); David Buono and Michael McKenney (PA); Glorimar Santiago (PR); Beth Vollucci (RI); Matt Watts (SC); Stephanie Fagnani (TN); J'ne Byckovski and Mark Worman (TX); Bryon Welch (WA); Ellen Potter (WV). Also participating was Susan Jennette (DE). The following Advisory Group members participated: Glen Mulready (OK), Chair; Carter Lawrence, Vice Chair represented by Stephanie Fagnani (TN); Molly Nollette (AK); Jimmy Gunn (AL); Lucy Jabourian and Tina Shaw (CA); Wanchin Chou (CT); Virginia Christy, Nicole Crockett, and Richie Frederick (FL); Travis Grassel (IA); Timothy J. Temple (LA); Kory Boone (MD); Cynthia Amann and Jo LeDuc (MO); Marissa Krafthefer and Melissa Robertson (NM); Raven Collins and Tricia Goldsmith (OR); Beth Vollucci (RI); Tony Dorschner (SD); Rebecca Nichols (VA); Bryon Welch (WA) and Ellen Potter (WV).

1. Adopted its Spring National Meeting Minutes

Botsko made a motion, seconded by Buono, to adopt the Working Group and Advisory Group's March 16 (*see NAIC Proceedings – Spring 2024, Joint Meeting of the Catastrophe Insurance (C) Working Group and the NAIC/FEMA (C) Advisory Group,*) minutes. The motion passed unanimously.

2. Heard an Update on Federal Legislation

Alexander Swindle (NAIC) said the frequency and severity of natural catastrophes are increasing with a reported $62 billion in global insured losses from natural disasters for the first half of 2024 alone. Key developments at the federal level in this space include FEMA's introduced changes to disaster aid, expanded reinsurance, and funded resilience projects.

FEMA activity includes 1) significant changes to disaster aid, providing more financial support, and removing the Small Business Administration (SBA) loan requirement, which aims to streamline aid; 2) purchasing $619.5 million in additional reinsurance for the National Flood Insurance Program (NFIP) to cover losses from major flood events; 3) revising and streamlining its application process and offering $191 million for 110 mitigation programs across the U.S.; 4) making $300 million available through the Swift Current program to boost flood resilience for insured property owners; and 5) mandating the Federal Flood Risk Management Standard (FFRMS), which requires higher elevations for new construction in flood-prone areas and aligning with climate science.

© 2024 National Association of Insurance Commissioners

The Coalition for Sustainable Flood Insurance, a coalition of 14 attorneys general, is urging FEMA to update the Stafford Act to include extreme heat and wildfire smoke events as eligible disaster declarations. NAIC staff continue to engage with FEMA representatives and the coalition for opportunities to share information and solutions that build disaster resilience.

Swindle said Congress has been active in various hearings and public press releases about the publicized high cost of property insurance and related natural disasters. Additionally, several federal agencies, including the U.S. Department of Housing and Urban Development (HUD) and the Federal Housing Finance Agency (FHFA), have held symposiums in the past few months raising awareness and discussing resiliency and affordable housing.

Swindle said the NAIC has continued to engage on these issues at the federal level. During the 2024 Commissioner DC Fly-In, state regulators advocated for a series of bills in Congress that support 1) mitigation and resilience funding, 2) tax incentives, and 3) research for state mitigation and resilience programs to address the challenges that arise from natural disasters. These bills included 1) the Disaster Mitigation and Tax Parity Act of 2023 (S. 1953/H.R. 4070), 2) the National Earthquake Hazards Reduction Program Reauthorization Act of 2024 (S. 3606), 3) the Flood Insurance Relief Act (S. 4143), 4) the Wildfire Response Improvement Act (H.R. 7070), and 5) the Catastrophe Wildfire Prevention Act of 2023 (S. 2132).

Swindle said state insurance regulators through the NAIC are working with Rep. Mike Thompson (D-CA) on the bicameral, bipartisan H.R. 4070, which amends the Internal Revenue Code to exempt state-based catastrophe loss mitigation programs from federal taxation, as they are currently taxed like federal mitigation programs.

Swindle said Thompson and Rep. Doug LaMalfa (R-CA) are also working on the Disaster Resilience and Coverage Act of 2024 (H.R. 7849), which provides homeowners in disaster-prone regions with broad incentives to harden their properties against wildfires and other risks. The legislation includes four main provisions: 1) creating a grant program, administered through state governments, that provides eligible, individual households in disaster-prone regions up to $10,000 in resilience work on their homes; 2) stipulating that payments from the state-run disaster resilience programs and payments from various federal emergency agricultural programs are not considered for federal income tax purposes, which are similar to the provisions that are included in H.R. 4070 regarding taxation; and 3) providing a 30% tax credit for qualified disaster risk mitigation activities conducted by individuals or businesses. Swindle said state insurance regulators through the NAIC have been working with Thompson to ensure that the role of state insurance commissioners is preserved in this legislation.

3. Received a Report from the Catastrophe Modeling Primer Drafting Group

Crockett said the Catastrophe Insurance (C) Working Group is charged with updating the *Catastrophe Computer Modeling Handbook*, now known as the *Catastrophe Modeling Primer*. It was last updated in November 2010. During the Catastrophe Insurance (C) Working Group's June 2021 conference call, the Working Group agreed to form a drafting group to update the handbook.

Crockett said NAIC staff sent out a questionnaire to state insurance regulators and formed a drafting group in September 2021 to determine what state insurance regulators wanted to cover in the document. NAIC staff summarized the responses and shared them at a Working Group meeting in early March 2022. The Drafting Group began meeting in April 2022, and more recently, it has convened monthly to complete the drafting of the primer before the end of 2024.

© 2024 National Association of Insurance Commissioners

Crockett said California, Connecticut, Florida, Iowa, Missouri, North Carolina, and Pennsylvania are the states participating in the Drafting Group. The primer provides the fundamental concepts surrounding probabilistic catastrophe models and serves as a bridge to available training from the Center for Insurance Policy and Research's (CIPR's) Center of Excellence (COE).

Crockett said the primer provides background on catastrophe models and their use by regulators who need an introduction to catastrophe modeling. It is advisory only and is not intended to provide mandatory guidelines. The primer is currently a 30-page document that touches on the basic concepts of catastrophe modeling, such as 1) the evolution of catastrophe modeling, 2) what a catastrophe model is, 3) how catastrophe models work, 4) model components, 5) key metrics, 6) regulatory interaction, and 7) additional concepts.

Crockett said it's important to recognize that the *Catastrophe Modeling Primer* represents a separate function and is not intended to replace any work completed by the COE but serves as a high-level introduction to catastrophe modeling. The COE provides state insurance regulators with technical training and expertise regarding catastrophe models and information about their use within the insurance industry. This document will be particularly useful to employees entering a department of insurance (DOI) workforce.

Crockett said regarding the next steps, the primer is currently being reviewed by experts at the COE and others. Once feedback is received, the Drafting Group plans to reconvene at the beginning of September. The end goal is to ultimately expose the primer to the Catastrophe Insurance (C) Working Group, interested regulators, and interested parties prior to the end of 2024. The Drafting Group plans to have the document ready for the Working Group to consider for adoption prior to or at the Fall National Meeting in Denver.
Crockett made a motion, seconded by Grassel, to adopt the Drafting Group's report. The motion passed unanimously.

4. Heard an Update from FEMA on Changes to the CRS

Tony Hake (FEMA) said the community rating system (CRS) is a community that exceeds the minimum requirements of the NFIP. These communities get credits that result in flood insurance discounts. Currently, the discounts range between 5% and 45% for the individual policyholder. Communities earn benefits using community activity categories in four main areas, which include 1) public information, 2) mapping and regulations, 3) flood damage reduction, and 4) warnings and response. The goals of the program are to 1) reduce and avoid flood damages to insurable property, 2) strengthen and support the insurance aspects of the NFIP, and 3) foster comprehensive floodplain management within the communities.

Hake said the CRS redesign is a multi-year effort to revamp the program, exploring both revisions to CRS scoring, as well as operational elements. He said several factors influenced FEMA's desire to consider bold programmatic changes to CRS. Stakeholders have been engaged over the past couple of years. Additionally, the Government Accountability Office (GAO) engaged FEMA in a report asking them to adjust CRS by calculating a community's rating based only on community activities that reduce flood risk and by incorporating discounts into the full-risk premium based on the actuarial evaluation of risk reduction. Secondly, the GAO asked FEMA to evaluate other means for incentivizing desirable community activities that cannot be actuarially justified but are currently a basis for discounts in CRS.

Hake said in fiscal year (FY) 2023, CRS redesign goals and objectives were established. These goals included 1) incentivizing communities to take measurable actions and make sustained progress in reducing current and future flood risk, 2) embedding equity as a foundation of the CRS program, 3) incentivizing communities to

© 2024 National Association of Insurance Commissioners

encourage property owners to purchase flood insurance to reduce their financial risk due to flood and 4) delivering a participant-centered and modernized program.

Hake said during FY 2024, FEMA is evaluating the current program and suggesting program alternatives. Stakeholder engagement questions will provide FEMA with further public input on the following potential CRS program features, which are based on previously suggested alternatives to the CRS, including 1) automatic enrollment, 2) premium surcharges, 3) risk-based premiums and CRS discounts, 4) exchanging individual benefits for community benefits, 5) enhanced technical assistance, 6) simplification of CRS, and 7) multi-jurisdictional CRS participation. FEMA will continue to collect feedback through external engagements during FY 2024. Opportunities to provide feedback will be available at upcoming conferences and events, a federal register notice request for information (RFI) with a public comment period, and public meetings and webinars.

FEMA will plan to implement the new CRS program in FY 2025; however, the earliest it could be implemented would be in FY 2026. He said FEMA would give communities adequate time, up to 18 months, to transition into the new CRS program.

Commissioner Mulready asked if the timeline included more details, such as recommendations, or if details would come out all at once. He also asked what the implementation would look like. Hake said FEMA is currently reviewing the recommendations. Once FEMA's review is complete, it will engage with stakeholders once again to provide the options being considered. He said the decisions will be based on both comments and analytical data. Hake believes the recommendations will likely be shared with stakeholders in early 2025.

Commissioner Mulready asked when the implementation would occur. Hake said it would occur in the first quarter of 2026 at the earliest. McKenney asked if the caps apply at the individual policyholder level to help mitigate the possible removal of discounts and additions of surcharges for communities not meeting CRS standards. Hake said the 18% cap set for rate increases still applies. He said that individuals could lose their discount in communities with the new CRS program depending on the activities selected for the new program.

5. Heard a Presentation from FEMA on its D2C Timeline and Agent Registry

Randy Stone (FEMA) said that the NFIP operated on a mainframe about 10 years ago, which processed all of the transactional data. This process took 30 to 60 days, was often inaccurate, and required a lot of manual intervention.

Stone said that due to the inconsistencies, the Pivot program was created. Pivot took the manually intensive process and automated much of it. This process set up much of the information technology (IT) infrastructure the NFIP would need going forward to enhance both operational and technical capabilities.

Stone said the NFIP then started looking at the rating process, known as risk rating. This process leveraged all of the technology that Pivot built, using data and automation to actually further personalize the rating structure. Now that the rating process is simplified and personalized, the NFIP is creating a direct-to-consumer (D2C) platform that is in line with other insurance lines of business.

Stone said the D2C system will allow consumers to get a quote for flood insurance and eventually be able to purchase the insurance directly online. He said the implementation of D2C will be a multi-phased process. The NFIP hopes to roll out the first phase of D2C by the end of this year. During this phase, D2C will provide quotes to

consumers and sales leads to insurance agencies. The second phase of D2C will provide everything that was included in phase one, as well as online sales to consumers and servicing by the NFIP directly.

Stone said the NFIP is also working on an agency locator. The purpose of the locator is for consumers to be able to locate an agency within the geographic area of the location of the consumer's property so an agent can help the consumer by answering questions and helping the consumer purchase the policy during the initial phase of the D2C rollout.

Stone said the agency locator is a voluntary web program that allows agencies to sign up to participate in D2C. During the sign-up process, FEMA will review the data and validate it to ensure accuracy. Once the agencies' sign-up is complete, the locator will populate the validated agencies during the quoting process. Stone said that the consumer would initially enter their zip code. If the zip code does not show any agencies, the locator will move to the county level, followed by the state level. FEMA randomizes the agencies throughout the process and leaves the customer with the choice of the agency they use.

Stone said FEMA has been focusing on the consumer's journey and has conducted a lot of usability testing and interviews. He said several prototypes for the tool, making sure that the tool balances speed with a purchasing decision by the consumer. Stone said it is important to balance speed with a purchasing decision while also educating the public on the risk and premium breakdown they will ultimately receive

Stone said FEMA has worked on flow designs to handle various cases, such as those in a particular zone who cannot purchase flood insurance for a particular reason.

Stone said FEMA has established core working groups across the organization to ensure expertise is leveraged from around the organization. FEMA has also been working with a lot of reporting and oversight. Finally, FEMA is ready to roll out its internal testing. FEMA will be working with its underwriting branch, its Advancing Capabilities for Mitigation (ACM) branch, its marketing branch, stakeholders, etc., prior to rolling out the locator.

Stone said FEMA will roll this tool out on the FloodSmart website and allow consumers to begin using it while gathering data and improving the product as needed. FEMA will have a full launch later in the 2025 calendar year, during which the marketing and engagement team will drive traffic toward the quoting tool.

6. Heard an Update from the CIPR on the Catastrophe Modeling COE Resilience Hub

Brian Powell (CIPR) said the COE has been working diligently to drive resilience among DOIs and create a measurable impact on the insurance industry. Some examples of work being done on the resilience hub include 1) assisting in evaluating, developing, and implementing various loss mitigation programs for all perils, 2) demonstrating leadership in building code adoption, and 3) supporting education on the importance of catastrophe models by training DOIs using case studies.

Powell said the COE continues to build resources for state insurance regulators to utilize in support of policy and research. The COE has a SharePoint site available to regulators, and the center is working with DOIs and FEMA regions nationwide to address flood mitigation and develop risk transfer programs for floods.

Powell said the COE SharePoint site includes: 1) samples and drafts of legislation that establish mitigation programs, 2) draft regulations, 3) a mitigation program "playbook," 4) FEMA engagement materials, 5) outreach

© 2024 National Association of Insurance Commissioners

and education materials on mitigation and disaster preparedness, 6) a funding sources guide, and 7) partnership materials used to assist members with resiliency.

Powell said that Alabama, California, Florida, Louisiana, South Carolina, and Texas all have mitigation programs already in place, while Kentucky, Minnesota, and Oklahoma have legislative authority and are designing the implementation and operation of their programs.

Powell said that to accomplish this work, the resilience hub is designed to offer support to state insurance regulators in mitigation and resilience efforts. The hub coordinates partnerships, resources, advocacy, and an engagement team that visits states to address mitigation concerns. The CIPR also offers analytical services.

Powell said states considering starting a mitigation program should visit the hub for guidance. He said the hub is working as a focal point to help state insurance regulators engage and gather resources needed to design and implement a mitigation program. This will help create a consistent approach and competency nationwide. It will also create a level of efficiency with the development and implementation while saving time and money. Powell said the CIPR also has a resource that can assist state insurance regulators with funding for programs.

7. Heard a Presentation from APCIA About Mitigation Discounts

Dave Snyder (American Property Casualty Insurance Association—APCIA) said the increased cost of catastrophic events is not only related to weather but also several other factors in other sectors of the economy that affect insurance. A Verisk study indicated that a rise in exposure values and replacement costs, represented both by continued construction in high-hazard areas and by high inflation levels, is driving up repair and rebuilding costs. Insurers, the public, and state insurance regulators are all dealing with increasing catastrophe losses and rebuilding costs. Snyder said the costs of repairs and claims, coupled with unexpected inflation, added to the costs that insurers and the public had to pay. This year, there were serious and unprecedented downgrades in the insurance industry.

Snyder said another issue is supply and demand, as property insurance demand and costs increase while capital decreases. Higher rebuilding values, demographic growth and shifts, inflation, worsening weather, and legal system abuse all increase demand. He said the decreasing supply is due to rate suppression, delays, and premiums falling behind losses. The lack of profitability, added to volatility, deters new investment capital.

Snyder said the government and the private sector need to work together, so strengthening those partnerships in ways that perhaps have not been needed in the past is fundamental to the industry's collective success now. It is important to identify those things outside of the normal insurance realm that are affecting the cost of claims and are ultimately creating the availability and affordability challenges being experienced.

Snyder said stronger building codes and land use policies are fundamental to a long-term solution and improvement. Insurers are the principal funders of the Insurance Institute for Building and Home Safety (IBHS).

Snyder said APCIA has advocated at the federal and state levels for financial support to increase resilience, particularly for vulnerable populations. He said APCIA knows this is also a big concern for state insurance regulators. Insurers have a critical role to play in enhancing risk assessment using the latest technology and providing that information more effectively to consumers than has been done in the past.

© 2024 National Association of Insurance Commissioners

Finally, it is important to invest in and underwrite climate and renewable energy technology, such as carbon capture and hydrogen.

Snyder said policy priorities include mitigation, catastrophe deductibles, and catastrophe savings accounts (CSAs). Mitigation reduces the likelihood of a loss and potentially avoids an insurance claim. There is a huge payoff when homeowners mitigate their homes because, for every dollar spent on mitigation, less money is spent on repairing or rebuilding a house following a disaster. Mitigation is not just an individual issue; it is also a community issue involving things such as infrastructure, and infrastructure at local levels, in many cases, is out of date.

Snyder said catastrophe deductibles increase the "share of risk" (i.e., a higher deductible) to reduce insurance costs. CSAs establish a pre-tax savings account to help cover pre-disaster expenses, such as mitigation, or, in the event of a loss, post-disaster expenses, such as a deductible.

Snyder said the list of financial incentives for resilience includes grants, low-interest loans, waivers or reductions in fees, tax credits, and insurance incentives. Insurers are more likely to provide discounts when they are collecting adequate rates. He said APCIA urges state insurance regulators to continue to focus on mitigation.

Snyder said that because IBHS FORTIFIED program homes meet a scientifically proven standard to be more resilient than homes built to ordinary building codes, they may benefit homeowners in more than a dozen states. He said in some states, insurers offer specific discounts to homes with a FORTIFIED designation. Other states offer discounts for specific upgrades included in the FORTIFIED standard, and four states offer tax credits to homeowners who strengthen their homes against storms.

Snyder said science-based incentives against wildfire are in place in some states. In California and a couple of other states, laws have been passed to require insurers to provide discounts for actions that make homes more resilient to wildfire. The IBHS Wildfire Prepared Home program standard requires a set of actions to be taken together to meaningfully reduce the risk of ignition from embers, direct flames, and radiant heat. Homes that meet this standard are scientifically shown to be the most resilient. Similar action must be taken and maintained at a community level to fully reduce the risk of wildfire events.

Snyder said APCIA believes the key to an effective insurance-based mitigation program ensures that it incentivizes the right actions that ultimately benefit consumers and facilitate a healthy insurance marketplace. APCIA believes a mitigation program should be 1) voluntary, flexible, and limited in scope; 2) verifiable, grounded in science, and risk-based; and 3) cost-effective, consistent, and complementary.

Snyder explained that a deductible could be a specific dollar amount or percentage of the total amount of insurance covered on a policy. He said the deductible could be a standard deductible, applying to all perils, unless otherwise specified, or a catastrophe deductible that applies to a specified catastrophe risk. APCIA said that while deductibles are highly controversial, they allow the policyholder to have at least some coverage as opposed to a situation where the coverage levels are mandated to be higher than a policyholder can manage.

Snyder said insurance is largely a passthrough mechanism of the conditions in other sectors and other aspects of society, including the movement to climate-sensitive areas, higher asset values, inflation, and other factors. He said losses are increasing dramatically, which leads to higher insurance costs. Snyder said that allowing adequate insurance rates to cover the increasing losses is critical to avoiding market disruptions. He said these are all important actions that can be taken, as well as taking advantage of opportunities to work together, that would

© 2024 National Association of Insurance Commissioners

improve resilience and help address affordability issues while also maximizing the availability of coverage. He said APCIA thinks that focusing on parametric insurance at the NAIC might be beneficial to everyone.

Amy Bach (United Policyholders—UP) asked if APCIA members were being more flexible in allowing consumers to break up the mandatory percentages in their policy. She said, for example, that she does not have a garage or other outbuildings, but she had been paying for coverage for these other structures because it was automatically built into the premium, so she was unable to drop that portion of the policy. She asked if APCIA members were looking at giving policyholders the ability to trim their coverages appropriately without requiring a large deductible. Snyder said right-sizing a consumer's homeowners policy is something APCIA would want to stay in contact with UP to hear the recommendations it has to offer. He said there is a desire for APCIA members to empower consumers.

8. Discussed Other Matters

Amann said the Reinsurance Association of America (RAA) recently signed a memorandum of understanding (MOU) to collaborate on the shared goal of analyzing and communicating weather and climate hazard risks to key stakeholders. Under the MOU, the National Oceanic and Atmospheric Administration (NOAA) and the RAA will work together to address the risks communities face and improve the usefulness of NOAA's products and services to the insurance and reinsurance industries. She recommended the Working Group members read the article for more information.

Having no further business, the joint meeting of the Catastrophe Insurance (C) Working Group and the NAIC/FEMA (C) Advisory Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/2024 Summer/Catastrophe Ins/Minutes – CatWG – Summer 2024.docx

© 2024 National Association of Insurance Commissioners

Attachment Three
Property and Casualty Insurance (C) Committee
8/15/24

Draft: 8/20/24

Transparency and Readability of Consumer Information (C) Working Group
Virtual Meeting
August 8, 2024

The Transparency and Readability of Consumer Information (C) Working Group of the Property and Casualty Insurance (C) Committee met Aug. 8, 2024. The following Working Group members participated: George Bradner, Chair (CT); Melissa Breager (AK); Ken Allen (CA); Bobbie Baca (CO); Julie Rachford (IL); Patrick O'Connor (IN); Sara Hurtado (KS); Ron Henderson (LA); Bubba Aguirre (MN); Jeana Thomas (MO); Angela Hatchell (NC); Tricia Goldsmith (OR); David Buono (PA); Rachel Chester (RI); Vickie Trice and Jennifer Ramcharan (TN); Marianne Baker (TX).

1. Discussed Proposed Revisions Based on Comment Letters to the Premium Increase Transparency Guidance

Bradner said the premium increase transparency guidance (Attachment Three-A) was previously exposed for a comment period that ended Feb. 1, 2024. Comment letters (Attachment Three-B) were received from Lemonade Insurance, Brenda Cude (University of Georgia), United Policyholders, American Property Casualty Insurance Association (APCIA), National Association of Mutual Insurance Companies (NAMIC), Texas, and Alabama. The Working Group decided to focus on making revisions that provided additional clarity and improved readability in the most succinct form. The most substantial change was its decision to combine the capping and non-capping guidance documents into one guidance document that applies to both. The following details revisions made to this combined document. Sections in blue are the relevant guidance document language with redlined revisions.

The title was revised to "Renewal Premium that results or does not result from a capping procedure used by the insurer" to reflect that this is now a combined document. Revision suggestions for readability and a typo were also implemented.

Title Revisions:
Renewal Premium that ~~is a result~~ results or does not result from a capping procedure ~~employed~~ used by the ~~insured~~ insurer

The Scope of Applicability section specifies that disclosure applies to authorized insurers on renewal policies for private auto, homeowners, and dwelling coverage on or after a set date.

For (2) in this section, the Working Group implemented the suggestion to exclude the apostrophe in the spelling of "Homeowners." This change was made throughout the document. There also was a minor readability suggestion implemented to replace "the following" with "these."

Scope of Applicability #2 Revisions:
(2) Disclosure applies to authorized insurers with ~~the following~~ these types of personal insurance policies:

a. Private passenger automobile coverage;
b. ~~Homeowner's~~ Homeowners coverage, including mobile homeowners, manufactured homeowners, condominium owners, and renter's coverage; and
c. Dwelling property coverage for owner occupied dwellings only

L ike the Washington rule, the exemptions listed in (4) of this section specify excluding things such as boats and motorcycles, policyholder-initiated changes, and umbrella policies.

© 2024 National Association of Insurance Commissioners

The Working Group implemented revision suggestions to add exemption "d." for notices required by the federal Fair Credit Reporting Act (FRCA) and "e." for usage-based telematics. It also added clarification to the usage-based telematics exemption to specify that this only applies if a company does not have a process for disclosing to the policyholder how driving performance impacts their rate.

Suggestions to add exemptions for an increase in the filed rate plan and automatic inflationary increases, aging of things such as roofs, and items reasonably known by the insured, such as a vehicle crash, were deemed contrary to the intent of the disclosure and not implemented.

Scope of Applicability #4 Revisions:

(4) Exemptions

a. Disclosure does not apply to personal insurance policies for coverage of boats, motorcycles, off-road vehicles, recreational vehicles, antique or collector vehicles, classic vehicles, and specialty vehicles.
b. This chapter does not apply to policyholder-initiated changes to insurance coverages, policies, or premiums.
c. This chapter does not apply to personal umbrella policies.
d. This chapter does not apply to notices required by the Federal Fair Credit Reporting Act (15 U.S.C. 1681 et. seq.).
e. Where a usage based or telematics program is being used, if a company has a process for disclosing information to drivers on how their performance is impacting their rate, disclosure is not required. Otherwise, a state may want to consider having these programs included in this disclosure, while keeping within state confidentiality laws.

The "Notification Threshold" section spells out what triggers a notice to insureds. It adopts Washington's bifurcated phased approach. A notice is triggered in Phase 1 when the policyholder provides a written request for any increase at renewal. Explanations just need to be reasonable. A notice is triggered in Phase 2, which is recommended to begin three years later, with renewal premium increases of 10% or greater or upon written request for any increase. Notices must have reasonable explanations and include primary factors of the premium increase.

Language describing Phase 1 was slightly revised for readability based on feedback in comment letters. "Phase one expires" was changed to "Phase one ends." "Insurers shall provide reasonable explanations for changes" was changed to "insurers must reasonably explain changes."

Suggestions to have insurers remain in the first phase indefinitely and narrow the language to not allow written requests for "any" premium increase were not implemented. The Phase 2 disclosure is an essential part of this premium change transparency initiative. Insurers only need to provide an explanation of the premium increase if a policyholder sends an inquiry. This is in line with current insurer practices.

Notification Threshold, Phase 1 Revisions:

(1) Phase One: Beginning [enter date], and effective until [enter date phase one ends ~~expires~~ – such as 3 years], insurers must ~~shall~~ reasonably explain ~~provide reasonable explanations for~~ changes in premium for policies ~~as~~ described in the Scope of

Availability, upon written request by the policyholder, for any premium increase ~~occurring~~ at renewal.

Revisions to the language in Phase 2 reflect improved readability. Based on comment letters, "shall" was changed to "must," and "occurring" was struck from "premium increase occurring at renewal." The Working Group also revised the sentence to be more concise by stating "insurers must automatically provide notices" and "disclosing the causes of premium increases for insurance policies for any premium increase of 10 percent."

Several revision suggestions were not implemented. These included suggestions to increase the trigger percentage or use a fixed dollar amount, go straight to Phase 2 with a 12-month start date, and use a 20% threshold. The revisions pertaining to the threshold were deemed not needed, as this document is only a guidance document, and as such, the actual threshold will be determined by states. Additionally, Phase 1 is needed to provide insurers with time to implement the necessary processes.

Notification Threshold, Phase 2 Revisions:

(2) Phase Two: Beginning [enter date phase two begins], insurers must ~~shall~~ automatically provide premium change notices, with reasonable explanations and primary factors, disclosing the causes of premium increases for insurance policies for any ~~. Insurers shall provide premium change notices automatically when a renewal will result in a 10 percent~~ premium increase of 10 percent or more, or upon written request by the policyholder for any premium increase ~~occurring~~ at renewal.

The "Administrative and Notification Requirements" section instructs the insurer to notify the policyholder in Phase 1 of their right to request an explanation for their rate increase in accordance with their jurisdiction's requirements.

(1) pertains to Phase 1. Revisions to (1) in this section were made to improve readability and execution clarification. They reflect, in part, suggestions made in comment letters. The revised second sentence specifies placement by renewal form type. It now reads, "For example, a state may want to provide guidance that a prominent disclaimer be at the beginning of the first page (for printed notices), or first screen (for electronic notices) and at or near the top of renewal billing statements..."

Administrative and Notification Requirements, Phase 1 Revisions:

(1) For the first phase, insurers should notify policyholders of their right to request an explanation for their rate increase in accordance with their jurisdiction's requirements. For example, a state may want to provide guidance that a prominent disclaimer ~~may~~ be at the beginning of ~~required to be included on~~ the first page (for printed notices), or first screen (for electronic notices) and at or near the top of ~~view of renewal notices, and~~ renewal billing statements indicating policyholders receiving an increase to their premiums at renewal can request an explanation by contacting the insurer in writing.

(2) in this section refers to Phase 2. For Phase 2, this section specifies that insurers must automatically send disclosure at least 30 days before the renewal date. (Washington's rule uses 20 days, but the Working Group felt 30 days was more appropriate to allow time for inquiries and responses before the renewal date.) It can be included with the renewal notice or sent in a separate mailing/email.

© 2024 National Association of Insurance Commissioners

The suggestion that "insured" be changed to "policyholder" throughout the document was implemented. To address comments that guidance for prominent disclosure is needed, the last sentence, "Guidance for prominent disclosure remains the same as in Phase 1," was added to provide clarity that the guidance for prominent disclosure remains the same as in Phase 1.

The suggestion to require a disclosure notice to be sent at least 60 days prior to renewal was not implemented. This is only a guidance document, and states will ultimately customize criteria such as this to fit their specific needs. However, the guidance document's intent is that insurers should make every effort to respond to policyholders' inquiries before renewal.

Administrative and Notification Requirements, Phase 2 Revisions:

(2) For the second phase, insurers must automatically send the disclosure notice at least 30 days prior to the renewal date if the policyholder ~~insured~~ receives at least a 10 percent premium increase at renewal. Disclosure notification may be included with the renewal notice or may be sent in a separate mailing, or by email~~,~~ (if the policyholder ~~insured~~ has elected to receive email notifications). Guidance for prominent disclosure remains the same as in phase 1.

(3) in this section states that, for both phases, insurers must respond to an insured's written request for explanation no later than 30 days for the first request and 20 days for subsequent requests.

To address comment letter concerns on the timing of insurer responses to subsequent policyholder requests, (3)c was modified to clarify insurers should make every effort to respond prior to the renewal date, but the premium due date will not be altered.

The suggestion that insurers respond no later than five calendar days prior to the renewal date was not implemented, as this is not always possible. If the complexity of the request prevents insurers from making a good faith effort to respond prior to renewal, consumers are expected to continue paying their premium.

Administrative and Notification Requirements, #3 Revisions:

(3) For both phases:

a. Insurers should include a statement in notifications and/or explanations that the policyholder may contact their insurer to request additional information about premium increases.
b. Insurers should respond to a policyholder's ~~an~~ ~~insured's~~ written request for explanation of premium change no later than 30 calendar days from ~~the~~ receipt of the written request.
c. Subsequent ~~R~~requests from a policyholder ~~an insured~~ for ~~subsequent~~ additional information should be responded to no later than 20 calendar days. Insurers should make every effort to respond prior to the renewal date. However, there is no expectation that the premium due date will be altered.

(4) in this section defines how receipt and response dates are determined. Several comments were made on the need to improve readability. The Working Group revised the language to be more concise and include that receipt and response dates will be in accordance with each jurisdiction's requirements.

Administrative and Notification Requirements, #4 Revisions:

(4) ~~The effective date of~~ Receipt and response ~~will be in accordance with each jurisdiction's requirements. For instance, receipt and response~~ dates may be indicated by either postmark or electronic timestamp, in accordance with each jurisdiction's requirements.

(5) in this section remains the same.

For (6) in this section, the Working Group implemented the suggestion to change that notification may be sent "via postal mail" to "by mail."

Administrative and Notification Requirements, #4 Revisions:

(6) Insurers should provide premium change notifications and explanations to policyholders in writing. Explanations or notices may be sent by ~~via postal~~ mail or electronically.

The "Communication Standards" section specifies what constitutes primary factors for auto, property, demographic, and other (age, credit history, gender) that are required to be included in the notice if it contributed to the premium increase. The use of primary factors in the premium change notice is optional in the first phase and mandatory in the second phase.

Revisions to (1) in this section were based on comment letter suggestions. This includes clarifying that the factors reflect a "change in" things such as garage location, age, and claims history. Additionally, "Other factors" now include automatic inflationary increases and updates to an insurer's rate plan. Small changes for readability were also made.

Communication Standards Revisions for #1:

(1) Insurers should provide sufficient information, including primary factors, in terms understandable to an average policyholder. Primary factors include:

a. Auto-related factors: change in car garaging location, driving record, miles driven, number of drivers, and number of vehicles,
b. Property related factors: change in age, location, and value,
c. Demographic factors: change in age, credit history, education, gender, marital status, and occupation,
d. Other factors: change in claims history, discounts, fees and surcharges, premium capping, automatic inflationary increases, and updates to an insurer's rate plan ~~changes~~.
e. Factors not listed above as primary are ~~considered as~~ optional ~~factors~~. Insurers may include additional optional factors not listed in this section, if applicable to the premium increase.

(2) in this section states insurers must include primary factors if applicable in the second phase. The Working Group revised (2) to be more concise. The suggestion to change "shall" to "must" was implemented.

Communication Standards Revisions for #2:

(2) For the second phase, insurers must ~~shall~~ include the primary factors in the premium change notice processed for renewals, if applicable to the premium increase~~, with any premium change notices processed for renewals~~.

© 2024 National Association of Insurance Commissioners

(3) in this section remains the same.

(4) in this section states insurers should provide a degree of accuracy for estimated dollars. At commenters' suggestions, "as specifically applied to that policy and premium increase" was stuck to reduce redundancies. The suggestion to replace "on the degree of accuracy" with "about the degree of accuracy" was also implemented.

Communication Standards Revisions for #4:
(4) If insurers use estimated dollars, a reasonable explanation should be provided about ~~on~~ the degree of accuracy the estimated dollars achieve~~, as specifically applied to that policy and premium increase~~.

(5) in this section remains the same.

The suggestion to clarify (6) in this section was implemented by revising "notification" to "premium increase notification" and "it could be allowed to continue" to "the regulator may allow the insurer to continue."

Communication Standards Revisions for #6:
(6) If an insurer already has a premium increase notification process acceptable to the State's regulator, the regulator may ~~it could be~~ allow~~ed~~ the insurer to continue to use the process that is in place.

The following pertains to the Phase 2 premium increase notice examples.

For the premium increase notice examples for Phase 2, in keeping with the use of a combined guidance document, the non-capping notice example for auto/homeowners was removed. There is now one notice example for auto and one for homeowners that can each be used for non-capping and capping.

Auto Example:

For the first lines, the Working Group removed the reference to rating plans being approved by states because not all states require this. References to "insurance premium" were changed to "insurance policy premium" for clarity. References to the premium's effective period, frequency, and scheduled date of renewal were removed to simplify the language.

Mocked Revisions:
Phase 2: Auto Insurance Policy Premium Increase Notice Example
Your auto insurance policy **premium is increasing.**
Your current auto insurance policy premium ~~[for what period]~~ is $1,175 ~~[how often~~].
Each insurer files a rating plan with the state insurance department ~~for their approval~~.
According to the rating plan we filed with your state, your anticipated renewal policy premium is ~~would increase to~~ $2,121 ~~the next time you renew your policy, which is scheduled for [date]~~.

Instructions were added for when a premium is capped by adding "If the policy premium is capped, a statement such as this must be included" in brackets.

© 2024 National Association of Insurance Commissioners

Mocked Revisions:

[If the policy premium is capped, a statement such as the following must be included:]

The first line of the statement to be used if the policy premium is capped remains the same.

Mocked Revisions:

However, the next time you renew your policy your premium increase will be limited to only $88, resulting in a renewal premium of $1,257.

In the second line, "premium" was "changed to "policy premium."

Mocked Revisions:

Your policy premium **will continue to increase with each of the next [how many] renewals** until it reaches $2,121.

In the next paragraph, references to changes in personal characteristics potentially impacting rates were clarified by changing "personal characteristics" to "personal and/or driving characteristics." As suggested, examples of these characteristics were added in parentheses. The suggestion to change "reasons" to "factors" throughout the examples to clarify that these are the rating factors was also implemented. To account for varying methods among states, a statement in brackets was added specifying that states using a driver's experience instead of age should substitute accordingly.

Mocked Revisions:

Remember ~~that~~ there also are other rate factors that could cause ~~reasons~~ your auto insurance premium to ~~could~~ change in the future. For example, if you change your coverage, or if your personal and/or driving characteristics change, (such as your age* or ~~number of~~ any accidents or violations in the household), your policy premium could increase or decrease from the premium amounts stated above. [States that use drivers experience instead of age should substitute accordingly.]

The remainder of the example disclosure reflects the revisions mentioned earlier of changing "reasons" to "factor" and "premium" to "policy premium."

Mocked Revisions:

Here are the major factors ~~reasons~~ for this increase in your policy premium, along with the dollar impact of each of those reasons:

~~Reasons~~ Factors for your policy premium increase and the dollar impact

- **~~Reasons~~ Factor 1 raised your premium $A**
- **~~Reasons~~ Factor 2 raised your premium $B**
- **~~Reasons~~ Factor 3 raised your premium $C**
- **~~Reasons~~ Factor 4 raised your premium $D**
- **~~Reasons~~ Factor 5 raised your premium $E**

The revisions made to the auto disclosure example were also implemented into the homeowners disclosure example, where appropriate. The only variance is in the paragraph that begins with "Remember" where the factors added in brackets are specific to homeowners.

© 2024 National Association of Insurance Commissioners

This paragraph now reads, "Remember there also are other rate factors that could cause your homeowners insurance premium to change in the future. For example, if you change your coverage, or if your personal and/or property risk characteristics change, (such as claims filed, age of the home and/or roof, the coverage A value, etc.) your policy premium could increase or decrease from the premium amounts stated above. [States may want to modify language to reflect their specific exposures, such as wildfires or other catastrophe exposures.]"

Bradner stated that Cude's comments on the revised guidance would be considered along with any additional comments received during the exposure period. Cude said her revision suggestions focused on readability. Bradner and Cude agreed to discuss Cude's suggested use of "anticipated."

Tony Cotto (NAMIC) said the Working Group may want to revisit the "accidents or violations in the household" because it is inconsistent with the language in the earlier part of the guidance that says it does not pertain to items already known, such as a vehicle crash or moving violation. He said NAMIC will include this in its comment letter. He also expressed appreciation for the Working Group's thought and time in revising the guidance, especially implementing NAMIC's suggestion to add the Fair Credit Reporting items.

Wes Bissett (Independent Insurance Agents and Brokers of America—IIABA) expressed gratitude for not accepting revision suggestions that would have lessened the impact of the guidance. He asked how this guidance would apply to a nonrenewal situation. Bradner stated the guidance is purely focused on a company renewing a policy and the premium increasing. Explaining reasons why a policy is not renewed is not within the scope of this guidance. States generally require nonrenewal notices to be clear and provide contact information for the insurance department for those who have concerns.

Lisa Brown (APCIA) stated premium increases in Virginia are due to statutory changes to financial requirements. She asked how this would be addressed in the guidance. Bradner stated that the insurer would work with its state regarding appropriate language, but the disclaimer would indicate that the state legislator increased renewal limits to protect society and that comes with an associated cost and indicate the resulting increase in premium.

2. Discussed General Comments Received from Comment Letters on the Previously Exposed Premium Increase Transparency Guidance

Bradner stated the Working Group has compiled general comments received from the previously exposed premium increase transparency guidance and provided responses to them (Attachment Two-B). In summary, the Working Group did not implement a static example rating factor, as it would not let policyholders know what is impacting their specific premium increase. In regard to comments related to dedicated rating variables not reflecting actual multivariate filed/approved products, the Working Group felt its guidance met the goal of providing consumers with an understanding of the key variables that are impacting their premium change.

The Working Group did not implement comments related to changing the phase approach because it is being used to alleviate concerns around insurers who may not have the needed in-house data and may need to make programming changes. Comments of concern related to proprietary information should note there is no intent for proprietary information (such as rating algorithms) to be disclosed. The consumer just needs to understand the factors impacting their rate change. This document is only guidance. As such, any state wishing to use it will need to review it for conflicts with their state's statutory requirements and needed reference to state authorization. The suggestion to use an annual report or complaint data would not provide the details specific to a consumer and why that consumer's rate changed. Concerns about including information to enable the policyholder to validate

© 2024 National Association of Insurance Commissioners

the accuracy of the renewal premium were addressed with the revisions in the consumer notice examples. The suggestion to have dynamic and clear messaging was implemented where applicable.

Clarity was sought on how a mid-term policy change would be handled. If the mid-term policy change resulted in a change in premium for the policy period, for purposes of determining whether or not the 10% premium increase threshold is met, an insurer would compare the renewal premium to the full-term premium that would have been charged had the mid-term policy change occurred at the beginning of the policy period.

The Working Group determined that the suggestion to include information policyholders can use to reduce their premiums or amend their coverage was beyond the scope of the guidance document. Providing details about the coverage limit for a dwelling structure and how that limit was derived was also determined to be beyond the guidance's scope. The Working Group's Auto and Homeowner's Shopping Tools provide guidance to consumers on these topics.

Cude suggested including a reminder that the shopping tools are available when the guidance is distributed after adoption. Bradner agreed.

3. Exposed the Revised Premium Increase Transparency Guidance

Brown asked that the comment period end after the NAIC Summer National Meeting. Bradner agreed to Aug. 30, 2024.

Allen made a motion, seconded by Hurtado, to expose the revised premium increase transparency guidance for a 22-day public comment period ending Aug. 30, 2024 (Attachment Two-A). The motion passed unanimously.

Having no further business, the Transparency and Readability of Consumer Information (C) Working Group adjourned.

SharePoint/NAIC Staff Support Hub/Committees/C Cmte/2024 Summer/Transparency/8.8 Transparency Minutes.docx

© 2024 National Association of Insurance Commissioners

FINAL VERSION OF DISCLOSURE NOTICE

Renewal Premium that ~~is a result~~ results or does not result from a capping procedure ~~employed~~ used by the ~~insured~~ insurer

Scope of Applicability

(1) Disclosure applies to policies renewed on or after [Enter Date].

(2) Disclosure applies to authorized insurers with ~~the following~~ these types of personal insurance policies:

a. Private passenger automobile coverage;

b. ~~Homeowner's~~ Homeowners coverage, including mobile homeowners, manufactured homeowners, condominium owners, and renter's coverage; and

c. Dwelling property coverage for owner occupied dwellings only

(3) Disclosure applies to renewals of policies and will not apply to the purchase of new policies or new insurance applications.

(4) Exemptions

a. Disclosure does not apply to personal insurance policies for coverage of boats, motorcycles, off-road vehicles, recreational vehicles, antique or collector vehicles, classic vehicles, and specialty vehicles.

b. This chapter does not apply to policyholder-initiated changes to insurance coverages, policies, or premiums.

c. This chapter does not apply to personal umbrella policies.

d. This chapter does not apply to notices required by the Federal Fair Credit Reporting Act (15 U.S.C. 1681 et. seq.).

e. Where a usage based or telematics program is being used, if a company has a process for disclosing information to drivers on how their performance is impacting their rate, disclosure is not required. Otherwise, a state may want to consider having these programs included in this disclosure, while keeping within state confidentiality laws.

Notification Thresholds

(1) Phase One: Beginning [enter date], and effective until [enter date phase one ends ~~expires~~ – such as 3 years], insurers must ~~shall~~ reasonably explain ~~provide reasonable explanations for~~ changes in premium for policies ~~as~~ described in the Scope of Availability, upon written request by the policyholder, for any premium increase ~~occurring~~ at renewal.

(2) Phase Two: Beginning [enter date phase two begins], insurers must ~~shall~~ automatically provide premium change notices, with reasonable explanations and primary factors, disclosing the causes of premium increases for insurance policies for any ~~. Insurers shall provide premium change notices automatically when a renewal will result in a 10 percent~~ premium increase of 10 percent or more, or upon written request by the policyholder for any premium increase ~~occurring~~ at renewal.

© 2024 National Association of Insurance Commissioners

Administrative and Notification Requirements

(1) For the first phase, insurers should notify policyholders of their right to request an explanation for their rate increase in accordance with their jurisdiction's requirements. For example, a state may want to provide guidance that a prominent disclaimer ~~may~~ be at the beginning of ~~required to be included on~~ the first page (for printed notices), or first screen (for electronic notices) and at or near the top of ~~view of renewal notices, and~~ renewal billing statements indicating policyholders receiving an increase to their premiums at renewal can request an explanation by contacting the insurer in writing.

(2) For the second phase, insurers must automatically send the disclosure notice at least 30 days prior to the renewal date if the policyholder ~~insured~~ receives at least a 10 percent premium increase at renewal. Disclosure notification may be included with the renewal notice or may be sent in a separate mailing, or by email~~,~~ (if the policyholder ~~insured~~ has elected to receive email notifications). Guidance for prominent disclosure remains the same as in phase 1.

(3) For both phases:
   a. Insurers should include a statement in notifications and/or explanations that the policyholder may contact their insurer to request additional information about premium increases.
   b. Insurers should respond to a policyholder's ~~an insured's~~ written request for explanation of premium change no later than 30 calendar days from ~~the~~ receipt of the written request.
   c. Subsequent ~~R~~requests from a policyholder ~~an insured~~ for ~~subsequent~~ additional information should be responded to no later than 20 calendar days. Insurers should make every effort to respond prior to the renewal date. However, there is no expectation that the premium due date will be altered.

(4) ~~The effective date of~~ Receipt and response ~~will be in accordance with each jurisdiction's requirements. For instance, receipt and response~~ dates may be indicated by either postmark or electronic timestamp, in accordance with each jurisdiction's requirements.

(5) Insurers should include their contact information in all premium change notifications and explanations to policyholders and may include the producer's (if any) contact information.

(6) Insurers should provide premium change notifications and explanations to policyholders in writing. Explanations or notices may be sent by ~~via postal~~ mail or electronically.

Communication Standards

(1) Insurers should provide sufficient information, including primary factors, in terms understandable to an average policyholder. Primary factors include:

© 2024 National Association of Insurance Commissioners

a. Auto-related factors: change in car garaging location, driving record, miles driven, number of drivers, and number of vehicles,
b. Property related factors: change in age, location, and value,
c. Demographic factors: change in age, credit history, education, gender, marital status, and occupation,
d. Other factors: change in claims history, discounts, fees and surcharges, premium capping, automatic inflationary increases, and updates to an insurer's rate plan ~~changes~~.
e. Factors not listed above as primary are ~~considered as~~ optional ~~factors~~. Insurers may include additional optional factors not listed in this section, if applicable to the premium increase.

(2) For the second phase, insurers must ~~shall~~ include the primary factors in the premium change notice processed for renewals, if applicable to the premium increase~~, with any premium change notices processed for renewals~~.

(3) If insurers include composite rating variables in their premium change explanation, the premium increase attributed to the composite rating variables should be explained.

(4) If insurers use estimated dollars, a reasonable explanation should be provided about ~~on~~ the degree of accuracy the estimated dollars achieve~~, as specifically applied to that policy and premium increase~~.

(5) Insurers may include premium change explanations for all premium increases beyond those required.

(6) If an insurer already has a premium increase notification process acceptable to the State's regulator, the regulator may ~~it could be~~ allow~~ed~~ the insurer to continue to use the process that is in place.

[REMOVED THIS EXAMPLE:]

~~Phase 2: Auto/Homeowners Insurance Premium Increase Notice Example~~

~~**Your auto/homeowners insurance premium is increasing.**~~

~~Your current premium is $1,175.~~

~~Your renewal premium is $1,250.~~

~~Here are the major reasons for this increase in your premium, along with the dollar impact of each of those reasons:~~

~~**Reasons for your premium increase and the dollar impact**~~

- ~~**Reason 1 raised your premium $A**~~

© 2024 National Association of Insurance Commissioners

- ~~**Reason 2 raised your premium $B**~~
- ~~**Reason 3 raised your premium $C**~~
- ~~**Reason 4 raised your premium $D**~~
- ~~**Reason 5 raised your premium $E**~~

~~Please call your agent or our Customer Service Representative at (xxx) xxx-xxxx with any questions~~.

[MODIFIED THE NEXT TWO EXAMPLES TO APPLY TO CAPPING AND NONCAPPING:]

Phase 2: Auto Insurance Policy Premium Increase Notice Example

Your auto insurance policy **premium is increasing.**

Your current auto insurance policy premium ~~[for what period]~~ is $1,175 ~~[how often~~].

Each insurer files a rating plan with the state insurance department ~~for their approval~~. According to the rating plan we filed with your state, your anticipated renewal policy premium is ~~would increase to~~ $2,121 ~~the next time you renew your policy, which is scheduled for [date]~~.

[If the policy premium is capped, a statement such as the following must be included:]

However, **the next time you renew your policy your premium increase will be limited to only $88, resulting in a renewal premium of $1,257.**

Your policy premium **will continue to increase with each of the next [how many] renewals** until it reaches $2,121.

Remember ~~that~~ there also are other rate factors that could cause ~~reasons~~ your auto insurance premium to ~~could~~ change in the future. For example, if you change your coverage, or if your personal and/or driving characteristics change, (such as your age* or ~~number of~~ any accidents or violations in the household), your policy premium could increase or decrease from the premium amounts stated above. [States that use drivers experience instead of age should substitute accordingly.]

Here are the major factors ~~reasons~~ for this increase in your policy premium, along with the dollar impact of each of those reasons:

~~Reasons~~ Factors for your policy premium increase and the dollar impact

- **~~Reasons~~ Factor 1 raised your premium $A**
- **~~Reasons~~ Factor 2 raised your premium $B**
- **~~Reasons~~ Factor 3 raised your premium $C**
- **~~Reasons~~ Factor 4 raised your premium $D**

© 2024 National Association of Insurance Commissioners

- **~~Reasons~~ Factor 5 raised your premium $E**

Please call your agent or our Customer Service Representative at (xxx) xxx-xxxx with any questions.

Phase 2: Homeowners ~~Homeowner's~~ Insurance Policy Premium Increase Notice Example

Your homeowners ~~homeowner's~~ insurance policy premium is increasing.

Your current homeowners ~~homeowner's~~ insurance policy premium ~~[for what period]~~ is $1,175 ~~[how often]~~.

Each insurer files a rating plan with the state insurance department ~~for their approval~~. According to the rating plan we filed with your state, your anticipated renewal policy premium is ~~would increase to~~ $2,121 ~~the next time you renew your policy, which is scheduled for [date]~~.

[If the policy premium is capped, a statement such as the following must be included:]

However, the next time you renew your policy your premium increase will be limited to only $88, resulting in a renewal premium of $1,257.

Your policy premium **will continue to increase with each of the next [how many] renewals** until it reaches $2,121.

Remember ~~that~~ there also are other rate factors that could cause ~~reasons~~ your homeowners ~~homeowner's~~ insurance premium to ~~could~~ change in the future. For example, if you change your coverage, or if your personal and/or property risk characteristics change, (such as claims filed, age of the home and/or roof, ~~location, and~~ the coverage A value, etc.) your policy premium could increase or decrease from the premium amounts stated above. [States may want to modify language to reflect their specific exposures, such as wildfires or other catastrophe exposures.]

Here are the major factors ~~reasons~~ for this increase in your policy premium, along with the dollar impact of each of those reasons:

~~Reasons~~ Factors for your policy premium increase and the dollar impact

- **~~Reasons~~ Factor 1 raised your premium $A**
- **~~Reasons~~ Factor 2 raised your premium $B**

© 2024 National Association of Insurance Commissioners

- **~~Reasons~~ Factor 3 raised your premium $C**
- **~~Reasons~~ Factor 4 raised your premium $D**
- **~~Reasons~~ Factor 5 raised your premium $E**

Please call your agent or our Customer Service Representative at (xxx) xxx-xxxx with any questions.

FINAL VERSION OF DISCLOSURE NOTICE

Working Group: Revisions for the title were for readability improvements and typo correction.

Renewal Premium that is a result of a capping procedure employed by the insured

Texas: Implemented. Revisions improve readability.

Renewal Premium that ~~is a result of~~results from a capping procedure ~~employed~~used by the ~~insured~~insurer

Working Group: Revisions for this section were for readability improvements and reflect member-initiated changes and revision suggestions from comment letters for additional specificity on exemptions.

Scope of Applicability

(1) Disclosure applies to policies renewed on or after [Enter Date].

(2) Disclosure applies to authorized insurers with the following types of personal insurance policies:

Texas: Implemented. Revisions improve readability.

(2) Disclosure applies to authorized insurers with ~~the following~~these types of personal insurance policies:

a. Private passenger automobile coverage;

b. Homeowner's coverage, including mobile homeowners, manufactured homeowners, condominium owners, and renter's coverage; and

Texas: Implemented. Revisions improve readability.

b. ~~Homeowner's~~Homeowners coverage, including mobile homeowners, manufactured homeowners, condominium owners, and renter's coverage; and

c. Dwelling property coverage for owner occupied dwellings only

(3) Disclosure applies to renewals of policies and will not apply to the purchase of new policies or new insurance applications.

(4) Exemptions

a. Disclosure does not apply to personal insurance policies for coverage of boats, motorcycles, off-road vehicles, recreational vehicles, antique or collector vehicles, classic vehicles, and specialty vehicles.

b. This chapter does not apply to policyholder-initiated changes to insurance coverages, policies, or premiums.

c. This chapter does not apply to personal umbrella policies.

NAMIC: Partially implemented. Exclusions e, g, and f are contrary to the intent of the disclosure.

© 2024 National Association of Insurance Commissioners

d. This chapter does not apply to notices required by the Federal Fair Credit Reporting Act (15 U.S.C. 1681 et. seq.).
e. This chapter does not apply to an increase in the filed rate plan and automatic inflationary increases.
f. This chapter does not apply to additional premium due to a change in risk exposure as a result of the policyholder's participation in a usage-based or telematics insurance program.
g. This chapter does not apply to the aging of such things as a policy, consumer, roof, and home that change the risk profile.
h. Disclosure does not apply to items reasonably known by the insured (such as a vehicle crash or moving violation).

Notification Thresholds

Working Group: Revisions for this section were for readability improvements and reflect member-initiated changes and revision suggestions from comment letters.

(1) Phase One: Beginning [enter date], and effective until [enter date phase one ends ~~expires~~ – such as 3 years], insurers must ~~shall~~ reasonably explain ~~provide reasonable explanations for~~ changes in premium for policies ~~as~~ described in the Scope of Availability, upon written request by the policyholder, for any premium increase ~~occurring~~ at renewal.

NAMIC: Not implemented. This request was withdrawn after NAMIC received clarification that Phase 1 does not include an automatic disclosure notice requirement.

(1) ... for ~~any~~ premium increases over [specified percent] occurring at renewal.

Texas: Implemented. Revisions improve readability.

(1) Phase One: Beginning [enter date], and effective until [enter date phase one ~~expires~~ends – such as 3 years], insurers ~~shall~~must ~~provide reasonable explanations for~~reasonably explain changes in premium for policies ~~as~~ described in the Scope of Availability, upon written request by the policyholder, for any premium increase ~~occurring~~ at renewal.

(2) Phase Two: Beginning [enter date phase two begins], insurers must ~~shall~~ automatically provide premium change notices, with reasonable explanations and primary factors, disclosing the causes of premium increases for insurance policies for any ~~. Insurers shall provide premium change notices automatically when a renewal will result in a 10 percent~~ premium increase of 10 percent or more, or upon written request by the policyholder for any premium increase ~~occurring~~ at renewal.

NAMIC:
Not implemented. Disclosure requirements in Phase 2 are at the heart of the premium rate increase transparency goal.

(2) Delete Phase Two

© 2024 National Association of Insurance Commissioners

Or
Not implemented. The 10 percent premium increase threshold is only a recommendation. This is a guidance document and, as such, the actual threshold will be determined by states.

(2) Phase Two: Beginning [enter date phase two begins], insurers shall provide premium change notices, with reasonable explanations and primary factors, disclosing the causes of premium increases for insurance policies. Insurers shall provide premium change notices automatically when a renewal will result in a ~~10~~ percent premium increase [higher percent or fixed dollar amount or carrier choice] or more, or upon written request by the policyholder for any [narrow language so not ANY increase] premium increase occurring at renewal.

Texas: **Implemented. Revisions improve readability.**

(2) Phase Two: Beginning [enter date phase two begins], insurers ~~shall~~must provide premium change notices, with reasonable explanations and primary factors, disclosing the causes of premium increases for insurance policies. Insurers ~~shall~~must provide premium change notices automatically when a renewal will result in a 10 percent premium increase or more, or upon written request by the policyholder for any premium increase ~~occurring~~ at renewal.

Brenda Cude: Not implemented. Insurers need time to implement systems needed to provide the disclosure requirements.
Skip phase 1 and go straight to 2 with insurers being given up to 12 months to begin to provide this information to consumers.

APCIA Not implemented. The 10 percent premium increase threshold is only a recommendation. This is a guidance document and, as such, the actual threshold will be determined by states.
The 10% increase threshold is quite low and arbitrary. We have all seen news stories about double-digit premium increases driven by inflation, rising claims costs, and increased impacts of natural catastrophes – all of these are beyond the control of individual policyholders. Using 20% better targets notice to customers who may be most interested in additional information.

Administrative and Notification Requirements

Working Group: Revisions for (1) of this section were for readability improvements and reflect member-initiated changes and revision suggestions from comment letters.

(1) For the first phase, insurers should notify policyholders of their right to request an explanation for their rate increase in accordance with their jurisdiction's requirements. For example, a state may want to provide guidance that a prominent disclaimer ~~may~~ be at the beginning of ~~required to be included on~~ the first page (for printed notices), or first screen (for electronic notices) and at or near the top of ~~view of renewal notices, and~~ renewal billing statements indicating policyholders receiving an increase to their premiums at renewal can request an explanation by contacting the insurer in writing.

Brenda Cude: Implemented. Revisions improve readability and execution clarification.

© 2024 National Association of Insurance Commissioners

(1) For the first phase, insurers should notify policyholders of their right to request an explanation for their rate increase in accordance with their jurisdiction's requirements. For example, a prominent disclaimer may be required to be included at or near the top of ~~on~~ the first page (for printed notices), or first screen (for electronic notices) ~~view~~ of renewal notices, and at or near the top of renewal billing statements indicating policyholders receiving an increase to their premiums at renewal can request an explanation by contacting the insurer in writing.

Texas: Not implemented. The premium rate transparency guidance is only meant to be a recommendation and, as such, states can modify language as they see fit.

(1) For the first phase, insurers should notify policyholders ~~of~~about their right to ~~request~~ask for an explanation for their rate increase in accordance with their jurisdiction's requirements. For example, a prominent disclaimer may be required ~~to be included~~ on the first page (~~,~~or online view) of renewal notices~~,~~ and on renewal billing statements ~~indicating~~ telling policyholders receiving an increase to their premiums ~~at renewal~~ that they can ~~request~~ask for an explanation by contacting the insurer in writing.

Working Group: Revisions for (2) of this section reflect members' decision to make a minor grammatical addition of "the," change "insured" to "policyholder," and add clarity that the guidance for prominent disclosure remains the same as in phase 1 as suggested from a comment letter.

(2) For the second phase, insurers must automatically send the disclosure notice at least 30 days prior to the renewal date if the policyholder ~~insured~~ receives at least a 10 percent premium increase at renewal. Disclosure notification may be included with the renewal notice or may be sent in a separate mailing, or by email~~,~~ (if the policyholder ~~insured~~ has elected to receive email notifications). Guidance for prominent disclosure remains the same as in phase 1.

Brenda Cude: Intent Implemented. The suggested revision provides execution clarification, and its intent has been incorporated within the Working Group's revisions.

(2) For the second phase, insurers must automatically send disclosure notice at least 30 days prior to the renewal date if the insured receives at least a 10 percent premium increase at renewal. A ~~D~~disclosure notification must prominently indicate the insurance premium is increasing and may be included with the renewal notice or may be sent in a separate mailing, or by email, if the insured has elected to receive email notifications.

Texas: Partially Implemented. Throughout the document, "insured" was changed to "policyholder." The parenthesis was added. To address the grammatical suggestion to make "notice" plural, the Working Group inserted "the" before "disclosure notice."

(2) For the second phase, insurers must automatically send disclosure notices at least 30 days ~~prior to~~before the renewal date if the ~~insured~~policyholder receives at least a 10 percent premium increase at renewal. Disclosure notification may be included with the renewal notice or may be sent in a separate mailing, or by email~~,~~ (if the ~~insured~~policyholder has elected to receive email notifications).

United Policyholders: Not implemented. As this is a guidance document, states will ultimately choose their timeframe. States may also need to assess if they need statutory language changes related to the quantity of days specified. The guidance document's intent is that insurers should make every

effort respond to policyholders' inquiries before renewal. However, if the complexity of the request prevents insurers from doing so, consumers are expected to continue paying their premium payment while seeking explanations from the insurer.

(2) For the second phase, insurers must automatically send disclosure notice at least 60 ~~30~~ days prior to the renewal date if the insured receives at least a 10 percent premium increase at renewal.

Working Group: Revisions for (3) of this section reflect members' decision to change "insured" to "policyholder." A small grammatical change of striking "the" before "receipt" was made to 3b. To address comment letter concerns on timing of insurer responses to subsequent policyholder requests, 3c was modified to clarify insurers should make every effort to respond prior to the renewal date, but the premium due date will not be altered.

(3) For both phases:

a. Insurers should include a statement in notifications and/or explanations that the policyholder may contact their insurer to request additional information about premium increases.

Texas: Not implemented. The premium rate transparency guidance is only meant to be a recommendation and, as such, states can modify language as they see fit.

a. Insurers should include a statement in notifications ~~and/~~or explanations (or both) that the policyholder may contact their insurer to ~~request additional~~ask for more information about premium increases.

b. Insurers should respond to a policyholder's ~~an insured's~~ written request for explanation of premium change no later than 30 calendar days from ~~the~~ receipt of the written request.

Brenda Cude: Not implemented. The guidance document's intent is that insurers should make every effort respond to policyholders' inquiries before renewal. However, if the complexity of the request prevents insurers from doing so, consumers are expected to continue paying their premium payment while seeking explanations from the insurer.

b. Insurers should respond to an insured's written request for explanation of premium change no later than 30 calendar days from the receipt of the written request or no later than 5 calendar days prior to the renewal date.

Texas: Implemented. "Insured" was changed to "policyholder" throughout document and "the" was struck before "receipt."

b. Insurers should respond to a~~n insured~~policyholder's written request for explanation of premium change no later than 30 calendar days from ~~the~~ receipt of the written request.

United Policyholders: Not implemented. As this is a guidance document, states will ultimately choose their timeframe. States may also need to assess if they need statutory language changes related to the quantity of days specified. The guidance document's intent is that insurers should make every effort respond to policyholders' inquiries before renewal. However, if the complexity of the request prevents insurers from doing so, consumers are expected to continue paying their

premium payment while seeking explanations from the insurer. Revisions were made to 3c to express both these points.

b. Insurers should respond to an insured's written request for explanation of premium change no later than 60 ~~30~~ calendar days from the receipt of the written request.

c. Subsequent ~~R~~requests from a policyholder ~~an insured~~ for ~~subsequent~~ additional information should be responded to no later than 20 calendar days. Insurers should make every effort to respond prior to the renewal date. However, there is no expectation that the premium due date will be altered.

Brenda Cude: Partially Implemented. For grammatical consistency with 3b, "Requests from" was changed to "Insurers should respond to." The request that insurer responses be made at least 5 calendar days prior to the renewal date was not implemented. The guidance document's intent is that insurers should make every effort to respond to policyholders' inquiries before renewal. However, if the complexity of the request prevents insurers from doing so, consumers are expected to continue paying their premium payment while seeking explanations from the insurer. Revisions were made to 3c to express both these points.

c. Insurers should respond to ~~Requests from~~ an insured's written request for subsequent additional information ~~should be responded to~~ no later than 20 calendar days after the insured's request but at least 5 calendar days~~. Insurers should respond~~ prior to the renewal date.

APCIA Intent Implemented. The concern that prompted this revision suggestion was addressed by revising 3c to clarify insurers should "make every effort" to respond prior to the renewal.

c. Requests from an insured for subsequent additional information should be responded to no later than 20 calendar days. ~~Insurers should respond prior to the renewal date.~~

NAMIC: Intent Implemented. The concern that prompted this revision suggestion was addressed by revising 3c to clarify insurers should "make every effort" to respond prior to the renewal.

c. Requests from an insured for subsequent additional information should be responded to no later than 20 calendar days. ~~Insurers should respond prior to the renewal date.~~

Texas: Partially Implemented. "Requests from an insured for subsequent" was revised to "Subsequent requests from a policyholder for additional" for improved readability. The additional readability revisions suggestions were deemed not needed.

c. Subsequent ~~R~~requests from a~~n~~ ~~insured~~policyholder for ~~subsequent additional~~more information should be responded to no later than 20 calendar days. Insurers should respond ~~prior to~~before the renewal date.

Working Group: Revisions for (4) of this section reflect members' decision to improve readability as suggested in comment letters.

(4) ~~The effective date of~~ Receipt and response ~~will be in accordance with each jurisdiction's requirements. For instance, receipt and response~~ dates may be indicated by either postmark or electronic timestamp, in accordance with each jurisdiction's requirements.

© 2024 National Association of Insurance Commissioners

Brenda Cude: Not implemented. Readability was improved with different revisions to better reflect each jurisdiction's requirements.

(4) Evidence of ~~T~~the effective date of receipt and response will be established in accordance with each jurisdiction's requirements. For instance, the jurisdiction may establish that receipt and response dates may be indicated by either postmark or electronic timestamp.

NAMIC: Implemented. Revisions improve clarity and readability.

(4) Receipt and response dates may be indicated by either postmark or electronic timestamp, in accordance with each jurisdiction's requirements. ~~The effective date of receipt and response will be in accordance with each jurisdiction's requirements. For instance, receipt and response dates may be indicated by either postmark or electronic timestamp.~~

Texas: Not implemented. Readability was improved with different revisions to better reflect each jurisdiction's requirements.

(4) The effective date of receipt and response will ~~be in accordance with~~follow each jurisdiction's requirements. For instance, receipt and response dates may be indicated by either postmark or electronic timestamp.

Working Group: No revisions for (5) of this section were received in comment letters or made by the Working Group.

(5) Insurers should include their contact information in all premium change notifications and explanations to policyholders and may include the producer's (if any) contact information.

Working Group: A small revision to change "via postal mail" to "by mail" was implemented to (6) of this section to improve readability as suggested in comment letters.

(6) Insurers should provide premium change notifications and explanations to policyholders in writing. Explanations or notices may be sent by ~~via postal~~ mail or electronically.

Texas: Implemented. Revision improves readability.

(6) Insurers should provide premium change notifications and explanations to policyholders in writing. Explanations or notices may be sent ~~via postal~~by mail or electronically.

Communication Standards

(1) Insurers should provide sufficient information, including primary factors, in terms understandable to an average policyholder. Primary factors include:

Brenda Cude: Not implemented. Original wording is more concise.

(1) Insurers should provide sufficient information about the amount, timing, and reasons for the premium increase. Reasons must ~~,~~ include~~ing~~ the primary factors listed below that are relevant to the rate increase and be explained~~,~~ in terms understandable to an average policyholder. The ~~P~~primary factors include:

a. Auto-related factors: change in car garaging location, driving record, miles driven, number of drivers, and number of vehicles,
b. Property related factors: change in age, location, and value,
c. Demographic factors: change in age, credit history, education, gender, marital status, and occupation,
d. Other factors: change in claims history, discounts, fees and surcharges, premium capping, automatic inflationary increases, and updates to an insurer's rate plan ~~changes~~.

NAMIC: Implemented. Revisions improve clarity.

a. Auto-related factors: change in car garaging location, driving record, miles driven, number of drivers, and number of vehicles,
b. Property related factors: change in age, location, and value,
c. Demographic factors: change in age, credit history, education, gender, marital status, and occupation,
d. Other factors: change in claims history, discounts, fees and surcharges, premium capping, automatic inflationary increases, and updates to an insurer's rate plan ~~changes~~.
e. Factors not listed above as primary are ~~considered as~~ optional ~~factors~~. Insurers may include additional optional factors not listed in this section, if applicable to the premium increase.

Texas: Implemented. Revisions improve readability.

e. Factors not listed above as primary are ~~considered as~~ optional ~~factors~~. Insurers may include additional optional factors not listed in this section, if applicable to the premium increase.

(2) For the second phase, insurers must ~~shall~~ include the primary factors in the premium change notice processed for renewals, if applicable to the premium increase~~, with any premium change notices processed for renewals~~.

Brenda Cude: Not implemented. Different revisions were implemented to be more succinct and improve readability.

(2) In ~~For~~ the second phase of implementation of the requirement, insurers must ~~shall~~ include the primary factors ~~in the premium change notice~~, if applicable to the premium increase, in ~~with~~ any premium change notices processed for renewals.

APCIA: Intent implemented. The revision's intent was addressed with alternate revisions.

(2) For the second phase, insurers shall include the primary factors in the premium change notice, if applicable to the premium increase~~, with any premium change notices processed for renewals~~.

NAMIC: Intent implemented. The revision's intent was addressed with alternate revisions.

(2) For the second phase, insurers shall include the primary factors in the premium change notice, if applicable to the premium increase~~, with any premium change notices processed for renewals~~.

Texas: Implemented. Revision improves readability.

(2) For the second phase, insurers ~~shall~~ must include the primary factors in the premium change notice, if applicable to the premium increase, with any premium change notices processed for renewals.

(3) If insurers include composite rating variables in their premium change explanation, the premium increase attributed to the composite rating variables should be explained.

NAMIC: Not implemented. The guidance does not specify that insurers must include composite rating variables. It says that *if* they do, they need to include and explain the premium increase attributed to the composite rating variables.

~~(3) If insurers include composite rating variables in their premium change explanation, the premium increase attributed to the composite rating variables should be explained.~~

(4) If insurers use estimated dollars, a reasonable explanation should be provided about ~~on~~ the degree of accuracy the estimated dollars achieve~~, as specifically applied to that policy and premium increase~~.

Brenda Cude: Implemented. Revisions improve readability.

(4) If insurers use estimated dollars, a reasonable explanation should be provided about ~~on~~ the degree of accuracy the estimated dollars achieve, as specifically applied to that policy and premium increase.

APCIA Implemented. Revisions improve readability and reduce redundancies.

(4) If insurers use estimated dollars, a reasonable explanation should be provided on the degree of accuracy estimated dollars achieve~~, as specifically applied to that policy and premium increase.~~

NAMIC: Implemented. Revisions improve readability and reduce redundancies.

(4) If insurers use estimated dollars, a reasonable explanation should be provided on the degree of accuracy estimated dollars achieve~~, as specifically applied to that policy and premium increase~~.

(5) Insurers may include premium change explanations for all premium increases beyond those required.

(6) If an insurer already has a premium increase notification process acceptable to the State's regulator, the regulator may ~~it could be~~ allow~~ed~~ the insurer to continue to use the process that is in place.

Brenda Cude: Implemented. Revisions improve readability.

(6) If an insurer already has a premium increase notification process acceptable to the State's regulator, the regulator may ~~it could be~~ allow~~ed~~ the insurer to continue to use the process that is in place.

Texas: Not implemented. Alternative revisions were implemented for readability.

(6) If an insurer already has a notification process acceptable to the State's regulator, it ~~could~~ may be allowed to continue to use the process ~~that is~~ in place.

© 2024 National Association of Insurance Commissioners

Working Group: Phase2 Auto/Homeowners Insurance Premium Increase Notice Example for renewal premium that does not result from a capping procedure used by the insurer was removed. The Phase 2 Auto and Homeowners Insurance Premium Increase Notice Examples for renewal premium that does result from a capping procedure used by the insurer was modified to also apply to renewal premium that does not result from a capping procedure.

REMOVED THIS EXAMPLE:

~~Phase 2: Auto/Homeowners Insurance Premium Increase Notice Example~~

~~**Your auto/homeowners insurance premium is increasing.**~~

~~Your current premium is $1,175.~~

~~Your renewal premium is $1,250.~~

~~Here are the major reasons for this increase in your premium, along with the dollar impact of each of those reasons:~~

~~**Reasons for your premium increase and the dollar impact**~~

- ~~**Reason 1 raised your premium $A**~~
- ~~**Reason 2 raised your premium $B**~~
- ~~**Reason 3 raised your premium $C**~~
- ~~**Reason 4 raised your premium $D**~~
- ~~**Reason 5 raised your premium $E**~~

~~Please call your agent or our Customer Service Representative at (xxx) xxx-xxxx with any questions~~.

Working Group: The Working Group removed the reference to rating plans being approved by states because not all states require this. References to "insurance premium" were changed to "insurance policy premium" for clarity. References to the premium's effective period, frequency, and scheduled date of renewal were removed to simply the language. Instructions were added for when premium is capped. References to changes in personal characteristics potentially impacting rates was clarified by changing "personal characteristics" to "personal and/or driving characteristics." Examples of these characteristics were added in parenthesis. "Reasons" was changed to "factors" throughout the examples to clarify these are the rating factors.

MODIFIED THIS EXAMPLE TO APPLY TO CAPPING AND NONCAPPING:

Phase 2: Auto Insurance Policy Premium Increase Notice Example

Your auto insurance policy **premium is increasing.**

Your current auto insurance policy premium ~~[for what period]~~ is $1,175 ~~[how often~~].

Each insurer files a rating plan with the state insurance department ~~for their approval~~.
According to the rating plan we filed with your state, your anticipated renewal policy premium is ~~would increase to~~ $2,121 ~~the next time you renew your policy, which is scheduled for [date]~~.

Lemonade: Not Implemented. Capping and non-capping examples were combined and simplified language was added to incorporate both.
Each insurer files a rating plan with the state insurance department for their approval. Your policy will renew on <date>, and it will increase to a monthly payment of <price> based on the rating plan we filed in <State>. ~~According to the rating plan we filed with your state, your premium would increase to $2,121 the next time you renew your policy, which is scheduled for [date].~~

Brenda Cude: Not Implemented. Capping and non-capping examples were combined and simplified language was added to incorporate both.
Each insurer files a rating plan with the state insurance department for their approval. In ~~According to~~ the rating plan we filed with your state, ~~your premium would~~ we asked to increase your premium to $2,121 the next time you renew your policy, which is scheduled for [date].

[If the policy premium is capped, a statement such as the following must be included:]

However, the next time you renew your policy your premium increase will be limited to only $88, resulting in a renewal premium of $1,257.

Lemonade: Not implemented. The existing sentence provides needed information for the policyholder.
~~**However, the next time you renew your policy your premium increase will be limited to only $88, resulting in a renewal premium of $1,257.**~~

Brenda Cude: Not implemented. The existing language is more concise. The next sentence addresses concerns on frequency of premium.
Instead, ~~However,~~ the next time you renew your policy, your premium will increase by ~~will be limited to only~~ $88. Your new premium [for what period] will be ~~, resulting in a renewal premium of~~ $1,257 [how often].

NAMIC: Not implemented. The existing sentence is more concise. The use of "However" provides need delineation.
~~**However**~~**, the next time you renew your policy your premium increase will be limited to only $88,~~ ~~resulting in a renewal premium of $1,257~~**.**

Texas: Not implemented. The existing language is more concise. The sentence that follows this one addresses the number of renewals.
However, we are not increasing your premium that much now. ~~t~~T**he next time you renew your policy your premium increase will be limited to only $88, resulting in a renewal premium of $1,257.**

Your policy premium **will continue to increase with each of the next [how many] renewals** until it reaches $2,121.

Brenda Cude: Not implemented. The existing language is more concise.
Your premium **will continue to increase with each of the next [how many] renewals** until it reaches $2,121 when you renew [date].

APCIA: Not implemented. It is important to let the policyholder know the number of renewals needed to reach the full premium amount.
~~Your premium **will continue to increase with each of the next [how many] renewals** until it reaches $2,121.~~

NAMIC: Not implemented. The existing language is more concise and easier for policyholders to understand.
Your premium **will continue to increase with each of the next [how many] renewals** until it reaches $2,121. But for the rate capping explained in the next sentence, your premium would be less stable. Rate capping allows regulators to approve more gradual changes to insurance rating plans.

Remember ~~that~~ there also are other rate factors that could cause ~~reasons~~ your auto insurance premium to ~~could~~ change in the future. For example, if you change your coverage, or if your personal and/or driving characteristics change, (such as your age* or ~~number of~~ any accidents or violations in the household), your policy premium could increase or decrease from the premium amounts stated above. [States that use drivers experience instead of age should substitute accordingly.]

Lemonade: Not implemented. These sentences are needed to explain the capping issue stated above these sentences.
~~Remember that there also are other reasons your auto insurance premium could change in the future. For example, if you change your coverage, or if your personal characteristics change, (such as age, location, and value), your premium could increase or decrease from the premium amounts stated above.~~ (Move to below reasons for premium increase.)

Brenda Cude: Partially implemented. Examples of personal characteristics were added to the existing language.
Remember that there also are other reasons your auto insurance premium could change in the future. For example, if you change your coverage, or if your personal characteristics ~~change,~~ (such as your age, where you park your car, and your car's ~~location, and~~ value) change, your premium could increase or decrease from the premium amounts stated above.

APCIA: Not implemented. The placement of these sentences is intended to explain the capping issue stated above them.

© 2024 National Association of Insurance Commissioners

~~Remember that there also are other reasons your auto insurance premium could change in the future. For example, if you change your coverage, or if your personal characteristics change, (such as age, location, and value), your premium could increase or decrease from the premium amounts stated above.~~

Texas: Implemented. Superfluous "that" removed.
Remember ~~that~~ there also are other reasons your auto insurance premium could change in the future.

Alabama: Implemented. "Reasons" was changed to "factors" throughout to clarify these are the rating factors.
Remember that there also are other ~~reasons~~ factors that could cause your auto insurance premium ~~could~~ to change in the future.

Here are the major factors ~~reasons~~ for this increase in your policy premium, along with the dollar impact of each of those reasons:

NAMIC: Partially implemented. Replaced "reason" with "factors" to keep language consistent with the earlier section.
Examples of ~~Here are the~~ major reasons for an ~~this~~ increase in your premium~~, along with the dollar impact of each of those reasons~~:
Or
Here are the major/influencing factors ~~reasons~~ for this increase in your premium, along with the dollar impact of each of those reasons:

Texas: Not implemented. The existing language provides sufficient clarity.
Here are the major reasons for this increase in your premium, along with the dollar impact of each ~~of those reasons~~reason:

Alabama: Implemented. Replaced "reason" with "factors" to keep language consistent with the earlier section.
Here are the major ~~reasons~~ factors for this increase in your premium, along with the dollar impact of each of those reasons:

~~Reasons~~ Factors for your policy premium increase and the dollar impact

- **~~Reasons~~ Factor 1 raised your premium $A**
- **~~Reasons~~ Factor 2 raised your premium $B**
- **~~Reasons~~ Factor 3 raised your premium $C**
- **~~Reasons~~ Factor 4 raised your premium $D**
- **~~Reasons~~ Factor 5 raised your premium $E**

Alabama: Implemented. Replaced "reason" with "factors" to keep language consistent with the earlier section.

© 2024 National Association of Insurance Commissioners

~~Reasons~~ Factors for your premium increase and the dollar impact

- **~~Reason~~ Factor 1 raised your premium $A**
- **~~Reason~~ Factor 2 raised your premium $B**
- **~~Reason~~ Factor 3 raised your premium $C**
- **~~Reason~~ Factor 4 raised your premium $D**
- **~~Reason~~ Factor 5 raised your premium $E**

Lemonade: Not implemented. The original placement is needed as these sentences explain the capping issue stated above them.
Remember that there also are other reasons your auto insurance premium could change in the future. For example, if you change your coverage, or if your personal characteristics change, (such as age, location, and value), your premium could increase or decrease from the premium amounts stated above. (moved from above to here)

Please call your agent or our Customer Service Representative at (xxx) xxx-xxxx with any questions.

Working Group: Same language changes from above were implemented into the homeowners example. Only revision suggestions unique to homeowners are included below. References to changes in personal characteristics potentially impacting rates was clarified by changing "personal characteristics" to "personal and/or property characteristics." Examples of these characteristics were added in parenthesis.

Phase 2: Homeowners ~~Homeowner's~~ Insurance Policy Premium Increase Notice Example

Texas: Implemented.

Phase 2: ~~Homeowner's~~Homeowners Insurance Premium Increase Notice Example

Your homeowners ~~homeowner's~~ insurance policy premium is increasing.

Texas: Implemented.
Your ~~homeowner's~~homeowners insurance premium is increasing.

Your current homeowners ~~homeowner's~~ insurance policy premium ~~[for what period]~~ is $1,175 ~~[how often]~~.

Texas: Implemented.
Your current ~~homeowner's~~homeowners insurance premium [for what period] is $1,175 [how often].

Each insurer files a rating plan with the state insurance department ~~for their approval~~. According to the rating plan we filed with your state, your anticipated renewal policy premium is ~~would increase to~~ $2,121 ~~the next time you renew your policy, which is scheduled for [date]~~.

[If the policy premium is capped, a statement such as the following must be included:]

However, the next time you renew your policy your premium increase will be limited to only $88, resulting in a renewal premium of $1,257.

Your policy premium **will continue to increase with each of the next [how many] renewals** until it reaches $2,121.

Remember ~~that~~ there also are other rate factors that could cause ~~reasons~~ your homeowners ~~homeowner's~~ insurance premium to ~~could~~ change in the future. For example, if you change your coverage, or if your personal and/or property risk characteristics change, (such as claims filed, age of the home and/or roof, ~~location, and~~ the coverage A value, etc.) your policy premium could increase or decrease from the premium amounts stated above. [States may want to modify language to reflect their specific exposures, such as wildfires or other catastrophe exposures.]

Brenda Cude: Partially implemented. Examples of personal characteristics were added to the existing language.
Remember that there also are other reasons your homeowner's insurance premium could change in the future. For example, if you change your coverage, or if your personal characteristics ~~change~~, (such as the number of claims you filed or the condition of your home ~~your number of accidents or violations~~) change, your premium could increase or decrease from the premium amounts stated above.

Texas: Partially implemented. Superfluous "that" removed and use of apostrophe in "homeowners" was removed.
Remember ~~that~~ there also are other reasons your ~~homeowner's~~homeowners insurance premium could change ~~in the future.~~.

Here are the major factors ~~reasons~~ for this increase in your policy premium, along with the dollar impact of each of those reasons:

~~Reasons~~ Factors for your policy premium increase and the dollar impact

- **~~Reasons~~ Factor 1 raised your premium $A**
- **~~Reasons~~ Factor 2 raised your premium $B**
- **~~Reasons~~ Factor 3 raised your premium $C**
- **~~Reasons~~ Factor 4 raised your premium $D**
- **~~Reasons~~ Factor 5 raised your premium $E**

© 2024 National Association of Insurance Commissioners

Please call your agent or our Customer Service Representative at (xxx) xxx-xxxx with any questions.

© 2024 National Association of Insurance Commissioners

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

Casualty Actuarial and Statistical (C) Task Force Aug. 13, 2024, Minutes 7-64
Casualty Actuarial and Statistical (C) Task Force July 9, 2024, Minutes (Attachment One) 7-69
Cybersecurity (H) Working Group Report (Attachment One-A) 7-71
Casualty Actuarial and Statistical (C) Task Force June 17, 2024, Minutes (Attachment Two) 7-81
Casualty Actuarial and Statistical (C) Task Force May 7, 2024, Minutes (Attachment Three) 7-82
American Academy of Actuaries (Academy) Cyber Risk Toolkit (Attachment Three-A) 7-84
Actuarial Opinion (C) Working Group Combined Aug. 6 and July 23, 2024, Minutes (Attachment Four) 7-120
Statistical Data (C) Working Group July 29, 2024, Minutes (Attachment Five) 7-121
Statistical Data (C) Working Group May 30, 2024, Minutes (Attachment Six) 7-123

© 2024 National Association of Insurance Commissioners

Draft: 8/23/24

Casualty Actuarial and Statistical (C) Task Force
Phoenix, Arizona
August 13, 2024

The Casualty Actuarial and Statistical (C) Task Force met in Chicago, IL, Aug. 13, 2024. The following Task Force members participated: D.J. Bettencourt, Chair, represented by Christian Citarella (NH); Chlora Lindley-Myers, Vice Chair, represented by Cynthia Amann and Julie Lederer (MO); Lori K. Wing-Heier represented by Sian Ng-Ashcraft (AK); Mark Fowler represented by Charles Hale (AL); Barbara D. Richardson represented by Tom Zuppan (AZ); Ricardo Lara represented by Tina Shaw and Mitra Sanandajifar (CA); Andrew N. Mais represented by Wanchin Chou and George Bradner (CT); Michael Yaworsky represented by Bob Lee (FL); Gordon I. Ito represented by Kathleen Nakasone (HI); Doug Ommen represented by Travis Grassel (IA); Amy L. Beard represented by Larry Steinert (IN); Vicki Schmidt represented by Nicole Boyd (KS); Timothy J. Temple represented by Nichole Torblaa (LA); Joy Y. Hatchette represented by Walter Dabrowski (MD); Robert L. Carey represented by Sandra Darby (ME); Anita G. Fox represented by Kevin Dyke (MI); Grace Arnold represented by Phil Vigliaturo (MN); Eric Dunning represented by Nguyen Thai (NE); Justin Zimmerman represented by Seong-min Eom (NJ); Alice T. Kane represented by Melissa Robertson (NM); Judith L. French represented by Tom Botsko (OH); Michael Humphreys represented by Michael McKenney (PA); Alexander S. Adams Vega represented by Glorimar Santiago (PR); Cassie Brown represented J'ne Byckovski and Miriam Fisk (TX); Kevin Gaffney represented by Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA); and Allan L. McVey and Melinda Kiss (WV). Also participating was: Gennady Stolyarov (NV).

1. Adopted its July 9, June 17, May 7, March 20, and Spring National Meeting Minutes

Citarella said the Task Force met July 9 and May 7 and conducted e-votes that ended June 17 and March 20. The June 17 e-vote included adoption of the *2022 Auto Insurance Database Average Premium Supplement* (Auto Supplement). The March 20 e-vote included adoption of the *Report on Profitability by Line by State* (Profitability Report) and the *Competition Database Report* (Competition Report).

The Task Force also met April 16, May 21, June 18, and July 16 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss rate filing issues.

The Task Force held the following Predictive Analytics Book Club meetings: 1) April 23: Sam Kloese (NAIC), April Yu (NAIC), and Roberto Perez (NAIC) of the NAIC Rate Model Review Team presented recommendations for non-GLM model documentation; 2) May 28: Matt Moore (Highway Loss Data Institute—HLDI) presented on electric vehicles; 3) June 25: Tammy Schwartz (Guidewire) and Paul Harper (Guidewire) introduced their HazardHub property risk tool; and 4) July 23: Gary Wang (Pinnacle Actuarial Resources—Pinnacle) and Joey Sveda (Pinnacle) advised state insurance regulators about mathematical paradoxes in modeling.

Chou made a motion, seconded by Dyke, to adopt the Task Force's July 9 (Attachment One); June 17 (Attachment Two); May 7 (Attachment Three); and March 16 (*see NAIC Proceedings – Spring 2024, Casualty Actuarial and Statistical (C) Task Force*) minutes. The motion passed unanimously.

2. Adopted the Report of the Actuarial Opinion (C) Working Group

Fisk said the Actuarial Opinion (C) Working Group met June 25 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to

© 2024 National Association of Insurance Commissioners

discuss observations resulting from state insurance regulators' review of the 2023 Statements of Actuarial Opinion (SAOs).

The Task Force also met Aug. 6 and July 23. During these meetings, it discussed potential changes to the 2024 regulatory guidance document and the 2025 opinion instructions. Proposed changes resulted from the following: 1) revision of Actuarial Standard of Practice (ASOP) No. 36, which will be effective in October of this year; and 2) planned changes to the Society of Actuaries (SOA) educational program to be implemented in 2025. Fisk said the SOA's program changes will impact the definition of "Qualified Actuary" in the opinion instructions. However, educational materials for the exams under the revised Fellow of the Society of Actuaries (FSA) pathway and optional regulatory certificate are not yet available. As such, state insurance regulators cannot yet assess the conditions under which an actuary who obtains an FSA designation under the revised pathway would meet the definition of a Qualified Actuary.

The Working Group plans to meet this month to hear a presentation from Willis Towers Watson (WTW) on machine-led reserving and to continue discussing potential changes to the 2024 regulatory guidance document and the 2025 opinion instructions.

Fisk made a motion, seconded by Darby, to adopt the report of the Actuarial Opinion (C) Working Group, including its combined Aug. 6 and July 23 minutes (Attachment Four). The motion passed unanimously.

3. Adopted the Report of the Statistical Data (C) Working Group

Darby said the Statistical Data (C) Working Group met July 29 and May 30. During these meetings, it discussed proposed changes to the statistical reports. The Working Group heard from Arthur Schwartz (LA), who proposed several additions to the *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report), including adding a table showing average premium and median insured value. Other suggestions included adding data for mobile and manufactured homes, catastrophe losses, and losses by peril. The NAIC is surveying submitting statistical agents to determine what data in these proposals is available in the timeline needed for inclusion in the report. The Working Group also heard Brian Sullivan's (Risk Information Inc.) suggestions for changes to the Profitability Report, including adding a profit margin metric and a 10-year weighted average to the 10-year summary. There is also a suggestion to add coverage limits by state in the *Auto Insurance Database Report* (Auto Report).

The Working Group plans to continue discussing these changes during a meeting in September, and any adopted changes will be brought before this Task Force for consideration.

Darby made a motion, seconded by Chou, to adopt the report of the Statistical Data (C) Working Group, including its July 29 (Attachment Five) and May 30 (Attachment Six) minutes. The motion passed unanimously.

4. Heard a Presentation from the CAS on Race and Insurance

Ken Williams (Casualty Actuarial Society—CAS) presented the CAS race and insurance pricing 2024 projects. Williams said CAS launched its "Approach to Race and Insurance Pricing" in February 2021, with four areas of focus: 1) collaboration; 2) research; 3) basic and continuing education (CE); and 4) leadership and influence. In 2022, the CAS published the following four research papers: 1) *Defining Discrimination in Insurance;* 2) *Understanding Potential Influences of Racial Bias on P&C Insurance: Four Rating Factors Explored;* 3) *Methods for Quantifying Discrimination Effects in Protected Classes in Insurance;* and 4) *Approaches to Address Racial Bias in Financial Services: Lessons for the Insurance Industry.*

© 2024 National Association of Insurance Commissioners

In 2024, the CAS published the following four papers: 1) *Comparison of Regulatory Framework for Non-Discriminatory AI Usage in Insurance*; 2) *Regulatory Perspectives on Algorithmic Bias and Unfair Discrimination*; 3) *A Practical Guide to Navigating Fairness in Insurance Pricing*; and 4) *Balancing Risk Assessment and Social Fairness: An Auto Telematics Case Study*. Phase 2, "Preparing for Tomorrow," focuses on regulatory insights and strategies for mitigating potential bias in insurance pricing. Two final papers are coming soon: 1) *Practical Applications of Bias Measurement and Mitigation Techniques*; and 2) *Potential Unintended Impacts of Bias Mitigation on Other Protected Classes*.

Williams said some findings include: 1) motor vehicle and credit score are impacting race less than expected, but geographic location and, especially, homeownership are showing concerns; 2) countries regulate artificial intelligence (AI) differently depending on the philosophy behind insurance systems and who is responsible for regulating AI models; 3) regulatory concerns are documented; 4) state insurance regulators tend not to like inference methods to determine race from insureds' names; 5) age and gender lose value as rating variables when telematics is used but whether insurance scores would lose value could not be validated; and 6) adopting bias methods may produce other unintended issues.

5. Discussed the Private Flood Insurance Supplement

McKenney said that in April 2020, the NAIC issued a data call and collected 2019 and 2020 data on the private flood insurance market. The data call morphed into the private flood insurance supplement, which collected 2020–2023 data in the annual statements due in April 2021–2024. While strides have been made, issues still exist, including private insurers writing flood insurance who are not completing the supplement. In some cases, insurers are unaware of the supplement or believe they do not need to complete it.

McKenney said there is an inconsistency in how insurers interpret the supplement instructions: the definitions of "first dollar in excess" and meanings of reporting standalone and writing flood insurance by endorsement. Additionally, the supplement does not differentiate between the types of risks beyond personal and commercial.

McKenney expressed that there is value in examining the Private Flood Insurance Supplement instructions to see if they can be improved. He said he would like to get a greater sense of who is writing private flood insurance in state insurance markets, including alien insurers. McKenney said the International Insurance Department (IID) is collecting data on alien insurers, but it is unclear whether that data matches the supplement data.

A small group will be working on drafting an initial proposal for the Task Force. Any additional volunteers should contact McKenney.

6. Received an Update on the NAIC Rate Model Review Team

Kris DeFrain (NAIC) said the NAIC Rate Model Review team assists state insurance regulators with reviewing rate models in rate filings. The team initially aimed to have a queue of about 30 days; however, the queue is currently nine months. She said the NAIC is, effective immediately, not accepting any new rate model filing submissions. She said the team will focus on all the currently booked rate model filings and any related objection responses. During this time, the Task Force will be asked to consider adjustments to the program. This may include adding efficiencies to the process and perhaps charging for the service. The Executive (EX) Committee will discuss budget considerations and staffing.

Stolyarov said he is mindful not to submit rate filings at this time because of the workload. He said states are challenged with an overwhelming volume of filings and limited staff resources to handle those. He wondered if a possible solution would be a massive expansion of NAIC staff to review complex filings to help reduce the backlog. He said it might be easier for the NAIC to increase staffing than the state department.

© 2024 National Association of Insurance Commissioners

Chou said a couple of NAIC staff visited Connecticut in the past week. He said the collaboration could be expanded so that experienced actuaries in states might work with the team to review rate model filings.

7. Received Liaison Reports

Amann said the Cybersecurity (H) Working Group has worked with the Task Force and the Statistical Data (C) Working Group on past cyber supplement changes. She said there may be a need to discuss more changes, potentially concerning cybersecurity and cyber coverage. She said the Working Group might ask the Task Force for guidance. She said there may be potential to create a cyber supplement on the market side rather than in the blanks.

Darby provided an update on the System for Electronic Rates & Forms Filing (SERFF) Modernization Project. Rollout for using the new SERFF platform for review of filings by the Interstate Insurance Product Regulation Commission (Compact) will happen at the following times: 1) life filings will be reviewed this fall; 2) life and annuity and credit filings will be reviewed the second quarter of 2025; 3) P/C filings will be reviewed the fourth quarter of 2025; and 4) health filings will be reviewed following the P/C filings.

The SERFF Modernization Project will include the ability to do checks within SERFF, such as whether the insurer is licensed (eliminating the need to exit the system for those tasks), a manager dashboard, analytics and workflow, and AI capabilities. Darby recommended that those who use SERFF attend a demonstration.

Botsko provided an update on the Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force. Property and casualty (P/C) factors and health factors will stay at the current 20% for tranches but will be updated once the American Academy of Actuaries (Academy) completes work. He said other topics this week for the Capital Adequacy (E) Task Force will be: 1) a minor change to procedures of extending the deadlines to get proposals in and/or when those are approved; and 2) a new risk research group that will discuss the preamble to capital adequacy as well as research non-investment related factors for risk-based capital (RBC) across all lines, including P/C.

Botsko reported that the Speed to Market (D) Task Force published an updated *Product Filing Review Handbook* on the NAIC website.

Bradner said the Climate and Resiliency (EX) Task Force released its *NAIC National Climate Resiliency Strategy for Insurance* (Climate Resilience Strategy) in March 2024. The document highlights several goals and action items, including the creation of a climate risk dashboard to assess risk and address protection gaps and the study of flood risk and flood mitigation, creating strong messaging for consumers to promote the private flood market using data from the Property & Casualty Marketing Intelligence (PCMI) data call to understand trends and actions taken by insurers in climate affected regions. The plan is to continue to expand the NAIC advocacy for both increased federal investment in existing risk mitigation programs and tax parity among federal and state risk mitigation programs to achieve more successful risk mitigation.

The Climate and Resiliency (EX) Task Force is expanding solvency tools related to climate scenario analysis and climate stress testing. This year, the Task Force has heard presentations on how companies can bring innovative approaches to climate risk issues and how local communities are working to develop climate action plans to help educate residents on mitigation and resiliency efforts.

The Climate and Resiliency (EX) Task Force's Climate Risk Disclosure Workstream has held two meetings this year. The first meeting highlighted best practices for small and medium-sized companies for completing their climate

© 2024 National Association of Insurance Commissioners

risk disclosures. The second meeting included a presentation on the climate risk disclosure survey analysis recording.

On Aug. 2, the Financial Condition (E) Committee adopted the joint P/C trades' RBC proposal for climate scenario analysis, which was a modification of the proposal developed by the Climate and Resiliency (EX) Task Force's Solvency Workstream.

Citarella noted that NAIC Connect is expected to become the main source of information for state insurance regulators.

8. Considered Exposure of a Draft White Paper Appendix on Penalized Regression

Sam Kloese (NAIC) presented proposed changes to the white paper appendix to include penalized regression (e.g., Lasso and Ridge Regression) modeling. Citarella said the draft will be exposed for a 30-day public comment period ending Sept. 13.

9. Heard Activity and Research Updates from Professional Associations

The Academy, Actuarial Board for Counseling and Discipline (ABCD), Actuarial Standards Board (ASB), CAS, and SOA provided reports on current activities and research.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/C Cte/2024 Summer/081323 Minutes CASTF

© 2024 National Association of Insurance Commissioners

Draft: 7/31/2024

Casualty Actuarial and Statistical (C) Task Force
Virtual Meeting
July 9, 2024

The Casualty Actuarial and Statistical (C) Task Force met July 9, 2024. The following Task Force members participated: Chlora Lindley-Myers, Vice Chair, represented by Cindy Amann and Julie Lederer (MO); Lori K. Wing-Heier represented by Sian Ng-Ashcraft (AK); Mark Fowler represented by Charles Hale (AL); Barbara D. Richardson represented by Tom Zuppan (AZ); Ricardo Lara represented by Mitra Sanandajifar (CA); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by David Christhilf (DC); Michael Yaworsky represented by Virginia Christy (FL); Doug Ommen represented by Travis Grassel (IA); Amy L. Beard represented by Patrick O'Connor and Larry Steinert (IN); Vicki Schmidt represented by Nicole Boyd (KS); Timothy J. Temple represented by Arthur Schwartz (LA); Robert L. Carey represented by Sandra Darby (ME); Anita G. Fox represented by Kevin Dyke (MI); Eric Dunning represented by Michael Muldoon (NE); Justin Zimmerman represented by Sam Sackey (NJ); Alice T. Kane represented by Christian Myers (NM); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Michael McKenney (PA); Cassie Brown represented by Miriam Fisk (TX); Kevin Gaffney and Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA); and Allan L. McVey (WV).

1. Heard an Update on Rate Filing Issues

Lederer chaired the meeting and reported on two rate filing issues.

The first issue is that some companies are creating unknown or missing rates in inappropriate situations. For example, if the missing information is something that the company is responsible for collecting (e.g., limits, deductibles, mileage, vehicle model), many regulators find that the company is responsible for obtaining that information and recording it in the customer's file before rating.

The other issue is whether to apply a rating variable to a geographical area rather than at an individual insured level. For example, rating dog ownership in a geographical area is not considered appropriate. Dog ownership varies by individual household, and data should be collected to appropriately rate this at the household level. Just because data is available by geographical area does not mean that the insurance rating is appropriate.

2. Adopted the Report of the Actuarial Opinion (C) Working Group

Fisk said the Actuarial Opinion (C) Working Group met on June 25 in regulator-to-regulator session, pursuant to paragraph 3 of the NAIC Policy Statement on Open Meetings, for the annual discussion of observations resulting from regulators' review of the 2023 Statements of Actuarial Opinion. She said that in the coming weeks, the Working Group will begin discussing potential changes to the 2024 Regulatory Guidance document and the 2025 Statement of Actuarial Opinion instructions.

Fisk made a motion, seconded by Darby, to adopt the report of the Actuarial Opinion (C) Working Group. The motion passed unanimously.

3. Adopted the Report of the Statistical Data (C) Working Group

© 2024 National Association of Insurance Commissioners

Darby said the Statistical Data (C) Working Group met May 30 to discuss proposed changes to the *Report on Profitability by Line by State* (Profitability Report) and the *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report). She said no changes were adopted. The Working Group will meet again in late July.

Darby made a motion, seconded by Dyke, to adopt the report of the Statistical Data (C) Working Group. The motion passed unanimously.

4. Discussed the Academy's Cyber Risk Toolkit

Citarella, Lederer, Darby, Grassel, Schwartz, and Kris DeFrain (NAIC) began a presentation about the American Academy of Actuaries' (Academy's) Cyber Risk Toolkit at the Task Force's May 7 meeting. The presentation concluded during this meeting.

5. Heard a Report on the Cybersecurity (H) Working Group

Amann and Miguel Romero (NAIC) provided the Task Force with a presentation on activities of the Cybersecurity (H) Working Group (Attachment One-B)

6. Discussed Reporting for the Private Flood Insurance Supplement

McKenney said that there have been many reporting issues with the NAIC Private Flood Supplement to the Annual Statement. He said some insurers are interpreting "first dollar" to mean there cannot be any deductible, while others are interpreting it to mean "primary insurance regardless of the existence of any deductible." Other issues include writing flood insurance by endorsement combined with other perils and not completing the supplement, as well as not excluding flood on some residential insurance policies and not completing the supplement.

He said the entirety of the flood insurance coverage should be reported, and he did not think that was happening. He said he thought reporting should also be separated by owner-occupied private residential dwellings, renters, condo owners, mobile homeowners, and secondary/seasonal. Also, he recommended ensuring consistency with what is reported by alien insurers to the NAIC International Insurers Department (IID).

Schwartz, Chou, J'ne Byckovski (TX), and Jackie Horigan (MA) volunteered to join McKenney on a volunteer drafting group to write a proposal. The Task Force will consider whether to submit to the Blanks (E) Working Group a proposal to change the Private Flood Insurance Supplement. McKenney said other volunteers are welcome to participate.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024_Spring/CASTF/070924 Minutes.docx

© 2024 National Association of Insurance Commissioners



Cybersecurity (H) Working Group Update

Cynthia Amann, Chair of Working Group
Miguel Romero, NAIC Staff Support of Working Group

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

© 2024 National Association of Insurance Commissioners

Objective for 2024

Meet with subject matter experts to understand data and what the data says about cybersecurity and cyber insurance trends

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

© 2024 National Association of Insurance Commissioners

Richard Gibson–American Academy of Actuaries

- The Academy's Casualty Practice Council has a Committee on Cyber Risk that monitors the actuarial aspects of cyber risks.
- The Committee has created the Cyber Risk Toolkit, which includes papers addressing issues related to cyber risk insurance and cyber exposure.
  - This toolkit is intended to be a resource available for stakeholders to provide an overview of the challenges in the cyber insurance market, with periodic updates to reflect new and emerging issues.
- The Committee is currently working on a cyber vendor model review, to understand parameters and the output provided as well as an outline of cyber insurance and directors & officers coverage.

© 2024 National Association of Insurance Commissioners

Mark Camillo and Monica Lindeen- CyberAcuView

- CyberAcuView was created by insurance industry leaders, to act as thought leader on issues surrounding cyber insurance.
- Their core activities include data aggregation, reporting and standards; systemic risk evaluation; regulatory collaboration; law enforcement coordination; and other priorities to improve market efficiencies.
- CyberAcuView shared the results of a data call focused on 2019-2023 third-quarter data.
  - Notably, its clients include approximately 60% of the cyber insurance market.
  - 30,000 claims have been submitted since 2019.
  - Approximately $4 billion in payments, more than half of the losses were

© 2024 National Association of Insurance Commissioners

Stephen Viña- Office of the National Cyber Director

- ONCD developed the National Cybersecurity Strategy, representing a fundamental shift in rebalancing the responsibility to defend cyberspace and realigning incentives to favor long-term investments.
- ONCD and Treasury Department continue the study of a cyber insurance federal backstop.
  - Including responses to their 2023 request for input.
- ONCD has observed ransomware payments have become less common, but more severe.
  - Indicating threat actors are seeking larger payouts for their activities.
  - Ultimately, the federal government strongly discourages payments, to avoid encouraging continued activity by the threat actors.

© 2024 National Association of Insurance Commissioners

Rebecca Bole and Jon Laux- CyberCube

- CyberCube seeks to provide analytics to quantify cyber risk and partners with insurance regulators, rating agencies, and government agencies to create frameworks for governance.
- Cyber risk data is abundant, everything digital is tracked in a way the physical world is not. Detailed analysis of information signals can indicate an organizations risk posture.
- Understanding an insurers use of data, level of testing, and adaptability to change are important criteria for underwriting maturity.
  - Organizations are using a combination of external and internal network scanning tools to inform decision-making.
  - Underwriting questionnaires should be used to fill in the gaps.
- Many carriers are seeking mitigation strategies via active risk monitoring.
  - Developing alerts and notifications to policy holders to improve resilience.

© 2024 National Association of Insurance Commissioners

Sezaneh Seymour and Daniel Woods- Coalition

- Coalition, Inc., utilizes an active insurance model to approach the cybersecurity risk of their policyholders.
  - Data suggests their policyholders experienced 64% fewer claims than the market average.
  - Coalition has a team of security experts available to provide technical assistance throughout the lifecycle of the policy.
- Academic and industry research identify technical controls such as, patch cadence, multi-factor authentication, attack surface management, and boundary devices as the most important technical predictors of an organizations likelihood to suffer claims.
- Cyber insurance has become a market-based tool to drive security improvements across businesses and infrastructure.

© 2024 National Association of Insurance Commissioners

Ignace Ertilus and Gregory Crabb- FBI/10-8, llc

- On July 9th, the Cybersecurity Working Group will hear a briefing from Ignace Ertilus of the FBI and Gregory Crabb of 10-8, LLC about the operations of the FBI IC3 division, their approach to cybersecurity incidents, and insights into threat-informed defense strategies.

© 2024 National Association of Insurance Commissioners

What's Next

- As the Working Group reflects on insights gained throouhgout the year, the Working Group may:
  - Send referrals suggesting updates to Handbooks or related to other publications
  - Work with NAIC staff to develop additional training on the topics of cyber insurance and cybersecurity
  - Enhance the *Cybersecurity Event Response Plan (CERP)*

© 2024 National Association of Insurance Commissioners

Questions?

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

© 2024 National Association of Insurance Commissioners

Draft: 7/9/24

Casualty Actuarial and Statistical (C) Task Force
E-Vote
June 17, 2024

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded June 17, 2024. The following Task Force members participated: D.J. Bettencourt, Chair, represented by Christian Citarella (NH); Chlora Lindley-Myers, Vice Chair, represented by Julie Lederer (MO); Lori K. Wing-Heier represented by Sian Ng-Ashcraft (AK); Barbara D. Richardson represented by Tom Zuppan (AZ); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by David Christhilf (DC); Michael Yaworsky represented by Alexis Bakofsky (FL); Doug Ommen represented by Travis Grassel (IA); Amy L. Beard represented by Larry Steinert (IN); Vicki Schmidt represented by Nicole Boyd (KS); Robert L. Carey represented by Sandra Darby (ME); Grace Arnold represented by Phil Vigliaturo (MN); Justin Zimmerman represented by Sam Sackey (NJ); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Andrew R. Stolfi represented by David Dahl (OR); Michael Humphreys represented by Michael McKenney (PA); Michael Wise represented by Will Davis (SC); Cassie Brown represented by Nicole Elliott (TX); Kevin Gaffney represented by Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA); and Allan L. McVey (WV).

1. Adopted the *2022 Auto Insurance Database Average Premium Supplement*

The Task Force conducted an e-vote to consider adoption of the *2022 Auto Insurance Database Average Premium Supplement*. The motion passed unanimously.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024_Summer/CASTF/061724 evote min.docx

© 2024 National Association of Insurance Commissioners

Attachment Three
Casualty Actuarial and Statistical (C) Task Force
8/13/24

Draft: 7/31/2024

Casualty Actuarial and Statistical (C) Task Force
Virtual Meeting
May 7, 2024

The Casualty Actuarial and Statistical (C) Task Force met May 7, 2024. The following Task Force members participated: D.J. Bettencourt, Chair, represented by Christian Citarella (NH); Chlora Lindley-Myers, Vice Chair, represented by Julie Lederer (MO); Lori K. Wing-Heier represented by Sian Ng-Ashcraft (AK); Mark Fowler represented by Charles Hale (AL); Ricardo Lara represented by Mitra Sanandajifar (CA); Andrew N. Mais represented by Susan Andrews and Qing He (CT); Michael Yaworsky represented by Peshala Disanayaka (FL); Gordon I. Ito represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Vicki Schmidt represented by Nicole Boyd (KS); Timothy J. Temple represented by Arthur Schwartz (LA); Kathleen A. Birrane represented by Walter Dabrowski and Bill Fawcett (MD); Timothy N. Schott represented by Sandra Darby (ME); Anita G. Fox represented by Kevin Dyke (MI); Grace Arnold represented by Phil Vigliaturo (MN); Eric Dunning represented by Michael Muldoon (NE); Justin Zimmerman represented by Sam Sackey (NJ); Alice T. Kane represented by Christian Myers (NM); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by James DiSanto and Bojan Zorkic (PA); Michael Wise represented by Will Davis (SC); Cassie Brown represented by J'ne Byckovski and Miriam Fisk (TX); Kevin Gaffney represented by Zoie Y. Swaim (VT); and Mike Kreidler represented by Eric Slavich (WA).

1. Adopted the Report of the Actuarial Opinion (C) Working Group

Fisk said the Actuarial Opinion (C) Working Group plans to meet in June in regulator-to-regulator session, pursuant to paragraph #3: *Specific companies, entities or individuals, including, but not limited to, collaborative financial and market conduct examinations and analysis* of the NAIC Policy Statement on Open Meetings, to discuss observations and issues that have come up during the process of reviewing 2023 opinions. Next, the Working Group plans to discuss 2024 regulatory guidance and 2025 instructions.

Fisk made a motion, seconded by Dyke, to adopt the report of the Actuarial Opinion (C) Working Group. The motion passed unanimously.

2. Adopted the Report of the Statistical Data (C) Working Group

The Statistical Data (C) Working Group met April 25 in regulator-to-regulator session, pursuant to paragraph #3: *Specific companies, entities or individuals, including, but not limited to, collaborative financial and market conduct examinations and analysis* of the NAIC Policy Statement on Open Meetings, to discuss data for the *Auto Insurance Database Average Premium Supplement* (Auto Supplement) and the *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report). The Working Group also discussed a work plan that includes building and updating Tableau dashboards with the statistical data collected for its statistical reports. NAIC staff will work on the initial buildout of the dashboards, and the Working Group will meet this summer to review and discuss the dashboards.

The Auto Supplement has been adopted by the Working Group and will be sent to the Task Force for review and adoption. The Working Group plans to meet in May in regulator-to-regulator session to continue reviewing the data for the Homeowners Report. The Working Group will also meet in open session to hear proposed updates to various statistical reports.

© 2024 National Association of Insurance Commissioners

Darby made a motion, seconded by Botsko, to adopt the report of the Statistical Data (C) Working Group. The motion passed unanimously.

3. Heard a Presentation on Reserving Analytics for Regulators

Charlie Stone and Cat Drummond (InsurSight) presented on reserving analytics for regulators.

4. Discussed the Academy's Cyber Risk Toolkit

Citarella, Lederer, Darby, Grassel, Schwartz, and Kris DeFrain (NAIC) presented the American Academy of Actuaries' (Academy's) Cyber Risk Toolkit to the Task Force (Attachment Three-B). The discussion of the toolkit was tabled.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024_Summer/CASTF/050724 min.docx

© 2024 National Association of Insurance Commissioners

American Academy of Actuaries' Cyber Risk Toolkit

Casualty Actuarial and Statistical (C) Task Force

May 7, 2024

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

© 2024 National Association of Insurance Commissioners



© 2024 National Association of Insurance Commissioners

The cyber market is relatively new, immature, and growing.

- Per a 2021 study, only 47% of all U.S. companies purchase coverage, either stand-alone or packaged policies.
- Some of the policy coverages, exclusions, conditions, and terminology are not as uniform as they are for other mature and developed lines of business.
- The cyber insurance market is still relatively young, and its true claim cost is still uncertain since we have yet to observe a global market-wide catastrophic insurance loss.
- Cyber premiums more than doubled between 2019 and 2021.
  - Excluding surplus lines cybersecurity policies, both the stand-alone and packaged policies combined to a $4.6 billion U.S. market in 2021. Cyber made up 0.6% of the total direct premiums written in the U.S. P&C market.
- Loss ratio performance has been favorable compared to the overall P&C market, but the recent increase in cyberattacks and ransomware demands has increased the loss ratio. The growth in the Internet of Things and the expansion of virtual work/educational environments could put further pressure on the loss ratio.
- Commercial insurance across all lines had an average rate increase of 6% overall during the first quarter of 2022, but cyber insurance rates increased 19.75% on average.
  - Cyber insurers are increasing prices and reducing coverage by increasing retentions, reducing overall policy limits, incorporating new coinsurance provisions and introducing other exclusions.
    - For each cyber insurance policy, there is generally a maximum policy aggregate that caps all insurance loss payouts, in addition to each coverage's limits.
  - Cyber insurers are also requiring greater cyber security from their policyholders and are providing pre-breach services to aid insureds to identify, mitigate, and reduce cyber losses.

© 2024 National Association of Insurance Commissioners

Affirmative^ cyber coverage typically offers first- and third-party coverage.

First party coverages:

- Business interruption*
- Property damage*
- Privacy breach response services
- Computer attack and cyber extortion
- Computer and funds transfer fraud
- Identity recovery

** Often include a time retention whereby actual coverage will trigger after the designated period has elapsed (like a deductible, but stated in terms of hours instead of dollars)*

Third party coverages:

- Electronic media liability
- Regulatory defense and penalties
- Payment card industry fines and penalties
- Information security and privacy liability
- Network security liability

^ Non-affirmative coverage, more commonly known as “silent cyber,” is triggered when cyber perils are not explicitly included or excluded in the policy wording. Silent cyber can cause insurers to pay losses from cyberattacks on policies that were not intended to offer cyber coverage. Insurers are dealing with silent cyber by explicitly including or excluding coverage for some aspects of cyber-related losses.

© 2024 National Association of Insurance Commissioners

Cyber insurance premiums are typically rated based on traditional actuarial ratemaking using schedule rating modifications.

- A simplified example of a rating plan: Premiums = Base Rate x Increased Limits Factors x Deductible Factor x Cyber-specific Rating Factors x Schedule Modifications
- The most common exposure base for cyber insurance policies is revenue, but insurers are considering other exposure bases that might be a better measure of an insured's risk level, like number of connected devices, number of records, IT spend, or number of employees. Some carriers account for these elements instead in schedule rating.
- Other characteristics commonly used in schedule rating:
  - Loss history
  - Type and nature of sensitive information
  - Dependency on network
  - Merger-acquisition activity
  - Age of company
  - Financial condition
  - Data encryption and security patch processes
  - Privacy and security control procedures, including awareness training
  - Business continuity and disaster recovery plan
  - Use of third-party vendor management
- Common variable in cyber coverage: Hazard group that differentiates the riskiness of industries. Businesses that store and utilize numerous PII or sensitive information such as the healthcare and professional services industry will be classified as higher risk hazard groups over others.

© 2024 National Association of Insurance Commissioners


CYBER THREAT
LANDSCAPE

4

Cyber Threat Landscape

Due to heavy reliance on computer systems, businesses are susceptible to significant risks when those systems are unavailable or corrupted:

- Business Interruption
- Competition
- Liability
- Direct Loss

Cyber Threat Landscape

Threat Vectors:

- Phishing
- Software Vulnerability
  - Misconfiguration or bugs
  - Lack of regular patches or system updates
  - Inside Jobs
- Simple/Weak Passwords
  - Brute force programs can solve short and simple passwords
  - Credential stuffing

© 2024 National Association of Insurance Commissioners


SILENT CYBER

Silent cyber can trigger unexpected payouts.

- Silent cyber coverage: coverage for cyber risk that the insurer did not consider and/or did not price
  - Most typical under traditional insurance policies (general liability, property, etc.) but can also occur in policies that provide affirmative coverage of cyber perils
- Drivers of silent cyber:
  - The wording of policy terms has not evolved as rapidly as technology; ambiguous language may make cyber coverage available under policies that were not originally designed for this exposure.
    - Ambiguous language is typically viewed in favor of the insured. The insured may expect that cyber coverage exists in traditional lines policies that do not explicitly include or exclude cyber risks.
  - Cyberattacks are rapidly evolving beyond what was anticipated when the insurance policy forms were written.
  - If a policy does not have named perils coverage, there is a potential for coverage for anything that is not explicitly excluded.
  - Businesses, infrastructure systems, cars, and homes have increased their dependence on technology, so silent cyber is becoming prevalent in virtually every type of insurance coverage.

© 2024 National Association of Insurance Commissioners

Insurers face challenges when trying to manage silent cyber.

Ways to manage silent cyber exposure:

- Explicitly exclude cyber risk from standard policies.
- Grant affirmative cyber coverage for an additional premium via a standalone cyber policy or endorsement; implement sublimits on cyber exposure.
- Try to quantify silent cyber exposure by determining the range of potential exposures from a cyber event and overlaying these exposures with the existing portfolio.

Challenges in managing cyber exposure:

- Rapid expansion and evolution of cyber risk makes it hard to predict what future claims may look like and to keep cyber models up to date.
- Data needed for cyber risk assessment (e.g., an insured's supply chain dependencies and cybersecurity protocols) may not be collected in traditional P&C exposure datasets.
- Historical data is limited and therefore not sufficient for pricing.
- Losses that were cyber-related may not have been coded as such, so there's no reliable database of silent cyber events.
- It's not clear how the legal system will treat non-affirmative policy wordings.

© 2024 National Association of Insurance Commissioners



© 2024 National Association of Insurance Commissioners

CYBER DATA - AVAILABILITY

- Limited data
- Exposure is evolving
- Not all events are insured
- Growing amounts of data due to digitization which helps
- Historical events do not always predict future ones
- Knowledge of the common software makes threats change
- New laws surrounding cyber security and data privacy

© 2024 National Association of Insurance Commissioners

CYBER DATA - CHALLENGES

- New market so insurers hesitant to underwrite risk they do not understand
- Coverage structured with narrow terms and conditions
- Similar evolution as with other lines as time goes on insurers broaden coverage
- Concern over organizations understanding of cyber insurance coverage leading to lack up take in coverage and data
- Lack of data leads to supplementing with third party data
- Historical claim data not keeping up with evolving nature of cyber polices

© 2024 National Association of Insurance Commissioners

CYBER DATA

- Enhanced Data Collection
  - Third Party vendors
- Which Data Elements Should be collected and why
  - Inconsistent data collection results in issues while evaluating risk
- Ways to over come challenges
    - Expand sources and collection of data
    - Receive input from a variety of subject matter experts
    - Obtain and understanding of the industry and its exposure to risk
    - Leverage third-party cyber vendors information
- Technology firms

© 2024 National Association of Insurance Commissioners



© 2024 National Association of Insurance Commissioners

CYBER RISK ACCUMULATION

- Accumulation risk in insurance, also known as aggregation risk, refers to the likelihood of a greater than-anticipated accumulation of claim costs due to multiple exposures being tied to the same event or a related event.
  - Example: Web services disruption that spreads to multiple businesses
- Modeling can be difficult as it's challenging to identify all the dependencies of the risks
  - Reliance on Cyber Experts
- Although, Statistical data can be derived from past cyber incidents the ever-changing environment new threats develop
  - Example: Significant increase in working from home during pandemic

© 2024 National Association of Insurance Commissioners

CYBER RISK ACCUMULATION- MODELING

- Deterministic
  - Simple approach using market share. If 20% of market than similar exposure to cyber threats.
  - Alternatively gather data on technology providers so exposure can be linked to aggregation points. More accurate but more effort
- Probabilistic
  - Losses are modeled using distributions.
  - Need to be continually reviewed for changes in cyber environment

© 2024 National Association of Insurance Commissioners

CYBER RISK ACCUMULATION

- Emerging issues
  - Various models to help manage cyber accumulation
  - Gap in understanding of motivations for attacks
  - Technological vulnerability alone not an adequate predictor of cyber risk
  - Manmade risk, Cyber events much less random than they seem
- Vendor Models
  - Traditional catastrophe insurance modelers expanding into cyber risk
  - Newer Cyber risk Service providers moving into insurance

© 2024 National Association of Insurance Commissioners



© 2024 National Association of Insurance Commissioners

Cyber Risk and Reinsurance

Because of uncertainty in the Cyber Risk primary market a larger portion of the risk is reinsured relative to more traditional lines of business.

- 40% of cyber coverage premium is ceded
- 10-15% for Property and Liability LOBs

Underwriting remains a challenge

- Chicken and egg problem
- Risk aggregation and Silent Cyber
- TRIA does provide a backstop

© 2024 National Association of Insurance Commissioners

Cyber Risk and Reinsurance

Alternative Risk Transfer

- Insurance Linked Securities might be a possibility because they are looking to expand beyond natural catastrophe risks but lack of quality loss models in cyber is a deterrent.
- Cat-Bond Structure
- Contingency Capital
- Loss Warranty Arrangements

© 2024 National Association of Insurance Commissioners



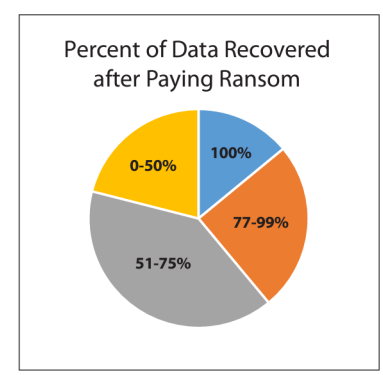
© 2024 National Association of Insurance Commissioners

Ransomware

https://www.Actuary.Org/sites/default/files/2023-02/7ransomware.Pdf

- Data loss, operational shutdown, hardware inoperable
- Double: release of data
- Triple: threaten customers

Choice: pay the ransom or invest the cost and time in repairing the infected system.



"Organizations are Better Prepared to Fight Ransomware but Gaps Remain", Tech Republic, April 12, 2022.


WAR, CYBERTERRORISM,
AND CYBER INSURANCE

Cyber insurance coverage continues to evolve and grow in application

Increasing concern among policyholders whether policies will cover them when cyber incidents impacting them are tied to cyber and technology disruptions stemming from attacks that may be supported by nation-states and state-backed military units.

Gray areas exist due to:

- No existence of publicly known denial of a cyber incident corresponding to the War Exclusion under a cyber insurance policy.
- Attribution (who was behind the attack) may take time to identify as well as difficult to achieve and prove.

© 2024 National Association of Insurance Commissioners

Within Cyber Insurance Policies are War Exclusions with Cyberterrorism Endorsements

Most, if not all, cyber insurance policies include an explicit exclusion to losses arising out of or attributable to war and military actions.

War Exclusion (AIG & AXIS combo): Insurer not liable for losses from war, invasion, hostilities/warlike operations/military action – declared or not, strike, lock-out, riot, civil war, mutiny, popular or military uprising, insurrection, rebellion, revolution, military or usurped power, or any action taken to hinder or defend against any of these events.

Cyberterrorism as defined by AIG: Premeditated use of disruptive activities against any computer system or network by an individual or group of individuals, or the explicit threat by an individual or group of individuals to use such activities, with the intention to harm, further social, ideological, religious, political or similar objectives, or to intimidate any person(s) in furtherance of such objectives.

© 2024 National Association of Insurance Commissioners

Endorsements to the War Exclusion and Defining Cyberterrorism

1. The definition of the War Exclusion is amended such that it does not apply to acts of Cyberterrorism.
2. The coverage sections are amended such that acts of Cyberterrorism are included within the coverage.
3. The term Cyberterrorism is defined accordingly.

Ambiguity may still exist and may create uncertainty for policy issuers, policyholders, and regulators. Attorneys will likely continue to be heavily involved! Other insurance professionals, such as actuaries, will have credible and valuable input as well as this coverage continues to evolve from larger data sets.

© 2024 National Association of Insurance Commissioners

Actuarial Responsibilities

1. Gain familiarity with coverage clauses and endorsements to understand what they say may or may not be covered.
2. Understand that the impact of potential systemic, war-related, and military-related cyber incidents will influence both the pricing and reserving of losses falling under cyber policies.
3. Realize that unique events that cross the line from cyberterrorism to acts of war and invoke exclusions under the policy will likely be litigated in court (similar to 9/11 and COVID-19 claims/events).
4. Uncertainty around payouts from litigated coverage cases will add complexity to the overall reserving process.
5. Greater clarity will come with time - awareness of nuances and uncertainties is very important until that time comes.

© 2024 National Association of Insurance Commissioners



© 2024 National Association of Insurance Commissioners

AUTONOMOUS VEHICLES AND CYBER RISK

Three key cyber risks:

- Cars or trucks can be stolen by hacking into their locking or ignition systems
- A car hacked into, could be driven remotely to commit crimes. For example, as a “getaway” car
- Personal data or trip data can be stolen from the car





© 2024 National Association of Insurance Commissioners

Digital Assets And Their Current Roles Within Cybercrime

Https://Www.Actuary.Org/Sites/Default/Files/2023-07/Digitalassetcyber.Pdf

- Cryptocurrency
- Drop in $ in 2022 from

  1) decrease in willingness to pay
  2) not finding the criminals' changed addresses
  3) insurance companies incentivize insureds to strengthen controls and backup measures
  4) increase in sanctions from governmental entities

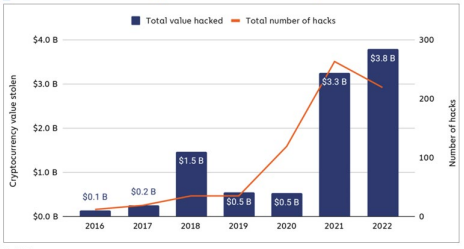
- Direct theft of digital asset from exchanges and DeFi platforms.

Table 2. Share of Companies That Paid a Ransom[4]

Year	Paid Ransom	Did Not Pay
2019	76%	24%
2020	70%	30%
2021	50%	50%
2022	41%	59%

Coveware

Chart 4. Total Value Stolen in Crypto Hacks and Number of Hacks, 2016–2022[12]



Chainalysis



© 2024 National Association of Insurance Commissioners

EIGHT KEYS TO PROTECT YOURSELF FROM CYBER ATTACKS (1 OF 2)

- First, create strong passwords, especially for financial websites, and change the passwords often
- Second, embrace multi-factor authentication, more than one authentication method is used to access a website
- Third, copy important documents and photos to an external drive, and update that external drive regularly
- Fourth, add a Cyber or Identity theft endorsement to a home insurance policy



EIGHT KEYS TO PROTECT YOURSELF FROM CYBER ATTACKS (2 OF 2)

Don't send	• Fifth, don't send money or provide a password or personal information (such as a home address) without verifying that the request is legitimate, such as by a phone call
Keep	• Sixth, keep anti-virus software up to date
Lock	• Seventh, lock or freeze your credit report
Scan	• Eighth, scanning your cell phone for viruses or malware regularly



Draft: 8/8/24

Actuarial Opinion (C) Working Group
Virtual Meeting
July 23, 2024 / August 6, 2024

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met July 23, 2024, and Aug. 6, 2024. The following Working Group members participated: Miriam Fisk, Chair (TX); Julie Lederer, Vice Chair (MO); David Christhilf (DC); Chantel Long (IL); Sandra Darby (ME); Tom Botsko (OH); Andy Schallhorn (OK); and Kevin Clark and James DiSanto (PA).

1. Discussed the Regulatory Guidance

During its July 23 meeting, the Working Group discussed potential changes to regulatory guidance and continued the discussion Aug. 6. The Working Group discussed the following changes:

- Because of a change in 2024, qualification documentation is only required at the initial appointment of an appointed actuary and no longer required annually thereafter.
- A new Actuarial Standard of Practice (ASOP) No. 36 version was modified, re-titled, and adopted by the Actuarial Standards Board (ASB) in 2024. "Other" reserves are added to the title. The new title is ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves.* Changes to Regulatory Guidance include: 1) removing some disclosures that are no longer required by ASOP No. 36 to be included in a public actuarial opinion; and/or 2) requesting specific disclosures regardless of whether required by an ASOP(s) in the public actuarial opinion or confidential actuarial report.

2. Discussed Instructions for the Actuarial Opinion

Fisk suggested some changes to 2025 instructions for the Property/Casualty Statement of Actuarial Opinion related to the Society of Actuaries modifying its educational program effective in 2025. Until state insurance regulators can review the educational program to determine whether it will meet regulatory requirements for Appointed Actuaries, the instructions for 2025 will need to mention a review will take place. The Working Group will also consider mentioning this forthcoming change in the 2024 regulatory guidance.

Discussion on the regulatory guidance and opinion instructions will continue in late August.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024_Summer/CASTF/AOWG/AOWG 072324 080624 min.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/7/24

Statistical Data (C) Working Group
Virtual Meeting
July 29, 2024

The Statistical Data (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met July 29, 2024. The following Working Group members participated: Sandra Darby, Chair (ME); Qing He, Vice Chair, and George Bradner (CT); David Christhilf (DC); Arthur Schwartz and Tom Travis (LA); Cynthia Amann (MO); Christian Citarella (NH); Alexander Vajda (NY); Tom Botsko (OH); David Dahl and Ying Liu (OR); and Nicole Elliot (TX).

1. Adopted its May 30 Minutes

The Working Group met May 30 to discuss proposed changes to the *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report) and the *Report on Profitability by Line by State* (Profitability Report).

Qing He made a motion, seconded by Botsko, to adopt the Working Group's May 30 minutes (Attachment Six). The motion passed unanimously.

2. Discussed Proposed Changes to the Homeowners Report

Darby said the Working Group will continue the discussion from the last open meeting on Schwartz's proposed changes to the Homeowners Report.

Schwartz said the format of the Homeowners Report has not changed since 2003. He said his proposals would be a change to both the format and the data elements collected. He would like to see a table that shows the average premium for each state, along with the median insured value to account for the difference in home values in each state. This table would also include a column showing the premium per thousand dollars of median insured value. He said the report should also include a table that shows the ranking of each state for average premium and the ratio of premium to median insured value.

Birny Birnbaum (Center for Economic Justice—CEJ) said median insured value is a good metric to include, and this proposed table should also include median premium. He said using a ratio of premium to median insured value is not an accurate measure of cost of insurance, and he recommends against using this measure or using it to rank states.

Bradner said state insurance regulators want to see data on premium and insured value in different ranges within their state. He said regulators take exception to media reporting average premium values and comparing states without including caveats on the many factors that can impact pricing. Birnbaum said the report offers extensive explanations of these caveats. He said the best way to get the granular data that regulators are looking for is to update the NAIC Statistical Plan and mandate transaction-level data reporting. Bradner said if this report did include a ranking, the report should also describe metrics and methodology behind the ranking. Birnbaum said the NAIC has never endorsed ranking states. Brian Sullivan (Risk Information Inc.) said he publishes a table using HO-3 data from the Homeowners Report that includes home value distribution by state. Birnbaum said only using HO-3 data can be misleading because, for example, it would not include wind coverage in certain states.

Schwartz said the report currently does not capture data on manufactured and modular homes. He said these types of homes comprise a large percentage of homes in many states. He said the report should also look into

© 2024 National Association of Insurance Commissioners

capturing data on additional dwelling units (ADUs). Birnbaum said he agrees the report should collect data on manufactured and modular homes. He said the report should also collect data on commercial coverages for homeowners associations and condominium associations. Libby Crews (NAIC) said data for manufactured homes written on HO-7 policies are not collected for this report. Bradner said not every state has HO-7 forms so the Working Group needs to investigate how data for manufactured homes is collected by the statistical agents and how that data can be reported for the Homeowners Report.

Schwartz said the report does not capture data on catastrophe losses, but that information is available in fast track reporting from statistical agents so it could be available for the Homeowners Report. He said capturing this data by state for the last 10 years would be important for all users of the report. He said he would also be interested in collecting data on losses by peril, separated by coverage type. Birnbaum said all of the proposals mentioned today do not distinguish between what a company is required to report versus what would be included in an NAIC statistical report. He said some data elements found in the proposals could be collected from the recent NAIC Property and Casualty Market Intelligence data call. He said a transaction-level data collection mechanism would allow regulators to answer questions about the market in real time.

Darby said the Working Group would investigate which data elements from the proposals for the Homeowners Report can be reported by statistical agents, and the Working Group would go over the findings during its next meeting.

3. Discussed Additional Proposed Changes to NAIC Statistical Reports

Sullivan said he would like to have further discussion on creating a profit margin metric in the Profitability Report, using return on net worth as a percentage of earned premium to net worth. Birnbaum asked how the profit measure Sullivan uses is different than the underwriting profit in the Profitability Report. Sullivan said the underwriting profit does not include investment gains on insurance transactions or tax on insurance transactions. Birnbaum said the profit on insurance transactions number published in the Profitability Report would be similar to the profit measure Sullivan is calculating.

Sullivan would like to see the Auto Insurance Database Report (Auto Report) include coverage limits. He said coverage limits are a useful proxy for understanding the relative cost of insurance.

Having no further business, the Statistical Data (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024_Summer/CASTF/SDWG/StatDataWGmin_0729

© 2024 National Association of Insurance Commissioners

Draft: 7/24/24

Statistical Data (C) Working Group
Virtual Meeting
May 30, 2024

The Statistical Data (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met May 30, 2024. The following Working Group members participated: Sandra Darby, Chair (ME); Qing He, Vice Chair (CT); Charles Hale (AL); Arthur Schwartz and John Sobhanian (LA); Christian Citarella (NH); Tom Botsko (OH); David Dahl and Ying Liu (OR); and Nicole Elliot (TX).

1. Discussed Changes to the Profitability Report

Darby said the Working Group has been meeting over the last year to review proposals to update various statistical reports. She said it is important to continually review the usefulness of the reports for state insurance regulators and others using them. She said since the last meeting, Brian Sullivan (Risk Information Inc.) has reviewed the changes implemented in the *Report on Profitability by Line by State* (Profitability Report) and asked to share his thoughts.

Sullivan said this report is used to calculate and include an after-tax profit number, but that data element was removed from the report about 25 years ago. Sullivan said he has recreated this calculation on his own and uses this number to more accurately capture the high levels of reserves seen in the insurance industry. He said he would like to discuss whether the after-tax profit number or the profit on insurance transactions number in the Profitability Report would be more accurate. He said the return on net worth number can be misleading because some large companies carry a large amount of net worth, which can distort the comparison to other industries.

Sullivan said he would like to better understand the calculation and wide disparity across lines and states in earned premium to net worth.

Sullivan said he would like to see a 10-year weighted average of profit numbers included in the report. Aaron Brandenburg (NAIC) said the Profitability Report currently has a 10-year average for multiple data elements. Sullivan said he would like to see a weighted average because the premium can increase drastically in certain lines in a 10-year period. Darby asked NAIC staff to put together an example of what adding a weighted average column would look like in the report.

Sullivan said that many years ago, the Profitability Report had a section that explained and normalized Michigan personal auto insurance data. He said he would like to discuss including that in the report again. Brandenburg asked if this is still an issue with the reforms that happened a few years ago in Michigan. Sullivan said the Michigan Catastrophic Claims Association (MCCA) reports incurred losses but not premiums, affecting the incurred loss ratio.

Darby asked Sullivan to send more information regarding his calculations and suggestions to the Working Group so it can discuss them further on a future call.

2. Discussed Proposed Changes to the Homeowners Report

Schwartz said the *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report) gets a tremendous amount of attention and media coverage. He said the report would benefit from having a table that shows the average

© 2024 National Association of Insurance Commissioners

premium by state. He said this table should also show median home value because home values differ greatly between states. Darby asked where the median home value data would come from. Schwartz said he would have to check where he got the data but that each state had a range of home values, and he took the middle value in those ranges for each state. Darby said this report has not historically included a table with average premiums because it is hard to compare when the home values differ across states.

Sullivan said Risk Information Inc. publishes a similar table in its Property Insurance Report, using premiums and exposures from the $175,000 to $199,999 insured value range. He said the report clarifies that looking at the insured value changes the importance of the average. He said the report also includes a table with the distribution of home values by state. Darby said this kind of apples-to-apples comparison makes sense, but you cannot make the same comparison when the distribution is different by state. Sullivan said one solution would be to calculate a premium to medium household income ratio. Schwartz said he had considered including a column with a calculation of average premium divided by median home value in thousands, or cost per thousand dollars of insurance. Dahl said some states have standard fire policies, and others do not, which would increase the cost and add another comparison issue. Sullivan said the same problem exists in personal auto insurance. Dahl said the required limits in auto do not necessarily reflect what people are actually purchasing. Sullivan said he uses income data as a proxy because those making more money will likely buy nicer cars and carry higher liability insurance. Darby said the issue with using income is that you have to find a source for the data and then take an average for the state.

Schwartz said the Homeowners Report does not currently include data for manufactured or mobile homes, but it should be included due to the large number of these home types in the U.S.

Schwartz said he would like to see data on the effects of catastrophes. He said Fast Track data breaks down data by catastrophe losses, so the data is available from statistical agents. He said he would like the report to show the data, including and excluding catastrophes.

Schwartz said he would also like to discuss the idea of including the data by peril in the Homeowners Report.

Darby said the Working Group will continue this discussion during its next open meeting.

Having no further business, the Statistical Data (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024_Summer/CASTF/SDWG/StatDataWGmin_0530

© 2024 National Association of Insurance Commissioners

SURPLUS LINES (C) TASK FORCE

Surplus Lines (C) Task Force Aug. 13, 2024, Minutes 7-126
Surplus Lines (C) Working Group June 28, 2028, Minutes (Attachment One)..... 7-129
Surplus Lines (C) Working Group April 30, 2024, Minutes (Attachment Two) 7-130
NAIC International Insurers Department (IID) Plan of Operation (Attachment Two-A)..... 7-131
Draft Surplus Lines Service of Process (Attachment Three)..... 7-142
Exempt Commercial Purchaser Minimum Qualifications (Attachment Four) 7-148
Surplus Lines (C) Task Force 2025 Proposed Charges (Attachment Five) 7-149

© 2024 National Association of Insurance Commissioners

Draft: 8/20/24

Surplus Lines (C) Task Force
Chicago, Illinois
August 13, 2024

The Surplus Lines (C) Task Force met in Chicago, IL, Aug. 13, 2024. The following Task Force members participated: Larry D. Deiter, Chair, and Frank Marnell (SD); Cassie Brown, Vice Chair, represented by Jamie Walker (TX); Lori K. Wing-Heier represented by Sian Ng-Ashcraft (AK); Ricardo Lara represented by Libio Latimer (CA); Michael Conway represented by Rolf Kaumann (CO); Karima M. Woods represented by Angela King (DC); Michael Yaworsky represented by Sheryl Parker (FL); Gordon I. Ito represented by Randy Jacobson (HI); Dean L. Cameron represented by Randy Pipal (ID); Ann Gillespie represented by Julie Rachford (IL); Joy Y. Hatchette represented by Erin Nickles (MD); Kevin P. Beagan represented by James A. McCarthy (MA); Grace Arnold represented by Kathleen Orth (MN); Scott Kipper represented by Dede Benissan (NV); Mike Causey represented by Angela Hatchell (NC); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Michael McKenney (PA); Carter Lawrence represented by Trey Hancock (TN); Tregenza A. Roach represented by Cheryl Charleswell (VI); and Mike Kreidler represented by Todd Dixon (WA).

1. Adopted its Spring National Meeting Minutes

Walker made a motion, seconded by Orth, to adopt the Task Force's March 16 minutes (*see NAIC Proceedings – Spring 2024, Surplus Lines (C) Task Force*). The motion passed unanimously.

2. Adopted the Report of the Surplus Lines (C) Working Group Including Amendments to the International Insurers Department Plan of Operation

Snowbarger said the Surplus Lines (C) Working Group met April 30. During this meeting, it discussed draft enhancements and edits to the *NAIC International Insurers Department Plan of Operation* (Plan). Snowbarger said this Plan guides alien insurers on filing and compliance requirements to become and remain listed on the *Quarterly Listing of Alien Insurers* (Quarterly Listing). The following substantive amendments were made to the Plan:

- Section II, Requirements and Guidelines: Language was added to address the need for an NAIC alien ID in order to apply to write business in the United States. Additional context explains that the alien ID does not provide any form of authority and is only used for reporting purposes as an identifier. Amendments were also made to move the analysis considerations out from the "Equity Requirement" section to a new section entitled "Overall Risk Assessment." Snowbarger said this was done because the analysis considerations are evaluated for every application and renewal, so having these requirements embedded only within the Equity Requirements section did not reflect the actual review process that takes place. Further, he indicated that a new analysis consideration was added to address market conduct. He indicated that market conduct would be assessed through complaints, claims practices, litigation, and any other regulatory concerns.

- Section II.E, Ethics and Integrity: This section was broken into two subsections. First, a section for "Governance and Market Conduct" was added. He stated that this subsection was largely part of the plan language except for a newly added lead-in sentence. Secondly, he indicated that a new "Market Conduct" section requires insurers to maintain sound market conduct practices and submit details on examination findings if an insurer is subject to a market conduct examination.

© 2024 National Association of Insurance Commissioners

- Section IV, Ongoing Quarterly Listing Eligibility: This section was amended to include a new sentence that indicates that Quarterly Listed insurers are analyzed annually based on the requirements outlined in Section II.

Snowbarger stated that the Working Group exposed the plan for a 30-day public comment period that ended May 31. The Plan was adopted by the Working Group during its June 28 e-vote (Attachment One).

Snowbarger said that the Working Group also met June 25 and March 28 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During its March 28 meeting, the Working Group approved three applications for admittance to the April 1 Quarterly Listing, and during its June 25 meeting, the Working Group approved four applications seeking admittance to the July 1 Quarterly Listing.

Kaumann made a motion, seconded by Walker, to adopt the report of the Surplus Lines (C) Working Group, including its April 30 minutes (Attachment Two) and amendments to the Plan. The motion passed unanimously.

3. Exposed the Draft Surplus Lines Service of Process

Marnell said the drafting group met May 29 and May 6. He commented that Thomas Dawson (McDermott Will & Emery) and Andrea Best (McDermott Will & Emery) coordinated an industry draft version of the surplus lines service of process form with input from other interested parties. He stated that the drafting group reviewed the industry draft edits, made some adjustments, and compiled a red-lined version of the form (Attachment Three). He stated that the most significant edit is the addition of "by the State(s) designated or under a surplus lines policy issued to a policyholder whose 'Home State' is such State pursuant to Section 3.J and 9 of the NAIC's *Nonadmitted Insurance Model Act* (#870)." He said that this language was added to the first paragraph on Page 1 of the form. He also indicated that edits were made to the "Resolution Authorizing Appointment of Attorney" section on Page 6 where language was added regarding the policyholders' home state where the surplus lines policy was issued. Marnell indicated that the balance of the edits was made to modernize the form.

Director Deiter asked for a motion to expose the draft surplus lines service of process form for a 30-day public comment period ending Sept. 13. Walker made a motion, seconded by Kaumann, to expose the report. The motion passed unanimously.

4. Heard Adjustments to the Exempt Commercial Purchaser Minimum Qualifications

Daleo said that the minimum qualifications were adjusted to reflect the June 2024 consumer price index (CPI) – all urban consumers from the previously established minimum qualifications that were effective Jan. 1, 2020. He indicated that the new minimum qualifications (Attachment Four) would be effective Jan. 1, 2025. Director Deiter commented that the new minimum qualifications would be posted to the Task Force's webpage within the "Documents" tab.

5. Adopted its 2025 Proposed Charges

Director Deiter stated that the 2025 proposed charges for the Task Force and the Surplus Lines (C) Working Group do not reflect any edits from the previous charges.

Walker made a motion, seconded by Orth, to adopt the Task Force's 2025 proposed charges (Attachment Five). The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

6. Heard a Presentation on Public Adjusters in the Surplus Lines Marketplace

Jeffrey Gould (Sill Public Adjusters) said that the National Association of Public Insurance Adjusters (NAPIA) is licensed in 46 states and the District of Columbia, and it primarily represents small businesses with some members representing residential insureds. He indicated that NAPIA's purpose is to assist property owners when they have a claim and to act as a fiduciary to the insureds. Gould stated that the primary goal of NAPIA is to ensure equitable payment to the insured, quick settlement of the claim, and to handle all of the paperwork for the insured. Gould indicated the NAPIA members are not independent adjusters who are hired by the insurer. He stated that public adjusters are hired by the insured for the interest of the insured. He indicated that many businesses do not understand how to manage the claims process and that public adjusters walk the insured through the process.

Brian Goodman (Goodman Law Group) commented that he represents NAPIA as its general counsel. Goodman indicated that they are seeing a trend in the surplus lines industry of hiring a third party when the insured and insurer cannot agree on the indemnity of a claim. He indicated that this appraisal process is being used in the surplus lines industry more frequently than it should be. Further, Gould indicated that there is typically an arbitration clause that requires the insured to travel to a state, as indicated in the policy, to appraise the loss. Gould stated that many surplus lines policies also include anti-public adjuster endorsements. He stated that these endorsements prohibit any insured from using a public adjuster. He indicated that this type of language in the policy is likely unconstitutional and probably illegal and that there are antitrust ramifications.

Jim Beneke (The Beneke Company/Adjusters International) commented that property insurance policies place the burden of proof on the insured to prove the claim, and only an attorney or a public adjuster can assist the insured in meeting its obligations under an insurance policy. Beneke commented that some insureds may turn to a contractor to assist in adjusting the claim and that these contractors are unaware that they are entering the unauthorized practice of public adjusting and law. He indicated that the contractor will not have the specialized knowledge and expertise of a public adjuster. Beneke stated that this is a consumer rights issue because the insured should have the option to hire a public adjuster. Beneke said that Texas took action to end this practice.

Director Deiter asked if there are particular states that contain the anti-public adjuster endorsement within the policy language. Beneke indicated that these endorsements are present in Florida, Louisiana, Massachusetts, New York, and Ohio. Parker commented that in order to address the issue, she would like to see the trends in anti-public adjuster endorsements and the appraisal abuse that includes a list of insurers and the number of insureds impacted. Beneke indicated that he would gather the necessary information and provide it to Parker. Marnell indicated that this appears to be an antitrust issue. Beneke indicated that the easiest way to solve this problem is through the state legislature process.

Having no further business, the Surplus Lines (C) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/SLTF/2024 Summer NM/SLTF Minutes Aug 13 2024.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/1/24

Surplus Lines (C) Working Group
E-Vote
June 28, 2024

The Surplus Lines (C) Working Group of the Surplus Lines (C) Task Force conducted an e-vote that concluded June 28, 2024. The following Working Group members participated: Eli Snowbarger, Vice Chair (OK); Michelle Lo (CA); Renee Sanchez (CO); Scott Sanders (GA); James A. McCarthy (MA); Jose Joseph (NY); Amy Garcia (TX); and Steve Drutz (WA).

1. Adopted the NAIC IID Plan of Operation

The Working Group conducted an e-vote to consider adoption of the modifications to the NAIC International Insurers Department (IID) Plan of Operation. The motion passed with a majority of the members in favor of adoption.

Having no further business, the Surplus Lines (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024 Summer/Surplus Lines Task Force/SLWG Minutes_June24.docx

© 2024 National Association of Insurance Commissioners

Attachment Two
Surplus Lines (C) Task Force
8/13/24

Draft: 6/6/24

Surplus Lines (C) Working Group
Virtual Meeting
April 30, 2024

The Surplus Lines (C) Working Group of the Surplus Lines (C) Task Force met April 30, 2024. The following Working Group members participated: Stewart Guerin, Chair (LA); Eli Snowbarger, Vice Chair (OK); David Phifer (AK); Michelle Lo (CA); Rolf Kaumann (CO); Sheryl Parker (FL); Scott Sanders (GA); Marcy Savage (IL); John Turchi (MA); William Leach (NJ); Jose Joseph (NY); Amy Garcia (TX); and Steve Drutz (WA).

1. Discussed Draft Amendments to the NAIC *IID Plan of Operation*

Andy Daleo (NAIC) summarized the proposed changes to the NAIC *International Insurers Department (IID) Plan of Operation* (Plan of Operation) (Attachment Two-A). The following proposed changes to the Plan of Operation were highlighted: 1) adding language to emphasize that an alien ID is for reporting purposes only; 2) moving analysis considerations from the equity requirement section to a new standalone requirement section titled "Overall Risk Assessment"; 3) adding market conduct requirements to the overall risk assessment and ethics/integrity requirements sections; 4) adding clarifying language to the U.S. Trust Fund and Annual and Ongoing Analysis sections; and 6) removing "Examination of Insurer" from the ongoing analysis section. Daleo indicated that if adopted, the Plan of Operation would be effective January 1, 2025.

Drutz indicated that Section II.B - Equity Requirement, would benefit from a revision to move the language addressing the possibility of a greater equity requirement and/or additional reporting into the same paragraph with the language addressing an Insurer's risk profile. Daleo requested the comment be submitted to be addressed during the exposure period.

Guerin requested the exposure of the draft IID Plan of Operation.

Snowbarger made a motion, seconded by Drutz, to expose the draft Plan of Operation for a 30-day public comment period ending May 31. The motion passed unanimously.

Having no further business, the Surplus Lines (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/ C CMTE/2024_Summer/SLTF/SLWG/ SLWG minutes April 30

© 2024 National Association of Insurance Commissioners

Table of Contents

Commented [ATD1]: The TOC page numbering will be updated after adoption.

Background 2

Introduction 2

I. Application Process 4

II. ~~Core~~ Requirements and Guidelines for Inclusion on the Quarterly Listing 4

A. Alien ID 4

~~A. Overall Risk Assessment ..... 4~~

~~A.~~B. ~~Shareholders'~~ Equity ~~Funds~~Requirement 4

C. Overall Risk Assessment 4

~~B.~~D. U.S. Trust Fund 5

~~C.~~E. Ethics and Integrity 6

~~D.~~F. U.S. Branch 7

~~E.~~G. Lloyd's Incidental Syndicates 7

~~F.~~H. Lloyd's Sovereign Governmental Syndicate Ownership 7

III. Process for Reconsideration of an Application Rejection 7

IV. Ongoing Quarterly Listing Eligibility 7

A. Core Areas of Insurer Compliance 7

B. IID Annual and Ongoing Analysis of Quarterly Listed Insurers 8

C. Examination of Insurer 8

V. De-L~~l~~isting 8

VI. Process for Reconsideration of De-L~~l~~isting 8

VII. Communication 9

VIII. Voluntary Termination from the Quarterly Listing

IX. Confidentiality 9

X. Amendment to the Plan 9

Background

The NAIC has a long history of supporting state insurance departments' regulatory efforts regarding insurers domiciled outside of the United States (alien) participating in the U.S. nonadmitted market. Initially acting only as a repository for alien insurer financial records, the NAIC has transitioned over the years to its present role as the recognized authority for alien insurers (hereafter, Insurer(s) refers to alien domiciled companies and Lloyd's syndicates) seeking approval to write direct surplus lines ~~business~~ premiums in all U.S. states and territories. The NAIC International Insurers Department (IID) and the Surplus Lines (C) Working Group (Working Group) are responsible for maintaining this Plan of Operation (Plan) that provides details on the requirements, standards, and processes that Insurers must meet to gain and maintain inclusion on the *Quarterly Listing of Alien Insurers* (Quarterly Listing). ~~The Plan provides a description of the roles NAIC staff and selected state regulators perform in the oversight of alien Insurers writing surplus lines business in the U.S.~~

Introduction

~~The Plan describes how the IID operates and how Insurers obtain inclusion on the Quarterly Listing.~~ The IID is comprised of experienced financial analysts that review applications and renewal filing documents, prepare written analyses, and provide support to NAIC surplus lines committees and working groups. The IID also includes an Internal Review Committee (Internal Committee) that consists of NAIC directors, managers, attorneys, and analysts. The Internal Committee reviews IID analyses and provides a report of recommendation to the ~~Surplus Lines (C) Working Group (~~Working Group~~)~~. The Property and Casualty Insurance (C) Committee is designated the "Appeal Committee" for decisions made by the Working Group and has no direct involvement in making or approving recommendations regarding alien surplus lines insurers.

The IID functions on behalf of state departments of insurance by maintaining qualifying standards for Insurers domiciled outside of the U.S. seeking eligibility to write direct U.S. surplus lines. Section 524(2)[1] of the 2010 Dodd-Frank Wall Street and Consumer Protection Act recognizes the Quarterly Listing as identifying Insurers for which states may not prohibit brokers from placing or procuring nonadmitted insurance in the U.S. The Quarterly Listing is a public document that is posted on the Publications page of the NAIC website. This Quarterly Listing represents Insurers that qualify for listing as outlined in *Section II – ~~Core~~ Requirements and Guidelines for Inclusion on the Quarterly Listing*. Modifications to listed companies are summarized within each Quarterly Listing. The Working Group will make the final determination of all Insurer eligibility.

The Working Group provides oversight to the IID and reports to the Surplus Lines (C) Task Force (Task Force), which functions under the NAIC Property and Casualty Insurance (C) Committee. The Working Group is comprised of state regulators with experience in financial analysis and surplus lines regulation. The Working Group provides the IID with guidance and expertise relative to applications and renewals as well as regulatory policy and practices with respect to Insurers listed on or seeking inclusion on the Quarterly Listing.

[1] 15 U.S.C. § 8204(2).

© 2024~~3~~ National Association of Insurance

The following table provides a summary of the key NAIC IID workflow:

IID	• Analyzes and monitors Quarterly Listing insurer financial filings; • Maintains Quarterly Listing, IIDfile System, and resources available to the insurers; and • Recommends revisions and enhancements to the *Nonadmitted Insurance Model Act* (#870), IID Plan of Operation, and other surplus lines documentation.
IID Internal Committee	• Consists of NAIC directors, senior managers, attorneys, and analysts; • Reviews application and renewal analyses and provides recommendations to the Surplus Lines (C) Working Group; and • Reviews recommended changes to IID documentation, such as the Plan of Operation.
Surplus Lines (C) Working Group	• Consists of experienced surplus lines regulators; • Maintains and drafts new guidance within the IID Plan of Operation; • Reviews and considers appropriate decisions regarding applications for admittance to the Quarterly Listing; • Provides a forum for surplus lines-related discussion; and • Determines ~~final~~ eligibility of insurers on the Quarterly Listing.
Surplus Lines (C) Task Force	• Provides oversight for the work ~~produced~~ completed within the Surplus Lines (C) Working Group; • Provides a forum for discussion of current and emerging surplus lines-related issues and topics of public policy and determines appropriate regulatory response and action; • Reviews and analyzes quantitative and qualitative data on U.S. domestic and alien surplus lines industry results and trends; • Monitors federal legislation related to the surplus lines market and ensures all interested parties remain apprised; and • Develops or amends relevant NAIC model laws, regulations and/or guidelines.
Property and Casualty Insurance (C) Committee	• Monitors the activities of the Surplus Lines (C) Task Force; and • Handles any appeals regarding decisions made within the Surplus Lines (C) Working Group.

© 2024~~3~~ National Association of Insurance

I. Application Process

An Insurer planning to write U.S. surplus lines via admittance to the Quarterly Listing will first register with OPTins. OPTins is an electronic filing and payment system utilized for filing alien surplus lines applications. Through OPTins, the applicant will remit all required filings along with a non-refundable electronic payment in the amount indicated in the Application Filing Memo & Instructions. The application fee covers the cost of ~~processing~~ reviewing and evaluating the Insurer's application. The Insurer will find a comprehensive list of required filings within the Application Filing Memo & Instructions document. This document as well as other resources can also be found within the "Documents" tab on the Surplus Lines (C) Working Group webpage.

The Quarterly Listing is published on January 1, April 1, July 1, and October 1. A complete application must be submitted no fewer than 90 days in advance of the publication date in which the Insurer applies to be ~~listed~~admitted. If the application is submitted ~~fewer~~ less than 90 days prior to the intended publication date, it ~~will~~ may not be considered until the ~~following~~ subsequent Qquarterly Listing publication ~~released~~date.

The IID will review and evaluate the information submitted by the Insurer seeking admittance to the Quarterly Listing. The IID will evaluate whether the Insurer meets the standards set forth in *Section II - Core Requirements and Guidelines for Inclusion on the Quarterly Listing*. The IID may contact the Insurer for additional information or to seek clarification of any concerns during its review of the application. If all questions and/or concerns (e.g., receipt of required documents and IID requested explanations and supporting documentation) are not resolved within six-months of the application submission date, the application may be rejected and a letter informing the Insurer of the decision will be issued. Refer to *Section III - Process for Reconsideration of an Application Rejection*. Following completion of the review, the IID will meet with the Internal Committee to discuss the evaluation and determine a recommendation. The Internal Committee will present its recommendation to the Working Group for consideration. Following determination by the Working Group, a letter detailing approval or denial will be sent to the Insurer by the IID.

If the Insurer is approved, an approval letter will be sent a minimum of ten calendar days in advance of the listing date and the Insurer will be included in the next Quarterly Listing. The Insurer must establish the required trust fund (See *Section II.B - U.S. Trust Fund*) prior to being admitted to the Quarterly Listing. Further, the IID must receive the trust balance report detailing the trust fund holdings.

II. ~~Core~~ Requirements and Guidelines for Inclusion on the *Quarterly Listing*

~~II.~~

A. Alien ID

An Alien ID is required to apply for admittance to the Quarterly Listing. The alien ID is a unique identifier for non-U.S. insurers. **The alien ID does not provide any type of authority or authorization to write business in the U.S.** The alien ID is used only for identification of a non-U.S. insurer that is reported within a U.S. financial statement, the NAIC Listing of Companies, or the Quarterly Listing.

B. Equity Requirement

A minimum shareholders' equity amount of $50.0 million must be maintained on a continuous basis. A higher minimum amount of shareholders' equity may be required if after evaluation it is determined $50 million is inadequate ~~Shareholders' equity will be evaluated to determine if it is adequate~~ given the Insurer's risk profile.

© 2024~~3~~ National Association of Insurance

If there is a determination that the minimum shareholders' equity is inadequate, the Insurer will be subject to the higher requirement ~~an equity requirement above the minimum amount of $50 million may be required~~ or, the Insurer may be subject to additional ongoing reporting (e.g., monthly and/or quarterly reporting).

In lieu of syndicate shareholders' equity, Lloyd's is required to report a U.S. trust fund of not less than $100 million available for the benefit of all Lloyd's U.S. surplus lines policyholders. In addition, a review of the Funds at Lloyd's (member assets) is considered.

~~A.~~C. Overall Risk Assessment~~Shareholders' Equity Funds *(See Lloyd's Notation below)*~~

~~A minimum shareholders' equity amount of $50.0 million must be maintained on a continuous basis. Shareholders' equity will be evaluated to determine if it is adequate given the Insurer's risk profile.~~ The IID will analyze the ~~following key factors may be considered by the IID~~overall operations, performance, risk of the insurer, and projected U.S. risk exposure. The following factors will be considered:

Operating ~~H~~history and ~~T~~trends~~;~~
The entities historical performance and trends will be evaluated in conjunction with its plans and projections.

- Quality and ~~D~~diversification of ~~A~~assets~~;~~

Invested and non-invested assets will be assessed for quality and diversification in relation to outstanding risk of the entity.

- Mix of ~~B~~business and ~~G~~geographic ~~D~~diversification~~;~~

The entities mix of business and geographic diversification will be reviewed alongside performance by class of business.

- Gross and Net ~~l~~insurance ~~leverage~~and Reserve Leverage~~;~~

The exposure on both a gross and net leverage basis will be assessed and compared to the equity of the entity.

- Reinsurance ~~P~~program and ~~Q~~quality of ~~R~~reinsurers~~;~~

The portfolio of reinsurance will be reviewed along with the collectability of reinsurance recoverables.

- ~~Gross reserve leverage;~~
- Cash ~~F~~flow and ~~L~~liquidity~~;~~

Historical performance of cash flow along with its impact on liquidity and the overall liquidity needs of the entity.

- Access to ~~C~~capital~~;~~

The entity's access to additional capital will be assessed should additional funds become necessary.

- Dividend and/or upstream funding history~~; and~~

© 2024~~3~~ National Association of Insurance

© 2024 National Association of Insurance Commissioners

The holding company's financial support from the entity's will be assessed.

Market Conduct
Market conduct will be assessed through complaints, claims practices, litigation, and any other regulator concerns.

- Other factors deemed relevant to the review.

Given each entity is unique certain additional information may be requested.
~~If there is a determination that shareholders' equity is inadequate based on the analysis of the Insurer's risk profile, an equity requirement above the minimum amount of $50 million may be required. Or, the Insurer may be subject to additional ongoing reporting (e.g., monthly and/or quarterly reporting).~~

~~*Lloyd's Notation*~~
~~In lieu of individual shareholders' equity, Lloyd's syndicates are required to report a U.S. trust fund of not less than $100 million available for the benefit of all Lloyd's U.S. surplus lines policyholders. In addition, a review of the Funds at Lloyd's (member assets) is considered.~~

~~If there is a determination that shareholders' equity is inadequate based on the analysis of the Insurer's risk profile, an equity requirement above the minimum amount of $50 million may be required. Or, the Insurer may be subject to additional ongoing reporting (e.g., monthly and/or quarterly reporting).~~

~~Lloyd's Notation~~
~~In lieu of individual shareholders' equity, Lloyd's syndicates are required to report a U.S. trust fund of not less than $100 million available for the benefit of all Lloyd's U.S. surplus lines policyholders. In addition, a review of the Funds at Lloyd's (member assets) is considered.~~

~~B.~~D. U.S. Trust Fund

The purpose for establishing a trust fund is to provide additional assurance that U.S. policyholders are protected. The trust fund must consist of cash, securities, or an acceptable evergreen letter of credit, or combination at an appropriate level, deposited with a trustee for the benefit of U.S. policyholders. Regarding the composition of the trust fund, credit will be allowed only for (i) securities readily marketable on a regulated U.S. securities exchange, (ii) securities assigned a rating designation on the NAIC Securities Valuation Office List of Investment Securities as defined in the Purposes and Procedures Manual of the NAIC Investment Analysis Office, or (iii) investments of substantially the same character and quality as those which are eligible investments for the capital and statutory reserves of admitted insurers to write like kinds of insurance in the state where the Trust is principally administered. An acceptable letter of credit is defined as unconditional, irrevocable, evergreen, and issued by a qualified U.S. financial institution.

In establishing its trust fund, the Insurer must maintain such fund at, and enter into an agreement with, a qualified U.S. financial institution. The agreement must contain provisions consistent with the ~~IID model document~~, ~~Trust Agreement for Alien Excess or Surplus Lines Insurers~~NAIC Standard Form Trust Agreement for Alien Excess or Surplus Lines Insurers~~.~~ or the~~-~~ Lloyd's United States Situs Excess or Surplus Lines Trust Deed. For purposes of complying with the trust fund requirement ~~as well as the Lloyd's U.S Situs Excess or Surplus Lines Trust Deed~~, a qualified U.S. financial institution:

- Is organized or (in the case of a U.S. branch office of a foreign banking organization) licensed under the laws of the U.S. or any state thereof;
- A national bank, state bank, or trust company which is adequately capitalized and qualified to accept securities as determined by the standards adopted by the U.S. banking regulators and regulated by

© 2024~~3~~ National Association of Insurance

state banking laws or a member of the Federal Reserve system; and

- Has been granted authority to operate with trust powers, if such qualified U.S. financial institution is to act as the fiduciary of the trust fund.

Determining the Trust Fund Level

The trust fund minimum amount will be based on the U.S. gross surplus lines reserve liabilities (i.e., gross ~~reserve for~~ unpaid loss~~es~~ reserves for case and Incurred But Not Reported + gross loss reserve for unpaid loss adjustment expenses) excluding ~~liabilities~~ loss reserves recorded for~~arising from~~ aviation, ocean marine, and transportation insurance (NAIC *Nonadmitted Insurance Model Act* (#870), Section 3 – Definitions, Wet Marine and Transportation Insurance, provides an illustrative example), and direct procurement. The calculation of the required trust fund minimum balance is as follows:

- 30% of U.S. gross reserve liabilities up to $200 million, plus
- 25% of U.S. gross reserve liabilities greater than $200 million and up to $500 million, plus
- 20% of U.S. gross reserve liabilities greater than $500 million and up to $1 billion, plus
- 15% of U.S. gross reserve liabilities in excess of $1 billion

In no event will the required trust fund minimum amount, despite the calculation above, be less than $6.5 million or ~~in excess of~~exceed $250 million.

The trust fund minimum will be verified annually through the review of the U.S. gross reserve liabilities reported within the loss reserve certification no later than June 30 of each year. The opining actuary must be a member of a recognized professional actuarial body. Additionally, per the ~~Trust Agreement for Alien Excess or Surplus Lines Insurers~~NAIC Standard Form Trust Agreement for Alien Excess or Surplus Lines Insurers, Section 2.13b, the trustee is required to provide a trust balance report no later than 30 days post quarter end, to the IID. The trust balance report should include sufficient details on the assets held in trust and meet the required minimum balance. Based on the review of the trust balance report, any shortage in the balance must be remedied within 15 days of notification to the Insurer.

In the case of Lloyd's syndicates, for the total of all years of account, the trust fund minimum amount for each syndicate will be based on the syndicate's gross U.S. surplus lines reserve liabilities using the trust fund calculation above.

In extenuating situations (e.g., potential legal action on exposures not yet included within gross loss reserves) there may be a need to require a trust fund balance that is greater than ~~the normal~~determined by the trust fund calculation based on the Insurer's risk profile. The IID will consider the following factors in determining an appropriate trust fund level:

- The type~~s~~ and amount of premium~~s~~ that the Insurer writes or proposes to write in the U.S.;
- The type and valuation of ~~the~~ assets that compri~~o~~se the trust fund may be adjusted for any questionable balances; and
- The terms and conditions as outlined within the trust agreement.

Process for Reconsideration of a Trust Fund Level

In the event of a determination that a trust fund balance greater than the calculated minimum level is appropriate, a written request for reconsideration may be submitted if the Insurer objects to the determination. To request reconsideration, the following criteria must be met:

- The request must be received by the IID within 30 days of the date on the trust fund adjustment letter;

© 2024~~3~~ National Association of Insurance

- The request must be in letter format and signed by an officer of the Insurer; and
- The request must include a comprehensive rationale for disagreement with regard to the determined trust fund level.

The IID will evaluate the appeal with consideration given to the information provided within the request letter and the information will be presented to the Working Group to determine a recommendation. The Working Group's recommendation will ~~then~~ be presented at a regulator-only Appeal Committee meeting ~~for consideration~~. A representative of the Working Group and the Insurer will be allowed to participate. Following review and a determination by the Appeal Committee, the IID will send a letter to the Insurer detailing approval or denial of the request.

~~C.~~E. Ethics and Integrity

Governance

The Insurer should maintain sound practices and a well-documented corporate governance framework that includes policies of the board of directors, business practices and processes, and suitability standards.

Insurer management ~~will~~ should have a proven and demonstrable track record of relevant experience, competence, and integrity. Biographical affidavits will be considered as one source for assessing the presence of these attributes. Following the filing of the ~~original~~ required biographical affidavits with the initial application ~~submission~~, any ~~new or~~ materially modified affidavits (e.g., changes in the suitability of an officer) should be uploaded to OPTins within 30 days of any known amendments. Further, biographical affidavits for any new key officers and directors should be uploaded to OPTins as they are onboarded~~or where applicable within 30 days of approval of any new key director or officer by the Insurer's domestic regulator~~.

Market Conduct

The Insurer should maintain sound market conduct practices that comply with contract provisions, laws and regulations. If the Insurer is subject to a market conduct investigation or examination by its country of domicile, a summary of findings along with a letter of explanation should be submitted to the IID within 30 days of the conclusion of the investigation or examination.

~~D.~~F. U.S. Branch

An Insurer formed with an existing U.S. branch is prohibited from applying for inclusion on the Quarterly Listing and Insurers currently included on the Quarterly Listing will be de-listed if a U.S. branch is established.

E. Lloyd's Incidental Syndicates

A Lloyd's incidental syndicate is formed as a portion of the host syndicate. The incidental syndicate is subject to the same ~~capital setting and~~ business plan and capital requirements as the host syndicate. Lloyd's incidental syndicates are permitted to apply for inclusion on the Quarterly Listing under the condition that they establish a separate Lloyd's U.S. Situs Excess or Surplus Lines Trust Deed and commit to annual reporting under its incidental syndicate number.

F. Insurers or Lloyd's Sovereign Government Syndicate Ownership

© 2024~~3~~ National Association of Insurance

An insurer or Lloyd's syndicate (member or managing agent) that is partially or wholly owned (directly or indirectly) or controlled (financially or otherwise) by a sovereign government that applies for inclusion on the Quarterly Listing, must sign and attest to various conditions as outlined within a set of required supplemental filings. The sovereign ownership may not encompass a U.S. sanctioned country per the U.S. Department of Treasury's Office of Foreign Assets Control.

III. Process for Reconsideration of an Application Rejection

In the event of an application rejection, a written request for reconsideration may be submitted if the Insurer wishes to contest the determination. To request reconsideration, all the following criteria must be met:

- The request must be received by the IID within 30 days of the date on the rejection letter;
- The request must be in letter format and signed by an officer of the Insurer; and
- Each of the rejection letter issues must be addressed with detailed explanations and supporting documentation.

The IID will re-evaluate the application with consideration given to the information provided by the Insurer and all information will be presented to the Working Group to determine a recommendation. The Working Group's recommendation will be presented at a regulator-only Appeal Committee meeting ~~for consideration~~. A representative of the Working Group and the applicant will be allowed to participate. Following review and a determination by the Appeal Committee, the IID will send a letter detailing approval or denial of the request.

If an Insurer does not submit a reconsideration letter within 30 days of the date on the rejection letter, any request for reconsideration is considered waived and the Insurer will be required to submit a new application along with the application fee and all required supporting documentation.

IV. Ongoing Quarterly Listing Eligibility

Insurers included on the Quarterly Listing are subject to ongoing review, which includes annual and interim compliance and qualitative and quantitative analysis.

A. ~~Core Areas of~~Reporting Requirements ~~Insurer Compliance~~

Annual Renewal Filing

All insurers/syndicates listed within the Quarterly Listing on June 30 of the renewal year are required to remit an annual fee and file an annual renewal package and must upload all required renewal filing documents to OPTins by June 30. A comprehensive list of required filings can be found within the Renewal Filing Memo & Instructions. Filings submitted subsequent to June 30 will be subject to late fees as defined within the Renewal Filing Memo & Instructions. If an Insurer fails to submit its annual renewal filing by July 31, it may be subject to de-listing.

Notification of Change in Control and Re-Application

Control is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of any other person. In the event of a change of control and/or merger, the Insurer must provide notice 30 days prior to the effective date of the transaction. The Insurer must reapply within 45 days following the effective date of the change of control and/or merger of the Insurer to maintain its listing. Failure to provide timely notice and/or re-application may result in de-listing.

Notification of Decline in Equity *(Does not apply to Lloyd's Syndicates)*

If the Quarterly Listed Insurer's equity has declined or is expected to decline by 10% or more compared to the most recent year-end or dropped below the minimum standard described in *Section II.B~~A~~* -

© 2024~~3~~ National Association of Insurance

~~*Shareholders'*~~ *Equity* ~~*Funds*~~*Requirement*, it must notify the IID immediately with a detailed explanation of the decline and a plan describing the resolution. Failure to provide timely notification may result in delisting as described in *Section V – De-Listing*. If an Insurer is unable to increase equity to the required minimum level within 15 business days of notification, it may be subject to de-listing.

Trust Fund Monitoring

The Quarterly Listed Insurer is required to monitor the trust fund balance and any impact of market fluctuations on the balance to ensure that it meets the minimum balance required. The IID performs a quarterly review of the market value of each Insurer's U.S. trust fund, based on the filing of the trust fund balance report from the trustee, to ensure that it continues to meet the required minimum balance.

B. IID Annual and Ongoing Analysis of Quarterly Listed Insurers

Quarterly Listed Insurers are evaluated on an annual basis and the requirements detailed in Section II - Requirements and Guidelines for Inclusion on the *Quarterly Listing* will be considered as part of that review. Further, t~~T~~he IID will analyze~~s~~ annual renewal and interim Insurer documentation and may request additional information as a result of that analysis. If an Insurer fails to file all additional requested information within the specified timeframe, it may be subject to de-listing. Upon completion of the overall analysis process, the Insurer will be referred to the Working Group for renewal or de-listing. Following review and a determination by the Working Group, a letter will be sent to the Insurer.

~~C. Examination of Insurer~~

~~The IID may recommend that an Insurer submit to a special examination of its affairs to verify continuing compliance. If the Working Group approves the recommendation, the Insurer will be required to submit to a special examination and pay all expenses or it will be de-listed.~~

V. De-L~~l~~isting

~~When~~ If the IID determines an Insurer is not in compliance with the ~~Plan~~ minimum~~and/or the trust fund~~ requirements or there are ~~poses~~ solvency concerns, the IID ~~may~~ will present an analysis of the Insurer to the Internal Committee and the Working Group in support of de-listing~~to determine a recommendation for consideration by the Working Group~~. Upon determination of non-compliance and/or solvency concerns by the Working Group, the Insurer will be de-listed and notified ~~via letter~~.

VI. Process for Reconsideration of De-L~~l~~isting

In the event of de-listing, a written request for reconsideration may be submitted if the Insurer elects to challenge the determination. To request reconsideration, all the following criteria must be met:

- The request must be received by the IID within 30 days of the date on the de-listing letter;
- The request must be in letter format and signed by an officer of the Insurer; and
- Each of the de-listing letter issues must be addressed with detailed explanations and supporting documentation.

The IID will review the letter response and will present its evaluation to the Working Group for its recommendation. The Working Group's recommendation will be presented at a regulator-only Appeal Committee meeting for consideration. A representative of the Working Group and the de-listed Insurer will be allowed to present. Following review and a determination by the Appeal Committee, the IID will send a letter detailing approval or denial of the request.

If an Insurer does not submit a reconsideration letter within 30 days of the date on the de-listing letter, any

© 2024~~3~~ National Association of Insurance

request for reconsideration is considered waived and the Insurer will be required to submit a new application along with the application fee and all required supporting documentation.

VII. Communication

All communication and information, including financial statements, audit reports, trust fund documents, and other supporting documentation must be submitted in English and uploaded to OPTins.

VIII. Voluntary Termination from the Quarterly Listing

An Insurer that wishes to voluntarily terminate from the Quarterly Listing may do so by ~~sending a letter to~~notifying the IID of ~~that requests termination along with~~ the effective date of the termination. Following termination from the Quarterly Listing, the Insurer must continue to comply with the requirements outlined within the Trust Agreement for Alien Excess or Surplus Lines Insurers.

IX. Confidentiality

The IID will treat as confidential any non-public information submitted by an Insurer and for which confidential treatment is clearly requested. The IID is not aware of any state or federal statutes that provide additional protection for information submitted to it. By submitting information to the IID, the Insurer acknowledges that the IID will share such information with state insurance department regulators as well as NAIC staff who participate in the review of applications and renewals. Additionally, in the event the IID or NAIC is served with a subpoena, motion, order, or other legal process requiring the production of such information or testimony related thereto, the NAIC will make best efforts to inform the Insurer of such third-party request in order to afford the Insurer an opportunity to take whatever action it deems appropriate to protect the confidentiality of its information. The Insurer acknowledges the NAIC may comply with the request and any order compelling compliance with such request.

X. Amendment to the Plan

The Working Group will consider proposals submitted to the IID for modifications to the Plan. All proposals will be considered during open conference calls or meetings of the Working Group throughout the year. A proposal must be complete and concise and include relevant supporting documentation. Proposals exposed and adopted by the Working Group would become effective following adoption by the Surplus Lines (C) Task Force and the Property and Casualty Insurance (C) Committee.

© 2024~~3~~ National Association of Insurance

~~Applicant Company~~ Entity Name: _____ _____ NAIC ~~No.~~Cocode / Alien ID

~~FEIN: _____~~

~~Uniform Certificate of Authority Application (UCAA)~~
Uniform Surplus Lines Consent to Service of Process

_____ Original Designation _____ Amended Designation
~~(must be submitted directly to states)~~

~~Applicant Company~~ Entity Name: _____

Previous Name (if applicable): _____

~~Statutory~~ Home Office Address: _____

~~City, State, Zip: _____~~
_____

NAIC Co~~c~~Code/Alien ID: _____

The ~~Applicant Company~~ Entity named above, organized under the laws of _____, and regulated under the laws of _____ for purposes of complying with the surplus lines laws of the State(s) designated hereunder ~~relating to the holding of a certificate of authority or the conduct of an insurance business within said State(s)~~, pursuant to a resolution adopted by its board of directors or other governing body, hereby irrevocably appoints the officers of the State(s) and their successors identified in Exhibit A, or where applicable appoints the required agent so designated in Exhibit A hereunder as its attorney in such State(s) upon whom may be served any notice, process or pleading as required by law as reflected on Exhibit A in any action or proceeding by the State(s) designated or under a surplus lines policy issued to a policyholder whose "Home State" is such State pursuant to Section 3.J and 9 of the NAIC's Nonadmitted Insurance Model Act (#870)~~against it in the State(s) so designated~~; and does hereby consent that any such lawful action or proceeding against it may be commenced in any court of competent jurisdiction and proper venue within the State(s) so designated; and agrees that any such lawful process against it which is served under this appointment shall be of the same legal force and validity as if served on the E~~e~~ntity directly. ~~-~~This appointment shall be binding upon any successor to the above named E~~e~~ntity that acquires the E~~e~~ntity's assets or assumes its liabilities by merger, consolidation or otherwise; and shall be binding as long as there is a contract in force or liability of the E~~e~~ntity outstanding in the State. The E~~e~~ntity hereby waives all claims of error by reason of such service. The E~~e~~ntity named above agrees to submit an amended designation form upon a change in any of the information provided on this power of attorney.

~~Applicant Company~~ Entity Officers' Certification and Attestation

~~One of the two Officers (listed below) of the Applicant~~ An officer of the Entity~~Company~~ must read the following ~~very carefully~~ and sign:

1. I acknowledge that I am authorized to execute and am executing this document on behalf of the ~~Applicant Company~~Entity.

2. I hereby certify under penalty of perjury under the laws of the applicable jurisdictions that all of the forgoing is true and correct, executed at _____.

_____ _____
Date Signature of ~~President~~Officer

_____
Full Legal Name of ~~President~~Officer

_____ _____

Revised ~~12/05/2023~~056/061/2024
~~FORM 12~~

© 2024 National Association of Insurance Commissioners

~~Date~~ ~~Signature of Secretary~~

~~Full Legal Name of Secretary~~

Uniform Surplus Lines Consent to Service of Process
Exhibit A

Place an "X" before the names of all the States for which the person executing this form is appointing the designated agent in that State for receipt of service of process with respect to such suits as are specified in this Uniform Surplus Lines Consent to Service of Process:

__	AL	Commissioner of Insurance~~#~~ and Resident Agent~~*~~	__	MO	Director of Insurance~~#~~
				MP	Commissioner of Insurance
__	AK	Director of Insurance~~#~~	__	MT	Resident Agent~~*~~
__	AZ	Director of Insurance~~# ^~~	__	NE	Officer of Company~~*~~ or Resident Agent~~*~~ ~~(circle one)~~
__	AR	Resident Agent~~*~~	__	NH	Commissioner of Insurance~~#~~
__	AS	Commissioner of Insurance~~#~~	__	NV	Commissioner of Insurance~~ Commission # ^~~
	CA	Resident Agent			
__	CO	Resident Agent~~*~~	__	NJ	Commissioner of Banking and Insurance~~#~~^
__	CT	Commissioner of Insurance~~#~~	__	NM	Superintendent of Insurance~~#~~
__	DE	Commissioner of Insurance~~#~~	__	NY	Superintendent of Financial Services~~#~~
__	DC	Commissioner of Insurance~~, and~~ Securities and Banking, or the~~Regulation # or~~ Local Appointed Agent~~* (circle one)~~	__	NC	Commissioner of Insurance
__	FL	Chief Financial Officer~~# ^~~	__	ND	Commissioner of Insurance~~# ^~~
__	GA	Commissioner of Insurance and Safety Fire~~#~~ and Resident Agent~~*~~	__	OH	Resident Agent~~*~~
__	GU	Commissioner of Insurance~~#~~	__	OR	Resident Agent~~*~~
__	HI	Insurance Commissioner~~#~~ and Resident Agent~~*~~	__	OK	Commissioner of Insurance~~#~~
				PA	
__	ID	Director of Insurance~~# ^~~	__	PR	Commissioner of Insurance~~#~~
__	IL	Director of Insurance~~#~~	__	RI	Superintendent of Insurance~~^~~
__	IN	Commissioner of Insurance~~Resident Agent* ^~~	__	SC	Director of Insurance~~#~~
__	IA	Commissioner of Insurance~~#~~	__	SD	Director of Insurance~~# ^~~
__	KS	Commissioner of Insurance~~^~~	__	TN	Commissioner of Insurance~~#~~
__	KY	Secretary of State~~#~~	__	TX	Resident Agent~~*~~
__	LA	Secretary of State~~#~~	__	UT	Commissioner of Insurance~~Resident Agent*~~ ^
___	MA	Commissioner of Insurance		VA	
___	MD	Commissioner of Insurance~~ Commissioner #~~	__	VT	Resident Agent~~*~~
__	ME	Resident Agent~~* ^~~	__	VI	Lieutenant Governor/Commissioner~~#~~
__	MI	Resident Agent~~*~~	__	WA	Insurance Commissioner~~#~~
				WI	Commissioner of Insurance
__	MN	Resident Agent~~*~~	__	WV	Secretary of State~~#~~
__	MS	Commissioner of Insurance and Resident Agent~~*~~ BOTH are required.	__	WY	Commissioner of Insurance~~#~~

Revised ~~12/05/2023~~056/061/2024
~~FORM 12~~

© 2024 National Association of Insurance Commissioners

For the forwarding of Service of Process received by a State Officer complete Exhibit B listing by state the entities (one per state) with **full name and address where service of process is to be forwarded**. Use additional pages as necessary. Exhibit not required for New Jersey, and North Carolina. Florida accepts only an individual as the entity and requires an email address. New Jersey allows but does not require a foreign insurer to designate a specific forwarding address on Exhibit B. SC will not forward to an individual by name; however, it will forward to a position, e.g., Attention: President (or Compliance Officer, etc.). Washington requires an email address on Exhibit B.

* Attach a completed Exhibit B listing the Resident Agent for the Applicant Company (one per state). Include state name, Resident Agent's **full name and street address**. Use additional pages as necessary. (DC* requires an agent within a ten-mile radius of the District), (MT requires an agent to reside or maintain a business in MT).

^ Initial pleadings only.

MA will send the required form to the Applicant Company when the approval process reaches that point.

~ Minnesota does not forward Service of Process. Service of Process must be accomplished using the procedures set forth in MN Stat. § 45.028. Applicant Company should complete Exhibit B to provide a resident agent address that Commerce will keep on file. Resident agent must have a Minnesota address.

© 2024 National Association of Insurance Commissioners

~~Uniform Certificate of Authority (UCAA)~~
Uniform Surplus Lines Consent to Service of Process
Exhibit B

Complete for each state indicated in Exhibit A:

State: _____ Name of Entity: _____

Phone Number: _____ ~~Fax Number:~~ _____

Email Address: _____

Mailing Address: _____

~~Street Address:~~ _____

State: _____ Name of Entity: _____

Phone Number: _____ ~~Fax Number:~~ _____

Email Address: _____

Mailing Address: _____

_____ ~~St~~
~~reet Address:~~ _____

State: _____ Name of Entity: _____

Phone Number: _____ ~~Fax Number:~~ _____

Email Address: _____

Mailing Address: _____

_____
~~Street Address:~~ _____

State: _____ Name of Entity: _____

Phone Number: _____ ~~Fax Number:~~ _____

Email Address: _____

Mailing Address: _____

~~Street Address:~~ _____ __

State: _____ Name of Entity: _____

Phone Number: _____ ~~Fax Number:~~ _____

Email Address: _____

© 2024 National Association of Insurance Commissioners

Mailing Address: _____

~~Street Address:~~ _____

~~**Exhibit B**~~

© 2024 National Association of Insurance Commissioners

Resolution Authorizing Appointment of Attorney

BE IT RESOLVED by the Board of Directors or other governing body of

_____ ,
(~~Applicant Company~~ Entity Name)

this _____day of _____, 20__ _____, that the President or Secretary of said E~~e~~ntity be and are hereby authorized by the Board of Directors and directed to sign and execute the Uniform Surplus Lines Consent to Service of Process to give irrevocable consent that actions by a State or by a policyholder whose "home state" is such State under a surplus lines policy issued by or on behalf of the ~~Company~~Entity in such State (in accordance with the terms of this Uniform Surplus Lines Consent to Service of Process) may be commenced against said E~~e~~ntity in the proper court of any jurisdiction in the S~~s~~tate(s) ~~of~~ as indicated within Exhibit A,

_____

_____

~~in which the action shall arise, or in which plaintiff may reside,~~ by service of process in the ~~state~~State(s) indicated above and irrevocably appoints the officer(s) of the ~~state~~State(s) and their successors in such offices or appoints the agent(s) so designated in the Uniform Surplus Lines Consent to Service of Process and stipulate and agree that such service of process shall be taken and held in all courts to be as valid and binding as if due service had been made upon said E~~e~~ntity according to the laws of said ~~state~~State.

CERTIFICATION:

I, _____, ~~Secretary~~ Officer of

_____ ,
(~~Applicant Company~~ Entity Name)

state that this is a true and accurate copy of the resolution adopted effective the ____ day of _____, 20 _____by the Board of Directors or governing board at a meeting held on the _____ day of _____, 20 _____ or by written consent dated _____ day of _____, 20 ___.

Date_____ _____
~~Secretary~~Officer

© 2024 National Association of Insurance Commissioners

Attachment Four
Surplus Lines (C) Task Force
8/13/24

Date: 7/25/2024

To: Surplus Lines (C) Task Force

From: NAIC International Insurers Department

RE: Adjustment to Minimum Qualifying Amounts for Exempt Commercial Purchasers

According to the directive within the Dodd-Frank Wall Street Reform and Consumer Protection Act, Sec. 527(1)(C)(ii) - Definitions, the minimum qualifying amounts for three categories of Exempt Commercial Purchaser will be amended effective January 1, 2025.

The percentage change calculation and adjusted minimum amounts for the affected categories are shown below:

Consumer Price Index All Urban Consumers (CPI-U)
June 2019, 256.143
June 2024, 314.175

Adjustment Calculation: (314.175 - 256.143) / 256.143= 22.7%

Subclause Category	Effective January 1, 2020	Adjusted Minimum Effective January 1, 2025
(I) Net Worth	$23,781,160	$29,179,483
(II) Annual Revenues	$59,452,900	$72,948,708
(IV) Annual Budgeted Expenditures	$35,671,740	$43,769,225

Source: https://data.bls.gov/timeseries/CUUR0000SA0

© 2024 National Association of Insurance Commissioners

Attachment Five

Draft: 7/22/24
Adopted by the Executive (EX) Committee and Plenary—
Adopted by the Property and Casualty Insurance (C) Committee—
Adopted by the Surplus Lines (C) Task Force—

~~2024~~ 2025 Proposed Charges

SURPLUS LINES (C) TASK FORCE

The mission of the Surplus Lines (C) Task Force is to monitor the surplus lines market and regulation, including the activity and financial condition of U.S. and non-U.S. surplus lines insurers participating in the U.S. market, by providing a forum for discussion of issues and to develop or amend relevant NAIC model laws, regulations, and/or guidelines.

The **Surplus Lines (C) Task Force** will:

A. Provide a forum for discussion of current and emerging surplus lines-related issues and topics of public policy and determine appropriate regulatory response and action.
B. Review and analyze industry data on U.S. domestic and non-U.S. surplus lines insurers participating in the U.S. market.
C. Monitor federal legislation related to the surplus lines market and ensure all interested parties remain apprised.
D. Develop or amend relevant NAIC model laws, regulations, and/or guidelines.
E. Oversee the activities of the Surplus Lines (C) Working Group.

The **Surplus Lines (C) Working Group** will:

A. Operate in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings and in open session when discussing surplus lines topics and policy issues, such as amendments to the International Insurers Department (IID) Plan of Operation.
B. Maintain and draft new guidance within the IID Plan of Operation regarding standards for admittance and continued inclusion on the NAIC *Quarterly Listing of Alien Insurers*.
C. Review and consider appropriate decisions regarding applications for admittance to the NAIC *Quarterly Listing of Alien Insurers*.
D. Analyze renewal applications of alien surplus lines insurers on the NAIC *Quarterly Listing of Alien Insurers* and ensure solvency and compliance per the IID Plan of Operation guidelines for continued listing.
E. Provide a forum for surplus lines-related discussion among jurisdictions.

© 2024 National Association of Insurance Commissioners

This page intentionally left blank.

© 2024 National Association of Insurance Commissioners

TITLE INSURANCE (C) TASK FORCE

Title Insurance (C) Task Force Aug. 14, 2024, Minutes 7-152

© 2024 National Association of Insurance Commissioners

Draft: 8/25/24

Title Insurance (C) Task Force
Chicago, Illinois
August 14, 2024

The Title Insurance (C) Task Force met in Chicago, IL, Aug. 14, 2024. The following Task Force members participated: Eric Dunning, Chair (NE); Kevin Gaffney, Vice Chair (VT); Mark Fowler represented by Jimmy Gunn (AL); Lori K. Wing-Heier represented by Sian Ng-Ashcraft (AK); Barbara D. Richardson represented by Tom Zuppan (AZ); Michael Yaworsky represented by Jeffrey Joseph (FL); Doug Ommen represented by Mathew Cunningham (IA); Dean L. Cameron represented by Shannon Hohl (ID); Vicki Schmidt (KS); Timothy J. Temple represented by Chuck Myers (LA); Mike Causey represented by Robert Croom (NC); Jon Godfread represented by Blaine Bergstedt (ND); Scott Kipper represented by Todd Rich and Gennady Stolyarov (NV); Glen Mulready represented by Erin Wainner (OK); Michael Humphreys represented by Michael McKenney (PA); Elizabeth Kelleher Dwyer represented by Patrick Smock (RI); Michael Wise represented by Melissa Manning (SC); Larry D. Deiter represented by Tony Dorschner (SD), and Scott A. White represented by Angela Crooker (VA).

1. Adopted its Spring National Meeting Minutes

Commissioner Gaffney made a motion, seconded by Rich, to adopt the Task Force's March 17 minutes (*see NAIC Proceedings – Spring 2024, Title Insurance (C) Task Force*). The motion passed unanimously.

2. Received an Update on the *Survey of State Insurance Laws Regarding Title Data and Title Matters*

Director Dunning said the collection of filings from jurisdictions is complete, and NAIC staff are in the process of compiling the results to produce the updated *Survey of State Insurance Laws Regarding Title Data and Title Matters*. It is anticipated that the report will be adopted at the Fall National Meeting.

3. Heard an Update from NAIC Government Relations Staff on Recent Federal Activities

Alexander Swindle (NAIC) said title insurance made a surprising appearance in President Biden's State of the Union Address in March when he said the administration would eliminate title insurance fees for federally backed mortgages. Since then, there was a U.S. House Financial Services Subcommittee on Financial Institutions and Monetary Policy hearing on housing and insurance in March that included some discussion about the Federal Housing Finance Agency's (FHFA's) pilot program to waive traditional title insurance and effectively allow the Federal National Mortgage Association (Fannie Mae) to self-insure, or reserve money for unexpected title losses. While Rep. Mike Flood (R-NE) highlighted the gap between average income and average home costs, Rep. Andrew Garbarino (R-NY) emphasized the critical protections against future legal action against the property ownership or mortgage priority that title insurance provides.

In May, the Federal Home Loan Mortgage Corporation (Freddie Mac) expanded its program to bypass traditional title insurance on mortgage loans it purchases. This move allows attorney opinion letters (AOLs) to replace title insurance in most states, aligning with the Biden-Harris Administration's efforts to address housing affordability issues by exploring alternative approaches to traditional insurance. However, the move is likely to face resistance from lawmakers concerned about consumer protection and small title insurers.

Rep. Garbarino introduced the Protecting American's Property Rights Act (H.R. 5873) in May. This bipartisan bill would require title insurance on all loans purchased by Freddie Mac and Fannie Mae, the government-run mortgage financiers underpinning about half of the housing market. The bill has gained the bipartisan support of 15 cosponsors.

© 2024 National Association of Insurance Commissioners

In June, NAIC staff responded to Rep. Emanuel Cleaver (D-MO), addressing his concerns about title insurance, AOLs, and consumer protection. The NAIC emphasized the Task Force's efforts to analyze the benefits and risks of alternatives to title insurance and the NAIC's commitment to educating consumers. The NAIC also reiterated its support of federal-state cooperation in information gathering and stakeholder engagement in this area. This communication is part of the NAIC's ongoing work to address concerns and provide information on industry practices and regulations.

On June 13, Consumer Financial Protection Bureau (CFPB) Director Rohit Chopra testified before the House Committee on Financial Services about the CFPB's role in regulating title insurance. He emphasized the importance of disclosures in the Real Estate Settlement Procedures Act (RESPA) and the CFPB's commitment to consumer protection. Rep. Blaine Luetkemeyer (R-MO) argued that insurance is regulated at the state level and that title insurance is outside the CFPB's authority. Chopra emphasized that the CFPB does have authority over disclosure practices related to mortgage insurance but respects the state model for the business of insurance.

On July 10, following White House directives to reduce housing costs, the Federal Insurance Office (FIO) held a title insurance roundtable. Deputy Commissioner Myers and Commissioner Ommen both participated. Various stakeholders attended, including White House representatives, industry, trade associations, consumer representatives, housing groups, and academics. Overall, industry and consumer advocates drove the discussion. Industry emphasized the need for regulatory consistency across states. Consumer advocates also mentioned a mismatch in the variety of services offered by title insurers across states and the relative consistency of title insurance pricing as a percentage of housing as "proof" that the market was not functioning and as a flaw in state regulation. The overarching themes were the demands for more competition, transparency, and consumer protection in the title insurance sector. The FIO is contemplating no further action at this time.

Director Dunning thanked Deputy Commissioner Myers for attending the FIO roundtable to discuss the important role of state regulation of title insurance.

Steve Gottheim (American Land Title Association—ALTA) said he had heard that the FIO was contemplating a report and asked if Swindle had heard the same. Swindle said his impression from speaking with FIO staff is that they are ready to wrap up the matter for now. FIO's roundtable was in response to the White House's address on the topic.

Deputy Commissioner Myers said it is important for state insurance regulators to be involved and reach out to title insurers to ensure they are aware of what products are coming out. He acknowledged that October Research was in attendance and that its coverage of the Task Force's meetings would provide a good source of communication in the industry.

Gottheim stated that ALTA expects FHFA Director Sandra Thompson to testify before the House Committee on Financial Services in mid-September. Title insurance is likely to be discussed. It might be helpful to the Task Force to look into the technology and partners the FHFA is using in its pilot program. ALTA has also noted the wider use of AOLs, especially in a program run by United Wholesale Mortgage (UWM). AOLs are being marketed very aggressively in a number of states, even in those states where AOLs are not the more common factor. Consumers are paying more for AOLs than they would have if they had purchased title insurance. ALTA will notify the affected states to ensure they are aware of this situation. Transactions are occurring in Florida, Pennsylvania, and Texas, where marketing is ramped up.

Swindle said the NAIC would reach out to FHFA before Director Thompson testifies in September. It will also reach out to the House Committee on Financial Services to better understand what to expect regarding title insurance.

© 2024 National Association of Insurance Commissioners

4. Heard an Update on Soon-to-Be Initiated Title-Related Research

Steven Jackson (American Academy of Actuaries—Academy) said the Academy is starting a broader look at homeowners insurance and related topics. The Academy just chartered a Homeowners Insurance Task Force that is still organizing. The research on title insurance will be done by a working group under the Homeowners Insurance Task Force. Title insurance is one of the few insurances required in most households, which differs greatly from most insurance products. Most consumers paying for title insurance do not understand what they are paying for and why they are paying for it. Consistent with the Academy's mission of serving the public and the actuarial profession, the Academy sees this research as informative. Title actuaries sign statements of actuarial opinion (SAOs) and insurance departments approve rate filings based on submitted reports, which include pre-issue expenses associated with title searching, identification and remedy of title defects, and post-issue loss experience. Actuaries are experienced in converting loss experience into premiums. However, they are much less experienced in reviewing pre-issue expenses that account for a majority of the premium. The Academy believes that understanding more about these pre-issue expenses would be useful to title actuaries and state insurance regulators and help inform the Academy's consumer education. Outside of ALTA, little publicly available research exists on pre-issue title expenses. With its commitment to independence and objectivity, the Academy is in a good position to contribute to this needed public research.

Jackson said the project will be data-driven, and the agenda and specific research proposals will be built around initial findings in the data. The initial focus of the research is the expenses as reported in the Operations and Investment Exhibit, Part 3 of the Title Insurance Financial Statements. Initial research will focus on identifying trends in a series of expense line items across companies and over time. The Academy will then reach out to experts in the industry and academics to assist in understanding the drivers of these trends. The Working Group will finish determining what data is fit for purpose within six weeks and then begin to determine what questions it can answer with the data. It is also in the process of identifying the key stakeholders to reach out to early in the process to help guide it. Director Dunning said the Academy is in the perfect position to do this type of research, and he looks forward to the information it will provide.

Hohl asked what type of cooperation the Academy anticipates from stakeholders. Jackson said the Academy anticipates other stakeholders will be fully cooperative. The Academy's results may or may not be agreeable to everyone, but its analysis will be unbiased and informative.

McKenney said that, as a state insurance regulator who reviews title insurer rate information, title insurance is unique in its high expenses. It would benefit state insurance regulators to better understand if title expenses are excessive. Title agents should make a good living but not charge excessive amounts. McKenney said it would also be helpful to better understand where expenses can be reduced. It is his understanding that multiple agents do the curative work on the search and examination results, and the title insurer uses whichever agent finishes first. This duplicative work could be wasteful. It would also be helpful to know the consequences of a title insurer who decided to take higher title losses.

Commissioner Gaffney said expense metrics would be helpful. He asked if they would come from sources other than the annual financial statement since expenses such as commission rates are not reported in the annual financial statement. It would be helpful to know if commission rates differ on refinances versus first-time originations. He asked if the Academy would be willing to update the Task Force on its metrics and allow it an opportunity to contribute additional complementary metrics.

Jackson said the Academy is starting with the Direct Operations and Expense Table in the annual financial statement. It appears difficult to glean much from the agency data. The Academy has started collecting agency call data from states that make data calls for agents and make the results publicly available. This information will go into a companion database, and more data could be added if it becomes available. The Academy will be looking

© 2024 National Association of Insurance Commissioners

for additional data sources as it identifies trends that the current data cannot explain. He said the Academy will not have results by the Fall National Meeting, but it would be happy to share what metrics it is looking at and get feedback from the Task Force.

Gottheim stated that ALTA has offered the Academy the use of its data. With regard to Commissioner Gaffney's inquiry, the annual financial statement includes commercial and residential commissions but not a breakdown of commissions for refinances versus purchases. There is no difference in commissions between these transactions because utilizing centralized operations allows the work to be done in the direct operations channel. Therefore, data from the direct operations channel is more refinance-heavy than the direct agency channel. Title insurance's loss tail is unique, as 50% of the loss claims do not become realized until between years five and seven; thus, pulling one year's worth of expense data does not provide much information. For this reason, ALTA has encouraged the Academy to look at five to seven years of data. It also encouraged the Academy to examine public data call information from states like Florida and Texas.

5. Heard a Presentation from CertifID on its "2024 State of Wire Fraud" Report and "Wire Fraud Liability: Insights from 2020–2024 Court Battles" Report

Tom Cronkright (CertifID) said CertifID is seeing challenges that will not be found by examining title production expenses and losses. Title insurance is closely coupled with the escrow settlement function because of the underwriting standards and what is needed to issue either a lender's or owner's policy. The title industry must remain the neutral forum and last line of defense for the consumer. The disruption in the last 24 months with lending through fiscal policy and the rules that will take effect on Saturday have led to an interesting market.

Cybercrime business email compromise (BEC) occurs when scammers have found a way to use technology to open-source information, gain access to email accounts, and learn of an upcoming transfer of funds. In real estate, this is the largest transaction the general public faces in their lifetime. These syndicate cartels are globally organized and domestically coordinated from the money laundering perspective, and they have focused primarily on the real estate sector. The Internet Crime Complaint Center (IC3) reported $446 million in BEC and real estate-related crime. This is likely only about 20% of the actual amount. CertifID's Recovery Services Division has addressed over $250,000 of wire fraud from victims' inbound phone calls to date. This indicates that much more fraud is occurring than is reported to the IC3.

A CertifID survey administered by a third party found that 17% of title agents sent funds to the wrong account due to wire fraud last year. Additionally, 1-in-20 consumers became victims of fraud during a real estate transaction. The real estate sector is targeted because it provides the perfect conditions for bad actors. Data on property listings is publicly available via Multiple Listing Services (MLS) and county records. Transactions involve large sums of money. The median sale price of existing homes in the U.S. is $387,000, with typically up to 10 different parties involved in sharing information about the closing.

Everyone in the transaction is being targeted. Buyers—through phishing attacks, spoofed emails, social engineering, and realtor or title agent impersonation—had a $72,000 median loss and only 28% recoveries. Sellers—through open-source records, identify theft, social engineering, and seller impersonation—had a $70,000 median loss and only 18% of recoveries. Title and law firms—through compromised systems, lender impersonation, lender callbacks, and fraudulent payoff instructions—had a $257,000 median loss and 54% of recoveries.

Scammers have weaponized the latest tech in record time. In November 2023, OpenAI announced ChatGPT, a chatbot and virtual assistant that uses artificial intelligence (AI) to generate dialogue. Fraudsters are increasingly using this technology to easily create realistic AI-generated scams. These scams include callback spoofing (SpoofCard) and AI-generated voice, video, or audio replication that seems real but has been manipulated

© 2024 National Association of Insurance Commissioners

(deepfakes). They also include the use of bots leveraging open-source intelligence to boost engagement metrics like views, likes, shares, and comments to create influence, fill in fraudulent registration forms, or generate fake listings. Subscriber Identity Module (SIM) swap, where the device tied to a customer's phone number is fraudulently manipulated, is another scam. AI-driven hacker tools such as FraudGPT are on the rise. FraudGPT is a product sold on the dark web on a subscription basis that works similarly to ChatGPT but creates content to facilitate AI-generated social engineering attacks. In July 2024, Microsoft called on U.S. lawmakers to address AI-generated fraud through a new deepfake fraud statute.

Victims are looking to the courts for answers on who is liable. The proximate cause is the scammer. However, in these types of fraud cases, the scammer is not able to be held accountable. The courts are struggling with this idea that everyone involved has been victimized through reputational risks, actual or indirect loss, or cost of defense, but the bad actor is elsewhere. The legal theory carrying through most consistently when there is a wire fraud loss is simple negligence.

CertifId's "Wire Fraud Liability: Insights from 2020–2024 Court Battles" report analyzed over 100 wire fraud cases and found that title companies, law firms, and real estate professionals are increasingly being held liable for losses when client funds are diverted to fraudulent accounts. Despite criminals being the primary perpetrators, courts hold these professionals to higher standards of care, expecting them to implement robust security measures and educate their clients about the risks of wire fraud.

Cases against insurers rely on clear-cut terms. A business that is a victim of wire fraud would only recoup losses from its insurance carrier under its policy if the loss is specifically covered by the policy and all the requirements for coverage have been met. Policies often include significant sub-limits for wire transfer or social engineering fraud. To win in court, the business must ensure clear contractual language regarding covered claims, terms and conditions, and exclusions. This was evidenced in *Helms v. Hanover Insurance,* where a buyer cash-to-close real estate transaction mishap led to a couple wiring $120,000 to fraudsters. The couple sued their broker and real estate agent, alleging negligence. Seeking defense from Hanover Insurance, the agent's errors and omissions (E&O) policy claims were denied based on the terms of the insurance agreement. According to the court, the agent's E&O insurance was never designed to cover wire fraud, containing unambiguous "fund misappropriation and fraudulent transfer policy" exclusions. The court cited that "The exclusion's plain language… states that no coverage is provided for claims based on or arising out of the theft, stealing, conversion, or misappropriation of funds."

Banks are mostly protected from liability by Uniform Commercial Code (UCC) Article 4A if they follow commercially reasonable security procedures. Banks consider these "authorized" payments, even if the consumer is tricked into authorizing payment under false pretenses. In 2020, JPMorgan reimbursed three of 41,390 scam disputes, and Wells Fargo did not reimburse any of its 25,061 scam disputes. Bank of America did not track scam data as a separate dispute category until the second half of 2020.

Consumer education is needed. Fifty-one percent of consumers reported they were unaware or only somewhat aware of the risks of wire fraud before closing. Seventy-one percent believe it is someone else's responsibility to educate them. State protective measures are in development across the U.S. Utah is pursuing legislation, and Arizona, Illinois, Rhode Island, New Mexico, and Tennessee are pursuing regulation. Actual knowledge or identity verification is needed as a legal requirement for notarizations, especially for real estate transactions. Public and private partnerships are needed to share data and slow the flow of diverted payments.

Dorschner asked if the real estate industry was interested in establishing different standards. Cronkright said there is an acknowledgment that fraud is bad for all involved parties. However, it ends there because the title settlement industry has taken over the management of the funds. This has led the other industries to say they will help educate, but the title industry is responsible for safeguarding the funds.

© 2024 National Association of Insurance Commissioners

Stolyarov said he would like to better understand the mechanics of how scammers can find out these transactions are occurring. Cronkright said that in a purchase money transaction, the MLS listing is an instantaneous thread into who the listing agent would be, the brokerage firm associated with that agent, and the property owners. The fraudster then sends a phishing email, someone clicks the link, and the fraudster gains access to their information. The fraudster could also call someone and allege they are the consumer unable to get ahold of their agent. The fraudster can even track who the title agent is likely to send the title work to by looking at the register of deeds. Gaining email access and changing the rules behind the email allows a fraudster to filter the email traffic for closing statements, loan estimates, wire, etc. The fraudster then spoofs one of the trusted parties in the communication chain. The real estate agent or mortgage lender is typically the one compromised. For instance, if the buyer is the target, the title company is typically spoofed. From a loan perspective, the fraudster gains access to the email of a loan officer or processor's email. Trigger leads can be bought from the credit bureau. If the title company is the target, the seller is typically impersonated for the net proceeds, or the mortgage lender is paid off through a tampered mortgage payoff letter.

Nicole Moon (Illinois Department of Financial & Professional Regulation—IDFPR) asked what timeframe for fraud notification to the bank would increase victims' likelihood of recovery. Cronkright said that in most cases, the victim is not being asked to transfer the funds to a crypto wallet. Typically, a compromised email that looks authentic because it includes the title company name, logo, and account information will include a routing number that will divert the funds to the fraudster. A bank would need to intercede the same day or, at most, the next day. Fraudsters prey on holiday weekends and the disjointed nature of when a branch is open, but the Federal Reserve System is closed. This allows them access to online banking, cashier's checks, and money movement into crypto wallets. The money goes from the victim's account to a domestic receiving bank, then to gift card purchases or a crypto wallet. Once in a crypto wallet, it gets further anonymized by a crypto tumbler, then goes to an overseas deposit and, ultimately, a fiat bank.

Moon also asked what types of things state insurance regulators could require to increase the notice a bank receives. Cronkright said the challenge is the difference between the receiving and sending bank. The representative of the sending bank believes the funds are heading to a certain title company. A name-matched verification system would be helpful. The barrier is that the Bank Secrecy Act (BSA) and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act) prevent the display of information to a non-account holder. There should, however, be more training on the banking end for identifying the more egregious wire frauds.

Having no further business, the Title Insurance (C) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024/TITLE/08-TitleTF.docx

© 2024 National Association of Insurance Commissioners

WORKERS' COMPENSATION (C) TASK FORCE

The Workers' Compensation (C) Task Force did not meet at the Summer National Meeting.

© 2024 National Association of Insurance Commissioners

MARKET REGULATION AND CONSUMER AFFAIRS (D) COMMITTEE

Market Regulation and Consumer Affairs (D) Committee Aug. 15, 2024, Minutes 8-2
Market Regulation and Consumer Affairs (D) Committee July 29, 2024, Minutes (Attachment One) 8-9
Market Actions (D) Working Group Revised 2024 Charges (Attachment One-A) 8-12
Amendment to the Definition of External Replacement of Affiliated Company Policies in the Market Conduct Annual Statement (MCAS) Life and Annuity Blanks (Attachment One-B) 8-13
Market Analysis Procedures (D) Working Group Aug. 5, 2024, Minutes (Attachment Two) 8-15
Market Analysis Procedures (D) Working Group June 24, 2024, Minutes (Attachment Two-A) 8-17
Market Analysis Procedures (D) Working Group April 29, 2024, Minutes (Attachment Two-A1) 8-20
Market Conduct Annual Statement Blanks (D) Working Group July 11, 2024, Minutes (Attachment Three) 8-23
Market Conduct Annual Statement Blanks (D) Working Group June 6, 2024, Minutes (Attachment Three-A) 8-26
Market Conduct Annual Statement Blanks (D) Working Group May 1, 2024, Minutes (Attachment Three-A1) 8-28
Market Conduct Annual Statement Blanks (D) Working Group April 19, 2024, Minutes (Attachment Three-A1a) 8-32
Market Conduct Annual Statement Blanks (D) Working Group April 2, 2024, Minutes (Attachment Three-A1b) 8-33
Market Conduct Examination Guidelines (D) Working Group July 30, 2024, Minutes (Attachment Four) 8-36
Market Conduct Examination Guidelines (D) Working Group May 22, 2024, Minutes (Attachment Four-A) 8-38
Market Regulation Certification (D) Working Group June 24, 2024, Minutes (Attachment Five) 8-40
Market Regulation Certification (D) Working Group April 29, 2024, Minutes (Attachment Five-A) 8-43
Speed to Market (D) Working Group July 30, 2024, Minutes (Attachment Six) 8-46

© 2024 National Association of Insurance Commissioners

Draft: 8/20/24

Market Regulation and Consumer Affairs (D) Committee
Chicago, Illinois
August 15, 2024

The Market Regulation and Consumer Affairs (D) Committee met in Chicago, IL, Aug. 15, 2024. The following Committee members participated: Jon Pike, Chair (UT); Barbara D. Richardson, Co-Vice Chair (AZ); Trinidad Navarro, Co-Vice Chair (DE); Karima M. Woods represented by Sharon Shipp (DC); Dean L. Cameron (ID); Sharon P. Clark (KY); Timothy J. Temple (LA); Robert L. Carey represented by Timothy N. Schott (ME); Chlora Lindley-Myers represented by Jo LeDuc (MO); Mike Causey represented by Robert Croom (NC); Jon Godfread represented by Johnny Palsgraaf (ND); Scott Kipper represented by Nick Stosic (NV); Michael Humphreys represented by David Buono (PA); and Cassie Brown represented by Matthew Tarpley (TX). Also participating were: Larry D. Deiter (SD); Rebecca Nichols (VA); John Haworth (WA); and Rebecca Rebholz (WI).

1. Adopted its July 29 Minutes

The Committee met July 29. During this meeting, it took the following action: 1) adopted its Spring National Meeting minutes; 2) adopted revised charges for the Market Actions (D) Working Group; 3) adopted an amendment to the definition of external replacement of affiliated company policies in the Market Conduct Annual Statement (MCAS) life and annuity blanks; and 4) adopted a recommendation to collect MCAS data from fraternals.

Commissioner Navarro made a motion, seconded by Director Cameron, to adopt the Committee's July 29 minutes (Attachment One). The motion passed unanimously.

2. Heard a Presentation from the AEPI on Insurer Automobile Claim Adjusting Practices

Erica Eversman (Automotive Education & Policy Institute—AEPI) presented on insurance company automobile claims adjusting practices on first-party and third-party claims. She said first-party claims are adjusted according to the policy language, and third-party claims are adjusted according to negligence laws, which are not subject to the same policy limitations as first-party claims. She said insurers will use improper tactics to reduce the amounts owed on first-party and third-party automobile damage claims.

Eversman said insurers systematically undervalue the actual cash value (ACV) of total losses and make offers less than the ACV by: 1) using selective comparable vehicle valuations; 2) "buy here/pay here" dealer prices, which are priced lower in order to encourage purchases with high interest rates; and 3) manipulating software cost determinations. She said insurers often refuse to consider comparable vehicle prices from sources such as CarMax, Carvana, Craigslist, Facebook Marketplace, Kelley Blue Book, Vroom, and auction sites. Additionally, she said insurers have removed or are currently seeking to remove the appraisal clause from their policies. This limits any recourse for the insured to pursue alternative dispute resolution options, resulting in the necessity to file a lawsuit to recover the true ACV for a total loss claim. She said the losses often have values above small claim court limits and that plaintiff attorneys will rarely take on cases for solely property damage.

Eversman said insurers reduce partial loss claim payments by: 1) manipulating the prevailing market labor rates in estimating software; 2) requiring the use of non-original equipment manufacturer (OEM) parts or salvage parts in their estimates of damage; and 3) encouraging third-party claimants to use their own insurance, thus subjecting the claimants to the policy limitations of their insurance. Eversman said that auto repair shops have garage keeper legal liability (GKLL) policies that require the use of OEM parts and other limitations that conflict with the estimations of the automobile insurance carriers.

© 2024 National Association of Insurance Commissioners

Eversman said insurers negotiate prices nationwide for subcontractor work and demand the use of the subcontractors for sublet work. She said the repair shop is liable for the sublet work, not the insurer.

Eversman recommended the state insurance regulators: 1) investigate insurer use of total loss software; 2) require insurers to notify insureds in writing of remedy provisions elected prior to repair; 3) require insurers to notify consumers and pay to replace improper imitation parts; 4) require insurers to reflect the increase in labor rate in the labor rate field of estimation software; 5) prohibit insurers from using network shop contract rates when determining prevailing market rates; 6) prohibit insurers from including indemnification beyond negligence in network shop agreements; and 7) investigate demands that claimants use their own insurance.

Gendron said Rhode Island requires its repair shops to have a GKLL policy, and they will also generally have a general liability (GL) insurance policy. He asked which policy would cover the actual repairs but exclude repairs using a non-OEM part. Eversman said that would typically be the GKLL policy. Gendron asked if the GKLL carrier is considering the use of non-OEM parts as a breach of contract. Eversman said it would. Gendron asked if Eversman had case law. She said most are resolved with a settlement, and there may not be case law, but she would look.

Cabinet Executive Officer (CEO) Richardson said that one of the recommendations made by Eversman was to require insurers to notify customers when a non-OEM part is decertified after it had been installed. She asked if that means that insurers have to follow the life of every car on which non-OEMs were paid for by them and replace every part that is ever decertified. CEO Richardson also asked if Eversman knew the additional cost the insurers would then have to take on. Eversman said insurers that have said the non-OEM parts are appropriate should replace them, especially if the de-certified part creates a safety issue. She said insurers already say they will, but they do not. She said the certification and de-certification of the parts they use are made by an organization that insurers created. Eversman said that would likely be at a high cost, but the insurers have held themselves out to that standard by insisting on non-OEM parts.

3. Adopted its Task Force and Working Group Reports

A. Antifraud (D) Task Force

Commissioner Navarro said the Task Force met Aug. 14 and took the following action: 1) adopted its Spring National Meeting minutes; and 2) discussed its 2024 charges in preparation for reviewing and considering adoption of its 2025 proposed charges.

Commissioner Navarro said the Task Force also adopted a report from the Improper Marketing of Health Insurance (D) Working Group. He said the Working Group heard from the Centers for Medicare & Medicaid Services (CMS) and America's Health Insurance Plans (AHIP) about the current issues consumers are experiencing with continued unauthorized agent transfers of policies. The Working Group also heard from the NAIC regarding current congressional actions and received an update on the marketing issues of the Affordable Care Act (ACA).

Additionally, Commissioner Navarro said the Task Force received an update from the Antifraud Technology (D) Working Group. He said the Working Group will continue assisting with the implementation of the NAIC's new web service for the Online Fraud Reporting System (OFRS). The Working Group will also work with state fraud directors, the NAIC, and the National Insurance Crime Bureau (NICB).

Committee Navarro said the Task Force also heard reports on antifraud activity from the Coalition Against Insurance Fraud (CAIF) and the NICB.

© 2024 National Association of Insurance Commissioners

B. Market Information Systems (D) Task Force

LeDuc said the Market Information Systems (D) Task Force met Aug. 2 and heard reports from the Market Information Systems Research and Development (D) Working Group and the Market Analysis Procedures (D) Working Group.

LeDuc said the Market Information Systems Research and Development (D) Working Group approved two requests for additional codes and functionality on the Complaints Database System (CDS). The Working Group approved preliminary analysis to begin adding a claim handling reason code for "balanced billings" and adding "insurance companies" in the drop-down description of the complainant in the State Based Systems (SBS) External Healthcare Review (EHR) portal.

LeDuc said the Market Analysis Procedures (D) Working Group reported that it formed a Market Analysis Prioritization Tool (MAPT) Recommendations Subgroup to conduct a detailed review of the MAPT.

LeDuc said the Task Force also heard a report from NAIC Information Technology Group (ITG) staff on the status of *State Connected* projects that touch on the market information systems (MIS), as well as other projects requested by the Market Information Systems Research and Development (D) Working Group.

C. Producer Licensing (D) Task Force

Director Deiter said the Producer Licensing (D) Task Force met Aug. 12 and May 9. During its Aug. 12 meeting, the Task Force received comments on proposed amendments to the *Public Adjuster Licensing Model Act* (#228). He said the model is being amended to strengthen regulatory standards governing the conduct of public adjusters for the following four issues: 1) individuals acting as unlicensed public adjusters; 2) contractors who are also acting as public adjusters on the same claim; 3) inappropriate assignment of benefit rights; and 4) excessive fees charged by public adjusters. He said the most contentious issue is the amendments to Section 14, which provide that a public adjuster shall not charge more than 10% for any catastrophic claim settlement and no more than 15% for any insurance claim settlement. He said the Task Force is seeking additional comments on the model through Aug. 30.

Director Deiter also said that during its Aug. 12 meeting, the Task Force received additional comments on the draft 1033 waiver template focused on whether individuals should be required to submit a waiver request to non-resident states and the definition of "conviction." He said NAIC staff are working with a small group of subject matter experts (SMEs) to review the comments and issue a revised draft of the template in the next 45 days for the Task Force to consider for adoption.

Additionally, Director Deiter said the Task Force discussed proposed amendments to the NAIC Uniform Producer Licensing Applications and the proposed cost and timeline for implementing the amendments adopted by the Producer Licensing Uniformity (D) Working Group. He said NAIC staff will circulate the proposed revisions and suggested cost and timeline for implementation for a 30-day comment period.

Director Deiter said the Task Force also received a report from the National Insurance Producer Registry (NIPR) Board of Directors. He said NIPR and the NAIC continue to provide producer licensing zone training for the states. The program covers producer licensing practices, as well as current and emerging industry issues, and encourages dialogue among the state licensing peer regulators. He said any state wanting more information on this training should contact Laurie Wolf (NIPR) or Tim Mullen (NAIC).

Director Dieter said that during its May 9 meeting, the Task Force took the following action: 1) discussed the template for the 1033 waiver process; and 2) received reports from the Adjuster Licensing (D) Working Group,

© 2024 National Association of Insurance Commissioners

Producer Licensing Uniformity (D) Working Group, Public Adjuster Licensing (D) Working Group, and Uniform Education (D) Working Group. He said the Task Force also received comments from industry trade organizations seeking changes to the *State Licensing Handbook* to clarify that pre-licensing education is not required. Industry comments also encourage states to provide examinations in additional languages and recognize the use of online examinations.

D. Market Analysis Procedures (D) Working Group

LeDuc said the Market Analysis Procedures (D) Working Group met Aug. 5, June 24, and April 29. She said that during these meetings, the Working Group: 1) adopted the pet insurance MCAS ratios that will be publicly posted annually after each MCAS reporting period; and 2) adopted a requirement for fraternal organizations to begin reporting MCAS annually.

LeDuc said the Working Group followed up on last fall's interviews of 26 jurisdictions regarding their use of the MAPT for their baseline market analysis. She said the interviews indicated that the MAPT is not effectively prioritizing companies for market analysis. Hence, the Working Group formed a MAPT Recommendations Subgroup to review the MAPT, consider the suggestions received, and develop a set of recommendations for improving MAPT that the Working Group can approve. The subgroup is beginning its review of the MAPT with the private passenger automobile line of business. She said the subgroup plans to finish its work prior to the Fall National Meeting.

Le Duc said the Working Group is continuing its series of educational lunch-and-learn sessions for new and experienced analysts. She said that during these sessions, state insurance market analysts heard from North Carolina and Utah about how they conduct MAPT analyses, and an NAIC financial analyst provided insights into the financial measures used in the MIS tools. She said the Working Group's next lunch-and-learn session will be on Market Analysis Review System (MARS) Level 1 and Level 2 analyses.

E. Market Conduct Annual Statement Blanks (D) Working Group

Rebholz said that since the Spring National Meeting, the Working Group identified and approved some non-substantive MCAS items that did not require approval according to the timeline provided in the MCAS Revision Process Guidelines. She said those items will be implemented for the 2024 MCAS data year:

- Two instances of duplicate data elements were identified during a review of the short-term, limited-duration (STLD) MCAS blank: Data elements #64 and #74 ask for covered lives impacted by cancellations initiated by the policyholder/certificate holder during the period. The Working Group voted to remove data element #64 and retain data element #74. Additionally, data elements #69 and #75 ask for covered lives impacted by cancellations resulting from nonpayment. The Working Group voted to remove data element #69 and retain data element #75
- Two instances of duplicate data elements were identified in the other health MCAS blank: Data elements #67 and #71 ask for the number of claims denied, rejected, or returned because the maximum benefit has been exceeded. The Working Group voted to approve the removal of data element #71 and retain data element #67. The Working Group has ongoing discussions related to the second instance of duplicate data elements.
- The Working Group also adopted an edit to the definition of "lawsuit" in the MCAS homeowners and private passenger auto (PPA) data call and definitions documents. Rebholz said that "For non-claims related lawsuits" was added to the beginning of the first bullet point within the lawsuit definition. The bullet now reads, "For non-claims related lawsuits, include only lawsuits brought by an applicant for insurance, a policyholder or claimant as a plaintiff against the reporting insurer as a defendant." Rebholz said the original intent was for this bullet point to apply only to non-claims related lawsuits.

© 2024 National Association of Insurance Commissioners

Rebholz said that in addition to the non-substantive items, the Working Group adopted edits to the definition of external replacement of affiliated company policies in the MCAS life and annuity blanks. She said this edit was adopted by the Committee last month.

Rebholz said the Working Group formed an SME group to address the federal government's new rules limiting STLD medical plans to 90 days with a month extension. The SME group recommended leaving the STLD MCAS blank as is for 2024 and 2025 because there will still be some policies in effect under the old rules in those years. The Working Group agreed this was a good course of action and will review it again at a later date.

Rebholz said the Working Group continues to focus on reviewing the current blanks, data call, and definitions of the other health, pet insurance, STLD, and PPA MCAS lines of business. Additionally, updated definitions for accelerated underwriting (AU) reporting within life MCAS blank are also being considered.

F. Market Conduct Examination Guidelines (D) Working Group

Tarpley said the Market Conduct Examination Guidelines (D) Working Group met most recently July 30. During this meeting, the Working Group adopted its May 22 minutes.

Tarpley said the Working Group also heard an update on the progress made by pet insurance SMEs on the development of a new pet insurance examination chapter in the *Market Regulation Handbook* and the development of new pet insurance-related standardized data requests (SDRs). The SMEs are creating new examiner guidance based on the *Pet Insurance Model Act* (#633).

Tarpley said the travel insurance SMEs are updating the travel insurance examination chapter of the *Market Regulation Handbook* to incorporate new review procedures and criteria in marketing and sales examination standards 3, 4, 8, and 11 and underwriting and rating standard 1. He said the SMEs are creating the guidance based on the *Travel Insurance Model Act* (#632).

Tarpley said updates to the life and annuity examination chapter of the *Market Regulation Handbook* reflect the revisions to *Actuarial Guideline XLIX-A—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest Sold on or After December 14, 2020* (AG 49-A). He said an exposure draft of the updated chapter will be distributed in August.

Tarpley said the Working Group is continuing to monitor the work of the Innovation, Cybersecurity, and Technology (H) Committee and its workstreams to learn what initiatives they are discussing that may relate to regulator guidance in the *Market Regulation Handbook*.

Tarpley said that at its July 30 meeting, the Working Group discussed the applicability of the NAIC Connect platform as a means to potentially address the Working Group's charge to develop a shared regulator-only collaborative space where market regulators can share state insurance regulator tools.

G. Market Regulation Certification (D) Working Group

Haworth said the Market Regulation Certification (D) Working Group met Aug. 12 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to enable the members and interested state insurance regulators to freely discuss internal department processes that are included with the Voluntary Market Regulation Certification Program. He said the Working Group completed self-certification reviews of two fictional jurisdictions—each with unique concerns that impacted how they complied with the different certification requirements. He said this led to good conversations and was helpful in familiarizing jurisdictions with conducting their own self-certification reviews.

© 2024 National Association of Insurance Commissioners

Haworth said that in meetings earlier this year, the Working Group: 1) solicited self-certification reviews to be submitted prior to the Fall National Meeting; 2) discussed the structure of peer review groups; and 3) planned for additional training opportunities at the NAIC Insurance Summit. Haworth also said the Working Group is now using the Committee's Connect page to share documents related to certification.

H. Speed to Market (D) Working Group

Nichols said the Speed to Market (D) Working Group met July 30.

Nichols said the Working Group considered suggestions for the product coding matrix (PCM) and the uniform transmittal document (UTD). She said that due to the Interstate Insurance Product Regulation Commission's (Compact's) adoption of uniform standards for individual deferred index-linked variable annuities, the Compact submitted a suggestion to add type of insurance (TOI) codes and sub-TOI codes to properly identify those products in the System for Electronic Rates & Forms Filing (SERFF). She said the Working Group adopted the Compact's suggestion, and the Filing Solutions team will begin updating SERFF to include the new codes.

Nichols said the Working Group also heard an update from Bridget Kieras (NAIC) on the SERFF Modernization Project, and George Bradner (CT) and Beth Drysdale (CT) gave an informative presentation about preparing for and using machine learning (ML) for property and casualty (P/C) form reviews. She said the presentation slide decks are posted to the Working Group's web page. Nichols said Jeremy Chance (NAIC) also updated the Working Group on the 2025 PCM updates.

Nichols also noted that the recently adopted 2024 *Product Filing Review Handbook* was posted to the NAIC Publications web page July 18. She said the *Product Filing Review Handbook* can be downloaded at no cost. She said it can also be found on the Committee's Connect page in the "Handbooks" folder. She said that as part of the work on the *Product Filing Review Handbook*, the NAIC Speed to Market Filing Suggestion Form was also updated and posted to the SERFF web page.

Commissioner Navarro made a motion, seconded by Director Cameron, to adopt the reports of the following task forces and working groups: 1) Antifraud (D) Task Force; 2) Market Information Systems (D) Task Force; 3) Producer Licensing (D) Task Force; 4) Market Analysis Procedures (D) Working Group (Attachment Two); 5) Market Conduct Annual Statement Blanks (D) Working Group (Attachment Three); 6) Market Conduct Examination Guidelines (D) Working Group (Attachment Four); 7) Market Regulation Certification (D) Working Group (Attachment Five); and 8) Speed to Market (D) Working Group (Attachment Six). The motion passed unanimously.

5. Discussed Other Matters

Nikhail Nigam (NAIC) said that in July, the International Association of Insurance Supervisors (IAIS) began a public consultation concerning its application paper on how to achieve fair treatment of diverse consumers. He said the paper was prepared by the IAIS's Market Conduct Working Group (MCWG) and focuses on the customer-facing aspects of how insurers and intermediaries are conducting the business of insurance. He said it guides supervisors, insurers, and intermediaries on a diversity, equity, and inclusion (DE&I) perspective to interpret and fulfill existing requirements in Insurance Core Principle (ICP) 19 (Conduct of Business) so that fair treatment is achieved for diverse consumers, not just consumers who fit a typical or dominant customer profile. The IAIS held a public background session on the application paper, and the recording is available on its website.

Nigam said that NAIC staff will review and prepare draft comments for consideration as part of the public consultation process. He said the Committee will be asked to review the application paper and proposed

© 2024 National Association of Insurance Commissioners

comments and provide input by the end of August. All comments will be considered by the International Insurance Relations (G) Committee during its next meeting on Sept. 24.

Nigam said the paper's scope is distinct from but complementary to the application paper on DE&I authored by the IAIS's Governance Working Group, which was focused on the relevance of DE&I within an insurer's governance, risk management, and corporate culture. That paper recently concluded its public consultation and is being finalized.

Gendron asked that the MCWG application paper be posted to the Committee's web page once the IAIS adopts it. Commissioner Pike said that it would be.

Having no further business, the Market Regulation and Consumer Affairs (D) Committee adjourned.

Sharepoint/Member Meetings/D CMTE/2024 Summer/_Final Minutes/8 D Cmte Draft.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/27/24

Market Regulation and Consumer Affairs (D) Committee
Virtual Meeting
July 29, 2024

The Market Regulation and Consumer Affairs (D) Committee met July 29, 2024. The following Committee members participated: Jon Pike, Chair (UT); Barbara D. Richardson, Co-Vice Chair (AZ); Trinidad Navarro, Co-Vice Chair (DE); Dean L. Cameron (ID); Sharon P. Clark (KY); Robert L. Carey represented by Connie Mayette (ME); Chlora Lindley-Myers represented by Jo LeDuc (MO); Mike Causey represented by Robert Croom (NC); Scott Kipper (NV); and Cassie Brown represented by Matthew Tarpley (TX). Also participating were: Erica Weyhenmeyer (IL) and Rebecca Rebholz (WI).

1. Adopted its Spring National Meeting Minutes

Director Cameron made a motion, seconded by Commissioner Clark, to adopt the Committee's March 18 minutes *(see NAIC Proceedings – Spring 2024, Market Regulation and Consumer Affairs (D) Committee).* The motion passed unanimously.

2. Adopted Revised Charges for the Market Actions (D) Working Group

Weyhenmeyer said the Market Actions (D) Working Group met July 9 to discuss and adopt revised charges. In addition to its current charge, the Working Group added a charge to: "Facilitate interstate communication and coordinate collaborative state regulatory activities involving non-traditional market actions through the Coordinated Market Investigations Subgroup (CMIS)."

Weyhenmeyer said that on occasion, market conduct issues will be brought to the Working Group that do not involve traditional risk-bearing entities—such as non-licensed entities selling insurance products—or for which the appropriate department of insurance personnel to address an issue are not the market examiners but the departments' legal teams. In those cases, the various state laws and authorities could be quite different. Weyhenmeyer said that with this additional charge, the Working Group will now have a subgroup that will be called on to discuss and advise the Working Group whenever these non-traditional situations arise. The subgroup will be chaired by a Working Group member, but the membership of the subgroup will vary depending on the issue.

Weyhenmeyer said that at the Working Group's annual meeting, it will draft more detailed guidelines to be included in the Working Group's policies and procedures.

Commissioner Pike noted that the chair of the CMIS will be Matt Gendron (RI).

Commissioner Richardson made a motion, seconded by Commissioner Navarro, to adopt the revised charge (Attachment One-A) of the Market Actions (D) Working Group. The motion passed unanimously. Commissioner Pike said the charge will be forwarded to the Executive (EX) Committee for consideration at the Summer National Meeting.

3. Adopted an Amendment to the Definition of External Replacement of Affiliated Company Policies in the MCAS Life and Annuity Blanks

Rebholz said the Market Conduct Annual Statement Blanks (D) Working Group received a proposal from Brett Bache (RI) requesting a review and update of the Life and Annuity Market Conduct Annual Statement (MCAS) definition for replacements of affiliated company policies. Bache had noted that the NAIC's *Life Insurance and*

© 2024 National Association of Insurance Commissioners

Annuities Replacement Model Regulation (#613) refers to replacements within the same holding company as "internal replacements." However, the life and annuity MCAS data call and definitions categorizes intra-holding company replacements as external replacements. Rebholz said the Working Group approved the definitional update to allow consistency with the model regulation. She said the approved definition reads as follows: "An internal replacement of an affiliated company policy is when the policy and/or annuity to be replaced was issued by a company affiliated to the MCAS reporting company."

She said if the revised definition is adopted by the Committee in this meeting, the update will go into effect for the 2025 MCAS data year reported in 2026.

Birny Birnbaum (Center for Economic Justice—CEJ) asked if this eliminated the reporting of external replacements. Rebholz said it did not. She said it only changes the terminology used to identify replacements of affiliated companies of the reporting company.

Commissioner Clark made a motion, seconded by Commissioner Kipper, to adopt the amendment to the definition of external replacement of affiliated company policies in the MCAS life and annuity blanks (Attachment One-B). The motion passed unanimously.

4. Adopted a Recommendation to Collect MCAS Data from Fraternals

LeDuc said the Market Analysis Procedures (D) Working Group met April 29 to adopt the requirement for fraternal organizations to annually report MCAS data to participating jurisdictions.

LeDuc said that since the inception of MCAS in the early 2000s, fraternal organizations have been exempt from filing MCAS for several reasons, including because they are not uniformly regulated across states, and they file their financial annual statements on a fraternal statement type.

Le Duc said that in 2019, fraternals began filing on life, health, and property/casualty (P/C) statement types, which opened up the ability for fraternals to use the MCAS submission portal. In 2019, the Working Group considered, but declined to require fraternals to file MCAS. In 2023, the Working Group received a request from a member to reconsider the inclusion of fraternals in MCAS.

LeDuc said the Working Group's analysis showed that while fraternals only write about 2.5% of all life insurance business, that 2.5% is nearly $10 billion in premium, and several fraternal companies generate more life insurance business than many standard life companies that have been required to file MCAS from the beginning. She said that after discussions, the Working Group adopted a proposal to require fraternals to file MCAS. The premium threshold for fraternals will be the same $50,000 premium required for all companies. She said there are some states that are unable to require fraternals to file MCAS, and they have the ability to waive the requirement for fraternals writing in their jurisdiction.

Le Duc said that if the Committee adopted the requirement today, fraternal companies would begin filing in 2026, covering their 2025 data.

LeDuc made a motion, seconded by Commissioner Navarro, to collect MCAS data from fraternal organizations. The motion passed unanimously.

5. Discussed Other Matters

Commissioner Pike said the Committee plans to meet in open session on Thursday, Aug. 15, from 8:30–9:30 a.m. during the NAIC Summer National Meeting. He said that in addition to the standard reports from the Task Forces and Working Groups, the Committee will hear a presentation on auto claim settlement practices from Erica Eversman, who is an NAIC Consumer Representative with the Automotive Education & Policy Institute (AEPI).

© 2024 National Association of Insurance Commissioners

Birnbaum noted that the Committee is charged with monitoring insurers' and producers' underwriting and market practices and the conditions of insurance marketplaces, including urban markets, to identify specific market conduct issues of importance and concern and to hold public hearings on these issues at the NAIC national meetings, as appropriate. He asked if the Committee had plans to hold any public hearings.

Commissioner Pike said this charge has been discussed, but no public hearings are planned. He said if there are suggestions for an issue that would benefit from a public hearing, they can be submitted to the Committee.

Having no further business, the Market Regulation and Consumer Affairs (D) Committee adjourned.

Sharepoint/Member Meetings/D CMTE/2024 Summer/July 29 Call/7 D Cmte.docx

© 2024 National Association of Insurance Commissioners

Draft date: 7/9/24

Adopted by the Executive (EX) Committee/Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, July 29, 2024
Adopted by the Market Actions (D) Working Gorup, July 2, 2024

Revision marks reflect proposed amendments to the 2024 charges.

The **Market Actions (D) Working Group** will:

A. Facilitate interstate communication and coordinate collaborative state regulatory actions.
B. Facilitate interstate communication and coordinate collaborative state regulatory activities involving non-traditional market actions through the Coordinated Market Investigations Subgroup.

© 2024 National Association of Insurance Commissioners

NAIC MARKET CONDUCT ANNUAL STATEMENT BLANKS (D) WORKING GROUP
Changes/Additions to Approved Blanks and Data Call and Definitions
Proposal Submission Form

NAIC USE ONLY

Proposal Submission Date: 2/28/2024	
Proposed Effective Data Year for Reporting: 2025 Data Year	
Proposed ☒ Substantive Change ☐ Non-Substantive Change/Clarification	
Proposal Number	2024.7
Proposal Status	All Submissions ☒ Received – Date 3/25/2024 ☒ Accepted ☐ Rejected by MCAS Blanks WG Chair ☒ Posted to Web Page for Public Exposure/Comment – Date 4/3/2024 ☐ Referred to Another NAIC Group – Date Click or tap to enter a date. – Name of Group Click or tap here to enter text. ☒ Adopted ☐ Modified ☐ Rejected ☐ Deferred by WG – Date 5/1/2024 Substantive Revisions ☐ Adopted ☐ Rejected by D Committee – Date Click or tap to enter a date. ☐ Adopted ☐ Rejected by EX/Plenary – Date Click or tap to enter a date. ☐ Other – Date Click or tap to enter a date. Specify Click or tap here to enter text.
NAIC Staff Input	Click or tap here to enter text.

Proposal Contact Information

Name of Contact Person	Brett Bache
Name of Organization	Rhode Island Insurance Division
Email Address	Brett.bache@dbr.ri.gov
Phone Number	401-462-9612
Affiliation Type	☒ State Regulator ☐ NAIC Staff ☐ Other Regulator ☐ Reporting Company ☐ Industry Trade Association ☐ Consumer Representative ☐ Other

PROPOSAL IS FOR: ☒ Data Element ☒ Data Definitions ☐ Data Validation

APPLICABLE LINE(S) OF BUSINESS:

☒ Annuity	☐ Lender Placed Auto and Home	☐ Private Flood
☐ Disability Income	☒ Life	☐ Private Passenger Auto
☐ Health	☐ Long-Term Care	☐ Travel
☐ Homeowners	☐ Other Health	☐ STLD

PROVIDE A CONCISE STATEMENT OF THE PROPOSED CHANGE:

Under the Life Insurance and Annuities Replacement Model regulation [content.naic.org], the incontestability provision in Section 5. B states: "In transactions where the replacing insurer and the existing insurer are the same or subsidiaries or affiliates under common ownership or control, allow credit for the period of time that has elapsed under the replaced policy's or contract's incontestability and suicide period up to the face amount of the existing policy or contract." The interpretation is that the model regulation is calling replacements within the same holding company "internal replacements." However, the Life and Annuity MCAS Blanks appears to categorize these intra-holding company replacements as an external replacement, as the definition for an "External Replacement of Affiliated Company Policies" states: "An external replacement of an affiliated company policy is when

© 2024 National Association of Insurance Commissioners

NAIC MARKET CONDUCT ANNUAL STATEMENT BLANKS (D) WORKING GROUP
Changes/Additions to Approved Blanks and Data Call and Definitions
Proposal Submission Form

the policy and/or annuity to be replaced was issued by a company affiliated to the MCAS reporting company." If it is determined that a change is needed, then the definition of an "External Replacement of Affiliated Company Policies" would need to be revised and the corresponding data element as well.

Current Definition

External Replacement of Affiliated Company Policies – An external replacement of an affiliated company policy is when the policy and/or annuity to be replaced was issued by a company affiliated to the MCAS reporting company.

Proposed Definition

Internal Replacement of Affiliated Company Policies – An ***internal*** replacement of an affiliated company policy is when the policy and/or annuity to be replaced was issued by a company affiliated to the MCAS reporting company.

PROVIDE THE REASON FOR THE CHANGE:

To ensure that the Life and Annuity data call reflects the language used in the Life Insurance and Annuities Replacement Model Regulation.

IF ADDITIONAL DOCUMENTS CONTAIN DEFINITIONS, BLANK MOCK-UPS, ETC, PROVIDE A LISTING OF THESE DOCUMENTS BELOW. SEND THE LISTED DOCUMENTS TO NAIC STAFF ALONG WITH THE COMPLETED FORM:

Click or tap here to enter text.

© 2024 National Association of Insurance Commissioners

Draft: 8/12/24

Market Analysis Procedures (D) Working Group
Virtual Meeting (*in lieu of meeting at the Summer National Meeting*)
August 5, 2024

The Market Analysis Procedures (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met Aug. 5, 2024. The following Working Group members participated: Jo LeDuc, Chair (MO); John Haworth, Vice Chair (WA); Teri Ann Mecca (AR); Tolanda Coker (AZ); Don McKinley (CA); Steve DeAngelis (CT); Lori Cunningham (KY); Mary Lou Moran (MA); Raymond Guzman (MD); Timothy N. Schott (ME); Jeff Hayden (MI); Robert McCullough (NE); Ralph Boeckman and Erin Porter (NJ); Guy Self (OH); Zach Palank (OK); Karen Veronikis (PA); Brett Bache (RI); Melissa Gerachis (VA); and Karla Nuissl (VT). Also participating was Brad Gerling (MO).

1. Adopted its June 24 Minutes

The Working Group met June 24 and took the following action: 1) adopted its April 29 minutes and 2) reviewed the summary report of the interviews of 26 jurisdictions regarding their use of the Market Analysis Prioritization Tool (MAPT).

Haworth made a motion, seconded by Veronikis, to adopt the Working Group's June 24 minutes (Attachment Two-A). The motion passed unanimously.

2. Received an Update from the MAPT Recommendations Subgroup

LeDuc said that during the last meeting, the Working Group asked for volunteers to participate in a MAPT recommendations subgroup to consider ways to improve the effectiveness of the MAPT. She said this arose from the Working Group's discussions about the ways that NAIC jurisdictions are using MAPT and suggestions that came from the interviews with 26 jurisdictions.

LeDuc said the subgroup has members from Arizona, Colorado, Florida, Indiana, Maryland, Massachusetts, Ohio, Pennsylvania, South Dakota, and Wyoming. She said it meets every other week and has already met twice. The method of the subgroup is to work its way through all the sections included in the MAPT and discuss each data element's usefulness and any additional data elements that may be of assistance to analysts or increase the accuracy of the prioritization score. The subgroup is beginning with the private passenger auto (PPA) line of business. She said the subgroup is open to the possibility of using tools that may be more robust than a Microsoft Excel spreadsheet but has not reached that stage of its discussions yet.

LeDuc said the subgroup considered the complaints section of the MAPT during its first meeting and the Regulatory Information Retrieval System (RIRS) section during its second meeting. She said some of the recommendations it has considered for complaints are adding a year-to-date field, adding data elements for complaints per "x" number of dollars or exposure units, and having a percentage of state to national complaints.

LeDuc said that in the RIRS section, the subgroup is considering providing just the total counts of RIRS actions, merging the substantive and non-substantive RIRS, and not including RIRS in the prioritization scoring. The subgroup is also recommending the addition of restitution amounts in the same way the MAPT already provides penalty data and providing a count of the number of states that have reported a RIRS action against a company.

© 2024 National Association of Insurance Commissioners

LeDuc said Randy Helder (NAIC) is keeping a log of all the recommendations and will share the log with any state insurance regulator who would like a copy.

3. Discussed the Lunch-and-Learn Schedule

LeDuc proposed that the Working Group host a lunch-and-learn session on doing Market Analysis System (MARS) Level 1 analyses. She said Helder has reached out to a few states that do the most Level 1 analyses year by year. She said she would like to get a couple of state insurance regulators who would be willing to each take 20 minutes to: 1) talk about how they interpret the information presented to them by picking some questions or sections from recent reviews where they had significant findings; and 2) explain what it was about the data that caught their eye and why it was of concern to them.

LeDuc said the lunch-and-learn will be late in August or soon after the Labor Day weekend and asked that suggestions be sent to Helder.

4. Discussed Other Matters

Guzman said there appears to be individual and group accident and health (A&H) data missing from the most recent MAPT. He said this also impacts the MARS data. He asked if anyone else had noticed this and what the reason would be. Teresa Cooper (NAIC) said there was a change in the most recent financial annual statement life statement type, which removed some of these lines from the state page. The premium can be reported on the Supplemental Health Care Exhibit (SCHE), but some companies have not been reporting on the SHCE. She said NAIC staff are working on a resolution.

Having no further business, the Market Analysis Procedures (D) Working Group adjourned.

Sharepoint/Member Meetings/D CMTE/2024 Summer National Meeting/MAPWG/00805/08-MAPWG.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/11/24

Market Analysis Procedures (D) Working Group
Virtual Meeting
June 24, 2024

The Market Analysis Procedures (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met June 24, 2024. The following Working Group members participated: Jo LeDuc, Chair (MO); John Haworth, Vice Chair (WA); Teri Ann Mecca (AR); Maria Ailor and Tolanda Coker (AZ); Don McKinley (CA); Tracy Garceau (CO); Steve DeAngelis (CT); Susan Jennette (DE); Keith Nault (FL); Erica Weyhenmeyer (IL); Lori Cunningham (KY); Raymond Guzman (MD); Connie Mayette (ME); Jeff Hayden (MI); David Dachs (MT); Robert McCullough (NE); Ralph Boeckman and Erin Porter (NJ); Larry Wertel (NY); Guy Self (OH); Landon Hubbart (OK); Karen Veronikis (PA); Brett Bache (RI); Shelly Wiseman (UT); Melissa Gerachis (VA); Isabelle Turpin Keiser (VT); and Rebecca Rebholz and Darcy Paskey (WI). Also participating was Brad Gerling (MO).

1. Adopted its April 29 Minutes

The Working Group met April 29 and took the following action: 1) adopted its Spring National Meeting minutes; 2) adopted pet insurance Market Conduct Annual Statement (MCAS) ratios; 3) adopted the requirement for fraternal companies to annually report MCAS; 4) discussed NAIC Market Information System (MIS) data; 5) discussed the lunch-and-learn session scheduled for May 6; and 6) received an update on the current MCAS reporting.

Haworth made a motion, seconded by Rebholz, to adopt the Working Group's April 29 minutes (Attachment Two-A1). The motion passed unanimously.

2. Discussed NAIC MIS Data

LeDuc said the summary report of the Market Analysis Prioritization Tool (MAPT) interviews, which were conducted late in 2023 with 26 jurisdictions, was distributed to all Working Group members, interested regulators, and interested parties immediately after the Working Group's April 29 meeting and again on June 13. LeDuc said she would like the Working Group to consider three questions: Are there any states that have some process not generally captured in the summary; are there any other improvements that come to mind after reading the summary; and what is the single most important improvement that we should focus on?

LeDuc said her observation was the baseline analysis process varied across jurisdictions by the scope of the analysis done and the frequency of the analysis. She noted there are good reasons for variations, and it is important to allow flexibility for jurisdictions to customize the analysis process. She said when MAPT was originally conceived, the idea was to allow analysts to work smarter, not harder. The goal of MAPT was to have a tool that could quickly identify companies that need more in-depth analysis. She said it appeared from the interviews that the built-in mechanism to prioritize companies is either not working as intended or is not understood. She said it seems that jurisdictions are spending more resources doing work that does not have to be done manually.

Guzman said he generally agrees with the findings. He said Maryland has not utilized the scoring in MAPT because the scoring is not well understood, and they find the scores do not always point to the companies that should be targeted. He said Maryland prefers to look at the underlying data. He said if the scoring could be refined or if materials could be developed to show how the scoring is calculated, it might make MAPT more useful. Keiser said the training being done in the lunch-and-learns has been very helpful. Garceau said that the report was very instructive, and she is learning quite a lot.

© 2024 National Association of Insurance Commissioners

LeDuc said she believes there is a way to build a system that accurately prioritizes companies in a way that everyone can understand.

Haworth asked if anyone uses the rankings. He said he tends to ignore them and goes straight to the underlying data. He said a lot of time is spent just verifying the data is correct. LeDuc said that is what is happening, and the system has to be refined so analysts do not have to go through all of that effort.

Ailor said there is a disconnect between the analysis tools, and there needs to be better synthesis among them. She said Arizona also does not use rankings but does rely heavily on MAPT scores because they are familiar with how they were generated, but not everyone has that knowledge. She said if a different method is developed to prioritize companies, such as the ratios in the Market Conduct Annual Statement (MCAS), there must be uniformity. She said once a prioritization method is chosen, it should be tested on a line of business.

LeDuc said she likes the idea of testing a method on a single line of business. She said she would choose a property/casualty (P/C) line. Haworth agreed and said most people have a familiarity with the private passenger auto line, whereas the health line would be too unwieldy. He said the Working Group would need to determine the best tool to use because the NAIC is coming up with new tools. Once one is developed for the private passenger auto line, the processes can be tested on other lines. LeDuc agreed that private passenger auto was a good line to start with since everyone is an auto insurance consumer and has familiarity with the line. She suggested forming a subject matter expert (SME) group.

LeDuc said the SME group would look into what data is missing. For example, MAPT only has examination data and not any data from the Market Actions Tracking System (MATS). She said we could also expand quarterly financial data and add in Market Analysis Review System (MARS) reviews. She said the SME group could also look into adding new concepts, such as clustering companies by a common attribute like premium size or incorporating text analytics. Ailor said that Brent Kabler (MO) has developed a method for isolating only the most substantive Regulatory Information Retrieval System (RIRS) data. Gerling said he has that methodology. Haworth suggested including the System for Electronic Rates & Forms Filing (SERFF) data and licensed producers in the prioritization. He said the financial MAPT and the MCAS-MAPT are often very different, and it is unclear if the company was inaccurate in its financial reporting or its market conduct reporting. LeDuc said she would recommend merging the two MAPTs. Mayette said the financial MAPT has more current data than the MCAS-MAPT, which may make merging difficult. Dachs noted that a definition document is needed. LeDuc said that was a good point and that good documentation would be one of the goals for the SME group.

LeDuc said she sees little value in conducting interviews regarding the MCAS-MAPT. She suggested the Working Group spend its time envisioning a future for both the MAPT and MCAS-MAPT. LeDuc asked anyone who wanted to be on the SME group to develop recommendations for improving MAPT to send a note to her, Haworth, or Randy Helder (NAIC).

3. Discussed the Lunch-and-Learn Schedule

LeDuc thanked Rodney Good (NAIC) for his presentation on June 17 about the financial metrics that are often used in market analysis. She asked if there were any suggestions for topics for the next lunch-and-learn. Hearing none, she suggested a series on MARS reviews. Haworth suggested a series on the new NAIC tools, such as ThoughtSpot and Snowflake.

© 2024 National Association of Insurance Commissioners

LeDuc asked that suggestions be sent to Helder.

Having no further business, the Market Analysis Procedures (D) Working Group adjourned.

Sharepoint/Member Meetings/D CMTE/2024 Summer National Meeting/MAPWG/0624/06-MAPWG.docx

© 2024 National Association of Insurance Commissioners

Draft: 5/13/24

Market Analysis Procedures (D) Working Group
Virtual Meeting
April 29, 2024

The Market Analysis Procedures (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met April 29, 2024. The following Working Group members participated: Jo LeDuc, Chair (MO); John Haworth, Vice Chair (WA); Maria Ailor and Tolanda Coker (AZ); Don McKinley (CA); Tracy Garceau (CO); Steve DeAngelis (CT); Tina Ching (DC); Susan Jennette (DE); Paul Walker (FL); Erica Weyhenmeyer (IL); Kichelle Henderson (KS); Lori Cunningham (KY); Josh Guillory (LA); Mary Lou Moran (MA); Raymond Guzman (MD); Timothy N. Schott (ME); Jeff Hayden (MI); Bryce Wang (MN): Troy Smith (MT); Martin Swanson (NE); Douglas Rees (NH); Ralph Boeckman and Erin Porter (NJ); Larry Wertel (NY); Ryan McConnell (OH); Karen Veronikis (PA); Brett Bache (RI); Rachel Moore (SC); Melissa Gerachis (VA); Karla Nuissl (VT); and Rebecca Rebholz and Darcy Paskey (WI).

1. Adopted its Spring National Meeting Minutes

Veronikis made a motion, seconded by Haworth, to adopt the Working Group's Feb. 26 minutes (*see NAIC Proceedings – Spring 2024, Market Regulation and Consumer Affairs (D) Committee, Attachment Two*). The motion passed unanimously.

2. Adopted Pet Insurance MCAS Ratios

LeDuc said the proposed pet insurance Market Conduct Annual Statement (MCAS) ratios have been posted on the Working Group's web page since February, and two sets of comments have been received: one from the National Association of Mutual Insurance Companies (NAMIC) and the other from the North American Pet Health Insurance Association (NAPHIA). She said NAMIC's comments were about some data elements that may be difficult for companies to capture, which could result in misleading ratios. The comments from NAPHIA supported the ratios.

LeDuc said eight ratios will be publicly displayed on the MCAS scorecards page, and 26 ratios will only be made available to state insurance regulators.

Bache made a motion, seconded by Haworth, to adopt both the public and non-public pet insurance MCAS ratios. The motion passed unanimously.

3. Adopted the Requirement for Fraternal Companies to Annually Report MCAS

LeDuc said one set of comments has been received from the Pennsylvania Insurance Department. Veronikis said that after consulting with the department's legal team and deputy commissioner of market regulation, they continue to support removing the exemption for fraternal companies in MCAS.

Schott said Maine has no authority to require MCAS filings from fraternal companies and asked for an exception for Maine. LeDuc said there are a few states in the same situation, and since MCAS is collected state-by-state, a state can provide waivers to fraternal companies. Swanson said Nebraska continues to object to the inclusion of fraternal companies.

Gerachis made a motion, seconded by Veronikis, to remove the MCAS exemption for fraternal organizations and require them to file MCAS in states in which they meet the premium threshold. The motion passed with Nebraska voting against and Massachusetts abstaining.

© 2024 National Association of Insurance Commissioners

Allison Koppel (American Fraternal Alliance—AFA) said the AFA continues to oppose removing the exemption. She said that companies need to be provided at least six months to prepare for reporting MCAS if it is removed. LeDuc said that the process of making changes to MCAS provides at least six months to prepare. Fraternal companies' first filings will be in 2026 for the 2025 data year.

4. Discussed NAIC MIS Data

LeDuc said she and NAIC staff interviewed 26 jurisdictions about their use of the Market Analysis Prioritization Tool (MAPT). She said various small and large departments were included in the interviews. The summary of the interviews will be sent to the Working Group distribution lists after the Working Group's meeting. She said the summary will report on the 26 jurisdictions as well as Missouri's use of the MAPT.

LeDuc said the interviews revealed that the MAPT has value to jurisdictions, and there is widespread use of the MAPT, with only three not using the MAPT in their baseline analysis. She said Missouri is one of those, and it has its own back-end connection to the data, which it imports into its own processes. The interviews also revealed that there is room for improvement. She said the scores in the MAPT are not being used as originally intended. She said this could be because jurisdictions are not identifying the scoring values or there is a lack of documentation describing how the scores are determined. It was also revealed that the MAPT is used in many different, though similar, ways. She said there may be a need for MAPT to be more customizable. Lastly, using the MAPT for baseline analysis is a manual process with a lot of cutting, pasting, and sorting columns.

LeDuc said one of the Working Group's charges is "in accordance with the second recommendation of the adopted *Review of Artificial Intelligence Techniques in Market Analysis*, to assess currently available market analysis data to identify needed improvements in the effectiveness of the data for market analysis and the predictive abilities of the market scoring systems utilizing the data." LeDuc said the MCAS-MAPT also incorporates scoring and was not specifically addressed in the interviews on the MAPT; however, it was used in conjunction with the MAPT in most jurisdictions. She said the MCAS-MAPT could be the next Market Information Systems (MIS) tool to consider.

LeDuc said many jurisdictions are waiting to do their baseline analysis, so they combine their MCAS data with the MAPT. It would be good to find a way to combine the MCAS-MAPT and the MAPT. Haworth noted that Washington combines MCAS and the MAPT with Python and then exports the data into Excel. He said they do their own scoring because the scoring in MAPT and MCAS results in many false positives. LeDuc said combining the two at the NAIC for use in all jurisdictions would be better. Haworth said it is cleaner to download and query homeowners and auto. He said 256 columns are a lot to go through, and it is easier for Washington to just go through the data it needs. He said the MCAS-MAPT could be made more useful. Ailor agreed and said that historically, Arizona combined the MAPT and MCAS-MAPT for lines of business that were easy to combine, such as auto and homeowners. She said health is far too much to combine easily. She said this was a good time to discuss combining the two tools. Teresa Cooper (NAIC) said the NAIC is currently working on getting MCAS data in ThoughtSpot, and this will reduce the number of tables from 11 to only two.

LeDuc said the built-in scoring in the MAPT does not seem to be hitting the mark, and it should be re-evaluated. Ailor said it would be helpful to have a fresh set of eyes look at the scoring. Guillory said the type of company can skew the data and scoring, and Louisiana develops its own indexes for scoring.

LeDuc said the conversation will be continued after everyone has a chance to review the summary.

© 2024 National Association of Insurance Commissioners

5. Discussed the Lunch-and-Learn Webinar Scheduled for May 6

LeDuc said the Working Group's next lunch-and-learn session will be May 6. She thanked Utah and North Carolina for volunteering to share their processes for downloading, adapting, and organizing the MAPT data in their own tools in order to conduct their baseline analyses.

6. Received an Update on the Current MCAS Reporting

Randy Helder (NAIC) said with one day left before the MCAS due date for all lines of business except health insurance, other health insurance, and short-term, limited-duration insurance (STLDI), nearly 50% of all expected filings have been received. He said another 45% or more of the filings are expected to be filed on the last day. He advised that the jurisdictions will likely experience many more extension and waiver requests in the next day. Helder noted that Ratio 4 and Ratio 5 will not be posted this year for the other health filing. He said the numerous data elements in each add complexity to calculating them. He also suggested that the Working Group take another look at these since they seem to only provide an average of an average.

Having no further business, the Market Analysis Procedures (D) Working Group adjourned.

Sharepoint/Member Meetings/D CMTE/2024 Summer National Meeting/MAPWG/0429/04-MAPWG.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/1/24

Market Conduct Annual Statement Blanks (D) Working Group
Virtual Meeting
July 11, 2024

The Market Conduct Annual Statement Blanks (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met July 11, 2024. The following Working Group members participated: Rebecca Rebholz, Chair (WI); Tolanda Coker, Vice Chair (AZ); Keith Nault (FL); Paula Shamburger (GA); Erica Weyhenmeyer (IL); Mary Lou Moran (MA); Raymond Guzman (MD); Julie Hesser and Cynthia Amann (MO); Martin Swanson (NE); Ben Houck (OH); Karen Veronikis (PA); Glynda Daniels (SC); Tony Dorschner (SD); Shelli Isiminger (TN); William Stimpson (UT); Melissa Gerachis (VA); John Kelcher (WA); and Letha Tate (WV). Also participating was: Mary Kay Rodriguez (WI).

1. Adopted its June 6 Minutes

The Working Group met June 6. During this meeting, the Working Group took the following action: 1) received an update from the other health/short-term, limited-duration (STLD) subject matter expert (SME) group, 2) received an update from the accelerated underwriting (AU) SME group, 3) received an update from the pet insurance SME group, and 4) received an update on Market Conduct Annual Statement (MCAS) filings and the 2023 MCAS premium exhibit used for identifying required filings.

Dorschner made a motion, seconded by Gerachis, to adopt the Working Group's June 6 minutes (Attachment Three-A). The motion passed unanimously.

2. Discussed the Recommendation from the Other Health/STLD SME Group to Remove Duplicate Data Element No. 51 from the Other Health MCAS

Rodriguez explained that while two data elements in the other health MCAS are worded differently, they ask for the same information. No. 51 asks for the number of new policies or certificates denied during a period, while No. 90 asks for the number of individual applications or enrollments denied. Rodriguez stated that the SME group suggests keeping No. 90 because, as applicants get denied, policies normally do not.

Rebholz asked that any comments related to this be sent to Hal Marsh (NAIC) no later than Aug. 2.

3. Discussed the Draft FAQ and Definitions Related to AI and ML Proposed by the AU SME Group

Rebholz stated the first FAQ is, "Why is the term 'big data' not included in the MCAS definition and accelerated underwriting?" She answered that the term "big data" was used in the NAIC's AU educational report. It was intentionally left out of the MCAS definition of AU because it was an undefined term that could potentially lead to inconsistencies in MCAS reporting. Brendan Bridgeland (Center for Insurance Research—CIR) stated the term "big data" is used in the educational report's definition cited in the MCAS data call and definitions, and it would be better to say that the term is too vague. Rebholz said that could be a better way to state it and could lead to an update on the FAQ.

Rebholz moved on to question two of the FAQ, which is, "How would the company determine if its processes are considered accelerated underwriting?" Rebholz explained that three elements must be present to meet the MCAS AU reporting requirements. The first element is artificial intelligence (AI)/machine learning (ML). Predictive models and ML algorithms are used to analyze applicant data. A model or algorithm prediction is used to limit or replace a human decision. If the data is run through a predictive model or ML algorithm, it is considered AU under

© 2024 National Association of Insurance Commissioners

the MCAS definition. The second element is data. FCRA-compliant, non-medical, third-party data and/or other non-medical, third-party data is used, including if it is used in conjunction with application data and/or medical data. If only application data and/or medical data are used, it does not meet the definition. The third element is decision, as life Insurance is underwritten by predicting an insurance outcome.

Rebholz moved to the third FAQ question, which is, "Can examples be provided on what would not be accelerated underwriting?" Rebholz said for the purposes of MCAS reporting, AU does not include a simple automated analysis of an application and/or medical information, and that does not meet elements No. 1 or No. 2. She also stated that using insurance claims or motor vehicle violation data in standalone underwriting rules, such as declining coverage for a driving-under-the-influence conviction, that does not meet element number one above, and use of medical data only in an algorithm, and that would not meet element number two above.

Rebholz moved on to the draft definitions of algorithms, AI, big data, ML, and predictive models. She explained that the SME group opted to use existing definitions as the basis for the MCAS AU definitions.

Rebholz stated the draft definitions were all taken from one of the following: the NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers; AI bulletin; the NAIC Glossary for Regulators of Insurtech; the Casualty Actuarial and Statistical (C) Task Force's predictive model white paper; or the NAIC's *Accelerated Underwriting in Life Insurance Educational Report*. She also stated that the definition of algorithm comes from three of these listed sources.

Rebholz asked that any comments related to this be sent to Marsh no later than Aug. 2.

4. Discussed the Draft Definitions for Partial Payments and Cancellations Proposed by the Pet Insurance SME Group

Kelcher provided an overview of the draft pet insurance definitions. Partial payment is defined as "a claim not paid in full for costs included in the insurance policy/certificate's coverage. Removal from a claim of charges for costs not covered in the policy – where there is full payment for costs covered in the policy – is not considered a partial payment. Do not report as partial payment claims that are reduced by deductibles, copays, maximum benefit limits, or other limitations set by the insurance policy/certificate."

Kelcher said the cancellation definition was revised to "cancellation – includes all cancellations of policies where the cancellation effective date is during the reporting year". These should be reported every time a policy is canceled during the reporting period (i.e., if a policy is canceled for non-pay three times in a policy period and is reinstated each time, each cancellation should be counted). Exclusions are:

- Policies canceled for "re-write" purposes where there is no lapse in coverage.
- Policies returned by the owner under the right to review or the free look provision

Rebholz asked that any comments related to this be sent to Marsh no later than Aug. 2.

5. Discussed a Review of MCAS Other Health Interrogatory Question No. 5

Rebholz said that within the MCAS submission tool, the character limitation for interrogatories is 4,000 characters, and companies are exceeding this limit. Companies have said that entering this information is time-consuming and have questioned its usefulness to regulators. Rebholz asked if there are options available to modify it or if the data that is collected serves a purpose since it is in a difficult format and hard to parse through.

© 2024 National Association of Insurance Commissioners

Rodriguez suggested putting together an SME group to look at the types of information being received for this interrogatory. Coker suggested continuing to receive the information and only updating if a company has a change in the following year and then only having to report the changes. Rebholz suggested forming an SME group and discussing Coker's suggestion.

Rebholz asked that any comments related to this be sent to Marsh no later than Aug. 2.

6. Discussed the Review of Existing MCAS Lines of Business

Rebholz stated that the oldest lines of business collected for MCAS are homeowners, private passenger auto (PPA), and life and annuity. Since this is the first attempt at updating an existing MCAS, Rebholz suggested picking one or two of these lines to focus on.

Guzman stated that homeowners and PPA deserve attention, especially given changes in the marketplace. He suggested starting with PPA. Rebholz agreed to start with PPA.

7. Discussed Other Matters

Teresa Cooper (NAIC) gave an update on MCAS filings to date. Cooper stated that the last filing deadline has passed. Other health MCAS filings were due at the end of June and are now past the initial filing date. Companies can continue to make amendments to filings as needed and that will continue through mid-January 2025.

Cooper said there are some companies that have extensions. There has been continued correspondence with companies regarding validation failures, and NAIC data analysts are working through these. There was one issue in the other health MCAS where a company stated that it was not able to move forward with its filing because it answered "no" to the first interrogatory question, which is, "Are you currently marketing these products in this jurisdiction?" Cooper explained a draft validation, which was not intended to be used for the 2023 data year, was inadvertently put into production during an information technology (IT) update on June 24. It was identified and inactivated on the morning of June 26. She said she believed the impact was minimal.

Having no further business, the Market Conduct Annual Statement Blanks (D) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/D Working Groups/MCAS Blanks WG (TES)/2024 MCAS Blanks WG

© 2024 National Association of Insurance Commissioners

Draft: 7/3/24

Market Conduct Annual Statement Blanks (D) Working Group
Virtual Meeting
June 6, 2024

The Market Conduct Annual Statement Blanks (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met June 6, 2024. The following Working Group members participated: Rebecca Rebholz, Chair, and Mary Kay Rodriguez (WI); Tolanda Coker, Vice Chair, and Maria Ailor (AZ); Rachael Lozano (FL); Paula Shamburger (GA); Erica Weyhenmeyer, (IL); Kichelle Henderson and Charles Thomas (KS); Lori Cunningham (KY); Raymond Guzman (MD); Jeff Hayden (MI); Julie Hesser (MO); Robert McCullough (NE); Guy Self (OH); Karen Veronikis (PA); Rachel Moore (SC); Tony Dorschner (SD); Shelli Isiminger (TN); Shelley Wiseman (UT); Laura Klanian (VA); and Letha Tate (WV).

1. Adopted its May 1 Minutes

During its May 1 meeting, the Working Group took the following action: 1) adopted its April 19 and April 2 minutes; 2) adopted the revised definition of external replacement of affiliated company policies; 3) formed a subject matter expert (SME) group to draft revisions to the short-term, limited-duration (STLD) Market Conduct Annual Statement (MCAS) blank arising from new federal rules; and 4) considered the deletion of duplicate data elements in the other health and STLD MCAS blanks.

Weyhenmeyer made a motion, seconded by Wiseman, to adopt the Working Group's May 1 minutes (Attachment Three-A1). The motion passed unanimously.

2. Received an Update From the SME Group on Other Health and STLD MCAS Reporting Issues

Rodriguez stated that the SME group met June 4 and discussed the STLD and other health MCAS blanks. Regarding STLD, it was discussed that the effective date of the new U.S. Department of Health and Human Services (HHS) rule is Sept. 1, 2024. Rodriguez also stated that the SME group has decided to leave the blank as is for 2024 and 2025 data because there will still be some policies in effect under the old rules in those years. She went on to say that for the other health MCAS blank, there is currently a revision request dated March 19, 2024, pertaining to duplicate data fields on the blank. It was discussed that since this is a simple change, one of the duplicates will be eliminated since it would not require any system changes for the industry. The SME group decided to meet again June 11 to discuss the duplicate data fields.

3. Received an Update From the SME Group on the MCAS Life AU Definitions and FAQs

Rebholz stated that this SME group met May 23. The SME group finalized the frequently asked questions (FAQs) for the MCAS life accelerated underwriting (AU) data elements, which are now ready for the Working Group to review and approve. The SME group also finalized a list of definitions that it recommends be added to the life MCAS data call and definitions. The draft FAQs and definitions are available on the Working Group's web page for review and will be added to the materials for the Working Group to consider at its next meeting.

Rebholz asked that any comments related to these drafts be sent to Hal Marsh (NAIC) no later than June 28.

© 2024 National Association of Insurance Commissioners

4. Heard an Update From the SME Group on Pet Insurance MCAS Topics

Randy Helder (NAIC) stated that the SME group met May 17 and discussed partial payments for Pet Insurance claims and what constitutes a partial payment. Helder stated the group is very close to having something to present to the Working Group at its next meeting. The SME group plans to further discuss this at its June 7 meeting.

5. Heard an Update on MCAS Filings and the 2023 MCAS Premium Exhibit Used for Identifying Required MCAS Filings

Teresa Cooper (NAIC) stated that the group has made it past the April 30 deadline for all lines of business collected by MCAS, other than STLD and other health. Cooper also stated that the May 31 deadline for health and STLD. The next deadline is June 30 for other health was met.

Cooper stated that for the 2023 data year, the MCAS premium exhibit was added to the financial annual statement. On this exhibit, companies would specify which MCAS lines of business they will be filing in each state. Cooper stated that the reason for this addition was that, in the past, financial statement premiums were used to complete the MCAS required to file indicators in the MCAS submission tool, which has proven to not always be accurate. Cooper said, for example, that MCAS does not apply to antique automobiles in the private passenger auto (PPA) line of business. Companies with only antique auto coverage would have to submit waiver requests; otherwise, they will show as being required to file. Cooper stated that adding this MCAS premium exhibit allows companies to indicate whether they have to file MCAS for each jurisdiction and line of business.

Having no further business, the Market Conduct Annual Statement Blanks (D) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/D Working Groups/MCAS Blanks WG (TES)/2024 MCAS Blanks WG

© 2024 National Association of Insurance Commissioners

Draft: 5/21/24

Market Conduct Annual Statement Blanks (D) Working Group
Virtual Meeting
May 1, 2024

The Market Conduct Annual Statement Blanks (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met May 1, 2024. The following Working Group members participated: Rebecca Rebholz, Chair (WI); Tolanda Coker, Vice Chair (AZ); Rachel Lozano (FL); Erica Weyhenmeyer (IL); Kichelle Henderson (KS); Raymond Guzman (MD); Jeff Hayden (MI); Julie Hesser (MO); Guy Self (OH); Karen Veronikis (PA); Rachel Moore (SC); Tony Dorschner (SD); Shelli Isiminger (TN); Melissa Gerachis (VA); and John Kelcher (WA). Also participating were: Nina Hunter (LA); and Brett Bache (RI).

1. Adopted its April 19 and April 2 Minutes

The Working Group also met April 2. During this meeting, the Working Group took the following action: 1) adopted its Oct. 10, 2023, minutes; 2) discussed needed pet insurance Market Conduct Annual Statement (MCAS) clarifications; 3) reviewed two sets of duplicate data elements in the MCAS short-term, limited-duration (STLD) blank; 4) reviewed two sets of duplicate data elements in the MCAS other health blank; 5) discussed possible edits to the definition of AU for clarification purposes; 6) discussed the clarification of MCAS home and auto definition of a lawsuit; and 7) discussed MCAS reporting of life/annuity replacements of a policy/contract of a company under the same holding company group.

Kelcher made a motion, seconded by Coker, to adopt its April 2 minutes (Attachment Three-A1b). The motion passed unanimously.

Rebholz stated that the Working Group conducted an e-vote that concluded April 19 to adopt grammatical edits to the accelerated underwriting (AU) definition.

Coker made a motion, seconded by Isiminger, to adopt its April 19 minutes (Attachment Three-A1a). The motion passed.

2. Discussed the Formation of an SME Group to Review the STLD Rule Change

Randy Helder (NAIC) provided an overview of the new rules of the U.S. Department of Health and Human Services (HHS). The rules change the time periods for what qualifies as an STLD plan. Helder explained that the time period had been 12 months minus one day, with the possibility of two renewals going up to a maximum of 36 months. The new rule changes the time period to three months, with a maximum of four months for renewals. The current blank does not match the new rule that was adopted. Helder stated that John Haworth (WA) suggested the Working Group look at the STLD blank and ensure it is current. Helder stated that a subject matter expert (SME) group needs to be formed to ensure this blank is updated with the rules.

Rebholz said that a state insurance regulator is needed to lead this SME group discussion. She said that any interested parties and state insurance regulators should contact Hal Marsh (NAIC).

© 2024 National Association of Insurance Commissioners

3. Adopted a Motion to Remove Duplicate Data Elements in the MCAS STLD Blanks

Rebholz stated that the first set of duplicate data elements is 64 and 74, which were exposed during the Working Group's [insert date] meeting, and the Working Group was invited to send written comments during the provided period. No comments were received regarding these duplicate data elements.

Rebholz described duplicate data elements 64 and 74. She explained that data element 64 reads as the number of covered lives on policies/certificates canceled at the initiation by the policyholder/certificate holder during the period. Data element 74 is its duplicate and reads as the number of insured lives impacted by terminations and cancelations initiated by the policyholder/certificate holder. Rebholz stated the recommendation is to remove data element 64. She explained that the reason is that "insured lives impacted" is more consistent with other data elements within the reporting blank.

Guzman asked if the cancelations were defined as being initiated by the policy/certificate holder or whether they were all cancelations.

Teresa Cooper (NAIC) explained that in data element 64, cancelations are initiated by the policy/certificate holder, whereas in data element 74, its terminations and cancellations are by the policy/certificate holder.

Gerachis made a motion, seconded by Hesser, to remove data element 64. The motion passed unanimously.

Rebholz moved to the next set of duplicate data elements, 69 and 75. Rebholz reviewed that element 69 is the number of lives on policies/certificates canceled due to non-payment of premium during the period. Rebholz explained that data element 75 is the number of insured lives impacted by terminations and cancellations due to non-payment. Rebholz stated that the recommendation is to remove data element 69.

Veronikis made a motion, seconded by Gerachis, to remove data element 69. The motion passed unanimously.

4. Adopted a Motion to Remove Duplicate Data Elements in the MCAS Other Health Blanks

Rebholz said another set of duplicate data elements is 67 and 71. She said data element 67 reads as the number of denied, rejected, or returned as non-covered or maximum benefit exceeded, and data element 71 reads as the number of denied/rejected or returned in whole or in part because the maximum dollar limit has been exceeded. Rebholz stated the recommendation is to eliminate element 71. Rebholz went on to say element 67 includes non-covered, which better aligns with the intent of that element.

Gerachis made a motion, seconded by Hesser, to remove data element 71. The motion passed unanimously.

Rebholz moved to the next set of duplicate data elements, 51 and 90. Rebholz reviewed that element 51 reads as the number of new policies/certificates denied during the period, and element 90 reads as the number of individual applications/enrollments denied during the period for any reason. Rebholz said the recommendation at this time is to keep both and have an SME group review the entire other health blank to determine the best course of action. At this time, there is one year to complete any review and approve any changes that the SME group would bring back to the Working Group.

© 2024 National Association of Insurance Commissioners

5. Adopted the Proposed Clarification of the MCAS Home and Auto Definition of a Lawsuit

Rebholz reminded the group that this proposal was presented during the Working Group's April meeting, a comment period was provided, and no comments were received. Rebholz restated that the proposal was to add a clause for non-claims related lawsuits at the first bullet point.

Helder provided an explanation for the edit. He stated that the current wording of the first bullet point was added to define non-claims-related lawsuits. It was copied from the Disability Income MCAS definition of lawsuit, and the intent of adding this bullet point was to define non-claims related lawsuits. Since it was added to the entire definition of a lawsuit, the bullet point also alters how claims-related lawsuits are to be reported. The current wording would drastically reduce the reported number of claims-related lawsuits if the companies read and applied this new definition without questioning the change. Helder explained there was a need to bring consistency to the definition of Lawsuits between the different blanks. Helder clarified that this bullet point only applies to non-claims-related losses.

Veronikis made a motion, seconded by Gerachis, to approve the proposed lawsuit definition edit to change the first bullet point on the existing definition to "For non-claims related lawsuits, include only lawsuits brought by an applicant for insurance, a policyholder or claimant as a plaintiff against the reporting insurer as a defendant." The motion passed unanimously.

6. Adopted Proposed Edit to the Definition of External Replacement of Affiliated Company Policies in the MCAS Life and Annuity Blanks

Rebholz stated this proposal came from Bache and was presented to the Working Group during its April 19 meeting. A comment period was provided, and no comments were received regarding the proposal.

Bache stated that Rhode Island noticed the definitions of internal and external replacements were broken out on the life and annuity blanks. Bache said it appears that the definitions referred to replacements of affiliated companies as external replacements. He said Rhode Island noticed in the *Life Insurance and Annuities Replacement Model Regulation* (#613) under the incontestability provision. He said Rhode Island's interpretation is that these affiliated company replacements are actually internal. Bache also stated that this would be a change in definition and a link update, but not in the collected data.

Rebholz stated that if adopted, the proposed definition amendment would be added in 2025 for the 2026 reporting year.

Isiminger made a motion, seconded by Gerachis, to adopt the proposed edit for the data and definition to read "internal replacements" in the definition of external replacement of affiliated company policies in the MCAS life and annuity blanks. The motion passed unanimously.

7. Received an Update on Possible Edits to the Definition of AU for Clarification Purposes

Rebholz gave an update on the AU definition and what the SME group has been working on. The SME group met April 16 to discuss the possible edits. It was decided that a frequently asked questions (FAQ) document needed to be created to provide more information on what was being asked. A draft was written and submitted to the SME group, and feedback was received regarding this draft. Another SME group meeting will take place May 2. Rebholz stated the life and casualty filings were due April 30, and the SME group will continue its work on the FAQ and any other clarifications needed.

© 2024 National Association of Insurance Commissioners

8. Received an Update on the Formation of an SME Group to Discuss Needed Pet Insurance MCAS Clarification

Rebholz stated that Kelcher has agreed to lead the pet insurance MCAS within the SME group. Rebholz asked if anyone would like to be part of this SME group to please reach out.

Having no further business, the Market Conduct Annual Statement Blanks (D) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/D Working Groups/MCAS Blanks WG (TES)/2024 MCAS Blanks WG

© 2024 National Association of Insurance Commissioners

Draft: 4/26/24

Market Conduct Annual Statement Blanks (D) Working Group
E-Vote
April 19, 2024

The Market Conduct Annual Statement (MCAS) Blanks (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee conducted an e-vote that concluded April 19, 2024. The following Working Group members participated: Rebecca Rebholz, Chair (WI); Sheryl Parker (FL); Erica Weyhenmeyer (IL); Lori Cunningham (KY); Mary Lou Moran (MA); Raymond Guzman (MD); Jeff Hayden (MI); Julie Hesser (MO); Robert McCullough (NE); Guy Self (OH); Karen Veronikis (PA); Rachel Moore (SC); Shelli Isiminger (TN); Shelley Wiseman (UT); Melissa Gerachis (VA); John Kelcher (WA); Letha Tate (WV).

1. Adopted the Proposed Grammatical Changes to the MCAS Life and Annuity Definition of AU

The existing definition of accelerated underwriting (AU) does not read as a complete sentence. The proposed additions to the definition do not change the substance of the definition but serve to make the definition more grammatically correct.

The grammatical change was first exposed to the MCAS Blanks (D) Working Group during its April 2, 2024, MCAS meeting. A subject matter expert (SME) group consisting of regulators, industry representatives, and NAIC staff met April 16, 2024, to review the change. The SME group is in agreement with the proposed edits.

The current definition of MCAS AU is "For this MCAS, data should be reported as Accelerated Underwriting when artificial intelligence and/or machine learning which utilizes, in whole or in part, Other Non-medical Third-party Data and/or FCRA Compliant Non-medical Third-party Data in the underwriting of life insurance; including when used in combination with Application Data or Medical Data."

The proposed definition of MCAS AU is "For this MCAS, data should be reported as Accelerated Underwriting when artificial intelligence and/or machine learning which utilizes, in whole or in part, Other Non-medical Third-party Data and/or FCRA Compliant Non-medical Third-party Data in the underwriting of life insurance ***is applied;*** including when ***that data is*** used in combination with Application Data or Medical Data."

A quorum of the Working Group members voted in favor of adopting the motion, which will allow for the grammatical changes to be made to the definition of AU on the MCAS life and annuity blanks. The motion passed.

Having no further business, the Market Conduct Annual Statement Blanks (D) Working Group adjourned.

SharePoint/Market Regulation – Home/D Working Groups/MCAS Blanks WG (TES)/2024 MCAS Blanks WG/WG Mtg 0501

© 2024 National Association of Insurance Commissioners

Draft: 4/25/24

Market Conduct Annual Statement Blanks (D) Working Group
Virtual Meeting
April 2, 2024

The Market Conduct Annual Statement Blanks (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met April 2, 2024. The following Working Group members participated: Rebecca Rebholz, Chair (WI); Maria Ailor (AZ); Erica Weyhenmeyer (IL); LeAnn Crow (KS); Jeff Hayden (MI); Bryce Wang (MN); Jo LeDuc (MO); Robert McCullough (NE); Guy Self (OH); Karen Veronikis (PA); Tony Dorschner (SD); Shelli Isiminger (TN); and Melissa Gerachis (VA). Also participating was: Brett Bache (RI).

1. Adopted its Oct. 10, 2023, Minutes

The Working Group met Oct. 10, 2023. During the meeting, the Working Group took the following action: 1) adopted clarifying language to the definition of closed claim in the property and casualty lines of business; and 2) adopted revisions to the MCAS Change Process.

Rebholz made a motion, seconded by Crow, to adopt the Working Group's Oct. 10, 2023, minutes. The motion passed unanimously.

2. Discussed Needed Clarifications on the Pet Insurance MCAS

Randy Helder (NAIC) reported that while the Working Group was drafting the pet insurance Market Conduct Annual Statement (MCAS), it found there were a number of ratios that referred to partial payments and that there was not a definition for partial payment in the pet insurance MCAS blank. The drafting group decided to request that a subject matter expert (SME) group be formed to develop a definition that could be put into the data call and definitions, as well as draft frequently asked questions (FAQ) for guidance prior to the pet insurance blank's first filing in April, 2025. The Working Group also questioned whether a canceled policy would be reported in the right-to-review data element as well as the cancelation data element. The Working Group is still working to form the SME Group, and a draft definition is ready to present to the SME Group once it is formed. Crow said that if anyone is interested in being part of the SME Group to reach out.

3. Reviewed Two Sets of Duplicate Data Elements in the MCAS STLD Blank

Crow reported that NAIC staff have identified two potential duplicate data elements within the short-term, limited-duration (STLD) blank, which are date elements No. 69 and No. 75. She noted that data elements No. 64 and No. 74 may also be duplicates. These two elements ask for the number of covered lives impacted by cancelation initiated by the policyholder or certificate holder during the period. The date elements are #64 which is "the number of covered lives on a policyholder certificate, canceled at the initiation of the policyholder certificate" and data element # 74 which is "number of insured lives impacted on terminations and cancelations initiated by the policyholder/certificate holder."

The Working Group exposed the data elements for a 17-day public comment period ending April 19.

© 2024 National Association of Insurance Commissioners

4. Reviewed Two Sets of Duplicate Data Elements in the MCAS Other Health Blank

Crow also identified two sets of duplicate data elements on the other health blank. Data element No. 67 is the "number of denied, rejected, or returned claims due to being non-covered or maximum benefit exceeded", and No. 71 is the "number of denied, rejected, or returned (in whole or in part) because the maximum dollar amount limit exceeded." She said there is also a potential duplication with data elements No. 51 and No. 90. She said both ask for the number of new policy certificates denied during the period.

The Working Group exposed the data elements for a 17-day public comment period ending April 19.

5. Discussed Possible Edits to Clarify the Definition of Accelerated Underwriting

Crow stated NAIC staff have received questions on the definition of accelerated underwriting (AU), and grammatical edits are needed for clarification. Rebholz said the proposed revisions are intended to complete the definition, which was not a complete sentence.

LeDuc said the definitions include both the Accelerated Underwriting (D) Working Group's definition of AU and the MCAS definition of AU. LeDuc said the MCAS definition intentionally excluded the term "big data" and said it was made clear in the data call that the definition being presented was solely for the purpose of MCAS. Rebholz said that the term "big data" was removed at the request of the American Council of Life Insurers (ACLI).

Helder said that there needs to be some clarity for the companies and that there needs to be some expertise involved in developing the clarification. Crow proposed forming a SME group and have a call to provide the clarification that is needed. She said that anyone interested in participating should email Hal Marsh, Teresa Cooper, or Helder.

6. Discussed the Clarification of MCAS Home and Auto Lawsuit Definition

Crow said that questions have been raised regarding the updated lawsuit definition within the home and private passenger auto (PPA) MCAS data call and definitions. Helder said that when the Working Group attempted to make the definitions consistent throughout the lines of business, it unintentionally used language that would require only lawsuits that names the insurance company as a defendant. He said that would unintentionally exclude third party lawsuits on most claims against the insured. Helder proposed revising on the first bullet point of the lawsuit definition to begin with the clause, "for non-claims related lawsuits".

Lisa Brown (American Property Casualty Insurance Association—APCIA) said the issue arose because the original MCAS lines for PPA and homeowner (HO) had an old definition of lawsuit. The original definition was limited to first- and third-party lawsuits arising from a claim. Brown said when the wording was changed to include non-claims-related lawsuits it became confusing.

The Working Group provide for a 17-day public comment period ending April 19.

7. Discussed MCAS Reporting of Life/Annuity Replacements of a Company's Policy/Contract Under the Same Holding Company Group

Bache said that in Rhode Island, the replacement of a policy issued by an affiliate or a subsidiary under common ownership is considered an internal replacement. He said this is consistent with the *Life Insurance and Annuities Replacement Model Regulation* (#613). He said the MCAS blanks requires replacements of affiliates to be reported

as external replacements. Bache proposed that they should be reported as internal replacements to be consistent with Model Regulation #613. Bache said that his proposal includes suggested language to make the revision.

Isiminger agreed with Bache.

The Working Group exposed the data elements for a 17-day public comment period ending April 19.

Having no further business, the Market Conduct Annual Statement Blanks (D) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/D Working Groups/MCAS Blanks WG (TES)/2024 MCAS Blanks WG

© 2024 National Association of Insurance Commissioners

Draft: 8/1/24

Market Conduct Examination Guidelines (D) Working Group
Virtual Meeting
July 30, 2024

The Market Conduct Examination Guidelines (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met July 30, 2024. The following Working Group members participated: Matthew Tarpley, Chair, Monica Lopez, Thomas Morgan, and Stacie Parker (TX); Brett Bache, Vice Chair, Matt Gendron, and Brian Werbeloff (RI); Teri Ann Mecca (AR); Katherine Jessen (AZ); Nick Gill (CT); Tina Ching (DC); Simone Edmonson, Elizabeth Nunes, Paula Shamburger, and Tia Taylor (GA); Paula Wallin (IA); Erica Weyhenmeyer (IL); Lori Cunningham (KY); Jeff Hayden, Isaac Kane, and Danielle Torres (MI); Bryce Wang (MN); Cynthia Amann, Julie Hesser, Teresa Kroll, and Jo LeDuc (MO); Tracy Biehn and Teresa Knowles (NC); Ellen Wilkins (NH); Ralph Boeckman and Erin Porter (NJ); Sylvia Lawson (NY); Rodney Beetch (OH); Zach Palank (OK); Colette Hittner (OR); Paul Towsen (PA); Julie Fairbanks (VA); Isabelle Keiser (VT); Barbara Belling, Monica Hale, Darcy Paskey, Rebecca Rebholz, Mary Kay Rodriguez, and Jody Ullman (WI).

1. Adopted its May 22 Minutes

The Working Group met May 22 and took the following action: 1) heard opening remarks made by the Working Group chair; and 2) discussed its 2024 work plans, which included: a) the development of a new pet insurance examination chapter in the *Market Regulation Handbook* (Handbook) and new pet insurance-related standardized data requests (SDRs); b) revising five examination standards in the travel insurance examination chapter of the Handbook—Marketing and Sales Examination Standards 3, 4, 8, and 11 and Underwriting and Rating Examination Standard 1; c) updating the life and annuity examination chapter of the Handbook to reflect the March 2023 adopted revisions to *Actuarial Guideline XLIX-A—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest to Policies Sold on or After December 14, 2020* (AG 49-A); d) developing a Working Group regulator-only shared space to serve as a repository for uniform market conduct tools, templates, etc.; e) monitoring the work of the Innovation, Cybersecurity, and Technology (H) Committee to address the Working Group's charge to coordinate with the Committee to develop market conduct examiner guidance for the oversight of regulated entities' use of insurance and non-insurance consumer data and models using algorithms and artificial intelligence (AI); and f) heard from NAIC staff about the regulator-only NAIC Connect platform.

Wilkins made a motion, seconded by Hayden, to adopt the Working Group's May 22 minutes (Attachment Four-A). The motion passed unanimously.

2. Discussed its 2024 Work Plans

Tarpley said the meeting's purpose was to provide the Working Group with an update on its 2024 work plans, which were last discussed during the Working Group's May 22 meeting.

Tarpley said that he, Bache, and Petra Wallace (NAIC) have been coordinating with state insurance regulator subject matter experts (SMEs) who volunteered to draft a new Handbook chapter addressing conducting pet insurance examinations and new pet insurance-related SDRs. The SMEs are developing examiner guidance based on the adopted *Pet Insurance Model Act* (#633). The pet insurance SMEs held two drafting meetings in June and will continue to meet to finalize a draft pet insurance chapter and pet insurance-related SDRs for exposure at the Working Group. The SMEs working on the project are Ullman and Wilkins; Lori Cunningham (KY) will join them when they begin working on the pet insurance-related SDRs. Tarpley said the SMEs expect to provide the Working

© 2024 National Association of Insurance Commissioners

Group with an exposure draft of a new pet insurance chapter and SDRs later this year, which will be subject to the Working Group's adoption process.

Bache said that he, Tarpley, and Wallace have been coordinating with state insurance regulator SMEs who volunteered since the Working Group's May 22 meeting to draft updates to Chapter 21A—Conducting the Property and Casualty Travel Insurance Examination of the Handbook. Five examination standards in Chapter 21A are missing review procedures/criteria. Using the adopted *Travel Insurance Model Act* (#632) as a basis, the travel insurance SMEs are drafting new examiner guidance for Marketing and Sales Standards 3, 4, 8, and 11 and Underwriting and Rating Standard 1. The travel insurance SMEs held drafting meetings in June and July and will continue to meet to finalize revisions to the travel chapter. The SMEs working on the project are Josh Guillory and Bob Barnes (LA), Rachel Moore (SC), Kroll, and Biehn. Bache said the SMEs expect to provide the Working Group with an exposure draft of the travel insurance chapter later this year, which, like the pet insurance chapter and SDRs, will be subject to the Working Group's adoption process.

Tarpley said he recently developed redline revisions to Chapter 23—Conducting the Life and Annuity Examination to reflect the March 2023 adopted revisions made to AG 49-A. Tarpley said the changes he made will update the chapter to correspond with AG-49-A. A redlined exposure draft of Chapter 23 will be circulated in August for a comment period and subsequent discussion at the Working Group's next meeting scheduled for September.

Wallace said one of the Working Group's charges is to develop uniform market conduct procedural guidance in a space where state insurance regulator tools (such as exam call letters, exam exit agendas, etc.) can be shared among regulators. Wallace said that at the Working Group's May 22 meeting, she provided a description of NAIC Connect, which is a regulator-only member portal for state insurance regulators. NAIC Connect was launched in 2023, and some of its functions are still being developed and fleshed out. It will serve as a platform and resource for the NAIC Membership. When its available features are more fully developed, NAIC groups will be able to each have a shared space for content, tools, and related topics for its members. Wallace said, to her knowledge, that the NAIC's intent is for each NAIC group to have its own respective page on the NAIC Connect platform. NAIC staff are working on adding NAIC groups to NAIC Connect (e.g., the Market Regulation and Consumer Affairs (D) Committee was added in July); its member groups will be added later this year.

Tarpley said that he and Bache are monitoring the work of the Innovation, Cybersecurity, and Technology (H) Committee and its workstreams to stay on top of the initiatives they are discussing that relate to regulator guidance in the Handbook.

3. Discussed Other Matters

Tarpley thanked all SMEs for their participation in the Working Group's projects and asked the Working Group members to participate in as many meetings as possible throughout the year. Tarpley said a notice of the Working Group's next meeting, scheduled for September, will be distributed when a meeting date and time have been determined.

Having no further business, the Market Conduct Examination Guidelines (D) Working Group adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 6/20/24

Market Conduct Examination Guidelines (D) Working Group
Virtual Meeting
May 22, 2024

The Market Conduct Examination Guidelines (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met May 22, 2024. The following Working Group members participated: Matthew Tarpley, Chair, and Stacie Parker (TX); Brett Bache, Vice Chair, and Brian Werbeloff (RI); Chris Erwin (AR); Tolanda Coker (AZ); Nick Gill (CT); Tina Ching and Pratima Lele (DC); Simone Edmonson, Paula Shamburger, and Tia Taylor (GA); Chris Heisler and Erica Weyhenmeyer (IL); Lori Cunningham and Ron Kreiter (KY); Airic Boyce, Jeff Hayden, and Danielle Torres (MI); T.J. Patton and Bryce Wang (MN); Cynthia Amann, Brad Gerling, Julie Hesser, Teresa Kroll, and Jo LeDuc (MO); Tracy Biehn and Teresa Knowles (NC); Ellen Wilkins (NH); Ralph Boeckman and Erin Porter (NJ); Sylvia Lawson (NY); Rodney Beetch (OH); Landon Hubbart, Zach Palank, and Shelly Scott (OK); Gary Jones and Paul Towsen (PA); Melissa Gerachis and Bryan Wachter (VA); Gregory Gray and Karla Nuissl (VT); John Haworth and Jeanette Plitt (WA); Barbara Belling, Darcy Paskey, and Mary Kay Rodriguez (WI); and Desiree Mauller (WV). Also participating were: Josh Guillory (LA) and Rachel Moore (SC).

1. Discussed its 2024 Work Plans

Tarpley extended a brief welcome and said the meeting's purpose is to provide the Working Group with an update for its 2024 work plans, which were last discussed during the Working Group's meeting on March 5 *(see NAIC Proceedings – Spring 2024, Market Regulation and Consumer Affairs (D) Committee, Attachment Three)*.

Tarpley said that he, Bache, and Petra Wallace (NAIC) have been working on next steps since the last meeting. They have been working on: 1) the development of a new pet insurance exam standards chapter and pet insurance standardized data requests (SDRs); 2) revising five examination standards in the travel insurance exam standards chapter; 3) revising the life and annuity examination chapter of the *Market Regulation Handbook* (Handbook) based on revisions to *Actuarial Guideline XLIX-A—The Application of the Life Illustrations Model Regulation to Policies with Index Based Interest Sold on or After December 14, 2020* (AG 49), which were adopted by the NAIC in 2023; and 4) developing a shared regulator-only collaborative space for the Working Group that will serve as a repository for uniform market conduct tools, templates, etc.

Tarpley said state insurance regulator subject matter expert (SME) volunteers have come forward since the Working Group's March 5 meeting to work on the development of a new pet insurance exam standards chapter, a new in force policy pet insurance SDR and a new pet insurance SDR addressing claims. He thanked Wilkins, Cunningham, and Jody Ullman (WI) for volunteering for this drafting project. Tarpley said the SMEs will develop the exam standards chapter based on the adopted *Pet Insurance Model Act* (Model #633). When the pet insurance exam chapter draft is near completion, the SMEs will then begin drafting the SDRs. When the SMEs have completed and signed off on the pet insurance chapter and SDRs, they will proceed to the Working Group for exposure, a comment period, review, and eventually, consideration of adoption.

Bache said that during the Working Group's March 5 meeting, he and Tarpley had asked for state insurance regulator volunteers to help clean up Chapter 21A—Conducting the Property and Casualty Travel Examination in the Handbook. No volunteers came forward during the meeting. Bache said the scope of the project is quite small. There are five examination standards in the chapter that are missing review procedures/criteria (marketing and sales examination standards 3, 4, 8, and 11 and underwriting and rating examination standard 1). Bache said that the project would involve reviewing the applicable sections of the *Travel Insurance Model Act* (Model #632) by regulator SMEs and developing new market examiner review procedures/criteria in the five examination

© 2024 National Association of Insurance Commissioners

standards where content is missing. Josh Guillory (LA) and Rachel Moore (SC) volunteered to assist with the drafting project. Tarpley and Bache asked for additional state insurance regulator volunteers to join the travel insurance SME drafting group.

Tarpley said that he will revise Chapter 23—Conducting the Life and Annuity Examination of the Handbook to incorporate updated guidance based on revisions to AG 49, which were adopted by the NAIC in 2023. Tarpley said he would be in contact with the Life Actuarial (A) Task Force chair, who is also with the Texas Department of Insurance (TDI), regarding any questions on the Task Force's revisions. Tarpley said he plans to provide a redlined draft of Chapter 23 to the Working Group before their next meeting. Tarpley said that since the revised AG 49A contains adopted language, the changes made to Chapter 23 will conform the language of the chapter with the revised adopted guidance in AG 49A.

Wallace gave an update on the development of a shared regulator-only collaborative space for the Working Group. She said that one of the Working Group's charges is to develop uniform market conduct procedural guidance in a space where regulator tools can be shared among regulators. One of the NAIC's recent initiatives to enhance member connectivity is NAIC Connect, which is a newly developed member portal for state insurance regulators. While NAIC Connect is live, some of its functions are still being developed and fleshed out. When the available features of NAIC Connect are more fully developed, it will be a shared platform for the NAIC membership and each NAIC group will be able to build and share content, tools, resources, and related topics on their respective pages on the platform for use by regulator members.

Tarpley said he and Bache are monitoring the work of the Innovation, Cybersecurity, and Technology (H) Committee and its workstreams to learn what initiatives they are discussing that relate to regulator guidance in the Handbook.

Tarpley thanked the state insurance regulator SME volunteers and asked the Working Group members to participate in as many meetings as possible throughout the year.

2. Discussed Other Matters

Tarpley said a notice of the next Working Group meeting will be distributed when a meeting date and time have been determined.

Having no further business, the Market Conduct Examination Guidelines (D) Working Group adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 7/11/24

Market Regulation Certification (D) Working Group
Virtual Meeting
June 24, 2024

The Market Regulation Certification (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met June 24, 2024. The following Working Group members participated: John Haworth, Chair (WA); Bryan Stevens, Vice Chair (WY); Chelsy Maller (AK); Erica Weyhenmeyer (IL); Mary Lou Moran (MA); Kyle Lanasa (MD); Jo LeDuc (MO); Tracy Biehn (NC); Robert McCullough (NE); Denise Lamy (NH); Erin Porter and Ralph Boeckman (NJ); Don Layson (OH); Zach Palank (OK); Glynda Daniels (SC); Shelley Wiseman (UT); Andrea Baytop (VA); and Isabelle Turpin Keiser (VT).

1. Adopted its April 29 Minutes

The Working Group met April 29 and took the following action: 1) adopted its Spring National Meeting minutes; 2) discussed its plans for the Summer National Meeting; 3) discussed the market regulation certification scoring sheet; and 4) discussed certification program revisions.

Weyhenmeyer made a motion, seconded by Biehn, to adopt the Working Group's April 29 minutes (Attachment Five-A). The motion passed unanimously.

2. Discussed Assistance to Jurisdictions and Peer Review

Haworth said the certification program implementation plan addresses peer reviews on self-certification, but it would apply to both self-certifications and full certifications. The plan reads: "At any time, participating jurisdictions may request peer review, guidance, and training. To the extent necessary to accommodate such requests, NAIC staff may work with seasoned regulators with market conduct examination and/or market analysis experience to assist in meeting the needs of such requestors."

Haworth said the Working Group received a request for some assistance with developing policies and procedures for market regulation departments. He said there would be substantial differences in policies and procedures from state to state for numerous reasons, but this seems like the type of area where more experienced regulators may be able to provide advice.

Haworth said that it would be helpful to discuss what a peer review process should look like—who should be the "peers," what areas they should assist in, should there be a list of regulators based on areas of expertise, and other considerations for peer review.

Stevens said that regulators have reached out to him and Haworth concerned about whether they know enough, have the right laws, and other concerns. Stevens said he thought it was a good idea to put together groups with a variety of experiences from large and small states. Haworth agreed that advice is not one-size-fits-all, and a variety of experience and department sizes is a good idea. He said not everyone will do everything the same. He suggested putting together some type of frequently asked questions (FAQ) document to assist in developing guidance.

Biehn asked if the peer groups were envisioned to be a mix of large and small states, or if they would be organized by zone. Haworth said right now, the group consists of LeDuc and Stevens, and it would be great to have enough volunteers to break it out by zone. He said that is why he wanted this conversation today so states that are uncomfortable asking questions in the large group would be more comfortable speaking with a similar state. Biehn

© 2024 National Association of Insurance Commissioners

asked if there would be a site to store documents that could be used by states completing a review. Haworth agreed with that and said it would be helpful to have an aggregate understanding of what policies and procedures are available from different states and make sure they comply with the *Market Regulation Handbook.* As an example, he cited how states that meet designation requirements could be different depending on their laws and circumstances. Stevens said the groups may be small and large states from each zone since each zone has unique challenges, such as types of catastrophes. Biehn said she would encourage pursuing peer review groups by zone to get the perspective of states within similar marketplaces with similar challenges. LeDuc asked if Biehn was suggesting one large group with zone representations or individual zone-based groups. Biehn said she was thinking of individual zone-based groups that could ultimately get together as a larger group, but the peer review would be zone-specific.

Stevens said he liked Biehn's idea and suggested that as self-certifications are received, the self-certified states could be asked to serve on the peer review groups, and one or two from each zone could be on the overall peer review group that would meet each year at a national meeting.

Lisa Brown (American Property and Casualty Insurance Association—APCIA) said it is important to get the different zones together in order to give the program heft with federal pushback. There must be national standards first and then these could be tweaked to meet zone market circumstances. If there are zone groups, they should meet at least once a year to be sure everyone is on the same page.

3. Discussed Plans for the Summer National Meeting

Haworth said the Working Group will be meeting at the Summer National on Monday, Aug. 12, at 4:00 p.m. He said the Working Group plans to have two fictional states mocked up, and as a group, the Working Group will complete self-certification scoring matrices for each of them. He said this will hopefully open discussion and answer questions that states have been struggling with or raise new questions for consideration. Stevens said the point is to answer a lot of the questions that have been coming in. Haworth said the Receivership (E) Task Force did something similar that worked well. Daniels asked if this would be available virtually. Randy Helder (NAIC) said he would look into it.

4. Discussed Certification Session at the NAIC Insurance Summit

Haworth said there will be a session at the NAIC Insurance Summit on the certification program. He said that he and Stevens will lead the session. It will be on Wednesday, Sept. 18, in the morning. Haworth said that rather than reviewing all the requirements, which everyone is familiar with, he and Stevens would like to ask for specific concerns and issues that jurisdictions would like us to address about the certification program, and the session can be devoted to discussing and clarifying those topics.

Lanasa suggested talking about qualifications for analysts and examiners because some states may not push designations as much as other states. He said it can be difficult if a state does not know whether it will have the budget to pursue designations. Haworth said turnover and succession planning are tangent concerns since seasoned people with those designations could leave. Lanasa said that is worsened by the difficulties in hiring new staff. Haworth said these new hires then need to be trained.

© 2024 National Association of Insurance Commissioners

5. Discussed Certification Program Revisions

Haworth said the last agenda item is to discuss any proposed certification program revisions. This will be a standing agenda item for Working Group meetings, as the implementation plan requires the group to review feedback on issues or recommendations from jurisdictions, and it will allow for discussion of issues or recommendations.

Having no further business, the Market Regulation Certification (D) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/D Cmte/2024 Summer National Meeting/MRCWG/0624/06 MRCWG

© 2024 National Association of Insurance Commissioners

Draft: 5/21/24

Market Regulation Certification (D) Working Group
Virtual Meeting
April 29, 2024

The Market Regulation Certification (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met April 29, 2024. The following Working Group members participated: John Haworth, Chair (WA); Bryan Stevens, Vice Chair (WY); Chelsy Maller (AK); Teri Ann Mecca (AR); Erica Weyhenmeyer (IL); Mary Kwei (MD); Jo LeDuc (MO); Tracy Biehn (NC); Martin Swanson (NE); Maureen Belanger and Douglas Rees (NH); Erin Porter and Ralph Boeckman (NJ); Don Layson (OH); Glynda Daniels (SC); Shelley Wiseman (UT); Melissa Gerachis (VA); and Isabelle Turpin Keiser (VT).

1. Adopted its Spring National Meeting Minutes

LeDuc made a motion, seconded by Biehn, to adopt the Working Group's Feb. 26 minutes (*see NAIC Proceedings – Spring 2024, Market Regulation and Consumer Affairs (D) Committee, Attachment Four*). The motion passed unanimously.

2. Discussed its Plans for the Summer National Meeting

Haworth said the Working Group has been approved to meet in regulator-to-regulator session for one hour on the first day of the Summer National Meeting, Aug. 12, at 4:00 p.m. CT. He said the date and time only conflicts with the Financial Regulation Standards and Accreditation (F) Committee meeting, which is scheduled from 2:00 – 5:00 p.m. CT on Aug. 12.

Haworth said during its last meeting, the Working Group invited jurisdictions to submit their self-certifications using the scoring matrix. He said he wants to use the in-person meeting at the Summer National Meeting so the Working Group can work together using the certification scoring matrix on real examples from each member and state planning to submit a request for provisional certification.

Haworth said the certification implementation plan also mentions that jurisdictions can request peer reviews. He said the Summer National Meeting will provide an opportunity for any jurisdiction to receive peer review. He noted that LeDuc has volunteered to assist with peer review if requested.

LeDuc asked if the self-certification reports must be submitted prior to the Summer National Meeting. Haworth said the self-certification reports are due prior to the Fall National Meeting, but it would be helpful to receive them sooner so the Working Group can address needs as they arise. Stevens said it is important to have this in-person meeting to review different drafts and discuss how different states interpret the requirements and the checklist. He said it would help all the jurisdictions to be more uniform in their assessments.

3. Reviewed the Market Regulation Certification Scoring Sheet

Haworth asked Stevens to review the certification scoring sheet from the perspective of a smaller market regulation department. Stevens said that each requirement on the scoring sheet is programmed into several sections. The requirements are meant to identify the areas necessary to have the basic framework in place to run a market conduct program. He noted that even a small state such as Wyoming has met all the mandatory conditions and almost all other conditions.

© 2024 National Association of Insurance Commissioners

Stevens said the first requirement is whether the jurisdiction has the authority to regulate insurance entities and collaborate with other states. He said if the state is accredited already, the jurisdiction should meet the requirement.

Stevens said the second requirement concerns the jurisdiction's ability to use the *Market Regulation Handbook*. He said that would be easy for jurisdiction to meet that requirement. He said many of the requirements speak of having policies and procedures in place, and he plans to have more policies and procedures written prior to the Summer National Meeting so he can confidently answer those questions on the checklist.

Stevens said the third and fourth requirements work together and address staffing—the appropriate staffing level, the use of contractors, and the qualification of staff and contractors. He said that for smaller jurisdictions, it is helpful that contractors are allowed in place of having a large, dedicated staff. A number of questions address the appropriate oversight of contracted examiners. Haworth said that even if an individual has a lot of designations, it is important to continually learn since the industry changes quickly. Steven said producers and adjusters have continuing education (CE) requirements, and the state insurance regulators should do so for themselves.

Stevens said the fifth requirement concerns the ability to keep confidential information confidential. Again, he said if the state is accredited, it likely already meets this requirement and can answer the checklist questions positively.

Stevens said the sixth requirement regards attendance and participation in the Market Actions (D) Working Group. He said each state has a collaborative action designee (CAD) who attends and has the ability to send their alternate if necessary.

Stevens said the seventh requirement deals with the Market Conduct Annual Statement (MCAS), and almost all states are participating in MCAS. LeDuc noted that two states and four territories do not participate in MCAS and asked if there was any latitude for those states. Haworth said the MCAS requirement is not mandatory, so a jurisdiction can be certified without participating in MCAS.

Stevens said the eighth requirement is timely and complete data reporting to the Market Information System (MIS) databases at the NAIC. He said most states already do so.

Stevens said the ninth requirement is attendance and participation in the NAIC market regulation working groups; the tenth is the appointment of a CAD for the jurisdiction. He has verified that they have representation or are an interested state insurance regulator for all the working groups.

Stevens said the final requirement is appointing a market analysis chief (MAC) and communicating appropriately with other internal departments concerning any issues with regulated insurance entities. He said it is easy for a small market regulation department like Wyoming's to communicate frequently with the other internal departments as needed. He said he meets weekly with the other internal departments.

Stevens said his department is ensuring they meet all the mandatory, red-coded requirements first and will address any yellow-coded requirements next. By their five-year assessment, they plan to meet all the conditions on the checklist.

4. Discussed Certification Program Revisions

Haworth said the last agenda item is to discuss any certification program revisions anyone would like to propose. He said this will be a standing agenda item for Working Group meetings since the implementation plan requires

the Working Group to review feedback from jurisdictions concerning issues or recommended issues, and it will allow discussion of any issues or recommendations.

Having no further business, the Market Regulation Certification (D) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/D Cmte/2024 Summer National Meeting/MRCWG/0429/04 MRCWG T

© 2024 National Association of Insurance Commissioners

Draft: 8/14/24

Speed to Market (D) Working Group
Virtual Meeting
July 30, 2024

The Speed to Market (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee met July 30, 2024. The following Working Group members participated: Rebecca Nichols, Chair (VA); Maureen Motter, Vice Chair (OH); Sian Ng-Ashcraft (AL); Trinidad Navarro (DE); Shannon Hohl (ID); Julie Rachford (IL); Craig VanAalst (KS); Tammy Lohmann (MN); Camille Anderson-Weddle (MO); LuAnne J. King (NH); Ted Hamby (NC); Latif Almazan (TX); Tanji J. Northrup (UT); Lichiou Lee (WA); Allan L. McVey (WV); and Lela Ladd (WY). Also participating were: George Bradner and Elizabeth Drysdale (CT).

1. Adopted its Feb. 22 Minutes

The Working Group met Feb. 22 and took the following action: 1) adopted its Nov. 17, 2023, minutes; 2) heard a report on the System for Electronic Rates & Forms Filing (SERFF) Modernization Project; 3) heard a report from the Interstate Insurance Product Regulation Commission (Compact); 4) considered adoption of revisions to the *Product Filing Review Handbook*; and 5) heard an update on the 2024 product coding matrix (PCM) adoption rating.

Northrup made a motion, seconded by Lohmann, to adopt the Working Group's Feb. 22 minutes *(see NAIC Proceedings – Spring 2024, Market Regulation and Consumer Affairs (D) Committee, Attachment Five)*. The motion passed unanimously.

2. Heard a Report on the SERFF Modernization Project and SERFF Product Steering Committee

Bridget Kieras (NAIC) stated that state outreach has begun, and each state has been assigned a liaison from the NAIC SERFF team. The liaisons gather information and facilitate training. She said industry outreach is also taking place. Kieras stated the initial release is underway and on target for the fourth quarter of 2024. This will include co-existence in which all Compact filings, including historical filings, will be accessible in the new platform. State filings will remain in the current Legacy platform. User management functions will be handled in the new platform, which is largely self-service. This allows for the management of both the Legacy and new platforms. Also included is training. The NAIC Education & Training team will train industry, and the project team will train Compact staff and member state insurance regulators.

3. Received an Update on the Release of the 2024 *Product Filing Review Handbook*

Nichols provided an update on the *Product Filing Review Handbook*. The Working Group adopted the 2024 *Product Filing Review Handbook* Feb. 22. The Market Regulation and Consumer Affairs (D) Committee and Executive (EX) Committee and Plenary then adopted it at the Spring National Meeting. It was posted to the NAIC's website July 18 and is free to download from the NAIC Publications web page. A link to the *Product Filing Review Handbook* was added to the Working Group's web page July 19. Nichols stated that the NAIC Speed to Market Filing Suggestion Form was also updated and posted to the SERFF web page as part of that work.

4. Heard a Presentation on Using ML for P/C Form Review

Bradner stated that Connecticut started testing artificial intelligence (AI) and machine learning (ML) for property/casualty (P/C) form review in early 2020. Before implementing AI/ML, claims-made audits took up to a

© 2024 National Association of Insurance Commissioners

year to complete. Bradner stated Connecticut was introduced to an AI/ML product called Kira. The turnaround went from 12 months to three months. Since using Kira, the state has learned that claims-made compliance was only 25%. Due to this, claims-made audits have been removed from the filing exemption (FE) process. Connecticut submitted a bulletin stating that claims-made audits will no longer be filed as exempt.

Drysdale stated that Connecticut's four goals for developing a speed-to-market review of forms were 1) consistency; 2) speed; 3) harnessing knowledge from tenured individuals before retirement; and 4) creating capacity for examiners to do other things, such as look at legislation, propose legislation, and look at changes in the industry. The checklist was then developed into what Connecticut calls "smart fields." These fields in Kira tie to the checklist the machine has been taught to review. Drysdale stated the developers developed the application programming interface (API) so that the two platforms can speak to each other. She stated some of the simple features of ML are the length of time it takes and that it is user-friendly if one has been around computers for a while in any capacity.

Bradner said it is better to spend time working with AI/ML now so that states are ready when the SERFF Modernization Project is complete; otherwise, they will be behind in 2025. Bradner said it would be worthwhile for states to think about what rules they will want to apply to filings so they can train the system.

Theresa Boyce (Chubb Group) asked if now that claims-made audits are no longer exempt, is Connecticut still using Kira to review any filings for exemption.

Bradner replied, yes, the first step is to run it through Kira, and then it is assigned to the examiner.

5. Discussed Suggestions Received on the PCM and UTD

Motter went over three suggestions for the PCM and uniform transmittal document (UTD). The first was the Compact's proposal for annuity products. The Compact recently adopted uniform standards for individual deferred index link variable annuity contracts. Motter said that, presently, a filer would include them under the Type of Insurance (TOI) of A03I or A07I, which are not the best places to file these products. The Compact recommended that an additional TOI be created. Motter stated that A04I is available, and they would call it the Individual Deferred Index Link Variable Annuity Contract, with the following sub-TOIs: A04I.0001 Fixed Premium, A04I.0002 Flexible Premium, A04I.0003 Single Premium, A04i.0004 Modified Single Premium, and A04I.0005 Limited Flexible Premium.

Motter explained the Compact's definition of the proposed new TOI A04I as an annuity contract that earns interest or provides benefits where the accumulation is linked to an external reference or equity index where upside returns are limited through the application of caps, participation rates, or triggers, and where downside returns limited to a floor, or with a portion of downside returns absorbed by a buffer. Prior to the end of the index term, the contract uses an interim value to determine withdrawal, surrender, death, and annuity benefits instead of using the account value at the beginning of the term.

Motter said things to consider for adoption of the new TOI and sub-TOIs are: 1) whether the Working Group is in agreement that the addition is appropriate since the uniform standard was created; 2) any amendments/revisions to the proposed description; and 3) whether the Working Group should wait to create something similar to A04G

Commissioner McVey made a motion, seconded by Ladd, to adopt the Compact's proposal. The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

Motter moved on to the second proposal, which was to split Health-Other into individual and group TOIs. Motter explained this indicates that the health TOIs for products are divided into groups and individuals. It becomes unhelpful when Health-Other is used as a catch-all to apply to both individual and group products, especially when each market is subject to different regulatory requirements. She said that unlike the assumptions for TOI (H01), items filed under Health-Other can apply to amend products in either or both markets beyond the merely informational. Currently, the PCM has TOI: H21 Health-Other.

Motter asked whether the description should be updated to say, "Not Specifically Described in any other H TOI," since TOIs H22-H26 have been added.

Motter said the following questions should also be considered:

A. What is being filed in H21?
B. Does what is being filed in H21 require different submission requirements for individual versus group or individual versus different sizes of groups?
C. Will adding sub-TOIs to H21 result in filers using these sub-TOIs instead of the proper H01–H26 TOIs?
D. If any, how many more sub-TOIs should be added to H21?
E. In addition to sub TOI H21.0000 Health-Other, should the Working Group add Health-Other – Individual Only & Health - Other- Group Only?
F. In addition to sub TOI H21.0000 Health-Other, should the Working Group add Health-Other – Individual Only & Health-Other- Small Group Only & Health-Other-Large Group Only & Health-Other-Any Size Group?
G. If more sub-TOIs are added, would you activate them for filers' use?

Lee stated that in Washington, H21 is rarely used.

The Working Group made no motion. Motter stated that because there was no motion, there would be no changes to the description or additional sub-TOIs for H21 at this time.

Motter moved on to the third proposal, which was to split Health-Other into individual and group TOIs. Motter explained that the proposal indicates that not every state considers pet health and/or animal mortality insurance to be in the inland marine line of business, filed or non-filed. Making pet insurance-specific TOIs could eliminate ambiguity in filing. She went on to say, with continued emphasis on the *Pet Insurance Model Act* (#633), that it may be opportune for pet insurance to feature more prominently in the PCM, and since animal mortality is the commercial counterpart, similar prominence should apply to it.

Motter said there were several items to consider regarding the proposal, including: 1) existing sub-TOIs; 2) the fact that *Annual Statement Instructions* have historically indicated to place premiums/losses for both on Line 9, Inland Marine; 3) the Blanks (E) Working Group has approved a separate annual statement line for pet insurance, so the PCM document will be updated to reflect the new annual statement line reference; 4) while many states require the authority of inland marine on a Certificate of Authority to offer such products, others may have more granularity in authority, such as a specific authority for pet insurance; 5) if 9.1 and 9.2 are created, the historical filing submissions will not be updated from the old sub-TOI to the new TOI; 6) if a state chooses to adopt, it would have to inactivate the old sub-TOI for submissions; and 7) when searching for filings, SERFF users would have to search on both the new TOI for the most recent filings and the inactive sub-TOI for the historical filings.

Motter said the Working Group should also consider the following questions in regard to the third proposal:

A. Have there been issues with filers submitting products without proper authority?
B. Should there be an asterisk on the PCM with a note to review the line of authority requirements for a state prior to submission? (A non-PCM solution would be to update the SERFF general instructions to

© 2024 National Association of Insurance Commissioners

remind filers of the necessary authority to offer such products. The SERFF Modernization Project is planning to map authority and sub-TOIs, so the filer will be warned or not permitted to submit if it does not have proper authority for the product.)

C. If these new TOIs are created, would they be activated?

Motter stated that the lack of comments suggested that the new TOIs would not be activated if they were created.

6. Heard an Update on the 2025 PCM

Jeremy Chance (NAIC) stated updates would be made after the Compact's first proposal is approved. The process will begin with contacting the appropriate SERFF state instances to activate the new TOI (A04I) and build submission requirements.

Having no further business, the Speed to Market (D) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Committee Folders/D CMTE/2024 Fall/S2M WG/S2M July 30 Meeting Minutes

© 2024 National Association of Insurance Commissioners

This page intentionally left blank.

© 2024 National Association of Insurance Commissioners

ANTIFRAUD (D) TASK FORCE

Antifraud (D) Task Force Aug. 14, 2024, Minutes 8-52
Improper Marketing of Health Insurance (D) Working Group Aug. 14, 2024, Minutes (Attachment One) 8-54

© 2024 National Association of Insurance Commissioners

Draft: 8/20/24

Antifraud (D) Task Force
Chicago, Illinois
August 14, 2024

The Antifraud (D) Task Force met in Chicago, IL, Aug. 14, 2024. The following Task Force members participated: John F. King, Chair (GA); Trinidad Navarro, Vice Chair, represented by Susan Jennette (DE); Barabara D. Richardson represented by Lori Munn (AZ); Andrew N. Mais represented by Kurt Swan (CT); Karima M. Woods represented by Mike Ross (DC); Michael Yaworsky represented by Alex May and Chris Welch (FL); Dean L. Cameron represented by Randy Pipal (ID); Sharon P. Clark represented by Juan Garrett (KY); Timothy J. Temple represented by Nathan Strebeck (LA); Grace Arnold represented by T.J. Patton (MN); Mike Chaney represented by John Hornback (MS); Eric Dunning represented by Maggie Reinert and Martin Swanson (NE); D.J. Bettencourt represented by Josh Hilliard (NH); Alice T. Kane represented by Roberta Baca (NM); Scott Kipper represented by David Cassetty (NV); Glen Mulready represented by Rick Wagnon (OK); Andrew R. Stolfi represented Cassie Soucy (OR); Michael Humphreys represented by David Buono (PA); Elizabeth Kelleher Dwyer represented by Matt Gendron (RI); Michael Wise represented Melissa Manning (SC); Cassie Brown represented by Leah Gillum (TX); Jon Pike represented by Armand Glick (UT); Scott A. White represented by Juan Rodriguez Jr. and Richard Tozer (VA); and Nathan Houdek represented by Rebecca Rebholz (WI).

1. Adopted its Spring National Meeting Minutes

Glick made a motion, seconded by Swanson, to adopt the Task Force's March 17 minutes *(See NAIC Proceedings – Spring 2024, Antifraud (D) Task Force).* The motion passed unanimously.

2. Discussed a Review of its 2025 Charges

Commissioner King said it is the time of year that the Task Force must review its current charges and make comments on or suggestions for its 2025 charges. Commissioner King said NAIC staff will distribute an email exposing the 2024 charges for a 30 day comment period ending Sept. 20.

3. Heard a Presentation on AI

Strebeck gave a presentation to the Task Force on how artificial intelligence (AI) is affecting insurance fraud. Strebeck said that fraud costs consumers $308 billion annually. He said 16% of the U.S. agree that fraud is acceptable and not an issue, while 84% agree that insurance fraud is a crime. Strebeck said survey results show that younger generations tend to be more accepting of insurance fraud, whereas older generations responded that they consider insurance fraud a crime. He said the data indicates that this could be a growing concern. Strebek said a demographic study provided a look at how consumers feel about filing claims on their insurance policy. He said Louisiana data show that fraud reports are increasing, technology is a catalyst for insurance fraud, and innovation is necessary if the fight against insurance fraud is to continue. Strebek said he looks forward to working with NAIC staff to provide additional training or information on the ever-changing technology and how it affects insurance fraud.

4. Adopted the Report of the Improper Marketing of Health Insurance (D) Working Group

Swanson said the Working Group met Aug. 14. During this meeting, the Working Group adopted its Spring National Meeting minutes and heard from the federal Centers for Medicare & Medicaid Services (CMS) and America's Health Insurance Plans (AHIP) concerning the current issues consumers are experiencing with continued agent

© 2024 National Association of Insurance Commissioners

transfers of policies. The Working Group discussed the importance of this issue as it concerns consumer protection. Swanson said CMS advised the Task Force that at the 2025 Spring National Meeting, it will have a 12-month time frame of data to review and determine if current efforts are making the impact necessary to protect consumers. Swanson said the Working Group will meet in regulator-to-regulator and open session to continue discussions with state, federal, and industry representatives in order to protect consumers. Swanson said the Working Group heard from Brian Webb (NAIC) about current congressional movements taking place in addition to an update on the Affordable Care Act (ACA) marketing issues.

Gendron made a motion, seconded by Buono, to adopt the report of the Improper Marketing of Health Insurance (D) Working Group (Attachment One). The motion passed unanimously.

5. Received an Update from the Antifraud Technology (D) Working Group

Glick said the Working Group has been working with NAIC staff to implement the revised Online Fraud Reporting System (OFRS) web service in states. He said the Working Group will meet to discuss the current fields found within the National Insurance Crime Bureau (NICB) reporting system and the fields that fraud directors want within the OFRS. Glick said the Working Group is aware of a letter sent from the Coalition Against Insurance Fraud (CAIF) to request the development of the Antifraud Plan Repository, which will be addressed in its update to the Working Group.

6. Heard Reports From Interested Parties

A. CAIF

Brent Walker (CAIF) said the CAIF has been focusing on three areas: 1) outreach; 2) advocacy; and 3) research. Walker said the CAIF supports the application of resources for online antifraud initiatives and will continue to work with states and their members to provide these resources. He said the CAIF is currently implementing strategic planning. It has created two new task forces, the Property and Casualty Task Force and the Medical Task Force. Walker said the CAIF has added Kate Gordon as its general counsel to help improve the organization. Walker said the CAIF will release a podcast to support the fight against insurance fraud.

B. NICB

Edward Tobin (NICB) said the NICB has been working with NAIC staff on the OFRS implementation and enhancements. Tobin said the NICB spoke to the Task Force in March regarding the Contract Fraud Awareness Week that took place in May. Tobin said the discussions that took place were great and that he appreciated the support from the Task Force members. He said that, regarding legislative highlights, there were seven new bill packages. Tobin said the NICB is continuing to work with new insurance Commissioners to help ensure they have access to referrals, data, intel reports, and all the necessary investigative assistance. Tobin said the 7th Annual National Conference of Insurance Crime Attorneys will take place Oct. 8–9 in Shamberg, IL.

Having no further business, the Antifraud (D) Task Force adjourned.

© 2024 National Association of Insurance Commissioners

Attachment One
Antifraud (D) Task Force
8/14/24

Draft: 8/21/24

Improper Marketing of Health Insurance (D) Working Group
Chicago, Illinois
August 14, 2024

The Improper Marketing of Health Insurance (D) Working Group of the Antifraud (D) Task Force met in Chicago, IL, Aug. 14, 2024. The following Working Group members participated: Martin Swanson, Chair (NE); David Buono, Vice Chair (PA); Maria Ailor (AZ); Kurt Swan (CT); Susan Jennette (DE); Andria Seip (IA); Erica Weyhenmeyer (IL); Craig VanAalst (KS); Joseph Garcia (MI); T.J. Patton (MN); Patrick Smock (RI); Jill Kruger and Travis Jordan (SD); Matthew Tarpley (TX); John Haworth (WA); and Bryan Stevens (WY).

1. Adopted its Spring National Meeting Minutes

Haworth made a motion, seconded by Weyhenmeyer, to adopt the Working Group's March 17 minutes (*see NAIC Proceedings – Spring 2024, Antifraud (D) Task Force*). The motion passed unanimously.

2. Discussed Unauthorized Agent Transfer Issues

Swanson said the Working Group began discussing unauthorized agent transfer issues during the 2023 Fall National Meeting. For today's meeting, the Working Group asked America's Health Insurance Plans (AHIP) and the federal Centers for Medicare & Medicaid Services (CMS) to address current actions taking place to protect consumers from these issues.

Kelley Schultz (AHIP) said AHIP started hearing about unauthorized agent transfer issues from its members during the fall of 2023, and in 2024, this issue was firmly brought to AHIP. According to CMS, there were 90,0000 enrolled as of May 2024. Schultz said there were 6,000 complaint cases in 2023 of unauthorized agent transfer issues and 9,000 cases at the beginning of 2024, which has caused a huge burden for consumers. She said these issues have caused tax implications for some people when they did not qualify for tax breaks due to switching policies. Schultz said this has generated the need for its members to utilize a variety of tactics to fight against known authorized transfer issues.

Schultz said AHIP has discussed solutions to assist with transferring policies, including a possible system verification that enables two-factor authentication and a State Based System (SBS) that balances protecting consumers while not creating other issues that could potentially block their path to enrollment. She said AHIP will continue to work with its members, regulators, and the Senate Finance Committee to identify unauthorized agent transfer trends and fight against these bad actors.

Swanson said in Nebraska, they have encountered companies that have sent termination for cause notices to the department of insurance (DOI) when they find out that someone has transferred a policy. He said that this has been very helpful for the state.

Jeff Grant (CMS) said CMS continues to investigate unauthorized agent transfer issues, and it is coordinating with state departments of insurance to move these efforts along. Gina Zdanowicz (CMS) is working on a plan management effort and is leading the agent broker consumer quality initiative, which started in January.

Grant said the issues with unauthorized agent and broker transfers have become a prominent focus for CMS. He said the good news is that enrollment grew this past year due to good acting agents and brokers. While there are

© 2024 National Association of Insurance Commissioners

bad actors out there in the marketplace that have contributed to these policy switches, it is a small percentage over a large denominator. Out of 90,000 enrolled, only a small percentage is causing these issues. He said in order to stop these bad actors, CMS started with a two-pronged approach, which was upping its enforcement with the increase in agents and brokers and focusing on quality. CMS is challenged to hit the correct metrics for consumer protection, and the goal is to provide a value-added service and not move enrollment numbers through as fast as possible. He said there are also a lot of data-matching issues that sometimes overlap with other issues, and these issues did assist with identifying unauthorized transfers, which provided CMS with the tools to be proactive and stop these unethical agents and brokers. The goal is to continue being proactive and monitor for any signs of fraudulent activity.

Zdanowicz said CMS has improved its agreements with states so that it can share information on suspicious claims. She said there is more to do, and CMS knows that, but with continued collaboration, they have made good progress and hit many of the points that the states have requested. Zdanowicz said they are also working with carriers and are already sharing terminations of cause. The termination notifications assist with the process, as some of these bad actors will be allowed to prove their good standing and come back.

Grant said there will be ongoing minor technical fixes that will be made to the process for a more enhanced direct enrollment, and CMS expects these to continue.

Swanson said that he and Buono have participated in several calls with CMS to analyze the data on these unauthorized transfers and assist with removing unethical agents and brokers. He said some specific things are delaying this process, including what is necessary at minimum for law enforcement purposes, and states are working to figure this out. Swanson said states have many of the same standards for fraud enforcement; however, each can be different, and some states may not have a fraud unit.

Stevens said that CMS mentioned the bad actors who have been removed have the ability to come back. He asked CMS if they could explain why they are allowed back.

Grant said it does suspend unethical agents and brokers, and if they do not respond to the suspension, then they are terminated. If they are terminated, they must wait five years before they can fill out paperwork with the Office of Inspector General (OIG) and work as an agent or broker again; however, there is no lifetime ban.

Buono said that the conversation surrounding these unauthorized transfers was not good two meetings ago, and then the next meeting was not much better. However, he noted that Grant came fully prepared for this meeting, and he thanked him on behalf of the Working Group for assisting with this serious issue and taking the opportunity to discuss it. He asked Grant if there would be any data that could be analyzed during the next meeting to utilize the momentum that was created during this meeting. Grant said by March 2025, CMS will have 12 months' worth of data that it could bring to the Working Group to review, with approval from CMS. Buono said the Working Group has seen the great progress made on this serious issue, but it wants to ensure that this progress continues, so reviewing the data in March will give it a good idea of what progress is being made.

3. Heard an Update on Congressional Activity

Brain Webb (NAIC) said the focus has been on improper marketing within the Affordable Care Act (ACA) and unauthorized agent transfers. He said that even though these have been the focus, if there are other issues states are seeing, please reach out to the NAIC. Webb said that with open enrollment coming up on Nov. 1, it will be a busy time, and more issues will surface.

© 2024 National Association of Insurance Commissioners

Webb said there are two areas of Congressional movement pertinent to the industry. The first is Medicare Advantage, and the NAIC is continuing to work with Congress to create a greater role for states in enforcing federal rules under Medicare Advantage, especially in marketing. He said it is possible that an end-of-year package will be available after the presidential and state elections.

Webb said the other area is that the Senate Finance Committee is working on a specific bill for the ACA that would greatly enhance penalties on agents, brokers, and anyone selling or part of the process who provides misinformation or files applications without proper documentation. He said this would explicitly give CMS authority over field marketing organizations and third-party marketing organizations, and any entities that are in the chain of enrollment would go through an ACA plan that is enrolled through the federal exchange.

Having no further business, the Improper Marketing of Health Insurance (D) Working Group adjourned.

© 2024 National Association of Insurance Commissioners

MARKET INFORMATION SYSTEMS (D) TASK FORCE

Market Information Systems (D) Task Force Aug. 2, 2024, Minutes 8-58
Report of the Market Information Systems Research and Development (D) Working Group (Attachment One) 8-60

© 2024 National Association of Insurance Commissioners

Draft: 8/12/24

Market Information Systems (D) Task Force
Virtual Meeting (*in lieu of meeting at the 2024 Summer National Meeting*)
August 2, 2024

The Market Information Systems (D) Task Force met Aug. 2, 2024. The following Task Force members participated: Chlora Lindley-Myers represented by Jo LeDuc, Chair (MO); Timothy J. Temple represented by Nina Hunter, Vice Chair (LA); Barbara D. Richardson represented by Maria Ailor (AZ); Alan McClain represented by Teri Ann Mecca (AR); Ricardo Lara represented by Pam O'Connell (CA); Andrew N. Mais represented by Kurt Swan (CT); Michael Yaworsky represented by Keith Nault (FL); Sharon P. Clark represented by Patrick Smith (KY); Joy Y. Hatchette represented by Mary Kwei (MD); Justin Zimmerman represented by Ralph Boeckman (NJ); and Glen Mulready represented by Landon Hubbart (OK). Also participating was John Haworth (WA).

1. Adopted its 2023 Fall National Meeting Minutes

Swan made a motion, seconded by Nault, to adopt the Task Force's Nov. 22, 2023, minutes (*see NAIC Proceedings – Fall 2023, Market Information Systems (D) Task Force*). The motion passed unanimously.

2. Adopted the Report of the Market Information Systems Research and Development (D) Working Group

Haworth said the Market Information Systems (D) Research and Development Working Group met in May. He said the Working Group considered two Uniform System Enhancement Request (USER) forms for additional codes and functionality on the Complaint Database System (CDS). The Working Group approved preliminary analysis to begin on: 1) adding a claim handling reason code for "balanced billings"; and 2) adding "insurance companies" in the drop-down description of the complainant in the State Based Systems (SBS) Complaints and Consumer Assistance and the SBS External Healthcare Review (EHR) portals.

Haworth said the Working Group also received the 2022 Market Information Systems (MIS) Data Analysis Metrics Report which measures the accuracy, completeness, and timeliness of data uploaded into the market information systems. He said that prior to the Working Group's next meeting, it will receive the 2023 metrics report.

Ailor made a motion, seconded by O'Connell, to adopt the report of the Market Information Systems Research and Development (D) Working Group (Attachment One). The motion passed unanimously.

3. Received a Report from the Market Analysis Procedures (D) Working Group

LeDuc said that late last summer and into fall, 26 jurisdictions were interviewed regarding how they use the Market Analysis Prioritization Tool (MAPT) for their baseline market analysis. She said a summary of the interviews is included in the materials for the Market Analysis Procedures (D) Working Group's June 24 meeting.

LeDuc said there are quite a few different baseline analysis techniques employed by jurisdictions using the MAPT, as well as quite a few commonalities. She said one conclusion drawn from the interviews was that the MAPT has not kept pace with technological changes and does not prioritize companies as effectively as it possibly can. As a result, there were a number of suggestions for improvement to enable analysts to work smarter, not harder.

LeDuc said the Working Group formed a MAPT recommendations subgroup to review the MAPT, consider the suggestions it received, and develop a set of recommendations for improving the MAPT that can be approved by the Working Group. She said there are 12 jurisdictions participating, and they are meeting twice a week.

© 2024 National Association of Insurance Commissioners

4. Received an Update on MIS Projects and USER Forms

Chris Witt (NAIC) began with the status of *State Connected* projects that affect the MIS.

Witt said *State Connected* Project 3.2 encompasses all the USER forms related to the RIRS, including the implementation of new codes and the support for attachments in the RIRS. He said work on the common architecture is complete, and the NAIC will be reaching out to the SBS states, the Vertafore states, and the states that send data to the NAIC directly to begin implementing the new RIRS codes. LeDuc said she was excited for the new RIRS coding enhancements.

He said *State Connected* Project 3.4 is the MCAS modernization project. He said the MCAS utilizes the Financial Data Repository (FDR) system backend. The FDR is being rewritten, and that rewrite is in the investigative phase. Much of what happens with the MCAS modernization will come out of the FDR rewrite. He said the work for the 2023 MCAS collection is complete, and work is beginning on the collection of the 2024 data year.

Having no further business, the Market Information Systems (D) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/D Cmte/2024/Summer National Meeting/D CMTE/2024 Summer/MISTF/08 MISTF T.docx

© 2024 National Association of Insurance Commissioners

Attachment One
Market Information Systems (D) Task Force
8/2/24

MARKET INFORMATION SYSTEMS RESEARCH AND DEVELOPMENT (D) WORKING GROUP

Meeting Summary Report

The Market Information Systems Working Group met May 6, 2024. During this meeting, the Working Group:

1. Reviewed the status of submitted Uniform System Enhancement Request (USER) forms and received an update on current NAIC ITG projects.

2. Approved for preliminary analysis a USER form to add a "General Balanced Billing" as a complaint reason code under "Claims Handling" to the Complaint Database System (CDS).

3. Approved for preliminary analysis a USER form to add "Insurance Company" to the drop down for description of complainant.

4. Received the Market Information Systems Data Analysis Metrics Reports for 2022. The 2023 data analysis metrics will be completed prior to the Working Group next meeting following the Summer National Meeting.

© 2024 National Association of Insurance Commissioners

PRODUCER LICENSING (D) TASK FORCE

Producer Licensing (D) Task Force Aug. 13, 2024, Minutes 8-62
Producer Licensing (D) Task Force May 9, 2024, Minutes (Attachment One) 8-66
Public Adjuster Licensing Model Act (#228) (Attachment Two) 8-69
Proposed Amendments to NAIC Uniform Licensing Applications (Attachment Three) 8-87
Proposed Amendments to NAIC Uniform Licensing Applications (Attachment Four) 8-93
Proposed Amendments to NAIC Uniform Licensing Applications (Attachment Five) 8-98
Proposed Amendments to NAIC Uniform Licensing Applications (Attachment Six) 8-102
Adjuster Licensing (D) Working Group June 12, 2024, Minutes (Attachment Seven) 8-107
Adjuster Licensing (D) Working Group May 15, 2024, Minutes (Attachment Eight) 8-108
Producer Licensing Uniformity (D) Working Group Aug. 6, 2024, Minutes (Attachment Nine) 8-110
Producer Licensing Uniformity (D) Working Group June 4, 2024, Minutes (Attachment Ten) 8-111
Producer Licensing Uniformity (D) Working Group May 7, 2024, Minutes (Attachment Eleven) 8-114
Producer Licensing Uniformity (D) Working Group April 2, 2024, Minutes (Attachment Twelve) 8-115
Public Adjuster Licensing (D) Working Group July 17, 2024, Minutes (Attachment Thirteen) 8-116
Public Adjuster Licensing (D) Working Group June 18, 2024, Minutes (Attachment Fourteen) 8-118
Public Adjuster Licensing (D) Working Group May 2, 2024, Minutes (Attachment Fifteen) 8-121
Public Adjuster Licensing (D) Working Group April 5, 2024, Minutes (Attachment Sixteen) 8-124
Uniform Education (D) Working Group July 10, 2024, Minutes (Attachment Seventeen) 8-127
Uniform Education (D) Working Group May 8, 2024, Minutes (Attachment Eighteen) 8-128

© 2024 National Association of Insurance Commissioners

Draft: 8/27/24

Producer Licensing (D) Task Force
Chicago, Illinois
August 13, 2024

The Producer Licensing (D) Task Force met in Chicago, IL, Aug. 13, 2024. The following Task Force members participated: Larry D. Deiter, Chair (SD); Glen Mulready, Vice Chair, represented by Erin Wainner and Courtney Khodabakhsh (OK); Lori K. Wing-Heier represented by Heather Carpenter (AK); Mark Fowler represented by Reyn Norman and Jimmy Gunn (AL); Ricardo Lara represented by Charlene Ferguson (CA); Trinidad Navarro (DE); Doug Ommen represented by Robin Petersen (IA); Vicki Schmidt represented by Monicka Richmeier (KS); Sharon P. Clark (KY); Joy Y. Hatchette represented by Mary Kwei (MD); Chlora Lindley-Myers represented by Jo LeDuc (MO); Mike Chaney represented by Vanessa Miller (MS); Mike Causey represented by Angela Hatchell (NC); Michael Humphreys represented by David Buono (PA); Elizabeth Kelleher Dwyer represented by Rachel Chester (RI); Cassie Brown represented by Randall Evans (TX); Scott A. White represented by Richard Tozer (VA); Kevin Gaffney represented by Mary Block (VT); and Mike Kreidler represented by Todd Dixon (WA).

1. Adopted its May 9 Minutes

The Task Force met May 9 and took the following action: 1) discussed the template for the 1033 waiver process; 2) heard reports from the Adjuster Licensing (D) Working Group, Producer Licensing Uniformity (D) Working Group, Public Adjuster Licensing (D) Working Group, and Uniform Education (D) Working Group; and 3) received comments from the American Council of Life Insurers (ACLI), Finseca, and the National Association of Insurance and Financial Advisors (NAIFA) seeking the following changes to the *State Licensing Handbook* (Handbook): a) clarify pre-licensing education is not required; b) encourage states to provide examinations in additional languages; and c) recognize the use of online examinations.

Chester made a motion, seconded by Tozer, to adopt the Task Force's May 9 minutes (Attachment One). The motion passed unanimously.

2. Received Comments on Proposed Amendments to Model #228

Buono said the Public Adjuster Licensing (D) Working Group adopted proposed amendments to Model #228 (Attachment Two) during its July 17 call. Buono said the Working Group received feedback from all parties over the last 10 months and incorporated feedback as much as possible. Buono said the revised *Public Adjuster Licensing Model Act* (#228) is not applicable to public adjusters who settle auto claims. Buono said the Working Group spent considerable time discussing the proposed cap on public adjuster fees. Buono said the Working Group is aware of public adjuster trade associations' concerns that the current fee caps proposal will eliminate consumers' ability to hire public adjusters for smaller value claims. Buono, each state will need to review Model #228 and decide what provisions are best for its marketplace.

Director Deiter asked for comments from state insurance regulators, interested parties, and consumer representatives regarding the proposed revisions to Model #228. No comments were offered.

3. Received Comments on the Draft 1033 Waiver Template

Director Deiter said he would like to focus on two issues. The first issue is whether the 1033 waiver template should be consistent with the language in the Handbook or whether states are suggesting a policy change. The Handbook sets forth a standard that the resident state bears responsibility for consideration of applications for consent waivers and that producers seeking nonresident licenses should not have to go through the 1033 process in all states after the producer's resident state has issued a waiver. Director Deiter said the second issue for

© 2024 National Association of Insurance Commissioners

discussion is the definition of "conviction." The current definition is the same one used for the NAIC Uniform Licensing Applications and reads as follows: "This term includes but is not limited to, having been found guilty by verdict of a judge or jury, having entered a plea of guilty or nolo contendere or no contest, or having been given probation, a suspended sentence or a fine." Director Deiter said there is a separate statement, which is not used on the NAIC Uniform Licensing Applications, that "States may include in the definition of 'Conviction' a plea in abeyance, a diversion, or an expunged conviction." This separate statement was added because there are differences in what states might consider as a "conviction."

Ferguson said the Producer Licensing Uniformity (D) Working Group will review the Handbook for possible revisions, including sections addressing 1033 waivers. Ferguson said she believes the Working Group will defer its review of the section addressing 1033 waivers until the Task Force has completed its work on the 1033 waiver template. Chester said most jurisdictions only require a waiver from home state license applicants.

Hearing no further comments, Director Deiter requested that NAIC staff work with a small group of subject matter experts (SMEs) to issue a revised draft within the next 45 days for the Task Force's review.

4. Exposed Proposed Amendments to the NAIC Uniform Producer Licensing Applications

Eric Saul (National Insurance Producer Registry—NIPR) said NIPR is estimating the proposed amendments (Attachments Three, Four, Five, Six), which the Producer Licensing (D) Uniformity Working Group adopted during its May 7 and June 4 calls, will take between 4,122 and 10,715 hours of work. Saul said this equates to roughly $330,000–$857,000 of investment to complete all the changes. Saul said NIPR is requesting this project start in October 2025. Saul said the development would be finished in February 2026, with production implementation ready between March and May 2026.

Hearing no further comments, Director Deiter requested that NAIC staff expose the proposed amendments to the NAIC Uniform Producer Licensing Applications, along with the proposed time and cost estimate from NIPR, for a 30-day comment period ending Sept. 12. Director Deiter said the Producer Licensing (D) Task Force will then consider the adoption of the changes and implementation timeline. The intent is to move these items to the Market Regulation and Consumer Affairs (D) Committee so the Committee can consider them by Oct. 15. The Executive (EX) Committee and Plenary could then consider the adoption of the proposed changes and implementation timeline at the Fall National Meeting.

5. Adopted the Reports of it Working Groups

A. Adjuster Licensing (D) Working Group

Chester said the Working Group met June 12 (Attachment Seven) and May 15 (Attachment Eight). During these meetings, the Working Group discussed the review of Chapter 18—Adjusters of the Handbook.

Chester said the Working Group continues to review Chapter 18 of the Handbook. Chester said the designated home state process for adjuster licensing has complicated the licensing process and encouraged all states to license independent adjusters. Chester said the Working Group issued a survey to states to identify how to create greater consistency in the licensing process and will continue to work with NIPR to assist states in implementing electronic licensing of adjusters, including the designated home state process.

© 2024 National Association of Insurance Commissioners

B. Producer Licensing Uniformity (D) Working Group

Khodabakhsh said the Working Group met Aug. 6 (Attachment Nine), June 4 (Attachment Ten), May 7 (Attachment Eleven), and April 2 (Attachment Twelve). During these meetings, the Working Group took the following action: 1) adopted the 2018 revisions of the NAIC Uniform Licensing Applications for the Individual and Business Entity (Initial and Renewal); and 2) discussed the review of the Handbook.

Khodabakhsh said the Working Group will not review the 1033 waiver provisions in Chapter 7—Continuing Education Recommended Guidelines for Classroom Course of the Handbook or the public adjuster licensing provisions in Chapter 18 until the Producer Licensing (D) Task Force completes its work on the 1033 waiver template and the Public Adjuster Licensing (D) Working Group completes its work on Model #228.

Khodabakhsh said states have expressed concerns about the licensing process for pharmacy benefits managers (PBMs), and a new chapter may be added to the Handbook to address the licensing process for PBMs. The Working Group is gathering data to determine the number of states licensing PBMs and the licensing processes used.

C. Public Adjuster Licensing (D) Working Group

Buono said the Working Group met July 17 (Attachment Thirteen), June 18 (Attachment Fourteen), May 2 (Attachment Fifteen) and April 5 (Attachment Sixteen). During these meetings, the Working Group took the following action: 1) adopted its June 18, May 2, and April 5 minutes; 2) adopted proposed amendments to Model #228; 3) received comments on the proposed amendments to Model #228; 4) discussed proposed amendments to Sections 15, 16, and 19 of Model #228 to strengthen regulatory standards regarding individuals acting as unlicensed public adjusters, contractors who are also acting as public adjusters on the same claim, and inappropriate assignment of benefits; 5) discussed proposed amendments to Sections 3 and 14 of Model #228, which address public adjuster fees; and 6) discussed its charge and scope of work, which is to consider amendments to Model #228 to strengthen regulatory standards governing the conduct of public adjusters for the following four issues: a) individuals acting as unlicensed public adjusters; b) contractors who are also acting as public adjusters on the same claim; c) inappropriate assignment of benefit rights; and d) excessive fees charged by public adjusters.

D. Uniform Education (D) Working Group

Tozer said the Working Group met July 10 (Attachment Seventeen) and May 8 (Attachment Eighteen). During these meetings, the Working Group took the following action: 1) discussed the creation of continuing education (CE) audit procedures and distributed a checklist containing the language from the draft CE audit procedures; and 2) discussed guidelines for the course introduction statements and how states provide course introductory statements.

Tozer said the Working Group is reviewing proposed CE course audit guidelines. Tozer said the goal is for each state to audit courses of its home state CE providers to eliminate duplication of efforts among the states. Tozer said the Working Group is reviewing states' CE course introductory statements and form requirements to enhance uniformity among states. Tozer said the Working Group has received all exam pass rates from examination vendors and has requested that NAIC staff post the state producer licensing exam pass rates to the NAIC website by the end of August.

David Leifer (ACLI) said the publishing of examination pass rates is important to industry, and he believes there has been a decrease in exam pass rates with the pass rates being lower than what is set forth in the Handbook. Commissioner Clark said the pass rates may be lower for many reasons. She said that Kentucky has observed

© 2024 National Association of Insurance Commissioners

instances where applicants have completed examinations in less than 20 minutes even though they have an hour to complete the exam.

Tozer made a motion, seconded by Commissioner Clark, to adopt the reports of the Adjuster Licensing (D) Working Group; Producer Licensing Uniformity (D) Working Group; Public Adjuster Licensing (D) Working Group; and Uniform Education (D) Working Group. The motion passed unanimously.

6. Received a Report from NIPR

Director Deiter said he serves as the president of the 2024 NIPR Board of Directors. He said the Board of Directors accepted a report from its Audit Committee, which highlighted NIPR's strong financial performance through the first half of the year. Through June, NIPR's revenue year-to-date (YTD) is $39.6 million, which is 5.7% over budget and 10.5% higher than the same period in 2023. Expenses through the month of June are $1.24 million or 3.3% under budget.

Director Deiter said the Board of Directors heard reports on two critical initiatives for 2024. He said state insurance regulators can expect an expanded team of trained experts who will provide a consistent point of contact, streamlined request handling, and a deep understanding of their needs. Director Deiter said NIPR has a multi-year project to improve the look and functionality of NIPR's website and the credentialing and reporting applications accessed through that site.

Director Deiter said NIPR continues to expand its services to allow electronic solutions for states and industry to process additional licensee updates, including name changes and designated responsible licensed producer (DRLP) changes. To date, NIPR has implemented 18 states for name changes and nine states for DRLP changes.

Deiter said NIPR and the NAIC continue providing the states' producer licensing zone training. The program covers producer licensing practices and current and emerging industry issues, encouraging dialogue among the state licensing peer regulators.

Having no further business, the Producer Licensing (D) Task Force adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 8/27/24

Producer Licensing (D) Task Force
Virtual Meeting
May 9, 2024

The Producer Licensing (D) Task Force met May 9, 2024. The following Task Force members participated: Larry D. Deiter, Chair (SD); Glenn Mulready represented by Erin Wainner and Courtney Khodabakhsh (OK); Lori K. Wing-Heier represented by Kayla Erickson (AK); Mark Fowler represented by Reyn Norman (AL); Ricardo Lara represented by Charlene Ferguson and Tyler McKinney (CA); Karima M. Woods represented by Sheila Parker-Johson (DC); Doug Ommen represented by Robin Petersen (IA); Amy L. Beard represented by Samantha Aldridge (IN); Vicki Schmidt represented by Monicka Richmeier (KS); Sharon P. Clark represented by Lee Webb, Shaun Orme and Ron Kreiter (KY); represented by Matthew Stewart and Emily Lala (LA); Kathleen A. Birrane represented by Jeff Gross (MD); Chlora Lindley-Myers represented by Marjorie Thompson and Brenda Horstman (MO); Jon Godfread represented John Arnold (ND); Eric Dunning represented by Kevin Schlautman (NE); D.J. Bettencourt represented by Joan LaCourse (NH); Judith L. French represented by Karen Vourvopoulos, Holly Strane and Lindsey Jones (OH); Elizabeth Kelleher Dwyer represented by Rachel Chester (RI); Cassie Brown represented by Matt Tapp and Jon Huebner (TX); Jon Pike represented by Randy Overstreet (UT); Scott A. White represented by Richard Tozer (VA); Kevin Gaffney represented by Mary Block and Calley Rock (VT); Mike Kreidler represented by Todd Dixon and Jeff Baughman (WA); Nathan Houdek represented by Melody Esquivel and Rebecca Rebholz (WI); and Allan L. McVey represented by Robert Grishaber (WV). Also participating was David Buono (PA).

1. Discuss the Template for the 1033 Process

Director Deiter said the draft document distributed for the call today incorporates many of the comments that were submitted on the initial draft of 2022. Director Deiter reviewed the proposed edits.

- Section 1.C was revised to remind insurance entities which might employ a prohibited person who does not have a waiver to take the necessary steps to have the individual apply for a waiver.
- Section 2 edits include technical revisions, but the primary purpose of the edits is to emphasize the Home State is the primary state to consider a 1033 waiver unless an individual's Home State does not issue 1033 waivers. The section clarifies the type of information a state insurance department may request as part of the consideration of a 1033 waiver.
- The Definition of "Breach of Trust" was changed to the definition referenced in the NAIC's "Guidelines for State Insurance Regulators to the Violent Crime Control and Law Enforcement Act of 1994."
- The Definition of "Conviction" was changed to be consistent with the definition reflected on the NAIC's Uniform Individual Producer Licensing. At the same time, the section continues to recognize some states may include in the definition of "conviction" a plea in abeyance, a diversion, or an expunged conviction.
- The Definition of "Dishonesty" was changed to the definition referenced in the NAIC's "Guidelines for State Insurance Regulators to the Violent Crime Control and Law Enforcement Act of 1994."
- Section 4 was amended to recognize some states do not have a separate 1033 consent process.
- Section 5 was amended to create additional transparency regarding notification of the 1033 waiver process and a recommendation for states to submit their final waiver decisions to the NAIC 1033 State Decision Repository.
- Section 6 was amended to provide additional clarity regarding potential standards a state may use to evaluate a 1033 waiver request.
- The title of Section 7 was amended to better reflect the intent of the section.

Ferguson said subsection 1.C should be modified to state insurance entities which already employ a prohibited person who does not have a waiver must take the necessary steps to have the individual apply for a 1033 written

© 2024 National Association of Insurance Commissioners

consent. Ferguson said the reference to the types of information listed in subsection 2.A that a prohibited person may be required to disclose to an insurance department should be added to Section IV of the Short Form Application. McKinney said California has always interpreted the Federal *Violent Crime Control and Law Enforcement Act of 1994* to require a prohibited person to obtain a 1033 consent from each state in which a prohibited person intends to engage in the business of insurance.

Tozer said the short form application was initially used for existing licensees who had to retroactively obtain a 1033 consent after the adoption of the Federal *Violent Crime Control and Law Enforcement Act of 1994.* Tozer questioned whether the short form application is the correct application to use today. Tozer suggested keeping the language "a crime involving dishonesty includes, but is not limited to" in the definition of Dishonesty. Tozer suggested retaining subsection 6.J "whether other jurisdictions have granted or denied an 18 U.S.C. 1033 consent."

Hearing no further comments, Director Deiter requested NAIC staff circulate the draft 1033 template for a 30-day comment period.

2. Hear Reports of the Task Force Working Groups

- Adjuster Licensing (D) Working Group

Chester said the Working Group is reviewing the Adjuster Licensing Chapter of the State Licensing Handbook. Chester said the Working Group will hold a conference call on May 15 to review the comments on the chapter.

- Producer Licensing Uniformity (D) Working Group

Khodabaskhsh said the Working Group is reviewing the 2018 proposed amendments to the Uniform Licensing Applications. Khodabaskhsh said the Working Group adopted its recommendations on the amendments to the initial licensing application for individuals and will begin reviewing the proposed amendments to the business entity application and the renewal applications for both individuals and business entities. Khodabaskhsh said the Working Group will hold its next meeting in June and plans to complete its recommendations on the applications prior to the NAIC Summer National Meeting.

- Public Adjuster Licensing (D) Working Group

Buono said the Working Group was given a charge to amend the NAIC Public Adjuster Licensing Model Act (#228) to enhance consumer protections for the following four issues: 1) individuals acting as unlicensed public adjusters; 2) contractors who are also acting as public adjusters on the same claim; 3) inappropriate Assignment of Benefit rights; and 4) excessive fees charged by public adjusters. Buono said the Working Group circulated draft revisions, has solicited two rounds of comments, and has held two open conference calls. The first call was held on April 5th and the second call was held on May 2nd. During the call on April 5th, Commissioner Navarro reviewed the proposed changes to the model act. The second call on May 2nd was devoted to the discussion of compensation caps for public adjusters. The current proposal amends section 14 of the model and places a compensation cap of 10% for catastrophe (CAT) claims and 15% for any claim settlement. Given the significance of this issue and the potential impact a fee cap may have on the marketplace, the Working Group continues to seek additional input from all parties. The Working Group will hold another call in May and is working to adopt a revised model for the Task Force's consideration this year.

- Uniform Education (D) Working Group

Tozer said the Working Group held a regulator-only call on March 6 and an open call on May 8. During the March 6 call, the Working Group reviewed its priorities, including the development of CE Audit Guidelines, Guidelines for Course Introduction statements/forms, and the posting of exam pass rates. Tozer said the Working Gorup was informed about the NAIC Member's adoption of the CE Course Instructor Approval Guidelines, which have been posted to the Working Group's webpage. Tozer said the Working Group discussed developing CE course audit guidelines. Virginia shared its audit guidelines and forms with the Working Group. Tozer said the goal is for each state to audit courses for its Home State providers to avoid duplicative efforts by other states and thus increase the number of providers/courses audited. Tozer said states should share findings with each other so states can take appropriate action against providers not following NAIC guidelines. On the May 8th call, Tozer said the Working Group agreed to distribute a checklist of audit guidelines with additional questions on enforcement of CE violations. Tozer said the Working Group is conducting a survey to identify state pre-course student requirements for CE courses. Tozer said the Working Group received an update on the first-time test-taker pass rates for 2022 and has started to collect this data for 2023. Tozer said the Working Group will survey states to determine how many are following the NAIC State Licensing Handbook best practices by posting pass rates on their websites.

3. Receive Comments from ACLI, Finseca, NAIFA

Melissa Bova (Finseca) said industry has been working in partnership for the last two years to address recruitment, retention & diversity in the profession. Bova said the ACLI, Finseca, and NAIFA are seeking the following changes to the NAIC State Licensing Handbook:

- Clarify that while states may choose to have pre-licensing hours, there are no longer required nor is there a suggested minimum number of hours in the State Licensing Handbook. Bova said research shows that pre-licensing mandates do not produce candidates more prepared to pass the exam.
- Allow additional language licensing exams & materials.
- Recognize online access exams. Bova said proctored exams can offer equivalent security measures as applied to in-person exams, pass rates are virtually identical, and an online option makes the exam process more convenient for a wider variety of individuals.

Commissioner Deiter suggested these issues be referred to the Producer Licensing Uniformity (D) Working Group since that working group is charged with oversight of the State Licensing Handbook.

4. Any Other Matters

Deiter said Producer Licensing (D) Task Force will likely hold an in-person meeting on Aug. 13 during the NAIC Summer National Meeting.

Having no further business, the Producer Licensing (D) Task Force adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

PUBLIC ADJUSTER LICENSING MODEL ACT

Table of Contents

Section 1. Purpose and Scope
Section 2. Definitions
Section 3. License Required
Section 4. Application for License
Section 5. Resident License
Section 6. Examination
Section 7. Exemptions from Examination
Section 8. Nonresident License Reciprocity
Section 9. License
Section 10. Apprentice Public Adjuster License [Optional]
Section 11. License Denial, Nonrenewal, or Revocation
Section 12. Bond or Letter of Credit
Section 13. Continuing Education
Section 14. Public Adjuster Fees
Section 15. Contract Between Public Adjuster and Insured
Section 16. Unlicensed Actors
Section ~~16~~17. Escrow or Trust Accounts
Section ~~17~~18. Record Retention
Section ~~18~~19. Standards of Conduct of Public Adjuster
Section ~~19~~20. Reporting of Actions
Section ~~20~~21. Regulations
Section ~~21~~22. Severability
Section ~~22~~23. Effective Date

Section 1. Purpose and Scope

This Act governs the qualifications and procedures for the licensing of public adjusters. It specifies the duties of and restrictions on public adjusters, which include limiting their licensure to assisting insureds in first party claims, excluding claims for personal or commercial auto lines of insurance.

Drafting Note: It is recommended that any statute or regulation inconsistent with this Act be repealed or amended.

Drafting Note: This Act also requires a report to the insurance commissioner of any action in another jurisdiction against either the public adjuster license or licensee.

Drafting Note: This Act is not intended to apply to the settlement of claims for personal or commercial auto lines of insurance.

Section 2. Definitions

A. "Apprentice public adjuster" means the one who is qualified in all respects as a public adjuster except as to experience, education and/or training.

B. "Business entity" means a corporation, association, partnership, limited liability company, limited liability partnership or other legal entity.

C. "Catastrophic disaster" according to the Federal Response Plan, means an event that results in large numbers of deaths and injuries; causes extensive damage or destruction of facilities that provide and sustain human needs; produces an overwhelming demand on state and local response resources and mechanisms; causes a severe long-term effect on general economic activity; and severely affects state, local and private

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

sector capabilities to begin and sustain response activities. A catastrophic disaster shall be declared by the President of the United States or the Governor of the state or district in which the disaster occurred.

D. "Fingerprints" for the purposes of this act, means an impression of the lines on the finger taken for purpose of identification. The impression may be electronic or in ink converted to electronic format.

E. "Home state" means the District of Columbia and any state or territory of the United States in which the public adjuster's principal place of residence or principal place of business is located. If neither the state in which the public adjuster maintains the principal place of residence nor the state in which the public adjuster maintains the principal place of business has a substantially similar law governing public adjusters, the public adjuster may declare another state in which it becomes licensed and acts as a public adjuster to be the 'home state.'

F. "Individual" means a natural person.

G. "Person" means an individual or a business entity.

H. "Public adjuster" means any person who, for compensation or any other thing of value on behalf of the insured:

(1) Acts or aids, solely in relation to first party claims arising under insurance contracts that insure the real or personal property of the insured, on behalf of an insured in negotiating for, or effecting the settlement of, a claim for loss or damage covered by an insurance contract;

(2) Advertises for employment as a public adjuster of insurance claims or solicits business or represents himself or herself to the public as a~~n~~ public adjuster of first party insurance claims for losses or damages arising out of policies of insurance that insure real or personal property; or

(3) Directly or indirectly solicits business, investigates or adjusts losses, or advises an insured about first party claims for losses or damages arising out of policies of insurance that insure real or personal property for another person engaged in the business of adjusting losses or damages covered by an insurance policy, for the insured.

I. "Uniform individual application" means the current version of the National Association of Insurance Commissioners (NAIC) Uniform Individual Application for resident and nonresident individuals.

J. [Optional] "Uniform business entity application" means the current version of the National Association of Insurance Commissioners (NAIC) Uniform Business Entity Application for resident and nonresident business entities.

Drafting Note: Subsection J is optional and would apply only to those states that have a business entity license requirement.

Drafting Note: If any term is similarly defined in a relevant section of the state's insurance code, do not include the definition of the term in this Act or, in the alternative, reference the statute: "[term] is defined in [insert appropriate reference to state law or regulation]."

Section 3. License Required

A. A person shall not act, ~~or~~ hold himself/herself out as a public adjuster, solicit, or negotiate a contract for public adjusting services in this state unless the person is licensed as a public adjuster in accordance with this Act.

B. A person licensed as a public adjuster shall not misrepresent to a claimant that ~~he or she is~~ they are an

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

adjuster representing an insurer in any capacity, including acting as an employee of the insurer or acting as an independent adjuster unless so appointed by an insurer in writing to act on the insurer's behalf for that specific claim or purpose. A licensed public adjuster is prohibited from charging that specific claimant a fee when appointed by the insurer and the appointment is accepted by the public adjuster.

C. A business entity acting as a public adjuster is required to obtain a public adjuster license. Application shall be made using the Uniform Business Entity Application. Before approving the application, the insurance commissioner shall find that:

(1) The business entity has paid the fees set forth in [insert appropriate reference to state law or regulation; and

(2) The business entity has designated a licensed public adjuster responsible for the business entity's compliance with the insurance laws, rules and regulations of this state.

Drafting Note: Subsection C is optional and would apply only to those states that have a business entity license requirement.

D. Notwithstanding subsection A through C, a license as a public adjuster shall not be required of the following:

(1) An attorney-at-law admitted to practice in this state, when acting in his or her professional capacity as an attorney;

(2) A person who negotiates or settles claims arising under a life or health insurance policy or an annuity contract;

(3) A person employed only for the purpose of obtaining facts surrounding a loss or furnishing technical assistance to a licensed public adjuster, including photographers, estimators, private investigators, engineers and handwriting experts;

(4) A licensed health care provider, or employee of a licensed health care provider, who prepares or files a health claim form on behalf of a patient; or

(5) A person who settles subrogation claims between insurers.

Section 4. Application for License

A. A person applying for a public adjuster license shall make application to the commissioner on the appropriate uniform application or other application prescribed by the commissioner.

B. The applicant shall declare under penalty of perjury and under penalty of refusal, suspension or revocation of the license that the statements made in the application are true, correct and complete to the best of the applicant's knowledge and belief.

C. In order to make a determination of license eligibility, the insurance commissioner is authorized to require fingerprints of applicants and submit the fingerprints and the fee required to perform the criminal history record checks to the state identification bureau (or state department of justice public state agency) and the Federal Bureau of Investigation (FBI) for state and national criminal history record checks; the insurance commissioner shall require a criminal history record check on each applicant in accordance with this Act. The insurance commissioner shall require each applicant to submit a full set of fingerprints in order for the insurance commissioner to obtain and receive National Criminal History Records from the FBI Criminal Justice Information Services Division.

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

(1) The insurance commissioner may contract for the collection, transmission and resubmission of fingerprints required under this section. If the commissioner does so, the fee for collecting, transmitting and retaining fingerprints shall be payable directly to the contractor by the person. The insurance commissioner may agree to a reasonable fingerprinting fee to be charged by the contractor.

(2) The insurance commissioner may waive submission of fingerprints by any person that has previously furnished fingerprints and those fingerprints are on file with the Central Repository of the ~~National Association of Insurance Commissioners (~~NAIC~~)~~, its affiliates or subsidiaries.

(3) The insurance commissioner is authorized to receive criminal history record information in lieu of the [insert reference to Department of Justice/Public Safety Agency] that submitted the fingerprints to the FBI.

(4) The insurance commissioner is authorized to submit electronic fingerprint records and necessary identifying information to the NAIC, its affiliates or subsidiaries for permanent retention in a centralized repository. The purpose of such a centralized repository is to provide insurance commissioners with access to fingerprint records in order to perform criminal history record checks.

Drafting Note: The FBI requires that fingerprints be submitted to the state Department of Law Enforcement, Public Safety or Criminal Justice for a check of state records before the fingerprints are submitted to the FBI for a criminal history check. The FBI recommends all fingerprint submissions to be in an electronic format. The FBI has approved the language in Section 4 (C) to authorize a state identification bureau to submit fingerprints on behalf of its applicants in conjunction with licensing and employment.

Drafting Note: If the state has adopted the Producer Licensing Model Act, it may not be necessary to adopt this section. Rather, the state may want to amend its relevant insurance producer statute to include public adjusters.
Drafting Note: This provision does not permit the sharing of criminal history record information with the NAIC or other insurance commissioners as such sharing of information is prohibited by 28 CFR 20.33.

Section 5. Resident License

A. Before issuing a public adjuster license to an applicant under this section, the commissioner shall find that the applicant:

(1) Is eligible to designate this state as his or her home state or is a nonresident who is not eligible for a license under Section 8;

(2) Has not committed any act that is a ground for denial, suspension or revocation of a license as set forth in Section 11;

(3) Is trustworthy, reliable, and of good reputation, evidence of which may be determined by the commissioner;

(4) Is financially responsible to exercise the license and has provided proof of financial responsibility as required in Section 12 of this Act;

(5) Has paid the fees set forth in [insert appropriate reference to state law or regulation]; and

(6) Maintains an office in the home state of residence with public access by reasonable appointment and/or regular business hours. This includes a designated office within a home state of residence.

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

B. In addition to satisfying the requirements of Subsection A, an individual shall

(1) Be at least eighteen (18) years of age; and

(2) Have successfully passed the public adjuster examination.

(3) Designate a licensed individual public adjuster responsible for the business entity's compliance with the insurance laws, rules, and regulations of this state; and

(4) Designate only licensed individual public adjusters to exercise the business entity's license.

Drafting Note: Subsection C is optional and would apply only to those states that have a business entity license requirement. C's PLMA Section 6B.

C. The commissioner may require any documents reasonably necessary to verify the information contained in the application.

Section 6. Examination

A. An individual applying for a public adjuster license under this act shall pass a written examination unless exempt pursuant to Section 7. The examination shall test the knowledge of the individual concerning the duties and responsibilities of a public adjuster and the insurance laws and regulations of this state. Examinations required by this section shall be developed and conducted under rules and regulations prescribed by the commissioner.

B. The commissioner may make arrangements, including contracting with an outside testing service, for administering examinations and collecting the nonrefundable fee set forth in [insert appropriate reference to state law or regulation].

C. Each individual applying for an examination shall remit a non-refundable fee as prescribed by the commissioner as set forth in [insert appropriate reference to state law or regulation].

D. An individual who fails to appear for the examination as scheduled or fails to pass the examination, shall reapply for an examination and remit all required fees and forms before being rescheduled for another examination.

Drafting Note: A state may wish to prescribe by regulation limitations on the frequency of application for examination in addition to other prelicensing requirements.

Drafting Note: If the state has adopted the Producer Licensing Model Act, it may not be necessary to adopt this section. Rather, the state may want to amend its relevant insurance producer statute to include public adjusters.

Section 7. Exemptions from Examination

A. An individual who applies for a public adjuster license in this state who was previously licensed as a public adjuster in another state based on an public adjuster examination shall not be required to complete any prelicensing examination. This exemption is only available if the person is currently licensed in that state or if the application is received within twelve (12) months of the cancellation of the applicant's previous license and if the prior state issues a certification that, at the time of cancellation, the applicant was in good standing in that state or the state's producer database records or records maintained by the NAIC, its affiliates, or subsidiaries, indicate that the public adjuster is or was licensed in good standing.

B. A person licensed as a public adjuster in another state based on an public adjuster examination who moves to this state shall make application within ninety (90) days of establishing legal residence to become a

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

resident licensee pursuant to Section 5. No prelicensing examination shall be required of that person to obtain a public adjuster license.

C. An individual who applies for a public adjuster license in this state who was previously licensed as a public adjuster in this state shall not be required to complete any prelicensing examination. This exemption is only available if the application is received within twelve (12) months of the cancellation of the applicant's previous license in this state and if, at the time of cancellation, the applicant was in good standing in this state.

Drafting Note: If the state has adopted the Producer Licensing Model Act , it may not be necessary to adopt this section. Rather, the state may want to amend its relevant insurance producer statute to include public adjusters.

Section 8. Nonresident License Reciprocity

A. Unless denied licensure pursuant to Section 11, a nonresident person shall receive a nonresident public adjuster license if:

(1) The person is currently licensed as a resident public adjuster and in good standing in his or her home state;

(2) The person has submitted the proper request for licensure, has paid the fees required by [insert appropriate reference to state law or regulation] [NAIC's PLMA Section 8A(2)], and has provided proof of financial responsibility as required in Section 12 of this Act;

(3) The person has submitted or transmitted to the commissioner the appropriate completed application for licensure; and

(4) The person's home state awards non-resident public adjuster licenses to residents of this state on the same basis.

B. The commissioner may verify the public adjuster's licensing status through the producer database maintained by the NAIC, its affiliates, or subsidiaries.

C. As a condition to continuation of a public adjuster license issued under this section, the licensee shall maintain a resident public adjuster license in his or her home state. The non-resident public adjuster license issued under this section shall terminate and be surrendered immediately to the commissioner if the home state public adjuster license terminates for any reason, unless the public adjuster has been issued a license as a resident public adjuster in his or her new home state. Notification to the state or states where non-resident license is issued must be made as soon as possible, yet no later that thirty (30) days of change in new state resident license. Licensee shall include new and old address. A new state resident license is required for non-resident licenses to remain valid. The new state resident license must have reciprocity with the licensing non-resident state(s) for the non-resident license not to terminate.

Drafting Note: If the state has adopted the PLMA, it may not be necessary to adopt this section. Rather, the state may want to amend its relevant insurance producer statute to include public adjusters.

Section 9. License

A. Unless denied licensure under this Act, persons who have met the requirements of this Act shall be issued a public adjuster license.

B. A public adjuster license shall remain in effect unless revoked, terminated or suspended as long as the

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

request for renewal and fee set forth in [insert appropriate reference to state law or regulation] is paid and any other requirements for license renewal are met by the due date.

C. The licensee shall inform the commissioner by any means acceptable to the commissioner of a change of address, change of legal name, or change of information submitted on the application within thirty (30) days of the change.

D. A licensed public adjuster shall be subject to [cite state's Unfair Claims Settlement Act and state's Trade Practices and Fraud sections of the Insurance Code].

E. A public adjuster who allows his or her license to lapse may, within twelve (12) months from the due date of the renewal, be issued a new public adjuster license upon the commissioner's receipt of the request for renewal. However, a penalty in the amount of double the unpaid renewal fee shall be required for the issue of the new public adjuster license. The new public adjuster license shall be effective the date the commissioner receives the request for renewal and the late payment penalty.

F. Any public adjuster licensee that fails to apply for renewal of a license before expiration of the current license shall pay a lapsed license fee of twice the license fee and be subject to other penalties as provided by law before the license will be renewed. If the Department receives the request for reinstatement and the required lapsed license fee within sixty (60) days of the date the license lapsed, the Department shall reinstate the license retroactively to the date the license lapsed. If the Department receives the request for reinstatement and the required lapsed license fee after sixty (60) days but within one year of the date the license lapsed, the Department shall reinstate the license prospectively with the date the license is reinstated. If the person applies for reinstatement more than one year from date of lapse, the person shall reapply for the license under this Act.

G. A licensed public adjuster ~~that~~who is unable to comply with license renewal procedures due to military service, a long-term medical disability, or some other extenuating circumstance, may request a waiver of those procedures. The public adjuster may also request a waiver of any examination requirement, fine, or other sanction imposed for failure to comply with renewal procedures.

Drafting Note: References to license "renewal" should be deleted in those states that do not require license renewal.

H. The license shall contain the licensee's name, city and state of business address, personal identification number, the date of issuance, the expiration date, and any other information the commissioner deems necessary. I. In order to assist in the performance of the commissioner's duties, the commissioner may contract with non-governmental entities, including the NAIC or any affiliates or subsidiaries that the NAIC oversees, to perform any ministerial functions, including the collection of fees and data, related to licensing that the commissioner may deem appropriate.]

Drafting Note: If the state has adopted the Producer Licensing Model Act, it may not be necessary to adopt this section. Rather, the state may want to amend its relevant insurance producer statute to include public adjusters.

Section 10. Apprentice Public Adjuster License ~~[~~(Optional~~]~~)

A. The apprentice public adjuster license is an optional license to facilitate the training necessary to ensure reasonable competency to fulfill the responsibilities of a public adjuster as defined in [insert state statute].

B. The apprentice public adjuster license shall be subject to the following terms and conditions:

(1) An attestation/certification from a licensed public adjuster (licensee) shall accompany an application for an initial apprentice public adjuster license assuming responsibility for all actions

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

of such applicant;

(2) The apprentice public adjuster is authorized to adjust claims in the state that has issued licensure only;

(3) The apprentice public adjuster shall not be required to take and successfully complete the prescribed public adjuster examination;

(4) The licensee shall at all times be an employee of a public adjuster and subject to training, direction, and control by a licensed public adjuster;

(5) The apprentice public adjuster license is for a period not to exceed twelve (12) months, the license shall not be renewed;

(6) The licensee is restricted to participation in factual investigation, tentative closing and solicitation of losses subject to the review and final determination of a licensed public adjuster;

(7) Compensation of an apprentice public adjuster shall be on a salaried or hourly basis only; and

(8) The licensee shall be subject to suspension, revocation, or conditions in accordance with [Insert ~~S~~state ~~L~~laws].

Section 11. License Denial, Non-~~r~~Renewal, or Revocation

A. The commissioner may place on probation, suspend, revoke or refuse to issue or renew a public adjuster's license or may levy a civil penalty in accordance with [insert appropriate reference to state law] or any combination of actions, for any one or more of the following causes:

(1) Providing incorrect, misleading, incomplete, or materially untrue information in the license application;

(2) Violating any insurance laws, or violating any regulation, subpoena, or order of the commissioner or of another state's insurance commissioner;

(3) Obtaining or attempting to obtain a license through misrepresentation or fraud;

(4) Improperly withholding, misappropriating, or converting any monies or properties received in the course of doing insurance business;

(5) Intentionally misrepresenting the terms of an actual or proposed insurance contract or application for insurance;

(6) Having been convicted of a felony;

(7) Having admitted or been found to have committed any insurance unfair trade practice or insurance fraud;

(8) Using fraudulent, coercive or dishonest practices; or demonstrating incompetence, untrustworthiness or financial irresponsibility in the conduct of business in this state or elsewhere;

(9) Having an insurance license, or its equivalent, denied, suspended, or revoked in any other state,

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

province, district or territory;

(10) Forging another's name to an application for insurance or to any document related to an insurance transaction;

(11) Cheating, including improperly using notes or any other reference material, to complete an examination for an insurance license;

(12) Knowingly accepting insurance business from an individual who is not licensed but who is required to be licensed by the commissioner;

(13) Failing to comply with an administrative or court order imposing a child support obligation; or

(14) Failing to pay state income tax or comply with any administrative or court order directing payment of state income tax.

Drafting Note: Paragraph (14) is for those states that have a state income tax.

B. In the event that the action by the commissioner is to deny an application for or not renew a license, the commissioner shall notify the applicant or licensee and advise, in writing, the applicant or licensee of the reason for the non-renewal or denial of the applicant's or licensee's license. The applicant or licensee may make written demand upon the commissioner within [insert appropriate time period from state's administrative procedure act] for a hearing before the commissioner to determine the reasonableness of the commissioner's action. The hearing shall be held within [insert time period from state law] and shall be held pursuant to [insert appropriate reference to state law].

C. The license of a business entity may be suspended, revoked or refused if the commissioner finds, after hearing, that an individual licensee's violation was known or should have been known by one or more of the partners, officers or managers acting on behalf of the business entity and the violation was neither reported to the commissioner nor corrective action taken.

D. In addition to or in lieu of any applicable denial, suspension or revocation of a license, a person may, after hearing, be subject to a civil fine according to [insert appropriate reference to state law].

E. The commissioner shall retain the authority to enforce the provisions of and impose any penalty or remedy authorized by this Act and Title [insert appropriate reference to state law] against any person who is under investigation for or charged with a violation of this Act or Title [insert appropriate reference to state law] even if the person's license or registration has been surrendered or has lapsed by operation of law.

Drafting Note: If the state has adopted the Producer Licensing Model Act, it may not be necessary to adopt this section. The state may want to amend its relevant insurance producer statute to include public adjusters.

Section 12. Bond or Letter of Credit

Prior to issuance of a license as a public adjuster and for the duration of the license, the applicant shall secure evidence of financial responsibility in a format prescribed by the insurance commissioner through a security bond or irrevocable letter of credit:

A. A surety bond executed and issued by an insurer authorized to issue surety bonds in this state, which bond:

(1) Shall be in the minimum amount of $20,000;

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

(2) Shall be in favor of this state and shall specifically authorize recovery by the commissioner on behalf of any person in this state who sustained damages as the result of erroneous acts, failure to act, conviction of fraud, or conviction of unfair practices in his or her capacity as a public adjuster; and

(3) Shall not be terminated unless at least thirty (30) days' prior written notice will have been filed with the commissioner and given to the licensee.

B. An irrevocable letter of credit issued by a qualified financial institution, which letter of credit:

(1) Shall be in the minimum amount of $20,000;

(2) Shall be to an account to the commissioner and subject to lawful levy of execution on behalf of any person to whom the public adjuster has been found to be legally liable as the result of erroneous acts, failure to act, fraudulent acts, or unfair practices in his or her capacity as a public adjuster; and

(3) Shall not be terminated unless at least thirty (30) days' prior written notice will have been filed with the commissioner and given to the licensee.

C. The issuer of the evidence of financial responsibility shall notify the commissioner upon termination of the bond or letter of credit, unless otherwise directed by the commissioner.

D. The commissioner may ask for the evidence of financial responsibility at any time he or she deems relevant.

E. The authority to act as a public adjuster shall automatically terminate if the evidence of financial responsibility terminates or becomes impaired.

Section 13. Continuing Education

A. An individual, who holds a public adjuster license and who is not exempt under Subsection B of this section, shall satisfactorily complete a minimum of twenty-four (24) hours of continuing education courses, including ethics, reported on a biennial basis in conjunction with the license renewal cycle.

B. This section shall not apply to:

(1) Licensees not licensed for one full year prior to the end of the applicable continuing education biennium; or

(2) Licensees holding nonresident public adjuster licenses who have met the continuing education requirements of their home state and whose home state gives credit to residents of this state on the same basis.

C. Only continuing education courses approved by the commissioner shall be used to satisfy the continuing education requirement of Subsection A.

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

Section 14. Public Adjuster Fees

~~A. [Optional] A public adjuster may charge the insured a reasonable fee as determined by state law [insert appropriate reference to state law or regulation].~~

~~**Drafting Note:** This model designates Section 14A as optional. A majority of the states do not require a cap on fees of public adjusters.~~

~~B~~A. A public adjuster shall not pay a commission, service fee or other valuable consideration to a person for investigating or settling claims in this state if that person is required to be licensed under this Act and is not so licensed.

~~C~~B. A person shall not accept a commission, service fee or other valuable consideration for investigating or settling claims in this state if that person is required to be licensed under this Act and is not so licensed.

~~D~~C. A public adjuster may pay or assign commission, service fees or other valuable consideration to persons who do not investigate or settle claims in this state, unless the payment would violate [insert appropriate reference to state law, i.e. citation to anti-rebating statute or sharing commission statute, if applicable].

~~E~~D. ~~[Optional] In the event of a catastrophic disaster, t~~There shall be limits on ~~catastrophic~~ fees~~,~~. ~~n~~No public adjuster shall charge, agree to or accept as compensation or reimbursement any payment, commission, fee, or another thing of value equal ~~to~~of more than ten percent (10%) ~~of any insurance settlement or proceeds~~for any catastrophic insurance claim settlement, and no more than fifteen percent (15%) for any insurance claim settlement. No public adjuster shall require, demand or accept any fee, retainer, compensation, deposit, or other thing of value, prior to settlement of a claim.

~~**Drafting Note:** This model designates Section 14E, as optional. It is recommended that the states that establish catastrophic fees utilize the recommended language in this model.~~

Section 15. Contract Between Public Adjuster and Insured

A. Public adjusters shall ensure that all contracts for their services are in writing and contain the following terms:

(1) Legible full name of the adjuster signing the contract, as specified in Department of Insurance records;

(2) Permanent home state business address and phone number;

(3) Department of Insurance license number;

(4) Title of "Public Adjuster Contract";

(5) The insured's full name, street address, insurance company name and policy number, if known or upon notification;

(6) A description of the loss and its location, if applicable;

(7) Description of services to be provided to the insured;

(8) Signatures of the public adjuster and the insured;

(9) Date contract was signed by the public adjuster and date the contract was signed by the insured;

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

(10) Attestation language stating that the public adjuster is fully bonded pursuant to state law; and

(11) Full salary, fee, commission, compensation or other considerations the public adjuster is to receive for services.

B. The contract may specify that the public adjuster shall be named as a co-payee on an insurer's payment of a claim.

(1) If the compensation is based on a share of the insurance settlement, the exact percentage shall be specified.

(2) Initial expenses to be reimbursed to the public adjuster from the proceeds of the claim payment shall be specified by type, with dollar estimates set forth in the contract and with any additional expenses first approved by the insured.

(3) Compensation provisions in a public adjusting contract shall not be redacted in any copy of the contract provided to the commissioner. Such a redaction shall constitute an omission of material fact in violation of [insert reference to relevant state law].

C. If the insurer, not later than seventy-two (72) hours after the date on which the loss is reported to the insurer, either pays or commits in writing to pay to the insured the policy limit of the insurance policy, the public adjuster shall:

(1) Not receive a commission consisting of a percentage of the total amount paid by an insurer to resolve a claim;

(2) Inform the insured that loss recovery amount might not be increased by insurer; and

(3) Be entitled only to reasonable compensation from the insured for services provided by the public adjuster on behalf of the insured, based on the time spent on a claim and expenses incurred by the public adjuster, until the claim is paid or the insured receives a written commitment to pay from the insurer.

D. A public adjuster shall provide the insured a written disclosure concerning any direct or indirect financial interest that the public adjuster has with any other party who is involved in any aspect of the claim, other than the salary, fee, commission or other consideration established in the written contract with the insured, including but not limited to any ownership of, other than as a minority stockholder, or any compensation expected to be received from, any construction firm, salvage firm, building appraisal firm, motor vehicle repair shop, or any other firm which that provides estimates for work, or that performs any work, in conjunction with damages caused by the insured loss on which the public adjuster is engaged. The word "firm" shall include any corporation, partnership, association, joint-stock company or person.

E. A public adjuster contract may not contain any contract term that:

(1) Allows the public adjuster's percentage fee to be collected when money is due from an insurance company, but not paid, or that allows a public adjuster to collect the entire fee from the first check issued by an insurance company, rather than as percentage of each check issued by an insurance company;

(2) Requires the insured to authorize an insurance company to issue a check only in the name of the

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

public adjuster;

(3) Imposes collection costs or late fees; or

(4) Precludes a public adjuster from pursuing civil remedies.

F. Prior to the signing of the contract the public adjuster shall provide the insured with a separate disclosure document regarding the claim process that states:

(1) Property insurance policies obligate the insured to present a claim to his or her insurance company for consideration. There are three (3) types of adjusters that could be involved in that process. The definitions of the three types are as follows:

(a) "Company adjuster" means the insurance adjusters who are employees of an insurance company. They represent the interest of the insurance company and are paid by the insurance company. They will not charge you a fee.

(b) "Independent adjuster" means the insurance adjusters who are hired on a contract basis by an insurance company to represent the insurance company's interest in the settlement of the claim. They are paid by your insurance company. They will not charge you a fee.

(c) "Public adjuster" means the insurance adjusters who do not work for any insurance company. They work for the insured to assist in the preparation, presentation and settlement of the claim. The insured hires them by signing a contract agreeing to pay them a fee or commission based on a percentage of the settlement, or other method of compensation.

(2) The insured is not required to hire a public adjuster to help the insured meet his or her obligations under the policy, but has the right to do so.

(3) The insured has the right to initiate direct communications with the insured's attorney, the insurer, the insurer's adjuster, and the insurer's attorney, or any other person regarding the settlement of the insured's claim.

(4) The public adjuster is not a representative or employee of the insurer.

(5) The salary, fee, commission or other consideration is the obligation of the insured, not the insurer.

G. The contracts shall be executed in duplicate to provide an original contract to the public adjuster, and an original contract to the insured. The public adjuster's original contract shall be available at all times for inspection without notice by the commissioner.

H. The public adjuster shall provide the insurer a notification letter, which has been signed by the insured, authorizing the public adjuster to represent the insured's interest. The insurer shall verify the public adjuster holds a valid license with the Department of Insurance.

I. The public adjuster shall give the insured written notice of the insured's right as provided in [cite the state consumer protection laws].

J. The insured has the right to rescind the contract within three (3) business days after the date the contract was signed. The rescission shall be in writing and mailed or delivered to the public adjuster at the address in the contract within the three (3) business day period.

MO-228-13

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

K. If the insured exercises the right to rescind the contract, anything of value given by the insured under the contract will be returned to the insured within fifteen (15) business days following the receipt by the public adjuster of the cancellation notice.

L. Subject to its terms relating to assignability, a property insurance policy, whether heretofore or hereafter issued, under the terms of which the policy and its rights and benefits are assignable, may provide that the rights and benefits under the insurance may only be assigned to a person who has the legal authority to represent the named insured or to a subsequent owner of the property to whom title is transferred, and may explicitly prohibit assignment of rights and benefits to any other person, including a property repair contractor. For purposes of this subsection, having "legal authority to represent the named insured" includes the person named by the named insured as having the named insured's power of attorney, the person who is the name insured's licensed public adjuster, or any other comparable person. Property repair contractors operating in this state may not subvert the public adjuster licensing requirements of [insert appropriate reference to state law] through the acquisition of a power of attorney from the named insured.

Drafting Note: The details in this section should comply with your state's consumer protection contract rescission law.

Section 16. Unlicensed Actors

A person or entity commits a fraudulent insurance act if he or she:

A. Represents or advertises themself to be a public adjuster who has not met the requirements of licensure under [insert appropriate reference to state law].

B. Conducts business for which a license is required under this Act without a license.

Section ~~16~~17. Escrow or Trust Accounts

A public adjuster who receives, accepts or holds any funds on behalf of an insured, towards the settlement of a claim for loss or damage, shall deposit the funds in a non-interest bearing escrow or trust account in a financial institution that is insured by an agency of the federal government in the public adjuster's home state or where the loss occurred.

Section ~~17~~18. Record Retention

A. A public adjuster shall maintain a complete record of each transaction as a public adjuster. The records required by this section shall include the following:

(1) Name of the insured;

(2) Date, location and amount of the loss;

(3) Copy of the contract between the public adjuster and insured;

(4) Name of the insurer, amount, expiration date and number of each policy carried with respect to the loss;

(5) Itemized statement of the insured's recoveries;

(6) Itemized statement of all compensation received by the public adjuster, from any source whatsoever, in connection with the loss;

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

(7) A register of all monies received, deposited, disbursed, or withdrawn in connection with a transaction with an insured, including fees transfers and disbursements from a trust account and all transactions concerning all interest bearing accounts;

(8) Name of public adjuster who executed the contract;

(9) Name of the attorney representing the insured, if applicable, and the name of the claims representatives of the insurance company; and

(10) Evidence of financial responsibility in a format prescribed by the insurance commissioner.

B. Records shall be maintained for at least five (5) years after the termination of the transaction with an insured and shall be open to examination by the commissioner at all times.

C. Records submitted to the commissioner in accordance with this section that contain information identified in writing as proprietary by the public adjuster shall be treated as confidential by the commissioner and shall not be subject to [insert reference to open record laws] of this state.

Section ~~18~~19. Standards of Conduct of Public Adjuster

A. A public adjuster is obligated, under his or her license, to serve with objectivity and complete loyalty the interest of his client alone; and to render to the insured such information, counsel and service, as within the knowledge, understanding and opinion in good faith of the licensee, as will best serve the insured's insurance claim needs and interest.

B. A public adjuster shall not solicit, or attempt to solicit, an insured during the progress of a loss-producing occurrence, as defined in the insured's insurance contract.

C. A public adjuster shall not advertise or infer damage unless an inspection of the property has been completed.

D. A public adjuster shall not offer to pay an insured's deductible, or claim the insured's deductible will be waived, as an inducement to using the services of a public adjuster.

~~C~~E. A public adjuster shall not permit an unlicensed employee or representative of the public adjuster to conduct business for which a license is required under this Act.

~~D~~F. A public adjuster shall not have a direct or indirect financial interest in any aspect of the claim, other than the salary, fee, commission or other consideration established in the written contract with the insured~~, unless full written disclosure has been made to the insured as set forth in Section 15G~~.

~~E~~G. A public adjuster shall not acquire any interest in salvage of property subject to the contract with the insured unless the public adjuster obtains written permission from the insured after settlement of the claim with the insurer as set forth in Section 15G.

~~F~~H. The public adjuster shall abstain from referring or directing the insured to get needed repairs or services in connection with a loss from any person~~, unless disclosed to the insured:~~

(1) With whom the public adjuster has a financial interest; or

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

(2) From whom the public adjuster may receive direct or indirect compensation for the referral.

Drafting Note: Optional language for Subsection F: "Licensees may not solicit a client for employment between the hours of ___ pm and ___ am."

~~G~~. ~~The public adjuster shall disclose to an insured if he or she has any interest or will be compensated by any construction firm, salvage firm, building appraisal firm, motor vehicle repair shop or any other firm that performs any work in conjunction with damages caused by the insured loss. The word "firm" shall include any corporation, partnership, association, joint stock company or individual as set forth in Section 15A(4).~~

~~H~~I. Any compensation or anything of value in connection with an insured's specific loss that will be received by a public adjuster shall be disclosed by the public adjuster to the insured in writing including the source and amount of any such compensation.

~~I~~J. Public adjusters shall adhere to the following general ethical requirements:

(1) A public adjuster shall not undertake the adjustment of any claim if the public adjuster is not competent and knowledgeable as to the terms and conditions of the insurance coverage, or which otherwise exceeds the public adjuster's current expertise;

(2) A public adjuster shall not knowingly make any oral or written material misrepresentations or statements which are false or maliciously critical and intended to injure any person engaged in the business of insurance to any insured client or potential insured client;

(3) No public adjuster, while so licensed by the Department, may represent or act as a company adjuster, or independent adjuster on the same claim;

Drafting Note: If a state only allows licensure in one class of adjuster licensing, the adjuster may not represent another type of licensure in any circumstance.

(4) The contract shall not be construed to prevent an insured from pursuing any civil remedy after the three-business day revocation or cancellation period;

(5) A public adjuster shall not enter into a contract or accept a power of attorney that vests in the public adjuster the effective authority to choose the persons who shall perform repair work; and

(6) A public adjuster shall ensure that all contracts for the public adjuster's services are in writing and set forth all terms and conditions of the engagement.

~~J~~K. A public adjuster may not agree to any loss settlement without the insured's knowledge and consent.

Section ~~19~~20. Reporting of Actions

A. The public adjuster shall report to the commissioner any administrative action taken against the public adjuster in another jurisdiction or by another governmental agency in this state within thirty (30) days of the final disposition of the matter. This report shall include a copy of the order, consent to order, or other relevant legal documents.

B. Within thirty (30) days of the initial pretrial hearing date, the public adjuster shall report to the commissioner any criminal prosecution of the public adjuster taken in any jurisdiction. The report shall include a copy of the initial complaint filed, the order resulting from the hearing, and any other relevant legal documents.

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

Drafting Note: If the state has adopted the Producer Licensing Model Act , it may not be necessary to adopt this section. Rather, the state may want to amend its relevant insurance producer statute to include public adjusters.

Section ~~20~~21. Regulations

The commissioner may, in accordance with [insert appropriate reference to state law], promulgate reasonable regulations as are necessary or proper to carry out the purposes of this Act.

Section ~~21~~22. Severability

If any provisions of this Act, or the application of a provision to any person or circumstances, shall be held invalid, the remainder of the Act, and the application of the provision to persons or circumstances other than those to which it is held invalid, shall not be affected.

Section ~~22~~23. Effective Date

This Act shall take effect [insert date]. Provided, however that the provision of Section 4 does not become effective until a state participates in the NAIC's central repository for the purpose of obtaining criminal background information.

Drafting Note: A minimum of six months to one-year implementation time for proper notice of changes, fees, and procedures is recommended.

Chronological Summary of Action (all references are to the Proceedings of the NAIC).

2005 Proc. 2nd Quarter 698 (adopted by parent committee).
2005 Proc. 3rd Quarter 26, 35-49 (amended and adopted by Plenary).

© 2024 National Association of Insurance Commissioners

Draft: 6/18/24

Adopted by the Executive Committee and Plenary, XX, 2024
Adopted by the Market Regulation and Consumer Affairs (D) Committee, XX, 2024
Adopted by the Producer Licensing (D) Task Force, XX, 2024
Adopted by the Public Adjuster Licensing (D) Working Group, July 17, 2024

Revisions marks reflect proposed changes from Public Adjuster Model Act adopted by the NAIC in 2005.

NAIC Public Insurance Adjuster Surety Bond Sample

BOND NO. _____

Know All Persons by These Presents:
That we, _____as Principal, whose address is _____ _____and _____as Surety, being a surety company authorized to do business in the State of _____re bound to the _____ Department of Insurance in the sum of $10,000.00 as specified at [insert reference to state law or regulation]. The specified sum is payable to the [insert state] Department of Insurance for the use and benefit of any customer of the above described Principal and as defined by the [insert state] Insurance Code, [insert citation] in acceptable currency of the United States in accordance with the statutory provision cited above. By this instrument, we jointly and severally firmly bind ourselves, out heir s, executors, administrators, successors and assigns.

The conditions of the above obligations are:

Whereas the above named Principal has applied to the [insert state] Department of Insurance for a license as a Public Insurance Adjuster to engage in or continue the business of insurance as a Public Insurance Adjuster in accordance with the [insert state] Insurance Code;

Now, Therefore, should the Principal discharge losses that result from any final judgment recovered against the Principal by any customer, this obligation will become void. If this obligation is not void, it remains in full force and effect, subject to the following conditions:

1. As of _____, 20_____, this bond will be in full force and effect indefinitely. Continuation or renewal certificates are unnecessary.

2. The surety may, at any time, terminate this bond by submitting written notice to the [insert state] Department of Insurance thirty (30) days prior to the termination date. The surety, however, remains liable for any defaults under this bond committed prior to the termination date.

3. In no event will the aggregate liability of the Surety under this bond, for any or all damages to one or more claimants, exceed the penal sum of this bond.

In Witness Whereof said Principal and Surety have executed this bond this _____day of _____ , 20___ to be effective the _____day of _____, 20 _____.

_____
PRINCIPAL

_____
BY

_____
ADDRESS

_____
SURETY

MO-228-18

© 2024 National Association of Insurance Commissioners

BUSINESS ENTITY APPLICATION - 2018 LIST OF REVISIONS

Below is a list of revisions that were previously adopted by the Producer Licensing Uniformity (D) Working Group in 2018. The PLUWG has reviewed and adopted the revisions excluding the highlighted sections. These highlighted sections have been rejected for revisions or changed.

				Highlighted portions are rejected revisions for the Individual Initial Application. Adopted by PLUWG 6.4.24
#	**REVISION**			
2	Top of Page - Removal of ~~Identify~~ ~~Home State Licensing #:~~			
9	Field #28 - Jurisdiction and Type of License Requested - Removal of Surety			Rejected Revision
10	Field #29 - Background Questions - Language cut from 1c and added to beginning of section. The Applicant must read the following very carefully and answer every question. All written statements submitted by the Applicant must include an original signature. NOTE: For Questions 1a, 1b and 1c, "Convicted" includes, but is not limited to, having been found guilty by verdict of a judge or jury, having entered a plea of guilty or nolo contendere or no contest. If you answered "Yes" to any of the below questions (1a, 1b, or 1c), you must attach to this application: a) a written statement explaining the circumstances of each incident, b) a copy of the charging documents of each incident, c) a copy of the official documents of each incident, which demonstrates the resolution of the charges or any final judgment.			
11	Field #29 Background Questions - Changed ever to EVER 1a. Has the business entity or any owner, partner, officer or director of the business entity, or member or manager of a limited liability company, ~~ever~~ **EVER** been convicted of a misdemeanor, had a judgment withheld or deferred or is the business entity or any owner, partner, officer or director of the business entity, or member or manager currently charged with, committing a misdemeanor?			
12	Field #29 Background Questions - Changed ever to EVER 1b. Has the business entity or any owner, partner, officer or director of the business entity, or member or manager of a limited liability company ~~ever~~ **EVER** ever been convicted of a felony, had judgment withheld or deferred, or is the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company currently charged with committing a felony?			

© 2024 National Association of Insurance Commissioners

14	Field #29 Background Questions - Add NOTE Language and moved to top of section 1b. Has the business entity or any owner, partner, officer or director of the business entity, or member or manager of a limited liability company ~~ever~~ **EVER** ever been convicted of a felony, had judgment withheld or deferred, or is the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company currently charged with committing a felony? You may exclude juvenile adjudications (offenses where you were adjudicated delinquent in a juvenile court.) If you have a felony conviction involving dishonesty or breach of trust, have you applied for written consent to engage in the business of insurance in your home state as required by 18 USC 1033? (Note: For detailed information related to the requirements of 18 USC 1033 as it pertains to insurance licensing please refer to the NAIC publication **"Guidelines for State Insurance Regulators to the Violent Crime Control and Law Enforcement Act of 1994"** found at https://www.naic.org/documents/prod_serv_legal_sir_op.pdf)			
15	Field #29 Background Questions - Changed ever to EVER 1c. Has the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company, ~~ever~~ **EVER** ever been convicted of a military offense, had a judgment withheld or deferred, or is the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company, currently charged with committing a military offense?			
16	Field #29 Background Questions - Removale of NOTE Language 1c. Has the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company, ever EVER ever been convicted of a military offense, had a judgment withheld or deferred, or is the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company, currently charged with committing a military offense? . ~~NOTE: For Questions 1a, 1b, and 1c "Convicted" includes, but is not limited to, having been found guilty by verdict of a judge or jury, having entered a plea of guilty or noto contendere or no contest, or having been given probation, a suspended sentence or a fine.~~ ~~If you answer yes to any of these questions, you must attach to this application:~~ ~~a) a written statement identifying all parties involved (including their percentage of ownership, if any) and explaining the~~ ~~circumstances of each incident,~~ ~~b) a copy of the charging document,~~ ~~c) a copy of the official document which demonstrates the resolution of the charges or any final judgment.~~			
17	Field #29 Backgroud Questions - Change ever to EVER 2. Has the business entity or any owner, partner, officer or director of the business entity, or manager or member of a limited liability company, ~~ever~~ **EVER** ever been named or involved as a party in an administrative proceeding, including a FINRA sanction or arbitration proceeding, regarding any professional or occupational license, or registration?			

18	Field #29 Background Questions - Language added to #2 2. Has the business entity or any owner, partner, officer or director of the business entity, or manager or member of a limited liability company, EVER ever been named or involved as a party in an administrative proceeding, including a FINRA sanction or arbitration proceeding, regarding any professional or occupational license, or registration? "Involved" means having a license or registration censured, suspended, revoked, canceled, terminated, restricted; or, being assessed a fine, a cease and desist order, a prohibition order, a compliance order, placed on probation, sanctioned or surrendering a license or entering into a settlement to resolve an administrative action. "Involved" also means being named as a party to an administrative or arbitration proceeding, which is related to a professional or occupational license or registration. "Involved" also means having a license application denied or the act of withdrawing an application to avoid a denial. You may EXCLUDE terminations due solely to noncompliance with continuing education requirements or failure to pay a renewal or late filing fee.			
19	Field #29 Background Questions - Language added/removed to #3 3. Has any demand been made or judgment rendered against the business entity or any owner, partner, officer or director of the business entity, or member or manager of a limited liability company, for overdue monies ~~by an insurer, insured or producer~~ or ~~have you~~ **EVER** ~~ever~~ been subject to a bankruptcy proceeding? Do not include personal bankruptcies, unless they involve funds held on behalf of others, which would include, but is not limited to, deposits, insured's premium payments, employee tax withholdings, escrow accounts, or any monies held by you in a capacity for third parties.			
20	Field #29 Background Questions - Change ever to EVER #4 4. Has the business entity or any owner, partner, officer or director of the business entity, or member or manager of a limited liability company, **EVER** ~~ever~~ been notified by any jurisdiction to which you are applying of any delinquent tax obligation that is not the subject of a repayment agreement?			
21	Field #29 Background Questions - Change ever to EVER #5 5. Is the business entity or any owner, partner, officer or director of the business entity, or member or manager of a limited liability company, a party to, or **EVER** ~~ever~~ been found liable in any lawsuit or arbitration proceeding involving allegations of fraud, misappropriation or conversion of funds, misrepresentation or breach of fiduciary duty? If you answer yes, you must attach to this application: a) a written statement summarizing the details of each incident, b) a copy of the Petition, Complaint or other document that commenced the lawsuit arbitrations, or mediation proceedings and c) a copy of the official documents which demonstrates the resolution of the charges or any final judgment.			

22	Field #29 Background Questions - Change ever to EVER 6. Has the business entity or any owner, partner, officer or director of the business entity, or member or manager of a limited liability company **EVER** ~~ever~~ had an insurance agency or securities broker contract or any other business relationship with an insurance company or securities business terminated for any alleged misconduct? If you answer yes, you must attach to this application: a) a written statement summarizing the details of each incident and explaining why you feel this incident should not prevent you from receiving an insurance license, and b) copies of all relevant documents.			
23	Field #29 Background Questions - Add Language #6 6. Has the business entity or any owner, partner, officer or director of the business entity, or member or manager of a limited liability company **EVER** ~~ever~~ had an insurance agency or securities broker contract or any other business relationship with an insurance company or securities business terminated for any alleged misconduct? If you answer yes, you must attach to this application: a) a written statement summarizing the details of each incident and explaining why you feel this incident should not prevent you from receiving an insurance license, and b) copies of all relevant documents.			
24	Field #29 Background Questions - Add Language #7 7. In response to a "Yyes" answer to one or more of the Background Questions for this application, are you submitting, or have you previously submitted document(s) to the NAIC/NIPR Attachments Warehouse?			
25	Field #29 Background Questions - Add Language #7 7. In response to a "Yyes" answer to one or more of the Background Questions for this application, are you submitting, or have you previously submitted document(s) to the NAIC/NIPR Attachments Warehouse? NOTE: The state(s) identified on this application will receive an alert that your supporting documents are available if: •~~Y~~You have previously loaded a document(s); •~~Y~~You have recently submitted an application that is pending; •~~Y~~You are submitting the same type of application (resident/nonresident, initial/renewal); and •~~Y~~You are answering "Yes" to the same background question(s). If you have not previously loaded your supporting documents, you may do so after you have successfully completed your application. You will be provided a link to the Attachment Warehouse instructions upon completion.			

© 2024 National Association of Insurance Commissioners

26	Field #29 Background Questions - Removeal of Language #7 7. In response to a "Yyes" answer to one or more of the Background Questions for this application, are you submitting, or have you previously submitted document(s) to the NAIC/NIPR Attachments Warehouse? NOTE: The state(s) identified on this application will receive an alert that your supporting documents are available if: •Ŷou have previously loaded a document(s); •Ŷou have recently submitted an application that is pending; •Ŷou are submitting the same type of application (resident/nonresident, initial/renewal); and •Ŷou are answering "Yes" to the same background question(s). If you have not previously loaded your supporting documents, you may do so after you have successfully completed your application. You will be provided a link to the Attachment Warehouse instructions upon completion. ~~If you answer yes:~~ ~~Will you be associating (linking) previously filed documents from the NAIC/NIPR Attachments Warehouse to this application?~~ ~~Note: If you have previously submitted documents to the Attachments Warehouse that are intended to be filed with this application, you must go to the Attachments Warehouse and associate (link) the supporting document(s) to this application based upon the particular background question number you have answered yes to on this application. You will receive information in a follow-up page at the end of the application process, providing a link to the Attachment Warehouse instructions.~~			
27	Field #30 Applicant's Cerification and Attestation - Add/Delete Language #5 5. I authorize the jurisdictions to which this application is made to give any information they may have concerning ~~me~~ the business entity or any individual named in this application, as permitted by law and in the furtherance of the Commissioner's, Director's, or Superintendent's official duties , to any federal, state or municipal agency, or any other organization and I release the jurisdictions and any person acting on their behalf in the furtherance of official duties their behalf from any and all liability of whatever nature by reason of furnishing such information.			
28	Field #30 Applicant's Cerification and Attestation - Add/Delete Language #6 6. I acknowledge that I understand ~~and~~ that the business entity will comply with the insurance laws and regulations of the jurisdictions to which I am applying for licensure/registration.			
29	Field #30 Applicant's Cerification and Attestation - Add/Delete Language #7 7. For Non-Resident License Applications, I certify that ~~I am~~ that the business entity is licensed and in good standing in my home state/resident state for the lines of authority requested from the non-resident state. The state will rely on an electronic verification of an Applicant's resident license through the NAIC's State Producer Licensing Database in lieu of requiring an original Letter of Certification from the resident state.			

30	Field #30 Applicant's Cerification and Attestation - Add/Delete Language #8. 8. I hereby certify that upon request, I will furnish the jurisdiction(s) to which I am applying on behald of the business entity, certified copies of any documents attached to this application or requested by the jurisdiction(s).			
31	Field #30 Applicant's Cerification and Attestation - Add New Question #10. 10. I acknowledge that jurisdiction specific attachments may be required with this application. State Specific Requirements and Fees information are available at www.NIPR.com. Incomplete applications may be ~~returned as~~ unprocessed and considered deficient.		.	Language Changed "Incomplete applications may be unprocessed and considered defincent"
32	Field #31 Attachments - Delete Attachment Section #1 ~~The following attachments must accompany the application otherwise the application may be returned unprocessed or considered deficient.~~ ~~1.For Non-Resident License Applications and unless otherwise noted in the State Matrix of Business Rules, a state will rely on an electronic verification of an Applicant's resident license through the NAIC's State Producer Database in lieu of requiring an original Letter of Certification from the resident state~~			
33	Field #31 Attachments - Delete Attachment Section #2 ~~The following attachments must accompany the application otherwise the application may be returned unprocessed or considered deficient.~~ ~~2. Any jurisdiction specific attachments listed in the State Matrix of Business Rules (www.nipr.com).~~			

© 2024 National Association of Insurance Commissioners

BUSINESS ENTITY RENEWAL APPLICATION - 2018 LIST OF REVISIONS				
Below is a list of revisions that were previously adopted by the Producer Licensing Uniformity (D) Working Group in 2018. The PLUWG has reviewed and adopted the revisions excluding the highlighted sections. These highlighted sections have been rejected for revisions or changed.				
		Highlighted portions are rejected revisions for the Individual Initial Application. Adopted by PLUWG 6.4.24		
#	REVISION			
1	Field #20 - Background Questions -Language moved from 1c. to the top of Background Question section NOTE: For Questions 1a, 1b and 1c, "Convicted" includes, but is not limited to, having been found guilty by verdict of a judge or jury, having entered a plea of guilty or nolo contendere or no contest. If you answer yes to any of these questions, you must attach to this application: a) a written statement explaining the circumstances of each incident, b) a copy of the charging document of each incident, c) a copy of the official document of each incident, which demonstrates the resolution of the charges or any final judgment.			
2	Field #20 Background Questions - Changed ever to EVER 1a. Has the business entity or any owner, partner, officer or director of the business entity, or member or manager of a limited liability company, ~~ever~~ **EVER** been convicted of a misdemeanor, had a judgment withheld or deferred or is the business entity or any owner, partner, officer or director of the business entity, or member or manager currently charged with, committing a misdemeanor?			
3	Field #20 Background Questions - Changed ever to EVER 1b. Has the business entity or any owner, partner, officer or director of the business entity, or member or manager of a limited liability company ~~ever~~ **EVER** ever been convicted of a felony, had judgment withheld or deferred, or is the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company currently charged with committing a felony?			

© 2024 National Association of Insurance Commissioners

4	Field #20 Background Questions - Add NOTE Language and moved to top of section 1b. Has the business entity or any owner, partner, officer or director of the business entity, or member or manager of a limited liability company ever EVER ever been convicted of a felony, had judgment withheld or deferred, or is the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company currently charged with committing a felony? You may exclude juvenile adjudications (offenses where you were adjudicated delinquent in a juvenile court.) If you have a felony conviction involving dishonesty or breach of trust, have you applied for written consent to engage in the business of insurance in your home state as required by 18 USC 1033? (Note: For detailed information related to the requirements of 18 USC 1033 as it pertains to insurance licensing please refer to the NAIC publication **"Guidelines for State Insurance Regulators to the Violent Crime Control and Law Enforcement Act of 1994"** found at https://www.naic.org/documents/prod_serv_legal_sir_op.pdf)			
5	Field #20 Background Questions - Changed ever to EVER 1c. Has the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company, ~~ever~~ **EVER** ever been convicted of a military offense, had a judgment withheld or deferred, or is the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company, currently charged with committing a military offense?			
6	Field #20 Background Questions - Removale of NOTE Language 1c. Has the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company, ~~ever~~ **EVER** ever been convicted of a military offense, had a judgment withheld or deferred, or is the business entity or any owner, partner, officer or director of the business entity or member or manager of a limited liability company, currently charged with committing a military offense? . ~~NOTE: For Questions 1a, 1b, and 1c "Convicted" includes, but is not limited to, having been found guilty by verdict of a judge or jury, having entered a plea of guilty or nolo contendere or no contest, or having been given probation, a suspended sentence or a fine.~~ ~~If you answer yes to any of these questions, you must attach to this application:~~ ~~a) a written statement identifying all parties involved (including their percentage of ownership, if any) and explaining the~~ ~~circumstances of each incident,~~ ~~b) a copy of the charging document,~~ ~~c) a copy of the official document which demonstrates the resolution of the charges or any final judgment.~~			
7	Field #20 Backgroud Questions - Change ever to EVER 2. Has the business entity or any owner, partner, officer or director of the business entity, or manager or member of a limited liability company, ~~ever~~ **EVER** ever been named or involved as a party in an administrative proceeding, including a FINRA sanction or arbitration proceeding, regarding any professional or occupational license, or registration?			

8	Field #20 Background Questions - Language add/delete to #2 2. Has the business entity or any owner, partner, officer or director of the business entity, or manager or member of a limited liability company, EVER ever been named or involved as a party in an administrative proceeding, including a FINRA sanction or arbitration proceeding, regarding any professional or occupational license, or registration? "Involved" means having a license or registration censured, suspended, revoked, canceled, terminated, restricted; or, being assessed a fine, a cease and desist order, a prohibition order, a compliance order, placed on probation, sanctioned or surrendering a license or entering into a settlement to resolve an administrative action. "Involved" also means being named as a party to an administrative or arbitration proceeding, which is related to a professional or occupational license or registration. "Involved" also means having a license application denied or the act of withdrawing an application to avoid a denial. You may EXCLUDE terminations due solely to ~~noncompliance with continuing education requirements~~ or failure to pay a renewal ~~or late filing~~ fee.			
	Field #20 Background Questions - Add Language #3 3. In response to a "Yyes" answer to one or more of the Background Questions for this application, are you submitting, or have you previously submitted document(s) to the NAIC/NIPR Attachments Warehouse?			
9	Field #20 Background Questions - Add Language #3 3. In response to a "Yyes" answer to one or more of the Background Questions for this application, are you submitting, or have you previously submitted document(s) to the NAIC/NIPR Attachments Warehouse? NOTE: The state(s) identified on this application will receive an alert that your supporting documents are available if: •~~Y~~You have previously loaded a document(s); •~~Y~~You have recently submitted an application that is pending; •~~Y~~You are submitting the same type of application (resident/nonresident, initial/renewal); and •~~Y~~You are answering "Yes" to the same background question(s). If you have not previously loaded your supporting documents, you may do so after you have successfully completed your application. You will be provided a link to the Attachment Warehouse instructions upon completion.			

10	Field #20 Background Questions - Removeal of Language #3 3. In response to a "Yyes" answer to one or more of the Background Questions for this application, are you submitting, or have you previously submitted document(s) to the NAIC/NIPR Attachments Warehouse? NOTE: The state(s) identified on this application will receive an alert that your supporting documents are available if: •Ŷou have previously loaded a document(s); •Ŷou have recently submitted an application that is pending; •Ŷou are submitting the same type of application (resident/nonresident, initial/renewal); and •Ŷou are answering "Yes" to the same background question(s). If you have not previously loaded your supporting documents, you may do so after you have successfully completed your application. You will be provided a link to the Attachment Warehouse instructions upon completion. ~~If you answer yes:~~ ~~Will you be associating (linking) previously filed documents from the NAIC/NIPR Attachments Warehouse to this application?~~ ~~Note: If you have previously submitted documents to the Attachments Warehouse that are intended to be filed with this application, you must go to the Attachments Warehouse and associate (link) the supporting document(s) to this application based upon the particular background question number you have answered yes to on this application. You will receive information in a follow-up page at the end of the application process, providing a link to the Attachment Warehouse instructions.~~			
11	Field #21 Applicant's Cerification and Attestation - Add/Delete Language #5 5. I authorize the jurisdictions to which this application is made to give any information they may have concerning ~~me~~ the business entity or any individual named in this application, as permitted by law and in the furtherance of the Commissioner's, Director's, or Superintendent's official duties, to any federal, state or municipal agency, or any other organization and I release the jurisdictions and any person acting on their behalf in the furtherance of official duties their behalf from any and all liability of whatever nature by reason of furnishing such information.			
12	Field #21 Applicant's Cerification and Attestation - Add/Delete Language #6 6. I acknowledge that I understand ~~and~~ that the business entity will comply with the insurance laws and regulations of the jurisdictions to which I am applying for licensure/registration.			
13	Field #21 Applicant's Cerification and Attestation - Add/Delete Language #7 7. For Non-Resident License Applications, I certify that ~~I am~~ that the business entity is licensed and in good standing in my home state/resident state for the lines of authority requested from the non-resident state. The state will rely on an electronic verification of an Applicant's resident license through the NAIC's State Producer Licensing Database in lieu of requiring an original Letter of Certification from the resident state.			

14	Field #21 Applicant's Cerification and Attestation - Add Language #8. 8. I hereby certify that upon request, I will furnish the jurisdiction(s) to which I am applying on behalf of the business entity, certified copies of any documents attached to this application or requested by the jurisdiction(s).			
15	Field #30 Applicant's Cerification and Attestation - Add New Question #10. 10. I acknowledge that jurisdiction specific attachments may be required with this application. State Specific Requirements and Fees information are available at www.NIPR.com. Incomplete applications may be ~~returned as~~ unprocessed and considered deficient.		.	Language Changed "Incomplete applications may be unprocessed and considered defincent."

© 2024 National Association of Insurance Commissioners

Attachment Five
Producer Licensing (D) Task Force
8/13/24

INDIVIDUAL RENEWAL APPLICATION - 2018 LIST OF REVISIONS

Below is a list of revisions that were previously adopted by the Producer Licensing Uniformity (D) Working Group in 2018. The PLUWG has reviewed and adopted the revisions excluding the highlighted sections. These highlighted sections have been rejected for revisions or changed.

Highlighted portions are rejected revisions for the Individual Initial Application. Adpoted by PLUWG 6.4.24

#	REVISION	ACCEPT	REJECT	COMMENTS
1	Top of Page - Removal of Producer from title. - Individual ~~Producer~~ License Renewal/Continuation			
2	Top of Page - Removal of ~~Identify Home State Licensing #:~~			
3	Field #3 - Add new field If applicable, FINRA Individual Central Registration Depository (CRD) Number:			
4	Field #7 - Add new field Are you a Citizen of the United States? (Check One) 0 Yes 0 No (if No, of which country are you a citizen? _____) (If No, and this is an appplication for a Resident Renewal, you must supply proof of eligibility to work in the U.S.)			
5	Field #14 - Individual Applicant Email Address - Changed to ~~Indivual Applicant~~ Personal Email Address			
6	Field #13 - Add new field - Personal Phone Number			
7	Field #14 - Business Entity's Name - Added Employer's Employer's Business Entity~~'s~~ Name			
8	Field #25 - Agency or Business Entity Affilation - Removal of this section			Rejected Revision
9	Field #26 - Background Questions -Language moved from 1c. to the top of Background Question section NOTE: For Questions 1a, 1b and 1c, "Convicted" includes, but is not limited to, having been found guilty by verdict of a judge or jury, having entered a plea of guilty or nolo contendere or no contest. If you answer yes to any of these questions, you must attach to this application: a) a written statement explaining the circumstances of each incident, b) a copy of the charging document of each incident, c) a copy of the official document of each incident, which demonstrates the resolution of the charges or any final judgment.			
10	Field #26 - Background Questions - 1a - Add EVER 1a. Have you **EVER** been convicted of a misdemeanor, had a judgment withheld or deferred, or are you currently charged with committing a misdemeanor, which has not been previously reported to this insurance department?			

© 2024 National Association of Insurance Commissioners

11	Field #26 - Background Questions - 1b - Add EVER 1b. Have you **EVER** been convicted of a felony, had a judgment withheld or deferred, or are you currently charged with committing a felony, which has not been previously reported to this insurance department?			
12	Field #2 - Backgroiund Questions - 1b. Add Note langauge 1b. Have you **EVER** been convicted of a felony, had a judgment withheld or deferred, or are you currently charged with committing a felony, which has not been previously reported to this insurance department? You may exclude juvenile adjudications (offenses where you were adjudicated delinquent in a juvenile court) If you have a felony conviction involving dishonesty or breach of trust, have you applied for written consent to engage in the business of insurance in your home state as required by 18 USC 1033? (Note: For detailed information related to the requirements of 18 USC 1033 as it pertains to insurance licensing please refer to the NAIC publication "Guidelines for State Insurance Regulators to the Violent Crime Control and Law Enforcement Act of 1994" found at https://www.naic.org/documents/prod_serv_legal_sir_op.pdf)			
13	Field #26 - Background Questions - 1c - Add EVER 1c. Have you **EVER** been convicted of a military offense, had a judgment withheld or deferred, or are you currently charged with committing a military offense, which has not been previously reported to this insurance department?			
14	Field #26 - Background Questions - 2 - Add/Remove Langauge 2. Have you EVER been named or involved as a party in an administrative proceeding, including a FINRA sanction or arbitration proceeding regarding any professional or occupational license or registration, which has not been previously reported to this insurance department? "Involved" means having a license or registration censured, suspended, revoked, canceled, terminated, restricted or, being assessed a fine, placed on probation, sanctioned or surrendering a license or entering into a settlement to resolve an administrative action. "Involved" also means being named as a party to an administrative or arbitration proceeding, which is related to a professional or occupational license, or registration. "Involved" also means having a license, or registration, application denied or the act of withdrawing an application to avoid a denial. INCLUDE any business so named because of your actions in your capacity as an owner, partner, officer or director, or member or manager of a Limited Liability Company or any other position that exercises management or control over the business. You may ~~exclude~~ **EXCLUDE** terminations due solely to noncompliance with continuing education requirements or failure to pay a renewal or late filing fee.			

15	Field #26 - Background Questions - 3 - Add/Remove Langauge 3. Do you have a child support obligation in arrearage, which has not been previously reported to this insurance department? If you answer yes, a) by how many months are you in arrearage? b) are you the subject of a child support related subpoenaff/warrant? c) are you currently subject to ~~and in compliance with any~~ a repayment agreement? d) ~~are you the subject of a child support related subpoena/warrant~~ are you currently in compliance with the repayment agreement? (If you answered "Yes" to 3(c), provide documentation showing proof of current payments or an approved repayment plan from the appropriate state child support.)			
16	Field #26 - Background Questions - 4 - Add/Remove Language 4. In response to a "~~y~~Yes" answer to one or more of the Background Questions for this renewal application, are you submitting, or have you previously submitted document(s) to the NAIC/NIPR Attachments Warehouse? NOTE: The state(s) identified on this application will receive an alert that your supporting documents are available if: • You have previously loaded a document(s); • You have recently submitted an application that is pending; • You are submitting the same type of application (resident/nonresident, initial/renewal); and • You are answering "Yes" to the same background question(s). If you have not previously loaded your supporting documents, you may do so after you have successfully completed your application. You will be provided a link to the Attachment Warehouse instructions upon completion. ~~If you answer yes:~~ ~~Will you be associating (linking) previously filed documents from the NAIC/NIPR Attachments Warehouse to this application?~~ ~~Note: If you have previously submitted documents to the Attachments Warehouse that are intended to be filed with this renewal application, you must go to the Attachments Warehouse and associate (link) the supporting document(s) to this application based upon the particular background question number you have answered yes to on this application. You will receive information in a follow-up page at the end of the application process, providing a link to the Attachment Warehouse instructions.~~			
17	Field #26 - Background Questionss - 5 - Add New Langauge 5. Are you a member or veteran of the armed forces, or the spouse or surviving spouse of a service member or veteran?			Rejected Revision
18	Field #27 - Applicant's Certification and Attestation - Add New Language 8. For Non-Resident License Applications, I certify that I am licensed and in good standing in my home state/resident state for the lines of authority requested from the non-resident state. The state will rely on an electronic verification of an Applicant's resident license through the NAIC's State Producer Licensing Database in lieu of requiring an original Letter of Certification from the resident state.			

© 2024 National Association of Insurance Commissioners

19	Field #27 - Applicant's Certification and Attestation - Add New Language 9. I acknowledge that jurisdiction specific attachments may be required with this application. State Specific Requirements and Fees information are available at www.NIPR.com. Incomplete applications may be returned as unprocessed and considered deficient.			

Attachment Six
Producer Licensing (D) Task Force
8/13/24

INDIVIDUAL INITIAL APPLICATION - 2018 LIST OF REVISIONS

Below is a list of revisions that were previously adopted by the Producer Licensing Uniformity (D) Working Group in 2018. The PLUWG has reviewed and adopted the revisions excluding the highlighted sections. These highlighted sections have been rejected for revisions or changed.

Highlighted portions are rejected revisions for the Individual Initial Application. Adopted by PLUWG 5.7.24

#	REVISION	ACCEPT	REJECT	COMMENTS
1	Top of Page - Removal of Producer from title. - Individual ~~Producer~~ License/Registration			
2	Top of Page - Removal of ~~Home State Licensing #:_____~~			
3	Field #13 - Home Phone Number - Changed to ~~Home~~ Personal Phone Number			
4	Field #14 - Individual Applicant Email Address - Changed to ~~Indiviual Applicant~~ Personal Email Address			
5	Field #15 - Gender Male/Female - Add Non-Binary as 3rd Option			Rejected Revision
6	Field #17 - Business Entity Name - Changed to Employers Business Entity Name			Rejected Revision
7	Field #35 - Agency or Business Entity Affilation - Removal of this section			Rejected Revision
8	Field #36 - Employment History - Removal of Language. Account for all time for the past five years. ~~Give all employment expireince starting with your current employer working back five years~~ Include full and part-time work, self-employment, military service, unemployment and ~~full-time~~ education.			
9	Field #37 - Jurisdiction and Type of License Requested - Removal of Surety			Rejected Revision
10	Field #38 - Background Questions - Language cut from 1c and added to beginning of section. The Applicant must read the following very carefully and answer every question. All written statements submitted by the Applicant must include an original signature. NOTE: For Questions 1a, 1b and 1c, "Convicted" includes, but is not limited to, having been found guilty by verdict of a judge or jury, having entered a plea of guilty or nolo contendere or no contest. If you answered "Yes" to any of the below questions (1a, 1b, or 1c), you must attach to this application: a) a written statement explaining the circumstances of each incident, b) a copy of the charging documents of each incident, c) a copy of the official documents of each incident, which demonstrates the resolution of the charges or any final judgment.			
11	Field #38 Background Questions - Changed ever to EVER 1a . Have you ~~ever~~ **EVER** been convicted of a misdemeanor, had a judgment withheld or deferred, or are you currently charged with committing a misdemeanor?			
12	Field #38 Background Questions - Changed ever to EVER 1b. Have you ~~ever~~ **EVER** been convicted of a felony, had a judgment withheld or deferred, or are you currently charged with committing a felony?			

© 2024 National Association of Insurance Commissioners

13	Field #38 Background Questions - Add langauge to felony conviction section 1b. Have you ~~ever~~ **EVER** been convicted of a felony, had a judgment withheld or deferred, or are you currently charged with committing a felony? If you have a felony conviction involving dishonesty or breach of trust, have you applied for written consent to engage in the business of insurance in your home state as required by 18 USC 1033? (Note: For detailed information related to the requirements of 18 USC 1033 as it pertains to insurance licensing please refer to the NAIC publication "Guidelines for State Insurance Regulators to the Violent Crime Control and Law Enforcement Act of 1994" found at https://www.naic.org/documents/prod_serv_legal_sir_op.pdf)			
14	Field #38 Background Questions - Removal of NOTE Language and moved to top of section 1c. Have you ever been convicted of a military offense, had a judgment withheld or deferred, or are you currently charged with committing a military offense? ~~NOTE: For Questions 1a, 1b and 1c, "Convicted" includes, but is not limited to, having been found guilty by verdict of a judge or jury, having entered a plea of guilty or nolo contendere or no contest.~~ ~~If you answered "Yes" to any of the below questions (1a, 1b, or 1c), you must attach to this application:~~ ~~a) a written statement explaining the circumstances of each incident,~~ ~~b) a copy of the charging documents of each incident,~~ ~~c) a copy of the official documents of each incident, which demonstrates the resolution of the charges or any final judgment.~~			
15	Field #38 Background Questions - Changed ever to EVER 2. Have you ~~ever~~ EVER been named or involved as a party in an administrative proceeding, including FINRA sanction or arbitration proceeding regarding any professional or occupational license or registration?			
16	Field #38 Background Questions - Language add to "Involded" descrption section 2. Have you ~~ever~~ **EVER** been named or involved as a party in an administrative proceeding, including FINRA sanction or arbitration proceeding regarding any professional or occupational license or registration? "Involved" means having a license or registration censured, suspended, revoked, canceled, terminated, restricted; or, being assessed a fine, a cease and desist order, a prohibition order, a compliance order, placed on probation, sanctioned or surrendering a license or entering into a settlement to resolve an administrative action. "Involved" also means being named as a party to an administrative or arbitration proceeding, which is related to a professional or occupational license, or registration. "Involved" also means having a license, or registration application denied or the act of withdrawing an application to avoid a denial. INCLUDE any business so named because of your actions in your capacity as an owner, partner, officer or director, or member or manager of a Limited Liability Company or any other position that exercises management or control over the business. You may EXCLUDE terminations due solely to noncompliance with continuing education requirements or failure to pay a renewal or late filing fee.			

17	Field #38 Backgroud Questions - Language added/removed to #3 3. Has any demand been made or judgment rendered against you or any business in which you are or were an owner, partner, officer or director, or member or manager of a limited liability company, for overdue monies ~~by an insured, or producer~~ have you ~~ever~~ **EVER** been subject to a bankruptcy proceeding? Do not include personal bankruptcies, unless they involve funds held on behalf of others, which would include, but is not limited to, deposits, insured's premium payments, employee tax withholdings, escrow accounts, or any monies held by you in a capacity for third parties.			
18	Field #38 Background Questions - Language added to #6 6. Have you or any business in which you are or were an owner, partner, officer or director, or member or manager of a limited liability company, ever had an insurance agency or securities broker contract or any other business relationship with an insurance company or securities business terminated for any alleged misconduct?			
19	Field #38 Background Questions - Language added/removed to #7 7. Do you have a child support obligation in arrearage? If you answer yes, a) by how many months are you in arrearage? b) are you subject of a child support related subpoena/warrant ~~you currently subject to and in compliance with any repayment agreement?~~ c) are you currently subject to a repayment agreement? ~~you the subject of a child support related subpoena/warrant?~~ d) are you currently in compliance with the repayment agreement? (If you answered yes to 7 (c), provide documentation showing proof of current payments or an approved repayment plan from the appropriate state child support agency.)			

© 2024 National Association of Insurance Commissioners

20	Field #38 Background Questions - Language added/removed to #8 8. In response to a "~~y~~Yes" answer to one or more of the Background Questions for this application, are you submitting, or have you previously submitted document(s) to the NAIC/NIPR Attachments Warehouse? NOTE: The state(s) identified on this application will receive an alert that your supporting documents are available if: •~~Y~~You have previously loaded a document(s); •~~Y~~You have recently submitted an application that is pending; •~~Y~~You are submitting the same type of application (resident/nonresident, initial/renewal); and •~~Y~~You are answering "Yes" to the same background question(s). If you have not previously loaded your supporting documents, you may do so after you have successfully completed your application. You will be provided a link to the Attachment Warehouse instructions upon completion. ~~If you answer yes~~ ~~Will you be associating (linking) previously filed documents from the NAIC/NIPR Attachments Warehouse to this application?~~ ~~Note: If you have previously submitted documents to the Attachments Warehouse that are intended to be filed with this application, you must go to the Attachments Warehouse and associate (link) the supporting document(s) to this application based upon the particular background question number you have answered yes to on this application. You will receive information in a follow-up page at the end of the application process, providing a link to the Attachment Warehouse instructions.~~			
21	Field #38 Background Questions - New question added #9 9. Are you a member or veteran of the armed forces, or the spouse or surviving spouse of a service member or veteran?			Rejected Revision
22	Field #39 Applicant's Certification and Attestation - Language added/removed from #5 5. I authorize the jurisdictions to which this application is made to give any information concerning me, as permitted by law and in the furtherance of the Commissioner's, Director's, or Superintendent's official duties, to any federal, state or municipal agency, or any other organization and I release the jurisdictions and any person acting on their behalf in the furtherance of official duties ~~thier behalf~~ from any and all liability of whatever nature by reason of furnishing such information.			
23	Field #39 Applicant's Certification and Attestation - New question and language added #7 7. For Non-Resident License Applications, I certify that I am licensed and in good standing in my home state/resident state for the lines of authority requested from the non-resident state. The state will rely on an electronic verification of an Applicant's resident license through the NAIC's State Producer Licensing Database in lieu of requiring an original Letter of Certification from the resident state.			
24	Field #39 Applicant's Certification and Attestation - New question and language added #9 9. ~~I~~acknowledge that jurisdiction specific attachments may be required with this application. State Specific Requirements and Fees information are available at www.NIPR.com. Incomplete applications may be returned as unprocessed and considered deficient.			

© 2024 National Association of Insurance Commissioners

25	Field #40 Attachments - Section Removed ~~The following attachments must accompany the application otherwise the application may be returned unprocessed or considered deficient.~~ ~~1. For Non-Resident License Applications and unless otherwise noted in the State Matrix of Business Rules, a state will rely on an electronic verification of an Applicant's resident license through the NAIC's State Producer Licensing Database in lieu of requiring an original Letter of Certification from the resident state.~~ ~~2. Any jurisdiction specific attachments listed in the State Matrix of Business Rules (www.nipr.com).~~			

Draft: 6/18/24

Adjuster Licensing (D) Working Group
Virtual Meeting
June 12, 2024

The Adjuster Licensing (D) Working Group of the Producer Licensing (D) Task Force met June 12, 2024. The following Working Group members participated: Rachel Chester, Chair (RI); Lorie Gasior, Vice Chair (LA); Peggy Dunlap (AR; Troy Dickinson (CA); Lee Ellen Webb (KY); Jill Huisken (MI; Vanessa Miller (MS); Vanessa Dejesus (NM); Angela Hatchell (NC); Courtney Khodabakhsh (OK); Jodie Delgado (TX); Randy Overstreet (UT); Richard Tozer (VA); Jeff Baughman (WA); and Lisa Hastings (WY).

1. Discussed State Licensing Handbook – Chapter 18 Adjuster Licensing

Chester said the Working Group has been working on the review of the State Licensing Handbook – Chapter 18 Adjuster Licensing. She said the Working Group was asked to review and submit comments with a deadline of May 1. Chester said the Working Group chair and vice chair reviewed the comments and applied draft revisions. The draft revisions will be circulated to the Working Group members to review. Chester said following the internal review the draft will be distributed out for public review.

Chester said the Working Group will hold the next conference call on Wednesday, July 10 to discuss the new draft and any comments received.

Having no further business, the Adjuster Licensing (D) Working Group adjourned.

© 2024 National Association of Insurance Commissioners

Attachment Eight
Producer Licensing (D) Task Force
8/13/24

Draft: 8/27/24

Adjuster Licensing (D) Working Group
Virtual Meeting
May 15, 2024

The Adjuster Licensing (D) Working Group of the Producer Licensing (D) Task Force met May 15, 2024. The following Working Group members participated: Rachel Chester, Chair (RI); Lorie Gasior, Vice Chair (LA); Peggy Dunlap (AR; Troy Dickinson (CA); Lee Ellen Webb (KY); Jill Huisken (MI; Vanessa Miller (MS); Vanessa Dejesus (NM); Angela Hatchell (NC); Courtney Khodabakhsh (OK); Jodie Delgado (TX); Randy Overstreet (UT); Richard Tozer (VA); Jeff Baughman (WA); and Lisa Hastings (WY).

1. Discussed State Licensing Handbook – Chapter 18 Adjuster Licensing

Chester said in March the Working Group distributed out the NAIC State Licensing Handbook – Chapter 18 Adjuster for review with a comment deadline of May 1. Chester said comments were received from Delaware, Texas, Securities, and Insurance Licensing Association (SILA), and State Farm.

Chester said Delaware comments suggest there should be only two adjuster license types required, public adjuster and adjuster. Both the independent and company adjuster perform the same role and do not need to be differentiated by a third license type. Delaware suggests that whether the adjuster is employed or self-employed their roles are the same and covered by one adjuster licensing type. Delaware suggested changes to the exemption section concerning required license. The Working Group discussed Delaware suggestions and received feedback on the changes. Chester said the Working Group will discuss these comments further as we move to finalize the revisions.

Chester said the next comments were from Texas. She said the suggestions include information that some states laws do not distinguish between an independent and staff adjuster and require licensure of both. Which is within the same request of Texas. Chester said the next comment from Texas is to include information about 1033 waivers in the "Fitness and Character Considers". The Working Group discussed and agreed this is covered in a different chapter within the handbook. Chester said the last comment from Texas was to remove specificity of "Limited Lines Portable Electronics Insurance Products." Texas states the non-U.S. adjuster issues extends to multiple line of insurance. The Working Group discussed and agreed that this would be a separate conversation as they move further into the process.

Matt Patterson (State Farm) said State Farm's suggestions are on two points. Patterson said the first concerns the first paragraph and language stating, "inspects property damage." He said State Farm concern is that the language may imply that individual who only do auto appraisals should hold an adjuster licensing in states that do not offer appraiser license. Patterson said the next suggestion concerns exemptions to licensing. He said the suggestion is to change language concerning independent adjuster due to the fact that most state with this type of exemption do not include "independent." The Working Group discussed and agreed that this is in the same area with clarifying the types of license and will discuss further in regulator meeting.

Chester said SILA comments suggest expanding the reciprocity section to address "adjuster Designated Home State (DHS) licenses, the inclusion of home sate definition for independent adjusters, removing "new" from "The New NAIC Public Adjuster Model act defines Home State as," and the recognition of the NAIC's Independent Adjuster reciprocity Best Practices and Guidelines that were adopted in 2012. The Working Group discussed the comments from SILA.

© 2024 National Association of Insurance Commissioners

Chester said the Working Group will be continuing to meet monthly to discuss the comments received and review other areas in this chapter to finalize the process. She said the Working Group will meet in open and closed meetings to complete the review. Chester said the next call is scheduled for June 12.

Having no further business, the Adjuster Licensing (D) Working Group adjourned.

© 2024 National Association of Insurance Commissioners

Attachment Nine
Producer Licensing (D) Task Force
8/13/24

Draft: 8/27/24

Producer Licensing Uniformity (D) Working Group
Virtual Meeting
August 6, 2024

The Producer Licensing Uniformity (D) Working Group of the Producer Licensing (D) Task Force met Aug. 6, 2024. The following Working Group members participated: Courtney Khodabakhsh, Chair (OK); Monicka Richmeier, Vice Chair (KS); Peggy Dunlap (AR); Charlene Ferguson (CA); Lori Thomason (ID); Lorelei Brillante (MD); Jill Huisken (MI); Janelle Middlestead (ND); Vanessa Miller (NM); Karen Vourvopoulos (OH); Tony Dorschner (SD); Randy Overstreet (UT); Richard Tozer (VA); Jeff Baughman (WA); and Lisa Hastings (WY).

1. Discussed the *State Licensing Handbook*

Khodabakhsh said that with the Uniform Application revisions completed, the Working Group can now shift to its review of the *State Licensing Handbook* (Handbook). She said that since it is midyear, the Working Group would not have ample time to complete a review of the entire Handbook. Khodabakhsh said a spreadsheet has been created that lists each chapter of the Handbook with an option to select which chapters need to be reviewed for revisions. Khodabakhsh said the spreadsheet was distributed prior to this meeting with a comment deadline of Aug. 23. Khodabakhsh said the responses will be compiled and reviewed during the Working Group's September call.

Khodabakhsh said the Uniform Education (D) Working Group and Adjuster Licensing (D) Working Group will review Chapter 14—Continuing Education and Chapter 18—Adjusters. Once the Working Groups agree on the revision, they will bring it to this Working Group for review and adoption.

Khodabakhsh said that to assist with this process, she will form small breakout groups to discuss areas of the Handbook and finalize the revisions over the next few months.

Having no further business, the Producer Licensing Uniformity (D) Working Group adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 8/27/24

Producer Licensing Uniformity (D) Working Group
Virtual Meeting
June 4, 2024

The Producer Licensing Uniformity (D) Working Group of the Producer Licensing (D) Task Force met June 4, 2024. The following Working Group members participated: Courtney Khodabakhsh, Chair (OK); Monicka Richmeier, Vice Chair (KS); Peggy Dunlap (AR); Charlene Ferguson (CA); Lori Thomason (ID); Lorelei Brillante (MD); Jill Huisken (MI); Janelle Middlestead (ND); Vanessa Miller (NM); Karen Vourvopoulos (OH); Tony Dorschner (SD); Randy Overstreet (UT); Richard Tozer (VA); Jeff Baughman (WA); and Lisa Hastings (WY).

1. Adopted NAIC Uniform Application for Individual License Renewal/Continuation, Uniform Application for Business Entity License/Registration, and Uniform Application for Business Entity License Renewal/Continuation

Khodabakhsh said to assist with the review process, a checklist of the 2018 adopted revisions for the Individual Uniform Licensing Application (initial and renewal) and the Business Entity Application (initial and renewal) was created and distributed for feedback. Khodabakhsh said the checklist included each revision on the applications and asked whether it was accepted or rejected. In addition, a column was provided for any additional comments. She said on the May 7 call, the Working Group reviewed the Individual Initial Uniform Licensing Application and adopted the revisions.

A. Uniform Application for Individual License Renewal/Continuation

Khodabakhsh said the responses received on the Individual Renewal Uniform Application provided eight areas that received a rejection or other revision. She said the Working Group would review the suggestions, make its decision, and then adopt the entire application once the review is completed. Khodabakhsh said the areas include:

- Removing the word "Producer" from the title "Individual Producer License Renewal/Continuation," at the top of the page. The Working Group agreed to keep the word "Producer" in the title.
- Adding a new field to Field No. 7: "Are you a Citizen of the United States? (Check One) 0 Yes 0 No (if No, of which country are you a citizen?) (If No, and this is an application for a Resident Renewal, you must supply proof of eligibility to work in the U.S.)." The Working Group agreed to keep this field.
- Removing the section "Agency or Business Entity Affiliation," in Field No. 25. The Working Group discussed and unanimously agreed to reject the removal of this section.
- Adding "**EVER**" to section 1a, "Background Questions," in Field No. 26: "Have you **EVER** been convicted of a misdemeanor, had a judgment withheld or deferred, or are you currently charged with committing a misdemeanor, which has not been previously reported to this insurance department?" The Working Group agreed to keep this revision.
- Adding "**EVER**" to section 1b, "Background Questions," in Field No. 26: "Have you **EVER** been convicted of a felony, had a judgment withheld or deferred, or are you currently charged with committing a felony, which has not been previously reported to this insurance department?" The Working Group discussed and agreed to keep this revision.
- Adding "**EVER**" to section 1c, "Background Questions," in Field No. 26: "Have you **EVER** been convicted of a military offense, had a judgment withheld or deferred, or are you currently charged with committing a military offense, which has not been previously reported to this insurance department?" The Working Group discussed and agreed to keep this revision.

© 2024 National Association of Insurance Commissioners

- Adding/removing language 2. Have you EVER been named or involved as a party in an administrative proceeding, including a FINRA sanction or arbitration proceeding regarding any professional or occupational license or registration, which has not been previously reported to this insurance department? "Involved" means having a license or registration censured, suspended, revoked, canceled, terminated, "restricted" or, being assessed a fine, placed on probation, sanctioned or surrendering a license or entering into a settlement to resolve an administrative action. "Involved" also means being named as a party to an administrative or arbitration proceeding, which is related to a professional or occupational license, or registration. "Involved" also means having a license, or registration, application denied or the act of withdrawing an application to avoid a denial. INCLUDE any business so named because of your actions in your capacity as an owner, partner, officer or director, or member or manager of a Limited Liability Company "or any other position that exercises management or control over the business." You may ~~exclude~~ EXCLUDE terminations due solely to noncompliance with continuing education requirements or failure to pay a renewal "or late filing fee" to section 2, "Background Questions," in Field No. 26. The Working Group discussed and agreed to keep this revision.
- Adding the language to section 5, "Background Questions," in Field No. 26: "Are you a member or veteran of the armed forces, or the spouse or surviving spouse of a service member or veteran?" The Working Group unanimously agreed to reject this addition.

B. Uniform Application for Business Entity License/Registration

Khodabakhsh said the responses received on the Business Entity Initial Application provided two areas that received rejections. Khodabakhsh said the areas include:

- Field No. 28 - Jurisdiction and Type of License Requested - Removal of Surety: the Working Group discussed and unanimously agreed to reject the removal.
- Field No. 29 Background Questions - Language added to No. 2: "Has the business entity or any owner, partner, officer or director of the business entity, or manager or member of a limited liability company, EVER been named or involved as a party in an administrative proceeding, including a FINRA sanction or arbitration proceeding, regarding any professional or occupational license, or registration? 'Involved' means having a license or registration censured, suspended, revoked, canceled, terminated, restricted; or, being assessed a fine, a cease and desist order, a prohibition order, a compliance order, placed on probation, sanctioned, or surrendering a license or entering into a settlement to resolve an administrative action. 'Involved' also means being named as a party to an administrative or arbitration proceeding, which is related to a professional or occupational license or registration. 'Involved' also means having a license application denied or the act of withdrawing an application to avoid a denial. You may EXCLUDE terminations due solely to noncompliance with continuing education requirements or failure to pay a renewal or late filing fee."

  The Working Group discussed and unanimously agreed to reject this addition.

C. Uniform Application for Business Entity License Renewal/Continuation

Khodabakhsh said the responses received on the Business Entity Renewal Application provided two areas that received rejections. Khodabakhsh said the areas include:

- Field #20 Background Questions - Language added/deleted to No. 2: "Has the business entity or any owner, partner, officer or director of the business entity, or manager or member of a limited liability company, EVER been named or involved as a party in an administrative proceeding, including a FINRA sanction or arbitration proceeding, regarding any professional or occupational license, or registration? 'Involved' means having a license or registration censured, suspended, revoked, canceled, terminated, restricted; or, being assessed a fine, a cease and desist order, a prohibition order, a

© 2024 National Association of Insurance Commissioners

compliance order, placed on probation, sanctioned, or surrendering a license or entering into a settlement to resolve an administrative action. 'Involved' also means being named as a party to an administrative or arbitration proceeding, which is related to a professional or occupational license or registration. "Involved" also means having a license application denied or the act of withdrawing an application to avoid a denial. You may EXCLUDE terminations due solely to ~~noncompliance with continuing education requirements~~ or failure to pay a renewal ~~or late filing~~ fee." The Working Group discussed and agreed to keep this revision.

- Field #30 Applicant's Certification and Attestation - Add New Question #10.
  "I acknowledge that jurisdiction specific attachments may be required with this application. State Specific Requirements and Fees information are available at www.NIPR.com. Incomplete applications may be returned as unprocessed and considered deficient." The Working Group discussed and unanimously agreed to reject this addition.

Fergusen made a motion, seconded by Huisken, to adopt the revisions to the NAIC Uniform Application for Individual License Renewal/Continuation, Uniform Application for Business Entity License/Registration, and Uniform Application for Business Entity License Renewal/Continuation. The motion passed unanimously.

Having no further business, the Producer Licensing Uniformity (D) Working Group adjourned.

© 2024 National Association of Insurance Commissioners

Attachment Eleven
Producer Licensing (D) Task Force
8/13/24

Draft: 8/27/24

Producer Licensing Uniformity (D) Working Group
Virtual Meeting
May 7, 2024

The Producer Licensing Uniformity (D) Working Group of the Producer Licensing (D) Task Force met May 7, 2024. The following Working Group members participated: Courtney Khodabakhsh, Chair (OK); Monicka Richmeier, Vice Chair (KS); Peggy Dunlap (AR); Charlene Ferguson (CA); Lori Thomason and Shelly Hough (ID); Lorelei Brillante (MD); Jill Huisken (MI); Janelle Middlestead (ND); Karen Vourvopoulos (OH); Tony Dorschner (SD); Randy Overstreet (UT); Richard Tozer (VA); Jeff Baughman (WA); and Lisa Hastings (WY).

1. Adopted NAIC Uniform Application for Individual Insurance License/Registration

Khodabakhsh said the Working Group distributed an email soliciting feedback on the current revisions adopted in 2018. She said the review was only for the Uniform Licensing Individual Application on the initial and renewal versions. Khodabakhsh said to assist with the review process, a checklist of the 2018 adopted revisions for the Individual Uniform Licensing Application (Initial and Renewal) was created and distributed for feedback. Khodabakhsh said the checklist included each revision on the application and asked whether it was accepted or rejected. In addition, a column was provided for any additional comments.

Khodabakhsh said the responses received on the Individual Uniform Application provided seven areas that received a rejection or other revision. She said the Working Group would review the suggestions and make its decision, then adopt the entire application once the review is completed.

Khodabakhsh said the areas included: 1) adding “non-binary” as a third option under Field #15 – Gender, which the Working Group unanimously agreed to remove; 2) changing the name of Field #17 from “Business Entity Name” to “Employer’s Business Entity Name,” which the Working Group discussed and unanimously agreed to reject; 3) removing Field #35 – Agency or Business Entity Affiliation, which the Working Group unanimously agreed to reject; 4) removal of “surety” from Field #37 – Jurisdiction and Type of License Requested, which the Working Group unanimously decided to reject; 5) removal of the note under Field #38 – Background Questions, and moving question 1c. to the top of the field, both of which the Working Group agreed to; 6) adding language to the “Involved” section description of Field #38 – Background Questions, which the Working Group agreed to keep; and 7) adding a new question to Field #38 – Background Questions that reads, “Are you a member or veteran of the armed forces, or the spouse or surviving spouse of a service member or veteran?” The Working Group unanimously agreed to this revision.

Tozer made a motion, seconded by Ferguson, to adopt the revisions to the Uniform Application for Individual Insurance License/Registration. The motion passed unanimously.

Khodabakhsh said that during the Working Group’s June meeting, it will begin with reviewing the Individual Renewal Application and then move to the Business Entity Application. Khodabakhsh said a checklist for the Business Entity Application (Initial and Renewal) will be distributed for state responses. She said the response will be used to finalize the remaining application revisions.

Having no further business, the Producer Licensing Uniformity (D) Working Group adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 8/27/24

Producer Licensing Uniformity (D) Working Group
Virtual Meeting
April 2, 2024

The Producer Licensing Uniformity (D) Working Group of the Producer Licensing Uniformity (D) working Group Force met April 2, 2024. The following Working Group members participated: Courtney Khodabakhsh, Chair (OK); Monicka Richmeier, Vice Chair (KS); Peggy Dunlap (AR); Charlene Ferguson (CA); Lori Thomason and Shelly Hough (ID); Lorelei Brillante (MD); Jill Huisken (MI); Vanessa Miller (NM); Janelle Middlestead (ND); Karen Vourvopoulos (OH); Tony Dorschner (SD); Randy Overstreet (UT); Richard Tozer (VA); Jeff Baughman (WA); Lisa Hastings (WY).

1. Discussed NAIC Uniform Licensing Applications

Khodabakhsh said the plan for the Working Group is to hold monthly conference calls to work through its priorities and charges for 2024. She said the goal will be to utilize these monthly conference calls on the first Tuesday of each month to focus on reviewing the 2018 revisions to the NAIC Uniform Licensing Applications and then move on to reviewing the *State Licensing Handbook*.

Khodabakhsh said that in 2018, the Working Group reviewed and adopted the revisions to the Individual and Business Entity Uniform Licensing Applications. She said the applications were held up for adoption at the NAIC Executive/Plenary Committee. Khodabakhsh said that for 2024, the Working Group was given the direction to review the revisions adopted in 2018 to confirm that they are still necessary and adopt them. The adopted revisions would then be presented to the Producer Licensing (D) Task Force for review.

Khodabakhsh said that in March, the Working Group distributed an email soliciting feedback on the current revisions that were adopted in 2018. She said the review was only for the Uniform Licensing Individual Application on the initial and renewal versions. Khodabakhsh said they received a lot of great suggestions. However, after review, it was determined that the majority of the suggestions received were outside the direction that the Working Group was given by the parent Task Force. She said the comments will be kept, but new suggestions will not be reviewed until the next review period.

Khodabakhsh said to assist with the review process, a checklist of the 2018 adopted revisions for the Individual Uniform Licensing Application (initial/renewal) has been created. She said the checklist will be distributed and posted on the Working Group web page. Khodabakhsh said the checklist will list each revision on the application and ask whether it is accepted or rejected. In addition, there is a column provided for any additional comments. She said the deadline for submitting the checklist responses is April 26. She advised that the Working Group would compile the responses and be ready to discuss them during its May 7 meeting. Khodabakhsh said the Working Group will use the checklist results to determine what should be kept as revisions from 2018. She advised that the Working Group would need to adopt the revisions for the Individual and Business Entity Applications before they are presented to the Task Force. The Working Group discussed and agreed on the process of completing the review of the NAIC Uniform Applications.

Having no further business, the Producer Licensing Uniformity (D) Working Group adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 7/24/24

Public Adjuster Licensing (D) Working Group
Virtual Meeting
July 17, 2024

The Public Adjuster Licensing (D) Working Group of the Producer Licensing (D) Task Force met July 17, 2024. The following Working Group members participated: Trinidad Navarro, Chair (DE); David Buono, Vice Chair, (PA); Charlene Ferguson (CA); Shaun Orme (KY); Rachel Chester (RI); Juan Rodriguez Jr. (VA); and Jeff Baughman (WA).

1. Adopted its June 18 Minutes

The Working Group met June 18 and took the following action: 1) adopted its May 2 minutes; and 2) received comments on proposed amendments to the *Public Adjuster Licensing Model Act* (#228).

Baughman made a motion, seconded by Orme, to adopt the Working Group's June 18 minutes. The motion passed unanimously.

2. Adopted Proposed Amendments to Model #228

Commissioner Navaro said the Producer Licensing (D) Task Force adopted a new charge in May 2023 to review and amend Model #228. In the fall of 2023, draft revisions to the model were circulated for comment and the Working Group was appointed in 2024.

Commissioner Navarro said the NAIC Membership adopted a Model Law Review Request at the Spring National Meeting. The Model Law Review Request provided guidance that Model #228 should be amended to strengthen regulatory standards governing the conduct of public adjusters for the following four issues: 1) individuals acting as unlicensed public adjusters; 2) contractors acting as public adjusters on the same claim; 3) inappropriate assignment of benefit rights; and 4) excessive fees charged by public adjusters.

Commissioner Navarro said the Working Group met June 18 and April 5. During its June 18 meeting, the Working Group focused on proposed amendments to Sections 15, 16, and 19 to strengthen regulatory standards regarding individuals acting as unlicensed public adjusters; contractors acting as public adjusters on the same claim; and inappropriate assignment of benefit rights. During its April 5 meeting, the Working Group discussed proposed modifications to Section 3 and Section 14, which address public adjuster fees

Commissioner Navarro summarized the proposed edits reflected in the draft circulated for the meeting:

A. The Purpose and Scope section of the model is being amended to exclude public adjusters settling claims for either personal or commercial auto lines of insurance.
B. Section 3.A is being amended to prohibit a person from soliciting or negotiating a contract for public adjusting services unless the person is licensed as a public adjuster.
C. Section 14 is being amended to provide specific guidance that a public adjuster shall not charge more than 10% for any catastrophic claim settlement and no more than 15% for any insurance claim settlement.
D. Section 15.H is being amended to require an insurer to verify a public adjuster holds a valid license with the department of insurance (DOI).
E. Section 15.L is a new section addressing the inappropriate assignment of benefits. This section specifies the rights under an insurance policy may only be assigned to a person who has the legal authority to

© 2024 National Association of Insurance Commissioners

represent the named insured or to a subsequent owner of the property and prohibits the assignment of rights and benefits to any other person, including a property repair contractor.

F. Section 16 is a new section that provides clarification that a person who conducts business as a public adjuster without a proper license is committing a fraudulent insurance act.
G. There are two new amendments being added to Section 19. The first amendment prohibits a public adjuster from inferring damage has occurred unless an inspection has been completed. The second amendment prohibits a public adjuster from paying an insured's deductible or claiming the insured's deductible will be waived.
H. Section 19.F is being amended to prohibit a public adjuster from having a financial interest in any aspect of a claim, other than the salary or fee for public adjusting services.
I. Section 19.H is being amended to prohibit a public adjuster from referring the insured to get needed repairs from any person with whom the public adjuster has a financial interest. A public adjuster is also prohibited from receiving compensation for any referral for repairs. With the amendments to Section 19.H, Section 19.G was deleted.

Erica Eversman (Automotive Education & Policy Institute—AEPI) said she understands the model will exclude public adjusters who serve in the repair and adjusting of automobile losses. Commissioner Navarro said this is the intent of the revisions made to the Purpose and Scope section, which excludes public adjusters settling claims for either personal or commercial auto lines of insurance.

Hearing no other comments on the proposed amendments, Orme made a motion, seconded by Baughman, to adopt the proposed revisions to Model #228. The motion passed unanimously.

Commissioner Navarro said the model would be presented to the Producer Licensing (D) Task Force for consideration for adoption at the Summer National Meeting.

Having no further business, the Public Adjuster Licensing (D) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/D CMTE/2024 Summer/PLTF/Public Adjuster WG/July 17 call/PAWG Min. 7.17.24.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/10/24

Public Adjuster Licensing (D) Working Group
Virtual Meeting
June 18, 2024

The Public Adjuster Licensing (D) Working Group of the Producer Licensing (D) Task Force met May 2, 2024. The following Working Group members participated: Trinidad Navarro, Chair (DE); David Buono, Vice Chair, (PA); Charlene Ferguson (CA); Sharon P. Clark (KY); Rachel Chester (RI); Richard Tozer and Juan Rodriguez Jr. (VA); and Jeff Baughman (WA).

1. Adopted its May 2 Minutes

The Working Group met May 2 and took the following action: 1) adopted its April 5 minutes; and 2) received comments on proposed amendments to the *Public Adjuster Licensing Model Act* (#228).

Commissioner Clark made a motion, seconded by Chester, to adopt its May 2 minutes. The motion passed unanimously.

2. Received Comments on Proposed Amendments to Model #228

A. Section 15: Contract Between Public Adjuster and Insured

Commissioner Navarro said proposed language was added to Subsection H to require the insurer to verify the public adjuster holds a valid license with the department of insurance (DOI). Nancy Dominguez (Florida Association of Public Insurance Adjusters—FAPIA) asked if proof of licensure would require submission of a notification of representation letter or the contact between the public adjuster and the insured. Rodriguez said proof of licensure should be a letter to the insurer notifying the insurer that a contract has been signed with the insured. Dominguez said Florida requires a public adjuster to provide a copy of the contract with the insured to the insurer within seven days of signing the contract and said requiring an additional letter to be provided would be redundant. Commissioner Navarro said the model requires the public adjuster to provide the insurer with a notification letter, not the contract. Commissioner Navarro said a state insurance department may decide to modify this language to eliminate potential redundancies.

Commissioner Navarro said a new Subsection L was added to address the assignment of benefits. Commissioner Navarro said this subsection is based on language implemented in Delaware. Aaron Schulenburg (Society of Collision Repair Specialists—SCRS) questioned if Subsection L would prohibit the assignment of rights to a property repair contractor who would have the professional expertise to represent consumers. Commissioner Navarro said the model is not intended to apply to public adjusters assisting consumers in automobile claims and that additional language will be added to the model to clarify its scope. Chester said this subsection could be changed to specifically exclude auto repair contractors.

John Schuppert (Insurance Adjustment Bureau—IAB) said the new subsection could empower an insurance company to prohibit the assignment of benefits, and an insurance policyholder has the right to assign benefits after a loss. Ira L. Straff (Insurance Adjustment Bureau—IAB) said a property owner may want to sell a property after a loss rather than repair the property and that a property owner has a right to sell a property while a claim is still pending. Ann Frohman (National Association of Public Insurance Adjusters—NAPIA) suggested adding the language “or to a subsequent owner of the property to whom title is transferred” to address this concern.

© 2024 National Association of Insurance Commissioners

Jeff Butler (Collision Consulting of Washington) said he is an expert in vehicle repairs and has found significant fraud and unsafe repairs in vehicle repairs. Butler said that a repair facility that takes the assignment of proceeds for a repair would be forced to take action against the consumer for payment of proper repairs if the insurance company refused to pay for the proper repair of a vehicle. Commissioner Navarro said an insurance department will engage with an insurance company to address the inappropriate settlement of a claim. Butler said this has not been his experience after filing complaints on behalf of consumers as a public adjuster. Commissioner Navarro requested Butler send him a synopsis of the situation for further review.

C. Section 16: Unlicensed Actors

Tim Mullen (NAIC) said this is a new section to address unlicensed actors and enumerate what a state insurance regulator would consider a fraudulent insurance act. No comments were made on this section.

D. Section 19: Standards of Conduct of Public Adjuster

Dominguez asked what issue state insurance regulators are trying to address with the new Subsection C, which prohibits a public adjuster from advertising or inferring damage has occurred unless an inspection has been completed. Dominguez said it would be difficult for a public adjuster to advertise or solicit services. Butler said the term inspection should be defined. Commissioner Navarro said this term is intentionally generic because there can be different types of inspections depending on the type of loss.

No comments were made on the new Subsection D, which prohibits a public adjuster from paying an insured's deductible or claiming the insured's deductible will be waived.

No comments were received on the revised Subsection G, which states a public adjuster shall not have a direct or indirect financial interest in any aspect of the claim other than the salary, fee, commission, or other consideration established in the written contract with the insured.

Commissioner Navarro said he is recommending the retention of the two subsections to Subsection I. This section would read as follows: The public adjuster shall abstain from referring or directing the insured to get needed repairs or services in connection with a loss from any person (1) with whom the public adjuster has a financial interest; or (2) from whom the public adjuster may receive direct or indirect compensation for the referral. Commissioner Clark, Buono, Baughman, and Tozer agreed with this suggestion.

3. Discussed Public Adjuster Fees

Dominguez asked about the status of the language regarding fee caps for public adjusters. Commissioner Navarro said the language regarding public adjuster fees in Subsection 14.D has not been changed. The Working Group is proposing a 10% fee cap for catastrophic insurance claims and a 15% fee cap for any other insurance claim. Dominguez said that the FAPIA is concerned with these percentages and urged the Working Group to review the fee cap structure in place in Florida. Commissioner Clark said a state may decide to retain its current fee cap structure since the recommendations are part of a model law, which a state may decide to modify for its marketplace.

4. Discussed Adoption of the Proposed Revisions

Commissioner Navarro said NAIC staff would review the edits agreed upon today and circulate a revised draft for the Working Group to consider for adoption in July. Commissioner Navarro said his intention is for the Working

© 2024 National Association of Insurance Commissioners

Group to present a revised draft for the Producer Licensing (D) Task Force to consider for adoption at the Summer National Meeting.

Having no further business, the Public Adjuster Licensing (D) Working Group adjourned.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/D%20CMTE/2024%20Summer/PLTF/Public%20Adjuster%20WG/June%2018%20Call/PAWG%20Min%206.18.24.docx?web=1

© 2024 National Association of Insurance Commissioners

Draft: 5/28/24

Public Adjuster Licensing (D) Working Group
Virtual Meeting
May 2, 2024

The Public Adjuster Licensing (D) Working Group of the Producer Licensing (D) Task Force met May 2, 2024. The following Working Group members participated: Trinidad Navarro, Chair (DE); David Buono, Vice Chair, and Michael Humphreys (PA); Charlene Ferguson (CA); Sara Stanberry (IL); Sharon P. Clark and Shaun Orme (KY); Jodie Delgado (TX); Richard Tozer and Juan Rodriguez Jr. (VA); and Jeff Baughman (WA). Also participating was Matt Tamplin (FL).

1. Adopted its April 5 Minutes

The Working Group met April 5. During this meeting, it took the following action: 1) reviewed its charge and scope of work; 2) reviewed proposed amendments to the *Public Adjuster Licensing Model Act* (#228); and 3) received comments on the proposed amendments.

Baughman made a motion, seconded by Commissioner Clark, to adopt its April 5 minutes. The motion passed unanimously.

2. Received Comments on Proposed Amendments to Model #228

Commissioner Navarro said the Working Group is charged with strengthening regulatory standards governing the conduct of public adjusters for the following four issues: 1) individuals acting as unlicensed public adjusters; 2) contractors who are also acting as public adjusters on the same claim; 3) inappropriate assignment of benefit rights; and 4) excessive fees charged by public adjusters.

A. Section 3: License Required

Tamplin suggested adding the word "solicit" to subsection 3.A because solicitation is part of the public adjusting process. Rodriquez said he submitted similar language because Virginia has seen practices of unlicensed individuals soliciting consumers for public adjusting services. There was general agreement among the Working Group members to make this edit.

Ira L. Straff (Insurance Adjustment Bureau—IAB) said there have been instances where individuals falsely represent themselves as a public adjuster and suggested the following sentence be added to the end of subsection 3.A:

> "A person also shall not represent any other person verbally or in writing comment, or an advertising, whether printed or in any other media, that he or she, in any way, will handle the other person's insurance claim in whole or in part, or act as the other person's representative in the claim or otherwise communicate with an insurer on behalf of the other person's representative in the claim, or otherwise communicated with an insurer on behalf of the other person, unless that person is licensed as a public adjuster in accordance with the Act, or is an attorney."

Commissioner Navarro said he would review this suggestion with the Working Group members.

© 2024 National Association of Insurance Commissioners

B. Section 14: Public Adjuster Fees

Anthony DiUlio (American Association of Public Insurance Adjusters—AAPIA) said the language in the current model, which allows a public adjuster to charge a reasonable fee, should not be amended or deleted. DiUlio said this language allows a public adjuster to modify fees, depending on the claim complexity and services provided, while still allowing a state insurance department to review a fee being charged if there is a concern. Holly Soffer (AAPIA) agreed and said each state should decide what a public adjuster can charge because states have different weather patterns, and some states have already imposed fee caps that are higher than what is being proposed in the NAIC model. Soffer said what is reasonable in one state may or may not be reasonable in another state.

Commissioner Navarro said state insurance departments have a lot of priorities and questioned whether a state insurance department would be notified if a public adjuster is charging an excessive fee. Commissioner Clark agreed and said a state insurance department would not be aware unless a consumer filed a complaint. Commissioner Clark said it can be difficult for an insurance department to intervene in a contractual matter, and this is one of the reasons Kentucky decided to implement a fee cap. Buono said the lack of complaints does not mean there are not excessive fees being charged because consumers may not know they can submit a complaint to a state insurance department. DiUlio said state insurance departments could require that all contracts contain language notifying consumers about their right to submit a complaint to their state department of insurance.

Buono said there are two concepts of reasonableness. The first is what a reasonable fee cap is, and the second is what a reasonable fee for a specific claim based on the complexity of the claim and work performed is. DiUlio said if there is a fee cap of 25% of the claim settlement amount, a public adjuster who charges 25% but does minimal work will claim the fee is appropriate based on the state insurance department's recommended fee cap. Because of this, DiUlio said a standard of reasonableness is better because this standard allows a state insurance department to ask a public adjuster to demonstrate what services were provided in return for the fee charged.

Nancy Dominguez (Florida Association of Public Insurance Adjusters—FAPIA) said many of the issues being discussed have been addressed in Florida and encouraged the Working Group to review Florida's law on public adjuster fees. Tamplin said Florida has a fee cap of 20% and said a fee standard of reasonableness is too subjective for enforcement.

Commissioner Humphreys said the NAIC model should have fee caps, and fee caps are a maximum, which means a public adjuster does not always have to charge the fee cap percentage. Commissioner Humphreys said the Pennsylvania Insurance Department has received too many complaints where a public adjuster's fees led to a consumer's inability to pay for needed repairs. Commissioner Clark agreed the model should have a recommended fee cap and that states could then modify the fee cap percentage if needed.

DiUlio said a fee cap could eliminate the necessary representation of consumers, especially for lower-value claims when consumers may need the most help from a public adjuster. DiUlio said a small-value claim might involve the same amount of work as a large-value claim, and a public adjuster who can only charge 15% on a $10,000 claim may not accept this work. DiUlio said this could lead to insurance carriers having greater leverage to settle claims at a lower value. DiUlio suggested a sliding scale for compensation rates as an option for further discussion.

Paul Handerhan (FAPIA) said Florida's 20% fee cap is tied to the amount of money a public adjuster was able to recover for a consumer, which may be less than the total claim amount. Handerhan said the language in the draft model bases the fee cap on the total claim amount. Handerhan said this is a complicated issue and suggested the Working Group review Florida's law.

© 2024 National Association of Insurance Commissioners

Jeff Butler (Collision Consulting of Washington) said fee caps are challenging for public adjusters who work on auto property claims, and fee caps on lower-value auto property claims would make it impossible for a consumer to be represented by a public adjuster.

Dominguez said a public adjuster will not accept a case when a fee becomes too low because of the physical labor and time needed to properly assist a consumer. Rick Tutwiler (FAPIA) said he thinks fee caps are detrimental to the consumers, especially for smaller claims, and that public adjusters are competitive in what fees they charge consumers.

Ann Frohman (National Association of Public Insurance Adjusters—NAPIA) said limits on fees is an important issue but said this may be a state-by-state decision, which many states have already addressed. Frohman said focusing too much on fee caps might limit the focus on other important issues, such as unlicensed individuals committing fraud.

Steve Geller (FAPIA) said individuals should have the right to enter contracts and that the insurance industry has pushed for lower fee caps in Florida. Geller said a low fee cap would make it impossible for consumers to obtain the professional representation of a public adjuster. Geller said consumers need professional representation because consumers are not experts on insurance policies or assessing property damage. Geller said Florida legislators rejected a fee cap of 15% on claims settlements as being too low and agreed to a 20% fee cap.

Commissioner Navarro said the Working Group is not trying to set fees or make it more difficult for consumers to obtain necessary representation. Buono said he has not heard from the industry requesting fee caps and has only heard from consumers who have been unable to afford repairs because of fees paid to a public adjuster.

Commissioner Navarro said he supports including recommended fee caps in the model and said the Working Group would consider the regulatory framework in Kentucky and Florida.

Having no further business, the Public Adjuster Licensing (D) Working Group adjourned.

NAIC Support Staff Hub/Committees/D CMTE/2024 Summer/PLTF/Public Adjuster WG/May 2 Call/PAWG Min 5.2.24.docx

© 2024 National Association of Insurance Commissioners

Attachment Sixteen
Producer Licensing (D) Task Force
8/13/24

Draft: 4/18/24

Public Adjuster Licensing (D) Working Group
Virtual Meeting
April 5, 2024

The Public Adjuster Licensing (D) Working Group of the Producer Licensing (D) Task Force met April 5, 2024. The following Working Group members participated: Trinidad Navarro, Chair (DE); David Buono, Vice Chair (PA); Shawn Orme (KY); Matt Gendron and Rachel Chester (RI); Richard Tozer and Juan Rodrigues Jr. (VA); and Jeff Baughman (WA). Also participating were: Sara Stanberry (IL); and Jodie Delgado (TX).

1. Reviewed its Charge and Scope of Work

Commissioner Navarro said the Producer Licensing (D) Task Force began discussing public adjuster licensing issues in 2023 in response to marketplace issues. The Task Force circulated proposed amendments to the NAIC *Public Adjuster Licensing Model Act* (#228) in October of 2023. This resulted in 138 pages of comments being submitted. Commissioner Navarro said the Task Force adopted a new charge to appoint the Public Adjuster Licensing (D) Working Group for 2024 to review and amend Model #228 as needed to enhance consumer protections in the property/casualty (P/C) claims process. Commissioner Navarro said the NAIC Members adopted a Request for NAIC Model Law Development during the 2024 Spring National Meeting to strengthen regulatory standards governing the conduct of public adjusters for the following four issues: 1) individuals acting as unlicensed public adjusters; 2) contractors who are also acting as public adjusters on the same claim; 3) inappropriate Assignment of Benefit rights; and 4) excessive fees charged by public adjusters.

2. Reviewed Proposed Amendments to Model #228

Commissioner Navarro said the following proposed amendments were made to the model.

- Subsection 3.A was amended to require licensure for any person negotiating a contract for public adjusting services. This revision is intended to help eliminate individuals acting as unlicensed public adjusters.
- Section 14 was amended to become a mandatory section of the model (not an optional section) and place a compensation cap of 10% for catastrophe (CAT) claims and 15% for any claim settlement. This is intended to eliminate public adjusters charging excessive fees.
- Subsection 15.H was amended to require an insurer to verify a public adjuster holds a valid license. This is intended to help eliminate individuals acting as unlicensed public adjusters.
- Subsection 15.L is a new subsection that addresses inappropriate Assignment of Benefits. This new subsection limits the Assignment of Benefits to a person with the legal authority to represent the named insured and may explicitly prohibit the assignment of rights and benefits to any other person, including a property repair contractor. The new subsection also specifies that a property repair contractor operating may not subvert the public adjuster licensing requirements by acquiring a power of attorney from the insured.
- Section 16 is a new section to stress unlicensed individuals representing themselves as licensed public adjusters or conducting business, which requires a public adjuster license, are committing fraud. This is intended to be a deterrent to individuals who may be acting as unlicensed public adjusters.
- Section 19 was amended to include new subsections C and D to strengthen regulatory standards over the conduct of public adjusters. Subsection C prohibits a public adjuster from advertising or inferring damage has occurred unless an inspection of the property has been completed. Subsection D prohibits a public adjuster from offering to pay an insured's deductible or claiming the insured's deductible will be waived.

© 2024 National Association of Insurance Commissioners

This type of activity would be considered an inappropriate inducement to use the services of a public adjuster.

- Language was deleted from Section 15 to eliminate situations where an entity is paying a public adjuster for repair referrals or where a public adjuster has a financial interest in the entity completing the repairs. These edits are intended to eliminate a conflict of interest where a person is acting as both the public adjuster and repair contractor for a claim.

3. Received Comments on Proposed Amendments

Ann Frohman (National Association of Public Insurance Adjusters—NAPIA) said NAPIA wants to ensure consumers understand what happens when they have a property loss and the role of multiple parties involved in the settlement of a claim. Frohman said NAPIA supports eliminating bad actors acting as unlicensed public adjusters and supports the proposed changes intended to eliminate unlicensed individuals acting as public adjusters. Frohman said NAPIA supports amendments prohibiting a public adjuster from having a financial interest in the entity selected to complete property repairs because a public adjuster has a fiduciary duty to the insured client. Frohman said a public adjuster with a financial interest in the entity completing the repairs creates an inherent conflict of interest. Frohman said the provision addressing the Assignment of Benefits needs further review but agreed with the need to protect consumers from assigning their benefits to a contractor, which may receive payment from an insurance company and then fail to complete the necessary repairs. Frohman said the fee caps are a challenge and suggested that the Working Group may want to consider what compensation is appropriate for a commercial line loss versus a personal lines loss or a loss arising from a catastrophic event.

Holly Soffer (American Association of Public Insurance Adjusters—AAPIA) said AAPIA agrees, in principle, with the goals of the Public Adjuster (D) Working Group but that the proposed amendments go too far and may have unintended consequences that harm insurance consumers. For example, Soffer said the Assignment of Benefits provision would prohibit the property owner from selling a damaged property to a bona fide purchaser. Soffer said some consumers will choose to sell their property after a loss rather than repair or replace it. Soffer said the issue of fee caps is complicated, and most states have laws that allow a public adjuster to charge a reasonable fee, which seems to provide the necessary consumer protections against excessive fees. Soffer said some states have fee caps on catastrophic losses, which are usually large claims. Soffer said ACAPIA has supported fee caps on catastrophic losses. Soffer said the Public Adjuster Licensing (D) Working Group should keep the fee cap provision of the model optional since states have different issues and views on fee caps. For example, Soffer said a 15% fee cap on claims is problematic on smaller claims and would limit a consumer's ability to obtain representation by a public adjuster. Soffer said a sliding fee scale would be more appropriate than a strict percentage fee cap on all claims.

Anthony DiUlio (Wheeler, DiUlio, & Barnabei) said 92% of property claims are $25,000 or less and that a 15% fee cap would eliminate the ability of public adjusters to assist consumers in lower value claims. DiUlio said a sliding scale on fee caps based on the claim's value may be an appropriate solution. DiUlio said this would allow consumers with lower-value claims to obtain appropriate representation while also protecting consumers from a public adjuster charging 35% on a million-dollar claim. Commissioner Navarro said the members of the Public Adjuster Licensing (D) Working Group would discuss this issue and suggested a minimum public adjuster charge might also be a reasonable solution for lower-value claims.

Erica Eversman (Automotive Education Policy Institute—AEPI) said the proposed amendments will eliminate the ability of responsible automobile repair facilities to assist consumers with automobile repairs. Eversman said the proposed language would require any entity discussing any type of claim with an insurance company to be a licensed public adjuster. Eversman said some repair facilities will agree to repair a consumer's vehicle at a cost greater than what an insurance company approved and then take an Assignment of Benefits to seek proper

© 2024 National Association of Insurance Commissioners

reimbursement from the insurance company. Eversman said this is good for consumers because a consumer will have their vehicle repaired correctly and in a timely manner. Eversman said the proposed amendments will prohibit this. Eversman said repair facilities are also able to identify deliberate patterns and practices of an insurer underpaying claims, which can provide an opportunity for a repair facility to bundle claims against an insurer and provide stronger evidence of an insurer underpaying claims. Eversman said fee caps on automobile claims and the inability of repair facilities to provide recommendations or referrals are not workable for automobile claims. Eversman said this type of regulatory framework is unfair because insurance companies are allowed to advocate and refer consumers to preferred body shops. Eversman said the proposed amendments will eliminate key consumer protections and leave consumers without the ability to hire an advocate to represent their interests.

Commissioner Navarro requested all parties submit additional comments by April 15. He said the Public Adjuster Licensing (D) Working Group plans to meet April 26.

Having no further business, the Public Adjuster Licensing (D) Working Group adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 7/31/24

Uniform Education (D) Working Group
Virtual Meeting
July 10, 2024

The Uniform Education (D) Working Group of the Producer Licensing (D) Task Force met July 10, 2024. The following Working Group members participated: Richard Tozer, Chair (VA); Lorelei Brilliante, Vice Chair (MD); Peggy Dunlap (AR); Charlene Fergusen (CA); Vanessa Miller (MS); Karen Vourvopoulos (OH); Courtney Khodabakhsh (OK); Jodie Delgado (TX); and Jeff Baughman (WA).

1. Discussed Continuing Education Audit Guidelines

Tozer said during the conference call in June the Working Group discussed CE audit guidelines and course introductory statements. Tozer said a checklist was created listing out the CE Audit Procedures in the document. He said the request was for states to review and provide comments on whether they agree or disagree with the guideline. Tozer said the checklist has listed out each area of the CE Audit Procedures including steps for completion, documents to be pulled, documents to be reviewed, reviewing audits for deficiencies, process for desk audits, and self-study online audits. She said the Working Group provided eight responses from CA, FL, KS, KY, ME NC, NM, and RI.

The Working Group reviewed the comments received and discussed options to announce auditors for in-person courses and the debate on notifying providers of audit results while considering making certain aspects of the guidelines optional. The Working Group discussed specifics concerning the notification to providers of audit results if there are no violations, the minimum percentage of audited courses for states, and the areas of the guidelines that should be considered optional.

Tozer said the next step for the Working Group will be to open up the audit guidelines for industry input. He said the Working Group will then review to finalize the draft. Tozer said he would like to provide a 3 week review period for industry and regulators to review and provide feedback.

2. Discussed Guidelines for Course Introduction Statements

Tozer said as the Working Group is working to complete the NAIC Audit Guidelines, he would also like to continue the discussion on Guidelines for Course Introduction Statements. The Working Group discussed which states provide introductory statements. Tozer said he will work with NAIC staff to create a survey to be distributed in order to collect data on the state guidelines.

Having no further business, the Adjuster Licensing (D) Working Group adjourned.

UEWG Minutes 7.10.24

© 2024 National Association of Insurance Commissioners

Draft: 7/30/24

Uniform Education (D) Working Group
Virtual Meeting
May 8, 2024

The Uniform Education (D) Working Group of the Producer Licensing (D) Task Force met May 8, 2024. The following Working Group members participated: Richard Tozer, Chair (VA); Lorelei Brilliante, Vice Chair (MD); Peggy Dunlap (AR); Charlene Fergusen (CA); Vanessa Miller (MS); Karen Vourvopoulos (OH); Courtney Khodabakhsh (OK); Jodie Delgado (TX); and Jeff Baughman (WA).

1. Discussed CE Audit Guidelines

Tozer said the first agenda item is to discuss the creation of continuing education (CE) audit guidelines. Tozer said prior to the meeting, NAIC staff distributed the Virginia Audit Form and Guidelines for review and comment. He said the Working Group will continue collecting comments on Virginia's forms and guidelines to assist with the creation of an NAIC CE audit guideline. The Working Group discussed the necessary items to be included in the audit form to provide a uniform approach for all states. Tozer said the Working Group will accept additional comments on the audit draft and hold a conference call in June to finalize the draft.

2. Discussed Guidelines for Course Introduction Statements

Tozer said that as the Working Group is working to complete the NAIC audit guidelines, he would also like to open the discussion on the guidelines for course introduction statements. The Working Group discussed which states provide introductory statements. Tozer said Virginia has an introductory statement, which is a one-page document that is posted before each course. Brandi Brown (RegEd) said RegEd has a chart that shows the states that provide introductory statements. Tozer said he would ask that this gets sent to the Working Group members for review. He said this topic will be listed on the agenda for the Working Group's next conference call in June for further discussion.

Having no further business, the Adjuster Licensing (D) Working Group adjourned.

UEWG Minutes 5.8.24.docx

© 2024 National Association of Insurance Commissioners

FINANCIAL CONDITION (E) COMMITTEE

Financial Condition (E) Committee Aug. 15, 2024, Minutes 9-2
Financial Condition (E) Committee Aug. 2, 2024, Minutes (Attachment One) 9-9
Comments Received from the Mississippi Insurance Department on Proposal 2024-20 CR (Attachment One-A) 9-11
Comments Received from the Joint Property/Casualty (P/C) Trades on Proposal 2024-20 CR (Attachment One-B) 9-12
Comments Received from South Carolina on Proposal 2024-20 CR (Attachment One-C) 9-18
Risk-Based Capital (RBC) Proposal 2024-20-CR-MOD (Attachment One-D) 9-20
Financial Condition (E) Committee June 12, 2024, Minutes (Attachment Two) 9-31
National Treatment and Coordination (E) Working Group July 24, 2024, Minutes (Attachment Three) 9-37
Proposal 2024-02 Expansion Application, Form 2 (Attachment Three-A) 9-40
Proposal 2024-03 Questionnaire, Form 8 (Attachment Three-B) 9-45
Proposal 2024-04 Narrative (Attachment Three-C) 9-55
Risk-Focused Surveillance (E) Working Group July 17, 2024, Minutes (Attachment Four) 9-60
Risk-Focused Surveillance (E) Working Group May 30, 2024, Minutes (Attachment Four-A) 9-62
Draft Request for Proposal (RFP) for Assistance with the Due Diligence Process of Rating Agencies (Attachment Five) 9-64
Revised Investment Framework and Related Documents (Attachment Six) 9-96
Presentation from BlackRock on Commercial Mortgages (Attachment Seven) 9-125

© 2024 National Association of Insurance Commissioners

Draft: 8/20/24

Financial Condition (E) Committee
Chicago, Illinois
August 15, 2024

The Financial Condition (E) Committee met in Chicago, IL, Aug. 15, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair, represented by Jamie Walker (TX); Michael Conway (CO); Doug Ommen and Carrie Mears (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt (KS); Kevin P. Beagan represented by John Turchi (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by Chad Bridges (MS); Justin Zimmerman represented by John Sirovetz (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dwight Radel and Tom Botsko (OH); Elizabeth Kelleher Dwyer and John Tudino (RI); and Scott A. White and Doug Stolte (VA).

1. Adopted its Aug. 2, June 12, and Spring National Meeting Minutes

The Committee met Aug. 2, June 12, and March 15. During its Aug. 2 meeting, the Committee adopted risk-based capital (RBC) proposal 2024-20-CR-MOD. During its June 12 meeting, the Committee discussed and exposed RBC proposal 2024-20-CR and discussed RBC proposal 2023-17-23.

The Committee also met July 15 with representatives of the Federal Insurance Office in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings.

Walker made a motion, seconded by Kasinow, to adopt the Committee's Aug. 2 (Attachment One), June 12 (Attachment Two), and March 15 (*see NAIC Proceedings – Spring 2024, Financial Condition (E) Committee*) minutes. The motion passed unanimously.

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

Commissioner Houdek 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 2024 Summer National Meeting as part of the Financial Condition (E) Committee's 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, Commissioner Houdek asked the Committee: 1) whether there are any items that should be discussed further and 2) whether there are other issues not up for adoption that are currently being considered by task forces or workings groups reporting to the Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Commissioner Houdek noted that the Financial Analysis (E) Working Group met Aug. 12, July 10, June 26, June 6, June 3, May 8, and May 7 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

© 2024 National Association of Insurance Commissioners

met Aug. 12, May 10, and April 11 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies. The Group Solvency Issues (E) Working Group met July 15 and March 20 in regulator-to regulator session, pursuant to paragraph 8 (strategic planning issues related to international regulatory matters) of the NAIC Policy Statement on Open Meetings.

Walker made a motion, seconded by Eft, that with the exception of the proposed Securities Valuation Office (SVO) discretion policy adopted by the Valuation of Securities (E) Task Force, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Financial Stability (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Risk Retention Group (E) Task Force; Valuation of Securities (E) Task Force; National Treatment and Coordination (E) Working Group (Attachment Three); and Risk-Focused Surveillance (E) Working Group (Attachment Four). Commissioner Houdek noted that the proposed SVO discretion policy would be considered by the Committee during a meeting subsequent to the Summer National Meeting. The motion passed unanimously.

3. Received an Update from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Botsko reported that the Risk-Based Capital Investment Risk and Evaluation (E) Working Group heard an update from the American Academy of Actuaries (Academy) on its work toward developing a methodology for addressing collateralized loan obligations (CLOs). He noted that the Working Group had previously asked the Academy for support in creating an RBC framework for asset-backed securities (ABS). In connection with that, the Academy presented a list of six principles that would guide their work, and the Working Group supports these principles. The Academy is now working to identify a set of comparable attributes that can be used to segregate CLOs into risk buckets. Botsko noted that the Academy would likely identify different sets of comparable attributes for debt tranches versus residual tranches, and the Academy expects to present its findings in early 2025 on the CLOs. Subsequent to that, the Working Group is expected to make decisions on comparable attributes for the CLOs, and then ultimately, the Academy will develop factors and extend from CLOs to other ABS. Botsko noted that there was a slight delay in this timeline from the original estimates due to some data issues, and this is the reason the initial work by the Academy won't be ready by year-end as originally estimated.

4. Received an Update from the Valuation of Securities (E) Task Force

Mears reported that since the Spring National Meeting, the Valuation of Securities (E) Task Force adopted a host of administrative updates and finalized a definition of an NAIC designation. Regarding the proposed SVO discretion proposal, the Task Force adopted it after a multitude of exposure drafts, comments, and engagement with interested parties. Mears thanked all the commenters and all who were engaged in the process. Mears noted that hearing all the concerns and enhancements allowed the Task Force to incorporate many suggestions. Mears stated that the proposed SVO discretion proposal was unanimously adopted by the Task Force at this national meeting. Mears also reported that the Task Force heard an update on the CLO modeling process and how that was being aligned with the work from the Academy in terms of actual methodology and modeling procedures. She noted that the Task Force and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group would likely continue to hear updates that demonstrate the two workstreams are aligned on CLO work. Commissioner Houdek stated appreciation to Mears and the Task Force and all engaged parties for the work in finalizing the SVO discretion proposal.

5. Exposed a Draft RFP for Assistance with the Due Diligence Process of Rating Agencies

Commissioner Houdek reminded the Committee that at the Spring National Meeting, he highlighted a memorandum that he presented to the Executive (EX) Committee. The memorandum requested approval to start

© 2024 National Association of Insurance Commissioners

working on a request for proposal (RFP) to hire a consultant who would assist in developing a strong due diligence framework in its retention and ongoing utilization of credit rating providers. He stated that included in the materials was a draft RFP, and the Committee would like to provide all interested parties the opportunity to offer input and feedback. He directed meeting participants to the cover memo of the draft RFP, which asks a number of questions in order to receive specific input that will help make the product better. Commissioner Houdek suggested the Committee expose the RFP and cover memo (Attachment Five) for a 60-day comment period ending Oct. 14. The Committee agreed.

6. Exposed a Revised Investment Framework and Related Documents

Commissioner Houdek said that included in the materials was a memorandum summarizing the Investment Framework Drafting Group's responses to the comments received on the prior exposure of the investment framework. Also included was a revised investment framework and revised investment framework work plan. Finally, a chart was also included that summarizes ongoing work related to the investment framework.

Mears noted that most of the updates to the documents were minor and included, for example, simply updating the documents to remove the factors that led to the creation of the framework and replacing them with some of the principles that have been discussed in prior drafts. Therefore, the language is not new, but the updates ensure those points are reflected in the investment framework. She noted that the investment framework is not yet in its final form but is closer, and what is more relevant now is the investment framework work plan, which has been updated to include the status of the draft RFP. Mears also noted that originally the work plan included little on RBC and still does not include a great deal, but the language has been updated to be more current, and future recommendations will be included.

Mears noted that the Committee welcomes comments in line with the open and deliberative process, and it is open to several comment periods. She also noted that part of the process is for the Committee to continue to receive updates from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group and the Valuation of Securities (E) Task Force.

The Committee agreed to expose the revised investment framework documents (Attachment Six) for a 60-day public comment period ending Oct. 14.

7. Heard a Federal Update from NAIC Staff on Basel III

Shana Oppenheim (NAIC) provided an update on the federal activities related to Basel III. She noted that the recent Basel III endgame proposal has significant implications for the insurance industry. U.S. federal banking regulators, including the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve, issued a proposed rule in July 2023 to revise large bank capital requirements. This proposal targets banks with $100 billion or more in assets and signals a shift away from tailored regulations, applying a consistent set of requirements across the board. For insurance, the impact is profound. Banks will be required to hold more capital for owning life insurance policies from non-publicly traded insurers, severely impacting the bank-owned life insurance (BOLI) market. This change threatens banks' ability to provide vital employee benefits. Additionally, the increased costs associated with hedging will require life insurers to tie up more capital in the futures and derivatives markets. These changes could restrict life insurers' ability to manage risk effectively and may result in less innovative products for consumers.

Capitol Hill has raised several concerns about the proposal, particularly its lack of economic analysis, transparency, and the potential for U.S. institutions to be disadvantaged compared to their European counterparts. The proposal, based on an agreement among U.S. and global regulators, was never submitted to the U.S. Senate or formally approved by the OCC, FDIC, and Federal Reserve. This lack of transparency has led to bipartisan concerns

© 2024 National Association of Insurance Commissioners

and numerous hearings. In March 2024, Federal Reserve Chair Jerome Powell informed Congress that "broad and material changes" to the proposal were forthcoming. Further, Republicans on both the Senate Banking and House Financial Services committees have called for a full re-proposal, arguing that significant changes without a new comment period would violate the Administrative Procedure Act (APA). Powell has expressed openness to this idea, prioritizing accuracy over speed. The process is further complicated by the requirement that all three banking agencies must agree on the proposal. The FDIC's leadership is in flux, with Chair Martin J. Gruenberg announcing his resignation once the Senate confirms his successor. As Nov. 5 approaches, the Senate Banking Committee's delayed vote on President Biden's nominee, Christy Romero, adds uncertainty to the FDIC's future leadership. Looking ahead, if Republicans regain the White House, this proposal will be scrapped entirely. If Democrats retain the White House, finalization on a scaled-back proposal is expected in early 2025, with implementation easing in at the beginning of 2026.

8. Heard a Presentation from BlackRock on Commercial Mortgages

Dan Harnick (BlackRock) stated his appreciation for partnering with the NAIC Structured Securities Group (SSG) for the past 10 years and supporting the annual RBC assessment of commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS) securities. FMA is Blackrock's institutional advisory group, which works with a unique set of clients across a range of customized capital markets, advisory capital markets, and risk advisory-related services. FMA is subject to long-standing information barriers to segregate projects.

Harnick and Alex Symes (BlackRock) provided a presentation (Attachment Seven) on BlackRock's views of the commercial mortgage market. He noted that in summary of where the market sits, there are three main points. One, the capital markets have been dislocated, which is influencing the valuations of real estate. Two, looking at the fundamentals for the property market, last year's trends are relatively consistent with this year's and are likely going to stay consistent over the next year. Three, in the office market, he said there is a lot more color and interesting things happening.

Symes noted that in terms of the overall economy, inflation has decelerated but remains elevated. Looking at goods and services, the service component remains positive, and goods inflation has turned negative. Inflation in the services sector remains relatively sticky. Services include residential housing. Employment and economic growth have been moving along at a steady pace. It has been 52 months since the last recession, which is a pretty lengthy period, but the economy has not returned to pre-COVID-19 trends.

Symes noted the main four property types are office, industrial, apartments, and retail, and for all four, rent is being paid. For office, anyone trying to reduce their office space size has to wait until their lease ends, so BlackRock is expecting office growth return on investment to continue to decelerate and turn negative, but it is going to be a slow burn. Increased supply is coming, which is slowing down rent growth. However, after what is currently under construction gets delivered, there is nothing behind it. Developers cannot get financing, at least at the current valuation, which is driven by interest rates. The economy went from a low-interest-rate environment to a high-interest-rate environment, which is having a drastic effect on the overall values of real estate.

Symes said that transaction volume has declined quite a bit. He used the example of buying an apartment property for $100 million dollars in 2021. A buyer would receive 75% loan-to-value (LTV) financing on top of that amount, resulting in $75 million in debt. Moving forward to the present day, the loan would be due, and the values have shifted down, while the net operating income (NOI) has moved up; however, because of where the capital market sits, the valuation has to shift as well and is now at $91 million. If the loan were to be refinanced with a 75% LTV loan, the loan would be much lower. As a result, there is a gap between equity and what could be obtained in lending in a finance deal, and this needs to be filled somehow. He continued, saying it becomes a bigger problem if the lender is not willing to give a 75% LTV loan because many lenders want to keep the debt service coverage

© 2024 National Association of Insurance Commissioners

ratio (DSCR) between income and interest constant, which means instead of a 75% LTV ratio, it would go down to a 40% LTV ratio. He said there are a few ways to fill that, such as a mezzanine loan or extending the loan.

Symes continued, saying that transaction volume has declined quite a bit because landlords and buyers have not been able to come to terms with where the value is. Last year at this time, there were a lot of green shoots in the in the transaction market. People were getting excited post-Labor Day, and a lot of properties went on the market. Then, the Treasury moved to 5%, and once that happened, everything got pulled, and transaction volume that would have closed in January and February basically disappeared. This forced transaction volume to fall to the lowest level since the Great Financial Crisis (GFC). In terms of total returns for apartments and industrial, the valuation of these properties is the same as it would have been in 2014. Meanwhile, retail is back to 2013 evaluation levels, and office is back to 2010 or earlier levels.

Harnick discussed the makeup of the non-agency CMBS universe both in terms of issuance and outstanding volumes, with a focus on conduit loans (secured by a mortgage) and single-asset, single-borrower (SASB) transactions. Conduit was the dominant non-agency CMBS product. Issuance hit an all-time high of right around $200 billion running up to the start of the GFC. During the crisis, securitization markets essentially came to a halt, and non-agency CMBS issuance plummeted before increasing to about $50 billion annually as the market rebounded and, once again, became comfortable with securitization. Then, COVID-19 shocked the market, and since then, issuance levels have been fairly muted in the conduit space. SASB deals came into the picture following the GFC, as investors looked for trophy assets with simpler structures than conduit deals. The SASB market has also been utilized heavily by the larger alternative asset managers, in particular, Blackstone, which now makes up about 40% of the outstanding non-agency CMBS universe. More recently, issuance in both products dropped dramatically in 2023. Following more rate volatility, the market has gotten comfortable with the higher-for-longer paradigm, and issuance in both products has picked up this year and is likely on track to reach near 2021 volumes.

Harnick said that historically, retail and office were the largest property types in the conduit space, followed by multifamily with lodging and industrial rounding out the balance. In the mid-2010s, the first big shift was seen in property type concentrations, as retail decreased due to concerns about the future of malls. There was continued fallout from the GFC, including large-scale store closures and bankruptcies. More recently, during the peak of COVID-19, lodging volumes initially declined but rebounded as business and leisure travel resumed. Most notably, in recent years, office exposure has drastically fallen, as the world adjusts to a new post-pandemic normal. This is seen most acutely in the SASB space where office exposure has now fallen to low single digits. Offices had been 40% of the market over the past 40 years, and now over the last three years, office has decreased to 20% of the market.

Harnick said that DSCRs dropped from a high of 2.8 times in 2021 to 1.8 times more recently. However, the ratios are still above the low that was seen during the peak of pre-GFC issuance, which gives borrowers a buffer and protection from defaulting in the event of cash flow disruptions. There is also better underwriting in the form of higher debt yields. Regarding the uncertainty of the future of office space, delinquency levels are expected to increase over the next few quarters but should stay well short of the level seen during the GFC, assuming the economy continues to perform at its current level.

Going into the COVID-19 pandemic, Harnick said that delinquencies in all issuances were quite low for both conduit and SASB, but then, as COVID-19 hit and everything went into lockdown, delinquency on lodging and retail immediately shot up, as cash flows on these properties took a hit because they were essentially closed. Once retailers reopened and travel resumed, the performance of many of these assets quickly recovered, and the delinquency rate started the trend back down for those asset types. Industrial and multifamily continue to perform quite well, but there has been a slight uptick in multifamily delinquencies in some markets recently, as the current rate environment in the oversupply is impacting asset values and refinancing. The good news is that all sectors are still well below the peak level of the GFC.

© 2024 National Association of Insurance Commissioners

Harnick continued, saying that lodging and retail have seen some decline in payoffs over the past few years, as some portion of those assets continue to struggle from COVID-19. However, the real standout is office where payoff rates have dropped over the past year, as these assets have struggled to refinance due to poor performance and the unwillingness of lenders to extend credit. This low payoff rate has pushed delinquencies up, and the rise in office severities is likely driven by the fact that at least some portions of the office liquidations are the result of functional obsolescence rather than solely poor performance or being over-levered.

Harnick asked what this all means for projected losses on post-GFC vantages, as BlackRock is concerned about this. First, largely because of deteriorating underwriting standards during the four years pre-GFC, as well as inflated valuations leading up to the GFC, the later vintages would experience greater price decline with less de-leveraging than earlier vintages. Considering how losses on post-GFC vantages will stack up, with current delinquency levels still lower than peak-GFC, more conservative underwriting, the lack of a broader session, and generally lower severity, losses on post-GFC vintages will be toward the lower end, with the exception of office. Losses in office are likely to be more in line with the 2005 vintage experience and, in more pessimistic scenarios, could approach levels seen in 2006 and 2007 vintages, which were above 10%.

Harnick pointed to a historical context, as well as a benchmark, for future potential loss levels on the last slide of the slide deck. Within each of these vintages, three bars represent the average deal losses for that vintage in dark blue, with the 75th percentile loss deal loss in gray, and the 90th percentile loss in lighter blue. Looking within the 2005 vintage, the average cumulative deal loss was 6.7%, and the 90th percentile loss was quite a bit higher at 10.8%.

Along the Y axis, Harnick said that there is deal cumulative loss percent, but there are also red horizontal lines that correspond to the average or indicative levels of credit enhancement in post-GFC deals for senior triple-A through original triple-B-minus tranches. This attempts to capture which tranches of post-GFC deals are at risk of taking a loss if they were subjected to the various ranges of losses. Looking back at the 2005 vintage, the triple-B-minus class of post-GFC deals would not be expected to take a loss if losses came in close to the average of that vintage. However, the 90th percentile loss experience would result in some losses to the triple-B-minus class of new vintages but would not be enough to reach the single-A-minus class.

Harnick noted that post-GFC deals also benefit from higher levels of credit enhancement for a given rating as compared to pre-GFC issuance, with credit enhancement generally three to five points higher now compared to where it was pre-GFC, e.g., the triple-B minus-class in pre-GFC deals used to attach at around 3.8%, whereas now, it is generally closer to 7 to 7.5%, providing some additional credit and protection for investors of those classes. He said that BlackRock generally believes that, on average, losses in post-GFC vantages will look much more like 2004, 2005, 2006, and 2007 vintages, and as such, it generally expects extremely limited losses in the single-A and up portion of the capital stack. In fact, losses even in the triple-B-minus space, should be fairly muted given the levels of credit enhancement in these deals. However, there will be some individual deals with particularly bad assets that may end up looking more like the 2006 and 2007 vintages, and there could be some losses in the single-A and potentially up to the double-A level, but on average, again, he said to expect losses to be quite a bit lower than that. Harnick concluded, saying that despite the headwinds currently facing the CMBS market, BlackRock believes that the overall level of losses should be reasonable and manageable, especially from an investment-grade standpoint.

Commissioner Schmidt asked if BlackRock has noticed a larger average default on large real estate. Symes responded no because, with larger deals, servicers are more willing to collaborate with the borrowers to produce a better outcome. Generally, with smaller assets, it is not worth the special servicer's time, effort, and money to work through those assets, so those are the ones that see more liquidations.

© 2024 National Association of Insurance Commissioners

Commissioner Houdek asked if BlackRock has noticed any difference in geographic location in terms of risk due to states and cities having different policies on return to work versus remote work. Harnick responded not really, but that is a function of not just the demand but also the supply. He said developers got excited about areas with higher demand, and so that is where they are seeing greater amounts of supply.

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

© 2024 National Association of Insurance Commissioners

Draft: 8/8/24

Financial Condition (E) Committee
Virtual Meeting
August 2, 2024

The Financial Condition (E) Committee met Aug. 2, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair (TX); Michael Conway represented by Carol Matthews (CO); Doug Ommen represented by Kim Cross (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Kevin P. Beagan and Christopher Joyce (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by David Browning (MS); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French (OH); Elizabeth Kelleher Dwyer (RI); and Scott A. White represented by Dan Bumpus (VA).

1. Heard Comments Received on Proposal 2024-20 CR

Commissioner Houdek noted that the meeting was a follow-up to the Committee's June 12 meeting, during which the Committee discussed risk-based capital (RBC) proposal 2023-17-CR but did not adopt the proposal. Instead, the Committee received a different RBC proposal (2024-20-CR) and exposed it for comment until the end of July. Houdek stated that during this meeting, the Committee would consider comments received on proposal 2024-20-CR, including those from the Mississippi Insurance Department (Attachment One-A) and the Joint Property/Casualty (P/C) Trades (Attachment One-B), which represent a modified RBC proposal (2024-20-CR MOD).

A. Mississippi Insurance Department

Browning stated that Mississippi developed its comments prior to receiving responses from the Joint P/C Trades and NAIC staff to questions from Committee members, but Mississippi's concerns still exist. From a small state perspective, the impact on the domestic industry, since they have mostly small to medium-sized domestic insurers, the cost impact is a concern.

B. Joint P/C Trades

Steve Broadie (American Property Casualty Insurance Association—APCIA), speaking on behalf of the Joint P/C Trades, which includes the National Association of Mutual Insurance Companies (NAMIC) and the Reinsurance Association of America (RAA), summarized their comments on the exposure. Specifically, he stated the Joint P/C Trades appreciate the work that has gone into this project from state insurance regulators, NAIC staff, and industry. He stated their comments represent a modified proposal from their previous proposal (2024-20-CR) and the original NAIC proposal (2023-17-CR). The Joint P/C Trades modified proposal would continue to have climate-conditioned catalogs for 2040 and 2025, but those are only an option for companies to consider. Companies could also choose from a frequency-adjusted approach by increasing the frequency by 50% in one run and 10% in another run. He reiterated his appreciation to all for the extra work getting their proposal into its final order. Colleen Scheele (NAMIC) thanked everyone for working with Joint P/C Trades on this proposal.

C. South Carolina

Director Wise noted that he submitted a letter (Attachment One-C) to Committee members after the comment deadline, so it did not have a chance to make it in the materials. However, he wanted to summarize its highlights. He noted that it is always appropriate to review why regulation is being created before adoption since there are costs to new regulation. He stated that while some of the costs are minimized in the industry's modified proposal,

© 2024 National Association of Insurance Commissioners

there are still costs and potential impacts on the cost of capital. He stated that as an actuary, he might be sensitive to the use of data but noted that if everyone is not submitting the same thing and using the same methodology, then it is not an apples-to-apples approach. This is especially true when combined with the fact that we do not know what the future holds and that this proposed disclosure is being used for something it was not intended for. He noted the things not being accounted for in the proposed disclosure, including the short-term nature of the policy, changes in reinsurance, and the fact that the disclosure relies on non-insurance models. Finally, he noted that the proposal utilizes RBC and questioned if that was the appropriate tool given its stated purpose, which is to facilitate conversations with insurers regarding underwriting and business strategy.

Birny Birnbaum (Center for Economic Justice—CEJ) suggested that reliance on short-term forecasts is misguided, noting the results of insurers and the increase in prices and property insurance. He noted that insurers have failed to prepare for climate change despite the fact that the NAIC started working on that project in the early 2000s. He stated it makes no sense given we know climate change will dramatically affect the risks insurers face and disagreed with the perspective offered by South Carolina.

2. Adopted Proposal 2024-20-CR-MOD

Bumpus made a motion, seconded by Director Dwyer, to adopt the modified Joint P/C Trades proposal 2024-20-CR-MOD (Attachment One-D). The motion passed, with South Carolina voting no.

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

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2024_2Summer/Attachment 1A-080224 E Minutes.docx

© 2024 National Association of Insurance Commissioners

MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

DAVID BROWNING
Deputy Commissioner of Insurance

501 N. WEST STREET, SUITE 1001
WOOLFOLK BUILDING
JACKSON, MISSISSIPPI 39201
www.mid.ms.gov

MAILING ADDRESS
Post Office Box 79
Jackson, Mississippi 39205-0079
TELEPHONE: (601) 359-3569
FAX: (601) 359-2474
WATS: 1-800-562-2957 (Incoming-USA)

Delivered via email
ddaveline@naic.org

July 1, 2024

Mr. Dan Daveline
Director, Financial Regulatory Services
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Financial Condition (E) Committee - Proposal 2024-20-CR Joint Trades Proposal

Dear Dan,

The Mississippi Insurance Department supports proposal 2024-20-CR as submitted by the joint trades. This proposal requires industry to generate test scenarios utilizing a 50% increased frequency of major hurricanes and a 50% increased frequency of wildfire events which regulators can then compare with the company's current RCAT filing. This will provide valuable data for the regulator and require only minimum resources by the insurer as the impact can be modeled using the same CAT model utilized to develop its RCAT charge. By generating this data it will allow regulators to identify insurers that may have a greater degree of climate risk for these two perils.

We believe this proposal to be a more measured and efficient use of industry resources while still providing regulators with data needed to evaluate climate related CAT exposure for these two perils. In addition, it would be beneficial to have a cost/time analysis to further evaluate the two proposals.

We appreciate the opportunity to comment on this proposal, and appreciate the work of the E Committee.

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

MC

© 2024 National Association of Insurance Commissioners

Attachment One-B
Financial Condition (E) Committee
8/15/24

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force
☒ Catastrophe Risk (E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup
☐ Health RBC (E) Working Group
☐ P/C RBC (E) Working Group
☐ Economic Scenarios (E/A) Subgroup
☐ Life RBC (E) Working Group
☐ Longevity Risk (A/E) Subgroup
☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 5/28/2024
CONTACT PERSON:	Steve Broadie
TELEPHONE:	847-736-8258
EMAIL ADDRESS:	steve.broadie@apci.org
ON BEHALF OF:	APCIA, NAMIC , and RAA ("the Associations")
NAME:	Steve Broadie
TITLE:	Vice Present, Financial & Counsel
AFFILIATION:	American Property Casualty Insurance Assoc
ADDRESS:	

FOR NAIC USE ONLY

Agenda Item # 2024-20-CR
Year 2024

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks
☐ Health RBC Instructions
☐ Health RBC Formula
☒ Property/Casualty RBC Blanks
☒ Property/Casualty RBC Instructions
☐ Property/Casualty RBC Formula
☐ Life and Fraternal RBC Blanks
☐ Life and Fraternal RBC Instructions
☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

As a replacement for the climate risk scenario analysis proposal adopted by the Capital Adequacy (E) Task Force, the Associations propose that insurers required to calculate the RCAT charge perform catastrophe model runs on their current books of business with:

- a 50% increased frequency of major hurricanes (Category 3 and higher, but for wind losses only), and
- a 50% increased frequency of all wildfire events.

These frequency adjustments are selected to fall within the reasonable distribution of hurricane and wildfire impacts suggested by climate modeling research for SSP2-4.5 by mid-century (~2°C by 2041-2060). Domestic regulators can then compare the 1/50-, 1/100-, 1/250-, and 1/500-year probable maximum losses generated from the model runs with those currently reported in the insurer's RCAT filing and hold discussions with insurers that may have a greater degree of indicated risk levels for hurricane and wildfire perils.

Additional Staff Comments:

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF FREQUENCY STRESSED CAT EXPOSURE
PR027B2, PR027C2

These disclosures are intended to collect the impact of a major increase in the modeled losses for the perils of hurricane and wildfire that have been used in PR027B and PR027C respectively. The intent of these disclosures is for informational purposes only and not to determine a new RCAT charge. The impact should be estimated using the following specific instructions:

- The impact should be modeled using both a 50% frequency increase for major hurricanes (Category 3 and greater, but only for wind losses) and a 50% increase for all wildfire events.
- Assume a static book of business at year end (no changes to book of business, to reinsurance strategy or to total insured value (TIV) inflation).
- The impact can be modeled using the same CAT model used to develop the insurer's RCAT charge.

The same basic information is required to be completed for this PR027B2 and PR027C2 as the previous pages PR027B and PR027C, including specifically as follows:

Column 1 – Direct and Assumed Modeled Losses
These are the direct and assumed modeled losses per the first footnote, Include losses only: no loss adjustment expenses. For companies that are part of an inter-company pooling arrangement, the losses in this column should be consistent with those reported in Schedule P; i.e., losses reported in this column should be the gross losses for the pool multiplied by the company's share of the pool.

Column 2 – Net Modeled Losses
These are the net modeled losses per the footnote. Include losses only: no loss adjustment expenses.

Column 3 – Ceded Amounts Recoverable
These are the modeled losses ceded under any reinsurance contract. Include losses only, no loss adjustment expenses, and should be associated with the Net Modeled Losses.

© 2024 National Association of Insurance Commissioners

CALCULATION OF CATASTROPHE RISK CHARGE FOR HURRICANE PR027B

Hurricane	Reference	Modeled Losses (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge
(1) Worst Year in 50	Company Records				
(2) Worst Year in 100	Company Records				
(3) Worst Year in 250	Company Records				
(4) Worst Year in 500	Company Records				

		(5) Y/N
(5)	Has the company reported above, its modeled hurricane losses using an occurrence exceedance probability (OEP) basis?	

		Reference	(6) Amount	Factor	(7) RBC Requirement (C(6) * Factor)
(6)	Net Hurricane Risk	L(2) C(2)	0	1.000	0
(7)	Contingent Credit Risk for Hurricane Risk	L(2) C(3) - C(4)	0	0.018	0
(8)	Total Hurricane Catastrophe Risk (AEP Basis)	If L(5) C(5) = "N", L(8) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(9)	Total Hurricane Catastrophe Risk (OEP Basis)	If L(5) C(5) = "Y", L(9) C(6) = L(7) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(10)	Total Hurricane Catastrophe Risk	L(8) C(7) + L(9) C(7)			0

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, CoreLogic, RMS, KCC, the ARA HurLoss Model, or the Florida Public Model for hurricane, or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

††Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

CALCULATION OF CATASTROPHE RISK CHARGE FOR WILDFIRE PR027C
(For Informational Purposes Only)

Wildfire	Reference	Modeled Losses (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge
(1) Worst Year in 50	Company Records				
(2) Worst Year in 100	Company Records				
(3) Worst Year in 250	Company Records				
(4) Worst Year in 500	Company Records				

		(5) Y/N
(5)	Has the company reported above, its modeled wildfire losses using an occurrence exceedance probability (OEP) basis?	

		Reference	(6) Amount	Factor	(7) RBC Requirement (C(6) * Factor)
(6)	Net Wildfire Risk	L(2) C(2)	0	1.000	0
(7)	Contingent Credit Risk for Wildfire Risk	L(2) C(3) - C(4)	0	0.018	0
(8)	Total Wildfire Catastrophe Risk (AEP Basis)	If L(5) C(5) = "N", L(8) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(9)	Total Wildfire Catastrophe Risk (OEP Basis)	If L(5) C(5) = "Y", L(9) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"	0	1.000	0
(10)	Total Wildfire Catastrophe Risk	L(8) C(7) + L(9) C(7)			0

Disclosure in lieu of model-based reporting:

		(8) Direct and Assumed	(9) Net
(11)	For a company qualifying for the exemption under PR027INT C (10), complete 11a through 11c below:		
	a. Provide the company's gross and net 1-in-100-year wildfire losses on a best estimate basis in lieu of model-based reporting.		

b. Provide details on how the company estimated the amounts shown in 11a.

c. Provide a narrative disclosure about how the company manages its wildfire risk.

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, RMS, or KCC$_T$ or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

††Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF FREQUENCY STRESSED CAT EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

Hurricane	Reference	50% Frequency Increase for Major Hurricanes (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using the same commercial vendor catastrophe model, or combination of models, used to calculate the insurer's RCAT charge. Modeling assumptions should be the same as those used in the RCAT charge, but climate impact is constrained to wind frequency only - no adjustments should be made for other subperils. The impact should be modeled using a 50% frequency increase for major hurricanes (Category 3 and greater).

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

PR027B2

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF FREQUENCY STRESSED CAT EXPOSURE FOR WILDFIRE PR027C2
(For Informational Purposes Only)

Wildfire	Reference	50% Increase for Wildfire Events (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			

Lines (1)-(4): Modeled losses to be entered on these lines are to be calculated using the same commercial vendor catastrophe model, or combination of models, used to calculate the insurer's RCAT charge. The impact should be modeled using a 50% increase for all wildfire events.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

PR027C2

© 2024 National Association of Insurance Commissioners

Attachment One-C
Financial Condition (E) Committee
8/15/24

South Carolina Department of Insurance

Capitol Center
1201 Main Street, Suite 1000
Columbia, South Carolina 29201

Mailing Address:
P.O. Box 100105, Columbia, S.C. 29202-3105
Telephone: (803) 737-6160

HENRY McMASTER
Governor

MICHAEL B. WISE
Director

July 30, 2024

To: Members of the Financial Condition (E) Committee

RE: Climate Scenario Analysis - RCAT Change Proposal

Dear Members of the Committee:

I am writing to express my lingering unease regarding the Climate Scenario Analysis (CSA) proposal as currently presented. While I certainly appreciate the effort put into this initiative and recognize that the potential effect of climate change on the insurance industry is an important topic, I feel this proposal is not the direction in which we should move. In this letter, I have attempted to outline my most significant concerns in a concise manner.

The exact benefits of the CSA proposal are unclear for a project that stands to impose direct costs on the industry of perhaps $25,000 to $100,000 per company/group as well as opportunity costs and potential additional staffing expenditures. This would be disproportionately burdensome for small- to medium-sized insurers and be indirectly funded by consumers, and the costs may not stop with compiling the required data. Once collected, the ways in which the data are utilized could ultimately impact the cost of capital to a significant degree, resulting in decreased availability and affordability of property insurance coverage for consumers with hurricane and wildfire exposure.

The current CSA proposal allows for multiple approaches, meaning that comparisons and aggregation will be difficult and may even be inappropriate. Despite a stated intention not to aggregate the collected data, there is a risk that aggregated results may be misunderstood or inappropriately applied. Furthermore, the proposal does not account for changes in policy-level exposure characteristics, reinsurance strategies, underwriting, and other important factors, and it completely omits the perils of severe convective storms and flooding.

As evidenced by the creation of the new Third-Party Data and Models (H) Task Force, there are broad regulatory concerns centered around the development of models as well as the use of their output, especially so for models not tailored for insurance purposes. Although a detailed technical discussion is beyond the scope of this letter, I am concerned about model overfit (i.e., error arising when a model is too closely aligned to a limited set of data and therefore of questionable value for predictive purposes) based on the National Oceanic and Atmospheric Administration's description of RCP 4.5.

© 2024 National Association of Insurance Commissioners

I also question whether Risk-Based Capital, a solvency tool tied to specific company and regulatory responses, is the proper vehicle for analyzing potential impacts from climate change on the insurance industry. The stated purpose of the proposal is to facilitate conversations with insurers regarding their "underwriting, business and reinsurance strategy with respect to climate change," not determine solvency. Even if it were, the data sought would not provide an adequate picture of solvency given differences in books of business, underwriting criteria, deductible options, portfolio changes over time, etc. Additionally, the timeframe involved does not make sense for property insurance, a line of business with a relatively short tail. An insurer's solvency over the next three to five years seems unlikely to be affected by projections for 20 to 30 years from now.

In conclusion, I have considerable concerns with fundamental elements of the CSA proposal and am unsure of its value to members of the NAIC as well as our stakeholders. As always, I greatly appreciate your time and the ability to have an open dialogue on matters such as this.

Best,

Michael Wise

Michael Wise
Director
South Carolina Department of Insurance

MBW/dss

Attachment One-D
Financial Condition (E) Committee
8/15/24

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Plenary ☒ Financial Condition (E) Committee

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 5/28/2024
CONTACT PERSON:	Steve Broadie
TELEPHONE:	847-736-8258
EMAIL ADDRESS:	steve.broadie@apci.org
ON BEHALF OF:	American Property Casualty Insurance Assoc
NAME:	Steve Broadie
TITLE:	Vice Present, Financial & Counsel
AFFILIATION:	American Property Casualty Insurance Assoc
ADDRESS:	

FOR NAIC USE ONLY

Agenda Item # 2023-17-CR MOD
Year 2024

DISPOSITION

ADOPTED:
☐ Plenary
☑ Financial Condition (E) Aug. 2, 2024
☐ TASK FORCE (TF)
☐ WORKING GROUP (WG)
☐ SUBGROUP (SG)

EXPOSED:
☐ TASK FORCE (TF)
☐ WORKING GROUP (WG)
☐ SUBGROUP (SG)

REJECTED:
☐ TF ☐ WG ☐ SG

OTHER:
☐ DEFERRED TO
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☒ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☒ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The Solvency Workstream of the Climate & Resiliency (EX) Task Force was tasked with considering the development of climate scenario analysis. The workstream held three public panels on the topic in 2022 and in 2023 learned that commercial CAT modelers have products known as "Climate Conditioned Catalogs" that reflect adjusted frequency and severity for certain time horizons (e.g. 2040 or 2050) that if compared side by side with existing RBC data in PR027 would provide an estimate of climate change for hurricane and wildfire. The information is intended to be useful for domestic regulators holding conversations with insurers that may have a greater degree of risk levels for these perils.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

©2024 National Association of Insurance Commissioners

CALCULATION OF CATASTROPHE RISK CHARGE RCAT
PR027A, PR027B, PR027C, PR027, PR027B2, PR027C2, PR027B3, PR027C3
AND PR027INT



DISCLOSURE OF CLIMATE IMPACT ON CATASTROPHE EXPOSURE
PR027B2, PR027B3, PR027C2, PR027C3

These disclosures aim at collecting the impact of climate related risks on the modeled losses for the perils of hurricane and wildfire that have been used in PR027B and PR027C respectively. These disclosures will be effective for YE 2024, YE 2025 and YE 2026 reporting. The intent of these disclosures is for informational purposes only and not to determine a new RCAT charge.

An insurer may elect to provide its response as either time-based or frequency-based, with the insurer responding to yes-no questions to indicate which approach is taken along with additional corresponding questions (if any). The impact should be estimated using the following specific instructions:

- For any approach used, the insurer must assume a static in-force book for business at year end (no changes to book of business, to reinsurance strategy, or to total insured value (TIV) inflation over the projected time horizon).
- For a time-based approach:
  - Representative Concentration Pathway (RCP) represents a set of projections that are meant to serve as an input for climate modeling, pattern scaling and atmospheric chemistry modeling. For purposes of these instructions, companies should utilize an RCP of 4.5 (or equivalent SSP).
  - The impact should be assessed separately under two-time horizons 2040 and 2050.
  - The impact can be modeled using either a Climate Conditioned Catalog developed by a commercial CAT model vendor or equivalent view of climate risk internally developed by the insurer or that is the result of adjustments made by the insurer to vendor provided catalogs to represent the own view of climate risk.
  - The two interrogatories PR027B2 for 2040 and 2050 should be populated for hurricane and the two interrogatories PR027C2 for 2040 and 2050 should populated for wildfire.
- For a frequency-based approach:
  - The impact should be modeled using both a 50% frequency increase for major hurricanes (Category 3 and higher, but only for wind losses) and all wildfire events, and a 10% increase in frequency for major hurricanes and all wildfire events.
  - The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge
  - The modeling assumptions should be the same as those used in the RCAT charge. For the hurricane peril, the adjustments should be constrained to wind frequency only—no adjustments should be made for other sub perils.
  - The two interrogatories PR027B3 10% and 50% should be populated for hurricane and the two interrogatories PR027C3 10% and 50% should populated for wildfire.

The same basic information is required to be completed for these PR027B2 and PR027C2 and PR027B3 and PR027C3 as the previous pages PR027B and PR027C, including specifically as follows:

Column (1) – Direct and Assumed Modeled Losses
These are the direct and assumed modeled losses per the first footnote. Include losses only; no loss adjustment expenses. For companies that are part of an inter-company pooling arrangement, the losses in this column should be consistent with those reported in Schedule P, i.e. losses reported in this column should be the gross losses for the pool multiplied by the company's share of the pool.

Column (2) – Net Modeled Losses
These are the net modeled losses per the footnote. Include losses only; no loss adjustment expenses.

Column (3) - Ceded Amounts Recoverable
These are the modeled losses ceded under any reinsurance contract. Include losses only, no loss adjustment expenses, and should be associated with the Net Modeled Losses.

For a time-based approach, in addition, the insurer should provide the following information about the view of climate risk used to determine the climate conditioned modeled losses under each time horizon:

- If a Climate Conditioned Catalog developed by a commercial CAT model vendor is used, provide name and version of the catalog.
- If it is internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers, provide a brief description of assumptions/adjustments made including the sources of climate science research used

© 1994-2023 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

Hurricane	Reference	Climate Impact on Modeled Losses - 2040 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate impact used:	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

Attachment One-D
Financial Condition (E) Committee
8/15/24

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

Hurricane	Reference	Climate Impact on Modeled Losses - 2050 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate impact used:	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

Hurricane	Reference	Climate Impact on Modeled Losses - 10% Frequency Adjustment (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

((6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR HURRICANE PR027B2
(For Informational Purposes Only)

Hurricane	Reference	Climate Impact on Modeled Losses - 50% Frequency Adjustment (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

(6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C2
(For Informational Purposes Only)

Wildfire	Reference	Climate Impact on Modeled Losses - 2040 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate impact used:	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C2
(For Informational Purposes Only)

Wildfire	Reference	Climate Impact on Modeled Losses - 2050 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate impact used:	(4) Y/N
(5a) Was a Climate Conditioned Catalog developed by a commercial cat model vendor used?	
(5b) If the answer is yes, provide name and version of the catalog:	
(5c) Was this internally developed by the company or developed in collaboration with external climate specialists and/or reinsurance brokers?	
(5d) If the answer is yes, provide a brief description of assumptions/adjustments made, including the sources of climate science research used:	
(6a) Were the modeled losses calculated using the same commercial vendor/catastrophe model, or a combination of models used to calculate the CAT Risk Charge.	
(6b) If the answer is no, provide a brief description of the combination of models used:	

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C3
(For Informational Purposes Only)

Wildfire	Reference	Climate Impact on Modeled Losses - 10% Frequency Adjustment (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

(6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

DISCLOSURE OF CLIMATE IMPACT ON EXPOSURE FOR WILDFIRE PR027C3
(For Informational Purposes Only)

Wildfire	Reference	Climate Impact on Modeled Losses - 50% Frequency Adjustment (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

(6) The impact should be modeled using the same commercial CAT model or an equivalent model internally developed by the insurer used to develop the insurer's RCAT charge.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

Denotes items that must be manually entered on the filing software.

Draft: 7/1/24

Financial Condition (E) Committee
Virtual Meeting
June 12, 2024

The Financial Condition (E) Committee met June 12, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair, represented by Will Davis (SC); Cassie Brown, Co-Vice Chair, and Jamie Walker (TX); Michael Conway (CO); Doug Ommen represented by Kim Cross (IA); Amy L. Beard and Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Chlora Lindley-Myers represented by Debbie Doggett (MO); Mike Chaney (MS); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French and Dale Bruggeman (OH); Elizabeth Kelleher Dwyer (RI); and Scott A. White (VA). Also participating was Kathleen Birrane (MD).

1. Discussed a Proposed Change to RBC in 2023-17-CR—Climate Scenario Analysis

Commissioner Houdek stated that the purpose of the meeting is to consider a proposed change to risk-based capital (RBC) in proposal CR 2023-17-CR, as adopted by the Capital Adequacy (E) Task Force, and also consider an alternative proposal from the joint property/casualty (P/C) trade groups. Commissioner Houdek requested Commissioner Birrane, chair of the Solvency Workstream of the Climate and Resiliency (EX) Task Force, which developed the initial proposal adopted by the Capital Adequacy (E) Task Force, to provide background on the proposal.

Commissioner Birrane noted that the development of the RBC proposal has been part of a strategic initiative of the NAIC for the past three years, and work on the topic began in 2022. During that time, the Workstream held three public panels over the course of a year, which included, among other things, a thorough set of presentations from different international insurance regulators about how each of them viewed climate scenario analysis. The requirements from each of these nation-states have varied greatly, ranging from detailed and burdensome, such as the Bank of England's requirements, to more practical approaches using existing regulatory tools, such as Bermuda's requirements.

Based on the information presented, the Workstream received further education from NAIC staff on the topic, as they attempted to find a solution that met the Workstream members' suggested proposal characteristics. Distinct options were presented to the Workstream, and at the end of 2023, the Workstream exposed a directive to NAIC staff, which guided them to develop a proposal that would be presented to the Catastrophe Risk (E) Subgroup. The industry was invited to comment on the approach proposed, and it expressed concerns. As a result, the Workstream members requested the industry develop an alternative approach. Commissioner Birrane noted that regulators did adjust their proposal to address some of the industry's concerns. However, regulators are concerned that the industry proposal is a single stress test as opposed to a climate scenario analysis. Commissioner Birrane closed by noting that while the proposal was initiated by the Solvency Workstream, it has received large support from regulators within various RBC working groups that report to the Capital Adequacy (E) Task Force.

Commissioner Houdek thanked Commissioner Birrane for her leadership and hard work, and he also thanked the regulators involved for their work, which was demanding.

Elizabetta Russo (NAIC) summarized CR 2023-17-CR. Russo noted that it amends the catastrophe risk section of the RBC instructions and interrogatories. The purpose of the proposal is to collect information on how modeled

© 2024 National Association of Insurance Commissioners

losses (probable maximum losses—PMLs) for hurricanes and wildfires could change under a climate scenario of a moderate increase in greenhouse gas emissions trajectory (so-called RCP 4.5 or Equivalent SSP2) in 2040 and 2050 for the current book of business. This data collection is intended to be information only and not to revise the calculation of the catastrophe risk charge in the RBC formula. The proposal has been developed by the NAIC under the direction of the Solvency Workstream of the Climate and Resiliency (EX) Task Force after a comprehensive, two-year due diligence process. The proposal has a sunset clause of three years, after which regulators will decide whether to continue the collection of climate-conditioned PMLs via the RBC filing.

The proposal provides valuable data for regulators to engage with their domestic P/C insurers and discuss what climate risk means for their businesses. Climate-conditioned PMLs can then be compared to baseline PMLs that are currently disclosed for these perils in the annual RBC filing and to current policyholder surplus, hence aiding an effective discussion on how climate risk may impact business strategy, underwriting strategy, and reinsurance strategy. The climate conditioned PMLs are nothing new to the many insurers that are already obtaining these numbers from catastrophe (CAT) model vendors or reinsurance brokers. Russo noted that NAIC staff believe the calculation of climate-conditioned PMLs provide value to those insurers, especially the small regional writers with geographical concentration that may not have yet to begin to consider the impact of climate risk on their book of business and probably should. As part of the due diligence process, the NAIC and the sponsoring regulators of this proposal have engaged with climate scientists, insurers, CAT model vendors, reinsurers, and reinsurance brokers, as well as foreign insurance regulators that have developed their own guidance on climate scenarios. The driver behind this extensive engagement is to deliver a proposal that is methodologically sound, comprehensive, fit for regulatory purposes, and offers flexibility to insurers so they can present their own view of climate risk and control the costs of this exercise.

Shaveta Gupta (NAIC) explained how the costs could be controlled. Gupta noted that under CR 2023-17-CR, RBC filers can use climate-conditioned catalogs developed by their commercial CAT model vendors/brokers that have produced baseline PMLs, or they can translate the climate scenario into their own adjustment by starting with regional landfall frequency and its relevant impact to event footprint backed by the divergent views of climate science. Gupta noted that the trade groups will present their proposal, which represents one extreme stress test consisting of a 50% adjustment to limit the cost of the exercise for insurers and on the grounds of the limited capability of commercial CAT models and reinsurance brokers. The NAIC proposal CR 2023-17-CR does not want to pick one stress test/one adjustment. Gupta noted this choice belongs to the insurer, as well as how much money they are willing to invest in developing their own view of climate risk based on the value they give to this exercise.

Gupta said that from a capability point of view, NAIC staff have spoken to all the commercial CAT model vendors and to the main reinsurance brokers. The CAT model vendors told NAIC staff that their models for hurricanes and wildfires have climate-conditioned catalogs for future time horizons. In addition, the reinsurance brokers told the NAIC that they stand ready to assist insurers in articulating their own view of climate risk at a minimum cost to the insurer. Most of the cost is incurred by the broker, who can either license the catalog from the CAT model vendor and run the scenario for the clients, or the broker can collaborate with the client to articulate the client's view of risk. The insurer can also work with academia and other external and in-house climate specialists to produce their own view of climate risk. Gupta noted that NAIC staff reviewed many climate disclosure surveys and saw all these routes followed by insurers in quantifying the impact of climate change risk. However, NAIC staff have not seen the single "extreme" stress test of 50% used, which is being proposed by the trade groups. Because of the diversity of the U.S. market, insurers should be allowed to choose a different "realistic" view of how the regional impact of hurricanes and wildfires will be influenced by climate scenarios.

Director French indicated appreciation for the work that has gone into this before being presented to the Committee and the information already provided on the call. Director French stated that she had questions,

particularly about the impact on smaller companies. She said that while she has received an explanation on this impact, she still has concerns and expressed a desire to keep the discussion going. She said she recognizes the need to do something, but noted she was not ready to say what that is and is interested in other thoughts about the value of continuing the discussion a little bit longer. Commissioner Chaney stated agreement with Director French.

Commissioner Brown stated appreciation for the summary, as well as conversations over the past few days, and highlighted the point made by NAIC staff, which is that the NAIC proposal does not focus on a single view of risk for the entire market but rather makes sure that insurers are considering climate risks for their particular book of business, and the goal is for regulators to better understand this point. Commissioner Brown asked if that was an accurate statement. Russo responded that she was spot on.

Commissioner Conway said he believes the Committee is working toward a June 30 deadline in order to get this up and running by year-end 2024. He asked if continuing the conversation would effectively delay implementation for a year. Dan Daveline (NAIC) said that it would delay implementation, and depending upon how long the conversation continued, it would likely push the effective date back to year-end 2025 due to deadlines from the annual statement software vendors. Commissioner Conway noted that they have carriers that are definitely building climate risk into their rates, which means that the Committee should consider the other side of that equation. He also noted that he was hesitant to wait another year to get this up and running, but maybe that conversation can occur after the Committee hears the industry's presentation.

2. Exposed RBC Proposal 2024-20-CR—Climate Stress Test

Steve Broadie (American Property Casualty Insurance Association—APCIA), spoke to the Committee on behalf of the joint P/C trade groups, which also include the National Association of Mutual Insurance Companies (NAMIC) and the Reinsurance Association of America (RAA). He stated appreciation for the Committee, NAIC staff, Commissioner Birrane, and the work completed so far, and he noted that it is unusual for the Committee to discuss an RBC proposal. In December 2023, he said the trade groups were surprised when the proposal was released, and they have been working diligently since then to address Commissioner Birrane's request to produce an alternative proposal. Broadie noted the description of 2023-17-CR states that the NAIC proposal, if compared side by side with existing RBC data, would provide an estimate of climate change for hurricanes and wildfires, and the information is intended to be used by domestic regulators during conversations with insurers that may have a greater degree of risk levels for these perils.

Broadie noted they have discussed this proposal with companies and CAT modelers, and they said this process would not produce meaningful data for conversations with insurers that have a higher degree of risk levels. It may be useful for other purposes but not for those conversations. He continued by saying that if option one of the proposal is used, it would be at a significant cost, both financially and by limiting staff resources that could be used in more productive climate risk assessments.

As a result, the trade groups developed an alternative that they believe will accomplish these goals more efficiently and at a significantly lower cost than the NAIC proposal. Under their proposal, insurers will run existing CAT models with a frequency increase of 50%, which approximates the effect of a two-degree centigrade increase in earth temperature over the 2040 and 2060 time periods. The PMLs produced by this run have the one in 50, 100, 250, and 500, scenarios, and are compared with the same PML data under the current RBC formula. Under the industry proposal, data could also be aggregated, but more importantly, regulators and companies could see the results of a large but plausible scenario. This would produce more comparable results between companies and would be far less expensive in both money and staff resources. He noted that they are not seeking to delay

© 2024 National Association of Insurance Commissioners

adoption for 2024 reporting and suggested that, if the Committee is open to this proposal, it be exposed for the next two weeks and then the Committee could take immediate action afterward.

Cate Paolino (NAMIC) noted that some of the problematic aspects of option one in the NAIC proposal are carried forward to option two in the NAIC proposal, such as the time horizon of 2040 and 2050 and the one-in-1,000-year requirement. She stated appreciation to the Committee for considering the relative utility of the two proposals, including cost-benefit, the improvement of dialogue, and making it useable for smaller insurers. Paul Martin (RAA) stated RAA's agreement with the APCIA and NAMIC and appreciated the Committee's time to hear industry concerns. Commissioner Chaney asked Broadie if any companies have run the climate stress test. Broadie was not sure but noted that it would not be difficult to do, as one of the APCIA member companies indicated it could be done in an afternoon.

Birny Birnbaum (Center for Economic Justice) stated his support for the NAIC proposal and noted the industry proposal was flawed for several reasons. First, it does not provide any basis for communication or discussion with the regulator. It is simply the application of a multiplier, and therefore, there is nothing in the proposal that forms the basis for a discussion of the company's climate risk with regulators, which defeats the very purpose of the exercise. Second, it will clearly result in a delay beyond this year. Third, it diminishes the importance of a climate risk scenario approach. He believes that it conveys the message of not wanting to put the time and resources into the proposal, which he believes is ridiculous. Birnbaum said that the industry has been fighting climate risk disclosure since 2003 when the NAIC first started its work on climate and until President Joe Biden was elected. He said this proposal continues the industry's reluctance to embrace the actual analysis of climate risk and respond accordingly. Birnbaum said the NAIC's failure to take action on this today will be fodder for more federal involvement in insurance regulation.

Commissioner White said that a recurring question is how flexible a company's approach can be. The proposal summarized by NAIC staff allows companies to use their own view of risk or the view of their CAT model vendors or reinsurance brokers. He asked for clarification on the flexibility allowed in the proposal summarized by NAIC staff. Gupta noted that the 50% adjustment in the industry proposal is something that could be used by a company under the NAIC proposal because it means that the company could choose the RCP 4.5 as their view of risk if they want.

Director French said she believes the specific flexibility noted in the NAIC proposal is not a practical option for smaller companies because it is still resource-intensive. She asked to hear from the industry on this point. Gupta noted that per industry comments earlier, that option can be run in an afternoon. Director French also asked for the industry to comment on the cost because she is hearing estimates of $50,000, which is not a meaningful cost for larger companies, but it would be for smaller- and medium-sized companies.

Paolino noted that even if the financial resources of the climate-conditioned catalog were not necessary, they still would require expertise to translate the model, which not all companies have at their disposal. Broadie noted that the industry proposal could be run in an afternoon, and he apologized if he misunderstood that the NAIC proposal could also run the same option in the same amount of time. He said he would be happy to discuss this with NAIC staff in the interim. Broadie reiterated that the industry is not seeking to delay this proposal past the 2024 adoption. The industry was given reason to believe that a brief exposure of their proposal, such as two weeks, would be workable if the Committee decided to have an immediate vote after an exposure.

Commissioner Conway agreed with Director French's concerns about being cognizant of cost and not requiring something unduly burdensome. He stated he did not think it was unduly burdensome if it is within the $50,000 range and, in particular, if the industry's approach can be utilized by a company under the NAIC's proposal. He

asked for clarification if this could be done in two weeks. Daveline responded yes. He said the Committee often considers more controversial RBC proposals in early July, and historically, the Committee has adopted those proposals and sends a message to the Annual Statement software vendors that an RBC proposal has broad support, even though it's not officially adopted until adopted by the Plenary.

Commissioner Birrane suggested that whatever action the Committee takes, it would be helpful to have specific quantification, fiscal impact, and examples. There have been suggestions that this could cost $50,000 for a small company, but that is a vague statement. She asked the joint trades to provide concrete cost examples that Commissioners could rely on to present to companies.

Jeff Czajkowski (NAIC) noted that using the climate-condition catalogs would likely be the costliest option, but that is not definite because it depends on the relationship between the insurer and the model vendor. Based upon the conversations the NAIC has had with reinsurance brokers, the most flexible option is using a reinsurance broker because it has developed its own view of risk already, and implementing it would be a minimal cost, whether the companies are large, medium, or small. Birnbaum noted that if the foundation for option two can be the industry methodology, it is completely illogical to expect any insurer using the methodology would face exponentially higher costs than the industry has presented for its option. He also noted the most important application of this climate risk scenario is for small- and medium-sized companies, as they are not the most well-capitalized companies that one should worry about. He noted the companies that desperately need to be considered are in Louisiana and Florida, as well as some of the smaller mutuals in Iowa. He suggested considering these proposals as you would the cost of accounting or the cost of filing annual statements, as risk management should be a building block for what these companies do.

Commissioner Houdek said the Committee has three options. The first option is to adopt the climate scenario analysis before the Committee. The second option is to expose the industry proposal for a brief period, such as two weeks. The third option, which was suggested by Director French, is to delay the vote, allowing everyone more time to understand the issue and gather information.

Cross made a motion, seconded by Davis, to expose the industry proposal and adopt the additional time with a delay until year-end to understand the cost implications on the industry.

Commissioner Beard said she was supportive of a delay, and while a lot of work has gone into both proposals, she wants to make sure she understands everything; therefore, she was supportive of the proposal.

Commissioner Conway stated he was not in support of a delay until the end of the year. He noted he would be supportive of option one to adopt the proposal before the Committee, as these conversations have been occurring since January, and there does not seem to be an excessive cost imposed on the industry. He said that if the Committee needs to decide how to make the NAIC proposal clear so that it encompasses the joint P/C trade groups' proposal, that makes sense and can be done between now and the Summer National Meeting. Commissioner Conway also noted that he was fine with exposing the joint P/C trade groups' proposal but not delaying until the end of the year and reiterated that insurance companies today are already building these risks into their rates; therefore, it does not make sense that the Committee would not also look at also understanding the impact on solvency.

Commissioner Houdek asked the Committee if it could have a slightly longer delay than two weeks to gather more information for questions that were raised by Committee members, but it would not need to be delayed until the end of the year. He suggested the end of July. Commissioner Houdek asked Cross if she would be willing to modify

her motion to the end of July. Cross verified she would modify her motion to expose the industry proposal for a 48 day public comment period ending July 30.

Davis noted that he had heard several people suggest that another year of delay is not a good idea. He said he understood that a lot of work has gone into the proposal and asked if someone could provide a concise response on why the delay would be such a great harm.

Commissioner Chaney stated that giving the industry proposal more exposure time made sense to him.

Davis modified his second to indicate that he supported a motion to expose the industry proposal for a 48 day public comment period ending July 30.

Commissioner Houdek stated the exposure time would also include soliciting questions from Committee members and providing those responses to Committee members before the end of the exposure period.

The motion passed unanimously.

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

© 2024 National Association of Insurance Commissioners

Draft: 8/5/24

National Treatment and Coordination (E) Working Group
Virtual Meeting
July 24, 2024

The National Treatment and Coordination (E) Working Group of the Financial Condition (E) Committee met July 24, 2024. The following Working Group members participated: Debbie Doggett and Kelly Hopper, Co-Chairs (MO); Cameron Piatt, Co-Chair (OH); Cindy Hathaway (CO); William Mitchell and Jack Broccoli (CT); Sherry Wilson (DE); Jennifer Milam (FL); Tangela Byrd and Stewart Guerin (LA); Kari Leonard (MT); Ursula Almada (NM): Karen Feather (PA); Amy Garcia (TX); Jay Sueoka (UT); Ron Pastuch (WA); Amy Malm (WI); and Doug Melvin (WY). Also participating was: Sandra Bigglestone (VT).

1. Adopted Proposal 2024-02

Doggett said that proposal 2024-02 (Expansion Application, Form 2) includes modifications to Form 2 (General Information) to include the addition of "doing business as" (DBA) and address information for multiple expansion states and relocating the agent for appointments to the jurisdiction attachment section of the electronic application. Doggett added that these were minor modifications that the Working Group could consider for adoption without exposure.

Pastuch made a motion, seconded by Garcia, to adopt proposal 2024-02 (Attachment Three-A). The motion passed unanimously.

2. Adopted Proposals 2024-03 and 2024-04

Piatt explained that the purpose of proposals 2024-03 (Questionnaire, Form 8) and 2024-04 (Narrative) is to align the company information and remove redundancies from or incomplete responses to either the questionnaire or the narrative. Proposal 2024-03 shows the removal of questions 14 through 23, and proposal 2024-04 shows the addition of several new sections to incorporate information from questions 14 through 23 and to make each section of the narrative required.

Piatt suggested that the Working Group consider adoption of the proposals without the need for exposure to move information from one form to another.

Sueoka made a motion, seconded by Malm, to adopt proposals 2024-03 (Attachment Three-B) and 2024-04 (Attachment Three-C). The motion passed unanimously.

3. Exposed Proposal 2024-04

Doggett updated the Working Group on a referral from the Chief Financial Regulator Forum received during the April call regarding entities not regulated by the department of insurance (DOI) in their domestic state. A survey was sent in April, and 29 states responded. Doggett said that Jane Barr (NAIC) was compiling the results to create a chart to share with the Chief Financial Regulator Forum at the Summer National Meeting. Once finalized, the chart will be available on the NAIC/Uniform Certificate of Authority Application (UCAA) website and the Working Group will consider incorporating revisions to the NAIC's *Company Licensing Best Practices Handbook* (Handbook).

Doggett said that a referral from the Financial Analysis (E) Working Group was received in 2023 regarding licensing health insurers due to recently troubled health entities. The Financial Analysis (E) Working Group suggested additional guidance in the Handbook. Proposal 2024-04 has incorporated a few suggested changes, and Doggett

© 2024 National Association of Insurance Commissioners

suggested that a 60-day exposure would allow Working Group members, interested state insurance regulators, and interested parties to comment or provide suggestions on other areas of the Handbook that should be modified and to update the review processes regarding the new electronic application portal.

Doggett said the survey asked two separate questions: 1) What entities are not regulated in your state? and 2) Has your state licensed any entities that were not regulated by the DOI in their domestic state, and how is your state regulating that insurer? Barr stated that states regulating specific types of insurance would include those lines on Form 3, lines of business. If the state does not include a specific line, the company should remove that state from its expansion application or delete the application entirely. Barr said that a bigger question would be whether the expansion state would license a line if the domiciliary state did not regulate that line. She said the reference chart would help those expansion states. Malm asked whether the chart would include all states or just the 29 that responded. Barr said that all UCAA charts include all jurisdictions, and for the jurisdictions that did not respond, the chart will say "contact state for requirements" so that industry or states will not assume that they regulate all types of insurance.

Bigglestone asked what the Handbook meant by referencing "captives" on page 72, in the second paragraph under Priority Two. She added that in unique circumstances, based on the line of business offered and the market conditions, an expansion state may consider the application appropriate to pursue licensure if heavily monitored. A small specialty insurer may not demonstrate the quality of a priority four or three company. Such a company may have a commercial policyholder with operations located in a state where it is not licensed to continue to provide coverage to the policyholder. Therefore, the captive must seek licensure in the additional state. Doggett said that Missouri would license the captive outside of UCAA. Bigglestone suggested that the language regarding captives be stricken from the Handbook unless examples are provided since captives should not have a license in more than one state. Piatt said that Ohio has licensed captives that are also licensed in other states. He suggested further discussion is warranted before removing it from the Handbook. Hathaway asked if other states license a company with restrictions because Colorado does not. Malm said Wisconsin will, at times, give restrictions to limit writing. Doggett said that Missouri is considering doing that as well. Hathaway asked how Wisconsin monitors that. Malm stated that they make sure the limitations on their certificate of authority are monitorable.

Doggett thanked Bigglestone and Hathaway and looked forward to seeing comments regarding their suggested edits to the Handbook. Hearing no objections, the Working Group exposed proposal 2024-04 for a 50-day comment period ending Sept. 20.

4. Discussed Other Matters

Barr said that Phase II began May 13 and consists of moving the current expansion and foreign corporate amendments application into the new portal and creating a domestic corporate amendment application. The expansion application is moving along, and the developers are finishing up the state-specific requirements and multi-state review and enhancements based on feedback received from Phase I. The portal will be available for production by Nov. 1 or earlier, based on the training schedule for October. Announcements will be made during the Working Group's call, on the UCAA website, and in the electronic portal. Barr said that when the new portal is available, the legacy portal will no longer be available to start an expansion application but will be available for states to finish their review. The corporate amendment application for foreign and domestic will begin development by mid-September, with an anticipated release date of February 2025. Announcements will be made on all calls and posted on the UCAA website.

Feather asked how many applications have been submitted in the new portal. Barr said that roughly 100 have been created, 59 have been submitted for review, and at least 20 of those have been certified. Feather expressed concerns about turning off the old portal without a strong understanding of the new portal. Without experiencing

© 2024 National Association of Insurance Commissioners

many primary applications, Feather said Pennsylvania would appreciate a higher level of state training. Hathaway also expressed the need for more training. Barr said training videos are posted on the Company Licensing SharePoint site for state insurance regulators and offered to conduct state-specific training for whoever wants to set up that training. Barr reiterated that Phase I went live Oct. 31, 2023, with two separate applications: one for start-ups and alien insurers, which is the primary, and one solely for redomestications. Redomestications can be cloned for corporate amendment applications. Eventually, primary applications for companies that are part of a holding company structure can be cloned for expansion as well as Form As (mergers and change of control) can be cloned for corporate amendment filings. The domestic corporate amendment could also be cloned for a foreign corporate amendment.

Barr quickly demonstrated the highlights of the state review and reiterated that she is available to conduct one-on-one training for any state. She added that a Company Licensing Forum call will be scheduled when the expansion application is available in Beta.

Doggett announced that she and Barr will provide a training session at the Insurance Summit on the primary application review and at the Society of Financial Examiners (SOFE) in Oklahoma. She added that this would be a good opportunity for any state insurance regulator reviewing expansion applications to receive training.

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

SharePoint/Support Staff Hub/Committees/E Committee/NTCWG/7_24_ccmin.docx

© 2024 National Association of Insurance Commissioners

National Treatment and Coordination (EX) Working Group

UCAA Proposal Form

FOR NAIC USE ONLY
Agenda Item
2024-02
Year 2024

INSTRUCTIONS

1. Complete this form for EACH proposal to modify UCAA documents. Under "Identification of Application(s) or Form(s) to be Changed", include the application(s) to be changed, as well as the Form or Page number(s), and the Paragraph or Item number(s), or other identification and specific reference to items to be changed.
2. All attachments should be presented in a format wherein new language is underscored and deletions struck through.
3. Original UCAA forms, etc., are available from the NAIC UCAA website and from NAIC staff support for the National Treatment and Coordination (EX) Working Group.
4. ALL SUBMISSION FORMS AND ATTACHMENTS MUST BE TYPED ORIGINALS.

NOTES

DISPOSITION
[ ] ADOPTED
[ ] REJECTED
[ ] DEFERRED TO
[ ] REFERRED TO OTHER NAIC GROUP
[ ] OTHER (SPECIFY)

DATE: 6/20/24

CONTACT PERSON: Jane Barr
ON BEHALF OF:
NAME: National Treatment and Coordination (E) Working Group
TELEPHONE:

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

Check One or More of the Following SOURCES, as Applicable:
[X] UCAA Online Forms [ ] UCAA Online Instructions [X] UCAA Electronic Application

Check One or More of the Following, as Applicable:
Application:
[X] Form 2 (General Information)
[ ] Form 3 (Lines of Insurance)
[ ] Form 6 (Certificate of Compliance)
[ ] Form 7 (Certificate of Deposit)
Questionnaire: [ ] Form 8 [ ] Form 8C (Corporate Amendments App. – Adding/Deleting Line of Bus.)
[ ] Form 11 (Biographical Affidavit)
[ ] Form 12 (Uniform Consent to Service of Process)
Pro Forma Financial Statements: [ ] Form 13 (Property/Casualty) [ ] Form 13 (Life) [ ] Form 13 (Title)
[ ] Form 14 (Change of Address/Contact Notification)

DESCRIPTION OF CHANGE(S)
(STATE, IN SPECIFIC TERMS, THE CHANGES TO BE MADE FOR THIS PROPOSAL)

Included additional options for specific DBA information and address information as needed for specific expansion Jurisdictions and remove the question pertaining to agent appointments. Agent appointments can be added as a state specific option under jurisdiction requirements.

REASON OR JUSTIFICATION FOR CHANGE **
(STATE, IN SPECIFIC TERMS, THE BENEFIT TO BE DERIVED FROM THIS PROPOSAL)

During the conversion of the existing expansion application into the new portal it was discussed by the Expansion and Corporate Amendment Ad Hoc Group to provide options for additional company names and company addresses based on specific jurisdiction requirements and to remove agent appointments since only a few states require this information with an expansion application.

**** This section must be completed on all forms.** **Revised 07/06/24**

©2024 National Association of Insurance Commissioners

Proposed Applicant Company Name: ###ApplicantCompanyNameHeader###
NAIC CoCode:
FEIN: ###fein###
Tracking Number: ###trackingNumber###

UCAA UNIFORM CERTIFICATE of AUTHORITY APPLICATION

###applicationType### APPLICATION

To the Insurance Commissioner/Director/Superintendent of:
Alabama; Colorado; Connecticut, Delaware; Idaho; Kansas; Missouri, Mississippi; Montana; New Hampshire; Neveda; Ohio; Oregon; Pennsylvania; Rhode Island; Washington; Wyoming.

The undersigned Applicant Company hereby certifies that the classes of insurance as indicated on the Lines of Insurance, Form 3R, are the lines of business which the Applicant Company is authorized to transact.

COMPANY INFORMATION

Company Information *(all of this section is required)

Name: ###companyName###
NAIC Cocode: ###companycode###
Doing Business As

CA	
CO	
DE	
IN	
IL	
MO	
SD	
PA	

Previous Name (if applicable): ###previousName###
Group Code: ###groupCode###
Group Name: ###groupName###
Ultimate Owner/Holding Company:
Date Incorporated:

©###currentYear### National Association of Insurance Commissioners FORM 2E - Revised 06/20/2024

Proposed Applicant Company Name: ###ApplicantCompanyNameHeader###
NAIC CoCode:
FEIN: ###fein###
Tracking Number: ###trackingNumber###

Form of Organization:
State or Country of Domicile:
Date Organized:
Date of Last Amendment of Charter, Bylaws or Subscriber's Agreement:
Date of Last Financial Examination:
Par Value of Issued Stock:$
Surplus as regards to policyholders: $
Certificate of Deposit $:

~~The Applicant Company hereby designates (name natural persons only)_____to appoint persons and entities to act as and to be licensed and terminate said appointments as agents in the State of_____. NOTE: This does not apply to those states that do not require appointments.~~

Has the Applicant Company ever been refused admission to this or any other state prior to the date of this application?
If Yes, Explain:
Is Applicant Company a member of a group that is required to file an Own Risk Solvency Assessment (ORSA) report with your lead state? Yes or No

Previous Admission History *

Has the Applicant Company ever been refused admission to this or any other jurisdiction prior to the date of this application?

Answer: ###wasRefusedAdmissionYesNo###

Explanation: ###wasRefusedAdmissionExplanation###

Attachment: ###wasRefusedAdmissionAttachments###

CONTACT INFORMATION

Authorized Representative *

Full Legal Name: ###authorizedIndvName###
Title: ###authorizedIndvTitle###
Address: ###authIndvaddress###
Email: ###authIndvEmail###
Phone: ###authIndvPhone###

©###currentYear### National Association of Insurance Commissioners FORM 2E - Revised 06/20/2024

Proposed Applicant Company Name: ###ApplicantCompanyNameHeader###
NAIC CoCode:
FEIN: ###fein###
Tracking Number: ###trackingNumber###

Is the authorized representative an employee of the applicant company:
###isAuthorizedRepEmployee### *

Company Contact

Full Legal Name: ###financialContactName###
Address: ###financialContactAddress###
Email: ###financialContactEmail###
Phone: ###financialContactPhone###

ORSA

Is the Applicant Company required to file an ORSA report with its lead state? Yes or No
If yes to either ORSA question, please provide:
Lead State: _____ Lead State Contact Name: _____
Email: _____Phone number: _____

ADDRESS INFORMATION

Statutory Office Address: ###statutoryOfficeAddress### *
Email: ###statutoryEmail###
Phone: ###statutoryPhone###

Additional Address Information

Administrative Office
Address: ###adminAddress###
Email: ###adminEmail###
Phone: ###adminPhone###

Mailing Office
Address: ###mailingAddress###
Email: ###mailingEmail###
Phone: ###mailingPhone###

Billing Office
Address: ###billingAddress###
Email: ###billingEmail###
Phone: ###billingPhone###

©###currentYear### National Association of Insurance Commissioners FORM 2E - Revised 06/20/2024

Proposed Applicant Company Name: ###ApplicantCompanyNameHeader###
NAIC CoCode:
FEIN: ###fein###
Tracking Number: ###trackingNumber###

Premium Tax Office
Address: ###premiumTaxAddress###
Email: ###premiumTaxEmail###
Phone: ###premiumTaxPhone###

Producer Licensing Office
Address: ###producerLicensingAddress###
Email: ###producerLicensingEmail###
Phone: ###producerLicensingPhone###

Rate/Form Office
Address: ###rateFormAddress###
Email: ###rateFormEmail###
Phone: ###rateFormPhone###

Consumer Affairs Office
Address: ###consumerAffairsAddress###
Email: ###consumerAffairsEmail###
Phone: ###consumerAffairsPhone###

Are these addresses the same as those shown on the Applicant Company's Annual Statement?
If no, Explain

©###currentYear### National Association of Insurance Commissioners

© 2024 National Association of Insurance Commissioners

National Treatment and Coordination (EX) Working Group

UCAA Proposal Form

FOR NAIC USE ONLY
Agenda Item
2024-03
Year 2024

INSTRUCTIONS

1. Complete this form for EACH proposal to modify UCAA documents. Under "Identification of Application(s) or Form(s) to be Changed", include the application(s) to be changed, as well as the Form or Page number(s), and the Paragraph or Item number(s), or other identification and specific reference to items to be changed.
2. All attachments should be presented in a format wherein new language is underscored and deletions struck through.
3. Original UCAA forms, etc., are available from the NAIC UCAA website and from NAIC staff support for the National Treatment and Coordination (EX) Working Group.
4. ALL SUBMISSION FORMS AND ATTACHMENTS MUST BE TYPED ORIGINALS.

DATE: 06/20/24

CONTACT PERSON: Jane Barr
ON BEHALF OF: National Treatment and Coordination (E) Working Group
NAME: Expansion & Corp. Amend. Ad Hoc Group

NOTES

DISPOSITION
[ ] ADOPTED
[ ] REJECTED
[ ] DEFERRED TO
[ ] REFERRED TO OTHER NAIC GROUP
[ ] OTHER (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

Check One or More of the Following SOURCES, as Applicable:
[X] UCAA Online Forms [ ] UCAA Online Instructions [ ] UCAA Manual

Check One or More of the Following, as Applicable:
Application:
[ ] Form 2 (General Information)
[ ] Form 3 (Lines of Insurance)
[ ] Form 6 (Certificate of Compliance)
[ ] Form 7 (Certificate of Deposit)
Questionnaire: [X] Form 8 [ ] Form 8C (Corporate Amendments App. – Adding/Deleting Line of Bus.)
[ ] Form 11 (Biographical Affidavit)
[ ] Form 12 (Uniform Consent to Service of Process)
Pro Forma Financial Statements: [ ] Form 13 (Property/Casualty) [ ] Form 13 (Life) [ ] Form 13 (Title)
[ ] Form 14 (Change of Address/Contact Notification)

DESCRIPTION OF CHANGE(S)
(STATE, IN SPECIFIC TERMS, THE CHANGES TO BE MADE FOR THIS PROPOSAL)

Removal of the following questions on the Questionnaire (Form 8) 13B; 14-23.

REASON OR JUSTIFICATION FOR CHANGE **
(STATE, IN SPECIFIC TERMS, THE BENEFIT TO BE DERIVED FROM THIS PROPOSAL)

The purpose of removing the questions noted above is to reduce redundancy between the questionnaire and narrative. The narrative will make specific sections required, so the Applicant Company can provide a more thorough response to their business plan.

**** This section must be completed on all forms.** **Revised 02/06/06**

© 2024 National Association of Insurance Commissioners

Company Name: ###companyNameHeader###
Cocode: ###cocode###
FEIN: ###fein###
Tracking Number: ###trackingNumber###

UCAA UNIFORM CERTIFICATE of AUTHORITY APPLICATION

EXPANSION APPLICATION – MAIN QUESTIONNAIRE

---

1. I hold the following position(s) with the Applicant Company: ###positionHold###.

2.
   A. Has the Applicant Company transferred or encumbered any portion of its assets or business, or has its outstanding capital stock been directly or indirectly pledged?

      Answer:

      Explanation:

      Attachments:

   B. Has the Applicant Company merged or consolidated with any other company within the last five years?

      Answer:

      Explanation:

      Attachments:

3. Is the Applicant Company presently negotiating for or inviting negotiations for any transaction described above?

   Answer:

   Explanation:

   Attachments:

4. Has the Applicant Company ever changed its name?

   Answer:

   Explanation:

   Attachments:

© 2024 National Association of Insurance Commissioners

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

5.

A. Has the Applicant Company undergone a change of management or control since the date of its latest annual statement filed in support of this application?

Answer:

Explanation:

Attachments:

B. Does the Applicant Company contemplate a change in management or any transaction that would normally result in a change of management within the reasonably foreseeable future?

Answer:

Explanation:

Attachments:

6.

A. Has the Applicant Company's certificate of authority to do business in any state been suspended or revoked within the last ten years?

Answer:

Explanation:

Attachments:

B. Has the Applicant Company’s application for admission to any state been denied within the last ten years?

Answer:

Explanation:

Attachments:

7. Has any person who is presently an officer or director of Applicant Company been convicted on, or pleaded guilty or nolo contendere to, an indictment or information in any jurisdiction charging a felony for theft, larceny or mail fraud or, of violating any corporate securities statute or any insurance statute?

Answer:

Explanation:

Attachments:

©2024 National Association of Insurance Commissioners

© 2024 National Association of Insurance Commissioners

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

8. Is the Applicant Company presently engaged in a dispute with any state or federal regulatory agency?

   Answer: N

   Explanation:

   Attachments:

9. Is the Applicant Company a plaintiff or defendant in any legal action other than one arising out of policy claims?

   Answer:

   Explanation:

   Attachments:

10. Does the Applicant Company intend to purchase investment securities through any investment banking or brokerage house or firm from whom any of Applicant Company's officers, directors, trustees, investment committee members or controlling stockholders receive a commission on such purchases?

    Answer:

    Explanation:

    Attachments:

11. Is the Applicant Company a:

    A. Bank

       Answer:

    B. Bank holding company, subsidiary, or affiliate

       Answer:

    C. Financial holding company

       Answer:

    D. Other financial institution

       Answer:

       Explanation:

© 2024 National Association of Insurance Commissioners

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

~~**Attachments:**~~

12. Has the Applicant Company, since its inception, done any of the following:

    A. Made a loan to an entity owned or controlled directly or through a holding corporation by one or more of Applicant Company's officers, directors, trustees, or investment committee members, or to any such person?

       Answer:

    B. Sold or transferred any of its assets or property, real or personal, to any such entity or person?

       Answer:

    C. Had its outstanding capital stock directly or indirectly pledged for the debt of an affiliate?

       Answer:

    D. Purchased securities, assets, or property of any kind from an entity owned or controlled by one or more of the Applicant Company's officers, directors, trustees, or any persons who have authority in the management of the Applicant Company's funds (including a controlling stockholder)?

       Answer:

       Explanation:

       Attachments:

13. Executive Management Information

    A. Attach an organizational depiction (in the format of a flow chart) showing the various executive management, directors and officers and related material functions that require internal control oversight of the Applicant Company, with the name and official title of those responsible for those offices/functions and the portions of the organization they oversee.

       Attachments:

    ~~B. Material functions should include, but are not limited to, underwriting, claims adjustment/payments, premium accounting, claims accounting, marketing, financial reporting, and investment management. Note any executive or key staff that has access to funds or bank accounts. Submit a map or narrative explaining where offices are/ or will be geographically located and the approximate number of employees at each location. The attachments should include the following information:~~

    - ~~Designate any common facilities and/or any of the above functions that are shared with affiliate~~
    - ~~Designate any of the above office/functions that are delegated to third parties~~
    - ~~Attach copies of signed agreements for office functions delegated to either affiliates or third parties~~

© 2024 National Association of Insurance Commissioners

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

- As applicable, attach a separate chart reflecting any other management positions (if different than what was noted above) that exercise control over insurance operations in other jurisdiction where the Applicant Company is seeking admission
- Attach any similar information that was submitted to lenders or investment partners
- Attach a copy of the Applicant Company's investment policy (required for primary and redomestication applications only)

Explanation:

Attachments:

14. Provide a detailed description of the Applicant Company's sales techniques. The description attached should include the following information:

- Information regarding recruitment and training of sales representatives
- Identification as to whether the Applicant Company will be a direct writer or will use agents, brokers, or a combination thereof
- Explanation of the compensation and control to be provided by the Applicant Company to its agents, brokers, or sales personnel
- Sample copies of any agreements entered into between the Applicant Company and its agents or brokers
- If the Applicant Company will use a specific agency or managing general agent, identification of the agency or managing general agent and a copy of the agreement for this arrangement
- Sample contract forms of all types used and remuneration schedule, including those for general agents, if any

Explanation:

Attachments:

15. For Each State, Explain the following:

- The product lines currently sold or planned by the Applicant Company,
- Specialty line or lines currently sold and planned,
- Captive business,
- The Applicant Company's marketing plan, including a description of the financial, corporate or other connections productive of insurance,
- The Applicant Company's current and expected competition (both regionally and nationally), and
- How each state in which admission has been requested fits into the marketing plan. General description of the classes to be transacted is not an adequate response. For example, if the Applicant Company plans to market credit life and disability products tailored for use by credit unions, simply stating that it will transact credit life and disability is inadequate.

Explanation:

© 2024 National Association of Insurance Commissioners

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

Attachments:

16. Provide a detailed description of the advertising that will be used by the Applicant Company to market its products in each state. Include a detailed explanation as to how the Applicant Company will develop, purchase, control and supervise its advertising.

Explanation:

Attachments:

17. For each State, Provide a detailed explanation of each of the following:

A. How the Applicant Company's policies will be underwritten, including the issuance of policies and endorsements

Explanation:

B. How policies will be canceled

Explanation:

C. How premiums and other funds will be handled

Explanation:

D. How personnel will be trained, supervised, and compensated

Explanation:

Attachments:

18. Attach a detailed explanation how the Applicant Company will adjust and pay claims, include the following:

A. Describe how the Applicant Company will train, supervise, and compensate the personnel handling claims adjusting and claims payment

Explanation:

B. Provide detailed information as to how and by whom claim reserves will be set and modified

Explanation:

C. Will the Applicant Company pay any representative given discretion as to the settlement or adjustment of claims whether in direct negotiation with the claimant or in supervision of the person negotiating, a compensation which is in any way contingent upon the amount of settlement of such claims?

Answer:

© 2024 National Association of Insurance Commissioners

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

Explanation:

Attachments:

19. Does the Applicant Company have any reinsurance contracts which contracts that in effect provide that Applicant Company will reimburse or indemnify the Reinsurer for losses payable there under?

Answer:

Explanation:

Attachments:

20. Does any salaried employee or officer, exclusive of a director, presently have in force a license as an insurance broker issued by this Department of Insurance?

Answer:

If yes, attach a copy of his/her license and indicate position held with applicant.

Attachments:

21. Does the Applicant Company have outstanding unexercised stock options?

Answer:

A. If yes, to whom and in what number of shares?

Answer:

B. If options are outstanding for a number of shares greater than 10% of the number of shares presently issued and outstanding, a copy of the option form and of the plan pursuant to which they were granted are attached.

Explanation:

Attachments:

22. Are any of the Applicant Company's policies being sold in connection with a mutual fund or investment in securities?

Answer:

Explanation:

Attachments:

© 2024 National Association of Insurance Commissioners

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

~~23. Does the Applicant Company pay, directly or indirectly, any commission to any officer, director, actuary, medical director or any other physician charged with the duty of examining risks or applications?~~

~~**Answer:**~~

~~**Explanation:**~~

~~**Attachments:**~~

~~24.~~ 14. Does the Applicant Company have any permitted practices allowed by its current state of domicile?

Answer:

Explanation:

Attachments:

~~25.~~ 15. Does the Applicant Company's current state of domicile prescribe any practices of the Applicant Company that are not in accordance with:

A. Laws, regulations or bulletins of proposed state of domicile

Answer:

B. Reserving requirements of proposed state of domicile

Answer:

C. NAIC guidelines

Answer:

Explanation:

Attachments:

~~26.~~ 16. ~~Will~~ the Applicant Company's investments comply with the investment laws, regulations or bulletins of the proposed state of domicile?

Answer:

Explanation:

Attachments:

~~27.~~ 17. Does the Applicant Company have any outstanding surplus notes?

© 2024 National Association of Insurance Commissioners

Company Name: New Company C
Cocode: 11223
FEIN: 99-9999999
Tracking Number: 1000511 (Original Submission)

Answer:

Explanation:

Attachments:

© 2024 National Association of Insurance Commissioners

National Treatment and Coordination (EX) Working Group

UCAA Proposal Form

FOR NAIC USE ONLY
Agenda Item #2024-04
Year 2024

INSTRUCTIONS

1. Complete this form for EACH proposal to modify UCAA documents. Under "Identification of Application(s) or Form(s) to be Changed", include the application(s) to be changed, as well as the Form or Page number(s), and the Paragraph or Item number(s), or other identification and specific reference to items to be changed.
2. All attachments should be presented in a format wherein new language is underscored and deletions struck through.
3. Original UCAA forms, etc., are available from the NAIC UCAA website and from NAIC staff support for the National Treatment and Coordination (EX) Working Group.
4. ALL SUBMISSION FORMS AND ATTACHMENTS MUST BE TYPED ORIGINALS.

NOTES

DISPOSITION
[ ] ADOPTED
[ ] REJECTED
[ ] DEFERRED TO
[ ] REFERRED TO OTHER NAIC GROUP
[ ] OTHER (SPECIFY)

DATE: 6/25/24

CONTACT PERSON: Jane Barr
ON BEHALF OF: National Treatment and Coordination(E) Working Group
NAME: Expansion and Corp. Amendment Ad Hoc Group

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

Check One or More of the Following SOURCES, as Applicable:
[X] UCAA Online Forms [ ] UCAA Online Instructions [ ] UCAA Manual

Check One or More of the Following, as Applicable:
Application:
[ ] Form 2 (General Information)
[ ] Form 3 (Lines of Insurance)
[ ] Form 6 (Certificate of Compliance)
[ ] Form 7 (Certificate of Deposit)
Questionnaire: [X] Form 8 [ ] Form 8C (Corporate Amendments App. – Adding/Deleting Line of Bus.)
[ ] Form 11 (Biographical Affidavit)
[ ] Form 12 (Uniform Consent to Service of Process)
Pro Forma Financial Statements: [ ] Form 13 (Property/Casualty) [ ] Form 13 (Life) [ ] Form 13 (Title)
[ ] Form 14 (Change of Address/Contact Notification)

DESCRIPTION OF CHANGE(S)
(STATE, IN SPECIFIC TERMS, THE CHANGES TO BE MADE FOR THIS PROPOSAL)

Additional instruction provided on the Narrative that was previously included on the Questionnaire, specifically to sections: Advertising; Marketing and Agency Force; Underwriting; Claims Handling; Operating Agreements; Investment Management and Management and Operations.

REASON OR JUSTIFICATION FOR CHANGE **
(STATE, IN SPECIFIC TERMS, THE BENEFIT TO BE DERIVED FROM THIS PROPOSAL)

The purpose of placing these items on the Narrative and removing them from the Questionnaire is to ensure that thorough responses are provided and to eliminate redundancy between the questionnaire and narrative.

**** This section must be completed on all forms.** **Revised 02/06/06**

© 2024 National Association of Insurance Commissioners

Proposed Applicant Company Name: ###proposedApplicantCompanyNameHeader###

FEIN: ###fein###

Tracking Number: ###trackingNumber###

UCAA UNIFORM CERTIFICATE of AUTHORITY APPLICATION

PRIMARY APPLICATION – NARRATIVE

Overview

The Plan of Operation should include significant information ~~not captured as part of the Questionnaire~~ for each section that the Applicant Company feels is beneficial to the approval of the application.

~~*This outline is an illustration only and is not a required format; these specific subject headings are not required.*~~

Lines of Business *

Please provide any additional context on lines of business. See below for examples:

- *The product lines currently sold or planned by the Applicant Company.*
- *Specialty line or lines currently sold and planned.*
- *Captive business, if any.*
- *Surplus Lines*
- *Risk Retention Group*

Explanation: ###linesOfBusinessExplanationAttachments###

Attachment

Strategic Plan *

Explain:

- *The product lines currently sold or planned by the Applicant Company.*
- *Specialty line or lines currently sold and planned.*
- *Captive business, if any.*

Explanation: ###strategicPlanExplanationAttachments###

Attachment

© 2024 National Association of Insurance Commissioners

Proposed Applicant Company Name: ###proposedApplicantCompanyNameHeader###

FEIN: ###fein###

Tracking Number: ###trackingNumber###

Advertising*

Provide a detailed description of the advertising that will be used by the Applicant Company to market its products generally and for each state that may differ in that approach. Include a detailed explanation as to how the Applicant Company will develop, purchase, control and supervise its advertising.

Explanation: ###advertisingExplanationAttachments###

Attachment

Marketing and Agency Force *

Provide a detailed description of the Applicant Company's sales techniques. The description should include:

- *Information regarding recruitment and training of sales representatives.*
- *Identification as to whether the Applicant Company will be a direct writer or will use agents, brokers or a combination thereof.*
- *Explanation of the compensation and control to be provided by the applicant to its agents, brokers or sales personnel.*
- *If the Applicant Company will use a specific agency or managing general agent, identification of the agency or managing general agent.*

Explanation: ###marketingAndAgencyForceExplanationAttachments###

Attachment

Underwriting *

Explain in detail how (a) the Applicant Company's policies will be underwritten, including the issuance of policies and endorsements (b) policies will be cancelled and (c) premiums and other funds will be handled, including:

- *Identify the entity that will perform each of these functions.*
- *Describe how the personnel will be trained, supervised, and compensated.*
- *If personnel performing these functions will be shared with another entity or, if another entity will be performing these functions, please provide an explanation of this arrangement.*

Explanation: ###underwritingExplanationAttachments###

Attachment

© 2024 National Association of Insurance Commissioners

Proposed Applicant Company Name: ###proposedApplicantCompanyNameHeader###

FEIN: ###fein###

Tracking Number: ###trackingNumber###

Claims Handling *

Explain in detail how the Applicant Company will adjust and pay claims.

- *Identify the entity that will perform the Applicant Company's claims adjusting and claims payment functions.*
- *Describe how the personnel handling claims adjusting and claims payment will be trained, supervised and compensated.*
- *If personnel for claims adjusting or claims payment will be shared with another entity or another entity will be performing the applicant's claims adjusting and claims payment, please explain this arrangement, including any affiliation with the applicant.*
- *Provide detailed information as to how and by whom claim reserves will be set and modified.*
- *Identify any reinsurance contracts which in effect provide that the Applicant Company will reimburse or indemnify the Reinsurer for losses payable.*

Explanation: ###claimsHandlingExplanationAttachments###

Attachment

Operating Agreements *

If the Applicant Company is a member of a group of companies that shares common facilities, services and/or is a party to a tax allocation agreement, explain the division of costs between participants. If costs are pro-rated, what is the basis for division? Include a summary of relevant contracts.

- *If the Applicant Company uses a third party to manage the applicant's investments, provide detailed information as to the compensation that will be paid for management of the applicant's investments.*
- *List any policies being sold in connection with mutual funds or investment in securities.*
- *List outstanding unexercised stock options, include the number of shares greater than 10% of the number of shares presently issued and outstanding, a copy of the options form and the plan pursuant to which they were granted should be attached.*

Explanation: ###operatingAgreementsExplanationAttachments###

Attachment

Investment Management*

If the Applicant Company uses a third party to manage the applicant's investments, provide detailed information as to the compensation that will be paid for management of the applicant's investments.

Explanation: ###InvestmentManagementExplanationAttachments###

Attachment

©###copyrightYear### National Association of Insurance Commissioners Narrative - Revised 06/20/2024

Proposed Applicant Company Name: ###proposedApplicantCompanyNameHeader###

FEIN: ###fein###

Tracking Number: ###trackingNumber###

Management and Operations *

Explain the material functions for the management and operations of the underwriting, claims adjustment, payments, premium accounting, claims accounting, marketing, financial reporting, and investment management. Note any executive or key staff that has access to funds or bank accounts. Submit a map or narrative explaining where offices are/ or will be geographically located and the approximate number of employees at each location. The attachments should include the following information:

- *List any common facilities and any of the above functions that are shared with affiliate*
- *List any of the above offices and functions that are delegated to third parties.*
- *Attach copies of signed agreements for office functions delegated to either affiliates or third parties*
- *As applicable, attach a separate chart reflecting any other management positions (if different than what was noted above) that exercise control over insurance operations in other jurisdictions where the Applicant Company is seeking admission.*
- *Attach any similar information that was submitted to lenders or investment partners*
- *Attach a copy of the Applicant Company's investment policy (required for primary and redomestication applications only)*
- *Identify any salaried employee or officer, exclusive of a director who presently has in force a license as an insurance broker issued by this Department of Insurance.*
- *Identify any officer, director, actuary, medical director or any other physician charged with the duty of examining risks or applications who is paid directly or indirectly any commission.*

Explanation: ###managementAndOperationsExplanationAttachments###

ATTACHMENT

Other

Include any other relevant information that pertains to the operation of ~~your company~~the Applicant Company in the application jurisdiction(s)

Explanation: ###otherExplanationAttachments###

ATTACHMENT

©###copyrightYear### National Association of Insurance Commissioners

© 2024 National Association of Insurance Commissioners

Attachment Four
Financial Condition (E) Committee
8/15/24

Draft: 7/24/24

Risk-Focused Surveillance (E) Working Group
Virtual Meeting
July 17, 2024

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met July 17, 2024. The following Working Group members participated: Amy Malm, Chair (WI); Johanna Nickelson, Vice Chair (SD); Blase Abreo (AL); Michelle Lo (CA); William Arfanis (CT); Nicole Crockett (FL); Daniel Mathis (IA); Cindy Andersen (IL); Roy Eft (IN); Dmitriy Valekha (MD); Judy Weaver (MI); Shannon Schmoeger (MO); Jackie Obusek (NC); Tadd Wegner (NE); Pat Gosselin (NH); John Sirovetz (NJ); Mark McLeod (NY); Dwight Radel (OH); Eli Snowbarger (OK); Diana Sherman (PA); John Tudino (RI); Amy Garcia (TX); Jennifer Blizzard and Greg Chew (VA); and Steve Drutz and Tarik Subbagh (WA).

1. Adopted its May 30 Minutes

The Working Group met May 30 and took the following action: 1) referred proposed guidance on affiliated investment management services to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group; 2) discussed a referral received from the Financial Analysis (E) Working Group on run-off insurers; and 3) received an update on the status of 2024 Peer Review Program sessions.

Chew made a motion, seconded by Obusek, to adopt the Working Group's May 30 minutes (Attachment Four-A). The motion passed unanimously.

2. Exposed Proposed Regulatory Review Guidance for Run-Off Insurers

Malm stated that in accordance with instructions received from the Working Group on its May 30 call, NAIC staff developed guidance for the Working Group to consider in response to a referral from the Financial Analysis (E) Working Group. The referral recommended additional best practices for monitoring insurers that have been placed in run-off status.

Bruce Jenson (NAIC) provided an overview of the guidance to incorporate the recommendations proposed by NAIC staff, which includes additions to both the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook*. Jenson stated that while both handbooks already include some guidance on customizing solvency monitoring activities for insurers in run-off status, staff propose edits to incorporate several best practices outlined in the referral. The best practices include new guidance on reviewing a company's run-off plan, assessing a company's record keeping, maintaining communications with other stakeholders, closely monitoring legal risks, monitoring IT system changes and employee retention, evaluating changes in liquidity and reserving risk, and closely monitoring reinsurance collections and disputes.

Malm asked for comments or questions on the proposed revisions. Broccoli stated that his department has found it beneficial to request a feasibility study be performed in support of the run-off status and for the department actuary to scrutinize the reasonableness of the study. Malm stated that she envisions this being part of the department's review of the run-off plan outlined in the proposed guidance.

Lo asked whether a run-off plan is required. Malm stated that NAIC handbooks cannot mandate requirements for companies but the proposed language indicates that a run-off plan should be received. Lo asked whether the plan for regulator communication with other stakeholders discussed in the guidance is expected to be written. Jenson

© 2024 National Association of Insurance Commissioners

stated that the communication plan is a best practice to encourage timely and effective communication with other stakeholders, but a formal written plan is not expected.

Weaver made a motion, seconded by Radel, to expose the proposed guidance for a 45-day public comment period ending Aug. 30. The motion passed unanimously.

3. Received an Update on the 2024 Peer Review Program Sessions

Malm stated that the Working Group is planning two additional Peer Review Program sessions for the remainder of 2024. The first is a financial exam session scheduled for the week of Aug. 26, which is already filled and underway. The second will be a financial analysis session scheduled for the week of Oct. 14, with the application period for the session opening in the coming weeks.

4. Discussed Other Matters

Malm asked if there were any other matters for discussion. Peter Gould asked if he could comment on the proposed run-off guidance. Gould stated that the recent issues at PHL Variable Insurance Company should be considered when developing the guidance. Gould stated that policyholders will likely be at risk of losing benefits and potentially running up against guaranty fund caps through the rehabilitation plan. As such, communication with policyholders and consumers should be a priority when a company is placed in run-off status.

Weaver stated that run-off plans and other details of financial regulation are often kept confidential to avoid a run-on-the-bank scenario when concerns are noted at a company. Therefore, it might not always be possible to notify or warn the public regarding regulatory efforts in this area. In addition, Weaver stated that this would be a market conduct or consumer protection initiative, as opposed to something financial regulators would take the lead on.

Gould thanked Weaver for this response and encouraged regulators to consider whether their concept of materiality should be altered when monitoring a company in run-off status due to the potential impact on policyholders. Malm thanked Gould for the verbal comments and encouraged the submission of written comments during the exposure period.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.

SharePoint/Support Staff Hub/Committees/E CMTE/2024_2Summer/RFSWG/Surveillance WG 7-17-24 Minutes.docx

© 2024 National Association of Insurance Commissioners

Draft: 5/31/24

Risk-Focused Surveillance (E) Working Group
Virtual Meeting
May 30, 2024

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met May 30, 2024. The following Working Group members participated: Amy Malm, Chair (WI); Lindsay Crawford, Vice Chair (NE); Blase Abreo (AL); William Arfanis (CT); Nicole Crockett (FL); Daniel Mathis (IA); Cindy Andersen (IL); Stewart Guerin (LA); Dmitriy Valekha (MD); Judy Weaver (MI); Shannon Schmoeger (MO); Pat Gosselin (NH); Paul Lupo (NJ); Mark McLeod (NY); Jackie Obusek (NC); Dale Bruggeman (OH); Eli Snowbarger (OK); John Tudino (RI); Johanna Nickelson (SD); Brenda Talavera (TX); Malis Rasmussen (UT); Jennifer Blizzard (VA); and Steve Drutz and Tarik Subbagh (WA).

1. Referred Proposed *Financial Analysis Handbook* Additions to the to the Financial Analysis Solvency Tools (E) Working Group and Proposed *Financial Condition Examiners Handbook* Additions to the Financial Examiners Handbook (E) Technical Group

Malm stated that the first agenda item is to discuss the Working Group's efforts to develop guidance for state insurance regulator use in reviewing affiliated investment management services and agreements by insurers. This topic was originally referred to the Working Group by the Macroprudential (E) Working Group in 2022, which recommended additional regulatory guidance in this area. After discussing these topics broadly at the 2023 Summer National Meeting, the Working Group formed an Affiliated Investment Management Agreement Drafting Group to discuss the issue further and propose guidance for the full Working Group to consider.

The Drafting Group comprises state insurance regulators from Connecticut, Florida, Iowa, Maryland, Michigan, Missouri, Nebraska, Ohio, Oklahoma, Pennsylvania, Texas, Virginia, and Wisconsin. The Drafting Group met several times in late 2023 and early 2024 to discuss the referral and develop guidance. Proposed additions to the NAIC's *Financial Analysis Handbook* and *Financial Condition Examiners Handbook* were presented to the Working Group during its March 16 meeting, where they were exposed for a 45-day public comment period ending April 30.

One comment letter was received from America's Health Insurance Plans (AHIP) during the exposure period. Tom Finnell (AHIP) summarized the recommendations made in the comment letter, which suggested removing language encouraging the financial analyst to obtain and review all investment management agreements in place at all insurers. Mike Monahan (American Council of Life Insurers—ACLI) stated his agreement with AHIP's comments.

Bruce Jenson (NAIC) stated that the Drafting Group agreed with the comment and proposed revisions to this language in the updated draft to address the concerns raised. The revisions encourage the financial analyst to verify that all investment management agreements required to be filed with the department have been filed and to consider requesting other agreements that have not been filed. Finnell stated that the updated language adequately addressed AHIP's concerns.

Arfanis made a motion, seconded by Mathis, to refer the proposed *Financial Analysis Handbook* revisions to the Financial Analysis Solvency Tools (E) Working Group and the proposed *Financial Condition Examiners Handbook* revisions to the Financial Examiners Handbook (E) Technical Group for consideration of adoption. The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

2. Discussed a Referral from the Financial Analysis (E) Working Group

Malm stated that the second agenda item is to discuss a referral recently received from the Financial Analysis (E) Working Group. This group meets annually to discuss potentially troubled insurers and insurance groups, as well as industry trends and issues that might warrant communication and coordination with other NAIC groups. As a result of these discussions, some best practices related to monitoring insurers that have been placed in run-off were referred to the Working Group for its consideration. The referral notes that although some guidance on monitoring run-off insurers already exists in NAIC handbooks, there could be an opportunity to enhance such guidance by considering the sound practices highlighted in the referral.

Finnell asked how the Working Group intends to incorporate the sound practices highlighted in the referral into NAIC handbooks. Malm stated that the Working Group could either ask for volunteers to form a drafting group to address the referral or NAIC staff could be directed to draft proposed revisions for consideration. Malm asked about the Working Group members' preference for addressing the referral. Weaver stated a preference for directing staff to draft proposed revisions for the Working Group's consideration. Malm agreed and directed staff to proceed in this area.

3. Received an Update on the 2024 Peer Review Program Sessions

Malm stated that the Working Group is moving ahead with planning for two additional Peer Review Program sessions for the remainder of 2024. The first will be a financial exam session scheduled for the week of Aug. 26, and the second will be a financial analysis session scheduled for the week of Oct. 14. The financial exam session has already been filled through applicants deferred from previous sessions but the application period for the financial analysis session will open in the coming weeks.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.

SharePoint/Support Staff Hub/Committees/E CMTE/2024_2Summer/RFSWG/Surveillance WG 5-30-24 Minutes.docx

© 2024 National Association of Insurance Commissioners

Attachment Five
Financial Condition (E) Committee
8/15/24

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

TO: Interested Regulators & Interested Parties of the Financial Condition (E) Committee

DATE: August 2, 2024

RE: Request for Comments on the Draft Request for Proposal

At the 2023 Summer National Meeting, the Financial Condition (E) Committee exposed its *Framework for Regulation of Insurer Investments – A Holistic Review* document. Included in that framework is the recommendation that the NAIC engage a consultant to design and help implement a new process under which the NAIC develops a strong due diligence program over the ongoing use of credit rating providers (CRPs). At the 2024 Spring National Meeting, the Executive (EX) Committee approved the Committee to engage in the development of a request for proposal (RFP).

The Committee, with the assistance of state insurance regulators from the Valuation of Securities (E) Task Force, and its Investment Framework Drafting Group, both chaired by Carrie Mears (IA), have developed a first draft of such an RFP. Such an initial draft was necessary to facilitate further discussion and development of a final RFP, but at this time, the Committee would like to engage all interested parties on this RFP. To that end, the Committee intends this to be a fully transparent and constructive process. The RFP document proposed to be exposed is a *draft* document. ***This is not a release of the RFP for bid nor a solicitation of RFP responses.***

We recognize there is not an "out of box" product to be delivered in response to this RFP. We anticipate that our selection of a consultant will be predicated upon experience in providing solutions for similar quantitative and qualitative issues rather than providing the solution in response to the RFP. Therefore, the RFP is drafted as such to welcome proposals from many parties.

We acknowledge this RFP could be improved to ensure the best possible response outcome. As a result, we are exposing this draft RFP for 60 days to obtain feedback on the following:

CRP Due Diligence and Objectives

(1) Are all objectives clear and understood? Do any need to be refined?
(2) Are there additional objectives we should consider that are not included here?
(3) Are there objectives that interested parties feel should be excluded, and why?

RFP Response Requirements

(1) Are all requirements clear and understood? Do any need to be refined?
(2) What additional response requirements could be included to ensure the best receipt of material for selection purposes?
(3) Are there response requirements that interested parties feel should be excluded, and why?

Selection Process and Assessment Criteria

(1) Is the selection process clear and understood?

EXECUTIVE OFFICE • 444 North Capitol Street NW, Suite 700 • Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • One New York Plaza, Suite 4210 • New York, NY 10004 p | 212 398 9000 f | 212 382 4207
www.naic.org

© 2024 National Association of Insurance Commissioners

Other

(1) Any other feedback that would aid in improving the RFP.

Please direct comments to Dan Daveline (ddaveline@naic.org) by 10/14/2024. Comments are welcome from all interested parties, including industry, CRPs, and potential respondents to the RFP.

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

August 2, 2024

RFP #XXXX | Credit Rating Provider Due Diligence

In 2023, the National Association of Insurance Commissioners' (NAIC) Financial Condition (E) Committee introduced a Framework for Regulation of Insurer Investments – A Holistic Review that was revised and exposed for comment at the 2024 Spring National Meeting. The Executive Summary of the framework is as follows:

- 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 Securities Valuation Office (SVO) has been on risk assessment of individual securities, with filing exempt securities (FE) 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.
- The framework 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.
- The framework 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.

Currently, risk-based capital charges that support the capital framework to identify weakly capitalized insurers, rely upon NAIC Designations as the measure of investment risk, for assets reported as bonds, as well as limited risk assessment for non-bond holdings. NAIC Designations are either provided directly by the SVO for filed securities or, for the majority of insurer investments, by a direct translation of a credit rating from a CRP for those securities that are exempt from

© 2024 National Association of Insurance Commissioners

filing (FE). There are currently no criteria for becoming a CRP beyond being an U.S. Securities and Exchange Commission (SEC) registered NRSRO and under its regulatory authority, the SEC is unable to opine on the quality of NRSRO methodologies and ratings. As such, the NAIC "blindly" relies on the CRP ratings. There is no mechanism for overall due diligence around CRP usage, no process to assess the reasonability of a CRP's ratings, nor an ability to challenge an individual rating for not conforming to regulator expectations of how it was determined. Based on this Framework, the NAIC is planning several workstreams to address the issues identified. Specific to this Request for Proposal (RFP), the NAIC is looking for detailed technical recommendations that would aid in its objectives to:

- Reduce/eliminate "blind" reliance on CRP ratings but retain overall utilization of CRPs ratings 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.

- At the conclusion of this the project that will result from this RFP there should be a quantitative and qualitative due diligence analytical framework design and implementation plan that will permit the SVO to primarily focus on the on-going administration of this holistic due diligence process 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 in assigning NAIC designations).

At this time, the NAIC is soliciting proposals from qualified third-party firms for the development of a "Credit Rating Provider (CRP) Due Diligence Framework", and detailed quantitative and qualitative analysis that supports the full development and implementation of the framework that can be repeated periodically by regulators and staff.

A clarification and question and answer session will be held at **TBD pm Central Time, Month Day, Year.** Firms interested in submitting a proposal are encouraged to attend this WebEx session. Please click (link) to register.

Firms intending to respond to this RFP are asked to submit an email indicating their intent to bid and Point of Contact details by **5pm Central Time, Day, Month, Year**, via email to Jim Woody at Proposals@naic.org.

To receive consideration, final proposals must be sent electronically to Proposals@naic.org no later than **5pm Central Time, Day, Month, Year**.

Proposals must address each item described within the RFP Response Requirements: 1| Respondent Company Overview, 2|Detailed RFP Response / Proposal, 3| Additional Required Documentation , and 4| Additional Instructions.

© 2024 National Association of Insurance Commissioners

RFP | Schedule

	RFP released
	Clarification & Q&A Session register here
	Vendor intent to Bid due to Proposals@naic.org
	Vendor RFP questions due to Proposals@naic.org
	NAIC responses to vendor questions
	Vendor submissions due by 5pm CT to Proposals@naic.org
	Vendor Interviews, if needed
	Projected Vendor Selection and RFP Award*
	Projected Project Start

* NAIC's Executive Committee has the final authority to direct contract execution for the selected vendor.

Selection Criteria

The RFP Selection Committee will base the vendor selection on criteria including:

- Completeness and quality of the proposal
- Experience with similar projects and the credit ratings process
- Professional reputation of the firm and qualifications of individuals assigned to this project
- Proposed project timeline and cost
- Analytical alignment of the proposed framework to the NAIC's financial solvency objectives.

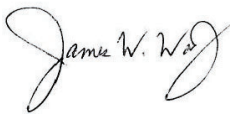
The NAIC reserves the right to reject any or all proposals, request new proposals or request additional information. The NAIC reserves the right to further negotiate with any or all bidders.

Questions

Proposal-related questions should be submitted to Proposals@naic.org by **5pm Central Time, Day, Month XX, Year**. Answers to each question submitted will be posted on the NAIC RFP website by **Day, Month, Year**.

Questions related to any other matter should be directed to NAIC Chief Financial Officer Jim Woody at JWoody@naic.org, who is the NAIC point-of-contact for this RFP.

Respectfully,



James Woody, Chief Financial Officer, National Association of Insurance Commissioners

© 2024 National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC)

Request for Proposal- #(number)

DRAFT

Credit Rating Provider Due Diligence Framework

© 2024 National Association of Insurance Commissioners

Table of Contents

RFP #XXXX | Credit Rating Provider Due Diligence 1
RFP | Schedule 3
Selection Criteria 3
Questions 3
Background Information 7
About the NAIC 7
The VOS/TF and SVO Staff 7
NAIC | Mission Statement 8
Current CRP Review Criteria and Crediting Rating Use 9
The Use of Credit Ratings of NRSROS in NAIC Processes 9
Providing Credit Rating Services to the NAIC 9
Policy and Legal Disclosure Pertaining to the NAIC Credit Rating Provider (CRP) List 9
NAIC Designations 9
NAIC Policy on the use of Credit Ratings of NRSROS 11
Procedure to Become an NAIC Credit Rating Provider 11
Regulatory Significance – Filing Exempt Rule 11
Definition – Credit Ratings Eligible for Translation to NAIC Designations 11
Special Rating Systems 12
CRP Credit Rating Equivalent to NAIC Designations and NAIC Designation Categories 13
Credit Rating Provider Due Diligence Objectives 15
Vision and Objectives 15
RFP Response Requirements 18
Required Sections and Information 18
- | Respondent Company Overview 18
- | Detailed RFP Response / Proposal 19
- | Additional Required Documentation 22
- | Additional Instructions 22

RFP XXXX | Proposal Submission and Provisional Timeline 23
Proposal Submission 23
RFP Provisional Timeline 23
Point of Contact 23
Selection Process and Assessment Criteria 24
Selection Process 24

DRAFT

© 2024 National Association of Insurance Commissioners

Assessment Criteria 24
Presentations 24
Conflicts of Interest 25
NAIC Reserved Rights 25
APPENDICES 26
Appendix 1 | NAIC Conflict of Interest Form 27
Appendix 2 | NAIC Standard Terms and Conditions 28

DRAFT

© 2024 National Association of Insurance Commissioners

Background Information

About the NAIC

The National Association of Insurance Commissioners (NAIC) is a 501(c) (3) not-for-profit organization.

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories.

Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

Role of the VOSTF

The NAIC has determined that assessing the risk of an insurance company's investments is a good starting point for assessing that insurer's financial solvency risk over its investments. CreditInvestment risk is one of the NAICs branded risk classifications monitored by state solvency regulators and which includes considering the credit quality for bond type securities. The Valuation of Securities (E) Task Force (VOSTF) formulates the NAIC's policies for securities that can be assigned the NAIC's measure of investment risk, an NAIC Designations. The Task Force's polices are documented and published in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual). The NAIC has assigned the Securities Valuation Office (SVO) and Structured Securities Group (SSG) the responsibility of carrying out the policies of the VOS/TF and assigned the Task Force with the responsibility to oversee of the operations of these NAIC departments. The SVO and SSG, when referred to jointly, are called the Investment Analysis Office (IAO).

SVO and SSG

The SVO and SSG are staffed by investment professionals whose careers have been dedicated to investment analysis. The analysis staff in these departments typically have over 25-years of investment experience, all have a bachelor's degree, 84% have an MBA, roughly a third are chartered financial analysts (CFA) or have some other advanced level certification or degree, and two-thirds have prior work experience at rating agencies.

The SVO conducts credit quality and investment risk assessments of securities owned by state-regulated insurance companies through insurer submissions of investment documents into the NAIC's VISION application and performs other functions such as: the administration of the filing exemption process (the NAIC's automated process for translating credit rating provider ratings into an NAIC Designation), compilation and publication of the SVO List of Investment Securities (a data set of all NAIC Designations published in the NAIC's AVS+ application), list of credit ratings eligible for translation, the list of funds eligible to receive NAIC Designations, the list of qualified

© 2024 National Association of Insurance Commissioners

U.S. financial institutions that can issue letters of credit for reinsurance purposes, assessment of derivative counterparties, the list of sovereign NAIC Designation equivalents, and any other process mandated in the P&P Manual.

The SSG assesses the credit quality and investment risks in securitizations and other complex financially engineered securities through the utilization and oversight of external financial modeling vendors. Typically, these are residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), mortgage reference securities and, beginning in 2025, collateralized loan obligations (CLOs).

NAIC | Mission Statement

The mission of the NAIC is to assist the state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient, and cost-effective manner, consistent with the wishes of its members:

- *Protect the public interest;*
- *Promote competitive markets;*
- *Facilitate the fair and equitable treatment of insurance consumers;*
- *Promote the reliability, solvency, and financial solidity of insurance institutions; and*
- *Support and improve state regulation of insurance.*

DRAFT

© 2024 National Association of Insurance Commissioners

Current CRP Review Criteria and Crediting Rating Use

The Use of Credit Ratings of NRSROS in NAIC Processes

Providing Credit Rating Services to the NAIC

The NAIC uses credit ratings for a number of regulatory purposes, including, to administer the filing exempt rule. Any rating organization that has been designated a Nationally Recognized Statistical Rating Organization (NRSRO) by the U.S. Securities and Exchange Commission (SEC) and which continues to be subject to federal regulation, may apply to provide Credit Rating Services to the NAIC for the classes of credit ratings for which it is registered as an NRSRO.

Policy and Legal Disclosure Pertaining to the NAIC Credit Rating Provider (CRP) List

The NAIC uses publicly available credit ratings, when available, as one component of the services it provides to state insurance regulators concerned with financial solvency monitoring of insurance company investments.

The NAIC acts solely as a private consumer of credit ratings. The sole NAIC objective in obtaining and using credit ratings is to conserve limited regulatory resources; e.g., the resources of the SVO. The VOS/TF has established the procedure specified in this section solely to ensure that the NAIC can avail itself of credit rating opinions.

The NAIC does not select, approve or certify NRSROs or other rating organizations or distinguish among them for any public or policy purpose whatsoever. Nor does the NAIC endorse the credit rating or analytical product of any CRP or rating organization or distinguish between CRPs or rating organizations for any specific public purpose. The NAIC disclaims any authority to regulate CRPs or rating organizations.

NAIC Designations

NAIC Designations are proprietary symbols of the NAIC. The SVO, the SSG and, under certain circumstances, insurers, produce NAIC Designations for insurer-owned securities using the policies, procedures or methodologies adopted by the VOSTF in the P&P Manual. NAIC Designations are produced for statutory accounting, reporting, state investment laws and other purposes identified in the NAIC Financial Regulation Standards and Accreditation Program and/or other NAIC developed regulatory guidance embodied in state law. They must be considered in the context of their appropriateness and consistency of use in the NAIC Policy Statement and Financial Regulation Standards (SFRS) and other NAIC guidance.

NAIC Designations represent opinions of gradations of the likelihood of an insurer's timely receipt of an investment's full principal and expected interest ("investment risk"). Where appropriate for a given investment, NAIC Designations and Designation Categories shall reflect "tail risk" and/or loss given default, the position of the specific liability in the issuer's capital structure, and all other risks, except for volatility/interest rate, prepayment, extension or liquidity risk. NAIC Designations shall be identified by the NAIC 1 through NAIC 6 symbols (as

© 2024 National Association of Insurance Commissioners

modified by NAIC Designation Categories) which indicate the highest quality (least risk) to the lowest quality (greatest risk), respectively.

Investment risk is the likelihood that an insurer will receive full and timely principal and expected interest. It differs from "credit risk" which focuses on the ability of an issuer to make payments in accordance with contractual terms. Credit risk is, at times, too narrow a concept for NAIC purposes. For example, the performance component of a principal protected security (PPS) may produce no return and, therefore, the PPS could pay no interest with no event of default by the issuer. As such, focusing solely on credit risk could limit the SVO's ability to assess the risk of the performance component of a principal protected security or on potential risks posed by other investment types.

NAIC Designation Category – Means and refers to 20 more granular delineations of investment risk in the NAIC 1 through NAIC 6 investment risk scale used by the VOS/TF to relate investment risk in insurer-owned securities to a risk-based capital factor assigned by the NAIC Capital Adequacy (E) Task Force. Each delineation of investment risk is represented by a letter (a Modifier) which modifies the NAIC Designation grade to indicate a more granular measure of investment risk within the NAIC Designation grade. The more granular delineations of investment risk are distributed as follows: 7 for the NAIC 1 Designation grade indicated by the letters A through G; 3 delineations each for each of the NAIC Designation grades NAIC 2, NAIC 3, NAIC 4 and NAIC 5 indicated by the letters A, B and C and 1 delineation for NAIC Designation grade NAIC 6. The NAIC Designation Category framework is shown in the P&P Manual. All Modifiers roll up into the respective NAIC Designation grade as they are a subset of them.

NAIC Designation	+	NAIC Designation Modifier	=	NAIC Designation Category
1		A		1.A
1		B		1.B
1		C		1.C
1		D		1.D
1		E		1.E
1		F		1.F
1		G		1.G
2		A		2.A
2		B		2.B
2		C		2.C
3		A		3.A
3		B		3.B
3		C		3.C
4		A		4.A
4		B		4.B
4		C		4.C
5		A		5.A
5		B		5.B
5		C		5.C
6				6

An objective of the VOS/TF is to support regulators in the assessment of the financial ability of an insurer to maintain financial solvency, through the making of policy concerning insurer investment risk and the identification and sharing of pertinent information with other relevant

© 2024 National Association of Insurance Commissioners

regulators and regulatory groups responsible for the NAIC's regulatory framework.

NAIC Policy on the use of Credit Ratings of NRSROS

Procedure to Become an NAIC Credit Rating Provider

An NRSRO that wishes to provide Credit Rating Services to the NAIC may indicate its interest by sending a letter to the Chair of the VOS/TF with a copy to the Director of the SVO, in which it:

- Indicates an interest in providing Credit Rating Services to the NAIC.
- Confirms that it is currently an NRSRO subject to regulation by the SEC.
- Provides a chart relating its credit rating symbols to NAIC Designations.
- Indicates that the NRSRO agrees to enter into a legally binding agreement under which the NRSRO will:
    - Provide Credit Rating Services to the NAIC at no cost;
    - Reimburse the NAIC for all costs associated with: integration of its data feed into NAIC systems, subsequent changes to NAIC systems to accommodate changes in the NRSRO's systems and changes to NAIC systems as a result of the termination of Credit Rating Services by the NRSRO;
    - Give written notice 6 months prior to terminating Credit Rating Services; and
    - Agree not to claim in marketing literature that the provision of Credit Rating Services indicates NAIC approval or endorsement of the NRSRO, its products or services.

When directed to do so by the VOS/TF, the SVO shall add the name of the NRSRO (thereafter described as a Credit Rating Provider (CRP)) to the NAIC Credit Rating Provider List in the publication of the P&P Manual that follows the execution of an agreement between the NAIC and the NRSRO.

Regulatory Significance – Filing Exempt Rule

Adding the name of an NRSRO to the Credit Rating Provider List indicates that insurance companies must use the credit ratings assigned by that NRSRO, if any, when determining the NAIC Designation equivalent for a security to be reported under the filing exempt rule. Only those NAIC CRP ratings that meet the definition below may be translated into NAIC Designations under the filing exempt rule. Securities assigned ratings by NAIC CRPs that do not meet the definition below, shall be filed with the SVO. The translation of a NAIC CRP rating into an NAIC Designation is conducted in accordance with the procedures described in the P&P Manual.

Definition – Credit Ratings Eligible for Translation to NAIC Designations

As disclosed below, the NAIC may determine that the rated security or investment is of a type that is not eligible to be reported on Schedule D or that the NAIC determines is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of a specific asset class, as specified in the P&P Manual.

The credit rating of the CRP to which this section and the NAIC Credit Rating Provider List refers

© 2024 National Association of Insurance Commissioners

to is the (a) credit rating assigned by the NAIC CRP; (b) by application of a CRP's proprietary long-term obligation ratings scale and methodology; to (c) securities.

Credit ratings of a NAIC CRP that meet this definition are entitled to a presumption of convertibility to the equivalent NAIC Designation published in the NAIC Credit Rating Provider List except that the presumption of convertibility is subject to the following limitations:

- Those rating activities or markets in which the entity has NAIC CRP status.
- Securities with monitored NAIC CRP ratings that:
  - Are monitored at least annually by the CRP that issued the rating;
  - Are assigned to a specific issue that must be specifically identified;
  - Apply to securities where the issuer promises to repay principal and interest or dividends;
  - Convey an opinion as to the likelihood of payment of both principal and interest/dividends due from the issuer to the holders of the security; or
  - Are structured to pay only principal or only interest/dividends, if the monitored NAIC CRP rating addresses the likelihood of payment of either the principal, in the case of a security structured to pay only principal or the interest/dividends, in the case of security structured to pay only interest/dividends (an "Eligible NAIC CRP Rating").

Special Rating Systems

Unless otherwise specifically approved by the VOS/TF special rating systems of any CRP, rating agency or rating organization shall not be entitled to a presumption of convertibility. Nevertheless, an SVO analyst assessing a security that has been assigned such a rating by any rating organization, including a CRP, may consider the information imparted by that rating or a related research report as one factor in determining an NAIC Designation

List OF NAIC Credit Rating Provider

The CRPs that provide Credit Rating Services to the NAIC are (listed alphabetically):

- A.M. Best Rating Services, Inc. (A.M. Best) – For credit ratings issued to insurance companies; corporate issuers and issuers of asset-backed securities.
- DBRS, Inc. (DBRS Morningstar) – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Egan-Jones Ratings Co. – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies and corporate issuers.
- Fitch Ratings, Inc. – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- HR Ratings de Mexico, S.A. de C.V. – For credit ratings issued to financial institutions, brokers, or dealers; corporate issuers and issuers of government securities, municipal securities, or securities issued by a foreign government.

© 2024 National Association of Insurance Commissioners

- Kroll Bond Rating Agency, LLC. – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Moody's Investors Service, Inc. for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- S&P Global Ratings, for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.

The Credit Rating Providers identified above include those of its affiliates that the credit rating provider identified to the U.S. Securities and Exchange Commission (SEC) as part of its Form NRSRO Application as a separate legal entity or a separately identifiable department or division of the credit rating provider that determines credit ratings that are credit ratings of the credit rating provider and which the SEC treats as a credit rating issued by the credit rating provider for purposes of Section 15E of the Exchange Act and the SEC's rules thereunder. The full list of CRP ratings eligible for translation to an NAIC Designation can be found on the SVO's webpage: NAIC – Credit Ratings Eligible for Translation to NAIC Designations.

CRP Credit Rating Equivalent to NAIC Designations and NAIC Designation Categories (agencies listed in order as they appear in the P&P Manual)

DRAFT

© 2024 National Association of Insurance Commissioners

			Credit Rating Providers (*) (Pursuant to the guidance in this Manual; particularly, Part One, "The Use of Credit Ratings of NRSROs in NAIC Processes," "Filing Exemptions," "Policies Applicable to Specific Asset Classes," and Part Three, "Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities")							
NAIC Designation	NAIC Designation Modifier	NAIC Designation Category	Moody's Investors Service, Inc.	S&P Global Ratings	Fitch Ratings, Inc.	DBRS, Inc. (DBRS Morningstar)	A.M. Best Rating Services, Inc.	Kroll Bond Rating Agency, LLC	Egan-Jones Ratings Co.	HR Ratings de Mexico, S.A. de C.V.
1	A	1.A	Aaa	AAA	AAApre, AAA	AAA, Pfd-1 (high)	aaa	AAA	AAA	HR AAA (G)
1	B	1.B	Aa1	AA+	AA+	AA (high), Pfd-1	aa+	AA+	AA+	HR AA+ (G)
1	C	1.C	Aa2	AA	AA	AA, Pfd-1 (low)	aa	AA	AA	HR AA (G)
1	D	1.D	Aa3	AA-	AA-	AA (low), Pfd-1	aa-	AA-	AA-	HR AA- (G)
1	E	1.E	A1	A+	A+	A (high)	a+	A+	A+	HR A+ (G)
1	F	1.F	A2	A	A	A	a	A	A	HR A (G)
1	G	1.G	A3	A-	A-	A (low)	a-	A-	A-	HR A- (G)
2	A	2.A	Baa1	BBB+	BBB+	BBB (high), Pfd-2 (high)	bbb+	BBB+	BBB+	HR BBB+ (G)
2	B	2.B	Baa2	BBB	BBB	BBB, Pfd-2	bbb	BBB	BBB	HR BBB (G)
2	C	2.C	Baa3	BBB-	BBB-	BBB (low), Pfd-2 (low)	bbb-	BBB-	BBB-	HR BBB- (G)
3	A	3.A	Ba1	BB+	BB+	BB (high), Pfd-3 (high)	bb+	BB+	BB+	HR BB+ (G)
3	B	3.B	Ba2	BB	BB	BB, Pfd-3	bb	BB	BB	HR BB (G)
3	C	3.C	Ba3	BB-	BB-	BB (low), Pfd-3 (low)	bb-	BB-	BB-	HR BB- (G)
4	A	4.A	B1	B+	B+	B (high), Pfd-4 (high)	b+	B+	B+	HR B+ (G)
4	B	4.B	B2	B	B	B, Pfd-4	b	B	B	HR B (G)
4	C	4.C	B3	B-	B-	B (low), Pfd-4 (low)	b-	B-	B-	HR B- (G)
5	A	5.A	Caa1	CCC+	CCC+	CCC (high), Pfd-5 (high)	ccc+	CCC+	CCC+	HR C+ (G)
5	B	5.B	Caa2	CCC	CCC	CCC, Pfd-5	ccc	CCC	CCC	HR C (G)
5	C	5.C	Caa3	CCC-	CCC-	CCC (low), Pfd-5 (low)	ccc-	CCC-	CCC-	HR C- (G)
6		6	Ca	CC	CC	CC (high)	cc	CC	CC	HR D (G)
6		6	C	C	C	CC	c	C	C	
6		6		D	DDD	CC (low)	d	D	D	
6		6			DD	C (high)				
6		6			D	C				
6		6				C (low)				
6		6				D				

Note: * This is a listing of only the "generic" Credit Rating Provider (CRP) rating symbols. CRPs use a variety of symbols; including, combinations of prefixes and suffixes that provide additional information about the rating symbol which are described in the CRP's documentation. There are over 2,000+ unique rating symbols used by CRPs to describe long-term securities. The SVO webpage (https://www.naic.org/svo.htm) maintains a master list of Credit Ratings Eligible for Translation to NAIC Designations. The SVO does not currently translate short-term security ratings as part of its Compilation and Publication of the SVO List of Investment Securities incorporated into the NAIC's AVS+ product.

DRAFT

© 2024 National Association of Insurance Commissioners

Credit Rating Provider Due Diligence Objectives

Vision and Objectives

Specific to the project that will result from this Request for Proposal (RFP), the NAIC is looking for detailed quantitative and qualitative technical recommendations that would address its objectives around CRP Due Diligence:

- Reduce/eliminate "blind" reliance on CRP ratings but retain overall utilization of CRPs ratings 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.
- At the completion of work for this project there should be a quantitative and qualitative due diligence framework design and implementation plan that will permit the SVO to primarily focus on the on-going administration of this holistic due diligence process 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 in assigning NAIC designations).
- 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.

Quantitative and qualitative analysis, both initial and ongoing, should be applied to all CRPs and CRP applicants consistently and equally. State regulators and the NAIC are agnostic to the credit rating providers used in the NAIC Designation process, subject to the due diligence framework as established.

The request also includes some aspects of other components of our framework, when impactful to the objectives above. This includes recommendations of how to best utilize and enhance the structured asset modeling capabilities of the SVO and for recommended governance and oversight of the SVO's operations (i.e. the production and oversight of NAIC designations.)

This project should be delivered in two phases. Phase 1 deliverables include recommendations and considerations on how to accomplish the objectives, with consideration to the questions below, and Phase 2 Deliverables will include development of the recommendations into an actionable framework for the NAIC to implement and maintain.

Quantitative Analysis

Currently, NRSROs applying to be a CRP provide their own mapping of NRSRO ratings to corresponding NAIC Designations. The NAIC would like to be able to utilize data in order to validate this mapping and/or establish its own mapping. A key objective is that ratings performance is shown to be representative of those used specifically for NAIC Designations (rather than all ratings issued by an NRSRO, if not otherwise representative of those used for NAIC Designations). For that purpose:

- What analytical approach should be used to compare each rating agency's rating methodology for a given security type, or sector/industry, or more broadly, to use those

© 2024 National Association of Insurance Commissioners

ratings to assign NAIC Designations.

- How should jointly-rated securities (rated by more than one rating agency) and single-rated securities be analyzed? Should they be analyzed differently?
- Should public credit ratings and a private credit ratings be distinguished for quantitative analysis purposes.
- What is the scope of the assessment, i.e. at a rating agency level, or at an asset-class, sector or other specified basis?
- How should the analysis consider economic or financial market conditions over the periods covered, particularly periods of extreme distress for credit such as the Global Financial Crisis, dotcom bubble, junk bond crash, S&L crisis, OPEC oil embargo, or any other major bond market distress event?
- To what extent can the NAIC rely on market usage of ratings to act as a validating tool, and how does that apply to private ratings that are not issued publicly?
- How would the analysis demonstrate that the credit ratings can be used as a proxy for an NAIC Designations?
- How should new investment types, emerging asset classes without quantifiable history, newly established NRSROs, etc. be considered when applying the ultimate framework?

Sources of Data

- What specific fields and definitions would you need from the CRP applicant, the frequency of the observations and the elapsed time period in years or date ranges
- Are NRSRO filings with the U.S. Securities and Exchange Commission sufficient for this analysis and how?
- Could this analysis be best performed utilizing the NAIC's own data and if so, how that should be accomplished most effectively?
- The NAIC's Structured Securities Group ("SSG") has modeling capabilities, both current and planned, meant to assess the growing structured securities market. How should those capabilities be used to monitor the rating agency ratings on structured securities? What enhancements that can be made to those capabilities to further utilize them effectively?
- What other sources of data would be most beneficial to this process? Preference should be given to data that is most easily obtained.

Other Considerations for CRP Qualifications

- What procedures and policies should be implemented to facilitate periodic,and transparent discussions between the NAIC, regulators and CRPs regarding NAIC's use of ratings, as a consumer, in its regulatory framework, including emerging investments & methodologies, questions NAIC may have on existing investments, discussions the CRPs wish to have with the NAIC, etc? Additionally, what safeguards should be put in place to ensure that the NAIC does not violate the Credit Rating Agency Reform Act?
- What is the overarching process for how the NAIC should implement a review process? Initial application, renewal application (what time frame), upon certain triggers such as SEC Violations or other legal actions?
- What are the qualifications that a rating agency should possess to be an input into the NAIC designation process, and how the NAIC should assess those qualifications?

© 2024 National Association of Insurance Commissioners

- What should disqualify a rating agency from being a CRP to the NAIC?
- What are any actual, potential or potentially perceived conflicts of interest that should disqualify a rating agency from being a CRP to the NAIC, including measurable items such as material relationships with insurers or their ownership entity. How should conflicts of interest be defined for this purpose and how should they be disclosed to the NAIC?
- SEC Violations or other legal actions and how to assess.
  - If a CRP was to be disqualified based on criteria established, what steps should it take to remediate this at a firm, asset-class, sector or other level.

Ongoing review

- Define an examination process state regulators can utilize to provide oversight of the SVO in its implementation of this framework, its own production of designations and its usage of individualized challenges to CRP ratings in the designation process.
- Define an examination process state regulators can utilize to provide oversight of the SSG in its implementation of this framework, its own production of modeling-based designations (both internally and outsourced), including model governance and validation.

DRAFT

© 2024 National Association of Insurance Commissioners

RFP Response Requirements

Required Sections and Information

Respondents to this RFP are asked to include the following sections and information in their submitted proposals:

• | Respondent Company Overview

- Concise description and overview of the company and its history.
- Outline of services the company offers, as it relates to requirements outlined in this RFP.
- A brief history and description of any work carried out for NAIC or any NRSRO in the last ten (10) years.
- A brief history and description of delivery of projects of this or similar type.
- A description of the company's familiarity with the state-based insurance regulatory framework and the role of the NAIC, including the Securities Valuation Office.
- A description of the company's familiarity with NAIC designations and how they are utilized in the regulatory framework, including for purposes of applying risk-based capital charges to insures to identify weakly capitalized companies.
- A description of the company's knowledge of credit ratings and credit rating agencies, including measurements of performance and default studies, or a description of the company's access to such information.
- A detailed description of the capabilities and experience of the company to perform the requirements of the project contemplated by this RFP, including experience evaluating data in a complex environment
- Details of the point of contact who will facilitate this project, their biography, experience, and contact information.
- Biographies of key personnel to be assigned to this project, including their role and specific experience and expertise.
- Detailed description of three to five similar engagements completed, noting projection duration and total cost, and a client reference for each.
- Disclose in detail any actual, potential or potentially perceived conflicts of interest of your firm or anyone working on this initiative may have analyzing rating agencies, issuers of securities with ratings (public or private) or investors in securities with ratings (public or private). Note it is recognized that these types of relationships will normally occur in concert with the familiarity and expertise this initiative requires, and that any actual, potential, or potentially perceived conflicts of interest will not automatically disqualify your firm or anyone working on this initiative.
- Any other information that the respondent feels relevant / useful as it pertains to the requirements outlined in this RFP.

DRAFT

© 2024 National Association of Insurance Commissioners

• | Detailed RFP Response / Proposal

Respondents should prepare a detailed RFP response / proposal that addresses the objectives of the preceding section, including:

- A detailed narrative on how you anticipate approaching this project*
- What methodology(ies) you will utilize
- What data sources you will utilize
- What resources you will require from the NAIC, SVO and regulators
- Any initial conclusions or recommendations regarding the outcome of this project

*The first item above (approach to project) is considered the most important aspect of the respondent's proposal. Please consider this in your proposal as well as how the approach incorporates the methodology and data sources.

Project Plans

Project plans for completion of the analysis outlined in this RFP, that include, to a reasonable amount of detail:

- Key tasks, activities, milestones, and deliverables.
- Relevant timelines, schedules, and input / decision points.
- Any critical assumptions and / or dependencies.

Acceptable formats for the project plans include MS Project and MS Excel.

DRAFT

Analysis Approach

Additional detail and relevant supporting information on the proposed software or analytical tools and processes to be used within the development of the CRP Due Diligence framework and how they relate to and impact the proposed Project Plan, Resource Plan, and Budget and Contingency Plans.

Resources Plan

Detailed resource plans to deliver the CRP Due Diligence framework, as outlined in this RFP, that include, to a reasonable amount of detail:

- Resources (both vendor and NAIC) required.
- Hours per week, by resource (both vendor and NAIC).
- Location (on-shore, off-shore) of vendor resources.
- Rates (costs per hour) of vendor resources.

The resources plans should align to the project plans (in terms of key activities, milestones,

© 2024 National Association of Insurance Commissioners

and deliverables) and the fee schedule / pricing information.

DRAFT

© 2024 National Association of Insurance Commissioners

Fee Schedule and Pricing Information

Detailed fee schedules, total projected budgets, and other pricing information for phase, including assumptions on:

- Additional Expenses (e.g., travel, lodging, meals, etc.)
- Technology costs (e.g., hardware, software licensing, etc.) to set up and maintain the CRP Due Diligence framework .
- Key Milestones and Deliverables (and how they relate to payment phasing).
- Recommended financial contingency provisions.

The NAIC will consider both fixed-fee and "time and materials" bids for development of the CRP Due Diligence framework.

Project Management

A detailed explanation of the project management tools, processes, and approaches to be used on the project, including:

- How vendor resources will integrate with NAIC resources.
- A communication plan (including key tasks, activities, milestones, resources needed, etc.) for the project explaining how key stakeholders will be engaged and kept updated on progress to date, hours / budget vs. plan, issues, and input and decisions needed, etc.
- A change management plan (including key tasks, activities, milestones, resources needed, etc.) for the project explaining how effective change will be delivered across all stakeholders to ensure the long-term success of the modernized CRP Due Diligence framework.
- Project governance considerations.
- A project risk assessment and risk management plan.

DRAFT

© 2024 National Association of Insurance Commissioners

| Additional Required Documentation

Respondents must provide the following information as part of their proposal:

- W-9 Form.
- Certificate of Insurance for Worker's Compensation.
- Certificate of Insurance for Professional Liability.
- Certificate of Insurance for Cybersecurity.
- Signed NAIC Conflict of Interest Form (see Appendix 1).
- Vendor Standard Terms and Conditions (if you do not agree to, or if they vary from the NAIC Standard Terms and Conditions, see Appendix 2).

| Additional Instructions

- Please reference RFP-XXXX on all parts of the proposal.
- Please ensure you have provided the following Point of Contact Information:
  - NAME
  - COMPANY
  - EMAIL
  - PHONE

DRAFT

© 2024 National Association of Insurance Commissioners

Proposal Submission

Proposals must be received by 5pm Central time on May 15, 2024, via email to Jim Woody at Proposals@naic.org.

RFP Provisional Timeline

	ACTIVITY	DATE
1	NAIC Issuance of RFP	
2	NAIC public posting of RFP on website + press release	
3	NAIC hosted project clarification & Q&A Session register here	
4	Vendor intent to Bid due to Proposals@naic.org [7]	
5	Vendor RFP questions due to Proposals@naic.org [8]	
6	NAIC responses to vendor questions [9]	
7	Vendor proposal submissions due to Proposals@naic.org	
8	NAIC notice of selection for vendor interview [10]	
9	Vendor Interviews	
10	NAIC issuance of award to the selected vendor - projected	
	Projected Project Start Date	

The NAIC reserves the right to change or alter timing and activities as appropriate.

* NAIC's Executive Committee has the final authority to direct contract execution for the selected vendor.

Point of Contact

Any questions regarding the requirements outlined in the RFP should be directed to Proposals@naic.org by Month, Day, Year.

Questions related to any other matter should be directed to NAIC Chief Financial Officer Jim Woody at JWoody@naic.org, who is the NAIC point-of-contact for this RFP.

[7] Potential respondents are asked to submit an email indicating their intent to bid by Month, Day, Year mail to Jim Woody at Proposals@naic.org.

[8] Each respondent is asked to send a single set of questions (vs. multiple sets of questions) related to RFP and response requirements.

[9] Submitted questions will be anonymized and responses to all questions will be posted to the NAIC website.

[10] The NAIC reserves the right to interview a limited number of bidders based on its evaluation of the submitted proposals. Submission of a proposal does not guarantee an interview.

© 2024 National Association of Insurance Commissioners

Selection Process and Assessment Criteria

Selection Process

A committee including NAIC senior leadership has been designated to review the proposals, interview selected bidders, and, if appropriate, select a vendor to complete the scope of work outlined in this RFP.

This committee will also conduct regular progress meetings with the selected firm during the development and demonstration of the Proof of Concept, and during the Mobilization Planning phase.

Assessment Criteria

The following factors will be considered in making the vendor selection:

- Knowledge and understanding of NAIC systems, processes, and organization.
- Knowledge of the specific requirements and ability to understand the project.
- Experience with similar projects.
- Qualifications of staff dedicated to project.
- Professional reputation of the firm.
- Proposed project costs and timelines.
- Quality of project plans.
- Completeness of proposal.
- Proven ability to provide the identified deliverables on time and within budget.

Presentations

Based on responses, NAIC reserves the right to request a presentation of the RFP response and demonstration of capabilities included in the RFP response document.

Presentations are currently scheduled to take place from Month, Day through Month, Day, Year.

DRAFT

© 2024 National Association of Insurance Commissioners

Conflicts of Interest

The NAIC recognizes that, given the broad scope of this project, any vendor with the experience reasonably necessary to produce the work may have certain conflicts of interest based upon past associations with regulators or industry participants.

These conflicts of interest will not automatically disqualify the vendor, but the vendor must have verifiable policies and procedures in place designed in compliance with established industry standards to address conflict-of-interest issues that may arise.

All relevant items must be approved prior to contract execution by NAIC's Acting Chief Executive Officer/COO/CLO.

NAIC Reserved Rights

DRAFT

The submission of a proposal does not guarantee an interview with the selection committee or a demonstration of capabilities to the committee.

The NAIC reserves the right to reject any or all proposals, request new proposals, or request additional information.

NAIC also reserves the right to further negotiate with any or all bidders.

The NAIC also reserves the right not to award a contract for this project.

Reasons for not awarding a contract could include, but are not limited to:

- Lack of acceptable proposals.
- An inability to come to terms with a vendor.
- A finding that insufficient funds are available to proceed.

The NAIC also reserves the right to redirect the project as is deemed advisable.

The NAIC also reserves the right to cancel this RFP at the direction of its membership.

© 2024 National Association of Insurance Commissioners

APPENDICES

Appendix 1	NAIC Conflict of Interest Form
Appendix 2	NAIC Standard Terms and Conditions

DRAFT

© 2024 National Association of Insurance Commissioners

Appendix 1 | NAIC Conflict of Interest Form

Any Entity that desires to contract with the NAIC must complete this form, including suppliers, consultants and purchasers of goods or services. All potential conflicts must be disclosed and approved before contract execution.

CERTIFICATION

- _____(*"Entity"*) did not provide gifts, favors, membership points or any other benefits to any employee or representative of the NAIC to affect the bidding and selection process for this contract.
- *Entity* did not and will not receive gifts, favors, membership points or any other benefits from any employee or representative of the NAIC in connection with the negotiation or implementation of this contract.
- *Entity* owners, principals and employees negotiating or implementing this contract on behalf of *Entity* are not former NAIC employees unless disclosed below.
- *Entity* owners, principals and employees negotiating or implementing this contract on behalf of *Entity* are not immediate family members of NAIC employees unless disclosed below.

The signatory below is a duly authorized representative of Entity and hereby certifies to the authenticity and veracity of this disclosure.

_____ _____
Authorized Entity Signature *Date*

_____
Print Name & Company Name

DISCLOSURE

DISCLOSURE OF POTENTIAL CONFLICT

……
……
……

_____ _____
NAIC CEO or COO *Date*

NAIC 8/14

DRAFT

© 2024 National Association of Insurance Commissioners

Appendix 2 | NAIC Standard Terms and Conditions

STANDARD TERMS AND CONDITIONS
for
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS PURCHASE ORDERS FOR SERVICES

As used herein, "Seller" means the person, firm, or corporation to whom this Purchase Order is issued; "Buyer" means the National Association of Insurance Commissioners, a nonprofit Delaware corporation.

1. **Acceptance of Terms and Conditions.** Seller agrees to perform the services ("Services") described in any purchase order ("Purchase Order") in accordance with these Terms and Conditions. Upon acceptance of a Purchase Order or upon commencement of Services, Seller shall be bound by these Terms and Conditions and all provisions set forth on the face of any applicable Purchase Order, whether Seller signs or otherwise acknowledges these Terms & Conditions or the Purchase Order, unless Seller objects to such Terms and Conditions in writing prior to commencing Services.

2. **Revocable.** This writing does not constitute a firm offer and may be revoked at any time prior to acceptance.

3. **No modification.** No agreement or other understanding in any way altering the terms, prices or conditions of the applicable Purchase Order or these Terms and Conditions shall be binding upon Buyer unless made in writing and signed by Buyer's duly authorized representative.

4. **Termination.** Buyer may immediately terminate the Purchase Order upon written notice to Seller if Seller fails to perform or otherwise breaches these Terms and Conditions, files a petition in bankruptcy, becomes insolvent, or dissolves. Buyer may terminate the Purchase Order for any other reason upon thirty (30) days' written notice to Seller. Upon receipt of notice of termination, Seller shall cease to provide Goods and/or perform Services pursuant to the Purchase Order. In the event of termination, Buyer shall be liable to Seller only for those Services satisfactorily performed before the date of termination, less appropriate offsets. Buyer shall not be subject to any charges or other fees as a result of such cancellation. Seller may terminate this Agreement upon written notice to Buyer if Buyer fails to pay Seller within sixty (60) days after Seller notified Buyer in writing that payment is past due and that it intends to terminate the Purchase Order.

5. **Warranty of Services.** Seller represents and warrants that all Services shall be completed in a professional, workmanlike manner, with the degree of skill and care that is required by current, good, and sound professional procedures. Further, Seller warrants that the Services shall be completed in accordance with applicable specifications. Seller represents and warrants that the performance of Services hereunder will not conflict with or be prohibited in any way by any other agreement or statutory restriction to which Seller isbound.

6. **Seller's Indemnification.** Seller shall indemnify, hold harmless, and at Buyer's request, defend Buyer, its officers, directors, agents and employees, against all claims, liabilities, damages, losses and expenses, including attorneys' fees and costs of suit arising out of or in any way connected with any claim by a third party against Buyer alleging that the Services infringe a patent, copyright, trademark, trade secret or other proprietary right of third party. Seller shall not settle any such suit or claim without Buyer's prior written consent. Seller shall also indemnify and hold harmless Buyer from any injury to person or property arising out of or caused by Seller's performance of the Purchase Order. Seller agrees to pay or reimburse all costs that may be incurred by Buyer in enforcing this indemnity provision, including attorneys' fees.

DRAFT

© 2024 National Association of Insurance Commissioners

7. **Compliance with Laws.** Seller shall comply with all laws and regulations of federal, state and local governments, including without limitation, laws and regulations dealing with fair labor standards, civil rights, and public contracts. Seller further warrants that all Services performed pursuant to the Purchase Order have been produced or performed in compliance with such laws and regulations and Seller agrees to indemnify Buyer for any liability resulting from such noncompliance by theSeller.

8. **Price.** The price to be paid by the Buyer shall be the price contained in Seller's bid and/or the price stated on the face of the Purchase Order whichever is less. Seller represents the price contained in Seller's bid is no higher than Seller's current prices on orders by others for similar products or services under similar or like conditions and methods of purchase.

9. **Invoices.** Seller shall submit invoices on each Purchase Order after each delivery. Buyer shall not be charged sales tax and shall furnish a tax exemption certificate upon request. Discounts will be taken from the date of acceptance of services or date the invoice is received by Buyer whichever is later. Buyer shall retain the right of offset.

10. **Force Majeure.** Buyer shall not be liable for any failure to perform including failure to: (1) accept performance of Services, or, (2) take delivery of the Goods as provided if caused by circumstances beyond Buyer's control which make such performance commercially impractical including, but not limited to, acts of God, fire, flood, acts of war, government action, accident, labor difficulties or shortage, or the inability to obtain materials, equipment or transportation.

    Seller shall not be liable for any failure to perform including failure to: (1) provide Services, or (2) deliver Goods as provided if caused by circumstances beyond Seller's control which make such performance commercially impractical including, but not limited to, acts of God, fire, flood, acts of war, government action, accident, labor difficulties or shortage, or the inability to obtain materials, equipment or transportation.

11. **Insurance.** Seller shall be solely responsible for maintaining adequate auto, workers' compensation, unemployment compensation, disability, liability and other applicable insurance, as is required by law or as is the common practice in Seller's trade or business, whichever affords greater coverage. Seller shall carry Comprehensive General Liability coverage and Umbrella or Excess Liability coverage with minimum limits of $1,000,000 per occurrence and $2,000,000 in the aggregate for property damage and bodily injury. Upon request, Seller shall provide Buyer with certificates of insurance evidencing adequate coverage naming the Buyer as additional insured.

12. **Limitation of Liability.** IN NO EVENT SHALL BUYER BE LIABLE TO SELLER OR SELLER'S AGENTS, OR ANY THIRD PARTY FOR ANY INCIDENTAL, INDIRECT, SPECIAL, OR CONSEQUENTIAL DAMAGES ARISING OUT OF, OR IN CONNECTION WITH, THIS AGREEMENT, WHETHER OR NOT BUYER WAS ADVISED OF THE POSSIBILITY OF SUCH DAMAGE.

13. **Confidentiality.** In the event Seller gains written or oral confidential information of or from the Buyer, Seller agrees not to reveal to anyone or make use of such knowledge and information at any time for any purposes except as necessary in the course and scope of provision of Goods or performance of Services specified hereunder. Upon termination of the Purchase Order, Seller agrees to deliver to Buyer all such confidential information or work product belonging to Buyer.

14. **Assignability.** Seller shall not assign or subcontract this Purchase Order or any of its rights or obligations hereunder without the prior written consent of Buyer. Any assignment or transfer without such written consent shall be null and void.

15. **Publicity.** Seller shall not use Buyer's name in any form or attribution in connection with any solicitation, publicity, advertising, endorsement, or other promotion.

DRAFT

© 2024 National Association of Insurance Commissioners

16. **Survivability.** Any obligations and duties, which by their nature extend beyond the expiration or termination of this Purchase Order shall survive the expiration or termination hereof.

17. **Choice of Law.** This Purchase Order shall be construed in accordance with, and disputes shall be governed by, the laws of the State of Missouri.

18. **Severability.** If any provision of this Purchase Order shall be deemed to be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

NAIC 8/12

Do you agree to the NAIC Terms & Conditions? Please sign one.

YES	_____Signature	_____Date
NO	_____Signature	_____Date
If NO,	Please provide your Terms and Conditions of Services if you do not agree to the NAIC Terms & Conditions attached.	

DRAFT

© 2024 National Association of Insurance Commissioners

Attachment Six
Financial Condition (E) Committee
8/15/24

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

To: Interested Parties of the Financial Condition (E) Committee

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

DATE: August 2, 2024

RE: Response to Written Comments on Holistic Framework on Insurers Investments & Workplan

On February 15, 2024, the Financial Condition (E) Committee exposed a revised draft of its proposed *Framework for Regulation of Insurer Investments – A Holistic Review,* along with a proposed Workplan and regulators responses to the previous comments submitted by interested parties. The following sets forth regulators responses to comments received on the February 15 exposure which were submitted April 8.

General Comments-Comments Not in Response to a Specific Recommendation in the Framework

Commentor	Comments
The Lease-Backed Securities WG	The Lease-Backed Securities Working Group, is fully in support of the NAIC engaging an outside consultant to design and help implement a new process under which the NAIC develops a strong due diligence program over the ongoing use of credit rating providers (CRPs) in accordance with the principals laid out in the E Committee Framework -- a Holistic Approach. Over the past few years, we have followed the many discussions regarding the NAIC's desire to improve their oversight and monitoring of CRP ratings, with a particular focus on the ratings of private placement securities. Much of the discussion has been based on repeated suggestions from the SVO that there is a quality difference between the ratings of public and private placement securities (or between the larger agencies that typically rate the large public transaction and the smaller ratings providers who frequently rate private placements) and that because "private" securities do not have the same "market validation and transparency" of publicly-rated securities, there are potential hidden risks in the "private" market.
Regulators Response: The observation that private ratings may need to have special considerations is related to the lack of transparency of those ratings to the broader market, as well as the common approach of a single rating. Regulators do not assert a performance difference between private and public investments, but rather recognize we may not be able to rely on customary mechanisms such as comparability and market validation in any assessment of performance.	
ACLI	The American Council of Life Insurers (ACLI) appreciates the exposure of holistic investment framework documents and we applaud the work that you and your fellow members and staff have put into this project to date. In particular, the Memo to Interested Parties (Memo) was especially useful in understanding the thought process that went into making the workplan and framework updates, and as one of our members noted, the

EXECUTIVE OFFICE • 444 North Capitol Street NW, Suite 700 • Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • One New York Plaza, Suite 4210 • New York, NY 10004 p | 212 398 9000 f | 212 382 4207
www.naic.org

© 2024 National Association of Insurance Commissioners

	transparency included in that document is exemplary. Overall, ACLI supports the concept of a holistic approach to regulating insurer investments and we continue to do so. As the committee works on items related to action items four and five, we appreciate the regulators already transparent process, and look forward to participating in the process further regarding the conceptual centralized investment support and an investment focused work group. When reviewing the changes to the framework document, our members generally thought the updates were thoughtful and appropriate. We appreciated the clarification that the purpose of the framework is for regulators to best achieve their duties to oversee the insurance industry they regulate. Additionally, we agree and understand that the broad goal of regulators is to ensure company solvency as a part of consumer protection. We also understand that other impacts of the regulatory requirements, such as impacts to the market, are secondary to consumer protection. To be clear, we positively viewed the framework as an indication that there are other impacts to consider if regulatory requirements change and the NAIC was to take a broader view than just solvency. We further appreciate the call out to coordination and believe that coordination and transparency will be key.
Regulators Response: Comments in support	
American Investment Council	As noted in our October 9, 2023 comment letter, AIC members believe the Investment Framework and E Committee's receptiveness to meeting with stakeholders on the Investment Framework represents a positive development in the NAIC's ongoing efforts to modernize the regulation and supervision of insurer investments. There is a clear need for a holistic, top-down approach to evaluating regulators' concerns with the existing regulatory framework and coordinating any resulting workstreams. Given the precedential value and knock-on effects, it is critical that any potential changes to the US regulatory framework for insurer investments be carefully considered and implemented through an open and deliberative process. Such initiatives should include processes to identify state insurance regulators' specific concerns and assess whether those concerns are valid. In this regard, we were happy to hear the NAIC's recent announcement that it will delay implementation of its collateralized loan obligation ("CLO") modeling initiative until year-end 2025 to allow time for the American Academy of Actuaries ("Academy") to complete its foundational work on a new RBC framework for all asset-backed securities (including the Academy's assessment of whether individual CLO modeling is necessary or appropriate). We are similarly hopeful that E Committee's work to develop a due diligence framework for credit rating providers ("CRP") and address the NAIC's concerns with respect to "blind reliance" on CRPs will include methodical discussions related to the specific concerns that state insurance regulators have with respect to the current regime and an evaluation of all potential paths forward.
Regulators Response: Comments in support	
Met Life	First, and as expressed in our oral remarks during the March 18 meeting, MetLife wishes to express our gratitude to the Committee for conducting this process with exemplary transparency. We are confident that such an approach can only lead to more robust outcomes for our industry. We also want to reiterate our full support for the Committee's resolve to continue with all its current initiatives without pause or delay. Risks continue to

	build in industry investment portfolios, and stakeholders in the media and fellow regulatory bodies have taken note. We are confident that your continued resolute action in this area will exemplify the NAIC's active leadership in insurance standard setting and address any stakeholder concerns.
Athene	We continue to strongly support the Framework's aims of modernizing investment risk oversight and creating a consistent approach in calculating C1 capital across a diverse set of asset classes and structures. Insurer solvency is paramount, and we believe that a principles-based, RBC framework that is built on consistency and data-driven analysis will promote insurer solvency, while also providing stability to insurers' investment activities and fostering a vibrant life insurance market that meets the needs of US consumers.
Regulators Response: Comments in support	

Section I-Proposed Framework to Modernize the SVO

#1-Reduce/Eliminate "Blind" Reliance on CRPs but Retain Overall Utilization of CRPs with Due Diligence Framework (utilize an external consultant/resource to design and implement)

Commentor	Comments
Anderson Insights	**Assessing CRPs** A question posed by the Committee is what "analytical or performance criteria" can be used to produce "meaningful and consistent" measures of the nine CRPs for the many sectors and types of assets for which they produce credit ratings. A secondary question is how ratings of various asset types map across the different CRPs. Given the hundreds of thousands of debt instruments that insurers invest in it would take a very large number of analyses of individual securities to come up with reliable and demonstrable patterns of acceptable -- or unacceptable -- performance of each CRP for every asset type. Case-by-case determinations could be attempted. CRPs could be evaluated by comparing the ratings of one CRP against those of another. This is difficult given the fact that ratings are costly so many issues do not carry multiple ratings. Even so there is then the task of determining which opinions of the future will turn out to be "right". Another way would be for the NAIC itself to derive its own opinion of the likelihood of the realization of promised payments in the future and compare that to the opinion of the CRP. This is certainly being considered by the Valuation of Securities Task Force for specific instances. Given the hundreds of thousands of individual securities owned by insurers it would be quite difficult to analyze enough securities in order to develop patterns and actionable conclusions. Even then, these would simply be "opinions that are inherently subjective." **The Analytical Way to Evaluate Performance** The examination of the actual track records of the CRPs is probably the best way to measure the accuracy of their ratings. It is much easier to develop robust evaluations by comparing past projections to actual experience than to compare one projection against another. It would be logical and most productive for the RFP being develop by the Committee, then, to focus on the ability of consultants to use performance data to determine which opinions for which CRPs for which sectors have been more or less reliable. **The SEC mandates the annual publication of detailed performance data for all of the rating agencies it regulates. This, and perhaps the NAIC's own extensive historic data, could be helpful. For even more revealing results, however, the consultant would need to have access and the technical ability to combine and mine multiple databases. This could even include data as detailed as the characteristics of many individual**

	securities. Such analyses would not only provide hard data concerning historic performance of each CRP by asset sector but it would also facilitate the mapping of ratings. If ratings can be categorized by security type then the performance of like security types can be compared from one CRP to others which would provide a reasonable basis for comparing ratings. Initially such a system could assess and map CRP ratings, but ideally the consultant would build a system that the NAIC itself could use to provide regular updates even though this may pose certain challenges. Other Tools for Evaluating CRPs -- And the SVO Itself Quantitative analyses may be the best and most efficient way to identify potential issues with CRPs but the NAIC and its consultants should also be aware of and utilize many of the other elements that the SEC has required for many years to allow the public to make its own determinations of the amount of reliance they decide to place on the rating agencies. These include: • Public disclosure of rating methodologies and procedures used to determine credit ratings • Preparation of rating rationales explaining how the methodologies were applied for each rating (with no distinction between public and private offerings) • Policies to prevent misuse of material non-public information • Code of ethics • Disclosure of and policies to address and manage conflicts of interest • Qualifications of credit analysts and credit analyst supervisors • Information regarding designated compliance officer • Limits on the authority of rating agencies to act in the capacity of NRSROs only for assets in the five asset classes for which they were specifically registered with the SEC • Published Administrative Proceeding Orders which provide details concerning specific compliance issues for the individual rating agencies and • The annual report of the SEC's Office of Credit Ratings which "…summarizes the findings from our annual examinations and also provides information about NRSROs, their credit ratings businesses, and the industry more broadly." These are based on examinations to determine whether NRSROs were complying with their published procedures. Even as the NAIC uses these tools and others "to eliminate blind reliance on CRPs" it can use similar tools to evaluate the most important credit rating provider of all -- the Securities Valuation Office. An essential function of regulators is to conduct independent examinations of insurers. Departments of insurance themselves are examined every five years by the NAIC so all accredited members can have confidence that others are meeting the high standards of the NAIC. Of course the SEC conducts its own detailed annual examinations of all NRSROs and the financial statements of all public companies are audited. In this context it would be extraordinary for the NAIC not to commission periodic independent examinations of the SVO to provide the substantiation for its reliance on this key resource. Disclosures that are similar to some of those provided by all of the CRPs recognized by the NAIC could be required by the SVO itself. The SVO presently prepares none of the disclosures listed above. The most revealing would be "performance measurement statistics consisting of transition and default rates for each class"1 prepared by all of the NRSROs. Instead the SVO releases a two or three page "Annual Report from the SVO on Year-End Carry-Over Filings." This may be useful to EX-1 for budgeting and planning purposes but it provides no indication or insights into the actual quality of the work done by the office; just its volume. **An independent review of carefully sampled credit files would also provide a basis for justifying the substantial reliance the NAIC and**

	departments of insurance place on the SVO. In addition to conducting an independent review of the SVO there is a need on an ongoing bases for greater clarity concerning how regulators themselves can assess the quality of the analytical work of the SVO. As a part of the current review consideration should be given to explicitly charging an entity composed of regulators with oversight responsibilities. Of course the SVO staff has its own technical abilities and is a trusted advisor to regulators serving within the NAIC but it should be clear that in all instances it is the regulators themselves, considering this advice, who have the ultimate decision-making authority in all instances. In other words there should be no ambiguity as to whether staff is required to follow the directions of regulators. **To put this into effect the group responsible for SVO performance would need to have procedures in place to fulfil its responsibilities, perhaps relying to some degree on the types of reports recommended above. An outside consultant could assist in developing appropriate continuing procedures.** The group would also need to have clear authority over SVO management in analytic, but not necessarily administrative, matters. This would mean that a presumably small group of regulators would have visibility and input into the formal performance assessments of at least the top two levels of SVO management. Presently the VOS/TF sets forth requirements of the SVO in the Purposes and Procedures Manual but it has no explicit power to motivate or assess actual performance of the leadership of the SVO. This could be addressed effectively as a part of the current review process and would enhance effectiveness. **"Different Standards for Public Versus Private Ratings"** It seems to be widely assumed within the NAIC that private placements deserve special attention. It is said that they lack "the market validation and transparency of public ratings" and that insurers may "rating shop." In the interest of "making the most effective use of regulatory resources," both of these assumptions deserve examination either prior to or during a consulting engagement. Any consultant or advisor to the NAIC on this matter should have real world experience and actual market knowledge. The assumption that publics have greater "market validation" and "transparency" is suspect. The fact is that public bond offerings may have advance "road shows" to acquaint investors with an issuer in general terms and there are some "investor days" and earnings calls. Even so, the information available to the general market pales in comparison to what is available to the offerees of private placements. For publics it is not unusual to have extremely limited time to review actual offering documents before being expected to enter orders. Investors entering large orders quickly after announcements are favored in their allocations so often they must act very rapidly in order to receive preferential allocations of the bonds they seek. The contrast with privates is stark. Investors have access to a depth of information inaccessible in public transactions. They, their attorneys and credit experts review offering terms and documents in detail. They can and do demand access, detail and concessions to meet their needs. All of this is overseen by senior management and credit committees. Of course it is true that "the market" sees publics, but that is superficial compared to what is the actual practice for privates and there is no "take it or leave it" for privates either. **As to the contention that insurers "ratings shop" for privates it is important to note that the decision to retain one rating agency or another is a matter for the issuer**, working with the dealer for privates exactly as it is for publics. The SEC has identical requirements for the two types of issues and in any event the selection of a rating agency by the issuer

	is done for many reasons. Obviously the rating agency must have appropriate methodologies and a staff trained in the asset type. A rating agency may be sidelined because it has a backlog that would delay the rating or its prices may be uncompetitive for various reasons. An often-overlooked fact is that rating agencies add another set of eyes in the investment process. Their observations during the rating process can be invaluable even for insurers that have their own large and experienced investment staffs. The market perception that one rating offers more expertise and valuable insights is another reason a rating agency might be preferred. In short, the idea that there is "rating shopping" rather than "shopping for rating agencies" is no different for publics and privates. It is important to remember that the central objective of this draft framework is to determine what ratings can and cannot be relied upon. Ratings that are not up to standard or are unreliable should be weeded out for publics and privates alike as the work of the Committee reaches fruition. There is also substantial evidence that there are significant performance differences between publics and privates. It has been well established that privates actually perform better, not worse, than publics and have for a very long time. This is substantiated by work of the Society of Actuaries and academic researchers. These facts, too, should be considered when allocating scarce resources so as not to allocate a disproportionate amount of effort where it is not warranted. Another concern may be that within assets structured as bonds there could be provisions that regulators believe may not actually require issuers to make payments ("risk of non-payment for reasons other than credit"). Addressing this concern was the specific objective of SAPWG's bond project. On 1/1/2025 insurers themselves will be explicitly responsible for properly classifying assets that do not conform to the SSAPs. Consider how much easier this will be for insurers to make these important decisions when they have had in-depth access to the exact terms and provisions of a private placement. They will be much better informed and positioned to fulfill their obligations. Private placements are already being subjected to special scrutiny. Each year insurers are required to submit detailed and lengthy rating agency "rating rationales" for many thousands of privates for review by the SVO. Given that the SVO only provides Designations for less than 4,000 new filings a year3 it is reasonable to ask if adding many thousands more is an effective use of resources. Justification for all of this might become clear if the SVO can demonstrate that its analysis of all of this material has produced actionable results. If not, then sampling or elimination of this requirement should be considered. This is especially true in light of the fact that NRSROs are accountable for producing all of their rationales to exactly the same standards for both publics and privates. In summary, the reasons given that privates may deserve special attention may not survive scrutiny by those familiar with actual market practices. Careful consideration should be given to what degree of resources should be devoted to private placements.
Regulators Response: First major comment; the RFP will consider utilizing processes and data as already exist (e.g. the SEC) as well as how to better utilize data held by the NAIC itself via normal course filings. The potential to use data mining procedures should be a consideration as well and will be incorporated into the RFP. Second major comment; the NAIC Financial Condition (E) Committee will discuss and determine whether it wants to recommend to the Executive (EX) Committee that the NAIC commit to an annual examination, and possible public publication, from an independent party on SVO experience on its own designations. The RFP will	

<table>
<tr><td colspan="2">incorporate this component as well, seeking recommendations on how to best implement this oversight process of the SVO.

Third major comment; the comment suggests that a Due Diligence Framework should consider the issuer of the bond, not the investor, who selects the rating agency. Regulators recognize this structure; however, there are an increasing number of insurers who structure and purchase investments through affiliates in a coordinated process.

Fourth major comment; regulators agree regarding the qualifications of the desired consultant</td></tr>
<tr><td>Lease-Backed Securities WG</td><td>The Committee suggests that “the process may want to consider different standards for public versus private ratings, given the market validation and transparency of public ratings…..”

However, some of the most thorough studies on the credit performance of private-placement securities in insurance company portfolios are those conducted over a 29-year period by the American Society of Actuaries [see Appendix I]. These studies show that insurance company private placement securities have consistently had better credit performance than the broad public markets by a significant margin -- both in terms of rates of default (or the broader category used in the study of “Credit Risk Event”-- see Appendix) and loss-given-default.

Lastly, in response to the comment in the memorandum regarding “ratings-shopping” by investors (e.g. obtaining the highest public or private rating by selecting the weakest methodology), it is worth pointing out to regulators that it is the issuer of the bond, not the investor, who selects the rating agency or agencies for the issue. Many factors may influence that decision by the issuer: pricing is certainly one factor, but so is timing, relative expertise with the product type, appropriate methodology, etc., etc. But perhaps the most important factor, for both public and private issues, is the credibility or ‘market acceptance’ of the ratings provider. This credibility is essential to ensure that the issuer can successfully place the bonds. And as we indicated above, it is really y in the public markets, not the private markets, that investors are forced to “buy” a rating.

Finally, it goes without saying that the firm engaged through the RFP process should be somebody not only familiar with the NAIC organizational structure and current principles and practices, but also with a broad exposure to, and knowledge of, capital markets: Assessing the impact of any changes made to current practices on insurers’ ability to successfully access capital markets - - both in terms of availability and pricing of investments -- will be a key part of any recommendations coming out of this study.</td></tr>
<tr><td colspan="2">Regulators Response: The observation that private ratings may need to have special considerations is related to the lack of transparency of those ratings to the broader market, as well as the common approach of a single rating. Regulators do not assert a performance difference between private and public investments, but rather recognize we may not be able to rely on customary mechanisms such as comparability and market validation in any assessment of performance.

Second major comment; the comment suggests that a Due Diligence Framework should consider the issuer of the bond, not the investor, who selects the rating agency. Regulators recognize this structure; however, there are an increasing number of insurers who structure and purchase investments through affiliates in a coordinated process. Third comment; regulators agree regarding the qualifications of the desired consultant.</td></tr>
</table>

Bridgeway Analytics	**Addressing regulators' concerns over the "blind" reliance on agency ratings** Between the ongoing Valuation of Securities (E) Task Force workstream to design a process that would extend NAIC staff discretion over agency ranting-based Designations and the posted petition for the development of a request for proposal (RFP) to engage a consultant who would help the NAIC develop a due diligence program over the ongoing use of agency ratings (Attachment Eleven), regulators have made clear their determination to address concerns with "blind" reliance on agency ratings. Related to both initiatives, we encourage regulators to consider cost-effective and transparent mechanisms that are attainable relatively easily and quickly, recognizing that, while helpful, they are not a substitute for more comprehensive mechanisms that might involve longer-term efforts. Our reports, Overseeing Designations and the Prudent Use of Agency Ratings and Investment Risk Oversight, articulate a spectrum of mechanisms with varying costs and timelines. Independence, which the Framework references, and precision must be balanced. On one end of the spectrum, systems and models can be developed at the standards set by rating agencies, which is not in the spirit of the Framework's intent, given the costs. On the other end, regulators can place the onus on insurers to defend their use of agency ratings in business applications beyond regulatory compliance, demonstrating their genuine belief that the risk assessment is prudent and accurate, and avoiding flagrant misuse of ratings. This mechanism very much aligns with Principle (6) of the Workplan: *The ultimate responsibility for prudent investment oversight is with the insurers themselves, notwithstanding any of the work done to bolster regulatory resources and oversight over-reliance on credit rating providers (CRPs). This responsibility should not be "outsourced" to CRPs or the regulators.* By requiring insurers to use agency ratings in business applications beyond regulatory compliance and otherwise disclose differences between credit risk measures used in their internal processes and Designations used for regulatory purposes, regulators will be provided transparency on the degree to which Designations are credible.1 Confidentiality considerations might require the data to be reported publicly on an aggregated basis but available to regulators individually. As stated above, while not a substitute for more comprehensive governance mechanisms, disclosure requirements can be implemented relatively quickly since they do not rely on the NAIC to develop new methodologies or onboard new tools or personnel.
Regulators Response: Constructive comments are always encouraged and helpful; these suggestions will be considered in the framing of the RFP and future actions taken by the regulators.	
Structured Finance Association	The SFA's membership represents most, if not all, sectors of the securitization industry that will be impacted by the final RFP. Importantly, any advocacy efforts undertaken by SFA must be based on the consensus of its broad membership. As such, any feedback provided by SFA regarding the RFP will represent a thoughtful compromise position of our industry membership. SFA believes that early engagement in the RFP drafting process between the NAIC and industry would be helpful. The opportunity to receive feedback from our CRP members, which each have unique approaches to the ratings process and bespoke methodologies, would seem especially useful. A collaborative approach should result in a more comprehensive RFP that ultimately generates a more meaningful analysis.

© 2024 National Association of Insurance Commissioners

	A. By design, CRPs are large organizations with diverse operations and extensive global relationships. If a consulting firm carries ratings from certain CRPs, or is a subsidiary of a firm that is rated by one or more CRPs, how will the SVO view this in terms of independence. B. Many consulting firms have a global presence, with their mandates cutting across industries. Will consulting firms be required to disclose all direct or indirect mandates at CRPs? If CRP mandates do exist, will information walls within a consulting firm be considered a mitigating factor? C. Will the criteria for determining independence also consider whether a consultant is on a rotational basis for certain mandates at a CRP, such as financial auditing? D. Will individuals at the independent consultant or the NAIC with prior CRP experience be viewed as potentially conflicted or will that be looked upon favorably? E. Which working group or task force within the NAIC will ensure the true independence of the consultant? Will the independent consultant have to attest to their independence prior to receiving a mandate? If the due diligence process will be continuous, will the independent consultant also periodically be evaluated for independence? F. Regardless of the criteria chosen to determine independence, will they be shared with the industry for comment before being made final? Equally as important as establishing independence will be confirming that a consultant has the technical prowess and relevant experience to prepare a due diligence framework for evaluating CRPs. For both criteria, members have questioned which specific benchmarks the SVO will reference to determine whether a consultant is qualified. Given the evolving nature of the structured finance market, our members have inquired if the RFP will require the due diligence framework to have an "initial" phase as well as an "ongoing" phase, the latter being used for a) newly emerging asset classes and b) ongoing reviews of CRP performance. Members have also inquired if the RFP/due diligence framework will make available an appeal process for CRPs that are not deemed to be acceptable for either phase. In designing the due diligence framework, given the acknowledgement by the NAIC that there are potential differences in transparency between public and private ratings, does the NAIC anticipate SFA Response to "Response to Written Comments on Holistic Framework on Insurers Investments" April 5, 2024 Page 4 creating separate processes and standards for evaluating CRPs as it relates to private versus public ratings? Members have also inquired about how the results of the due diligence process will be applied. Does the SVO anticipate mandating the independent consultant to perform a firmwide assessment of each CRP where, after assessment, the ratings from that CRP will or will not be eligible regardless of sector? Or will the due diligence process be performed on an asset-class, sector, or other specified basis, where certain ratings from a specific CRP may be eligible while other ratings from the same CRP may not? If some or all of a CRP's ratings are deemed ineligible, how often will that decision be reevaluated? Members have inquired as to the amount of time the independent consultant will have to respond to the RFP and, once returned, how the work product will be validated and which working group or task force of the NAIC will conduct the review. The current language references the "[Drafting] Committee to consider". Given the decision will impact regulators in all states, will the Drafting Committee elicit input from state regulators as well as other resources (internal or external)? Members have asked for clarification as to

	the expected frequency of CRP reviews to be conducted by the independent consultant. Some questions include: a. Will the due diligence be conducted periodically to capture changes in CRP performance? b. Would the independent consultant develop a framework for periodic monitoring and the objective measures on which it will be based? c. Will such a framework consider new asset classes or material changes in methodologies that may render past performance moot? Regardless, will such work be conducted by independent consultants once the recommendation is implemented, or would that fall on NAIC staff? iv. The third bullet point of Action Item #2 states: "The Committee would expose this communication for industry comment, including encouraging CRPs to comment."

Regulators Response: First major comment supportive of developing an RFP publicly with opportunity to comment, which is what was communicated up to and at the 2024 Spring National Meeting. With respect to each of the comments the following is noted:

A. To be clear, the intent of the RFP is to select a consultant that will assist the NAIC in designing a due diligence framework. The NAIC will develop the RFP through a public process, therefore requesting input from credit rating agencies, members of the industry and other impacted parties. While it's possible the consultant could be a public firm that is rated by one of the agencies, , selection of the consultant will consider this and any mitigating circumstances in the selection process.
B. Consultants will be asked to disclose conflicts of interest and selection of the consultant will consider this and any mitigating circumstances in the selection process. The existence of mandates/relationships will not automatically preclude a consultant from being selected.
C. It's not clear to us how a consultant that is asked to develop a framework that performs financial auditing will represent a conflict, however, the existence of mandates/relationships will not automatically preclude a consultant from being selected
D. Its not clear to us how an independent consultant that is asked to develop a framework with prior CRP experience will represent a conflict, however, the existence of mandates/relationships will not automatically preclude a consultant from being selected
E. Selection of an NAIC consultant will be made by the Executive Committee after receiving a recommendation from NAIC corporate, which includes NAIC employees and a limited number of state insurance regulators from Committee leadership. The recommendation will be made based upon perceived independence given the work of developing a framework and how that may conflict with the duties assigned to the consultant.
F. Criteria will not be shared with the industry unless it's part of the RFP finalized publicly.

Second major comment; note that with respect to initial and ongoing work, the NAIC only anticipates this consultant being utilized to draft an initial Due Diligence process; the regulators themselves will implement the process designed by the consultant.

Third major comment; to reiterate, the RFP will be developed publicly. In addition, at this point the regulators have not determined if the Due Diligence process should be different for public vs private ratings, and while it's possible that it could be different for different asset classes, that is not anticipated at this time. No decisions have been made regarding if some or all of the CRPs ratings are deemed ineligible, however a result such as that would be expected to occur as a result of decisions by the Valuation of Securities Task Force and E Committee based on the implementation of the process, and not the development of the Due Diligence process.

© 2024 National Association of Insurance Commissioners

Fourth major comment; as previously noted by the Committee, the RFP will initially be drafted by regulators and the proposal will then proceed through a public process with an opportunity to comment and potential modifications made to the proposed RFP. To clarify, this is to develop a Due Diligence process, which will not involve implementation of the process. **Other comments** a. This has yet to be determined and is dependent upon the Due Diligence process drafted. b. This has yet to be determined and is dependent upon the Due Diligence process drafted. c. This has yet to be determined and is dependent upon the Due Diligence process drafted.

#2-Retain Ability within the SVO to Perform Individualized Credit Assessments and Regulatory Discretion When Needed under Well Documented Parameters (ideally rarely used)

Commentor	Comments
No comments received	

#3-Enhance SVOs Portfolio Risk Analytics Capabilities through tools and personnel which would be company specific and industry wide. Increase staffing to include analysts with investment actuarial and risk management backgrounds.

Commentor	Comments
Bridgeway Analytics	**The buildout of a CIE function** As explained by regulators, the recommendation would invest in risk analytics tools and corresponding personnel, which could perform company-specific, industry-wide, and macroprudential analysis and build a broader and holistic policy advisory function. We view the capabilities of forming independent opinions on risk and policy as critical to the holistic goals of the Framework. The function should consider resources that have a deep understanding of the interconnected elements of statutory accounting and RBC that are often challenged by the nature of needed subject expertise, which is often siloed. Action Item #4 under the Workplan, which addresses this recommendation, lists examples of initial related discussion points. We are encouraged by the initiative and suggest this Action Item also consider lessons learned from how other rulemaking bodies structured their supervisory and policy/regulatory processes, including expensive regulatory initiatives, such as CCAR and Solvency II, that can provide important guidance on governance and the effectiveness of various mechanisms.
Regulators Response: These comments are in support, and include constructive feedback regulators can consider.	
RRC	We believe that while credit risk that is represented in Bond portfolios is material, the regulatory needs there are incremental. Our greater concern lies in credit risk that exists in other parts of the insurance industry's invested assets, and in other aspects of investment risk. We have, at different times, highlighted two specific examples where we see exposure to credit risk outside of Bond holdings. The insurance industry's exposure to Mortgage Loans that are reported on Schedule B has grown significantly in recent years. Most of that growth has been within Life insurance companies, but there has also been material increases in exposure among other insurer types. The type and tenor of Mortgage Loans have also changed. At many

	insurance companies this has expanded to increasing amounts of direct exposure to Residential Mortgage Loans and to Construction Loans. Growth in Commercial Mortgage Loans, which consists primarily of non-amortizing bullet loans, is creating Memo 2 additional risk due to changes in markets in recent years in the Office and Retail sectors. Investments in Collateral Loans that are reported on Schedule BA have increased materially in the industry and represent a significant percentage of assets at some insurance companies. Collateral Loans are treated as fixed income instruments with a fixed income-like Risk-Based Capital factor. But the underlying assets supporting those Collateral Loans and the strategies behind them are varied. Beyond the issue of exposure to credit risk, we are concerned about significant increases in exposure to market volatility and liquidity risk. What tools and support are available to regulators to understand and assess these risks within insurance companies? Whether it is in Bonds reported on Schedule D or in other parts of the investment portfolio, the investment portfolios are more vulnerable to changes in markets and are less liquid than they were a few years ago. The significant increase in interest rates in 2022 that continues today had a substantial negative impact on the fair value of the portfolios. With the relative calm in the markets from 2008 to 2020 that prevailed along with low interest rates, it is possible that insurance company risk management systems are not sufficient to cover this increased level of market volatility. Liquidity policies and liquidity stress testing regimes may not fully take into account fair values that in many cases are significantly below carrying value. Market volatility and liquidity risk are potentially impacted by asset concentrations in illiquid, more complex and less transparent asset classes. The Investment Framework Workplan includes six Action Items as next steps. Based on our comments in this letter, there are two Action Items that we strongly endorse and encourage expedited consideration. Action Item #5 proposes the formation of a new regulatory working group that would also support the Financial Analysis Working Group, the Valuation Analysis Working Group and other working groups. Incorporating the views of regulators that have a firsthand view into actual changes in insurance company portfolios and investment practices, and concerns on how this could impact the ability of those companies to meet policyholder claims would be extremely valuable in the discussion and in the development of regulatory priorities. We encourage the E Committee to move on this Action Item quickly. Action Item #4 proposes the formation of centralized investment expertise with a focus on expertise that may not currently be sufficient within the NAIC. Risk-Focused Analysis and Risk-Focused Examinations encourage regulators to recognize where the risk is and where it is going, not just where it has been. It is important to not just review where past problems or issues were, but to look at prospective risks, i.e., where the next problem or issue may be. We understand that this requires discussion and the engagement of specialized resources that may not currently be available and therefore will take time to develop. We recommend that this effort begin quickly. This should include an agreed upon timeline so that regulators and other stakeholders have a clear view of the goals and progress toward those goals.
Regulators Response: Members agree that the risk analysis capabilities contemplated in the Framework should be broader than just bonds and credit risk. With respect to the Workplan, Members agree that action item #5 is important, but does not plan on forming such a group until the members have greater availability to take on this work (e.g. after this workplan is finalized). Members also agree with respect to action item #4 and the need for that to be forward looking, however, the NAIC will need to hire additional staff to take this on which could take	

some time to put into place considering the NAIC budgeting process and hiring process. The suggestion of a timeline and roadmap is a helpful suggestion in moving forward.

#4-Enhance Structured Asset Modeling Capabilities in line with #3 and in support of CRP due diligence function (inclusive of model governance and validation of key parameters).

Commentor	Comments
Athene	The Framework envisions continued utilization of CRPs, together with the development of a strong SVO due diligence function. A strong SVO due diligence function will complement the role of CRPs, by focusing on broader risk analysis and not replicating their capabilities. We believe the SVO's CLO modeling tool is best suited for due diligence, benchmarking, and advisory functions. This avoids inefficiency, leverages market mechanisms, and allows assessing the tool's effectiveness before potentially impacting capital parity by replacing CRPs for CLO designation purposes. We understand the question of the appropriate uses for the SVO's CLO modeling methodology will be addressed at the technical work stream level as the methodology is further developed, and we will continue to provide our input into those discussions.
Regulators Response: Comments supported the Framework proposal to develop a due diligence framework over the use of CRPs. Technical comments regarding the CLO modeling project should be referred to the VOSTF. We appreciate your willingness to do so as noted in your letter.	

#5-Build Out a Broad Policy Advisory Function that can recommend future policy changes. If needed, hire key external consultants to be on retainer. This would be akin to the use of the AAA of similar for RBC and reserving.

Commentor	Comments
No comments received	

#6-Establish a Broad Investment Working Group under E Committee that acts in an advisory capacity to various investment items (similar to FAWG/VAWG) including 1) review of bond reporting under new principles-based bond definition 2) challenges to individual designations provided by CRPs; 3) review of work provided by external consultants.

Commentor	Comments
No comments received	

#7-Rename the SVO and VOSTF to better reflect the groups beyond securities valuation (Establish a Broad Investment Working Group under E Committee. Empower SVO to utilize tools and analysis to raise issues to other groups. Reduce the size of VOSTF.

Commentor	Comments
No comments received	

Section II-Risk-Based Capital for Investments

1-Changes in RBC factors should consider market impacts and consistency across asset classes. Should be a goal of "Equal Capital for Equal Risk." Care should be taken to consider the impacts of developing RBC factors for CLOs for an asset class while similar asset classes remain the same. Factors to consider may include impacts on asset allocation and financial markets, in balance with the level of urgency of regulatory action.

Commentor	Comments
American Investment Council	Notwithstanding these encouraging developments, we are concerned by – and opposed to – the introduction of the concept of "equal capital for equal tail risk" that was included in the latest iteration of the Investment Framework. While the specific intent of this change is not clear, the potential narrowing of the concept of capital parity is not appropriate. Instead, the language should be revised to reflect that the Investment Framework recognizes that tail risk is an important element of the broader, more appropriate, concept of "equal capital for equal risk," for example that the concept "includes, but is not limited to, tail risk."
Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as **equal capital for equal risk which includes consideration of tail risk.**	
ACLI	Clarifying the intent for including "tail" risk under the principle of "equal capital for equal risk". ACLI supports the C-1 bond factors and the appropriate emphasis on tail risk as is captured all throughout the NAIC's capital framework, measured in risk-based capital (RBC). However, the conversation around the holistic framework would suggest E Committee's approach is broader than just a focus on RBC. As a result, clarity on the inclusion of the "tail" concept in the framework would better inform industry understanding and further comments on this point. Is the goal of this framework to be focused only on capital charges for asset-risk (C-1) or is it meant to be true holistic view including both capital and reserves together when using "equal capital for equal risk" in the framework? For example, ACLI supports the C-1 bond factors and the appropriate emphasis on tail risk as is captured all throughout the NAIC's capital framework measured in risk-based capital. However, it was not clear to us whether the committee was looking at this framework as only addressing capital, or if it was looking at overall solvency that would also include reserves. The change to include "tail" might suggest the former, but clarity on this point will provide a better understanding of the goal of this approach.
Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as **equal capital for equal risk which includes consideration of tail risk.** With respect to equal capital for equal risk, since this refers to capital, we believed it was self-evident that this does not refer to reserving, for which actuaries use various methods of reserving to assure adequacy of reserves. This is not to suggest that other initiatives of the NAIC to address investment related matters are not appropriate, rather that they are not intended to specifically address the Framework, which is guiding in terms of future potential changes, but is not based upon principles that might be more guiding in terms of future aims for investments by insurers and that may impact reserving.	

Met Life	Finally, we want to express our support for the Framework's focus on tail risk as the key equalizer of capital. As the American Academy of Actuaries has noted, the loss behavior of subordinated structured securities in tail scenarios is significantly more adverse than the behavior of corporate credit of the same rating in those scenarios. Subordinated structured securities are behind much of the increase in industry portfolio risks seen in the last few years. Determining the appropriate capital that insurers should hold against these investments by focusing on their tail risks through modeling, when practical, will greatly enhance the current RBC approach and will help the NAIC achieve its stated goal of reducing blind reliance on ratings.
Regulators Response: Comments are in support.	
Athene	As stated in our October 9 letter on the draft Framework, Athene supports the concept of capital parity, or 'Equal Capital for Equal Risk', and the Framework's goal of achieving such capital parity. The revised Framework now refers to 'Equal Capital for Equal Tail Risk' throughout the document, but the E Committee Memo to Interested Parties explains that the "Drafting Group Members are supportive of the view of equal capital for equal risk which includes consideration of tail risk." We agree that tail risk is a critical consideration for RBC but believe the E Committee Framework's original language provided a more appropriate characterization than the draft revised Framework, which could inadvertently narrow the meaning of Equal Capital for Equal Risk. Additionally, at this point there are varying views on the precise definition and scope of 'tail risk' as an NAIC approved terminology within the RBC environment. We believe that the Equal Capital for Equal Risk concept should be explored both in the context of asset capital charges, as well as in broader tail risks captured by RBC, such as reserving for difficult-to-value liabilities (e.g., long-term care) and soft capital benefits achieved through covariance from riskier blocks of business. In our view, it is premature to limit regulatory assessment to only those risks that might be considered 'tail risk', which has not been fully defined. By way of example, RBC C1 bond factors are calibrated to a 96th percentile risk of loss over 10 years using default rate data from 1983-2020 and recovery data from 1987−2019; however, this is not the case for all asset classes. For example, the common stock C1 factor is measured as the 94th percentile worst 2-year loss on the S&P 500 using data between 1960 and 1991, and the commercial mortgage factor is the tail expected loss at the 92nd percentile of modeled loss projected using 10-year periods that begin in each calendar quarter from 1980–2000, and with default algorithms that are based on commercial mortgage loan experience tracked from the 1970s through 2010. One would presume that all of these models are assessing 'tail risk', though we are unaware of an NAIC workstream that has attempted to delineate how each of these meets a common definition of tail risk across asset classes. As noted in the E Committee Memo, "Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets", and that "comments on tail risk should be directed to the appropriate technical work streams" (emphasis added). Given the foregoing, we recommend the Framework be revised to clarify that the goal remains "Equal Capital for Equal Risk," and that this concept "includes consideration of tail risk" when the term is first referenced. This will allow the NAIC processes to advance to a place where RBC risk tolerances can be better analyzed, including for consistency, and the definition and scope of tail risk can be better defined.
Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as **equal capital for equal risk which includes consideration of tail risk.**	

Regulators have not suggested the current RBC framework is inadequate when it comes to matching the principle and does not believe the same methodology is required to be used for the development of all factors, as the degree of data and other circumstances and materiality of the asset class may dictate other methods are satisfactory.	
Structured Finance Association	II. Revision of "Equal Capital for Equal Risk" to "Equal Capital for Equal Tail Risk" With the release of the Memo, the NAIC noted the change in the language regarding future revisions to RBC Risk Factors from "Equal Capital for Equal Risk" to "Equal Capital for Equal Tail Risk". While the NAIC has stated that this change was not meant to be material, and the two terms are used interchangeably within the NAIC, differing opinions exist within our membership as to which term is more appropriate. Some members believe that "Equal Capital for Equal Tail Risk" is consistent with the RBC framework where capital factors should be calculated by evaluating the tail risks specific to the assets in question. Other members have proposed restoring "Equal Capital for Equal Risk" as the operative term, but for its first instance adding an appended clause as follows: "Equal Capital for Equal Risk, noting that the full distribution of risk that includes tail risk should be considered." SFA requests that the definition and its intended use be clarified
Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as **equal capital for equal risk which includes consideration of tail risk.**	

2-The RBC-IRE WG should consider and address areas where inconsistencies in treatment across asset classes incentivize a particular legal form. A key example is private credit funds, where underlying assets are fixed income, but regulatory barriers assign an equity factor.

American Investment Council	We will be submitting a separate comment letter to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBCIRE") regarding the Oliver Wyman study exposure on the performance of asset backed security residual tranche investments and the associated potential increase in capital charge on such assets from 30% to 45%. Having carefully reviewed the Oliver Wyman study, we feel strongly that the study does not support a 45% capital charge on such residual tranches and remain committed to supporting a data driven capital charge that appropriately reflects the risk of these assets. We are also concerned with public statements by state insurance regulators indicating that the imposition of a 45% capital charge on residual tranches is viewed as a template by regulators to justify punitive capital charges for other high-performing assets that are well understood by the capital markets but relatively newer to insurance company balance sheets. This concept is referenced in the Investment Framework Recommendation 9, but we are concerned with the precedential impact of these statements as they seem to suggest that any future interim charge imposed using the residual template would not be supported by data
Regulators Response: Regulators continue to support the idea for a process that would provide new asset classes a temporary factor when materiality, timing and historical data may preclude specific or immediate analysis to immediately develop a capital charge that is more long-term. The process would initially assign different factors for different broad categories of risk. This is in contrast to the current process where the form of the investment directs the reporting which drives the RBC factor. Regulators would also like to clarify that RBC charges are not punitive.	

WORKPLAN

Action Item 1-

ACLI	The workplan document opens with a set of core principles. These principles help us fully understand the E Committee's direction and seem thoughtful and appropriate. We agree that prudent investments need to be managed by the insurers. However, a crucial aspect of this function is understanding the perspective of regulators, which helps shape the insurer's management of its assets. For this reason, transparency with the industry and regulators across all levels will be critical to success. Further, we believe it is necessary to consider not only the 3 agendas of existing workstreams but also any new work that may emerge during the development of the holistic approach. Accordingly, we agree and support Action Item One – updating the framework as needed.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 2-

ACLI	As noted in our previous comments, we continue to support hiring a consultant to provide recommendations for a due diligence framework for credit rating providers (CRPs) -- Action Item Two. We applaud the committee for its work and receiving approval for hiring a consultant and for its focus on transparency during the RFP process. ACLI looks forward to engaging with the committee and the Valuations of Securities Task Force on this work.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 3-

ACLI	Action Item Three of the workplan notes again that there will be no pause in existing work and the Committee will continue to defer to the subgroups. We also will comment on Action Item Six, the development and implementation of best practices for enhanced coordination between the Committee's workstreams. We understand that the framework is meant to be a longer-term flexible document, coupled with the core principles. It makes sense to continue the current work, as discussed previously. Continuing the existing work will require clear coordination between E Committee and the workgroups. For example, the framework notes that LATF might have some work that would be considered a part of the framework. To our knowledge, there has been no further mention of the framework in the Task Force's existing work or any potential new work being considered. We think that much of the work LATF is currently conducting should be considered a part of the framework and would suggest it be included in the coordination and transparency umbrella that the holistic approach requires.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 4-

ACLI	Action Items Four and Five include an assessment of conceptual centralized investment expertise and appointing an investment focused working group to support the

	committee and its groups/task forces. We generally support conducting the assessment and the addition of an investment-focused workgroup.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 5-

ACLI	Action Items Four and Five include an assessment of conceptual centralized investment expertise and appointing an investment focused working group to support the committee and its groups/task forces. We generally support conducting the assessment and the addition of an investment-focused workgroup.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 6-

ACLI	Coordination with investment-related initiatives of the Life Actuarial Task Force (LATF) and other related work. The framework includes references to work being done at LATF as an example, but we are not aware of any additional conversations about what work LATF is doing that would be overseen by this holistic process. Additionally, it is possible – if not likely— there would be new work that is not yet contemplated or not yet begun, that should be included in the holistic approach as well. Clarity on how LATF and other related work will be included in the framework would be helpful. We think that much of the work LATF is currently conducting should be considered a part of the framework and would suggest it be included in the coordination and transparency umbrella that the holistic approach requires. Development of a new document to help identify and strengthen coordination of work being included under the framework. Similar to the 13 macroprudential considerations, such a document would complement the framework and the workplan and help track all the work that is being overseen by the framework. We believe new work should also be included so that all the work, both current and new, being overseen would be tracked and updated. We also suggest that a more defined process for continued coordination and transparency is necessary to foster all parties being on the same page. We are cognizant of not wanting to add layers of bureaucracy or delay to an already public process. As noted above, our recommendation is to create a document to track current work and new work that is included in the scope of the holistic framework. We would suggest the document include 1) the name of the group, 2) the overarching goal of the work, and 3) whether the work would impact any other solvency related item. To be clear, we are not recommending a change to the framework or the workplan but rather the addition of a new document that would continue to be tracked and updated as work proceeds. Such a document seems like a good best practice that could be utilized to support better coordination and will give more visibility into the collective impact of all the work being done in this space. ACLI was present for the recent E Committee meeting in Phoenix and heard comments from the workgroups and task forces chairs. We think that was a good step forward in hearing from those groups. We are wondering if interested parties can comment during that process or if there is a way to introduce some interested party comments into this process? If there is an alternative option for incorporating interested party feedback into this process, we would be happy to engage in further conversation.

Regulators Response: The Drafting Group will develop a matrix of work originated by the Committee directly related to the implementation of the Investment Framework, or originated by subordinate groups of the Committee that help to implement the Investment Framework. Such a matrix will NOT include individual technical matters at Task Force's and Working Groups (e.g. unrelated changes to the SVO Manual, Blanks and Instructions, RBC changes, etc) not directly related to the Framework. Such a list would also include initiatives at the Life Actuarial Task Force directly related to the implementation of the Investment Framework. As such, this matrix will NOT list whether the work would impact any other solvency related item, but rather only other matters included in the matrix directly related to the Framework, otherwise the Matrix would include all activities within the Committee, which would be far too cumbersome for its requested objective. With respect to coordination, and the reporting by chairs to the Committee at the Spring National Meeting, this is specifically designed to provide the Committee with an update on work related to the Investment Framework, and like other reports, the Committee chair asks for comments from members and interested regulators and interested parties and would suggest comments be made after such reports to the extent they are specific to the role of the committee in coordination, but if they are related to the technical matters being consider by those groups, those comments should be directed to those groups.	

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

INVESTMENT FRAMEWORK
RECOMMENDED WORK PLAN FOR THE FINANCIAL CONDITION (E) COMMITTEE

~~During the 2023 Summer National Meeting, the Financial Condition (E) Committee exposed a draft of its proposed *Framework for Regulation of Insurer Investments – A Holistic Review* (Investment Framework or Framework). On Oct. 25, 2023, the Committee received 17 comment letters on the exposed Framework and, during the 2023 Fall National Meeting, received oral summaries of the written comments. Subsequent to that meeting,~~ In early 2024, the Committee formed a drafting group, which, among other things, developed this work plan to guide the implementation of the Investment Framework.

NOTE: This work plan is intended to be a working document. Additional action plans may be added, and current action plans may evolve as more information becomes available. The drafting group will provide updates to the Committee, including the work plan, on a regular basis.

Core Principles

(1) The goal of the Framework is to set a long-term, strategic direction for investment regulation and ensure current and future initiatives are thoughtfully coordinated and supportive of this holistic direction. It does not have an objective of reaching technical conclusions on ongoing initiatives.
(2) The primary objective of the Framework and all supporting initiatives is to ensure state insurance regulators have appropriate tools to ensure the solvency of insurers. While other impacts will be assessed in the design and implementation of current and future initiatives, they will be secondary to ensuring insurer solvency.
(3) Ongoing work will continue without delay or pause. Current workstreams are directionally consistent with the Framework and produce iterative feedback to inform future progress toward its objectives. As is always the case, workstreams and the Framework are subject to future refinement based on this iterative process of incorporating new information.
(4) Initiatives are, and will continue to be, regulator-driven. Any enhancements to centralized resources are for the benefit of regulators, and regulators will retain the authority over how to use such resources.
(5) This work plan commits to being fully transparent, with multiple checkpoints for deliberation with interested parties.
(6) The ultimate responsibility for prudent investment oversight is with the insurers themselves, notwithstanding any of the work done to bolster regulatory resources and oversight over-reliance on credit rating providers (CRPs). This responsibility should not be "outsourced" to CRPs or the regulators.

Action Item #1

The drafting group will propose updates to the exposed Framework to the Committee as deemed appropriate. The Committee will re-expose the Framework for comment and further discussion at the next NAIC national meeting or an interim or virtual meeting as deemed appropriate. The Committee will engage in public discussion. Avoiding any perception of the drafting group not being all-inclusive is emphasized.

The updates to the Framework may be somewhat minimal at the beginning of the process. The drafting group anticipates the ultimate Framework will be the ongoing foundation of principles for investment oversight and less of an "action plan" as it exists today.

Action Item #2

EXECUTIVE OFFICE • 444 North Capitol Street NW, Suite 700 • Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • One New York Plaza, Suite 4210 • New York, NY 10004 p | 212 398 9000 f | 212 382 4207
www.naic.org

© 2024 National Association of Insurance Commissioners

The Committee received ~~will request~~ approval from the NAIC Executive (EX) Committee at the 2024 Spring National Meeting to develop a request for proposal (RFP) to hire an independent consultant to provide recommendations for a due diligence framework for CRPs.

- ~~If approved, the drafting group will work in concert with~~ The NAIC Securities Valuation Office (SVO) is currently working to create a robust RFP proposal with consultant independence as a priority. Once developed, the drafting group will review the proposed RFP, make modifications deemed appropriate, and invite further changes by the Committee. Once completed, the Committee will expose this communication for industry comment, including encouraging CRPs to comment. We note that the selection of a consultant needs to consider potential conflicts with CRPs or industry.
- The consultant would deliver a comprehensive recommendation/request for the Committee to consider.
- ~~The Committee would expose this communication for industry comment, including encouraging CRPs to comment.~~

Action Item #3

Consistent with the commitment not to pause or delay any of the current workstreams, the Committee will ensure implementation of the Framework in parallel and without interference with the work that the Valuation of Securities (E) Task Force and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group are developing related to the Framework. This work being completed by these groups (workstreams) is directionally consistent with the Framework. Therefore, the Committee will continue to defer to the workstreams as they progress toward and reach outcomes. Further, the workstreams must not slow their progress in waiting for the Framework's finalization. For example, the Valuation of Securities (E) Task Force is deliberating potential changes to regulator discretion over CRP ratings. The Framework's consideration of a due diligence framework over CRPs must not alter or impede any changes being considered or adopted by the Valuation of Securities (E) Task Force to CRP ratings.

Action Item #4

The Committee or the drafting group will begin an assessment of a conceptual centralized investment expertise (CIE). This term purposely differs from references to NAIC investment staff currently used, such as the Investment Analysis Office (IAO), Structured Securities Group (SSG), and SVO. While we expect much overlap between those existing organizations and this conceptual organization, we want to be deliberate when referring to a conceptual outcome.

Following are examples of initial discussion points (regulator- and comment letter-driven, but not exhaustive):

- Conducting a survey of all states, asking what output they would like from a CIE to assist in individual insurer examination/assessment. For instance, how could current portfolio reviews be improved?
- Investment risks that should be incorporated into a CIE. The current SVO is predominantly focused on credit risk in terms of a designation assessment for Schedule D investments.
- The enhancement of macroprudential and prospective risk capabilities.
- The ideal structure of a CIE, focusing on overarching holistic regulatory policy advisory staffing supported by strong capabilities in credit assessment, portfolio/market risk, asset adequacy, and macroprudential risk assessment.
- The enhancement of structured asset modeling capabilities to support due diligence, validation, and stress testing.
- Tools and resources (beyond personnel) that should be considered.
- The establishment of standards for validating tools and processes, including periodic assessments, model governance, etc.

Discussions should include open dialogue with interested parties.

© 2024 National Association of Insurance Commissioners

An external consultant resource can be considered to add additional independent expertise.

This will and should be a longer-term initiative to ensure robust dialogue and value-added changes. However, regulators should consider phased implementation to have more timely results and manage costs.

Action Item #5

The drafting group will recommend appointing an investment-focused working group to support the Committee, the Financial Analysis (E) Working Group, the Valuation Analysis (E) Working Group, and other working groups.

- Define potential charges for this working group, which will help identify the appropriate time for formation. For example, charges may include support for initiatives not slated until 2025 or later.

Action Item #6

The drafting group will develop and implement best practices for enhanced coordination between the Committee's workstreams. Such efforts to harmonize efforts may involve regular reporting to the Committee and/or this new investment-focused working group, identification of dependencies and impacts between projects, and fostering improved communication between workstreams. These types of best practices can be informed by the work on the collateralized loan obligation (CLO)-related projects in process within the Valuation of Securities (E) Task Force and Risk-Based Capital Investment Risk and Evaluation (E) Working Group, including current efforts to highlight the coordination between the two during progress updates.

Action Item #7

~~The work plan does not include action items related to risk-based capital (RBC) recommendations at this time, but it will continue to review appropriate incorporation into the final Framework and whether an action item should be included in the work plan in a future iteration.~~ The work plan will continue to review appropriate incorporation of risk-based capital (RBC) recommendations into the final Framework, However, at this time the work plan does not include related action items and will continue to review inclusion in a future iteration.

© 2024 National Association of Insurance Commissioners

Framework for Regulation of Insurer Investments – A Holistic Review

Executive Summary

- 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.

Background

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators of the 50 states, the District of Columbia and the five U.S. territories. NAIC Designations are produced solely for the benefit of NAIC members in their capacity as state insurance regulators as a tool to help assess insurer's solvency.

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.

© 2024 National Association of Insurance Commissioners

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:~~

~~**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.~~
~~**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.~~
~~**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.~~
~~**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.~~
~~**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~~

© 2024 National Association of Insurance Commissioners

~~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

The goal of the Framework and its proposed enhancements is to set a long-term, strategic direction for investment regulation and ensure current and future initiatives are thoughtfully coordinated and supportive of this holistic direction. A workplan will be utilized to further consider such proposed enhancements in more detail and where appropriate, changes will be made to this to reflect the final enhancement. The Framework does not have an objective of reaching technical conclusions on ongoing initiatives. Ongoing work will continue without delay or pause. Current workstreams are directionally consistent with the Framework and are producing iterative feedback that will inform future progress towards their objectives. As is always the case, workstreams and the Framework itself are subject to future refinement based on this iterative process of incorporating new information.

This Framework will be updated and retained in the future, but the following principles are expected to remain in place after the implementation of the work.

Core Principles

(1) The goal of the Framework is to set a long-term, strategic direction for investment regulation and ensure current and future initiatives are thoughtfully coordinated and supportive of this holistic direction. It does not have an objective of reaching technical conclusions on ongoing initiatives.

(2) The primary objective of the Framework and all supporting initiatives is to ensure state insurance regulators have appropriate tools to ensure the solvency of insurers. While other impacts will be assessed in the design and implementation of current and future initiatives, they will be secondary to ensuring insurer solvency.

(3) Ongoing work will continue without delay or pause. Current workstreams are directionally consistent with the Framework and produce iterative feedback to inform future progress toward its objectives. As is always the case, workstreams and the Framework are subject to future refinement based on this iterative process of incorporating new information.

© 2024 National Association of Insurance Commissioners

(4) Initiatives are, and will continue to be, regulator-driven. Any enhancements to centralized resources are for the benefit of regulators, and regulators will retain the authority over how to use such resources.
(5) This work plan commits to being fully transparent, with multiple checkpoints for deliberation with interested parties.
(6) The ultimate responsibility for prudent investment oversight is with the insurers themselves, notwithstanding any of the work done to bolster regulatory resources and oversight over-reliance on credit rating providers (CRPs). This responsibility should not be "outsourced" to CRPs or the regulators.

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

Currently, risk-based capital charges ~~The current framework~~ reli~~es~~y 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. Changes to this centralized investment expertise at the NAIC will be determined based upon the needs of regulators.

© 2024 National Association of Insurance Commissioners

(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:

© 2024 National Association of Insurance Commissioners

(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 ongoing ~~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) **Secondarily to the emphasis on ensuring insurer solvency, changes in RBC factors should consider market impacts ~~secondarily to solvency impact~~ and consistency across asset classes in** ~~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 which includes consideration of tail 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***. The RBC-IRE Working Group should coordinate with the SAPWG where needed on this item. 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.

© 2024 National Association of Insurance Commissioners

Attachment Six
Financial Condition (E) Committee
8/15/24

NAIC WG/TF	NAIC Identifier	Topic	Subtopic	Purpose of Purposed Work	Committee Consideration	Exposure Date	Targeted Effective Date	Most Recent Update
RBC Investment Risk and Evaluation (E) Working Group	IR4	Comprehensive Fund Review for investments reported on Schedule D Pt 2 Sn2		Review inconsistencies across asset classes based on legal form	Added to working agenda on 11/16/18 call			Pending completion of other work
RBC Investment Risk and Evaluation (E) Working Group	IR5	RBC for ABS including CLOs, CFOs or other similar		Long-Term Different RBC Requirement	Committee made request 1/12/22			American Academy Update Expected Quarterly
RBC Investment Risk and Evaluation (E) Working Group	IR7	Evaluate and develop an approach to map other ABS to current bond factors. Project will likely require outside consultant.		Long-Term Different RBC Requirement	Committee made request 1/12/22			Pending completion of other work
RBC Investment Risk and Evaluation (E) Working Group	IR8	Address the tail risk concerns not captured by reserves for privately structured securities		Long-Term Different RBC Requirement	Added to working agenda on 8/11/22 call (Referral from Macroprudential)			Pending completion of other work
Valuation of Securities (E) Task Force	VOSTF 2023-005	Authorizing the Procedures for the SVO's Discretion Over NAIC Designations Assigned Through the Filing Exemption Process		Reduce Reliance on Rating Agencies	Proposal addresses charge from the Committee from 2021	07/26/24		06/18/24
Valuation of Securities (E) Task Force	VOSTF 2024-007	Implement financial modeling of CLOs for purposes of designations		Reduce Reliance on Rating Agencies / Enhance Structured Asset Modeling Capabilities	Coordination with related workstream IR5 at RBC-IRE		1/1/2025 (but subject to finalization of methodlogy and coordination with RBC-IRE)	6/18/24 - Effective date change adopted
Financial Condition (E) Committee		Draft Request for Proposal to develop a dilligence process related to use of rating agency ratings		Address proposal from Investment Framework	Drafted by Valuation of Securities Task Force and Committee regulators			

© 2024 National Association of Insurance Commissioners

2024 NATIONAL MEETING SUMMER / CHICAGO

NAIC

Agenda Item #8

Hear a Presentation from BlackRock on Commercial Mortgages

Dan Harnick (BlackRock) and Alex Symes (BlackRock)

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 1

CRE Market Update

Alex Symes, US Head of Research & Strategy, BlackRock Real Estate

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2

2024 NATIONAL MEETING SUMMER / CHICAGO

NAIC

Summary

01 Dislocations in the capital market

02 Stable property market trends

03 Difficult path ahead for office



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

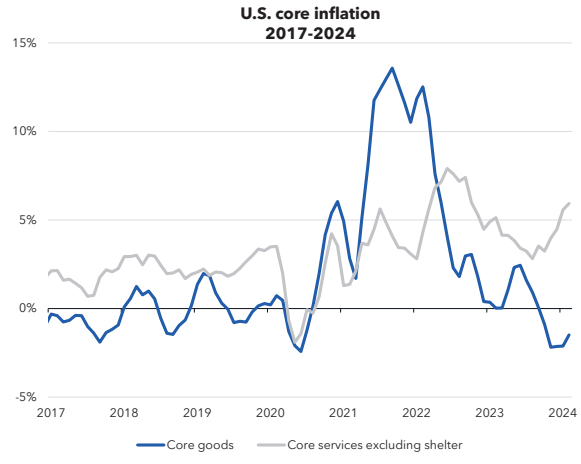
2024 NATIONAL MEETING SUMMER / CHICAGO

NAIC

A whole new structurally different world

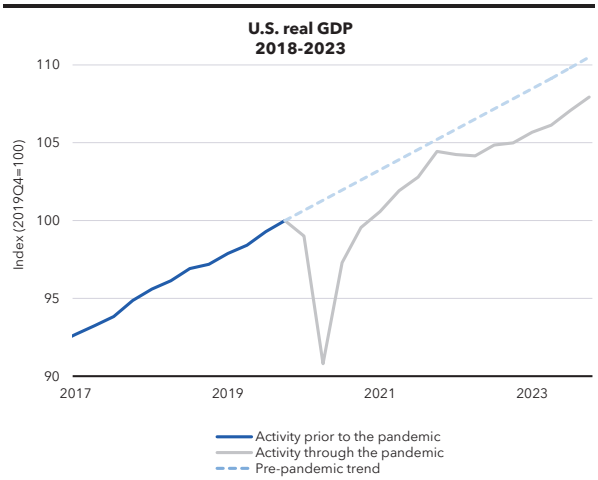
Inflation is decelerating, although not sharply

Services are holding inflation higher



Source: BlackRock Investment Institute, with data from Haver Analytics, March 2024. Notes: Note: The chart shows core goods and services inflation measured by the change over six months at an annualised rate. Core goods inflation covers all goods excluding energy and food costs; core services inflation covers all services excluding energy and shelter costs.

Growth has yet to return to prior trend



Source: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, IMF with data from Haver Analytics, March 2024. Notes: The chart shows the level of real gross domestic product (GDP) in the U.S.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

4

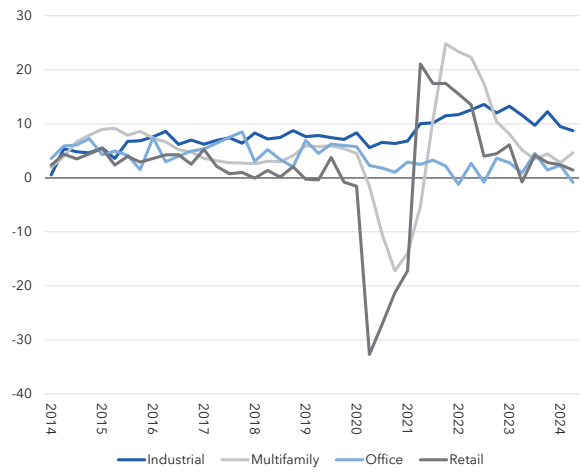
2024 NATIONAL MEETING SUMMER / CHICAGO

NAIC

Fundamentals largely stable; expect dispersion

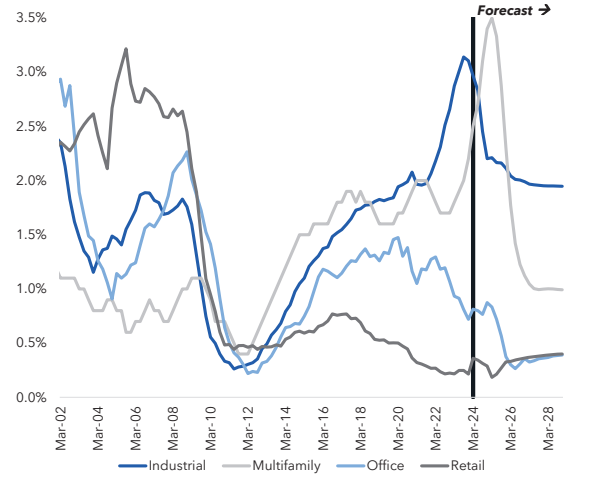
Strong structural trends support multifamily & industrial, less so for office

NCREIF NOI Growth (YoY%)



Source: NCREIF, as of 30 June 2024

Supply as % of existing stock



Forward looking estimates may not come to pass

Source: CBRE-EA, BlackRock; as of 31 March 2024

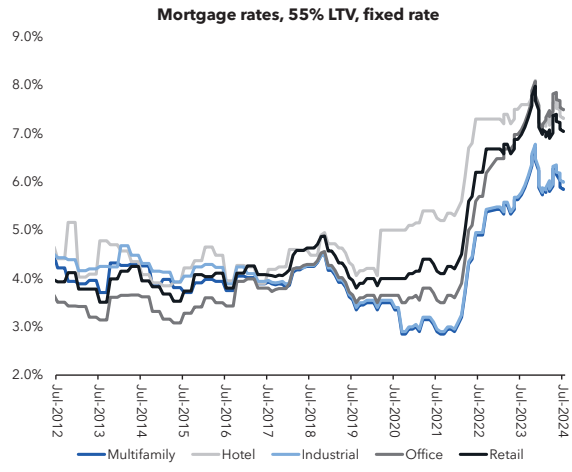
2024 NATIONAL MEETING SUMMER / CHICAGO

NAIC

Higher cost of capital and constrained credit conditions

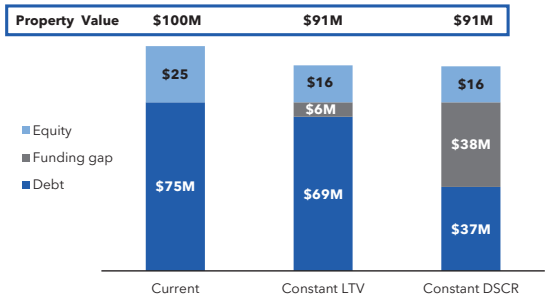
Cost of debt is higher and proceeds are lower than in 2021

Higher debt costs across the board...



Source: Chatham Financial, BlackRock, as of July 2024

...leads to potential funding gaps



	Jan 2021	May 2024: Constant LTV	May 2024: Constant DSCR
NOI	$4.5M	$4.8M	$4.8M
Cap rate	4.50%	5.25%	5.25%
LTV	75%	75%	41%
Cost of Debt	2.8%	6.0%	6.0%
DSCR	2.1	1.2	2.1

Source: BlackRock, May 2024. All $ amounts are in USD.

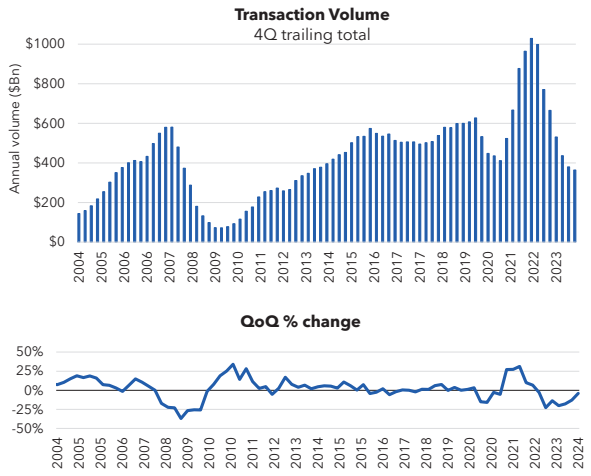
© 2024 National Association of Insurance Commissioners

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

Transactions and pricing are moving towards a bottom

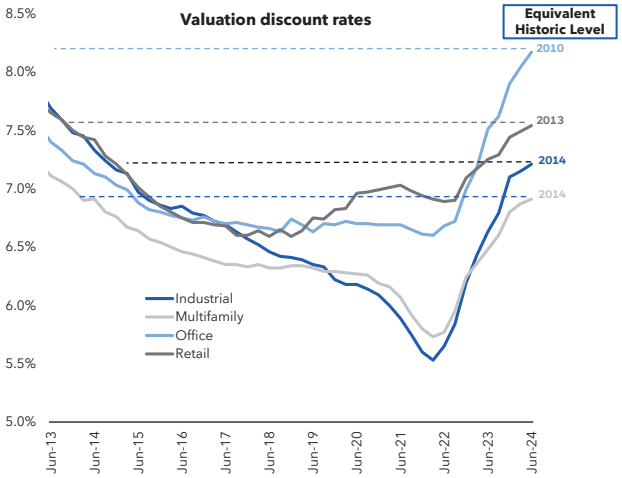
Shift varies by property type depending on investor demand

Lower volumes due to higher cost of capital



Source: Real Capital Analytics; as of 31 March 2024

Discount rates have followed higher interest rates

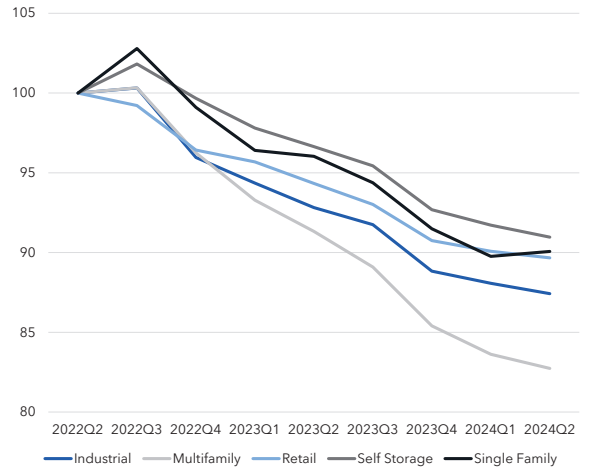


Source: Altus; as of 30 June 2024

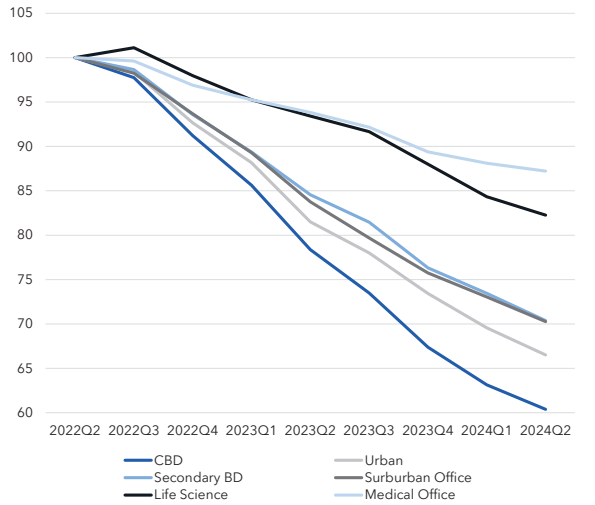
2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

Where are we in the cycle?

NCREIF Property Index: Non-office property types



NCREIF Property Index : Office property types



Source: NCREIF , as of June 2024

Note: NPI Appreciation Index, Values indexed to 100 as of Q2 2022

© 2024 National Association of Insurance Commissioners

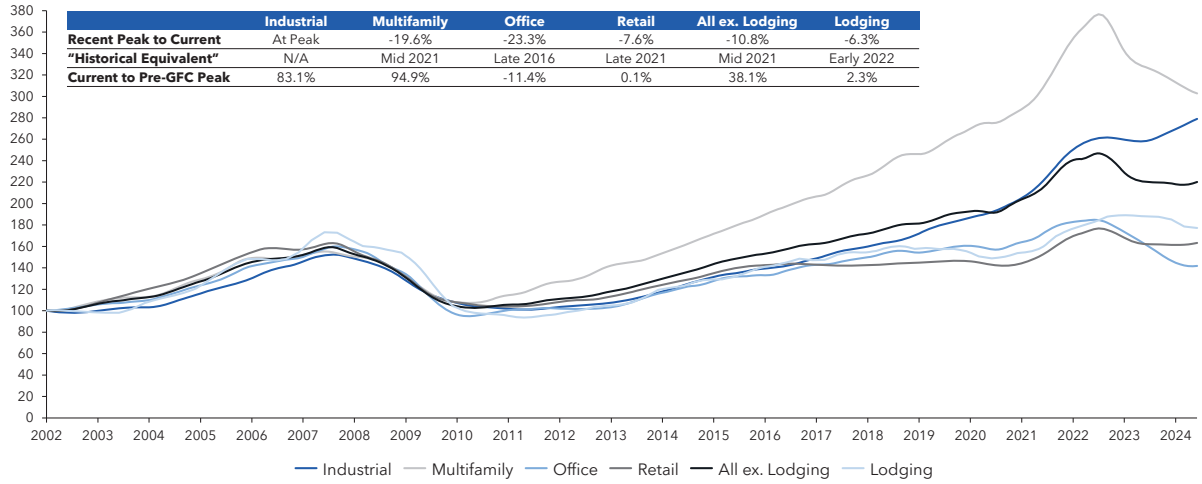
2024 NATIONAL MEETING SUMMER / CHICAGO

NAIC

Where have we come from?

RCA Commercial Property Price Index

	Industrial	Multifamily	Office	Retail	All ex. Lodging	Lodging
Recent Peak to Current	At Peak	-19.6%	-23.3%	-7.6%	-10.8%	-6.3%
"Historical Equivalent"	N/A	Mid 2021	Late 2016	Late 2021	Mid 2021	Early 2022
Current to Pre-GFC Peak	83.1%	94.9%	-11.4%	0.1%	38.1%	2.3%



Source: MSCI RCA , as of June 2024

Note: Values indexed to 100 as of Q1 2002

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

9

CMBS Market Update

Dan Harnick, Director, BlackRock Financial Markets Advisory

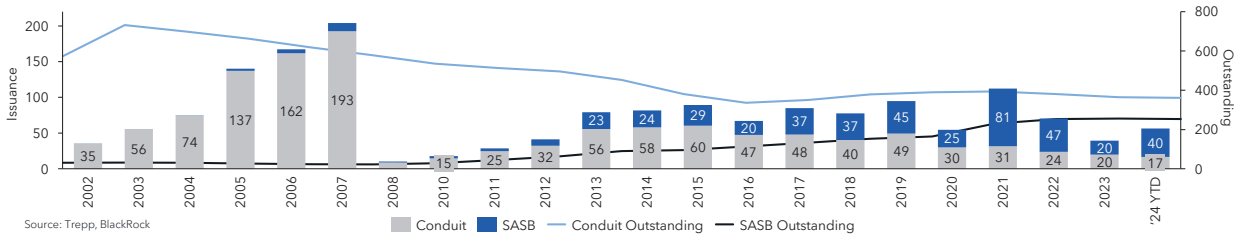
NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

10

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

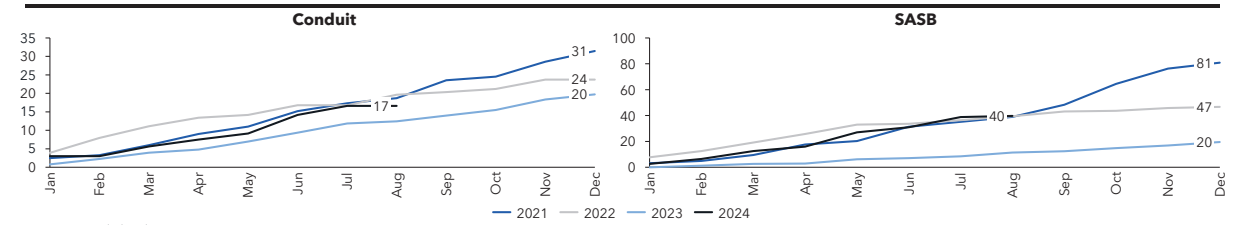
Issuance volumes are rebounding from a slow 2023; SASB continues to dominate volumes

CMBS Issuance and Outstanding ($ bn)



Source: Trepp, BlackRock

YTD Issuance ($ bn)

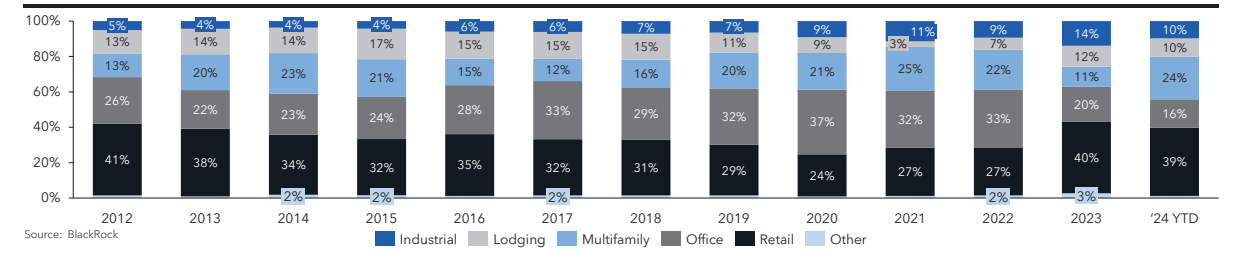


Source: Trepp, BlackRock

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

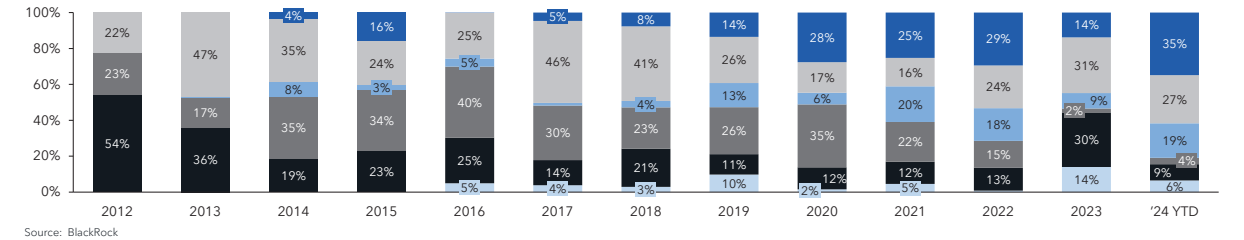
Property type concentrations continue to evolve

Conduit Property Type Concentration by Vintage



Source: BlackRock

SASB Property Type Concentration by Vintage



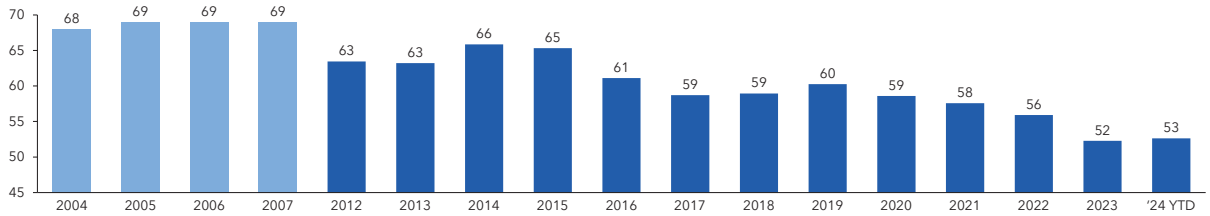
Source: BlackRock

© 2024 National Association of Insurance Commissioners

2024 NATIONAL MEETING SUMMER / CHICAGO

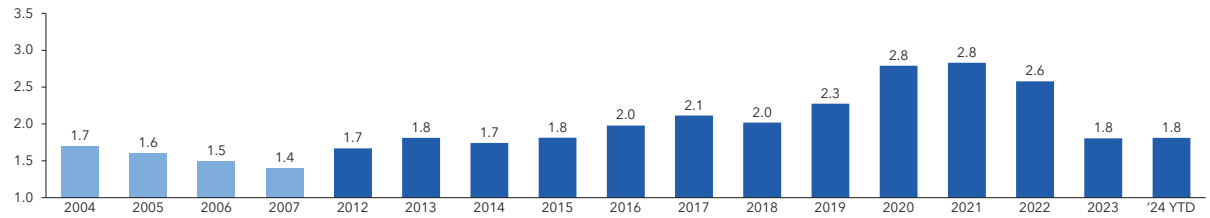
Underwritten leverage levels continue to improve relative to pre-GFC issuance, though debt service coverage ratios have recently deteriorated

Conduit Weighted Average Underwritten LTV by Vintage (%)



Source: BlackRock

Conduit Weighted Average Underwritten DSCR by Vintage



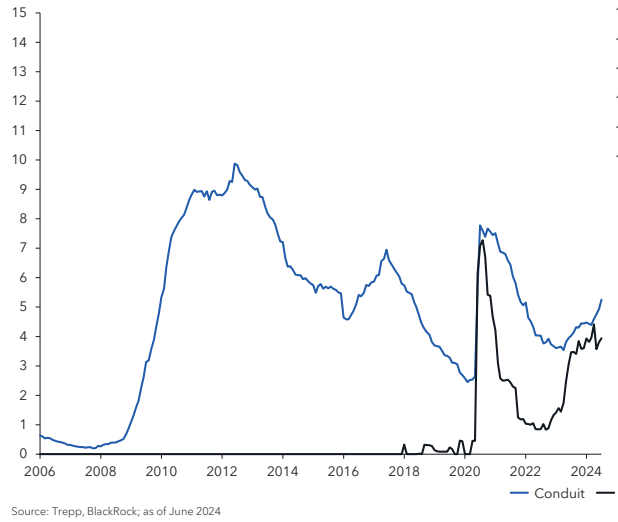
Source: BlackRock

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 13

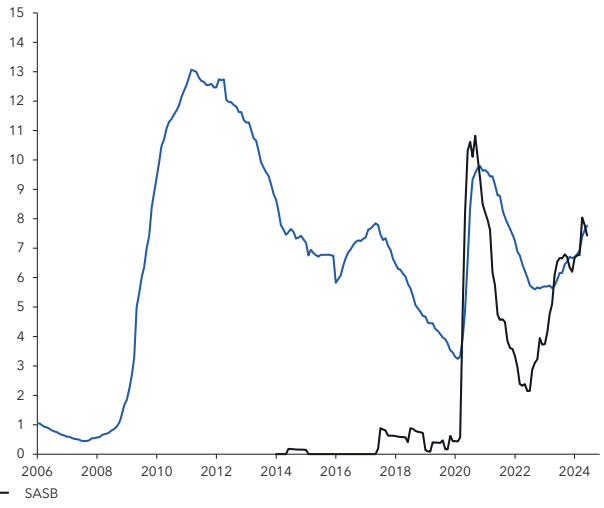
2024 NATIONAL MEETING SUMMER / CHICAGO

There is concern, as distress is once again rising in the CMBS universe…

60+ Delinquency by Deal Type (%)



Special Servicing by Deal Type (%)



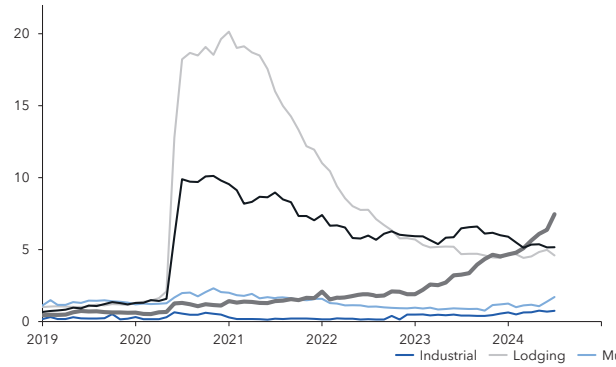
Source: Trepp, BlackRock; as of June 2024

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 14

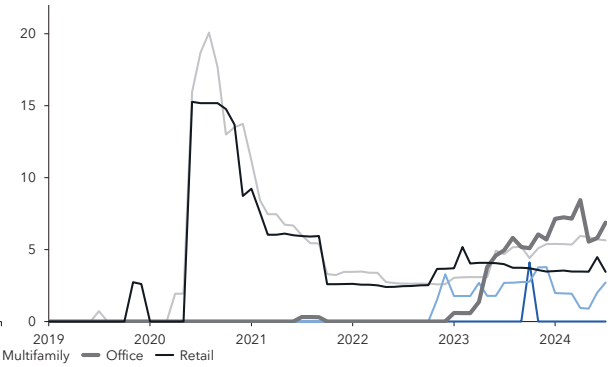
2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

...But not all property sectors are created equal

Post-GFC Conduit 60+DQ (%) by Property Type



Post-GFC SASB 60+DQ (%) by Property Type



Conduit - Current vs Peak 60+ DQ Rates

Sector	Peak GFC	Peak Covid	Current
Industrial	12.2%	0.6%	0.7%
Lodging	16.7%	20.1%	5.0%
Multifamily	15.5%	2.3%	1.4%
Office	10.4%	2.1%	6.4%
Retail	7.8%	10.1%	5.2%

Source: Trepp, BlackRock; as of June 2024

SASB - Current vs Peak 60+ DQ Rates

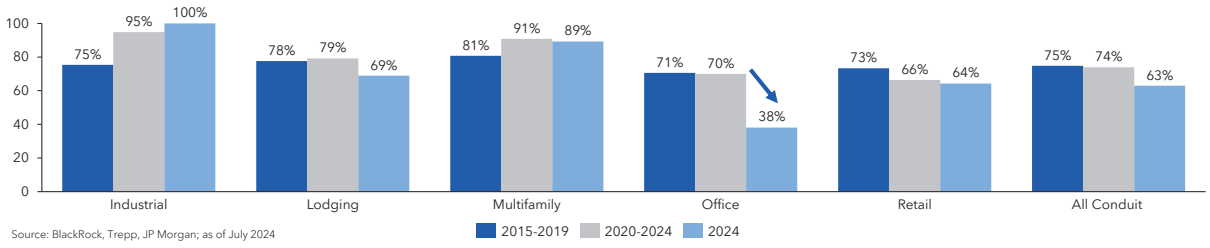
Sector	Peak Covid	Current
Industrial	0.0%	0.0%
Lodging	20.1%	5.7%
Multifamily	3.3%	2.0%
Office	0.3%	5.8%
Retail	15.3%	4.5%

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 15

2024 NATIONAL MEETING SUMMER / CHICAGO NAIC

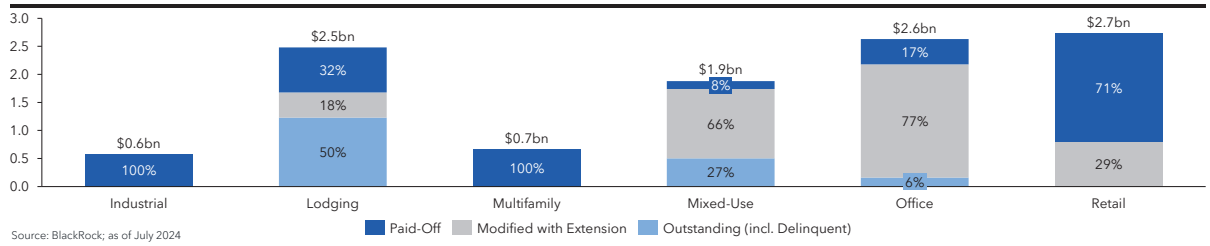
Loan payoff rates have declined, driven by the office sector, as borrowers face a challenging refinancing environment

Conduit Maturity Refinance Success Rates by Property Type and Maturity Year (Balance %)



Source: BlackRock, Trepp, JP Morgan; as of July 2024

SASB 2023 Final Maturity Outcomes by Property Type (Balance $ bn)



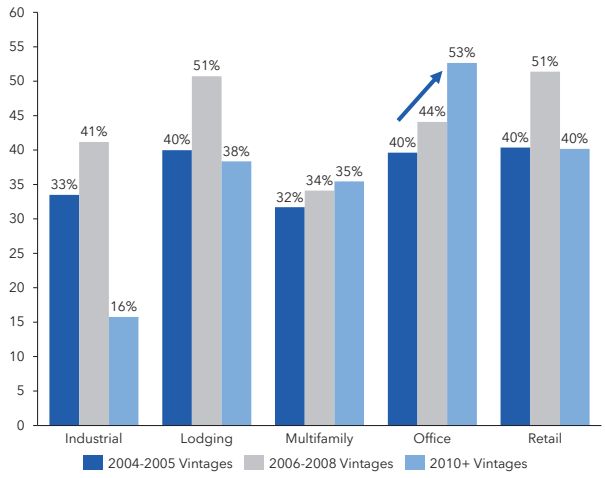
Source: BlackRock; as of July 2024

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS 16

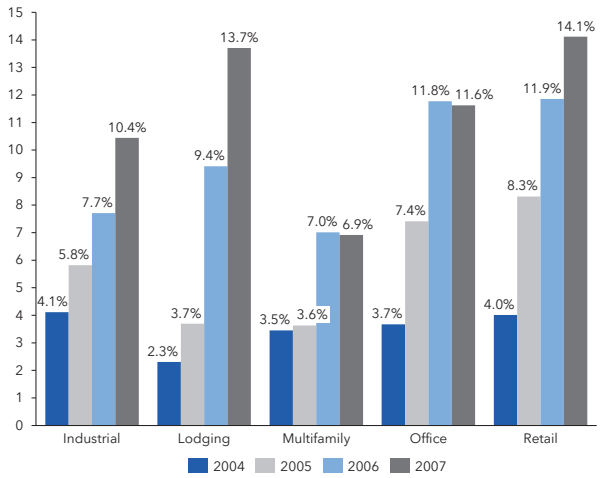
2024 NATIONAL MEETING SUMMER / CHICAGO

Comparing pre-GFC deal performance to recent vintages

Conduit Loss Severity by Property Type & Vintage (%)



Conduit Cumulative Loss by Property Type & Vintage (%)



Source: Trepp, BlackRock, as of July 2024

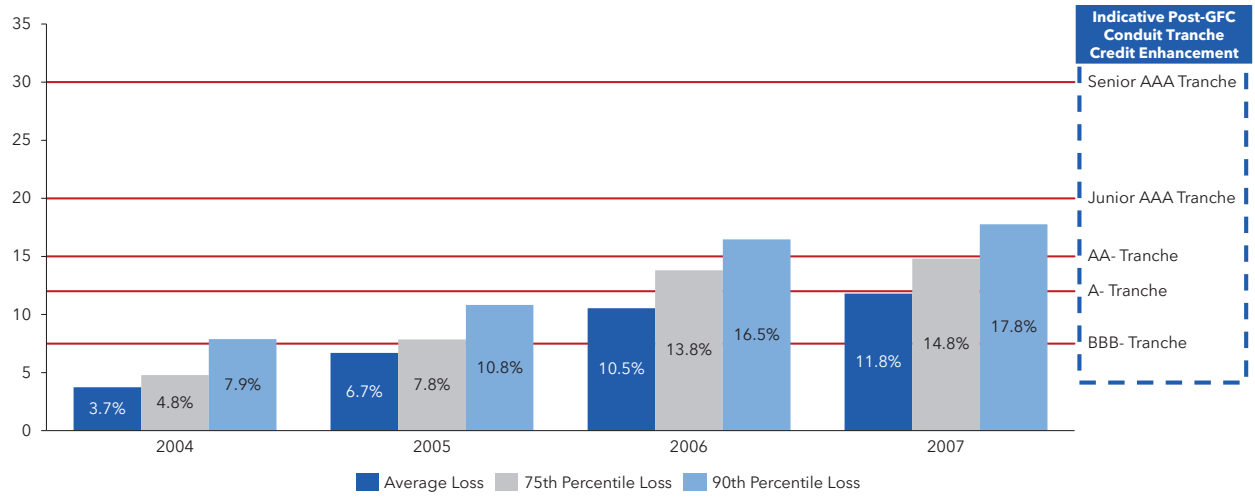
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

17

2024 NATIONAL MEETING SUMMER / CHICAGO

Using historical losses as a benchmark for post-GFC vintage bond performance

Conduit Historical Deal Loss Percent vs Post-GFC Bond Credit Enhancement (%)



Source: Trepp, BlackRock, as of July 2024

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

18

Disclaimer

THIS DOCUMENT IS CONFIDENTIAL AND ITS CIRCULATION AND USE ARE RESTRICTED.

This document was prepared for the sole use of the recipient named on the title page ("Recipient") and contains confidential information and intellectual property of BlackRock Financial Management, Inc. or its affiliates (together, "BlackRock").

Any analysis or projections contained in this document are advisory and estimated in nature and are based on assumptions and models. Please note that the assumptions identified herein are not necessarily all inclusive and that the models themselves do not reflect every factor that can have a significant impact on the outcome. Actual events will vary and perhaps differ materially from those assumed.

The information and opinions contained herein are derived from proprietary and non-proprietary sources that are deemed by BlackRock to be reliable, but are not necessarily all inclusive and are not guaranteed as to accuracy. Where the information contained in these materials is from third party sources, the information is from sources believed to be reliable, but BlackRock has not independently verified any of the information contained herein and does not assume any liability for it. Additionally, BlackRock is not required to provide the Recipient with updates, modifications, or amendments to the information, opinions, estimates, or forecasts described herein should BlackRock determine that such currently set forth communication becomes inaccurate. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of BlackRock and no assurances are made as to their accuracy.

This document is provided for informational purposes only and is not intended to make any recommendations or solicit any actions on the part of the reader. This document is not intended to be relied upon as a forecast, research or investment advice and does not constitute a recommendation, offer or solicitation to buy or sell any securities, including in any BlackRock funds, or to adopt any investment strategy. BlackRock will not be responsible nor have any liability for any actions, inactions or conclusions drawn by you with respect to any matter, whether or not based to any extent on this document.

This document may contain 'forward-looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass.

This document is for use only with the Recipient. It is strictly confidential and may not be reproduced for, disclosed to or otherwise provided in any format to any other person or entity (other than your professional advisors bound by obligations of confidentiality) without the prior written consent of BlackRock.

Issued by BlackRock Financial Management, Inc. © 2024 BlackRock, Inc. All Rights reserved. BLACKROCK, BLACKROCK SOLUTIONS, ALADDIN are registered and unregistered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Accounting Practices and Procedures (E) Task Force Aug. 14, 2024, Minutes 9-138
Statutory Accounting Principles (E) Working Group Aug. 13, 2024, Minutes (Attachment One) 9-144
Statutory Accounting Principles (E) Working Group May 15, 2024, Minutes (Attachment One-A) 9-158
Comments Received on Items Exposed During Feb. 20, 2024, Meeting of the Statutory Accounting Principles (E) Working Group (Attachment One-A1) 9-161
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2023-16; Schedule BA Reporting Categories (Attachment One-A2) 9-165
Comment Letters Received on Items Exposed for Summer National Meeting (Attachment One-B) 9-175
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-02; *Accounting Standards Update (ASU) 2023-01, Leases (Topic 842), Common Control Arrangements* (Attachment One-C) 9-197
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-03; *ASU 2023-08, Accounting for and Disclosure of Crypto Assets* (Attachment One-D) 9-200
Interpretation of the Statutory Accounting Principles (E) Working Group; *Interpretation (INT) 21-01: Accounting for Cryptocurrencies* (Attachment One-E) 9-203
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-08; Consistency Revisions for Residuals (Attachment One-F) 9-205
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-09; *Statement of Statutory Accounting Principles (SSAP) No. 2R—Clarification* (Attachment One-G) 9-219
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2024-14EP; *Accounting Practices and Procedures Manual* (AP&P) Editorial and Maintenance Update; March 16, 2024 (Attachment One-H) 9-223
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2023-26; *ASU 2023-06, Disclosure Improvements* (Attachment One-I) 9-225
Statutory Issue Paper No. 169—Principles-Based Bond Definition (Attachment One-J) 9-238
Statutory Accounting Principles (E) Working Group Maintenance Agenda Submission Form A; Ref #2022-12; Review of (Attachment One-K) 9-285
Interpretation of the Emerging Accounting Issues (E) Working Group; (Attachment One-L) 9-296
Review of Generally Accepted Accounting Principles (GAAP) Exposures for Statutory Accounting (Attachment One-M) 9-299
Memorandum Dated Aug. 13, 2024, to the Statutory Accounting Principles (E) Working Group from the Life Actuarial (A) Task Force Regarding Life Actuarial (A) Task Force Coordination with the Statutory Accounting Principles (E) Working Group (Attachment One-N) 9-302
Memorandum Dated July 29, 2024, to the Statutory Accounting Principles (E) Working Group from NAIC Staff Regarding Interest Maintenance Reserve (IMR) Ad Hoc Group—Discussion Update (Attachment One-O) 9-305
Blanks (E) Working Group Aug. 7, 2024, Minutes (Attachment Two) 9-306
Blanks (E) Working Group May 23, 2024, Minutes (Attachment Two-A) 9-309
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2023-12BWG Modified; Effective First Quarter 2025; Categorize Debt Securities on Schedule BA That Do Not Qualify as Bonds Under *SSAP No. 26—Bonds* or *SSAP No. 43R—Asset-Backed Securities* and Are Captured in Scope of S*SAP No. 21R—Other Invested Assets* (Attachment Two-A1) 9-314
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-01BWG; Effective Annual 2024; Identify Where Common Stock and Preferred Stock Residual

© 2024 National Association of Insurance Commissioners

Interests Should Be Reported on the Investment Schedules (Attachment Two-A2) 9-362
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-02BWG Modified; Effective First Quarter 2025; Remove Categories from Schedule DA, Part 1, and Schedule E, Part 2, That Should Be Reported on Schedule BA; Add Clarifying Instructions on What Should Be Included in Other Short-Term and Other Cash Equivalent Categories; Make Corresponding Changes to Schedule DA Verification, Five-Year Historical, and Asset Valuation Reserve (AVR) (Attachment Two-A3) 9-367
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-03BWG Modified; Effective Annual 2024; Update General Interrogatory 35 for Private Letter Rating Security Reporting to Clarify What Should Be Included (Attachment Two-A4) 9-390
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-04BWG; Effective 2024 Annual; Add Clarifying Language to *Valuation Manual* (VM)-20 Supplement to Include Separate Accounts Where Applicable (Attachment Two-A5) 9-392
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-05BWG; Effective Annual 2024; Add Clarifying Language to Annual General Interrogatory 29.05 (Quarterly General Interrogatory 17.5) That All Investment Advisors with Discretion to Make Investment Decisions, Including Sub-Advisors, Should Be Disclosed Through the Interrogatory (Attachment Two-A6) 9-394
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-06BWG; Effective Annual 2024; Property/Casualty (P/C): Limit the Requirement to Send Qualification Documentation to Board of Directors Only at the Initial Appointment and Not Annually Thereafter; Title: Update the Instructions so They Are More Similar to P/C Instructions (Attachment Two-A7) 9-401
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-07BWG; Effective Annual 2024; Update the Illustration Under Note 5S(A)—Investments for Net Negative (Disallowed) IMR to Add Separate Account Breakout; Add a New General Interrogatory for a Company Attestation for Separate Accounts (Attachment Two-A8) 9-413
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-08BWG; Effective Annual 2024; Update the IMR and AVR Instructions for Specific Allocation Guidance for NAIC Designation Changes for Debt Securities (Excluding LBSS), Mortgage Loans, and Perpetual Preferred Stocks (Attachment Two-A9) 9-417
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-09BWG Modified; Effective Annual 2024; Add a Note (5T) to Notes to Financials to be Data Captured to Report the Aggregate Collateral Loans by Qualifying Investment Collateral; Add Crosscheck Between Schedule BA, Part 1, Book/Adjusted Carrying Value (BACV) Column and Note 5(T) Total Line (Attachment Two-A10) 9-423
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-10BWG Modified; Effective Annual 2024; Remove the Affordable Care Act (ACA) SSAP No. 107 Disclosure on the Transitional Reinsurance Program and the Risk Corridors Program from Note 24E in the Notes to Financials (Note 24F for P/C) in the *Annual Statement Instructions* (Attachment Two-A11) 9-426
Blanks (E) Working Group Editorial Revisions to the Blanks and Instructions at the May 23, 2024, Meeting (Attachment Two-A12) 9-449
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-11BWG Modified; Effective Jan. 1, 2025; Update the Annual and Quarterly Instructions and Blanks for the New Market Tax Credit Changes; Changes Will Be Made to: Annual—Assets, Notes to Financial Statements 5K, 14A, and 21E, AVR, and Schedule BA, Part 1, 3, and Verification Between Years; Quarterly—Assets and Schedule BA, Part 3, and Verification Between Years (Attachment Two-B) 9-454
Blanks (E) Working Group Agenda Item Submission Form; Agenda Item #2024-12BWG Modified;

© 2024 National Association of Insurance Commissioners

Effective Jan. 1, 2025; Update the Quarterly Investment Schedules for Editorial Items to the Bond Project (Schedule D Verification, Schedule D, Part 1B, Schedule D, Parts 3 and 4, Schedule DL, Parts 1 and 2, and Schedule E, Parts 1 and 2); Update the Quarterly Investment Schedule General Instructions for Changes Adopted in the Annual Investment Schedule General Instructions (Attachment Two-C) 9-477
Memorandum Dated June 18, 2024, to the Blanks (E) Working Group from the Statutory Accounting Principles (E) Working Group Regarding Collateral Loans Backed by Mortgage Loans (Attachment Two-D) 9-513
Blanks (E) Working Group Editorial Revisions to the Blanks and Instructions at the Aug. 7, 2024, Meeting (Attachment Two-E) 9-514
Accounting Practices and Procedures (E) Task Force 2025 Proposed Charges (Attachment Three) 9-524

© 2024 National Association of Insurance Commissioners

Draft: 8/22/24

Accounting Practices and Procedures (E) Task Force
Chicago, Illinois
August 14, 2024

The Accounting Practices and Procedures (E) Task Force met in Chicago, IL, Aug. 14, 2024. The following Task Force members participated: Cassie Brown, Chair, represented by Jamie Walker (TX); Mike Causey, Vice Chair, represented by Jackie Obusek (NC); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Sheila Travis (AL); Ricardo Lara represented by Laura Clements and Kim Hudson (CA); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by N. Kevin Brown (DC); Trinidad Navarro represented by Rylynn Brown and Tom Hudson (DE); Michael Yaworsky represented by Jason Reynolds and Bradley Trim (FL); Doug Ommen represented by Kevin Clark (IA); Dean L. Cameron represented by Amber Re and Eric Fletcher (ID); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Mark Griggs (KY); Timothy J. Temple represented by Melissa Gibson (LA); Kevin P. Beagan represented by James McCarthy and John Turchi (MA); Robert L. Carey represented by Vanessa Sullivan (ME); Anita G. Fox represented by Judy Weaver (MI); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by John Rehagen and Debbie Doggett (MO); Mike Chaney represented by Josh Ammerman (MS); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Andrea Johnson (NE); D.J. Bettencourt represented by Emily Doherty (NH); Justin Zimmerman represented by David Wolf (NJ); Adrienne A. Harris represented by Bob Kasinow (NY): Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Diane Carter and Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); Michael Wise represented by Hinal Patel (SC); Larry D. Deiter represented by Johanna Nickelson (SD); Carter Lawrence represented by Trey Hancock (TN); Scott A. White represented by Doug Stolte and Jennifer Blizzard (VA); Kevin Gaffney represented by Karen Ducharme (VT); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its Spring National Meeting Minutes

Walker directed the Task Force to its 2024 Spring National Meeting minutes.

Obusek made a motion, seconded by Malm, to adopt the Task Force's March 17 minutes (*see NAIC Proceedings Spring 2024, Accounting Practices and Procedures (E) Task Force*). The motion passed unanimously.

2. Adopted its 2025 Proposed Charges

Walker stated that the Task Force's proposed charges were unchanged from the current year except for the edits to insert "U.S." before "generally accepted accounting principles" (GAAP) in two places.

Drutz made a motion, seconded by Orth, to adopt the Task Force's 2025 proposed charges (Attachment Three). The motion passed unanimously.

3. Adopted the Report of the Statutory Accounting Principles (E) Working Group

Bruggeman provided the report of the Statutory Accounting Principles (E) Working Group, which met Aug. 13. During this meeting, the Working Group adopted its May 15 and Spring National Meeting minutes.

During its May 15 meeting, the Working Group took the following action:

© 2024 National Association of Insurance Commissioners

A. Adopted support and sponsorship for the Schedule BA modified blanks proposal 2023-12BWG, which incorporates revisions for non-bond debt securities pursuant to the principles-based bond project effective Jan. 1, 2025. (Ref #2023-16)

B. Adopted revisions to *Statement of Statutory Accounting Principles (SSAP) No. 107—Risk-Sharing Provisions of the Affordable Care Act,* which removed the transitional reinsurance program and risk corridor disclosures, as both programs have expired. In addition, the roll-forward illustration in Exhibit B was revised to remove the portion for the transitional reinsurance program and the risk corridors program. (Ref #2014-13)

C. Exposed revisions to *Issue Paper No. 169: Principles-Based Bond Project*, detailing the discussions and decisions underlying the principles-based bond project. (Ref #2019-21)

Bruggeman stated that the Working Group adopted the following clarifications to statutory accounting guidance:

A. *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*: Adopted revisions to eliminate lingering references that imply that asset-backed securities (ABS), mortgage loans, or other Schedule BA: Other Long-Term Invested Assets items are permitted to be reported as cash equivalents or short-term investments. (Ref #2024-09)

B. *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*: Adopted, with modification, disclosures from *Accounting Standards Update (ASU) 2023-06, Disclosure Improvements* for unused commitments and lines of credit, disaggregated by short-term and long-term, and disclosure of cash flows from derivatives. The remaining disclosures related to repurchase and reverse repurchase agreements were added to agenda item 2024-04 for further consideration as part of that project. (Ref #2023-26)

C. *SSAP No. 19—Furniture, Fixtures, Equipment, and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*: Adopted, with modification, the leasehold improvement guidance from *ASU 2023-01, Leases (Topic 842), Common Control Arrangements*, modified to align with existing guidance and reject the practical expedient for private companies and not-for-profit entities. (Ref #2024-02)

D. *SSAP No. 20—Nonadmitted Assets*: Adopted revisions clarify that directly-held crypto assets are non-admitted assets and adopted the definition of crypto assets from *ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets*. (Ref #2024-03)

E. *SSAP No. 25—Affiliates and Other Related Parties, SSAP No. 63—Underwriting Pools,* and *Interpretation (INT) 03-02: Modification to an Existing Intercompany Pooling Arrangement*: Adopted revisions address transfers of assets when modifying intercompany pooling agreements and nullify INT 03-02. (Ref #2022-12)

F. *SSAP No. 26R—Bonds*, *SSAP No. 21R—Other Admitted Assets*, *SSAP No. 30R—Unaffiliated Common Stock, SSAP No. 32R—Preferred Stock, SSAP No. 43R—Loan-Backed and Structured Securities,* and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*: Adopted revisions refer to SSAP No. 21R for the residual definition and accounting and reporting guidance. (Ref #2024-08)

G. *Accounting Practices and Procedures Manual* (AP&P Manual) Editorial Revisions: Adopted revisions remove the "Revised" and "R," previously intended to identify a substantively revised SSAP, from SSAP titles and SSAP references within the AP&P Manual. (Ref #2024-14EP)

© 2024 National Association of Insurance Commissioners

H. *Principles-Based Bond Project Issue Paper*: Adopted Issue Paper No. 169, which details the discussions and decisions underlying the principles-based bond project. (Ref #2019-21)

Bruggeman stated that the Working Group exposed the following statutory accounting principle (SAP) concepts and clarifications to statutory accounting guidance for a public comment period ending Sept. 27, except for agenda items 2024-10 and 2024-15, which have a public comment period ending Nov. 8, and agenda item 2024-01, which has a public comment period ending Sept. 6.

A. SSAP No. 26R: Exposure clarifies the guidance for debt securities issued by funds with language added to clarify U.S. Securities and Exchange Commission (SEC) registration is a practical safe harbor and should not be utilized as a proxy for other debt securities issued by funds. Debt securities issued by funds must be classified in accordance with the issuer's primary purpose. (Ref #2024-01)

B. SSAP No. 48*, SSAP No. 93—Low-Income Housing Tax Credit Property Investments,* and *SSAP No. 94R—Transferable State Tax Credits:* Exposure includes clarifications to the accounting guidance. (Ref #2024-18)

C. *SSAP No. 56—Separate Accounts*: Exposure expands the measurement method guidance and specifies the process to transfer assets for cash between the general account and book-value separate accounts. (Ref #2024-10)

D. *SSAP No. 61R—Life, Deposit-Type, and Accident and Health Reinsurance*: Re-exposed revisions to incorporate guidance consistent with *SSAP No. 62R—Property and Casualty Reinsurance*, Exhibit A Implementation Questions and Answers (Q&A), question 10. This guidance requires risk transfer to be evaluated in aggregate for contracts with interrelated contract features, such as experience rating refunds. Also exposed a reference to A-791, paragraph 6, guidance for yearly renewable term contracts regarding the entirety of the contract. (Ref #2024-06)

E. *SSAP No. 86—Derivatives:* Exposed concept agenda item to consider new guidance for interest-rate hedging derivatives that do not qualify as accounting effective hedges under SSAP No. 86 but are used for asset-liability management (ALM). (Ref #2024-15)

F. SSAP No. 86: Exposed revisions to address debt security investments with derivative components that do not qualify as structured notes. The proposed guidance would require the separation of the derivatives from the debt security and be applicable to "credit repack" investments and any type of debt security with derivative wrappers or components. (Ref #2024-16)

G. *SSAP No. 101—Income Taxes*: Exposed revisions to reject, with modification, *ASU 2023-09, Improvements to Income Tax Disclosures.* The exposure also proposes to remove one of the existing disclosures detailed within the ASU. (Ref #2024-11)

H. SSAP No. 108—*Derivatives Hedging Variable Annuity Guarantees*: Exposed revisions update the definition of a clearly defined hedging strategy (CDHS) to reflect the revised guidance pursuant to *Valuation Manual* (VM)-01, Definitions for Terms in Requirements. (Ref #2024-17)

I. *Appendix A-791 Life and Health Reinsurance Agreements (A-791)*: Re-exposed revisions to remove the first sentence of the A-791, paragraph 2c's Q&A. (Ref #2024-05)

© 2024 National Association of Insurance Commissioners

J. *Annual Statement Blanks*: Exposed a new part to the reinsurance Schedule S in the life/fraternal and health annual statement blanks and Schedule F in the property/casualty (P/C) and title annual statement blanks to capture information on modified coinsurance (modco) and funds withheld. (Ref #2024-07)

K. *Annual Statement Blanks*: Exposed revisions to provide more granular reporting lines for collateral loans. (Ref #2023-28)

L. *Conforming Repurchase Agreements*: Exposed a memorandum that details an overview and discussion of securities lending and repurchase/reverse repurchase agreements. (Ref #2024-04)

M. *Current Expected Credit Losses (CECL) Issuer Paper*: Exposed the issue paper drafted to document pre-CECL generally accepted accounting principles (U.S. GAAP) impairment guidance for historical purposes. (Ref #2023-24)

N. *New Market Tax Credit (NMTC) Project Issue Paper*: Exposed the issue paper detailing the discussions and decisions underlying the NMTC project. (Ref #2022-14)

O. *Appendix D—Nonapplicable U.S. GAAP Pronouncements*: Exposed agenda item to reject *ASU 2024-02, Codification Improvements* as not applicable to statutory accounting. (Ref #2024-19)

P. *Bond Project Q&A:* Exposed the Q&A Implementation Guide, which addresses topics in applying the principles-based bond definition. (Ref #2019-21)

Bruggeman stated that the Working Group deferred action on *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures* to allow NAIC staff additional time to confer with interested parties. (Ref #2024-12)

Bruggeman stated that the Working Group received updates on the following:

A. U.S. GAAP exposures, noting that items will be addressed during the normal maintenance process.

B. *Valuation Manual* adoptions and updates received, noting that no items identified require coordination under the *NAIC Policy Statement on Coordination with the Valuation Manual.*

C. Interest Maintenance Reserve (IMR) Ad Hoc Group activities. In addition to an update on the Ad Hoc Group's discussions, this update identified that companies are not consistently reflecting negative IMR in cash flow testing (CFT). Examples were also shared with the Life Actuarial (A) Task Force and Chief Financial Regulators of the correct, incorrect, and potential misreporting that has been noted to assist with the review of domiciliary companies.

D. Bond project implementation. This update informed that an NAIC self-study educational program is available to all participants without a course fee for 2024.

E. International Association of Insurance Supervisors (IAIS) Audit and Accounting Working Group activities, including notice of the exposed application paper on climate risk.

Bruggeman made a motion, seconded by Fischer, to adopt the report of the Statutory Accounting Principles (E) Working Group (Attachment One). The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

4. Adopted the Report of the Blanks (E) Working Group

Doggett provided the report of the Blanks (E) Working Group, which met Aug. 7. During this meeting, the Working Group: 1) adopted its May 23 minutes, which included adoption of its Feb. 21 minutes; and 2) adopted its editorial listing and the following proposals:

A. 2023-12BWG Modified – Categorize debt securities on Schedule BA that do not qualify as bonds under *SSAP No. 26R —Bonds* or *SSAP No. 43R—Loan-Backed and Structured Securities* and are captured in the scope of SSAP No. 21R—*Other Admitted Assets*.

B. 2024-01BWG – Update the Investment Schedules General Instructions to identify that common and preferred stock residual interests should be reported on Schedule BA. (Statutory Accounting Principles [E] Working Group agenda item 2023-23).

C. 2024-02BWG Modified – Remove categories from Schedule DA, Part 1, and Schedule E, Part 2 that should be reported on Schedule BA. Add clarifying instructions on what should be included in the other short-term and other cash equivalent categories.

D. 2024-03BWG Modified – Update General Interrogatory 35 for private letter (PL) rating security reporting to clarify what should be included.

E. 2024-04BWG – Add clarifying language to VM-20, Requirements for Principle-Based Reserves for Life Products, supplement in the life blank to include separate accounts where applicable.

F. 2024-05BWG – Add language to Annual General Interrogatory 29.05 (Quarterly General Interrogatory 17.5) to clarify that all investment advisors that have the discretion to make investment decisions, including sub-advisors, should be disclosed through the interrogatory.

G. 2024-06BWG – Property/casualty (P/C) changes: Limit the requirement to send qualification documentation to the board of directors only at the initial appointment and not annually thereafter. Title changes: Update the title instructions so they are more similar to the P/C instructions.

H. 2024-07BWG – Update the illustration under Note 5S(A)—Investments for net negative (disallowed) IMR to add a separate account breakout. Add a new general interrogatory for a company attestation for separate accounts.

I. 2024-08BWG – Update the IMR and asset valuation reserve (AVR) instructions for specific allocation guidance for NAIC designation changes for debt securities (excluding loan-backed and structured securities [LBSS]), mortgage loans, and perpetual preferred stocks. (Statutory Accounting Principles [E] Working Group agenda items 2023-15 and 2023-29).

J. 2024-09BWG Modified – Add a note (5T) to the Notes to Financials to be data captured to report the aggregate collateral loans by qualifying investment collateral.

K. 2024-10BWG Modified – Remove the *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act* disclosure on the transitional reinsurance program and the risk corridors program from Note 24E in the Notes to Financials (Note 24F for P/C) in the *Annual Statement Instructions*.

Doggett stated that the May 23 meeting also included the following actions:

A. Deferred proposal 2024-11BWG – Update the Annual and Quarterly Instructions and Blanks for the New Market Tax Credit changes. Changes that will be made to the Annual include Assets; Notes to Financial

© 2024 National Association of Insurance Commissioners

Statements 5K, 14A, and 21E; AVR; Schedule BA, Parts 1 and 3; and Verification Between Years. Quarterly changes include Assets; Schedule BA, Part 3; and Verification Between Years. The public comment period ends July 8.

B. Exposed one proposal with a public comment period ending July 8.

Doggett stated that the Working Group adopted its editorial listing and the following proposals during its Aug. 7 meeting:

A. 2024-11BWG Modified – Update the Annual and Quarterly Instructions and Blanks for the New Market Tax Credit changes. Changes that will be made to the Annual include Assets; Notes to Financial Statements 5K, 14A, and 21E; AVR; Schedule BA, Parts 1 and 3; and Verification Between Years. Quarterly changes include Assets; Schedule BA, Part 3; and Verification Between Years.

B. 2024-12BWG Modified – Update the quarterly investment schedules for editorial items to the bond project. (Schedule D Verification; Schedule D, Part 1B; Schedule D, Parts 3 and 4; Schedule DL, Parts 1 and 2; and Schedule E, Parts 1 and 2). Update the Quarterly Investment Schedule General Instructions for the changes that were adopted in the Annual Investment Schedule General Instructions. (Reference: adopted proposal 2023-06BWG).

Doggett stated that during its Aug. 7 meeting, the Working Group received a Statutory Accounting Principles (E) Working Group memorandum regarding instructional changes to the AVR to allow collateral loans backed by mortgage loans to flow through AVR as an "Other Invested Asset with Underlying Characteristics of Mortgage Loans."

Doggett made a motion, seconded by Bruggeman, to adopt the report of the Blanks (E) Working Group (Attachment Two). The motion passed unanimously.

Having no further business, the Accounting Practice and Procedures (E) Task Force adjourned.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/APPTF/2024 Summer/Summary and Minutes/Minutes APPTF 2024 Summer TPR.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/27/24

Statutory Accounting Principles (E) Working Group
Chicago, Illinois
August 13, 2024

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met in Chicago, IL, Aug. 13, 2024. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Sheila Travis and Richard Russel (AL); Kim Hudson (CA); William Arfanis and Michael Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Melissa Gibson and Bill Werner (LA); Judy Weaver (MI); Keith Nyhan (NH); Bob Kasinow (NY); Diana Sherman (PA); Jamie Walker (TX); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm and Elena Vetrina (WI). Also participating was David Wolf (NJ).

1. Adopted its May 15 and Spring National Meeting Minutes

Bruggeman directed the Working Group to its May 15 and March 16 minutes. During its May 15 meeting, the Working Group took the following action: 1) adopted support and sponsorship for the Schedule BA modified blanks proposal 2023-12BWG, which incorporates revisions for non-bond debt securities pursuant to the principles-based bond project effective Jan. 1, 2025 (Ref #2023-16); 2) adopted revisions to *Statement of Statutory Accounting Principles (SSAP) No. 107—Risk-Sharing Provisions of the Affordable Care Act,* which: a) removed the transitional reinsurance program and risk corridor disclosures as both programs have expired; and b) removed the portion for the transitional reinsurance program and the risk corridors program from the roll-forward illustration in Exhibit B (Ref #2014-13); and 3) exposed revisions to the principles-based bond project, which detailed discussions of the project. (Ref #2019-21).

Additionally, the Working Group met Aug. 8 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss the Summer National Meeting agendas.

Sherman made a motion, seconded by Walker, to adopt the Working Group's May 15 (Attachment One-A) and March 16 minutes (*see NAIC Proceedings – Spring 2024, Accounting Practices and Procedures (E) Task Force, Attachment One*). The motion passed unanimously.

2. Reviewed Comments on Non-Contested Positions

The Working Group reviewed comments on non-contested positions (Attachment One-B).

A. Ref #2024-02

Bruggeman directed the Working Group to agenda item *2024-02: Accounting Standards Update (ASU) 2023-01, Leases (Topic 842), Common Control Arrangements* (Attachment One-C). Jake Stultz (NAIC) stated that ASU 2023-01 focuses on two issues, both related to private company stakeholders' concerns about applying Topic 842 to related party arrangements between entities under common control. The first issue provides a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors, and the second issue involves the accounting for leasehold improvements associated with a lease between entities under common control. Stultz stated that interested parties had no comments on this item and that NAIC staff recommend the Working Group adopt, with modification, ASU 2023-01 in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold*

© 2024 National Association of Insurance Commissioners

Improvements and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*.

B. Ref #2024-03

Bruggeman directed the Working Group to agenda item *2024-03: ASU 2023-08, Accounting for and Disclosure of Crypto Assets* (Attachment One-D). Stultz stated that, on March 16, the Working Group exposed revisions to adopt, with modification, *ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets* in *SSAP No. 20—Nonadmitted Assets* and with the intent of also nullifying *Interpretation (INT) 21-01: Accounting for Cryptocurrencies* (Attachment One-E). The adoption of this agenda item incorporates guidance in SSAP No. 20 that crypto assets are nonadmitted assets for statutory accounting. Stultz stated that interested parties had no comments on this item and that NAIC staff recommend that the Working Group adopt the exposed revisions to SSAP No. 20 and nullify INT 21-01 upon the adoption of this agenda item, as the revisions to SSAP No. 20 also incorporate and expand guidance previously in INT 21-01.

C. Ref #2024-08

Bruggeman directed the Working Group to agenda item *2024-08: Consistency Revisions for Residuals* (Attachment One-F). Julie Gann (NAIC) stated that on March 16, the Working Group exposed revisions to incorporate consistency revisions for residual tranches and residual security interests. Over the last few years, various revisions have been incorporated for residual interests. These began with revisions to clarify the reporting on Schedule BA (instead of Schedule D-1) along with the residual definition and guidance within each investment SSAP to highlight that residuals shall be captured on Schedule BA. Although these revisions were necessary to immediately address the reporting of residuals, the discussions that accompanied these revisions noted that conforming revisions would be needed coinciding with the effective date of the principles-based bond definition guidance to have consistency in guidance location, terminology, and definitions. Gann stated that, with the revisions to *SSAP No. 21—Other Admitted Assets*, to provide the accounting and reporting for residuals, all residuals, regardless of investment structure, shall follow the guidance detailed in SSAP No. 21 and be reported on Schedule BA. She stated that to ensure consistency in definitions and guidance, this agenda item proposes to centralize residual guidance within SSAP No. 21 and use a consistent approach in the other investment SSAPs to exclude residuals from their scope and direct companies to SSAP No. 21. Gann stated that interested parties support the proposed changes and that NAIC staff recommend that the Working Group adopt the exposed revisions, to be effective Jan. 1, 2025. These changes incorporate consistency revisions for residuals so that all SSAPs refer to SSAP No. 21 for the formal definition and accounting and reporting guidance. This adoption also includes revisions to *SSAP No. 26—Bonds*, *SSAP No. 30—Unaffiliated Common Stock*, *SSAP No. 32—Preferred Stock*, *SSAP No. 43—Asset-Backed Securities*, and *SSAP No. 48—Joint* Ventures*, Partnerships and Limited Liability Companies*. The effective date of Jan. 1, 2025, is necessary to mirror the effective date of the SSAP No. 21 guidance.

D. Ref #2024-09

Bruggeman directed the Working Group to agenda item *2024-09: SSAP No. 2R—Clarification* (Attachment One-G). Gann stated on March 16, the Working Group exposed revisions to *SSAP No. 2—Cash, Cash Equivalents, Drafts and Short-Term Investments*. This agenda item has been developed to update the guidance in SSAP No. 2 to remove a lingering reference to items that have been removed from scope, pursuant to the bond project (asset-backed securities—ABS) or from agenda item 2023-17 (mortgage loans and Schedule BA assets). The edits are focused on the guidance that addresses "rolling" cash equivalents and short-term investments in which there is a continued reference to SSAP No. 43 investments and "other invested assets." This guidance has been revised to

© 2024 National Association of Insurance Commissioners

only reflect items in the scope of SSAP No. 2. Gann stated that interested parties have no comments and that NAIC staff recommend that the Working Group adopt the exposed revisions to SSAP No. 2 to eliminate lingering references that imply that ABS, mortgage loans, and other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.

E. Ref #2024-14EP

Bruggeman directed the Working Group to agenda item *2024-14EP: Accounting Practices and Procedures Manual Editorial* (Attachment One-H). Stultz stated that on March 16, the Working Group exposed agenda item 2024-14EP, which proposed to remove the "Revised" and "R" previously intended to identify a substantively revised SSAP from SSAP titles and SSAP references within the *Accounting Practices and Procedures Manual* (AP&P Manual). NAIC staff consider the "Revised" and "R" identifiers to no longer be useful. Stultz stated that interested parties had no comments on this item and that NAIC staff recommend that the Working Group adopt the exposed editorial revisions as exposed.

F. Ref #2023-26

Bruggeman directed the Working Group to agenda item *2023-26: ASU 2023-06, Disclosure Improvements* (Attachment One-I). Wil Oden (NAIC) stated that on March 16, the Working Group exposed revisions to adopt, with modification, *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. On Dec. 1, 2023, the Working Group deferred action on ASU 2023-06 to allow NAIC staff further time to consider whether certain aspects of ASU 2023-06 were applicable to statutory accounting. In October 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-06 in response to a referral from U.S. Securities and Exchange Commission (SEC) Release No. 33-10532, Disclosure Update and Simplification, issued Aug. 17, 2018. The changes detailed in the ASU seek to clarify or improve disclosure and presentation requirements of various topics. Many of the amendments allow users to more easily compare entities subject to the SEC's existing disclosures with those not previously subject to the SEC's requirements, while others represent miscellaneous clarifications or technical corrections of the current disclosure requirements. Two of the more significant items from the SEC referral are the requirement for companies to disclose the weighted average interest rate of debt and provide repurchase agreement (repo) counterparty risk disclosures. The FASB elected to only require the weighted average interest rate disclosure for publicly traded companies due to concerns regarding the complexity of the calculation for private companies. Oden stated that interested parties had no comments on this item and that NAIC staff recommend that the Working Group adopt, with modification, certain disclosures from ASU 2023-06 in *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 86—Derivatives*. The disclosures relevant to repurchase agreements, reverse repurchase agreements, and secured lending will be added to agenda item *2024-04: Conforming Repurchase Agreements* for further consideration as part of the larger project looking at statutory guidance for repurchase agreements and securities lending.

Malm made a motion, seconded by Hudson, to adopt the statutory accounting principles (SAP) concepts and clarifications. The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

3. Continued the Exposure of Agenda Item 2024-05

A. Ref #2024-05

Bruggeman directed the Working Group to agenda item *2024-05: A-791 Paragraph 2.c.* Robin Marcotte (NAIC) stated that on March 16, the Working Group exposed revisions to Appendix A-791, paragraph 2.c. Question and Answer. This agenda item was developed in response to the Valuation Analysis (E) Working Group's referral to the Working Group that recommended making a clarifying edit to Appendix A-791, Life and Health Reinsurance Agreements (A-791), Section 2.c. Question and Answer by removing the first sentence, which reads, "Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide." Marcotte stated that the Valuation Analysis (E) Working Group's referral noted that the sentence was unnecessary and was more of an aside statement in the discussion of group term life; however, the referral raised concerns that this sentence was being misinterpreted. Marcotte stated that interested parties provided no comments.

Mike Monahan (American Council of Life Insurers—ACLI), representing interested parties, stated that the two proposals on risk transfer, agenda items 2024-05 and 2024-06, should be considered together. He stated that interested parties' comments for agenda item 2024-06, which recommended the Working Group delay taking action, were intended to be referenced in agenda item 2024-05.

Walker made a motion, seconded by Clark, to continue the exposure of agenda item *2024-05: A-791 Paragraph 2.c.* until Sept. 27 to allow for further comment.

4. Reviewed Comments on Exposed Items

The Working Group reviewed comments received on previously exposed items (Attachment One-B).

A. Agenda Item 2019-21

Bruggeman directed the Working Group to agenda item *2019-21: Principles-Based Bond Project*. Gann stated that the Working Group exposed updates to the draft issue paper for the principles-based bond project for a public comment period that ended June 21. The issue paper documents the discussions and decisions within the principles-based bond project and has been updated to reflect the final actions. Additionally, consistency edits and reorganization have been reflected as the authoritative SAP revisions have been adopted. (As a reminder, issue papers are not authoritative; they simply provide background and discussion elements for historical reference.) Changes from the prior exposed version are shown as tracked within the document. Gann stated that NAIC staff recommend that the Working Group adopt the issue paper with modifications to reflect the interested parties' comments (Attachment One-J). Revisions to reflect the comments are shaded yellow in the agenda item. In addition to these changes, in paragraph 36, the last sentence has been revised to be overly clear that the reporting entity shall assess structures when acquired, based on what the issuer intended at the origination. Gann stated that, as a second action, NAIC staff recommend that the Working Group expose a Question-and-Answer Implementation Guide (Q&A) that addresses issues brought from industry to the Bond/American Institute of Certified Public Accountants (AICPA) small group. This Q&A details interpretations of how the SAP guidance should be applied to specific investment structures or characteristics.

© 2024 National Association of Insurance Commissioners

Clark made a motion, seconded by Walker, to adopt the exposed revisions to agenda item *2019-21: Principles-Based Bond Project* and expose the Q&A for a public comment period ending Sept. 27. The motion passed unanimously.

B. Agenda Item 2024-01

Bruggeman directed the Working Group to agenda item *2024-01: Bond Definition – Debt Securities Issued by Funds*. Gann stated that on March 16, the Working Group re-exposed revisions to both SSAP No. 26 and the draft issue paper for the principles-based bond project to clarify the guidance for debt securities issued by funds. The revisions intended to eliminate the rules-based provision, in which SEC registration for a fund is required, and instead permit debt securities issued by funds to be classified as issuer credit obligations if the fund represents an operating entity. The revisions included guidance to assist in determining whether a fund represents an operating entity, and the issue paper guidance continued to identify that collateralized fund obligations (CFOs) and other similar structures would be required to be assessed as ABS to determine if they qualify for bond reporting. Gann stated that the Working Group re-exposed this item with a request that state insurance regulators and industry provide comments on the proposed language that assists with clarifying the scope of guidance and the types of debt securities issued by funds that should be considered as operating entities, and the proposed language to better define the extent of debt that may be issued to fund operations. This re-exposure and request for clarification intends to address interpretations from the original exposure that the revised guidance would permit feeder funds (and other structures that raise debt capital) to be classified as issuer credit obligations. Gann stated that NAIC staff recommend that the Working Group expose language to clarify guidance for debt securities issued by funds for a shortened timeframe ending Sept. 6. Based on the comments received, this agenda item could be considered for adoption via e-vote. If needed, an interim call will be held to discuss comments received. Please note that although industry has communicated support for the 'revised language,' the revised language was developed in the interim while working with industry and was not formally exposed. This exposure is considered appropriate to ensure state insurance regulators and all industry representatives have time to review the revised language.

Clark made a motion, seconded by Malm, to expose language to clarify guidance for debt securities issued by funds for a shortened timeframe for a public comment period ending Sept. 6. The motion passed unanimously.

C. Agenda Item 2024-04

Bruggeman directed the Working Group to agenda item *2024-04: ASU 2023-04 – Conforming Repurchase Agreements*. Gann stated that on March 16, the Working Group exposed this agenda item for comments, which had been developed in response to the January 2024 referral received from the Life Risk-Based Capital (E) Working Group. The referral was sent for assistance to address an ACLI request to modify the treatment of repurchase agreements in the life risk-based capital (RBC) formula to converge with treatment for securities lending programs. As detailed within the ACLI-sponsored life RBC proposal, the request is to incorporate a concept of "conforming programs" for repurchase agreements, with the collateral attributed to these programs assigned a 0.2% (.0020) factor instead of a 1.26% (0.0126) factor. Gann stated that interested parties support the ACLI comment letter submitted April 17. Gann stated that NAIC staff have developed a memorandum that walks through the accounting and reporting for securities lending and repurchase agreements with noted questions. NAIC staff have noted inconsistencies in the application of these transactions across companies, particularly when the components are identified as restricted and how they flow through RBC. They recommend clarification of the guidance to mitigate inconsistencies. Gann stated that NAIC staff recommend the exposure of this memorandum with a request for feedback on the documented processes and the noted questions. NAIC staff have met with

industry representatives in the interim and suggest continued interim discussions with the ACLI and other industry representatives on these transactions and appropriate accounting/reporting.

Walker made a motion, seconded by Kasinow, to expose the memorandum with a request for feedback on the documented processes and the noted questions for a public comment period. The motion passed unanimously.

D. Agenda Item 2024-06

Bruggeman directed the Working Group to agenda item *2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts*. Marcotte stated that on March 16, the Working Group exposed agenda item 2024-06 to address the risk transfer aspect of a December 2023 Valuation Analysis (E) Working Group referral. The exposed revisions to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* were narrowly focused on risk transfer and incorporated guidance noting that interdependent contract features such as a shared experience refund must be analyzed in the aggregate when determining risk transfer. The Working Group exposure was based on existing guidance that is in both the U.S. generally accepted accounting principles (GAAP) and *SSAP No. 62—Property and Casualty Reinsurance* Exhibit A – Implementation Questions and Answers, question 10, which provides guidance stating that contracts with interdependent features must be analyzed in the aggregate for risk transfer. In addition, a reference to A-791, paragraph 6 was proposed to be added to existing yearly renewable term (YRT) guidance, which would require that the reinsurance contract include provisions that the agreement shall constitute the entire agreement between the parties with respect to the business being reinsured thereunder and that there are no understandings between the parties other than as expressed in the agreement. The Valuation Analysis (E) Working Group, Life Actuarial (A) Task Force, and Reinsurance (E) Task Force were all notified of the exposure. The Valuation Analysis (E) Working Group referral identified some combined YRT and coinsurance contracts with an aggregate experience refund and the inability to independently recapture the different types of reinsurance. The referral noted that the contract must be evaluated in aggregate for risk transfer in such cases. The Valuation Analysis (E) Working Group referral also noted that the complexity of such contracts was not readily apparent to regulatory reviewers, and the Valuation Analysis (E) Working Group wanted to increase awareness of this topic. It noted concerns with companies either taking too large of reinsurance credit or an inappropriate credit.

Marcotte stated that the Working Group received two comment letters. The comment letter from Clare Thinking, Inc. supported the exposure, agreeing that interdependent contract features must be analyzed in aggregate and that the intent of A-791 was that reinsurance credit should not include the possibility of negative surplus impact to the ceding entity. Marcotte stated that the interested parties commented that the exposed language is characterized as a clarification; it is unclear that the proposed changes are strictly clarifications. Specifically, interested parties are concerned that the exposed language could lead to broader interpretive changes across the industry. She stated that the interested parties noted that such combination contracts need to be analyzed individually to determine if risk transfer is met. Marcotte stated that interested parties suggest that further discussion between industry participants, the NAIC, and state insurance regulators on this important topic would ensure mutual understanding of intent. Marcotte noted that several of the comments received were regarding the Valuation Analysis (E) Working Group's referral rather than the exposed language.

Marcotte stated that NAIC staff recommend re-exposing the agenda item until Sept. 27 to allow for discussion at the Fall National Meeting. She recommended that the Working Group specifically request comments on: 1) detail on the extent to which this agenda item would impact existing YRT combination contracts; and 2) specific language regarding the concept that interdependent contract features should be analyzed in aggregate. In

© 2024 National Association of Insurance Commissioners

addition, Marcotte recommended that the comments received by the Working Group on the most recent exposure be shared with the same groups notified of the prior exposure.

Monahan stated that the ACLI supports re-exposing this agenda item, which the ALCI views as more than a clarification. He noted that the ACLI will provide examples to the Working Group on the complexities of the issues.

Clark requested more information on the dollar magnitude of the treaties that might not qualify for risk transfer. He noted from initial regulator reviews of Schedule S that there seem to be relatively few contracts. He stated that he views this as a clarification, as it has been widely understood for both GAAP and statutory accounting that interdependent contract features (whether in separate contracts or the same contract) need to be analyzed in aggregate. Clark stated that, in his view, this re-exposure is to gather more information rather than a concern regarding the exposed language. Bruggeman also stated that the exposed language was narrow, and comments addressed to this Working Group should focus on the exposed language.

Sheldon Summers (Claire Thinking, Inc.) stated that his comments were his own opinion. He stated that when the *Life and Health Reinsurance Agreements Mode Regulation* (#791) was adopted, one of the main objectives was that reinsurance agreements that provided surplus relief should only reflect surplus relief that had permanence. Therefore, several of the provisions of Model #791 are meant to ensure that reported surplus relief reflects permanence. For example, renewal expense allowances have to cover expenses. Otherwise, the company would incur expenses greater than what it would receive, which would deplete the surplus over time. Therefore, that type of surplus relief would not be considered permanent. Other provisions also address this major objective. Summers stated that a reinsurance agreement that includes coinsurance that imposes an obligation for a YRT agreement, and the two coverages are interdependent, should be reviewed in their entirety to ensure they meet the objectives of A-791.

Hudson made a motion, seconded by Clark, to re-expose agenda item 2024-06 for a public comment period ending Sept. 27 and directed NAIC staff to forward the comments previously received to the Valuation Analysis (E) Working Group, Life Actuarial (A) Task Force, and Reinsurance (E) Task Force. The motion passed unanimously. The Working Group specifically requested: 1) industry examples; 2) details on both the dollar impact and the number of existing YRT combination contracts that might not meet risk transfer from the exposed revisions; and 3) that specific language regarding the concept that interdependent contract features be analyzed in aggregate.

E. Agenda Item 2024-07

Bruggeman directed the Working Group to agenda item *2024-07: Reporting of Funds Withheld and Modco Assets.* Stultz stated that on March 16, the Working Group exposed a concept agenda item with the intent to develop future revisions to annual statement Schedule S and Schedule F to address the reporting of assets subject to funds withheld and modified coinsurance (modco) arrangements. The initial recommendation is to add a new part to the reinsurance Schedule S in the life/fraternal and health annual statement blanks and Schedule F in the property/casualty (P/C) and title annual statement blanks. The new part would be similar in structure to Schedule DL, include all assets held under a funds withheld arrangement, and include a separate signifier for modco assets. Stultz stated that interested parties acknowledge the importance of transparency in financial reporting with respect to assets backing funds withheld and modco reinsurance transactions and state insurance regulators' preference to be able to understand the assets supporting these contracts. Stultz stated that NAIC staff recommend that the Working Group expose the draft of the new reporting schedules, which add a new part to the reinsurance Schedule S in the life/fraternal and health annual statement blanks and Schedule F in the P/C and title annual statement blanks and direct NAIC staff to continue working with interested parties on this proposal.

Walker made a motion, seconded by Hudson, to expose the draft of the new reporting schedules for a public comment period ending Sept. 27 and direct NAIC staff to continue collaborating with interested parties on this proposal. The motion passed unanimously.

F. Agenda Item 2024-10

Bruggeman directed the Working Group to agenda item *2024-10: SSAP No. 56—Book Value Separate Accounts*. Gann stated that on March 16, the Working Group exposed an agenda item to expand the guidance in *SSAP No. 56—Separate Accounts* to further address situations and provide consistent accounting guidelines for when assets are reported at a measurement method other than fair value. The guidance in SSAP No. 56 predominantly focuses on separate account products in which the policyholder bears the investment risk. In those situations, the assets in the separate account are reported at fair value. SSAP No. 56 provides limited guidance for assets supporting fund accumulation contracts such as guaranteed investment contracts (GICs), which do not participate in underlying portfolio experience, with a fixed interest rate guarantee, purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, with the direction that these assets shall be recorded as if they were held in the general account. This measurement method is generally referred to as "book value." NAIC staff are aware that there has been an increase in assets reported at "book value" within the separate account. Gann stated that these have been approved under state-prescribed practices and/or interpretations that the reference for fund accumulation contracts captures pension risk transfer (PRT) or registered indexed-linked annuities (RILA) and other similar general-account type products that the state of domicile has approved for reporting in the separate account. Gann stated that interested parties are currently working with NAIC staff and the Interest Maintenance Reserve (IMR) Ad Hoc Group on this agenda item. She stated that NAIC staff recommend that the Working Group expose draft revisions to SSAP No. 56 to allow for initial review and consideration of potential changes to update measurement method guidance and specify the process to transfer assets for cash between the general and book-value separate accounts. In addition to the proposed revisions, NAIC staff questions are shaded in the document requesting additional information from state insurance regulators and industry. These questions focus predominantly on seed money and other asset transfers not captured in the proposed guidance. Gann stated that it is proposed that this item be exposed for a public comment period ending Nov. 8 to allow more time for review and comment generation. Discussion of the comments is anticipated in the interim prior to the 2025 Spring National Meeting.

Walker made a motion, seconded by Clark, to expose draft revisions to SSAP No. 56 to allow for initial review and consideration of potential changes to update measurement method guidance and specify the process to transfer assets for cash between the general and book-value separate accounts for a public comment period ending Nov. 8. The motion passed unanimously.

G. Agenda Item 2024-11

Bruggeman directed the Working Group to agenda item *2024-11: ASU 2023-09, Improvements to Income Tax Disclosures*. Oden stated that on March 16, the Working Group exposed revisions to adopt, with modification, ASU 2023-09, Improvements to Income Tax Disclosures. However, based on the comments from interested parties, the NAIC staff recommendation has been changed from adopt with modification to reject for statutory accounting purposes. Oden stated that NAIC staff agreed with interested parties' comments that the additions from the ASU are duplicative of existing statutory income tax disclosures. NAIC staff have maintained the recommendation of deleting paragraph 23.b. from *SSAP No. 101—Income Taxes*, as both staff and interested parties agree this disclosure is no longer relevant. As the NAIC staff recommendation has been changed, the

© 2024 National Association of Insurance Commissioners

updated agenda will be exposed for a public comment period ending Sept. 27 to allow for consideration at the Fall National meeting.

Hudson made a motion, seconded by Weaver, to expose revisions to reject ASU 2023-09, Improvements to Income Tax Disclosures, and delete paragraph 23.b. from SSAP No. 101. The motion passed unanimously.

H. Agenda Item 2024-12

Bruggeman directed the Working Group to agenda item *2024-12: Updates to SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures*. Oden stated that on March 16, the Working Group exposed revisions to remove references to *FASB Statement No. 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet* (FAS 105) from *SSAP No. 27* and amend the annual statement instructions to clarify its scope and requirements. It came to NAIC staff's attention that SSAP No. 27 references the long out-of-date FAS 105, which had been superseded by *FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities* (FAS 133) prior to the establishment of the Accounting Standards Codification framework. Additionally, NAIC staff noted that the annual statement instructions only provide disclosures for derivative swaps, futures, and options. However, the guidance in SSAP No. 27 is intended to be applicable to all derivative instruments and financial instruments, except those specifically carved out by the reference to FAS 105. Oden stated that NAIC staff recommend amending SSAP No. 27 to specifically list the financial instruments excluded from the SSAP rather than referencing FAS 105 and that the annual statement instructions to add an "Other" derivatives category, disclosure examples, and instructions for non-derivative financial instruments with off-balance sheet credit risks. Oden stated that NAIC staff recommend that the Working Group defer this agenda item while staff continue to work with industry on this agenda item. Bruggeman stated agreement with the deferral, and no action is required.

I. Agenda Item 2022-12

Bruggeman directed the Working Group to agenda item *2022-12: Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement.* Marcotte stated that on March 16, the Working Group deferred action on this agenda item, originally introduced in 2022 and proposed nullifying *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement* (Attachment One-K). The INT was initially proposed to be nullified as it is inconsistent with the *SSAP No. 25—Affiliates and Other Related Parties* guidance regarding economic and non-economic transactions between related parties. After discussion, the Working Group exposed revisions to maintain the exception, which allows for the use of the statutory book valuation when using assets (such as bonds) to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements.

Marcotte stated that interested parties agree with and support the adoption of the proposed changes; however, the interested parties suggested rewording the disclosure in *SSAP No. 63—Underwriting Pools*, paragraph 13.i. for clarity. Marcotte stated that NAIC staff recommend that the Working Group adopt the exposed revisions to SSAP No. 63 with a modification to paragraph 13.i., which is similar to the edits suggested by interested parties modified to note disclosure should reflect the fair values that differ from statement value. With this adoption, INT 03-02 would also be nullified. Marcotte noted that interested parties supported the revised paragraph 13 wording.

Hudson made a motion, seconded by Weaver, to adopt the exposed revisions to SSAP No. 63 with a modification to paragraph 13.i. and the nullification of INT 03-02 (Attachment One-L). The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

5. Considered Maintenance Agenda – Pending Listing

Walker made a motion, seconded by Hudson, to expose the following SAP concepts and clarifications to statutory accounting guidance for a public comment period ending Sept. 27, except for agenda item 2024-15, which was exposed for a public comment period ending Nov. 8. The motion passed unanimously.

A. Agenda Item 2022-14

Bruggeman directed the Working Group to agenda item *2022-14: New Market Tax Credit Project*. Oden stated this is the issue paper for the new market tax credit (NMTC) project that the Working Group adopted at the Spring National Meeting. Agenda item 2022-14 adopted conceptual changes to *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* and *SSAP No. 94—Transferable and Nontransferable State Tax Credits*, which included expanding the scope of SSAP No. 93 to include all qualifying types of tax credit investments, regardless of structure or underlying tax credit program. The scope of SSAP No. 94 was also expanded to include purchased state and federal tax credits along with updates to the accounting guidance. He stated that the issue paper documents the discussion and decisions on this project, including updates and revisions, and includes a final tracked changes version of SSAP No. 93 and SSAP No. 94, as well as a flowchart that may be useful for industry when evaluating the new decision trees for SSAP No. 93. Oden stated that NAIC staff recommend the Working Group expose the draft issue paper for a public comment period ending Sept. 27 for consideration at the Fall National Meeting.

B. Agenda Item 2024-18

Bruggeman directed the Working Group to agenda item *2024-18: Clarifications to NMTC Project.* Oden stated that this agenda item involves clarifications to the adopted guidance from agenda item 2022-14, adopted at the Spring National Meeting. Oden stated that, after adoption, several certified public accounting (CPA) firms raised questions about the accounting guidance in SSAP No. 93 and SSAP No. 94. He stated that NAIC staff agreed with their points, discussed them with interested parties, and drafted revisions to the accounting guidance in both SSAP No. 93 and SSAP No. 94 to align with the journal entry examples that had been added to each SSAP. Additionally, NAIC staff noted that a sentence in SSAP No. 48 had not been updated as part of the NMTC project, and revisions to that sentence have been included in this agenda item. Oden stated that NAIC staff recommend that the Working Group move this item to the active listing, categorize it as a SAP clarification, and expose revisions to SSAP No. 48, SSAP No. 93, and SSAP No. 94, effective Jan. 1, 2025.

C. Agenda Item 2023-24

Bruggeman directed the Working Group to agenda item *2023-24: Current Expected Credit Losses (CECL)*. Oden stated that this is the issue paper that the Working Group directed staff to prepare on CECL. As a reminder, on Jan. 10, the Working Group adopted 2023-24, which proposed revisions to various SSAPs to reject *ASU 2016-13, Measurement of Credit Losses on Financial Instruments* (CECL), and other CECL-related ASUs for statutory accounting purposes. Upon adoption, the Working Group directed NAIC staff to prepare an issue paper documenting pre-CECL impairment guidance. Since many SSAPs adopted pre-CECL impairment guidance, the Working Group wanted to ensure that any guidance superseded by CECL was readily available for future use. Oden stated that NAIC staff recommend the Working Group expose the draft issue paper for a public comment period ending Sept. 27 for consideration at the Fall National Meeting.

© 2024 National Association of Insurance Commissioners

D. Agenda Item 2024-15

Bruggeman directed the Working Group to agenda item *2024-15: ALM Derivatives.* Gann stated that this is a new concept agenda item addressing asset-liability matching (ALM) derivatives and arose from the IMR Ad Hoc Group. Gann stated that when *INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve* was developed, it was identified that some life companies have been including gains and losses from derivatives in IMR that were not considered accounting-effective under SSAP No. 86 but were deemed economically effective. These derivatives are recorded at fair value, with gains and losses running through surplus. Upon termination, if deemed economically effective, the realized gains and losses were reversed to IMR and amortized over time by some life entities.

This practice has been deemed inconsistent and is now being reviewed. Gann stated that this agenda item contemplates a new SSAP similar to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*, which deals with derivative hedging for variable annuity guarantees and allows deferring gains and losses for those specific derivatives. She stated that the agenda item proposes developing a new SSAP to address similar issues for ALM derivatives in which the derivative gains and losses would be deferred and not go through IMR.

Gann stated that this is a concept exposure without revisions to existing guidance. She stated that the agenda item seeks feedback on developing statutory accounting guidance for deferring derivative gains and losses that hedge interest rate risk, like the process used in IMR but more formalized. She noted that the exposure also requests input on whether there should be an aggregate limit on "soft assets," such as negative IMR, electronic data processing (EDP) equipment, deferred tax assets, and goodwill. Gann stated that this will likely be a complex long-term discussion, potentially taking a few years to develop fully. She stated that the public comment period ends Nov. 8, and there is no plan to discuss it at the Fall National Meeting. Gann recommended that NAIC staff continue working with industry to better understand derivative programs, which include two broad types and effectiveness tests.

Bruggeman noted that derivatives that are not accounting effective are carried at fair value; therefore, their unrealized gain or loss results are already shown in surplus, and therefore, having the realized gain or loss be reversed to IMR when the derivate ends seemed counterintuitive. He noted that this is a good time for the Working Group to discuss aggregate limitations on soft assets.

Andersen asked how common these types of derivatives are. Gann stated that approximately nine companies are using the guidance from SSAP No. 108, and while not many companies are using IMR for derivatives, those that do have significant amounts involved. Gann stated that per the NAIC staff review of the 2023 narrative disclosures on negative IMR, disclosures were not consistently fully completed. However, she does expect improvement in 2024, as the disclosures will now be data-captured. Based on the NAIC staff review, only 14 companies were identified as reporting derivatives in IMR. As a caveat, reporting entities that had previously reported derivative gains in IMR were allowed to continue reporting derivative losses under INT 23-01, which is effective until year-end 2025.

Bruggeman noted that the derivative loss amounts deferred and admitted as negative IMR were material for some of those entities. Clark stated that more reporting entities would likely apply the guidance if such guidance were codified. Wolf stated that the deferral could be either realized gains or losses; therefore, the practice may provide either a benefit or a detriment. Bruggeman requested a state insurance regulator review of this agenda item during the exposure period.

© 2024 National Association of Insurance Commissioners

E. Agenda Item 2024-16

Bruggeman directed the Working Group to agenda item *2024-16: Repacks and Derivative Wrapper Investments*. Gann stated that this agenda item was developed to address debt security investments with derivative components that do not qualify as structured notes. Although the original focus was on specific "credit repack" investments, the agenda item has been expanded to ensure that all debt security investments with derivative wrappers/components are captured. Gann stated that a credit repack involves an entity selling a debt instrument to a Special Purpose Vehicle (SPV), which then wraps it with a derivative and sells it back. These structures fall into the ABS category but fail the bond definition due to a lack of substantive credit enhancement. Gann noted that she does not believe that these are prevalent in the U.S. but are apparently more common in Europe. Gann also noted that the lack of transparency regarding derivative structures within financial statements is a concern with these types of investments. Proposed changes suggest separating derivatives from bond structures on Schedule D with industry support. Companies should treat transactions involving bond changes as dispositions and reacquisitions. Gann stated that NAIC staff recommend that the Working Group expose proposed edits to SSAP No. 86 to establish guidance that requires separate accounting and reporting of derivatives captured in debt security structures. She stated that this is a significant change from existing guidance, which explicitly precludes the separation of embedded derivatives. In addition to these changes, minor revisions are proposed to SSAP No. 26 and the annual statement instructions to clarify application guidance. Gann stated that NAIC staff will draft an issue paper to document these revisions. She stated that the initial proposed public comment period ends Sept. 27 to allow for discussion at the Fall National Meeting.

F. Agenda Item 2024-17

Bruggeman directed the Working Group to agenda item *2024-17: SSAP No. 108 – VM-01*. Gann stated that this agenda item has been prepared to update the guidance in *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* for a clearly defined hedging strategy (CDHS). She stated that this update relates to the derivative guidance mentioned previously. Originally, it incorporated the definition of a CDHS adopted by the Life Actuarial (A) Task Force in Valuation Manual (VM)-21, Requirements for Principle-Based Reserves in Variable Annuity. This definition has since moved to VM-01, Definitions for Terms in Requirements, so this proposal is to update SSAP No. 108 to refer to VM-01 instead of VM-21 to ensure consistency. Gann stated that NAIC staff recommend that the Working Group move this item to the active listing and expose revisions to SSAP No. 108 to update the definition of a CDHS to reflect the revised guidance pursuant to VM-01 for a planned exposure until Sept. 27 to allow for consideration at the Fall National Meeting.

G. Agenda Item 2024-19

Bruggeman directed the Working Group to agenda item *2024-19: ASU 2024-02, Codification Improvements.* Oden stated that this agenda proposes removing references to FASB concept statements from the codification. He stated that NAIC staff recommend exposing revisions to reject this within *Appendix-D— Nonapplicable GAAP Pronouncements* as not applicable for statutory accounting since these references are not frequently used and are intentionally included when necessary. Oden stated that the exposure would end Sept. 27 to allow for consideration at the Fall National Meeting.

© 2024 National Association of Insurance Commissioners

6. Considered Maintenance Agenda – Active Listing

A. Agenda Item 2023-28

Bruggeman directed the Working Group to agenda item *2023-28: Collateral Loan Reporting*. Gann stated that NAIC staff are proposing a new reporting line for collateral loans. Currently, collateral loans do not go through asset valuation reserve (AVR) but are reported directly. She stated that some companies report them in different AVR reporting lines for improved RBC. Gann stated that NAIC staff are proposing more granular reporting lines and note disclosures for collateral loans based on underlying collateral. The goal is to have this change in effect by Jan. 1, 2026. She stated that NAIC staff intend to expose this proposal and get feedback before adoption and that NAIC staff recommend exposure of this agenda item with a request for comments on potential Schedule BA collateral loan reporting lines. She stated that, with exposure, NAIC staff recommend sponsoring a blanks proposal to begin detailing the revisions to Schedule BA and AVR that would occur with these changes. As the resulting AVR and RBC factors would be contingent on the actions of the Capital Adequacy (E) Task Force (and its RBC working groups), NAIC staff recommend that the Working Group direction notify those groups of this action.

Walker made a motion, seconded by Clark, to expose agenda item 2023-28, which includes sponsoring a blanks proposal to begin detailing the revisions to Schedule BA and AVR that would occur with these changes.

7. Discussed Other Matters

A. Review of U.S. GAAP Exposures

Stultz identified one GAAP item currently exposed by the FASB (Attachment One-M). He stated that comments are not recommended at this time and that NAIC staff recommend a review of the final issued ASUs under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements*.

B. Update on *Valuation Manual* Adoptions

Marcotte stated that none of the revisions reported in the memorandum as adopted updates to the *Valuation Manual* by the Life Actuarial (A) Task Force require Working Group coordination under the NAIC Policy Statement on Coordination with the Valuation Manual (Attachment One-N).

C. Update on the IMR Ad Hoc Subgroup

Gann stated preliminary assessments have occurred to review how companies treated the admitted negative IMR in cash flow testing (CFT). From this limited review, companies are not consistently reflecting negative IMR in CFT. Information was shared with the chief financial regulators on examples of correct, incorrect, and potential misreporting, which has been noted to assist with the review of domiciliary companies. She stated that state insurance regulators are requested to contact NAIC staff with any questions (Attachment One-O).

D. Update on the Bond Project Implementation/Bond Small Group

Gann stated that the adopted statutory accounting and reporting revisions related to the principles-based bond definition are effective Jan. 1, 2025. She stated that an NAIC-provided self-study educational program is available to all participants without a course fee for 2024, and a course fee is expected for non-regulators in 2025. Gann stated that the course is designed to begin any Monday, and anyone wanting to register must do so no later than

© 2024 National Association of Insurance Commissioners

the Wednesday prior to the Monday on which they would like to start the course. She stated that the course must be completed within the week and is estimated to take approximately three hours. Gann said the enrollment link can be found on the NAIC Education & Training website. Gann stated that a small group comprised predominantly of state insurance regulators and AICPA representatives, with a few other interested parties, was formed to discuss application questions of the bond definition on specific investment designs or characteristics. The small group's discussions have resulted in a proposed Q&A Implementation Guide that was exposed for comment earlier under the hearing agenda. She stated that, as deemed necessary, further discussions may expand the Q&A.

E. Update on the IAIS AAWG

Gann stated that the International Association of Insurance Supervisors (IAIS) has released a draft application paper on public disclosure and supervisory reporting on climate risk and draft supporting materials on macroprudential and group supervisory issues and climate risk. She stated that feedback on these materials is invited by Sept. 30, and a public background session will be held Aug. 27. Gann stated that this update simply intends to inform Working Group members and interested parties of these ongoing NAIC staff actions to monitor and participate in the IAIS Audit and Accounting Working Group (AAWG). She stated that state insurance regulators can contact NAIC staff if they have any questions on discussions or if additional information is required.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

https://naiconline.sharepoint.com/sites/naicsupportstaffhub/member meetings/e cmte/apptf/2024 summer/summary and minutes/minutes/sapwg/att-one-sapwg minutes 8-13-2024.docx

© 2024 National Association of Insurance Commissioners

Draft: 5/22/24

Statutory Accounting Principles (E) Working Group
Virtual Meeting
May 15, 2024

The Statutory Accounting Principles (E) Working Group of the Accounting Practices and Procedures (E) Task Force met May 15, 2024. The following Working Group members participated: Dale Bruggeman, Chair (OH); Kevin Clark, Vice Chair (IA); Sheila Travis and Richard Russell (AL); Kim Hudson (CA); Michael Estabrook (CT); Rylynn Brown (DE); Cindy Andersen (IL); Melissa Gibson and Stewart Guerin (LA); Judy Weaver and Steve Mayhew (MI); Doug Bartlett (NH); Bob Kasinow (NY); Jamie Walker (TX); Jennifer Blizzard and Doug Stolte (VA); and Amy Malm (WI).

1. Discussed Comments on Exposed Items

The Working Group met to review comments received (Attachment One-A1) on items exposed during its Feb. 20 meeting and the Spring National Meeting.

A. Agenda Item 2023-16

Bruggeman directed the Working Group to agenda item 2023-16: Schedule BA Reporting Categories. Julie Gann (NAIC) stated that after considering comments on the exposed blanks proposal 2023-12BWG, the Working Group exposed this agenda item at its Feb. 20 meeting and directed a modified Working Group sponsored blanks proposal to be shared with the Blanks (E) Working Group for consideration. The modified proposal was exposed for a public comment period that ended April 23, with a follow-up meeting scheduled for May 23 to consider adoption. She stated that this agenda item does not result in statutory accounting revisions.

Gann stated that interested parties have submitted comments to the Blanks (E) Working Group on the exposure, including proposing to remove the maturity date column from Schedule BA. She stated that NAIC staff oppose this change and instead propose to clarify what should be captured in that column. Gann stated that NAIC staff recommend the Working Group adopt this agenda item and sponsor modifications to the Blanks (E) Working Group to be considered part of the package for adoption on May 23. She reiterated that these revisions related to Schedule BA would be effective Jan. 1, 2025, to incorporate the non-bond risk security reporting lines related to the previously adopted bond project.

Tip Tipton (Thrivent), representing interested parties, stated that interested parties have no concerns over the additional wording or date.

Hudson made a motion, seconded by Walker, to adopt the agenda item and support the adoption of the modified blanks proposal 2023-12BWG with the additional modifications discussed (Attachment One-A2). The motion passed unanimously.

B. Agenda Item 2023-28

Bruggeman directed the Working Group to agenda item 2023-28: Collateral Loan Reporting. Gann stated that on Feb. 20, the Working Group adopted a new collateral loan disclosure for year-end 2024 and exposed proposed reporting lines to Schedule BA for collateral loans. She stated that the Working Group also exposed proposed reporting lines to collect more granular data on Schedule BA. Gann stated that the Working Group also requested feedback from industry regarding how the collateral loans lines should map through for risk-based capital (RBC) purposes.

© 2024 National Association of Insurance Commissioners

Gann stated that several interested parties' comments were received with regard to those reporting lines, with the most relevant comment having to do with the collateral loan lines with underlying characteristics of mortgage loans. Gann stated that some collateral loans with underlying characteristics of mortgage loans or backed by mortgage loans were not being captured in the collateral loan line but instead in the non-registered private fund line, which is being eliminated. She stated that interested parties provided comments suggesting a temporary change to the life RBC calculation that would allow collateral loans, with mortgage loans as collateral, to still be reported on the collateral loan line and allow them to map through with this RBC treatment for year-end until the more granular reporting lines of collateral loans are added.

Gann stated that a proposal was sent to the Life Risk-Based Capital (E) Working Group, incorporating this change for RBC purposes. She stated that NAIC staff are recommending two actions: 1) for the Working Group to direct NAIC staff to prepare a memorandum to the Blanks (E) Working Group to incorporate a change to the instructions and allow the collateral loans backed by mortgage loans to flow through as other invested assets with underlying characteristics; and 2) to direct NAIC staff to move forward with sponsoring a blanks proposal for the reporting of collateral loans, using the collateral loan lines that were shown in the agenda item and to work with state insurance regulators and interested parties in the interim regarding how these would flow through to RBC.

Donna Kiernan (MetLife) asked about the time allowance for the Life Risk-Based Capital (E) Working Group to make a decision on this. She also asked whether the existing Schedule BA would be available until the new format is adopted for 2026. Gann stated that the Life Risk-Based Capital (E) Working Group does not currently have a meeting scheduled before the Summer National Meeting. She also stated that the current Schedule BA will be available until the new format is adopted.

Tipton stated that interested parties are supportive of the first item. He stated that interested parties are waiting for the Blanks (E) Working Group discussion of the second item and will respond to that exposure.

Bruggeman directed NAIC staff to prepare a memorandum to the Blanks (E) Working Group. He also directed NAIC staff to proceed with sponsoring a blanks proposal for the reporting of collateral loans, using the reporting lines shown in the agenda item, modified to reflect interested parties' comments.

C. Agenda Item 2024-13

Bruggeman directed the Working Group to agenda item 2024-13: Update SSAP No. 107 Disclosures. Robin Marcotte (NAIC) stated that at the Spring National Meeting, the Working Group exposed revisions to *Statement of Statutory Accounting Principle (SSAP) No. 107—Risk-Sharing Provisions of the Affordable Care Act*. She stated that the transitional reinsurance program and the risk corridors program have both expired, and the related disclosures are proposed for deletion. Marcotte stated that the roll forward illustration in Exhibit B was also proposed to be revised to delete the sections related to the transitional reinsurance program and the risk corridors program. She stated that blanks proposal 2024-10BWG was concurrently exposed to allow for the disclosures to be considered for removal beginning with the year-end 2024 financial statements.

Marcotte stated that the comments from interested parties support the exposed revisions and recommend additional deletion of SSAP No. 107, paragraph 62, which would also impact two related items in blanks proposal 2024-10BWG. She stated support for these revisions because SSAP No. 107, paragraph 62 was originally related to the risk corridors program. She stated that NAIC staff recommend that the Working Group adopt the exposed revisions with modifications to incorporate interested parties' comments effective for year-end 2024. Marcotte stated that the Blanks (E) Working Group received the same comments and received comments regarding additional edits to the Supplemental Health Care Exhibit. She stated that when NAIC staff analyzed the data, there

© 2024 National Association of Insurance Commissioners

was still information being reported on those lines, possibly erroneously, and that NAIC staff recommend that those edits be addressed by a separate blanks proposal to allow for additional investigation prior to being deleted. This would still delete the disclosures for SSAP No. 107 for year-end 2024.

Tipton stated that interested parties are supportive of moving forward with this agenda item and the changes.

Hudson made a motion, seconded by Malm, to expose revisions with modifications that incorporate interested parties' comments effective year-end 2024. The motion passed unanimously.

2. Exposed the Issue Paper Related to the Principle-Based Bond Project

Gann stated that agenda item 2019-21 is the issue paper related to the principle-based bond project. She stated that the issue paper documents the historical discussions and conclusions and has been previously exposed. She stated that issue papers are historical documents that detail background and discussions when a new statutory accounting principle (SAP) concept is adopted. She stated that issue papers are not authoritative and are strictly for historical reference. Gann stated that NAIC staff recommend exposure of the issue paper with a public comment period ending June 21.

Clark made a motion, seconded by Weaver, to expose the *Statutory Issue Paper No. 1XX—Principles-Based Bond Definition* for a public comment period ending June 21. The motion passed unanimously.

Having no further business, the Statutory Accounting Principles (E) Working Group adjourned.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Hearing/02 - May 15, 2024 Meeting Minutes.docx

© 2024 National Association of Insurance Commissioners

D. Keith Bell, CPA
Senior Vice President
Accounting Policy
Corporate Finance
The Travelers Companies, Inc.
860-277-0537; FAX 860-954-3708
Email: d.keith.bell@travelers.com

Rose Albrizio, CPA
Vice President
Accounting Practices
Equitable
201-743-7221
Email: Rosemarie.Albrizio@equitable.com

April 19, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on the Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due April 19th

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment by the Statutory Accounting Working Group (the Working Group) during the NAIC National Meeting in Phoenix with comments due April 19th.

Ref #2023-16: Schedule BA Reporting

The Working Group reviewed the comments received on this item as well as comments received on the exposed blanks proposal 2023-12BWG. After some discussion, the Working Group exposed this agenda item and directed a modified SAPWG-sponsored blanks proposal (2023-12BWG) to recommend for exposure during the February 21, 2024, Banks (E) Working Group conference call. (This agenda item does not propose any SSAP revisions.)

The following key modifications are reflected in the modified Schedule BA blanks proposal and for documentation within this agenda item:

1) Schedule BA has a clear statement that all investments shall be reported in the dedicated reporting line. Investments that do not fit within any specific reporting line shall be captured as an "Any Other Class of Asset."

2) The Schedule BA reporting category for investments in "Joint Ventures, Partnerships and Limited Liability Companies" has been clarified to identify that investments captured within

© 2024 National Association of Insurance Commissioners

this reporting category shall be in scope of SSAP No. 48. With this clarification, the revisions proposed by industry to clarify the "underlying characteristics of bonds" subcategory to include "collateral that has contractual principal and/or interest payments, excluding mortgage loans," as well as the other proposed industry descriptions for other subcategories, has been retained. One exception to the SSAP No. 48 restriction has been included to reference structured settlement payment rights in scope of *SSAP No. 21R—Other Admitted Assets* that have an SVO-Assigned designation. This inclusion is consistent with the guidance in SSAP No. 21R. The Schedule BA blanks proposal maintains the recommendation to eliminate the "non-registered private fund" reporting category as those items shall be reported in the "joint ventures, partnerships and limited liabilities companies" reporting category if in scope of SSAP No. 48.

3) The Schedule BA reporting category for residuals has been modified to refer to SSAP No. 21R for the residual definition, pursuant to agenda item 2019-21. As such, the proposed revisions offered by industry in their January 22, 2024, comment letter have not been reflected. Beginning Jan. 1, 2025, all residuals shall be captured in scope of SSAP No. 21R, regardless of the investment form.

Since this item was exposed along with a modified SAPWG-sponsored Blanks Working Group proposal (2023-12BWG), interested parties have focused on providing specific comments on the BWG item, which are primarily editorial in nature. Our comments will be provided by separate comment letter (April 23) to the Blanks Working Group.

Ref #2023-28: Collateral Loan Reporting

The Working Group took the following two actions:

1) The Working Group adopted the exposed revisions to SSAP No. 21R incorporating a collateral loan disclosure for year-end 2024. With this adoption, the Working Group sponsored a blanks proposal to data-capture the disclosure. Adopted revisions to SSAP No. 21R are shown below:

> 5. Collateral loans shall be reported based on the type of qualifying investment that secures the loan. An aggregate note disclosure shall identify the total amount of collateral loans, and the collateral loans admitted and nonadmitted by qualifying investment type.

2) The Working Group also exposed proposed reporting lines to Schedule BA for collateral loans with a comment deadline of April 19, 2024. Although the exposure does not contain AVR reporting revisions, the Working Group is specifically requesting feedback from regulators and industry on whether collateral loans backed by certain types of collateral should flow through AVR for RBC impact. Additionally, the Working Group directed a referral to the Life Risk-Based Capital (E) Working Group on the proposed reporting lines and the AVR mapping/RBC impact for collateral loans.

Interested parties have the following comments on Ref #2023-28 as a Blanks Working Group exposure draft is developed for changes to the Collateral Loan category on Schedule BA:

- Remove the reference to SSAPs on the face of Schedule BA and, for the Collateral Loan sub-categories that have an SSAP reference, incorporate instructions similar to those in the Residual Tranche category. For example, the Cash, Cash Equivalents & Short-Term Investments sub-category would have instructions as follows:
  - Include: Investments with underlying collateral which, if held individually, would be reported on Schedule E – Part 1 – Cash; Schedule E – Part 2 – Cash Equivalents; Schedule DA – Short-Term Investments.
- Rename the sub-category "*Bonds and Asset-Backed Securities"* to "*Bonds (Issuer Credit Obligations and Asset-Backed Securities)*" as it better reflects reporting terminology.
- Under the "*Joint Ventures, Partnerships or Limited Liability Company Companies"* sub-category, refer to "*Fixed Income Investments"* as "*Bonds"*, which is consistent throughout Schedule BA; the Fixed Income Investments category has been interpreted to include Preferred Stocks and Mortgage Loans.
- Add a "*Preferred Stocks"* category under the "*Joint Ventures, Partnerships or Limited Liability Company Companies"* sub-category for consistency with the main "*Joint Ventures, Partnerships or Limited Liability Company Companies"* category.
- The following underlined wording appears to have been erroneously deleted in the exposure:
  - Interests in Joint Ventures, Partnerships or Limited Liability Companies (Including Non-Registered Private Funds) <u>with Underlying Assets Having the Characteristics of</u>:
- We also suggest a temporary change to the Life RBC risk factor for Collateral Loans with Mortgage Loans as collateral that secures the loan. We will submit proposed changes to the Life RBC WG and the Blanks WG to support these temporary changes until the Life RBC WG addresses the referral from SAP Working Group to adopt permanent changes to the Life RBC for Collateral Loans in the new Schedule BA reporting structure.
- We have no concerns about adding AVR for Collateral Loans since they currently have an RBC factor; this would better align the AVR to RBC for Collateral Loans. Interested parties look forward to working with NAIC Staff and State Insurance Regulators on developing the various AVR factors (e.g., Basic Contribution, etc.) and the related Life RBC factors based on the referral to the Life RBC Working Group.

Ref #2024-13: SSAP No. 107 Disclosures

The Working Group exposed revisions to *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act* which would remove the transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired. In addition, the roll forward illustration in Exhibit B is also proposed to be updated to remove the portion for the transitional reinsurance program and the risk corridors program. The Working Group also directed NAIC staff to prepare a Blanks proposal, allowing for concurrent consideration, to allow for the disclosures to be removed beginning with the year-end 2024 financial statements.

Interested parties generally support the exposed changes to remove the ACA SSAP No. 107 disclosures related to the transitional reinsurance and risk corridors programs.

However, we note that rather than deleting the outdated disclosures specific to the Risk Corridors program in Note 24E/F(4) and 24E/F(5), the titles in the tables in the disclosure were simply modified to replace ”Risk Corridors” with ”Risk Adjustment.” The disclosures required by Note 24E/F(4) and 24E/F(5) were specifically developed for the ACA Risk Corridors program for years 2014 through 2016. The data elements in these two tables are not applicable to the Risk Adjustment program and/or would be duplicative with the Risk Adjustment information already disclosed in FN 24E/F(2) and 24E/F(3). Similarly, paragraph 62 of SSAP 107 was also modified to replace “Risk Corridor” with “Risk adjustment”. However, the disclosure requirements specified in paragraph 62 are specific to the Risk Corridor program. We respectfully request these two Risk Corridors paragraphs be deleted from the Annual Instructions as requested in the Form A submission and paragraph 62 be deleted from SSAP 107.

* * * *

Please feel free to contact either one of us if you have any questions or would like to discuss further.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

Ref #2023-16

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Schedule BA Reporting Categories

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been developed to incorporate more detailed definitions for the annual statement reporting categories of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (SSAP No. 48) and residual interests on Schedule BA: Other Long-Term Invested Assets. These investments are reported on designated lines divided by the reporting entity's classification as to the underlying asset characteristics:

- Bonds/Fixed-Income Instruments*
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

** Bond /fixed-income instruments reported in scope of SSAP No. 48 as non-registered private funds, joint ventures, partnerships, or limited liability companies is divided between investments that have an NAIC designation assigned by the SVO and those that do not have an NAIC designation assigned by the SVO.*

The recent residual discussions have further identified that variations exist across industry on the types of investments that should be captured within each category. It has also been noted that the Annual Statement Instructions are limited with guidance and examples for determining reporting classification.

This agenda item has been drafted to propose revisions to the reporting category descriptions in the Annual Statement Instructions to improve consistency in reporting for both ease of industry classifications and for regulator assessment of the type and volume of investment types. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in statutory accounting revisions.

Existing Authoritative Literature:
A/S Instructions – Life, Accident and Health/Fraternal Companies

Reporting Categories on Schedule BA:

Non-Registered Private Funds with Underlying Assets Having Characteristics of:
Bonds
NAIC Designation Assigned by the Securities Valuation Office (SVO)
Unaffiliated.....0799999
Affiliated.....0899999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

© 2024 National Association of Insurance Commissioners

Unaffiliated....0999999
Affiliated....1099999

Mortgage Loans

Unaffiliated....1199999
Affiliated....1299999

Other Fixed Income Instruments

Unaffiliated....1399999
Affiliated....1499999

Joint Venture, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics of:

Fixed Income Instruments

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated....1599999
Affiliated....1699999

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated....1799999
Affiliated....1899999

Common Stocks

Unaffiliated....1999999
Affiliated....2099999

Real Estate

Unaffiliated....2199999
Affiliated....2299999

Mortgage Loans

Unaffiliated....2399999
Affiliated....2499999

Other

Unaffiliated....2599999
Affiliated....2699999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Fixed Income Instruments

Unaffiliated....4699999
Affiliated....4799999

Common Stock

Unaffiliated....4899999
Affiliated....4999999

Preferred Stock

Unaffiliated....5099999
Affiliated....5199999

Real Estate

Unaffiliated....5299999
Affiliated....5399999

Mortgage Loans

Unaffiliated....5499999

© 2024 National Association of Insurance Commissioners

Affiliated 5599999

Other

Unaffiliated 5699999
Affiliated 5799999

Schedule BA Classification Instructions/Guidance:

Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.

Joint Ventures, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics:

Fixed Income Instruments

Include: Leveraged Buy-out Fund.

A fund investing in the "Z" strip of Collateralized Mortgage Obligations.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1599999 and 1699999.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1799999 and 1899999.

Common Stocks

Include: Venture Capital Funds.

Real Estate

Include: Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for

this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Mortgage Loans

Include: Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Other

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the "Fixed Income Instruments," "Common Stocks," "Real Estate" or "Mortgage Loans" subcategories.

Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captures securitization tranches and beneficial interests as well as other structures captured in scope of *SSAP No. 43R – Loan-Backed and Structured Securities*, that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See SSAP No. 43R for accounting guidance.

Fixed Income Instruments

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 1 – Long-Term Bonds*

Common Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 2 – Common Stocks*

Preferred Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*

Real Estate

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule A – Real Estate Owned*

© 2024 National Association of Insurance Commissioners

Ref #2023-16

Mortgage Loans

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule B – Mortgage Loans*

Other

Include: Items that do not qualify for inclusion in the above subcategories.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

- Bond Project: Under the principle-based bond definition project, revisions are proposed to combine the non-registered provide funds within the reporting category for joint ventures, partnerships and limited liability companies as those items would also be in scope of SSAP No. 48. With that change the category of "fixed income instruments" would be retained.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): NA

Recommendation:
NAIC staff recommend that the Working Group include this item on their maintenance agenda as a SAP clarification/potential blanks reporting change and expose this agenda item with a request for industry and regulator feedback 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. Specifically, comments are requested on what should be captured as investments with underlying asset characteristics of:

- Fixed-Income Instruments
- Common Stocks
- Real Estate
- Mortgage Loans
- Other

As detailed in the current A/S instructions, descriptions are included for non-registered private funds, joint ventures, partnerships, and limited liability companies, whereas references to the SSAP the underlying assets would be captured in are included for residual interests.

This agenda item is only intended to improve the annual statement instructions and examples for the allocation of investments based on the above underlying characteristics of assets. If needed, and preferred by the Working Group, this agenda item could be expanded to propose new reporting lines (structural changes) to Schedule BA. As noted within 'Activity to Date,' revisions are currently being considered to combine and rearrange broad reporting lines under the bond project. Those revisions currently do not expand on the instructions for reporting based on underlying characteristics of assets. The proposed revisions from the Statutory Accounting Principles (E) Working Group will be used to sponsor a blanks annual statement instruction change. The revisions within this agenda item will not result in actual statutory accounting revisions.

Staff Review Completed by: Julie Gann - NAIC Staff, May 2023

© 2024 National Association of Insurance Commissioners

Ref #2023-16

Status:
On August 13, 2023, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification and exposed this agenda item to further define for consistency purposes 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.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group exposed additional revisions, as detailed below, to further define the investments captured on Schedule BA along with the continued proposed to combine non-registered private funds within the proposed reporting lines for joint ventures, partnerships, or limited liability companies. The Working Group also requested additional regulator and industry feedback on whether more specificity is needed since the existing Schedule BA descriptions are fairly broad.

Proposed Interested Parties' Edits to the Schedule BA Instructions from Separate Attachment:

Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.

Joint Ventures, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics:

Fixed Income Instruments

Include: Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans~~Leveraged Buy-out Fund~~.

~~A fund investing in the "Z" strip of Collateralized Mortgage Obligations.~~

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1599999 and 1699999.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the*

© 2024 National Association of Insurance Commissioners

NAIC Investment Analysis Office for this category. Report these investments on Lines 1799999 and 1899999.

Common Stocks

Include: Venture Capital Funds or other underlying equity investments.

Real Estate

Include: Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Mortgage Loans

Include: Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Other

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the "Fixed Income Instruments," "Common Stocks," "Real Estate" or "Mortgage Loans" subcategories.

~~Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).~~

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests from securitization tranches and beneficial interests as well as other structures captured in scope of *SSAP No. 43R – Loan-Backed and Structured Securities* Investments in joint ventures, partnerships and limited liability companies captured in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests or that predominantly hold residual interests.

This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.

Fixed Income Instruments

Include:	-Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans~~, if held individually, would be reported on *Schedule D – Part 1 – Long-Term Bonds*~~.

Common Stocks

Include:	Investments with underlying collateral which are securities that represent a subordinate equity ownership.~~, if held individually, would be reported on *Schedule D – Part 2 – Section 2 – Common Stocks*~~

Preferred Stocks

Include:	Investments with underlying collateral which is a security that represents ownership of a corporation and gives the holder a claim prior to the claim of common stockholders on earnings and also generally on assets in the event of liquidation.~~, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*~~

Real Estate

Include:	Investments with underlying collateral which is defined as directly-owned real estate properties and single real estate property investments that are directly and wholly-owned through a limited liability company~~,~~. ~~if held individually, would be reported on *Schedule A – Real Estate Owned*~~

Mortgage Loans

Include:	Investments with underlying collateral which is secured by a mortgage on real estate.~~, if held individually, would be reported on *Schedule B – Mortgage Loans*~~

Other

Include:	Items that do not qualify for inclusion in the above subcategories.

On February 20, 2024, the Statutory Accounting Principles (E) Working Group reviewed the comments received on this item as well as comments received on the exposed blanks proposal 2023-12BWG. After the discussion, the Working Group exposed this agenda item and directed a modified SAPWG-sponsored blanks proposal (2023-12BWG) to recommend for exposure during the February 21, 2024, Banks (E) Working Group conference call. (This agenda item does not propose any SSAP revisions.)

The following key modifications are reflected in the modified Schedule BA blanks proposal and for documentation within this agenda item:

1) Schedule BA has a clear statement that all investments shall be reported in the dedicated reporting line. Investments that do not fit within any specific reporting line shall be captured as an "Any Other Class of Asset."

2) The Schedule BA reporting category for investments in "Joint Ventures, Partnerships and Limited Liability Companies" has been clarified to identify that investments captured within this reporting category shall be in scope of SSAP No. 48. With this clarification, the revisions proposed by industry to clarify the "underlying characteristics of bonds" subcategory to include "collateral that has contractual principal and/or interest payments, excluding mortgage loans," as well as the other proposed industry descriptions for other subcategories, has been retained. One exception to the SSAP No. 48 restriction has been included to reference structured settlement payment rights in scope of *SSAP No. 21R—Other Admitted Assets* that have an SVO-Assigned designation. This inclusion is consistent with the guidance in SSAP No. 21R. The Schedule BA blanks proposal maintains the recommendation to eliminate the "non-registered private fund" reporting category as

those items shall be reported in the "joint ventures, partnerships and limited liabilities companies" reporting category if in scope of SSAP No. 48.

3) The Schedule BA reporting category for residuals has been modified to refer to SSAP No. 21R for the residual definition, pursuant to agenda item 2019-21. As such, the proposed revisions offered by industry in their January 22, 2024, comment letter have not been reflected. Beginning Jan. 1, 2025, all residuals shall be captured in scope of SSAP No. 21R, regardless of the investment form.

On May 15, 2024, the Statutory Accounting Principles (E) Working Group reviewed the comments received on this item as well as comments received on the exposed blanks proposal 2023-12BWG, which is proposed to be effective on January 1, 2025. After the discussion, the Working Group adopted this agenda item, resulting in no SSAP revisions, the adoption is to communicate support for the adoption of 2023-12BWG with the following three additional modifications to the blanks proposal:

1) Rename "Fixed Income Instruments" to "Bonds":

Residual Tranches or Interests with Underlying Assets Having Characteristics of:
Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There should not be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captured in scope of *SSAP No. 21R – Other Admitted Assets.* The scope of SSAP No. 21R includes all in-substance residuals regardless of the investment form. Therefore, this category shall include investments that reflect in-substance residuals in the form of 1) an investment in a securitization tranche or beneficial interest, 2) an investment in a joint venture, partnership or limited liability company, 3) an investment in preferred stock 4) an investment in common stock, or 5) any other investment structure.

~~**Fixed Income Instruments**~~**Bonds**

Include: Investments with underlying collateral which, if held individually, would be reported as issuer credit obligations on *Schedule D – Part 1 – ~~Long Term Bonds~~Section 1,* or as asset-backed securities on *Schedule D – Part 1 – Section 2.* Residual tranches from collateralized loan obligations (CLOs) shall be captured within this reporting line.

Other

Include: Items that do not qualify for inclusion in the above subcategories. Examples include, but are not limited to, residual tranches from investments with underlying assets of student loans, auto loans, aircraft leases or train car leases.

2) Clarify Guidance for Schedule BA, Column 26 – Maturity Date

Column 26 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not be limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments

in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.

~~Use only for securities included in the following subtotal lines.~~

~~State the date the mortgage loan matures.~~

3) Correct Joint Venture, Partnerships and LLCs Reporting Line. (Change from exposure is shaded.)

As Exposed: Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests with Underlying Assets Having the Characteristics of~~:

With Correction: Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of:

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/05-15-24/Adoptions/23-16 - Schedule BA Categories_1.docx

© 2024 National Association of Insurance Commissioners

Statutory Accounting Principles (E) Working Group
Summer National Meeting
Comment Letters Received

TABLE OF CONTENTS

COMMENTER / DOCUMENT	PAGE REFERENCE
Comment Letters Received for Items Exposed for the Summer National Meeting	
ACLI – April 17, 2024 o Ref #2024-04: Conforming Repurchase Agreements	2-5
Claire Thinking, Inc. – May 30, 2024 o Ref #2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts	6-7
Interested Parties – May 31, 2024 o Ref #2022-12: Review of *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement* o Ref #2023-26: *ASU 2023-06, Disclosure Improvements* o Ref #2024-01: Bond Definition – Debt Securities Issued by Funds o Ref #2024-02: *ASU 2023-01, Leases (Topic 842), Common Control Arrangements* o Ref #2024-03: *ASU 2023-08, Accounting for and Disclosure of Crypto Assets* o Ref #2024-04: Conforming Repurchase Agreements o Ref #2024-05: A-791 Paragraph 2.c. o Ref #2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts o Ref #2024-07: Reporting of Funds Withheld and Modco Assets o Ref #2024-08: Consistency Revisions for Residuals o Ref #2024-09: SSAP No. 2R – Clarification o Ref #2024-10: SSAP No. 56 – Book Value Separate Accounts o Ref #2024-11: ASU 2023-09, Improvements to Income Tax Disclosures o Ref #2024-12: Updates to SSAP No. 27 o Ref #2024-14EP: Accounting Practices and Procedures Manual Editorial	8-20
Interested Parties – June 21, 2024 o Ref #2019-21: Issue Paper – Bond Project	21-22

© 2024 National Association of Insurance Commissioners

Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

Colin Masterson
Policy Analyst
202-624-2463
ColinMasterson@acli.com

April 17, 2024

Dale Bruggeman
Chair, NAIC Statutory Accounting Principles (E) Working Group (SAPWG)

Re: SAPWG 2024-04 (Conforming Repurchase Agreements)

Dear Chair Bruggeman:

The American Council of Life Insurers (ACLI) appreciates the opportunity to respond to SAPWG's March 16th exposure of its report on conforming repurchase agreements (repo). The exposure requests that industry address three issues:

1. Inconsistent reporting of reinvested asset detail between conforming securities lending and conforming repo

2. While the RBC Instructions provide guidance on the criteria to establish conforming securities lending and repo programs, similar guidance should be provided in the Annual Instructions

3. Regulators are unsure about whether the limitations on "acceptable collateral" apply to:
    a. Securities being lent by the insurer
    b. Cash or cash equivalents received by the insurer
    c. Assets within the reinvestment pool
    d. Some combination of the 3 categories above

Below are ACLI's responses to each of these three issues.

Reinvested Asset Detail

NAIC staff are correct in pointing out that, while reinvested assets for conforming securities lending programs are listed CUSIP-by-CUSIP in Schedule DL, ACLI is not proposing a similarly detailed

asset listing for conforming repo programs. Instead, ACLI believes that the following disclosures should provide regulators sufficient comfort in the integrity of the reinvested assets:

1. Reinvested assets must conform to the Investment Guidelines established within the conforming repo program

2. Reinvestment assets must be dedicated and sufficient to satisfy a potential run-off of the repo liability. As a demonstration, both the book value and fair (market) value of the reinvested assets for conforming repo programs are reported in Footnote 5F(10) of Quarterly/Annual Statements. A full listing of the nine Footnotes related to conforming repo programs is listed as Appendix 1.

ACLI believes that these disclosures provide regulators with a more fulsome overview of the integrity of reinvested assets than a simple CUSIP-by-CUSIP asset listing.

Annual Statement Instructions

In the 2024-04 exposure, NAIC staff proposes that guidelines for conforming securities lending and conforming repo programs should appear in the Annual Statement Instructions as well as the RBC Instructions. In Appendix 2, ACLI proposes expanded Annual Statement Instructions incorporating guidelines for conforming securities lending and conforming repurchase agreement programs.

Scope of "Acceptable Collateral"

It can often be difficult to define the scope of the word "collateral." ACLI would like to clarify that the restrictive limitations on "acceptable collateral" apply ***only*** to the collateral received by an insurer when the insurer posts securities to the counterparty. "Acceptable collateral" limitations should ***not*** be applied to either securities lent or to assets in the reinvestment pool:

1. Securities lent are subject to restrictions in the binding written legal agreement between borrower and insurer
2. Assets in the reinvestment pool or portfolio are subject to restrictions in the Investment Guidelines

Securities lent, as well as assets in the reinvest pool, typically have a broader range of asset types than cash within "acceptable collateral." It should not be surprising, therefore, that assets in conforming securities lending reinvestment portfolios can fall outside the restrictive asset classes within "acceptable collateral."

Thank you once again for the consideration of our comments and we look forward to further discussion on this topic at a future meeting of SAPWG.

Sincerely,



cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr and Wil Oden, NAIC

© 2024 National Association of Insurance Commissioners

APPENDIX 1

5F(3) shows the bands of maturity for the repo liability itself – both maximums and "as of" for each quarter within each band
5F (4) discloses if any securities involved were in default
5F(5) shows the FV of the securities that are out on repo- both maximums and "as of" for each quarter. Only at YE do we need to disclose the book values (hence "XXX" in the quarters)
5F (6) shows FV and BV of securities out on repo by NAIC rating by asset class as of the current quarter end
5F (7) shows the value of the "collateral" received by type (cash vs securities) both "as of" and maximum for each quarter
5F (8) shows the bv/fv of the collateral received by type and NAIC rating as of the current quarter end
5F (9) shows the FV of the securities on loan +free collateral securities by remaining maturity.
5F (10) shows the BV (amortized cost) and FV of the Reinvested collateral by remaining contractual maturity as of the current quarter
5F (11) in aggregate displays the maximum liability and as of liability

© 2024 National Association of Insurance Commissioners

APPENDIX 2

From the Official NAIC Annual Statement Instructions, insertion of conforming repurchase agreement program and subsequent reordering would be applied to the relevant portion of the General Interrogatories, Investment section, beginning on page 322.

25.04 *For the reporting entity's securities lending program*, report amount for collateral for confirming program as outlined in the Risk-Based Instructions.

25.05 *For the reporting entity's securities lending program*, report amount of collateral for other programs.

25.06 For the reporting entity's repurchase agreement program, report amount of collateral for conforming programs as outlined in the footnote 5 F (7). Repurchase Agreements Transactions Accounted for as Secured Borrowing.

25.07 For the reporting entity's repurchase agreement program, report amount of overcollateralization for conforming programs, as the difference between footnote 5 F (5) and 5 F (7), Repurchase Agreements Transactions Accounted for as Secured Borrowing.

25.08 For the reporting entity's repurchase agreement program, report amount of collateral for other programs.

© 2024 National Association of Insurance Commissioners

May 30, 2024

Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Re: Exposure 2024-06; Risk Transfer Analysis on Combination Reinsurance Contracts

Dear Mr. Bruggeman:

Thank you for the opportunity to provide comments to the NAIC's Statutory Accounting Practices Working Group regarding Exposure 2024-06. Please note that my comments only reflect my own opinion and not necessarily those of my past or present employer or of any professional organization.

Regarding Exposure 2024-06, I agree that a reinsurance agreement that is comprised of interdependent reinsurance arrangements (such as coinsurance and YRT) needs to be evaluated as a single agreement to determine risk transfer compliance. One of the primary intentions of Appendix A-791 of the Accounting Practices and Procedures Manual is to require, in order to qualify for reinsurance credit, that there generally not be a possibility that a ceding company's surplus could be adversely impacted by the performance of the ceded business. If a coinsurance agreement on its own would comply with Appendix A-791, but the reinsurance agreement it is part of **obligates** the ceding company to cede business under a YRT reinsurance arrangement, then that obligation needs to be considered in evaluating compliance with Appendix A-791.

In the drafting of the Life and Health Reinsurance Agreements Model Regulation and Appendix A-791, insurance regulators were primarily concerned about reinsurance agreements that provided surplus relief to the ceding company. These teams of insurance regulators believed that surplus relief should not be recognized if it was not permanent, thus the idea that the ceding company's surplus should not be adversely impacted at any future time by the ceded business. This includes the payment of any risk charge, which can only be paid from the income of the ceded policies and not from the surplus of the ceding company.

The Summary of Exposure 2024-06 frequently mentions experience refunds. The existence of an experience refund (which actually should benefit the ceding company) is generally not the concern. Rather, an experience refund may be typical of the types of reinsurance agreements that combine coinsurance with YRT reinsurance and charge YRT reinsurance premiums that are higher than what they would be otherwise, with the "excess" expected to be returned to the ceding company as part of an experience refund but which would provide a buffer to the reinsurer for at least some of the losses in the case that actual experience is sufficiently adverse. Such a reinsurance agreement should be evaluated in its entirety to determine if this buffer can result in a reduction of the ceding

© 2024 National Association of Insurance Commissioners

company's surplus. It should not matter whether a potential reduction of the ceding company's surplus is due to the coinsurance premiums exceeding policy premiums or due to YRT reinsurance premiums exceeding policy charges for the mortality risk, since the two reinsurance arrangements are connected.

In summary, the determination of a reinsurance agreement's compliance with Appendix A-791 of the NAIC Accounting Practices and Procedures Manual should include consideration of all obligations of the ceding company under the reinsurance agreement.

Sincerely,

Sheldon Summers, FSA, MAAA
Claire Thinking, Inc.
Actuary

CC: Kevin Clark, Vice Chair; Julie Gann, NAIC; Robin Marcotte, NAIC

© 2024 National Association of Insurance Commissioners

D. Keith Bell, CPA
Senior Vice President
Accounting Policy
Corporate Finance
The Travelers Companies, Inc.
860-277-0537; FAX 860-954-3708
Email: d.keith.bell@travelers.com

Rose Albrizio, CPA
Vice President
Accounting Practices
Equitable
201-743-7221
Email: Rosemarie.Albrizio@equitable.com

May 31, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on the Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due May 31st

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following items that were exposed for comment by the Statutory Accounting Working Group (the Working Group) during the NAIC National Meeting in Phoenix with comments due May 31st.

Ref #2022-12: Review of INT 03-02*: Modification to an Existing Intercompany Pooling Arrangement*

The Working Group exposed its intent to nullify INT 03-02, and exposed revisions to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 63—Underwriting Pools* to address transfers of assets when modifying intercompany pooling agreements. The exposed revisions were based on interested parties' comments with minor edits proposed by NAIC staff.

The exposed Revisions to SSAP No. 25 and SSAP No. 63 are illustrated below.

SSAP No. 25—Affiliates and Other Related Parties

4. If a company transfers assets or liabilities to effectuate a modification to an existing intercompany pooling arrangement, the transaction, including the transfer of assets, shall be accounted for and valued in accordance with the guidance in *SSAP No. 63—Underwriting Pools.* The guidance in SSAP No. 63 regarding the transfers of assets or liabilities to effectuate a modification of an intercompany pooling arrangements shall not be applied or analogized to other transactions involving transfers of assets and liabilities.

© 2024 National Association of Insurance Commissioners

SSAP No. 63—Underwriting Pools (only impacted paragraph are reflected.)

1. This statement establishes statutory accounting principles for underwriting pools and associations, including intercompany pooling arrangements.

8. Insurance groups that utilize intercompany pooling arrangements often modify these arrangements from time to time for various business reasons. These business reasons commonly include mergers, acquisitions, dispositions, or a restructuring of the group's legal entity structure. In order to effectuate a relatively simple modification, such as changing pooling participation percentages without changing the pool participants, companies often simply amend the existing pooling agreement. Alternatively, in order to effectuate a more complex modification, such as changing (by adding or removing) the number of pool participants, a company may commute the existing pooling agreement and execute a new pooling agreement(s). In conjunction with executing the appropriate intercompany pooling agreements, a transfer of assets and liabilities amongst the impacted affiliates may also be required in order to implement the new pooling agreement(s). The following subparagraphs provide guidance specific to modifications of intercompany pooling arrangements and shall not be applied to an analogous transaction or event.

a. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new intercompany pooling agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities.

b. The net amount of the assets and liabilities being moved among entities as a result of a modification to an intercompany pooling shall be used to settle the intercompany payable/receivable (i.e., the assets that are transferred in conjunction with the modification) to minimize the amount of assets transferred in the modification.

12. Note that other applicable reinsurance guidance from *SSAP No. 61R—Life, Deposit Type and Accident and Health Reinsurance* or *SSAP No. 62R—Property and Casualty Reinsurance*, depending on the type of business, applies to intercompany pooling arrangements and voluntary and involuntary pools. This includes the SSAP No. 62R guidance in paragraphs 33 through 39 regarding retroactive reinsurance.

New disclosure in paragraph 13

13.i For modifications to an existing intercompany pooling arrangement that involve the transfer of assets with fair values that differ from cost or amortized cost, the statement value and fair value of assets received or transferred by the reporting entity.

Interested parties agree with and support adoption of the proposed changes. For purposes of clarity, we recommend that the wording following the comma in the new disclosure in paragraph 13 of SSAP No. 63 be moved to the beginning of the sentence to read as follows: The statement value and fair value of assets received or transferred by the reporting entity for modifications to an existing

intercompany pooling arrangement that involved the transfer of assets with fair value that differ from costs or amortized cost.

Ref #2023-26: ASU 2023-06, Disclosure Improvements

The Working Group exposed revisions to adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The Working Group also requested input from regulators and interested parties on whether the derivative cash flow accounting policy disclosure, described in ASC 230-10-50-9, would provide useful information to regulators.

Interested parties have no comments on this item.

Ref #2024-01: Bond Definition – Debt Securities Issued by Funds

The Working Group re-exposed this item with a request for regulators and industry to provide comment on the proposed language that assists with clarifying the scope of guidance and to the types of debt securities issued by funds that should be considered as operating entities, and the proposed language to better define the extent of debt that may be issued to fund operations. This re-exposure and request for clarification intends to address interpretations from the original exposure that the revised guidance would permit feeder funds (and other structures that raise debt capital) to be classified as issuer credit obligations.

This agenda item was developed to clarify guidance in the principles-based bond definition on the treatment on debt securities issued by funds, particularly to eliminate inconsistent application between similar funds and to better align with the recently adopted definition of residual tranches. In the adopted bond definition, bonds issued by business development corporations (BDCs), closed-end funds (CEFs), or similar operating entities are provided as examples of issuer credit obligations (ICOs) when they are registered under the Investment Company Act of 1940 (1940 Act). It has been noted that this guidance is inconsistent with the stated intent of having the bond definition be principles-based as the registration of the fund appears to be the basis of classification as an ICO vs ABS, rather than based on principles. It has been noted that with the current guidance, two funds with issued debt that are virtually identical can have separate SSAP classification of the debt securities (resulting with different accounting/reporting) simply based on whether the fund is registered. Additionally, it would lead to debt securities being classified inconsistently with their equity counterparts. In concept, there should be consistency between the classification of a debt security as an asset-backed security, and the equity of that structure being classified as a residual interest. Using SEC-registration as currently adopted would result in misalignment of these concepts.

The changes captured within this agenda item propose to revise the principles-based bond definition guidance to clarify that debt securities issued by funds representing operating entities qualify as ICOs. This would allow consistent treatment of similar funds regardless of SEC registration status.

Guidance is also proposed to assist with distinguishing whether a fund represents an operating entity or a securitization vehicle.

The original guidance, and the reference to the SEC registration, was an easy approach to determine whether a debt security from a fund qualified as an ICO. This is because SEC registered funds have leverage limits on how much debt can be issued. Although debt securities issued from SEC registered CEFs and BDCs are still permitted as ICOs, the proposed edits permit debt securities from non-registered funds to qualify as ICO if the funds are functioning as operating entities and are not issuing securities for the primary purpose of raising debt capital.

Interested parties reviewed the NAIC Staff proposal and support with the revised language and believe it will achieve the stated objective of greater consistency for debt issued by like funds.

Ref #2024-02: ASU 2023-01, Leases (Topic 842), Common Control Arrangements

The Working Group exposed revisions to adopt, with modification, *ASU 2023-01, Leases (Topic 842), Common Control Arrangements* in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Heath Care Facilities*. The proposed revisions reject the practical expedient for private companies and not-for-profit entities but recommend adoption of the leasehold improvement guidance from the ASU, with modification to the language to align with existing guidance in SSAP No. 19 and SSAP No. 73.

Interested parties have no comments on this item.

Ref #2024-03: ASU 2023-08, Accounting for and Disclosure of Crypto Assets

The Working Group exposed revisions to adopt, with modification *ASU 2023-08, Accounting for and Disclosure of Crypto Assets* for statutory accounting. The revisions propose to adopt the definition of crypto assets from the ASU but establishes within *SSAP No. 20—Nonadmitted Assets* that directly held crypto assets are nonadmitted assets for statutory accounting. Additionally, the exposure includes the intent to nullify *INT 21-01, Accounting for Cryptocurrencies*. This agenda item does not intend to modify the general interrogatory disclosures that had previously been added to the Annual Statement blanks and instructions.

Interested parties have no comments on this item.

Ref #2024-04: Conforming Repurchase Agreements

The Working Group exposed this agenda item and directed NAIC staff to work with industry in determining current application/interpretation differences on the reporting of securities lending collateral and repurchase agreement collateral for possible consistency revisions.

Interested parties support the ACLI comment letter submitted on April 17, 2024. We look forward to continuing to work with the statutory accounting staff on this topic.

© 2024 National Association of Insurance Commissioners

Ref #2024-05: A-791 Paragraph 2.c.

The Working Group exposed revisions to remove the first sentence of *Appendix A-791—Life and Health Reinsurance Agreements* (A-791), paragraph 2c's Question and Answer. In addition, the Working Group directed NAIC staff to notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

Interested parties have no comments on this item.

Ref #2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts

The Working Group exposed revisions to incorporate guidance to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* that is consistent with the guidance currently in *SSAP No. 62R—Property and Casualty Reinsurance*, Exhibit A - Implementation Questions and Answers, question 10. This guidance requires risk transfer to be evaluated in aggregate for contracts with interrelated contract features such as experience rating refunds. The revisions also add a reference in *Appendix A-791 Life and Health Reinsurance Agreements* (A-791), paragraph 6 regarding the entirety of the contract. In addition, the Working Group directed NAIC staff to notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

Overview

While the exposed language is characterized as a clarification, it is unclear that the proposed changes are strictly clarifications as there is confusion regarding the potential interpretation and resulting implications of these changes. Specifically, interested parties are concerned that the exposed language could lead to broader interpretive changes by regulators, auditors, and companies than is currently intended, which could cause confusion and inconsistency in approach across the industry. Interested parties suggest that further discussion between industry participants, the NAIC, and regulators on this important topic would ensure mutual understanding of intent.

Comments

Reinsurance agreements that combine coinsurance and yearly renewable term (YRT) coverage are not uncommon in the industry and have been historically interpreted (at least by some regulators and audit firms) as appropriately providing quota share credit on the coinsured policies and a YRT credit for the YRT component. We believe it would be in the interest of both regulators and the industry to fully understand the impact that the adoption of the exposed changes would have at the industry level before proceeding further with these changes.

The exposure states that "the substance of this interdependent agreement design is more akin to the risk transferred under a nonproportional reinsurance agreement. This is because in aggregate, proportionate amounts of the risk are not transferred." We believe that the determination of a contract being proportional or non-proportional should continue to be based on a careful consideration of the specific contractual terms of the reinsurance agreement(s) in question and the

resulting reinsurance coverage provided to the ceding entity rather than the adoption of any automatic and universal conclusion for all combination coinsurance / YRT arrangements. Such belief is supported by the currently codified statutory guidance. SSAP 61R separately defines coinsurance, modified coinsurance, YRT and non-proportional reinsurance arrangements and provides applicable risk transfer guidance for each. Specifically, a non-proportional reinsurance arrangement is defined as follows:

> These arrangements provide for financial protection to the ceding entity for aggregate losses rather than providing indemnification for an individual policy basis as described in the preceding three reinsurance arrangements [i.e., coinsurance, modified coinsurance and YRT]. Catastrophic and stop loss reinsurance are written on an annual basis to protect the ceding entity from excessive aggregate losses. Usually, the coverage does not extend over the life of the underlying policy nor is there any requirement on the ceding entity to renew the arrangement.

The combination of coinsurance and YRT arrangements should not be automatically deemed non-proportional as many of these arrangements provide indemnification for losses on an individual policy basis, consistent with the current definition of proportional reinsurance under SSAP 61R. For many such arrangements, each component individually and in combination provides coverage over the life of the underlying policies and offers indemnification on an individual policy basis; and neither the coinsurance nor the YRT component, whether considered independently or in combination, constitutes a non-proportional arrangement.

In addition, the exposure states that "taking a full proportional reserve credit on the coinsured component is not reflective of the actual risk being transferred." While interested parties agree that combination arrangements can be structured in ways that do not meet statutory risk transfer requirements, we believe that combination arrangements can also be structured to meet these requirements and taking a full proportional reserve credit on the coinsured component would be considered appropriate.

Any risk transfer assessment of combination coinsurance / YRT arrangements should be conducted in the context of applicable SAP guidance and based on the facts and circumstances of the relevant reinsurance agreement(s). SAP guidance should be applied both individually to each of the coinsurance and YRT components of the agreement(s) and, in addition, an overall assessment of the combined agreement should be performed consistent with the requirement that "the agreement shall constitute the entire agreement between the parties with respect to the business being reinsured thereunder[.]" Interested parties agree that if any individual component of a combination coinsurance / YRT arrangement does not pass statutory risk transfer, then the aggregate transaction would not pass statutory risk transfer regardless of how it is structured. This overall assessment should include, among other things, an evaluation of (i) the coinsured business to ensure that all significant risks inherent in the reinsured business are transferred, and (ii) the YRT arrangement to ensure that the agreement does not violate any of the conditions described in Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k.

© 2024 National Association of Insurance Commissioners

Interested parties agree that transactions that inappropriately preclude any possibility of reinsurance losses being incurred as a result of excessive YRT premiums would be of concern from a statutory risk transfer perspective. In evaluating whether this is the case, YRT premium levels should be assessed using statutory principles as any resulting reserve credit will also have been established using statutory principles. In applying statutory principles, statutory valuation assumptions can serve as an acceptable benchmark. More specifically:

- YRT reinsurance results in the assumption of mortality risk for the lifetime of the underlying business. In such a context, the statutory valuation framework already defines a reasonably prudent valuation mortality basis for direct writers when reserving for such risks. As such, this same valuation mortality basis should also serve as a reasonable and prudent benchmark for reinsurers to consider when committing to the assumption of mortality risk for the lifetime of the underlying business.

- The determination of reserve credit relates to the underlying statutory reserves that are held by the ceding entity and determined based on statutory principles and assumptions. It would be inconsistent to determine a reserve credit using GAAP principles and assumptions in relation to underlying reserves that are computed using statutory principles and assumptions.

The exposure also states that SSAP 61R, paragraph 36, notes that the reinsurance credit is only for the risk reinsured. The exposure references this as a reason that it is not appropriate for a ceding company to take a proportional reserve credit that reflects the transfer of all actuarial risks when not all actuarial risks are transferred. This is a misinterpretation of paragraph 36. That section of the paragraph refers to coinsurance and states “It [the credit] is, of course, only for the percentage of the risk that was reinsured.” As such, paragraph 36 refers to the quota share of risk and does not imply that coinsurance agreements satisfying risk transfer requirements could be subject to “partial risk transfer”. Historically, risk transfer testing for life insurance, accident and health insurance, and annuity contracts has been performed on a pass/fail basis where companies evaluate the contractual terms of their reinsurance agreements and assess the substance of the transaction based upon SAP risk transfer guidance. Once the risk transfer assessment has been completed, full reserve credit is established for contracts deemed to have successfully satisfied risk transfer. For agreements not successfully demonstrating risk transfer, deposit accounting is utilized. No framework currently exists for assessing an appropriate level of partial reserve credit.

Summary Conclusion

There are established differences in the approach to evaluating risk transfer under SAP and GAAP. It is recognized that there are life reinsurance contracts that satisfy SAP risk transfer rules for life reinsurance but are not considered to have transferred the reasonable possibility of a significant loss to the reinsurer, as required under GAAP. Different types of reinsurance (i.e., coinsurance, YRT, and non-proportional) follow different risk transfer rules under SAP. Applying GAAP standards when evaluating risk transfer / reserve credit for life reinsurance is not appropriate as statutory life reserves are based on prudent assumptions, correspondingly reserve credit should be established on a consistent basis.

© 2024 National Association of Insurance Commissioners

A substantive change from pass/fail risk transfer assessment and full reserve credit recognition to a separate assessment of partial reserve credit requires significant changes to SAP, is inconsistent with the current risk transfer assessment framework and would need to be tested further to understand resulting consequences (i.e., intended and unintended).

Interested parties do not believe that the SAPWG exposure pertaining to risk transfer represents a clarification but instead is a significant departure from the currently accepted practices for evaluating risk transfer for life reinsurance contracts under SAP guidance. Therefore, if the exposure remains unchanged, the resulting consequences could be material, and insurers may not be able to unilaterally renegotiate existing agreements even if they desired to do so. Thus, in addition to the broader concerns with the proposal, retroactively changing the historical accounting treatment for existing reinsurance agreements would be inappropriate.

Additional discussion between interested parties, the NAIC, and regulators on this important topic would be greatly beneficial.

We note there are several concurrent efforts at the NAIC related to reinsurance. We suggest the NAIC take a broader view to address these concerns, and ensure coordination of the efforts at LATF, SAPWG, and other NAIC groups working on these issues. Such an approach avoids duplication of work, promotes consistency, and ensures concerns are addressed and understood broadly.

Ref #2024-07: Reporting of Funds Withheld and Modco Assets

The Working Group exposed a project which proposes to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty (P/C) and Title annual statement blanks, which is similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modified coinsurance assets.

Interested parties acknowledge the importance of transparency in financial reporting with respect to assets backing funds withheld and modco reinsurance transactions and regulators' preference to be able to understand the assets supporting these contracts. We look forward to working with the Working Group as it further refines its proposal.

Having reviewed the exposure, interested parties have several comments that relate to the effort. These include: a) sensitivities concerning the potential exposure of competitive information, b) the impracticability of providing such information in commonplace cases where specifically identifiable assets require are not ring-fenced as part of a funds held arrangement, and c) any new asset schedule would considerable resources, which are currently constrained by the bond definition project.

Granularity of reporting may expose proprietary competitive information
While we support giving regulators the information they need to regulate properly, there are issues of commercial sensitivity with having funds withheld and modco assets made public. Concerns

have been expressed about the level of granularity that will be required. Investment strategy is a critical component of reinsurance pricing, which is considered proprietary, and the level of reporting could force companies to share this information publicly. Requiring public disclosure of such proprietary information may reduce the availability of funds withheld collateralized deals in the marketplace. Interested parties urge the Working Group to consider other non-public alternatives which would provide regulators with the information they require while maintaining the confidentiality of proprietary competitive information.

Identifying specific assets under Funds Withheld arrangements without trust accounts is not truly possible

The proposal to report assets held under funds withheld arrangements is also problematic for funds that are not held in trust accounts. Interested parties note that for property casualty companies in particular, many funds withheld arrangements do not require funds to be held in trust accounts. Rather, the funds are maintained by the insurer in their own cash or short-term investment accounts and are allowed to be co-mingled with other cash or invested assets of the insurer. The agreements that govern such funds withheld may specify an interest rate that is applied to the funds withheld for purposes of crediting the funds with interest, but there is no specific invested asset associated with the funds held. Therefore, it would not be possible to identify and report specific assets deemed to be the "funds withheld" under these arrangements.

In addition, interested parties note that for property casualty insurers, the amounts of funds held under reinsurance treaties are already reported in Schedule F Part 3 Column 20 of the annual statement by individual reinsurance treaty. We believe the current reporting in Column 20 was designed to accommodate both funds held agreements with and without trust accounts. For those arrangement where a trust account is used, regulators can easily confirm the invested assets held in the trust accounting during a financial examination.

A new asset schedule will require significant time, effort, and cost to build

A new schedule will increase the complexity of asset reporting requirements. To facilitate the required reporting, commercial annual statement reporting vendors will need to build the new schedule into their software. Beyond that, many companies note additional work may be required to modify their investment and/or accounting systems to populate the proposed new schedules with the assets associated with funds withheld or modco agreements. Others may not have the ability to make changes to their investment and/or accounting systems and would need to create manual processes including appropriate controls to meet the reporting obligations. Allocation processes may need to be established for situations where an asset is backing more than one agreement. This will all require significant time, effort, and cost. Additionally, in a significant part of the industry, the staff and vendor resources that would be involved in implementing the necessary changes for the funds withheld and modco asset schedule are currently heavily involved in the new Bond Definition project that is set to be effective reporting year 2025. Having both issues active at the same time would cause significant resource strain across the industry.

Finally, we note there are several concurrent efforts at the NAIC related to reinsurance. We suggest the NAIC take a broader view to address these concerns and ensure coordination of the efforts at LATF, the Working Group, and other NAIC groups working on these issues. Such an approach

avoids duplication of work, promotes consistency, and ensures concerns are addressed and understood broadly.

We recognize the importance of this issue and want to be helpful and work collaboratively to address the Working Group's objectives of having full visibility of investments, specifically in funds withheld and modco agreements.

Ref #2024-08: SSAP No. 21R, 26R, 30R, 32R, 43R, & 48 – Consistency Revisions for Residuals

The Working Group exposed consistency revisions for residuals so that *SSAP No. 26R—Bonds* (Effective 2025), *SSAP No. 30R—Unaffiliated Common Stock*, *SSAP No. 32R—Preferred Stock*, *SSAP No. 43R—Asset-Backed Securities* (Effective January 1, 2025), and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* refer directly to *SSAP No. 21R—Other Admitted Assets* for the formal definition and accounting and reporting guidance.

This agenda item was developed to incorporate consistency revisions for residual tranches and residual security interests. Over the last couple of years, a variety of revisions have been incorporated for residual interests. These began with revisions to clarify the reporting on Schedule BA (instead of Schedule D-1) along with the residual definition and guidance within each investment SSAP to highlight that residuals shall be captured on Schedule BA. Although these revisions were necessary to immediately address the reporting of residuals, the discussion that accompanied these revisions have noted that conforming revisions would be needed coinciding with the effective date of the principles-based bond definition guidance to have consistency of guidance location, terminology and definitions.

With the revisions to *SSAP No. 21R—Other Admitted Assets* to provide the accounting and reporting for residuals, all residuals, regardless of investment structure, shall follow the guidance detailed in SSAP No. 21R and be reported on Schedule BA.

To ensure consistency in definitions and guidance, this agenda item proposes to centralize the guidance in SSAP No. 21R and use a consistent approach in the other investment SSAPs to exclude residuals from the scope of those investment SSAPs and refer directly to SSAP No. 21R.

Interested parties support the proposed changes.

Ref #2024-09: SSAP No. 2R – Clarification

The Working Group exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to eliminate lingering references that imply that asset-backed securities, mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.

Interested parties have no comments on this item.

Ref #2024-10: SSAP No. 56 – Book Value Separate Accounts

The Working Group exposed this agenda item and directed NAIC staff to work with industry in determining current application and differences in the treatment of book value assets within the separate account and to prepare suggested revisions to codify an approach within *SSAP No. 56—Separate Accounts*.

Interested parties is currently working with NAIC staff and the IMR Adhoc Working Group on this agenda item.

Ref #2024-11: ASU 2023-09, Improvements to Income Tax Disclosures

The Working Group is proposing expanded statutory income tax disclosures by adopting, with modification, *ASU 2023-09, Improvements to Income Tax Disclosures*. The additional disclosures primarily focus on tax jurisdictional information, impacting both taxes paid and the rate reconciliation. Interested Parties does not believe the additional disclosures as written provide useful or better information on a company's tax position in the context of statutory financial statements.

Interested parties appreciate the Working Group's partnership on the proposal, including various meetings to discuss potential changes to the proposed language. Through these meetings we have provided detailed responses so have only included here a summary of our concerns:

- One of the main changes in ASU 2023-09 is an expanded rate reconciliation, applicable to only public filers. Requiring expanded rate reconciliation disclosures to all insurance companies expands the scope of ASU 2023-09 and will create an additional burden for non-public insurance companies.

- Under paragraph 4 of SSAP No. 101, state income taxes are not accounted for under SSAP No. 101. They are instead accounted for under SSAP 5R and included in taxes, licenses, and fees above the line. During the drafting process of SSAP No. 101 state taxes were intentionally not recorded as part of income tax expense in the statutory financial statements because of the immateriality of this type of tax to insurance companies. Given that insurance companies primarily pay premium taxes in lieu of state income taxes (all but nine states have exempted insurance companies from state income tax), state tax income tax disclosures will have limited value from a statutory reporting perspective. Of the states that charge income tax, several have provisions that significantly reduce the net tax impact, including premium tax credits. State tax disclosures will therefore likely require additional guidance regarding what to report (e.g., before or after any credits for premium tax paid, consideration for mixed group and combined reporting).

- ASU 2023-09 was in part adopted to provide additional foreign tax information to investors to enable them to "understand an entity's exposure to potential changes in jurisdictional tax legislation" over worldwide income. These additional disclosures were also intended to help investors identify where companies operate in low-tax or no-tax jurisdictions. Foreign

subsidiaries and affiliates are not consolidated into statutory statements, so tax jurisdiction information would not be as applicable as it would in consolidated GAAP group reporting. Moreover, Schedule Y already provides regulators with subsidiary information, including the jurisdiction such subsidiaries operate. Material foreign tax amounts will be limited to few insurers who have branches, which are fully taxable in the jurisdictions where they operate as well as in the U.S., with foreign tax credits offsetting the U.S. tax due. This dual taxation results in branches generally having tax rates of at least 21% even if the branch operates in a low or no tax jurisdiction.

Overall, ASU 2023-09 was driven by the investor community, whose disclosure wants and needs are not the same as the regulator focusing on solvency. The current statutory tax footnote provides extensive disclosures, some redundant to those in ASU 2023-09, with a goal of enabling regulators to assess the financial stability of the entity (as it relates to tax). Interested parties thus believe the additional disclosures and requirements under the new ASU 2023-09 would provide limited benefits to the regulators.

Interested parties suggest rejecting adoption of the ASU 2023-09 and all modifications to SSAP No. 101, except for the deletion of SSAP No. 101, paragraph 23b. Interested parties agree the disclosure is no longer necessary given revisions to the Internal Revenue Code.

Ref #2024-12: Updates to SSAP No. 27

The Working Group exposed revisions to *SSAP No. 27— Off-Balance-Sheet and Credit Risk Disclosures Risk and Financial Instruments with Concentrations of Credit Risk* which would remove references to FAS 105 and instead specify the assets excluded from SSAP No. 27.

Additionally, revisions were exposed to the Annual Statement Instructions for Note 16 to add an "other" category to the derivatives tabular disclosure, add a non-derivative financial instrument disclosure and additional narrative disclosure examples for non-derivative financial instruments. The added disclosure would include disclosures regarding loan commitments, standby letters of credit, financial guarantees, and other related items.

Interested parties note that Note 14 of the annual statement already requires disclosures regarding an insurer's commitments to provide any type of future funding as well as an insurer's guarantees of the performance of other parties. These disclosures are already very lengthy and detailed. It would seem repetitive to have to include most of the information in Note 16 again.

We recommend that the Working Group evaluate the current disclosure requirements under Note 14 to determine if there is information that should be provided in addition to what is already disclosed instead of having insurers duplicate the information in two different notes.

Ref #2024-14EP: Accounting Practices and Procedures Manual Editorial

The Working Group exposed revisions to the "Revised" and "R" identifiers from SSAP titles and SSAP references throughout the Accounting Practices and Procedures Manual. NAIC staff consider the "Revised" and "R" identifier to no longer be useful.

© 2024 National Association of Insurance Commissioners

Interested parties have no comment on this item.

* * *

Please feel free to contact either one of us if you have any questions or would like to discuss further.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

D. Keith Bell, CPA
Senior Vice President
Accounting Policy
Corporate Finance
The Travelers Companies, Inc.
860-277-0537; FAX 860-954-3708
Email: d.keith.bell@travelers.com

Rose Albrizio, CPA
Vice President
Accounting Practices
Equitable
201-743-7221
Email: Rosemarie.Albrizio@equitable.com

June 21, 2024

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Interested Parties Comments on the Item Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due June 21st

Dear Mr. Bruggeman:

Interested parties appreciate the opportunity to comment on the following item that was exposed for comment by the Statutory Accounting Working Group (the Working Group) during the NAIC National Meeting with comments due June 21st.

Ref #2019-21: Issue Paper – Bond Project

The Working Group exposed revisions to the draft issue paper documenting the most recent historical discussions and decisions with the principles-based bond project to reflect the final actions and adoption. The issue paper documenting the discussions and decisions within the principles-based bond project has been updated to reflect the final actions. Additionally, consistency edits and reorganization has been reflected as the authoritative statutory accounting revisions have been adopted.

Interested parties have the following three comments:

- Paragraph 32c – Editorial edits are needed to remove the following language which is included twice, "In contrast, an ABS Issuer has a primary purpose of raising debt capital……..These features support the entity's primary purpose of raising debt capital."
- Paragraphs 107, 110, 111, 113, & 115 – The example number cadence is off such that each needs to be reduced by 1 (e.g., in paragraph 107, Example 5 Rationale needs to be shown as Example 4 Rationale, etc.

© 2024 National Association of Insurance Commissioners

- Paragraph 59 – SSAP No. 26 discusses that the practical expedient could only be used if less than 50% of the principal relies on sale or refinancing. The Issue Paper (paragraph 59) discusses that the practical expedient could only be used if contractual cash flows at origination are sufficient to cover all interest and at least 50% of the original principal. To avoid confusion, we suggest the following sentence be added to the Issue Paper, paragraph 59 as a last sentence: "That means, as discussed in SSAP 26, paragraph 9b, that the practical expedient can only be used if less than 50% of the principal relies upon sale or refinancing."

* * *

Please feel free to contact either one of us if you have any questions or would like to discuss further.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Interested parties
NAIC staff

Ref #2024-02

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2023-01, Leases (Topic 842), Common Control Arrangements

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In March 2023, the Financial Accounting Standards Board (FASB) issued *Accounting Standard Update (ASU) 2023-01, Leases (Topic 842), Common Control Arrangements*. This ASU was issued as part of FASB's post-implementation review to address issues that have been found during the implementation of the new lease guidance from *ASU 2016-02, Leases (Topic 842)*. As a reminder, ASU 2016-02 was rejected for statutory accounting and the operating lease treatment was retained.

ASU 2023-01 focuses on two issues that are both related to private company stakeholders' concerns about applying Topic 842 to related party arrangements between entities under common control. The first issue provides a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine 1) whether a lease exists and, if so, 2) the classification of and accounting for that lease. The practical expedient may be applied on an arrangement-by-arrangement basis. If no written terms and conditions exist (including in situations in which an entity does not document existing unwritten terms and conditions in writing upon transition to the practical expedient), an entity is prohibited from applying the practical expedient and must evaluate the enforceable terms and conditions to apply Topic 842. The new U.S. GAAP guidance for this issue is only applicable to non-public entities.

The second issue involves the accounting for leasehold improvements associated with a lease between entities under common control. U.S. GAAP guidance for life of leasehold improvements prior to this update generally agrees to statutory accounting. It was noted in the ASU that private company stakeholders were concerned that amortizing leasehold improvements associated with arrangements between entities under common control determined to be leases (hereinafter referred to as common control leases) over a period shorter than the expected useful life of the leasehold improvements might result in financial reporting that do not faithfully represent the economics of those leasehold improvements, particularly in common control leases with short lease terms. While this issue originally came from private company stakeholder comments, the guidance for this issue is applicable for all lessees that are party to a lease between entities under common control in which there are leasehold improvements.

Existing Authoritative Literature:
The ASUs related to Topic 842 have previously been rejected in *SSAP No. 22R—Leases*. Guidance for leasehold improvements is included in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Heath Care Facilities*, and guidance for related parties is included in *SSAP No. 25—Affiliates and Other Related Parties*.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

© 2024 National Association of Insurance Commissioners

Convergence with International Financial Reporting Standards (IFRS): ASC Topic 842 was the result of a joint project between FASB and the International Accounting Standards Board.

Staff Recommendation:
NAIC staff recommends the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to adopt, with modification, ASU 2023-01 in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Heath Care Facilities*, as illustrated in the Form A. The proposed revisions reject the practical expedient for private companies and not-for-profit entities but recommend adoption of the leasehold improvement guidance from the ASU, with modification to the language to align with existing guidance in SSAP No. 19 and SSAP No. 73.

SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements

5. Leasehold improvements that increase the value and enhance the usefulness of the leased asset meet the definition of assets established in SSAP No. 4. Within that definition, such items also meet the criteria defining nonadmitted assets. Accordingly, such assets shall be reported as nonadmitted assets and charged against surplus. These nonadmitted assets shall be amortized against net income over the shorter of their estimated useful life or the remaining lease term as defined in SSAP No. 22R. Leasehold improvements associated with a lease between entities under common control shall be amortized over the useful life of those improvements to the holding company group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the same holding company group, the amortization period shall not exceed the amortization period of the holding company group. Leasehold improvements that do not meet the definition of assets shall be charged to expense when acquired. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessee. Such improvements related to the functionality of health care delivery assets shall follow the accounting, reporting and impairment guidance in *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*, and an exception to the application of this guidance to leasehold improvements necessary for the functionality of health care delivery assets is included in SSAP No. 73. If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments*.

20. This statement adopts, with modification, *ASU 2023-01, Leases (Topic 842), Common Control Arrangements*. The practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement is rejected for statutory accounting. The guidance for lessees that are a party to a lease between entities under common control in which there are leasehold improvements is adopted, with modification to align with existing statutory guidance.

SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities

9. Furniture, medical equipment and fixtures, and leasehold improvements shall be depreciated over their estimated useful lives but for a period not to exceed three years, except for a leasehold improvement which shall be amortized against net income over the shorter of its estimated useful life or the remaining lease term, using methods detailed in SSAP No. 19. Leasehold improvements associated with a lease between entities under common control shall be amortized over the useful life of those improvements to the holding company group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the same holding company group, the amortization period shall not exceed the amortization

period of the holding company group. The amortization of leasehold improvements (including property improvements and integral equipment) shall cease, with any remaining amount immediately expensed, in any event in which the lease is terminated in advance of the lease term. This includes situations in which leased real estate is acquired by the reporting entity lessee but excludes situations where the real estate lease agreement has a purchase option that contains language that allows leasehold improvements necessary for the functionality of specific health care delivery assets to be excluded from the purchase cost of the real estate. Upon acquisition, such leasehold improvements necessary for the functionality of healthcare delivery assets shall follow the guidance for health care delivery assets in this statement. If leased real estate is acquired, recognition of the real estate shall follow the provisions in *SSAP No. 40R—Real Estate Investments*.

13. This statement adopts, with modification, *ASU 2023-01, Leases (Topic 842), Common Control Arrangements*. The practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement is rejected for statutory accounting. The guidance for lessees that are a party to a lease between entities under common control in which there are leasehold improvements is adopted, with modification to align with existing statutory guidance.

Staff Review Completed by: Jake Stultz, NAIC Staff – February 2024

Status:
On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to adopt, with modification, *ASU 2023-01, Leases (Topic 842), Common Control Arrangements* in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Heath Care Facilities*, as illustrated above. The proposed revisions reject the practical expedient for private companies and not-for-profit entities but recommend adoption of the leasehold improvement guidance from the ASU, with modification to the language to align with existing guidance in SSAP No. 19 and SSAP No. 73.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions which adopt with modification, as final, *ASU 2023-01, Leases (Topic 842), Common Control Arrangements* in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Heath Care Facilities.*

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Adoptions/24-02 - ASU 2023-01 Leases.docx

© 2024 National Association of Insurance Commissioners

Attachment One-D
Accounting Practices and Procedures (E) Task Force
8/14/24

Ref #2024-03

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2023-08, Accounting for and Disclosure of Crypto Assets

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In December 2023, the Financial Accounting Standards Board (FASB) issued *Accounting Standard Update (ASU) 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets*. This ASU establishes the accounting and reporting for crypto assets, which are defined in U.S. GAAP as assets that:

1. Meet the definition of intangible assets as defined in the Codification.
2. Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets.
3. Are created or reside on a distributed ledger based on blockchain or similar technology.
4. Are secured through cryptography.
5. Are fungible.
6. Are not created or issued by the reporting entity or its related parties.

ASU 2023-08 also clarified the disclosure of crypto assets in the financial statements, which note that crypto assets are to be reported at fair value, are reported separately from the other intangible assets, describe how they are to be disclosed in the income statement and statement of cash flows, and includes a rollforward of activity and balances on an annual basis.

As background, on May 20, 2021, the Working Group adopted *Interpretation (INT) 21-01: Accounting for Cryptocurrencies*, which established statutory accounting for crypto assets. At that time, NAIC staff had received several questions on the proper treatment of cryptocurrencies, so with the absence of U.S. GAAP guidance, the Working Group adopted INT 21-01. The INT established that directly held cryptocurrencies have not been identified in the *Accounting Practices and Procedures Manual* (AP&P Manual) as an admitted asset, and do not meet the definition of any admitted asset that is defined in the AP&P Manual. Accordingly, by default they are a nonadmitted asset per *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3, as they are not specifically identified in the AP&P Manual as an admitted asset. Additionally, a disclosure for crypto assets was added to the general interrogatories of the Annual Statement blanks and instructions.

This agenda item intends to codify the guidance that was adopted in INT 21-01, and formally establish that crypto assets are nonadmitted assets for statutory accounting.

Existing Authoritative Literature:
Accounting for cryptocurrencies is currently addressed by *INT 21-01 Accounting for Cryptocurrencies*, and the Annual Statement blanks included a disclosure in the general interrogatories.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

© 2024 National Association of Insurance Commissioners

Ref #2024-03

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to adopt, with modification ASU 2023-08 for statutory accounting. The agenda item proposes to adopt the definition of crypto assets from the ASU but establishes that directly held crypto assets are nonadmitted assets for statutory accounting. The recommendation is to add guidance to *SSAP No. 20—Nonadmitted Assets* that clarifies that directly-held crypto assets are nonadmitted assets for statutory accounting and to define crypto assets using the definition from ASU 2023-08. This agenda item does not intend to modify the general interrogatory disclosures that had previously been added to the Annual Statement blanks and instructions. Additionally, NAIC staff recommends that the Working Group expose the intent to nullify *INT 21-01, Accounting for Cryptocurrencies*, upon the adoption of this agenda item. The revisions to SSAP No. 20 are illustrated below.

SSAP No 20—Nonadmitted Assets

Paragraph 4:

> f. Crypto assets are defined as intangible digital assets in which transactions are created or reside on a distributed ledger based on blockchain or similar technology and are verified with records maintained by a decentralized system using cryptography, rather than by a centralized authority, and do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets. Directly held crypto assets do not meet the definition of cash in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*, and due to the volatile nature of the assets and liquidity issues, the assets shall not be considered available to satisfy policyholder obligations.

5. This statement adopts with modification *FASB Emerging Issues Task Force No. 08-7: Accounting for Defensive Intangible Assets* to nonadmit defensible intangible assets. This statement rejects Chapters 3A and 11 of *Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins*. This statement adopts, with modification, *ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets*, which adopts the definition of crypto assets from the ASU and establishes that directly held crypto assets are nonadmitted assets for statutory accounting.

Staff Review Completed by: Jake Stultz, NAIC Staff—February 2024

Status:
On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to adopt, with modification *ASU 2023-08, Accounting for and Disclosure of Crypto Assets* for statutory accounting. The revisions propose to adopt the definition of crypto assets from the ASU but establishes within *SSAP No. 20—Nonadmitted Assets* that directly held crypto assets are nonadmitted assets for statutory accounting. Additionally, the exposure includes the intent to nullify *INT 21-01, Accounting for Cryptocurrencies*. This agenda item does not intend to modify the general interrogatory disclosures that had previously been added to the Annual Statement blanks and instructions.

© 2024 National Association of Insurance Commissioners

Ref #2024-03

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to SSAP No. 20 which with modification, *ASU 2023-08, Accounting for and Disclosure of Crypto Assets* for statutory accounting. Upon adoption, this agenda also nullifies *INT 21-01, Accounting for Cryptocurrencies*.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Adoptions/24-03 - ASU 2023-08 Crypto.docx

© 2024 National Association of Insurance Commissioners

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 21-01: Accounting for Cryptocurrencies

GUIDANCE NULLIFIED AUGUST 13, 2024

INT 21-01 Dates Discussed

March 15, 2021; May 20, 2021; August 13, 2024

INT 21-01 References

SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments

INT 21-01 Issue

1. This interpretation is to address questions regarding statutory accounting treatment for cryptocurrencies, which are defined as a digital currency in which transactions are verified and records maintained by a decentralized system using cryptography, rather than by a centralized authority. Cryptocurrencies are purchased and exchanged using a limited number of unregulated digital currency exchanges and are not held or offered by major banks.

2. The most valuable cryptocurrency as of February 2021 is Bitcoin, which has been in circulation since 2009, and there are approximately 4,000 different cryptocurrencies available on 200 different cryptocurrency exchanges. Cryptocurrencies have seen significant price volatility and have experienced an extreme increase in value over the past year, with the value of the total outstanding cryptocurrencies nearing $1 trillion as of February 2021. The total market value and increased popularity has led to increased interest in the market by traditional financial institutions and insurance companies.

3. No NAIC Committees or groups have taken any action or established a position on cryptocurrencies. Currently, auditors must rely on guidance provided by the American Institute of Certified Public Accountants through a nonauthoritative practice guide.

4. This Interpretation intends to clarify that directly held cryptocurrencies are nonadmitted assets for statutory accounting.

INT 21-01 Discussion

5. Directly held cryptocurrencies have not been identified in the *Accounting Practices and Procedures Manual* (AP&P Manual) as an admitted asset, and do not meet the definition of any admitted asset that is defined in the AP&P Manual. Accordingly, by default they are a nonadmitted asset per *SSAP No. 4—Assets and Nonadmitted Assets,* paragraph 3*,* as they are not specifically identified in the *Accounting Practices and Procedures Manual* as an admitted asset.

6. Cash is defined in *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* as a "medium of exchange that a bank or other similar financial institution will accept for deposit and allow an immediate credit to the depositor's account." Cryptocurrencies are currently not accepted by major banks and do not operate like a traditional currency, and as such do not meet the definition of cash in SSAP No. 2R.

© 2024 National Association of Insurance Commissioners

INT 21-01 Consensus

7. The Statutory Accounting Principles (E) Working Group reached a consensus that directly held cryptocurrencies do not meet the definition of an admitted asset and are therefore considered to be a nonadmitted asset for statutory accounting. The Working Group intends to rely on this interpretation for statutory accounting and will address cryptocurrencies further once FASB has provided definitive guidance.

INT 21-01 Status

8. No further discussion is planned.

9. The Statutory Accounting Principles (E) Working Group will continue to monitor the evolution of cryptocurrencies and subsequently review this interpretation as appropriate as part of the normal maintenance process.

© 2024 National Association of Insurance Commissioners

Ref #2024-08

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Consistency Revisions for Residuals

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been developed to incorporate consistency revisions for residual tranches and residual security interests. Over the last couple of years, a variety of revisions have been incorporated for residual interests. These began with revisions to clarify the reporting on Schedule BA (instead of Schedule D-1) along with the residual definition and guidance within each investment SSAP to highlight that residuals shall be captured on Schedule BA. Although these revisions were necessary to immediately address the reporting of residuals, the discussion that accompanied these revisions have noted that conforming revisions would be needed coinciding with the effective date of the principles-based bond definition guidance to have consistency of guidance location, terminology and definitions.

With the revisions to *SSAP No. 21R—Other Admitted Assets* to provide the accounting and reporting for residuals, all residuals, regardless of investment structure, shall follow the guidance detailed in SSAP No. 21R and be reported on Schedule BA.

To ensure consistency in definitions and guidance, this agenda item proposes to centralize the guidance in SSAP No. 21R and use a consistent approach in the other investment SSAPs to exclude residuals from scope and direct to SSAP No. 21R.

Existing Authoritative Literature: - Key references **bolded** for emphasis.

- ***SSAP No. 21R—Other Admitted Assets (Effective 2025) – Adopted March 16, 2024***

Residual Tranches or Interests/Loss Positions

28. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

29. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal

© 2024 National Association of Insurance Commissioners

payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined. Additionally, it would be expected that the equity position in an ABS Issuer, as defined in SSAP 26R, would be classified as a residual tranche.

a. Residuals often do not have contractual principal or interest.

b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance, and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.

c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.

d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.

e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.

30. Residual tranches or interests do not qualify for bond reporting. Residuals shall follow the accounting and admittance guidance within this statement and are required to be reported on Schedule BA: Other Long-Term Invested Assets.

31. As stated in paragraph 22, residuals are permitted to be admitted assets if debt securities from the same structure qualify (or would qualify) as admitted assets. If the debt security from a structure is (or would be) nonadmitted due to the requirements under paragraph 22, then any residual interests or first loss positions held from the same structure also do not qualify as admitted assets and shall be reported as nonadmitted assets.

32. Residuals shall be initially reported at cost, or allocated cost (using proportional fair values if acquired along with debt tranches from the securitization). Subsequent to initial acquisition, residuals shall be reported at either 1) the lower of amortized cost or fair value under the Allowable Earned Yield method detailed in paragraphs 33-34, with temporary reductions in fair value reported as an unrealized loss, or 2) at the calculated practical expedient method detailed in paragraph 35.

33. For purposes of this statement for residuals only, amortized cost shall be defined as the cost to acquire the residual reduced for distributions in excess of the Allowable Earned Yield and other-then-temporary impairments (OTTI). The Allowable Earned Yield shall be established at acquisition as the discount rate that equates the initial best estimate of the residual's cash flows to its acquisition cost. The Allowable Earned Yield is not to be updated after acquisition.

34. Interest income shall be recorded under the effective yield method using the Allowable Earned Yield, capped by the amount of cash distributions received. To the extent that the Allowable Earned Yield, applied to the current amortized cost, exceeds the cash distributions received, such unrecognized interest income may be carried forward to future periods to be recognized when sufficient cash distributions are received. To the extent cash distributions exceed the Allowable Earned Yield (including any unrecognized interest carried forward), the amortized cost shall be reduced by the excess. As a result of this method, the amortized cost shall not be increased unless there is a subsequent investment (i.e., an additional purchase with additional consideration remitted).

35. Reporting entities may elect a practical expedient in lieu of the Allowable Earned Yield detailed in paragraphs 33-34 and calculate Book/Adjusted Carrying Value (BACV) such that all distributions received are treated as a reduction in BACV. With this approach, the reporting entity will not recognize any interest or investment income until the residual tranche has a BACV of zero. Once the residual has a zero BACV, distributions received shall be recognized as interest income.

a. Reporting entities applying the practical expedient shall continue to report residuals on Schedule BA, including those with a zero BACV. Any subsequent distributions shall be reported as interest income until the structure matures/terminates, is unwound, or no longer meets the definition of a residual.

b. Reporting entities are required to apply the practical expedient to all residuals held.

c. Reporting entities that wish to discontinue use of the practical expedient approach and move towards the Allowable Earned Yield method are required to specify and disclose an explicit transition date, and only apply the Allowable Earned Yield method to residuals acquired after that date. Residuals held prior to the disclosed accounting method transition date shall continue to follow the practical expedient until those residuals mature/terminate or are unwound.

36. Residuals shall be assessed for other-than-temporary impairment (OTTI) on an ongoing basis, with required assessment anytime that fair value is less than the reported value.

a. For residuals measured using the Allowable Earned Yield method, as detailed in paragraphs 33-34, an OTTI shall be considered to have occurred if the present value of expected cash flows discounted by the Allowable Earned Yield, is less than amortized cost. Upon identification of an OTTI, the reporting entity shall recognize a realized loss equal to the difference between the amortized cost and the present value of expected cash flows, with the present value of expected cash flows becoming the new amortized cost to which the Allowable Earned Yield is applied. After the OTTI is recognized, distributions received from the residual shall continue to be recorded in accordance with paragraphs 33-34. Subsequent recoveries in cash flows shall not result in increases to the amortized cost.

b. For residuals measured under the practical expedient, as detailed in paragraph 35, an OTTI shall be considered to have occurred if the fair value of the residual is less than the BACV. The reporting entity shall recognize a realized loss equal to the difference between the fair value and the BACV, with the fair value becoming the new BACV. After the OTTI is recognized, distributions received from the residual shall continue to be recorded in accordance with paragraph 35. Subsequent recoveries in cash flows shall not result in increases to the BACV.

37. Residuals recognized on Schedule BA as of December 31, 2024, and accounted for under a different SSAP, shall follow the following measurement transition guidance as of January 1, 2025:

a. Reporting entity shall determine whether they will follow the Allowable Earned Yield method detailed in paragraphs 33-34, or the practical expedient detailed in paragraph 35, for all residuals.

b. Residuals previously accounted for under SSAP No. 26R or SSAP No. 43R shall prospectively apply the Allowable Earned Yield measurement method elected under this Statement using the amortized cost as of December 31, 2024 as the starting point in the calculation. Residuals that will follow the practical expedient shall be recognized on January 1, 2025 at the lower of amortized cost or fair value as of December 31, 2024, realizing any unrealized loss existing at that date.

c. Residuals reported under the equity method or fair value as of December 31, 2024 (as they were previously captured in scope of SSAP No. 30R, 32R or 48) with unrealized gains or losses recognized, shall recognize any unrealized position as realized, with the reported value as of

December 31, 2024 becoming the January 1, 2025 cost basis for subsequent measurement under this statement.

Effective Date and Transition

40. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors.* The guidance for structured settlements when the reporting entity acquires the legal right to receive payments is effective December 31, 2018.

41. Revisions adopted March 16, 2024, to add guidance for "Debt Securities That Do Not Qualify as Bonds" and for "Residual Tranches or Interests/Loss Positions" are initially effective Jan. 1, 2025, to correspond with the effective date of the principles-based bond definition. The guidance for residual tranches is permitted for early application. Reporting entities that apply this guidance in 2024 shall continue to follow the transition guidance in paragraph 37 using the modified dates that correspond to the reporting entity's application date.

- ***SSAP No. 26R—Bonds (Effective 2025)***

4. This statement excludes:

   a. Mortgage loans and other real estate lending activities made in the ordinary course of business. These investments are addressed in *SSAP No. 37—Mortgage Loans* and *SSAP No. 39—Reverse Mortgages*.

   b. Investments that qualify within the principles-based definition as an ABS. These investments shall follow the guidance in *SSAP No. 43R—Asset-Backed Securities*.

   c. Securities that provide varying principal or interest based on underlying equity appreciation or depreciation, an equity-based derivative, real estate or other non-debt variable, as described in paragraph 6.d.

   d. Securities that do not qualify as bonds pursuant to the principles-based bond definition, including first loss positions that lack contractual payments or substantive credit enhancement. These investments shall follow the appropriate guidance in *SSAP No. 21R— Other Admitted Assets*.

   e. Replication (synthetic asset) transactions addressed in *SSAP No. 86—Derivatives*. The admissibility, classification and measurement of a replication (synthetic asset) transactions are not preemptively determined by the principles-based bond definition and should be evaluated in accordance with the guidance on replication (synthetic asset) transactions within SSAP No. 86.

   f. Investments that are captured specifically within other SSAPs. For example, reporting entity acquired structured settlements are captured in scope of *SSAP No. 21R—Other Admitted Assets*, held surplus notes are captured in scope of *SSAP No. 41R—Surplus Notes* and working capital finance investments are captured in scope of *SSAP No. 105—Working Capital Finance Investments*. Investments captured in scope of other SSAPs are subject to the measurement and admittance provisions of those SSAPs. Furthermore, investments that have specific reporting lines on dedicated schedules (such as with both surplus notes and WCFI) shall be reported on their dedicated lines.

10. The holder of a debt instrument issued by an ABS Issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly. The holder of the debt instrument is in a different economic

position if such debt instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization.

a. Substantive Credit Enhancement: The intent of the criteria requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as an ABS under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an issuer credit obligation in scope of SSAP No. 26R as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to asset-backed securities. If substantive credit enhancement did not exist, the substance of the debt instrument being evaluated would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position. The substantive credit enhancement required to be in a different economic position is specific to each transaction; determined at origination; and refers to the level of credit enhancement a market participant (i.e., knowledgeable investor transacting at arm's length) would conclude is substantive.

b. The first loss position may be issued as part of a securitization in the form of a debt or equity interest, or it may be retained by the sponsor and not issued as part of the securitization. If the first loss position (or a more senior position(s), if the first loss position(s) lacks contractual payments along with a substantive credit enhancement) is issued as part of the securitization, and does not have contractual principal and interest payments along with substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify for reporting as a bond and shall be reported on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value consistent with the treatment for residuals. (These items are further addressed in *SSAP No. 21R—Other Admitted Assets*.)

- ***SSAP No. 30R—Unaffiliated Common Stock***

1. This statement establishes statutory accounting principles for common stocks.

2. Investments in common stock of subsidiaries, controlled or affiliated entities (investments in affiliates) are not within the scope of this statement. They are addressed in SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities.

3. Investments in the form of common stock that are in substance residual interests or a residual security tranche, as defined in SSAP No. 43R or SSAP No. 48, shall be reported on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.

- ***SSAP No. 32R—Preferred Stock***

1. This statement establishes statutory accounting principles for preferred stock.

2. Investments in preferred stock of entities captured in *SSAP No. 97—Investments in Subsidiaries, Controlled or Affiliated Entities* or *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* as well as preferred stock interests of certified capital companies per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company* (CAPCO) are included within the scope of this statement. The requirement to file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting, valuation or admissibility under this statement. In addition to the provisions of this statement, preferred stock investments in SCAs are also subject to the

provisions of *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

3. Investments in the form of preferred stock that are in substance residual interests or a residual security tranche, as defined in SSAP No. 43R or SSAP No. No. 48, shall be reported on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.

- ***SSAP No. 43R—Asset-Backed Securities (Effective 2025)***

4. This statement excludes:

a. Securities captured in scope of *SSAP No. 26R—Bonds*.

b. Mortgage loans in scope of *SSAP No. 37—Mortgage Loans* that qualify under an SVO structural assessment as SVO-Identified Credit Tenant Loans. These investments are excluded as these are captured as issuer credit obligations under SSAP No. 26R.

c. **Securities that do not qualify as Asset-Backed Securities per the bond definition in *SSAP No. 26R—Bonds*. This exclusion includes residual or interests, as well as first loss positions, that do not have contractual payments or substantive credit enhancement. Debt securities that do not qualify and residual interests shall follow guidance in *SSAP No. 21R—Other Admitted Assets.***

11. After initial recognition, the carrying value shall be determined in accordance with the reported NAIC designation. The determination of NAIC designations shall be in accordance with the requirements detailed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual):

a. For reporting entities that maintain an Asset Valuation Reserve (AVR), asset-backed securities, **excluding residual tranches or interests**, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. 3

b. For reporting entities that do not maintain an AVR, asset-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively), **excluding residual tranches or interests**, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

c. For residual tranches or interests[4], all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. These items are captured in *SSAP No. 21R—Other Admitted Assets* and subject to admittance restrictions detailed in that statement.

Footnote 4: Reference to "residual tranches or interests" intends to capture securitization tranches and beneficial interests as well as other structures that reflect loss layers without any contractual payments, whether principal or interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment's duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.

Residual Tranches or Interests

27. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

28. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

a. Residuals often do not have contractual principal or interest.

b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance, and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.

c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.

d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.

e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.

- ***SSAP No. 48R—Joint Ventures, Partnerships and Limited Liability Companies***

Residual Interests and Reporting

18. Investments in scope of this statement are reported on *Schedule BA: Other Long-Term Assets*. Schedule BA includes dedicated reporting categories for joint ventures, partnerships, and limited liability company investments as well as for residual interests, both with reporting lines in accordance with underlying asset characteristics. Investments within scope of this standard shall be divided within these reporting categories, with investments that reflect residual interests, or that predominantly hold residual interests captured in the residual interest reporting category.

19. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.

20. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.

a. Residuals often do not have contractual principal or interest.

b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.

c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.

d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.

e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

- Agenda Item 2021-15 – SSAP No. 43R – Residual Tranches, was adopted November 10, 2021, to incorporate accounting guidance for residuals and clarify that residuals shall be reported on Schedule BA.

- Agenda item 2023-12 – Residuals in SSAP No. 48 Investments, was adopted September 21, 2023 to define residuals consistently between *SSAP No. 43R—Asset-Backed Securities* and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and to add Annual Statement Instructions for the Schedule BA residual reporting category.

© 2024 National Association of Insurance Commissioners

- Agenda Item 2023-23 – Residuals in Preferred Stock and Common Stock Structures was adopted during the 2023 Fall National Meeting to exclude residual interests from *SSAP No. 30R—Unaffiliated Common Stock* and *SSAP No. 32R—Preferred Stock*.

- Principles-Based Bond Definition – During the 2023 Summer National Meeting, the Working Group adopted the principles-based bond definition in a revised *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities*. Subsequent to this adoption, revisions to *SSAP No. 21R—Other Admitted Asset*s were exposed to capture accounting and reporting guidance for non-bond debt securities as well as residual interests. The revisions to SSAP No. 21R for debt securities that do not qualify as bonds to prescribe the measurement method and accounting provisions for residual interests was adopted March 16, 2024 during the 2024 Spring National Meeting.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group: None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions to incorporate consistency revisions for residuals so that all SSAPs refer to SSAP No. 21R for the formal definition and accounting and reporting guidance. This recommendation involves revisions to *SSAP No. 26R—Bonds* (Effective 2025), *SSAP No. 30R—Unaffiliated Common Stock*, *SSAP No. 32R—Preferred Stock*, *SSAP No. 43R—Asset-Backed Securities* (Effective 2025), and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*.

Staff Review Completed by: Julie Gann, NAIC Staff—February 2024

Status:
On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed consistency revisions for residuals so that *SSAP No. 26R—Bonds* (Effective 2025), *SSAP No. 30R—Unaffiliated Common Stock*, *SSAP No. 32R—Preferred Stock*, *SSAP No. 43R—Asset-Backed Securities* (Effective January 1, 2025), and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* refer directly to *SSAP No. 21R—Other Admitted Assets* for the formal definition and accounting and reporting guidance.

Proposed Revisions:

SSAP No. 26R—Bonds (Effective Jan. 1, 2025)

4. This statement excludes:

   a. Mortgage loans and other real estate lending activities made in the ordinary course of business. These investments are addressed in *SSAP No. 37—Mortgage Loans* and *SSAP No. 39—Reverse Mortgages*.

   b. Investments that qualify within the principles-based definition as an ABS. These investments shall follow the guidance in *SSAP No. 43R—Asset-Backed Securities*.

   c. Securities that provide varying principal or interest based on underlying equity appreciation or depreciation, an equity-based derivative, real estate or other non-debt variable, as described in paragraph 6.d.

© 2024 National Association of Insurance Commissioners

d. Securities that do not qualify as bonds pursuant to the principles-based bond definition, including first loss positions that lack ~~contractual payments or~~ substantive credit enhancement as described in paragraph 10.b., as those items are residual interests. All investments that are in substance residual interests or that is a residual security tranche, as defined in *SSAP No. 21R—Other Admitted Assets*, ~~. These investments~~ shall follow the appropriate guidance in SSAP No. 21R~~—*Other Admitted Assets*~~.

e. Replication (synthetic asset) transactions addressed in *SSAP No. 86—Derivatives*. The admissibility, classification and measurement of a replication (synthetic asset) transactions are not preemptively determined by the principles-based bond definition and should be evaluated in accordance with the guidance on replication (synthetic asset) transactions within SSAP No. 86.

f. Investments that are captured specifically within other SSAPs. For example, reporting entity acquired structured settlements are captured in scope of *SSAP No. 21R—Other Admitted Assets*, held surplus notes are captured in scope of *SSAP No. 41R—Surplus Notes* and working capital finance investments are captured in scope of *SSAP No. 105—Working Capital Finance Investments*. Investments captured in scope of other SSAPs are subject to the measurement and admittance provisions of those SSAPs. Furthermore, investments that have specific reporting lines on dedicated schedules (such as with both surplus notes and WCFI) shall be reported on their dedicated lines.

10. The holder of a debt instrument issued by an ABS Issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly. The holder of the debt instrument is in a different economic position if such debt instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization.

a. Substantive Credit Enhancement: The intent of the criteria requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as an ABS under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an issuer credit obligation in scope of SSAP No. 26R as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to asset-backed securities. If substantive credit enhancement did not exist, the substance of the debt instrument being evaluated would be more closely aligned with that of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position. The substantive credit enhancement required to be in a different economic position is specific to each transaction; determined at origination; and refers to the level of credit enhancement a market participant (i.e., knowledgeable investor transacting at arm's length) would conclude is substantive.

b. The first loss position may be issued as part of an ~~securitization~~ ABS structure in the form of a debt or equity interest, or it may be retained by the sponsor and not issued as part of the ~~securitization~~ structure. If the first loss position (or a more senior position(s), if the first loss position(s) lacks ~~contractual payments along with a~~ substantive credit enhancement) is issued as part of the ~~securitization~~structure, and does not have ~~contractual principal and interest payments along with~~ substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify

for reporting as a bond as it is a residual interest. All residual interests shall follow the accounting and reporting guidance in *SSAP No. 21R—Other Admitted Assets*. ~~and shall be reported on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value consistent with the treatment for residuals. (These items are further addressed in SSAP No. 21R—Other Admitted Assets.)~~

- ***SSAP No. 30R—Unaffiliated Common Stock***

1. This statement establishes statutory accounting principles for common stocks.

2. Investments in common stock of subsidiaries, controlled or affiliated entities (investments in affiliates) are not within the scope of this statement. They are addressed in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

3. Investments in the form of common stock that are in substance residual interests or a residual security tranche, as defined in *SSAP No. 21R—Other Admitted Assets*~~SSAP No. 43R or SSAP No. 48~~, shall follow the accounting and reporting guidance in SSAP No. 21R with reporting ~~be reported~~ on *Schedule BA: Other Long-Term Assets* in the dedicated reporting lines for residuals.

- ***SSAP No. 32R—Preferred Stock***

1. This statement establishes statutory accounting principles for preferred stock.

2. Investments in preferred stock of entities captured in *SSAP No. 97—Investments in Subsidiaries, Controlled or Affiliated Entities* or *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* as well as preferred stock interests of certified capital companies per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company* (CAPCO) are included within the scope of this statement. The requirement to file investments in preferred stock of certain subsidiaries, controlled or affiliated entities with the NAIC pursuant to SSAP No. 97 does not affect the application of the accounting, valuation or admissibility under this statement. In addition to the provisions of this statement, preferred stock investments in SCAs are also subject to the provisions of *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

3. Investments in the form of preferred stock that are in substance residual interests or a residual security tranche, as defined in ~~SSAP No. 43R or SSAP No. No. 48~~*SSAP No. 21R—Other Admitted Assets*, shall follow the accounting and reporting guidance in SSAP No. 21R with reporting ~~be reported~~ on *Schedule BA: Other Long-Term Assets* in the dedicated reporting lines for residuals.

- ***SSAP No. 43R—Asset-Backed Securities (Effective 2025)***

4. This statement excludes:

   a. Securities captured in scope of *SSAP No. 26R—Bonds*.

   b. Mortgage loans in scope of *SSAP No. 37—Mortgage Loans* that qualify under an SVO structural assessment as SVO-Identified Credit Tenant Loans. These investments are excluded as these are captured as issuer credit obligations under SSAP No. 26R.

   c. Securities that do not qualify as Asset-Backed Securities per the bond definition in *SSAP No. 26R—Bonds* and residual interests as defined in *SSAP No. 21R—Other Admitted Assets*. ~~This exclusion~~

~~includes residual or interests, as well as first loss positions, that do not have contractual payments or substantive credit enhancement.~~ These securities ~~Debt securities that do not qualify~~ and residual interests shall follow the accounting and reporting guidance in SSAP No. 21R. ~~—Other Admitted Assets~~

11. After initial recognition, the carrying value shall be determined in accordance with the reported NAIC designation. The determination of NAIC designations shall be in accordance with the requirements detailed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual):

a. For reporting entities that maintain an Asset Valuation Reserve (AVR), asset-backed securities**~~, excluding residual tranches or interests~~**, shall be reported at amortized cost, except for those with an NAIC designation of 6, which shall be reported at the lower of amortized cost or fair value. 3

b. For reporting entities that do not maintain an AVR, asset-backed securities designated highest-quality and high-quality (NAIC designations 1 and 2, respectively**~~), excluding residual tranches or interests~~**, shall be reported at amortized cost; loan-backed and structured securities that are designated medium quality, low quality, lowest quality and in or near default (NAIC designations 3 to 6, respectively) shall be reported at the lower of amortized cost or fair value.

~~c. For residual tranches or interests[4], all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in the reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve. These items are captured in SSAP No. 21R—Other Admitted Assets and subject to admittance restrictions detailed in that statement.~~

~~Footnote 4: Reference to "residual tranches or interests" intends to capture securitization tranches and beneficial interests as well as other structures that reflect loss layers without any contractual payments, whether principal or interest, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. Although payments to holders can occur throughout an investment's duration (and not just at maturity), such instances still reflect the residual amount permitted to be distributed after other holders have received contractual interest and principal payments.~~

~~Residual Tranches or Interests~~

~~27. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.~~

~~28. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.~~

~~a. Residuals often do not have contractual principal or interest.~~

~~b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance, and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.~~

~~c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.~~

~~d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.~~

~~e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.~~

- ***SSAP No. 48R—Joint Ventures, Partnerships and Limited Liability Companies***

1. This statement establishes statutory accounting principles for investments in any joint ventures, partnerships, and limited liability companies, including investments in certified capital companies (CAPCO) per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company* (CAPCO), whether or not it is considered to be controlled by or affiliated with the reporting entity.

2. This statement excludes:

a. Single real estate property investments that are wholly-owned by an LLC that is directly and wholly-owned by the reporting entity, and that meet the criteria established in SSAP No. 40R—Real Estate Investments~~, are excluded from this statement~~.

b. ~~This statement does not address the accounting for i~~Investments in joint ventures, partnerships and limited liability companies that invest in tax credit programs and are in scope of ~~Low-Income Housing Tax Credit Properties as discussed in~~ *SSAP No. 93—Investments in Tax Credit Programs*~~Low-Income Housing Tax Credit Property Investments. However, investments in certain state Low-Income Housing Tax Credit Property Investments that do not fall within the scope of SSAP No. 93 are covered by the requirements of this statement~~. ***(Staff Note: This text reflects edits proposed to reflect the revised tax credit guidance in SSAP No. 93 exposed under agenda item 2022-14.)***

c. Investments that are in substance residual interests or a residual security tranche, as defined in *SSAP No. 21R—Other Admitted Assets*, shall follow the accounting and reporting guidance in SSAP No. 21R with reporting on Schedule BA: Other Long-Term Assets in the dedicated reporting lines for residuals.

Ref #2024-08

~~Residual Interests and Reporting~~

~~18. Investments in scope of this statement are reported on *Schedule BA: Other Long-Term Assets*. Schedule BA includes dedicated reporting categories for joint ventures, partnerships, and limited liability company investments as well as for residual interests, both with reporting lines in accordance with underlying asset characteristics. Investments within scope of this standard shall be divided within these reporting categories, with investments that reflect residual interests, or that predominantly hold residual interests captured in the residual interest reporting category.~~

~~19. A residual interest or a residual security tranche (collectively referred to as residuals) exists in investment structures that issue one or more classes of debt securities created for the primary purpose of raising debt capital backed by collateral assets. The primary source of debt repayment is derived through rights to the cash flows of a discrete pool of collateral assets. These designs could be backed directly or indirectly through a feeder fund. The collateral assets generate cash flows that provide interest and principal payments to debt holders through a contractually prescribed distribution methodology (e.g., waterfall dictating the order and application of all collateral cash flows). Once those contractual requirements are met, the remaining cash flows generated by (or with the sale of) the collateral assets are provided to the holder of the residual security/residual interest holder. When an asset within the discrete pool of assets does not perform as expected, it impacts the extent to which cash flows will be generated and distributed. The residual holders in the structure continue to receive payments from the collateral so long as there are cash flows in excess of the debt obligations. The payments to the residual holder may vary significantly, both in timing and amount, based on the underlying collateral performance.~~

~~20. The structural design of a residual interest or residual security tranche can vary, but the overall concept is that they receive the remaining cash flows after all debt holders receive contractual interest and principal payments. Determining whether an investment in a structure reflects a residual interest or tranche shall be based on the substance of the investment held rather than its legal form. Common characteristics of residual interests/residual security tranches include the items noted below, but the presence or absence of any of these factors should not be definitive in determination. Classification as a residual should be based on the substance of the investment and how cash flows to the holder are determined.~~

~~a. Residuals often do not have contractual principal or interest.~~

~~b. Residuals may be structured with terms that appear to be stated principal or interest but that lack substance and result in receiving the residual cash flows of the underlying collateral. The terms allow for significant variation in the timing and amount of cash flows without triggering a default of the structure.~~

~~c. Residuals do not have credit ratings or NAIC assigned designations. Rather, they are first loss positions that provide subordination to support the credit quality of the typically rated debt tranches.~~

~~d. Residuals may provide payment throughout the investment duration (and not just at maturity), but the payments received continue to reflect the residual amount permitted after debt tranche holders receive contractual principal and interest payments.~~

~~e. Frequently, there are contractual triggers that divert cash flows from the residual holders to the debt tranches if the structure becomes stressed.~~

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted the exposed consistency revisions for residuals with an effective date of January 1, 2025. These revisions result with all noted SSAPs referring to *SSAP No. 21R—Other Admitted Assets* for the formal definition and accounting and reporting guidance.

© 2024 National Association of Insurance Commissioners

Ref #2024-09

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: SSAP No. 2R – Clarification

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: This agenda item has been developed to update the guidance in *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to remove a lingering reference to items that have been removed from scope pursuant to the principles-based bond definition project (asset-backed securities) or from agenda item 2023-17 (mortgage loans and Schedule BA assets). The edits are focused on the guidance that addresses 'rolling' cash equivalents and short-term investments in which there is a continued reference for SSAP No. 43R investments and 'other Invested assets.' This guidance has been revised to only reflect items in scope of SSAP No. 2R.

Existing Authoritative Literature:

- ***SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments***

7. Regardless of maturity date, related party or affiliated investments that would be in scope of *SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities,* or that would be reported as "Other Invested Assets" shall be reported as long-term investments if any of the following conditions apply,[1] unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

   a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.

   b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent, regardless of the updated maturity date, and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.

   c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be

[1] Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated/reacquired maturity date is within one year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

© 2024 National Association of Insurance Commissioners

reported as long-term investments. (These securities are also not permitted to be reported as short-term investments, regardless of the maturity date of the reacquired investment.)

15. Regardless of maturity date, related party or affiliated investments in scope of *SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities,* or that would be reported as "Other Invested Assets" shall be reported as long-term investments if any of the following conditions apply,[2, 3] unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

    a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial "less than one year" timeframe.

    b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.

    c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

- *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities*, reflecting new guidance to incorporate a principles-based bond definition were adopted during the 2023 Summer National Meeting. This guidance is effective Jan. 1, 2025. Pursuant to the revisions adopted, all ABS are required to be reported as long-term investments on Schedule D-1-2 and are not permitted for cash equivalent or short-term reporting.

- Agenda item 2023-17 – Short-Term Investments, was adopted during the 2023 Fall National Meeting and removes mortgage loans and all Schedule BA investments from being reported as cash equivalents or short-term investments.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

[2] Reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant *to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.*

[3] Short-term investments subject to the provisions of paragraph 15 are not permitted to be subsequently reported as cash equivalents, even if the updated/reacquired maturity date is within 90 days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP Clarification and expose revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to eliminate lingering references that imply that asset-backed securities, mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.

Staff Review Completed by: Julie Gann, NAIC Staff—February 2024

Status:
On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* to eliminate lingering references that imply that asset-backed securities, mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.

Proposed Revisions to SSAP No. 2R—Bonds (Effective Jan. 1, 2025)

7. Regardless of maturity date, related party or affiliated investments that would be in scope of this statement pursuant to paragraph 6 ~~*SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities,* or that would be reported as "Other Invested Assets"~~ shall be reported as long-term investments if any of the following conditions apply,[4] unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

    a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial 90-day timeframe.

    b. The investment was previously reported as a cash equivalent investment and the initial maturity timeframe has passed. If an investment is reported as a cash equivalent and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a cash equivalent, regardless of the updated maturity date, and shall report the security as a long-term investment. An investment is only permitted to be reported as a cash equivalent for one quarter reporting period. Meaning, if an investment was reported as a cash equivalent in the first quarter, it is not permitted to be reported as a cash equivalent in the second quarter.

    c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as short-term investments, regardless of the maturity date of the reacquired investment.)

15. Regardless of maturity date, related party or affiliated investments in scope of this statement pursuant to paragraph 14 ~~*SSAP No. 26R—Bonds, SSAP No. 43R—Loan-Backed and Structured Securities,* or that would be reported as "Other Invested Assets"~~ shall be reported as long-term investments if any of the

[4] Cash equivalents subject to the provisions of paragraph 7 are not permitted to be subsequently reported as short-term investments, even if the updated/reacquired maturity date is within one year. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

© 2024 National Association of Insurance Commissioners

following conditions apply,[5, 6] unless the reporting entity has re-underwritten the investment, maintained appropriate re-underwriting documentation, and each participating party had the ability to independently review the terms and can terminate the transaction prior to renewal.

a. The reporting entity does not reasonably expect the investment to terminate on the maturity date. This provision includes investments that are expected to be renewed (or rolled) with a maturity date that ends subsequent to the initial "less than one year" timeframe.

b. The investment was previously reported as a short-term investment and the initial maturity timeframe has passed. If an investment is reported as a short-term investment and it is unexpectedly renewed/rolled, the reporting entity is not permitted to continue to report the held security as a short-term investment (or as a cash equivalent) regardless of the updated maturity date and shall report the security as a long-term investment. An investment is only permitted to be reported as a short-term investment for one annual reporting period. Meaning, if an investment was reported as a short-term investment as of December 31, 2018, it is not permitted to be reported as short-term investment as of December 31, 2019.

c. The reporting entity reacquired the investment (or a substantially similar investment) within one year after the original security matured or was terminated. These reacquired securities shall be reported as long-term investments. (These securities are also not permitted to be reported as cash equivalent investments regardless of the maturity date of the reacquired investment.)

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* with an effective date of January 1, 2025. These revisions eliminate lingering references that imply that asset-backed securities, mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Adoptions/24-09 - SSAP No. 2R Clarification.docx

[5] Reverse repurchase transactions are excluded from these provisions if admitted in accordance with collateral requirements pursuant *to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.*

[6] Short-term investments subject to the provisions of paragraph 15 are not permitted to be subsequently reported as cash equivalents, even if the updated/reacquired maturity date is within 90 days. These investments shall be reported as long-term investments. To avoid changes in reporting schedules, reporting entities are permitted to report securities as long-term investments at initial acquisition, regardless of the initial maturity date.

Ref #2024-14EP

NAIC Accounting Practices and Procedures Manual
Editorial and Maintenance Update
March 16, 2024

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual* (Manual) such as editorial corrections, reference changes and formatting.

SSAP/Appendix	Description/Revision
Removal of "Revised" and "R" identifiers from SSAP titles and references within the Manual.	Remove "Revised" and "R," previously intended to identify a SSAP that has been substantively revised, from SSAP titles and SSAP references within the Manual. NAIC staff consider the "Revised" and "R" identifiers to no longer be useful as several SSAPs have now had multiple substantive revisions after their initial adoption.

Staff Recommendation:
NAIC staff recommend that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorize as a SAP Clarification, and expose editorial revisions as illustrated within.

Removal of "R" identifier from SSAP titles and references within the AP&P Manual
Remove the "Revised" and "R" identifiers from SSAP titles and SSAP references throughout the Manual. NAIC staff consider the "Revised" and "R" identifier to no longer be useful. The following SSAPs currently have an "Revised" and "R" identifier in the title.

SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments
SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets
SSAP No. 16R—Electronic Data Processing Equipment and Software
SSAP No. 21R—Other Admitted Assets
SSAP No. 22R—Leases
SSAP No. 26R—Bonds
SSAP No. 30R—Unaffiliated Common Stock
SSAP No. 32R—Preferred Stock
SSAP No. 35R—Guaranty Fund and Other Assessments
SSAP No. 40R—Real Estate Investments
SSAP No. 41R—Surplus Notes
SSAP No. 43R—Loan-Backed and Structured Securities
SSAP No. 51R—Life Contracts
SSAP No. 54R—Individual and Group Accident and Health Contracts
SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance
SSAP No. 62R—Property and Casualty Reinsurance
SSAP No. 94R—Transferable and Non-Transferable State Tax Credits
SSAP No. 100R—Fair Value
SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
SSAP No. 104R—Share-Based Payments
SSAP No. 105R—Working Capital Finance Investments

Status:
On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed editorial revisions to the Accounting Practices and Procedures Manual to remove the "Revised" and "R" identifiers from SSAP titles and SSAP references throughout the Manual.

© 2024 National Association of Insurance Commissioners

Ref #2024-14EP

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, the proposed editorial revisions to the Accounting Practices and Procedures Manual to remove the "Revised" and "R" identifiers from SSAP titles and SSAP references throughout the Manual.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Adoptions/24-14EP Spring 2024.docx

© 2024 National Association of Insurance Commissioners

Ref #2023-26

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: ASU 2023-06, Disclosure Improvements

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In October 2023, FASB issued *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, in response to a referral from SEC Release No. 33-10532, Disclosure Update and Simplification, issued August 17, 2018. The changes detailed in the ASU seek to clarify or improve disclosure and presentation requirements of a variety of Topics. Many of the amendments allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the SEC's requirements, while others represent miscellaneous clarifications or technical corrections of the current disclosure requirements. Two of the more significant items from the SEC referral is the requirement for companies to disclose their the weighted-average interest rate of debt and provide repurchase agreement (repo) counterparty risk disclosures. FASB elected to only require the weighted-average interest rate disclosure for publicly traded companies due to concerns regarding the complexity of the calculation for private companies. It was also noted by Staff that the effective date of ASU 2023-06 is unusual as both its timing, and ultimately its implementation within the Codification, is dependent on whether the SEC removes the related disclosures from Regulation S-X, or Regulation S-K becomes effective, prior to June 30, 2027. For this agenda item, Staff believes that the occurrence, or non-occurrence, of future SEC actions is not relevant to discussion concerning the proposed disclosures' merits for inclusion in the statutory accounting framework. If needed, the Working Group will address the effective date of adoption at a later stage.

Existing Authoritative Literature:
The table starting on page six summarizes the updates in this ASU, as well as defines the recommended actions for statutory accounting.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):
Agenda item 2024-04: Conforming Repurchase Agreements was developed in in response to the American Council of Life Insurers (ACLI) request to modify the treatment of repurchase agreements in the life risk-based capital (RBC) formula to converge with treatment for securities lending programs.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None.

Convergence with International Financial Reporting Standards (IFRS):
None.

Staff Recommendation – Spring National Meeting:
NAIC staff recommends that the Working Group expose revisions to adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative,* for statutory accounting within *SSAP No. 15—Debt and*

© 2024 National Association of Insurance Commissioners

Holding Company Obligations **and** ***SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*****.** The disclosures revisions we have recommended are:

- Certain disclosures for unused commitments and lines of credit, disaggregated by short-term and long-term.
- Disclosure of accrued interest from repos and securities borrowing, separate disclosure of significant (10% of admitted assets) reverse repos, and counterparty disclosures for significant (10% of adjusted capital and surplus) repos and reverse repos.

NAIC staff also requests regulator and interested party input on whether the accounting policy disclosure for cash flows associated with derivatives, ASC 230-10-50-9, should also be adopted for statutory accounting purposes. This would require companies to provide an accounting policy disclosure for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows.

Staff Recommendation – Summer National Meeting:
NAIC staff recommends that the Working Group adopt, with modification, certain disclosures from ***ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative,*** **for statutory accounting within** ***SSAP No. 15—Debt and Holding Company Obligations*** **and** ***SSAP No. 86—Derivatives*****.** The disclosure revisions we have recommended are:

- Certain disclosures for unused commitments and lines of credit, disaggregated by short-term and long-term.
- Disclosure of the derivative cash flow accounting policy

In addition, NAIC staff recommend that the previously exposed revisions to adopt, with modification, certain disclosures from ASU 2023-06 within ***No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*** be combined with agenda item 2024-04: Conforming Repurchase Agreements. These disclosures revisions include:

- Disclosure of accrued interest from repos and securities borrowing, separate disclosure of significant (10% of admitted assets) reverse repos, and counterparty disclosures for significant (10% of adjusted capital and surplus) repos and reverse repos.

Agenda item 2024-04 is intended to review and revise current statutory guidance for repos and secured lending, as such adoption of additional repo disclosures should be considered as a part of that project.

Staff Review Completed by:
NAIC Staff – William Oden, February 2024

Status:
On December 1, 2023, the Statutory Accounting Principles (E) Working Group deferred exposure of this agenda item as some items were noted which require further consideration.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The Working Group also requested input from regulators and interested parties on whether the derivative cash flow accounting policy disclosure, described in ASC 230-10-50-9, would provide useful information to regulators.

© 2024 National Association of Insurance Commissioners

Ref #2023-26

Exposed Revisions to SSAP No. 15—Debt and Holding Company Obligations – Adopted

22. For unused commitments and lines of credit, the reporting entity shall separately disclose the following, disaggregated by short-term and long-term, in the notes to financial statements:

a. The amount and terms of unused commitments for financing arrangements (including commitment fees and the conditions under which commitments may be withdrawn).

~~a.~~b. The amount and terms of unused lines of credit for financing arrangements (including commitment fees and the conditions under which lines may be withdrawn) and the amount of those lines of credit that support commercial paper borrowing arrangements or similar arrangements.

Relevant Literature

32. This statement adopts, with modification, *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative.* Statutory modifications include:

a. Extending the disclosure requirements to both short-term and long-term unused commitments and lines of credit, whereas ASU 2023-06 only required these disclosures for long-term unused commitments and short-term lines of credit.

b. The requirement to disclose the weighted-average interest rate of short-term borrowings was rejected for statutory accounting purposes.

Exposed revisions to SSAP No. 86—Derivatives – Adopted

Disclosure Requirements

63. Reporting entities shall disclose the following for all derivative contracts used:

a. General disclosures:

i. A description of the reporting entity's objectives for using derivatives, i.e., hedging, income generation or replication;

ii. A description of the context needed to understand those objectives and its strategies for achieving those objectives;

iii. The description for hedging objectives shall identify the category, e.g., fair value hedges, cash flow hedges, or foreign currency hedges, and for all objectives, the type of instrument(s) used;

iv. A description of the accounting policies for derivatives including the policies for recognizing (or reasons for not recognizing) and measuring the derivatives used, and when recognized, where those instruments and related gains and losses are reported;

v. Identification of whether the reporting entity has derivative contracts with financing premiums. (For purposes of this term, this includes scenarios in which the premium cost is paid at the end of the derivative contract or throughout the derivative contract.);

© 2024 National Association of Insurance Commissioners

vi. The net gain or loss recognized in unrealized gains or losses during the reporting period representing the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness; ~~and~~

vii. The net gain or loss recognized in unrealized gains or losses during the reporting period resulting from derivatives that no longer qualify for hedge accounting. For portfolio layer method hedges, disclose circumstances that led to the breach; and

~~vii.~~ viii. The reporting entity shall disclose its accounting policy for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flow.

Relevant Literature

74. This statement adopts, with modification, *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. The adopted guidance requires the reporting entity to disclose its accounting policy for where cash flows associated with derivative instruments are presented in the statement of cash flow.

Not adopted - The following Revisions to were exposed SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – Are To be Combined with Agenda Item 2024-04 (not adopted in August 2024)

28. A reporting entity shall disclose the following[fn]:

a. For Repurchase and Reverse Repurchase Agreements:

i. If the entity has entered into repurchase or reverse repurchase agreements, information regarding the company policy or strategies for engaging in repo programs, policy for requiring collateral, as well as whether transactions have been accounted for as secured borrowings or as sale transactions. This disclosure shall include the terms of reverse repurchase agreements whose amounts are included in borrowing money. The following information shall be disclosed by type of agreement:

(a) Whether repo agreements are bilateral and/or tri-party trades;

(b) Maturity time frame divided by the following categories: open or continuous term contracts for which no maturity date is specified, overnight, 2 days to 1 week, from 1 week to 1 month, greater than 1 month to 3 months, greater than 3 months to 1 year, and greater than 1 year[fn];

(c) Aggregate narrative disclosure of the fair value of securities sold and/or acquired that resulted in default. (This disclosure is not intended to capture "failed trades," which are defined as instances in which the trade did not occur as a result of an error and was timely corrected. Rather, this shall capture situations in which the non-defaulting party exercised their right to terminate after the defaulting party failed to execute.)

(d) If as of the date of the most recent balance sheet the aggregate carrying amount of reverse repurchase agreements (securities or other assets purchased under agreements to resell) exceeds 10% of total admitted assets, the assets shall be separately disclosed. The entity shall also disclose whether there are any provisions, beyond the collateral requirements in paragraph 113, to ensure that the

market value of the underlying assets remains sufficient to protect the entity in the event that the counterparty defaults and, if so, the nature of those provisions.

Staff Note 2: *The Supplemental Investment Risks Interrogatories (Appendix A-001) does require reporting of the amount and percentage of admitted assets subject to reverse repurchase agreements. Staff is of the opinion that if the assets subject to reverse repurchase agreements exceeded 10% then this fact is significant enough to also be included in the notes the financial statements.*

ii. For repurchase transactions accounted for as secured borrowings[fn], the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:

(a) Fair value of securities sold. (Book adjusted carrying value shall be provided as an end balance only.) This information is required in the aggregate, and by type of security categorized by NAIC designation, with identification of nonadmitted assets. Although legally sold as a secured borrowing, these assets are still reported by the insurer and shall be coded as restricted pursuant to the annual statement instructions, disclosed in accordance with *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, reported in the general interrogatories, and included in any other statutory schedules or disclosure requirements requesting information for restricted assets.

(b) Cash collateral and the fair value of security collateral (if any) received. This information is required in the aggregate and by type of security categorized by NAIC designation with identification of collateral securities received that do not qualify as admitted assets.

(1) For collateral received, aggregate allocation of the collateral by the remaining contractual maturity of the repurchase agreements (gross): overnight and continuous, up to 30 days, 30-90 days, greater than 90 days. This disclosure shall also include a discussion of the potential risks associated with the agreements and related collateral received, including the impact arising changes in the fair value of the collateral received and/or the provided security and how those risks are managed.

(2) For cash collateral received that has been reinvested, the total reinvested cash and the aggregate amortized cost and fair value of the invested asset acquired with the cash collateral. This disclosure shall be reported by the maturity date of the invested asset: under 30 days, 60 days, 90 days, 120 days, 180 days, less than 1 year, 1-2 years, 2-3 years and greater than 3 years. To the extent that the maturity dates of the liability (collateral to be returned) does not match the invested assets, the reporting entity shall explain the additional sources of liquidity to manage those mismatches.

(c) Liability recognized, including accrued interest, to return cash collateral, and the liability recognized to return securities received as collateral as required pursuant to the terms of the secured borrowing transaction.

iii. For reverse repurchase transactions accounted for as secured borrowings[fn], the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:

(a) Fair value of securities acquired. This information shall be reported in the aggregate, and by type of security categorized by NAIC designation, with identification of whether acquired assets would not qualify as admitted assets.

(b) Cash collateral and the fair value of security collateral (if any) provided. (If security collateral was provided, book adjusted carrying value shall be provided as an end balance only.) Disclosure shall identify the book adjusted carrying value of any nonadmitted securities provided as collateral. For collateral pledged, the aggregate allocation of the collateral by the remaining contractual maturity of the reverse-repurchase agreements (gross): overnight and continuous, up to 30 days, 30-90 days, greater than 90 days. This disclosure shall also include a discussion of the potential risks associated with the agreements and related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.

(c) Recognized receivable for the return of collateral. (Generally cash collateral, but including securities provided as collateral as applicable under the terms of the secured borrowing transaction. Receivables are not recognized for securities provided as collateral if those securities are still reported as assets of the reporting entity.)

(d) Recognized liability, including accrued interest, to return securities acquired under the reverse-repurchase agreement as required pursuant to the secured borrowing transaction. (Generally, a liability is required if the acquired securities are sold.)

iv. For repurchase transactions accounted for as a sale[fn], the maximum amount and end balance as of each reporting period (quarterly and annual) for the following:

(a) Fair value of securities sold (derecognized from the financial statements). (Book adjusted carrying value shall be provided as an end balance only, reflecting the amount derecognized from the sale transaction.) This information is required in the aggregate, and by type of security categorized by NAIC designation, with information on the book adjusted carrying value of nonadmitted assets sold.

(b) Cash and the fair value of securities (if any) received as proceeds and recognized in the financial statements. This information is required in the aggregate and by type of security categorized by NAIC designation, with identification of received assets nonadmitted in the financial statements. All securities received shall be coded as restricted pursuant to the annual statement instructions, disclosed in accordance with SSAP No. 1, reported in the general interrogatories, and included in any other statutory schedules or disclosure requirements requesting information for restricted assets.

(c) The forward repurchase commitment recognized to return the cash or securities received. Amount reported shall reflect the stated repurchase price under the repurchase transaction.

v. For reverse repurchase transactions accounted for as sale[fn], the maximum amount and end balance as of each reporting period (quarterly and annual):

(a) Fair value of securities acquired and recognized on the financial statements. (Book adjusted carrying value shall be provided as an end balance only.) This information shall be reported in the aggregate, and by type of security categorized by NAIC designation. The disclosure also requires the book adjusted carrying value of nonadmitted assets acquired.

(b) Cash collateral and the fair value of security collateral (if any) provided. (If security collateral was provided, book adjusted carrying value shall be provided as an end

balance only.) Disclosure shall also identify whether any nonadmitted assets were provided as collateral (derecognized from the financial statements).

vi. If as of the date of the most recent balance sheet the amount at risk under repurchase agreements or the amount at risk under reverse repurchase agreements with any individual counterparty or group of related counterparties exceeds 10% of adjusted capital and surplus, an entity shall disclose the name(s) of those counterparties or group of related counterparties, the amount at risk with each, and the weighted-average maturity of the repurchase agreements or reverse repurchase agreements with each.

(a) For the purposes of this statement, the amount at risk under repurchase agreements is the excess of the carrying amount (or market value, if higher than the carrying amount or if there is no carrying amount) of the securities or other assets sold under agreement to repurchase, including accrued interest plus any cash or other assets on deposit to secure the repurchase obligation, over the amount of the repurchase liability (adjusted for accrued interest).

~~(a)~~(b) For the purposes of this statement, the amount at risk under reverse repurchase agreements is the excess of the carrying amount of the reverse repurchase agreements over the market value of assets delivered in accordance with the agreements by the counterparty to an entity (or to a third-party agent that has affirmatively agreed to act on behalf of the entity) and not returned to the counterparty, except in exchange for their approximate market value in a separate transaction.

Relevant Literature

135. This statement adopts, with modification, *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. Statutory modifications include:

a. It is not feasible to require separate reporting of assets subject to reverse repurchase agreements in excess of 10% of total assets. Instead, this was modified to require separate disclosure and the threshold was modified to be "10% of total admitted assets."

b. The disclosure threshold for the amount at risk under repurchase agreements or reverse repurchase agreements was modified to be 10% of adjusted capital and surplus, rather than 10% of total equity.

c. The requirement to disclose the weighted-average interest rate of repurchase liabilities and related repurchase liabilities was rejected for statutory accounting purposes.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted, with modification, as final, certain disclosures from *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative,* for statutory accounting within *SSAP No. 15—Debt and Holding Company Obligations* and *SSAP No. 86—Derivatives*. The partial adoption of ASU 2023-06 only includes the previously exposed disclosures on unused commitments, lines of credit, and derivative cash flows accounting policy. The Working Group also directed NAIC staff to incorporate the previously exposed disclosures from ASU 2023-06 concerning repos, reverse repos and securities borrowing into agenda item 2024-04: Conforming Repurchase Agreements for further consideration as part of the ongoing project looking at the statutory accounting treatment of repos and securities lending. The adopted revisions are reflected below.

Ref #2023-26

Adopted Revisions to SSAP No. 15—Debt and Holding Company Obligations – Adopted

22. For unused commitments and lines of credit, the reporting entity shall separately disclose the following, disaggregated by short-term and long-term, in the notes to financial statements:

a. The amount and terms of unused commitments for financing arrangements (including commitment fees and the conditions under which commitments may be withdrawn).

~~a.~~b. The amount and terms of unused lines of credit for financing arrangements (including commitment fees and the conditions under which lines may be withdrawn) and the amount of those lines of credit that support commercial paper borrowing arrangements or similar arrangements.

Relevant Literature

32. This statement adopts, with modification, *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. Statutory modifications include:

a. Extending the disclosure requirements to both short-term and long-term unused commitments and lines of credit, whereas ASU 2023-06 only required these disclosures for long-term unused commitments and short-term lines of credit.

b. The requirement to disclose the weighted-average interest rate of short-term borrowings was rejected for statutory accounting purposes.

Proposed revisions to SSAP No. 86—Derivatives – Adopted

Disclosure Requirements

63. Reporting entities shall disclose the following for all derivative contracts used:

b. General disclosures:

i. A description of the reporting entity's objectives for using derivatives, i.e., hedging, income generation or replication;

ii. A description of the context needed to understand those objectives and its strategies for achieving those objectives;

iii. The description for hedging objectives shall identify the category, e.g., fair value hedges, cash flow hedges, or foreign currency hedges, and for all objectives, the type of instrument(s) used;

iv. A description of the accounting policies for derivatives including the policies for recognizing (or reasons for not recognizing) and measuring the derivatives used, and when recognized, where those instruments and related gains and losses are reported;

v. Identification of whether the reporting entity has derivative contracts with financing premiums. (For purposes of this term, this includes scenarios in which the premium cost is paid at the end of the derivative contract or throughout the derivative contract.);

© 2024 National Association of Insurance Commissioners

vi. The net gain or loss recognized in unrealized gains or losses during the reporting period representing the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness; ~~and~~

vii. The net gain or loss recognized in unrealized gains or losses during the reporting period resulting from derivatives that no longer qualify for hedge accounting. For portfolio layer method hedges, disclose circumstances that led to the breach; and

~~vii.~~viii. The reporting entity shall disclose its accounting policy for where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flow.

Relevant Literature

74. This statement adopts, with modification, *ASU 2023-06, Disclosure Improvements, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. The adopted guidance requires the reporting entity to disclose its accounting policy for where cash flows associated with derivative instruments are presented in the statement of cash flow.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Adoptions/23-26 - ASU 2023-06 - Disclosure Improvements.docx

© 2024 National Association of Insurance Commissioners

Ref #2023-26

The last column lists the status of the GAAP source literature for statutory accounting and the recommended action.

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
Statement of Cash Flows—Overall	230-10	Requires an accounting policy disclosure in annual periods of where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows.	50-9	NAIC staff noted that this disclosure may be duplicative of *SSAP No. 86—Derivatives*, paragraph 63a.iv. However, this disclosure does not specifically require disclosure of the accounting policy for the presentation of cash flows from derivatives and the statutory statement of cash flows does not currently break out cash flows from derivatives. No comments were received from regulators and Interested Parties had no comments on adoption of this disclosure. **Staff recommends adoption of this disclosure for statutory accounting purposes.**
Accounting Changes and Error Corrections—Overall	250-10	Requires that when there has been a change in the reporting entity, the entity disclose any material prior-period adjustment and the effect of the adjustment on retained earnings in interim financial statements.	50-6	This disclosure is duplicative of *SSAP No. 3—Accounting Changes and Corrections of Errors*, paragraph 13. **This update is not applicable – no action required.**
Earnings Per Share—Overall	260-10	Requires disclosure of the methods used in the diluted earnings-per-share computation for each dilutive security and clarifies that certain	50-1 55-51 55-52	**This update is not applicable – no action required.**

Ref #2023-26

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		disclosures should be made during interim periods. Amends illustrative guidance to illustrate disclosure of the methods used in the diluted earnings-per-share computation.		
Interim Reporting—Overall	270-10	Conforms to the amendments made to Topic 250.	45-12 45-19 50-1	**This update is not applicable – no action required.**
Commitments—Overall	440-10	Requires disclosure of assets mortgaged, pledged, or otherwise subject to lien and the obligations collateralized.	50-1	This disclosure is duplicative of *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, paragraph 23b. **This update is not applicable – no action required.**
Debt—Overall	470-10	Requires disclosure of amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on outstanding short-term borrowings. Entities that are not public business entities are not required to provide information about the weighted-average interest rate.	15-1 50-6 5-7	Staff do not recommend adoption of the weighted-average interest rate calculation for statutory accounting purposes. Due to the complexity of this computation, this this disclosure is only required for public entities under GAAP. As SAP does not have the public/private entity distinction, adoption of this disclosure would be applicable to all insurance entities. This disclosure is not considered necessary in light of existing debt SAP disclosures and does not provide enough benefit to offset the cost of implementing such a potentially complex calculation. **We recommend adoption, with modification, of the disclosures**

Ref #2023-26

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
				unused LOC and commitment disclosures.
Equity—Overall	505-10	Requires entities that issue preferred stock to disclose preference in involuntary liquidation if the liquidation preference is other than par or stated value.	50-4	This disclosure is duplicative of *SSAP No. 72—Surplus and Quasi-Reorganizations*, paragraph 22b. **This update is not applicable – no action required.**
Derivatives and Hedging—Overall	815-10	Adds inter-codification reference to 230-10-50-9 for disclosure of cash flows associated with derivative instruments.	50-8C	**This update is not applicable – no action required.**
Transfers and Servicing—Secured Borrowing and Collateral	860-30	Requires: a. That accrued interest be included in the disclosure of liabilities incurred in securities borrowing or repurchase or resale transactions. b. Separate presentation of the aggregate carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10 percent of total assets. c. Disclosure of the weighted-average interest rates of repurchase liabilities for public business entities. d. Disclosure of amounts at risk with an individual counterparty if that amount exceeds more than 10 percent of stockholder's equity. e. Disclosure for reverse repurchase agreements that exceed 10 percent of total assets on whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient to protect against	15-1 45-2 45-2A 45-3 50-7 50-9 thru 12 55-4	**We recommend adoption, with modification, of the disclosures in bullets a., b., d., and e. (see Abbreviated Summary of Changes)** **The disclosure in bullet c. is not recommended for adoption within SAP – no action required.**

Ref #2023-26

Topic	Codification	Abbreviated Summary of Change	Related Paragraphs	SAP Status/Recommendation
		counterparty default and, if so, the nature of those provisions.		
Extractive Activities—Oil and Gas—Notes to Financial Statements	932-235	Requires that paragraphs 932-235-50-3 through 50-36 be applicable for each annual period presented in the financial statements.	50-2A	**This update is not applicable – no action required.**
Financial Services—Investment Companies—Investment Company Activities	946-20	Requires that investment companies disclose the components of capital on the balance sheet.	50-11 50-12	**This update is not applicable – no action required.**
Real Estate—Real Estate Investment Trusts—Overall	974-10	Requires disclosure for annual reporting periods of the tax status of distributions per unit (for example, ordinary income, capital gain, and return of capital) for a real estate investment trust.	50-1	**This update is not applicable – no action required.**
Generally Accepted Accounting Principles—Overall	105-10	Adds in transition and open effective date information.	65-7 65-8	**This update is not applicable – no action required.**

© 2024 National Association of Insurance Commissioners

Attachment One-J
Accounting Practices and Procedures (E) Task Force
8/14/24

Statutory Issue Paper No. 169

Principles-Based Bond Definition

STATUS
Adopted –August 13, 2024

Original SSAP: SSAP No. 26 and SSAP No. 43

Current Authoritative Guidance: SSAP No. 21, SSAP No. 26 and SSAP No. 43

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. The guidance within this issue paper details the new statutory accounting concept revisions to *SSAP No. 26—Bonds* (SSAP No. 26), *SSAP No. 43—Loan-backed and Structured Securities* (SSAP No. 43) and *SSAP No. 21—Other Admitted Assets* (SSAP No. 21) pursuant to the Statutory Accounting Principles (E) Working Group's (Working Group) Investment Classification Project as well as in response to expanding investment structures that have been reported on Schedule D-1: Long-Term Bonds. The revisions and discussions detailed within reflects a comprehensive review, referred to as the "Principles-Based Bond Project," to establish principal concepts for determining whether a debt security qualifies for reporting as a bond. Although SSAP No. 26 was previously revised pursuant to the Investment Classification Project in 2017, it was identified that some entities were classifying securities issued from special purpose vehicles (SPVs) in scope of SSAP No. 26 instead of SSAP No. 43. As the focus of this Principles-Based Bond Project is on the substance of investments, regardless of whether they include an SPV for issuance, this project includes all debt securities and encompasses both SSAP No. 26 and SSAP No. 43.

SUMMARY CONCLUSION

2. Investments eligible for reporting as bonds on Schedule D-1[1] shall comply with the principles-based definition of a bond or be specifically noted in scope of SSAP No. 26 or SSAP No. 43. Revisions to reflect the principles-based bond definition have been incorporated to SSAP No. 26, with SSAP No. 43 revised for accounting and reporting guidance for investments that qualify as asset-backed securities under the SSAP No. 26 bond definition. SSAP No. 21 has been revised to detail accounting and reporting guidance for debt securities that do not qualify as bonds under SSAP No. 26 and to provide guidance for the accounting and reporting of residual interests. Lastly, various revisions to other SSAPs have been incorporated to update guidance and/or references to the bond guidance. The final adopted SSAPs and other revisions are shown in the exhibits to this issue paper.

DISCUSSION

3. The discussion of this issue originally began in August 2019 with agenda item 2019-21: SSAP No. 43 – Equity Investments. This agenda item was drafted to consider clarification to SSAP No. 43 particularly

[1] Pursuant to reporting changes adopted in response to the principles-based bond definition, issuer credit obligations (ICO) in scope of *SSAP No. 26—Bonds* will be reported *on Schedule D-1-1: Bonds* and asset-backed security (ABS) investments that qualify as bonds under SSAP No. 26 but follow *SSAP No. 43—Asset-Backed Securities* for accounting and reporting will be reported on *Schedule D-1-2: Asset-Backed Securities*. Throughout this issue paper, these bond investments (both ICO and ABS) are collectively referred to as bonds reported on Schedule D-1.

© 2024 National Association of Insurance Commissioners

with regards to collateralized fund obligations and similar structures that reflect underlying equity interests. In response to the discussion of comment letters in January 2020, this project was expanded to include a comprehensive review of SSAP No. 43 under the Working Group's Investment Classification Project, with NAIC staff directed to prepare a discussion document for subsequent review.

4. A preliminary discussion document was exposed for comment on March 18, 2020. Although there were no proposed recommendations in that exposed document, it captured the following:

a. History of the definition / scope development of SSAP No. 43. (This history has been retained in this issue paper, beginning with paragraph 124.)

b. Definitions of asset backed securities (ABS) from the Code of Federal Regulations (CFR), the Securities Exchange Act of 1934 and NAIC Model 280, Investments of Insurers Model Act (Defined Limits Version).

c. Potential options for the accounting and reporting of ABS based on whether they were considered traditional securitizations in accordance with the Code of Federal Regulations (CFR) (17 CFR 229.1101(c)) definition of an ABS or non-traditional securitizations that did not comply with the CFR definition.

5. In response to this initial exposure, a detailed comment letter dated July 31, 2020, was received from interested parties. Although a variety of elements were noted, two key issues were the primary focus:

a. Separation between SSAP No. 26 and SSAP No. 43: Pursuant to the comments, it was identified that many insurers had different interpretations of the adopted 2010 revisions that separated investments between SSAP No. 26 and SSAP No. 43 due to the presence of a "trust" or an "SPV" structure. As such, investment designs that had been identified as concerning due to the underlying investments in the SPV (e.g., equity-driven investments) believed by some to be limited to SSAP No. 43 were, under some interpretations, eligible to be captured in scope of SSAP No. 26.

b. Defining an asset backed security: The comments received focused heavily on whether the 17 CFR definition captured securities within the 1933 or 1934 Securities Act. The proposed use of the 17 CFR definition, which is the ABS definition used by the SEC as a nationally recognized statistical ratings organization (NRSRO) registered for asset-backed securities, was intended to allow consistency in ABS items permitted for NRSRO designations. Furthermore, it was only the first "broad brush" in determining whether an investment would be initially captured in scope of SSAP No. 43. Regardless, based on the comments received, which noted variations between the 1933 and 1934 Securities Act, differences of assessments based on whether an entity is the issuer or acquirer, the legal scrutiny that may be required in determining whether an investment complies with the definition, as well as a recommendation for independent principles for determining an investment as an asset backed security, it was identified that further discussion should occur before utilizing the CFR definition of an asset-backed security.

6. After considering the interested parties' July 31, 2020, comments, the Working Group directed that a small group of industry work with Iowa representatives and NAIC staff to define what should be considered a bond for reporting on Schedule D-1. It was identified that some investment designs, which have been previously captured on Schedule D-1 or are proposed for inclusion on that schedule, may be well-performing assets, but are not bonds and should not be captured on Schedule D-1. It was also noted that regulators are not anticipating these sorts of investment structures when reviewing D-1 and assessing

investment risk. These small group discussions began December 1, 2020, and continued until the bond proposal was initially exposed for public comment on May 20, 2021.

7. After considering the comment letters from the May 2021 exposure, on August 26, 2021, the Working Group affirmed the direction of the principle-based bond concepts and directed NAIC staff to utilize those concepts in proposing statutory accounting revisions. With this explicit direction, it was noted that all elements of the principles-based bond proposal, and the reflection of those concepts in statutory accounting guidance, is subject to continued discussion and deliberation. Revised guidance for Schedule D-1 investment classification will not be considered authoritative statutory guidance until the specific effective date detailed in adopted authoritative SSAP. With the direction to proceed with the development of statutory guidance to reflect the principle-based concepts, the Working Group directed that NAIC staff continue to work with the small group of regulators and industry to discuss concepts, review proposed language and consider innovating investment designs. (During this meeting, the small group was repurposed and referred to as the "study" group with additional regulators participating.)

8. From September 2021 through January 2022, the study group of regulators and industry met to continue discussions on the bond proposal definition. Key elements discussed during this timeframe included 1) the requirement for a credit enhancement that puts the holder of an ABS in a different economic position from holding the underlying collateral directly, 2) the contractual stapling restriction, and 3) guidance for when a debt instrument is issued from an SPV that owns a portfolio of equity interests. Revisions from these discussions, as well as other aspects to clarify the definition and an initial issue paper were presented to the Statutory Accounting Principles (E) Working Group on March 2, 2022, and exposed. Subsequently, the full Working Group discussed and exposed revisions to the draft guidance until adoption.

9. This issue paper intends to provide information on discussions that occurred when considering the principles-based bond definition and the statutory accounting revisions to specify the types of investments that shall be reported on Schedule D-1: Long-Term Bonds. A summary of the exposure periods and adoption actions are detailed below:

a. On March 2, 2022, this issue paper, along with the principles-based bond definition, was exposed, with comments due May 6, 2022. The Working Group heard comments on July 18, 2022, and directed limited edits to be reflected while also deciding not to incorporate revisions for a number of industry-proposed comments.

b. On August 10, 2022, this issue paper, along with the principles-based bond definition, and proposed revisions to SSAP No. 26 and SSAP No. 43 was exposed, with comments due October 7, 2022. Comments were received from Interested Parties, Fermat Capital and the industry Lease-Backed Securities Working Group. After considering comments, the Working Group incorporated certain revisions.

c. On November 16, 2022, after considering comments from the August 2022 exposure, the Working Group exposed revisions to SSAP No. 26 and SSAP No. 43. The Working Group also exposed revisions to other SSAPs that will be impacted with the bond project revisions. These edits included revisions to detail the short-term and cash equivalent restriction for ABS in *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* as well as guidance for debt securities that do not qualify as bonds in SSAP No. 21. This guidance was exposed until February 10, 2023.

d. On March 22, 2023, during the 2023 Spring National Meeting, the Working Group considered comments received and exposed updated guidance, with a comment period ending June 9, 2023, to reflect most of the interested party comments.

e. On August 13, 2023, during the 2023 Summer National Meeting, the Working Group adopted the exposed revisions to SSAP No. 26, SSAP No. 43 and the document detailing revisions to other SSAPs with an effective date of January 1, 2025. With this action, it was noted that no comments had been received on these exposed items. Also on August 13, 2023, the Working Group considered comments on the exposed SSAP No. 21 on the guidance for non-bond debt securities that do not qualify as bonds and on residual interests and exposed a revised SSAP No. 21 until September 29, 2023.

f. On December 1, 2023, during the 2023 Fall National Meeting, the Working Group considered comments received on SSAP No. 21, predominantly focused on the accounting and measurement of residual interests and exposed an updated SSAP No. 21 until January 22, 2024.

g. On February 20, 2024, the Working Group received a revised SSAP No. 21 that was updated to reflect interested parties' comments during the interim. The Working Group exposed the revised SSAP No. 21 for a shortened comment period ending March 7, 2024, to allow for possible adoption consideration during the 2024 Spring National Meeting.

h. On March 16, 2024, during the 2024 Spring National Meeting, the Working Group adopted new statutory accounting guidance within SSAP No. 21 for "Debt Securities That Do Not Qualify as Bonds" and for "Residual Tranches or Interests/Loss Positions." The new sections are effective January 1, 2025, but reporting entities may elect to adopt the residual guidance for year-end 2024. With this action, all planned statutory accounting guidance for the principles-based bond definition was adopted.

Discussion of Principles-Based Bond Concepts

10. Pursuant to the "small group" discussions comprised of industry, Iowa regulators and NAIC staff, the broad principle-based bond concepts discussed on August 26, 2021, reflected the following key concepts:

a. Definition of a bond requires a security structure, representing a creditor relationship, that is considered an Issuer Credit Obligation (ICO) or an Asset Backed Security (ABS).

b. The assessment of whether a security represents a creditor relationship requires consideration of the substance, rather than the legal form of the document, as well as consideration of other investments owned in the investee and other contractual arrangements. A security that possesses equity-like characteristics or that represents an ownership interest in the issuer in substance does not represent a creditor relationship.

c. An ABS is a bond issued by an entity created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owned by the ABS Issuer, whereby repayment is primarily derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity.

d. There are two defining characteristics that must be present for a security to meet the definition of an ABS: 1) The holder of a debt instrument issued by an ABS issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly, and 2) When the assets owned by the ABS are non-financial assets, the assets are expected to generate a meaningful level of cash flows towards repayment of the bond other than through the sale or refinancing of the non-financial assets.

© 2024 National Association of Insurance Commissioners

11. Various discussions and components were addressed in the establishment of these broad concepts and throughout the development of the principles-based bond definition. Specific elements and discussion points are detailed within this issue paper.

Security Structure Representing a Creditor Relationship

12. Similar to long-standing guidance in defining a bond, the principles-based bond concepts only permit security structures to be considered eligible for Schedule D-1 reporting. Although the concepts continue reference to the adopted security definition from U.S. GAAP, the guidance is expanded to require that the evaluation of the structure under the security definition considers the substance of the instrument rather than solely its legal form.

13. The consideration of whether a structure reflects a "security" is a key factor in determining the appropriate SSAP for accounting and reporting. A structure with one or more future payments that qualifies as a security has historically been captured as a bond, with measurement and risk-based capital (RBC) charges based on the NAIC designation. Under the prior SSAP guidance, bond securities did not require additional provisions for admittance and would likely only be subject to nonadmittance based on state investment limits. This treatment is distinctly different than a "non-security' structure considered to be a loan under SSAP No. *20—Nonadmitted Assets* or SSAP No. 21. For these structures, the ability to admit the loan under the SSAP provisions is contingent on the nature of the loan and qualifying collateral or related party assessments. (State investment limits may have additional loan-to-value requirements that impact admittance.) Loans (other than mortgage loans) are captured on Schedule BA: Other Long-Term Invested Assets and are likely limited by state investment limits along with other invested assets reported on Schedule BA. Although the RBC charge for admitted collateral loans is lower than other Schedule BA investments, the RBC charge is still higher than Schedule D-1 investments with most NAIC designations.

14. Over time, since the codification of statutory accounting principles, various industry comments have been received questioning the difference between loans and securities (e.g., bonds), particularly with the different reporting outcomes. This discussion was also revisited as part of the principles-based bond proposal, and it was concluded that structures must meet the security definition to be captured as a bond on Schedule D-1. Although industry requested "loans with recourse" to be added to the bond scope paragraph as well as an explicit reference to "loans" as a type of investment captured in the bond definition, these proposals were not supported for inclusion. This discussion highlighted that the security definition is not a high threshold to meet, and direct loans should not be reflected as bonds if they do not qualify as securities. With this discussion it was noted that an investment could meet the definition of a bond regardless of the legal form (paper) it was written on and/or how it was described (such as a bond, note, obligation, etc.). Although an instrument could be described as a "loan," if it meets the security definition requirements and other principle concepts, it shall be captured as a bond. The same concept would be true for instruments named as a "bond" but that do not meet the security or other principle-based bond requirements, as they would not be permitted for reporting as a bond on Schedule D-1.

15. The statutory accounting guidance in SSAP No. 26 and *SSAP No. 37—Mortgage Loans* adopts the U.S. GAAP definition of a security as it is used in FASB Codification Topic 320 and 860:

a. Security: A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

i. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

ii. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

iii. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

16. The "security/non-security" discussion highlighted that the naming convention of an investment (as a "note," "bond," "obligation," "loan," or other such term) does not determine the correct underlying SSAP or reporting location. Non-security structures (other than mortgage loans) shall be captured as collateral or non-collateral loans pursuant to SSAP No. 20 or SSAP No. 21 as applicable. To prevent incorrect assumptions that all loans could be captured as issuer credit obligations, the group agreed not to include explicit reference to loan structures within the principles-based bond concepts and instead refer to the substance of the investment structure. Additionally, the following existing guidance was noted as support for this conclusion and to further highlight that the naming convention does not override the structural design of an investment when it comes to reporting or the application of statutory accounting principles.

a. Existing guidance in SSAP No. 21 states that if an instrument meets the definition of a bond, but has supporting collateral, then the investment is not classified as a collateral loan. This concept was affirmed as part of the principles-based bond discussion, noting that investments that qualify for bond reporting on Schedule D-1 shall not be classified as collateral loans regardless of whether there is collateral backing the investment.

b. Guidance in *SSAP No. 25—Affiliates and Other Related Parties* applies to all transactions, regardless of the SSAP that governs the underlying accounting and reporting. As such, the provisions in SSAP No. 25 that require assessment of "loans or advances (including debt, public or private)" are intended to apply to all forms of lending from a reporting entity to a related party. As such, this guidance applies regardless of the naming convention of the agreement (e.g., loan, bond, note, obligation, etc.). Investments reported as bonds on Schedule D-1 that reflect related party transactions shall only be admitted if the requirements in SSAP No. 25 are met. In addition to having a specific due date and written agreements, these requirements include specific assessments based on whether the arrangement is with a parent or principal owner or to other related parties.

17. After determining whether a structure represents a security, the next component for the principle-based bond definition is assessing whether the security represents a creditor relationship. Although the reference to a "creditor relationship" may seem very similar to prior guidance in SSAP No. 26, that prior guidance did not explicitly detail the intended meaning of a "creditor relationship" but simply identified that such structures have a fixed schedule for one or more future payments. This prior guidance resulted with interpretations that structures qualified as "bonds" strictly on legal form. With the focus of the principles-based definition, it is explicit that the assessment of a whether a security represents a creditor relationship requires consideration of the substance, rather than just the legal form, along with consideration of other investments owned in the investee and other contractual arrangements.

18. Original regulator concerns with the historical guidance and reporting were in part due to the identification of investments with underlying equity interests that were structured to resemble bond instruments. Discussions that occurred as part of the principles-based bond project identified that there is a significant incentive for insurers to characterize equity exposures, which would traditionally be captured on Schedule BA, as bonds due to the favorable capital treatment. Transferring or acquiring them as debt issued by an SPV (such as through a collateralized fund obligation (CFO) structure) is a mechanism to

reclassify these equity instruments and characterize them as bonds. These discussions noted that the lack of historical safeguards in existing SSAPs also provides significant opportunity for these reclassifications.

19. Equity investments differ from other types of financial assets in that they generally do not have contractual pre-determined principal or interest payments. Distributions are typically at the discretion of whichever decision maker has control of the entity. However, certain types of entities have greater likelihood and predictability of cash flows than others. For example, private equity and debt funds are often designed to have finite lives that begin with a capital raising and investment phase, and once the portfolio is built and seasoned, investments are monetized, returns are realized, and distributed to investors. Therefore, while there can be variability in timing and amounts of cash flows, distributions can be expected with some level of predictability compared to other types of equity investments (e.g., publicly traded companies). Private debt funds are more predictable still given that the underlying investments of the fund have contractual cash flows. If a large, diversified pool of seasoned funds are securitized, (often in the form of a CFO), there can be a level of predictable cash flows that is suited to support a bond, when coupled with the overcollateralization, liquidity facilities, and other protections that are built into the structure.

20. Regulator concerns arise when features that facilitate the production of predictable cash flows are not present. In such situations, when there are not predictable cash flows equipped to service the debt, repayment may rely on sale or refinancing of the underlying equity investments at maturity in order to satisfy the debt. In that case, equity valuation risk may be the primary risk for the non-payment of the issued debt. If repayment predominantly relies on a point-in-time equity valuation (such as at maturity), then the substance of the risk is not consistent with what is expected of a bond reported on Schedule D-1.

21. Although the full disallowance of equity-backed debt would prevent these regulator concerns, there is a position that there are CFO securitizations (or other investments) of well-diversified, seasoned funds for which there is compelling evidence that there will be sufficient cash distributions to amortize the debt and structure protections that minimize the residual equity exposure. The approach to allow such CFO securitizations/investments to be reported as bonds only works when there are appropriate safeguarding principles established, which require a relatively high standard of proof.

22. An investment for which the primary non-payment risk is equity devaluation is not consistent with the substance-intent for what is expected to be reported as a bond on Schedule D-1 under the principles-based definition. Allowing such investments to be reported as bonds on Schedule D-1 could result with the regulatory arbitrage that regulators are concerned about without any real mitigants. This could ultimately result in a situation where industry has taken on significantly more equity risk that they have historically, all while characterizing the investment as a bond exposure. As such, it was noted as critical that appropriate safeguards be incorporated into the principles-based bond definition to address this concern. This is why the guidance reflects a rebuttable presumption that equity-backed ABS do not qualify to be reported as bonds on Schedule D-1 unless a documented analysis supporting the predictability of cash flows is completed that demonstrates bond-like cashflows that supports different treatment from that presumption.

23. The principles-based bond definition is clear that a security that possesses equity-like characteristics or that represents an ownership interest in the issuer in substance does not represent a creditor relationship. Examples of equity investments, equity holdings and equity-like interests include any security ultimately reflecting an ownership or membership interest in an entity (such as common stock, preferred stock, private equity holdings, investments in joint ventures, partnerships, and LLCs) as well as any structure that reflects the performance of an entity (such as dividends or capital gains). Furthermore, examples of equity instruments also include any debt instrument where the risk/reward profile is substantially similar to an equity interest.

24. With the prohibition of equity-like structures or items that represent ownership interests, there is a rebuttable presumption that debt instruments collateralized by equity interests do not qualify as bonds because they do not reflect a creditor relationship in substance. Notwithstanding this rebuttable presumption, it is possible for such a debt instrument to represent a creditor relationship if the characteristics of the underlying equity interests lend themselves to the production of predictable cash flows and the underlying equity risks have been sufficiently redistributed through the capital structure of the issuer.

25. With the establishment of the principles-based bond definition, this rebuttable presumption was specifically discussed, and it was concluded that the determination of whether debt instruments collateralized by equity interests qualify as bonds inherently requires significant judgment and analysis. Unlike debt instruments collateralized with contractual cash flows, or debt instruments collateralized by cash-generating non-financial assets, debt instruments collateralized by equity interests may be dependent on cash flow distributions that are not contractually required to be made, predetermined, and/or may not be controlled by the issuer of the debt. In some instances, sale or refinancing of the underlying equity interests may be the only means of generating cash flows to service the debt instruments. If this is the situation, then it is expected that compensating factors from other characteristics of the structure will be present that supports classifying the investment as a bond. For example, if the source of cash flows is driven from the sale or refinancing, then an appropriate, compensating level of overcollateralization would be required to overcome the presumption that the structure does not qualify as a bond.

26. For debt instruments that are collateralized by equity interests, various factors should be considered in determining whether debt collateralized by equity interests qualify as bonds. Additionally, to overcome the presumption that the structure does not qualify as a bond, it is presumed that reporting entities will have sufficient documentation supporting this conclusion. Factors to consider include, but are not limited to, the following:

a. Number and diversification of the underlying equity interests

b. Characteristics of the equity interests

c. Liquidity facilities

d. Overcollateralization

e. Waiting period for the distributions / paydowns to begin

f. Capitalization of interest

g. Covenants (e.g., loan-to-value trigger provisions)

h. Reliance on ongoing sponsor commitments

i. Source(s) of expected cash flows to service the debt (i.e., dividend distributions from the underlying collateral vs. sale of the underlying collateral)

27. The assessment of equity-backed securities should be looked at, not only in form, but in substance. For example, a common arrangement exists where debt is issued from a feeder fund, and the feeder fund has an equity interest in another fund which predominantly holds debt instruments. The fund passes those fixed-income cash flows through the structure to the ultimate feeder fund debt holder(s), in a way that produces substantially the same risk profile to the debt holders as a collateralized loan obligation (CLO). Accordingly, such an arrangement may have its substance aligned with a debt investment rather than a single equity investment, despite the direct holding being a fund investment. This conclusion would be supported if the terms of the structure ensure that the underlying fixed-income cash flows are passed through. Factors that add additional uncertainty as to the timing and/or amount of the pass-through of cash flows from the underlying debt instruments may call into question a conclusion that a feeder fund structure

© 2024 National Association of Insurance Commissioners

is a debt-backed structure in substance. For example, discretion of an underlying fund manager to withhold distribution of the underlying cash flows passed through from underlying debt instruments may create uncertainties as to the timing and/or amount of cash flows in such a manner that is more characteristic of an equity investment. Likewise, a feeder fund structure that is not expected to provide for regular cash interest payments would also call into question the substance as a debt-backed investment. Features that are customary to CLOs and other asset-backed securities would not ordinarily call the investment's substance into question on its own. For example, a waterfall structure dictating the pass-through and order of payments or retaining sufficient funds for covering contractual underlying fund level payments (e.g., investment management fees, legal costs, and other customary fund level expenses) are common to CLOs and other ABS, as are customary payment in kind (PIK) features designed to address temporary liquidity issues where the PIK then gets prioritized in the waterfall structure. These customary features do not constitute manager discretion that would call into question a conclusion that a feeder fund structure is a debt-backed structure in substance.

28. Conversely, if the feeder fund debt ultimately relies on equity interests for repayment (the final fund holds equity interests that generate the pass-through cash flows), the held debt instrument from the feeder fund would have to meet the requirements of paragraph 26 while looking at the substance of equity interests supporting the debt. Regardless of the underlying collateral, feeder fund arrangements would have to meet the other relevant parts of the standard (e.g., have a substantive credit enhancement, etc.) to qualify for bond reporting. Investments that resemble feeder fund structures will require entity review to determine the underlying source of cash flows and identify the uncertainties or vulnerabilities that could impact the cash flows that will be passed through to the reporting entity holder. Ultimately, the conclusion that a structure represents a feeder fund shall not automatically qualify the structure for bond classification but shall not automatically preclude bond classification. Substance over form should be the determining factor in these and similar situations.

Determination of Issuer Credit Obligation or Asset Backed Security (ABS)

29. Security structures that qualify as creditor relationships are divided between ICO and ABS. The initial distinction between ICO and an ABS is a key factor with the principle-based bond concepts. Given their differing characteristics, investments that qualify as ICO are not required to complete assessments for qualifying credit enhancements or meaningful cash flow generation. As such, it is critical to ensure that structures which should be considered ABS or that reflect non-qualifying Schedule D-1 structures, are not classified as ICO to avoid those detailed assessments.

30. Determining whether an investment reflects an ICO or an ABS focuses on the issuer and the primary source of repayment of the instrument. An ICO represents a bond structure where the repayment is supported primarily[2] by the general creditworthiness of an operating entity or entities. The support for this structure consists of direct or indirect recourse to an operating entity or entities. An "operating entity" can be any sort of business entity, not-for-profit organization, or other provider of goods or services, but

[2] To clarify the phrase "supported primarily by the general creditworthiness of an operating entity," this means that the full repayment is expected to come from cash flows generated by the operating entity, not from collateral, although secondary recourse to collateral may be present. If it is expected that a majority of repayment will come from operating entity cash flows, but it is expected that some cash flows will come from collateral, this investment does not qualify as an issuer credit obligation and shall be assessed as an asset-backed security. The expectation must be that full repayment will be generated from operating entity cash flows. For asset-backed securities, the expectation is that the source of cash flows will come from collateral, even though there may be secondary recourse to an operating entity.

cannot be a natural person or an Asset Backed Security (ABS) Issuer. An ABS is a bond issued by an entity (an ABS Issuer) created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owed by the ABS Issuer, whereby repayment is primarily derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity.

31. The prior assessments to divide structures between SSAP No. 26 and SSAP No. 43 seemed to focus primarily on legal form (issued by trust/SPV that held pledged assets) or on the basis of prepayment risk within the structure (meaning, that the expected timing of cash flows may vary, impacting the effective interest rate). Under the principle-based bond definition, neither of these components shall be used as a determinant in concluding whether a structure represents an ICO or an ABS.

a. The prior guidance which focused on the use of an SPV relied more on legal form than the substance of the transaction. Although it is common that many ABS Issuers are in the form of a trust or SPV, the presence or lack of a trust or SPV is not a definitive criterion in determining that a security meets the definition of bond intended as a Schedule D-1 investment, or that it is limited to a classification as an ABS. A key component of the principles-based bond definition is that it will not be possible for insurers to classify a non-qualifying investment as a bond simply by moving it to a debt-issuing SPV that resembles a creditor relationship with a future payment obligation. Furthermore, the guidance does not preclude the use of SPVs in ICO structures. Such structures are commonly utilized in project finance arrangements to separate business operations that support specific debt instruments, or to facilitate efficient marketing of an specific ICO design (e.g., funding agreement backed notes). Although packaging investments together in an SPV, with an SPV-issued note may currently result with better RBC charges due to the current ability to report such items as bonds, structures that simply reflect a pass-through of cash flows or performance from the underlying collateral and provide no economic difference than if holding the underlying collateral items directly shall not be characterized as bonds under the principles-based bond definition.

b. With regards to the prior interpretation that SSAP classification was based on the presence of prepayment risk, which was not an interpretation based on any explicit guidance to that effect, under the principles-based bond definition, the presence or absence of prepayment risk will continue to play no role in SSAP classification. Classification is based on whether the investment has the substance of an ICO or ABS. This distinction aligns the accounting and measurement with the characteristics of the bond structure. As ABS rely on the cash flows of underlying collateral, the measurement method described in SSAP No. 43, which requires a quarterly review of underlying cash flow assumptions, is appropriate regardless of whether variations in timing of cash flows impact the effective yield. This methodology captures variations in both timing and amount of the underlying cash flows.

32. Whether an issuer of debt represents an operating entity or ABS Issuer is expected to be clear in most instances, but certain instances may be less clear. Ultimately, for an ICO, it comes down to whether support for repayment consists of direct or indirect recourse to an operating entity or entities. In addition to "traditional bond" structures previously included in SSAP No. 26, examples of issuer credit obligations include:

a. Investments in the form of securities for which repayment is fully supported by an underlying contractual obligation of a single operating entity. Examples can include credit tenant loans (CTLs), equipment trust certificates (ETCs), other lease backed securities,

Funding Agreement Backed Notes (FABNs), etc. For purposes of applying this principle concept, repayment is fully-supported by the underlying operating entity obligation if it provides cash flows for the repayment of all interest and at least 95% of the principal of the security.

b. Bonds issued by real estate investment trusts (REITS) or similar property trusts.

c. Bonds issued by business development corporations, closed-end funds or similar operating entities, in each case registered under the 1940 Act. With this inclusion, it is important to highlight that the intent is specific to bonds issued from SEC-registered entities. The reference to "similar entities" is not intended to capture items issued from collateralized fund obligations (CFOs), feeder funds or other such structures. Although some may consider CFOs to be similar to closed-end funds, that assessment is not supported for classification as an ICO. Instruments considered to reflect CFOs (and other like structures) are required to be assessed as ABS for inclusion as a bond reported on Schedule D-1. Paragraphs 27-28 also detail the assessment expected in classifying feeder funds, and the requirement to determine the source of the underlying cash flows in determining classification and if the structure qualifies for reporting as a bond on Schedule D-1.

Note: Paragraph 32.c. will be revised with adoption of agenda item 2024-01.

d. Project finance debt issued by operating entities. These investments reflect financing of a single asset or "operation" (such as a toll road or power generation facility) that collateralizes a debt issuance and the cash flows produced by the asset/operation service the debt, where the issuer may also represent an operating entity. These designs have characteristics of both ICO, as the operation constitutes a stand-alone business, as well as characteristics of ABS, as they are formed for the purpose of raising debt capital backed by the cash flows from collateral held by a bankruptcy-remote entity. When viewed holistically, these issuing entities are typically used to facilitate the financing of an operating component of a project sponsor or municipality. Although the use of a bankruptcy-remote entity (e.g., SPV) facilitates the efficient raising of debt as a source of financing, the primary purpose is to finance an operating project. Therefore, when the issuing entity represents a stand-alone business producing its own operating revenues and expenses, where the primary purpose is to finance an operating project, the issuing entity shall be considered an operating entity despite certain characteristics that resemble ABS issuances.

i. It is important to highlight that the guidance for project finance is strictly for instruments issued by operating entities, similar to other instruments that qualify as ICO under the principles-based bond definition. Consistent with other concepts, the naming convention (e.g., referring to an instrument as project finance) or the presence or absence of an SPV/trust structure are not definitive components in determining whether an investment qualifies for reporting as a bond on Schedule D-1, or is classified as an ICO or ABS. Instruments (even if identified as "project finance") that do not qualify as ICO as they are not issued by operating entities, shall be assessed for qualification for reporting on Schedule D-1 as ABS. If the instruments do not qualify for reporting as ABS, they shall not be reported on Schedule D-1.

e. U.S. Treasury Inflation-Protected Securities (TIPs): The inclusion of U.S. TIPs specifically as an ICO intends to highlight a specific exception to the determination as a creditor

relationship as the variation is due to plain-vanilla inflation adjustment mechanisms. Although U.S. TIPs are specific as ICO, under the bond definition, in order for a debt instrument to represent a creditor relationship for both ICO and ABS, it must have pre-determined principal and interest payments (whether fixed interest or variable interest) with contractual amounts that do not vary based on the appreciation or depreciation (e.g., performance) of any underlying collateral value or other non-debt variable[3]. For example, an issued security that has varying principal and interest payments based on the appreciation of referenced equity, real estate or other non-debt variables are precluded from bond treatment as they do not reflect creditor relationships. Although US TIPS are indexed to the consumer price index and grow with inflation, these securities shall be captured as ICO on Schedule D-1-1.

33. This principles-based bond project is not expected to reconsider certain investments previously considered by the Working Group and explicitly permitted for bond reporting on Schedule D-1. As such, unless subsequently addressed, the following investment types are expected to continue to qualify as Schedule D-1 investments, classified as ICO. (By including these investments as ICO, these investments are not subject to the assessments of sufficient credit enhancement or meaningful cash flow generation required for ABS securities.)

a. Certificates of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition.

b. Bank loans that are obligations of operating entities, issued directly by a reporting entity or acquired through a participation, syndication or assignment.

c. Debt instruments in a certified capital company (CAPCO).

d. SVO-Identified Bond ETFs.

34. The investment structures explicitly permitted for Schedule D-1 reporting no longer includes a generic reference to "hybrid securities." Under prior guidance in SSAP No. 26, hybrid securities, defined in the annual statement instructions as securities with characteristics of both debt and equity securities, were included and captured on a specific Schedule D-1 reporting line. Examples in the annual statement instructions included Trust Preferred Securities and Yankee Tier 1 bonds, however, both types of securities are no longer overly prevalent, although some insurers may continue to have them in their portfolios. Pursuant to the intent of the principle-based bond definition, a broad exception for securities that have characteristics of both debt and equity is not viable. Rather, to ensure that securities are classified and reported based on the substance of the investments, securities with characteristics of both debt and equity shall be assessed for inclusion as a bond for reporting on Schedule D-1 in accordance with the principal-based bond definition. If the securities qualify as ICO or ABS, then they can be reported on Schedule D-1.

[3] The principles-based bond definition requirement for pre-determined principal and interest payments with contractual payments that do not vary based on the performance of an underlying collateral value or other non-debt variable does not intend to encompass nominal interest rate adjustments. Nominal interest rate adjustments are those that are too small to be taken into consideration when assessing the investment's substance as a bond. Nominal adjustments are not typically influential factors in an investors' evaluation of investment return and are often included to incentivize certain behavior of the issuer. An example would include sustainability-linked bonds where failure to achieve performance metrics could cause interest rate adjustments. In general, interest rate adjustments that adjust the total return from interest by more than 10% (e.g., >0.4% for a 4% yielding bond), would not be considered nominal. Further, any such adjustments that cause an investment to meet the definition of a structured note would not be considered nominal.

© 2024 National Association of Insurance Commissioners

a. Trust Preferred Securities – With these securities, there is a trust funded by debt where shares of the trust are then sold to investors in the form of preferred stock. The shares held are referred to as "trust preferred" securities. These securities have characteristics of both stock and debt. While the trust is funded with debt, the shares are considered to be preferred stocks and pay dividends like preferred stock. However, since the trust holds the bank's debt as the funding vehicle, the payments received by investors are considered interest payments. These securities are considered equities under U.S. GAAP but are taxed as debt obligations by the IRS. With the Dodd-Frank reforms, the incentives for banks to issue trust-preferred securities decreased, resulting in a significant reduction in the issuance of these securities. If these securities continue to be held by insurers, they should be assessed for reporting as a bond on Schedule D-1 under the principal-based bond definition. If these securities do not qualify as a bond for reporting on Schedule D-1, presumably, these securities would be reported as preferred stock on Schedule D-2-1.

b. Yankee Bond – A Yankee bond is one issued by a foreign bank or company but that is traded in the U.S and priced in U.S. dollars. Yankee bonds are normally issued in tranches, with a large debt structure financing arrangement, with each tranche having different levels of risk, interest rates and maturities. The non-U.S. issuers have to register Yankee bonds with the SEC before offering the bond for sale. If these securities are held by insurers, they should be assessed for reporting as a bond on Schedule D-1 under the principal-based bond definition.

c. Other Hybrid Securities – From information received, it was noted that some reporting entities have previously reported securities on Schedule D-1 as hybrids due to a code in Bloomberg that identified the security as having characteristics of both debt and equity. Such securities shall be reviewed in accordance with the principles-based bond definition and reported as a bond on Schedule D-1 only if they qualify.

35. For securities that represent principal-protected securities and structured notes that have been previously captured within SSAP No. 26 or SSAP No. 43, the principles-based bond definition will no longer permit these security structures to be reported as bonds on Schedule D-1. Fundamentally, these structures have the potential for variable principal or interest / returns, or both, due to appreciation or depreciation (i.e., performance) of an underlying collateral value or other non-debt variable. This structural characteristic precludes these investments from being captured as ICO or ABS as the investment does not represent a creditor relationship in substance. It should be clear that the principles-based bond definition is intended to require a structural assessment inclusive of all investment components, therefore it is not permissible to segregate components within a structure, such as bond collateral supporting principal and interest payments to determine bond reporting on Schedule D-1 when the structure also includes other collateral with the potential to generate additional interest or returns. Such structures must be viewed holistically within the principles-based bond definition, with all potential returns considered in determining whether the structure qualifies as a creditor relationship.

a. A principal-protected security is defined in *the Purposes and Procedures Manual of the NAIC Investment Analysis Office*, but generally includes a high-quality traditional bond (such as a U.S. Treasury) that is used to safeguard principal repayment at the structure's

maturity, along with performance components where payments originate from, or are determined by, non-fixed-income securities. These returns, often based on underlying equity factors, prevent these structures from qualifying as a creditor relationship. In addition to the traditional design of principal-protected notes, other designs have been identified that may provide "interest" payments in the form of tax-credits based on underlying equity exposures. (So, a high-quality bond safeguards principal returns, but the structure includes equity elements that provide tax credits to the note holder as a form of interest.) Although the classification of a creditor-relationship may not be as clear in this example, such designs would further be disqualified from reporting as a bond on Schedule D-1 as they would not qualify as ICO due to the different forms of collateral within the structure (considering both the bond and equity items) and such structures would not qualify as ABS as there is generally no credit enhancement. These investments shall follow the guidance for non-bond debt securities in *SSAP No. 21—Other Admitted Assets*.

b. A structured note is a security that otherwise meets the definition of a bond, but for which the contractual amount of the instrument to be paid at maturity (or the original investment) is at risk for other than failure of the borrower to pay the principal amount due. These instruments, although in the form of a debt instrument, incorporate the risk of an underlying variable in the terms of the agreement, and the issuer obligation to return the full principal is contingent on the performance of the underlying variable. These investments are addressed in *SSAP No. 86—Derivatives.* Mortgage-referenced securities issued by a government sponsored enterprise are explicit inclusions in scope of SSAP No. 43. Foreign-denominated bonds subject to variation as a result of foreign current fluctuations are not structured notes.

36. The guidance in the principles-based bond definition requires "assessment at origination" in determining whether a security qualifies for reporting as a bond on Schedule D-1. This provision intends to reflect the reporting entity's understanding of the intent and ultimate structure of the security's focus at origination, not simply what a structure holds on the day of origination. It is not permissible to conclude that a principal-protected security is an ICO at origination (when the structure includes only a US Treasury and cash) and disregard the intended use of the cash in the structure to subsequently acquire other investments to generate additional returns. The determination of whether an investment qualifies as a creditor-relationship, and then as an ICO or ABS (as applicable), requires an assessment by the reporting entity of the full structure at the time of acquisition as it was ultimately intended by the issuer at the time of origination.

37. Consistent with prior guidance in SSAP No. 26, mortgage loans and other real estate lending activities, which are not securities, made in the ordinary course of business are excluded from bond classification on Schedule D-1. Those investments shall follow the applicable statutory accounting guidance in SSAP No. 37 and *SSAP No. 39—Reverse Mortgages*.

Asset Backed Securities and Required Components

38. An ABS is a bond issued by an entity (an ABS Issuer) created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owed by the ABS Issuer, whereby repayment is primarily derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity. In most instances, the ABS Issuer is not expected to continue functioning beyond the final maturity of the debt initially raised by the ABS Issuer. As

© 2024 National Association of Insurance Commissioners

previously noted, ABS Issuers are often in the form of a trust or special purpose vehicle, though the presence or lack of a trust or special purpose vehicle is not a definitive criterion for determining that a security meets the definition of an asset backed security.

39. To qualify for bond reporting on Schedule D-1 as an ABS, there are two defining characteristics that must be present. If the structure is a not an ICO or identified for specific inclusion on Schedule D-1, and does not meet these ABS requirements, the instrument is not permitted to be reported as a bond. Assessment on these aspects is investment specific, with determination at origination by the reporting entity based on the overall intent and ultimate expected holdings of the structure:

a. Substantive Credit Enhancement: The holder of the debt obligation issued by the ABS Issuer is in a different economic position than if the holder owned the ABS Issuer's assets directly.

b. Cash Generating Collateral Assets: The assets owed by the ABS Issuer are either financial assets or cash-generating non-financial assets. Cash-generating non-financial assets are defined as assets that are expected to generate a meaningful source of cash flows for repayment of the bond through use, licensing leasing, servicing or management fees, or other similar cash flow generation other than through the sale or refinancing of the assets.

40. Substantive Credit Enhancement: The component for substantive credit enhancement is required for all ABS structures. There are no practical expedients or thresholds that can be applied in determining whether a structure reflects substantive credit enhancement. Although certain structures may only require a limited analysis (such as agency-backed mortgage-backed securities—MBS), and insurers may benefit from prior analysis when acquiring similar subsequent structures, an automatic assessment is not permitted for this requirement.

41. To qualify as an ABS, the holder of the debt obligation is required to be in a different economic position than if the holder owned the ABS issuer's assets directly. For purposes of this assessment, the holder of the instrument is considered to be in a different economic position if the instrument benefits from substantive credit enhancement through guarantees (or other similar forms of recourse), subordination and/or overcollateralization. This element is required for all ABS designs, regardless of the collateral that is backing the ABS.

42. The requirement for substantive credit enhancement is intended to address investment designs crafted to appear as a debt / bond structure for reporting and RBC purposes, but for which the holder does not have a "more than nominal" change to the risk or reward profile than if they held the underlying investment directly. This guidance prevents using a specifically designed legal form (such as transferring assets to an SPV and acquiring an SPV-issued note), but which lacks any economic substance, to obtain favorable measurement and RBC impact or to avoid nonadmittance that would occur if the assets were directly held by the reporting entity.

43. The intent of the "substantive" threshold requiring the holder to be in a different economic position is to distinguish qualifying bonds from instruments with equity-like characteristics or where the substance of the transaction is more closely aligned with that of the underlying collateral. To qualify as a bond under this standard, there is a requirement that there are substantive credit enhancements within the structure that absorb losses before the debt instrument being evaluated would be expected to absorb losses. This is inherent in the context of an ICO as the owners of the equity in the operating entity are the first to absorb any variability in performance of the operating entity. The same concept applies to ABS. If substantive credit enhancement did not exist, the substance of the investment would be more closely aligned with that

of the underlying collateral than that of a bond. Credit enhancement that is merely nominal or lacks economic substance does not put a holder in a different economic position.

44. The original exposure (May 2021) detailed this ABS requirement as a "sufficient" credit enhancement and detailed the provision as the level of credit enhancement a market participant (i.e., reasonable investor) would conclude is expected to absorb losses (or decreases in cash flows) to the same degree as other debt instruments of similar quality, under a range of stress scenarios (i.e., scenarios are similar to stress scenarios performed for other debt instruments of the same quality). This original proposal noted that losses are those a market participant would estimate with consideration of historical losses (including loss recoveries) on similar collateral, current market conditions, reasonable and supportable forecasts, and prepayment assumptions associated with the collateral. Excluded from the estimate of expected losses are historical gains on similar collateral and expected market appreciation on the collateral. After further discussion of this concept, it was identified that the term sufficient and its proposed definition implied a quantitative assessment of credit quality was required. As a result, the proposed concept could be interpreted to mean that a reperformance of the credit underwriting process would be needed to support accounting classification, which is not the intent and could be seen to violate the policy that credit ratings do not determine accounting classification, as well as introduce an administrative reporting burden that is both duplicative and lacking any added value. Further, a misinterpretation could occur that would permit satisfaction of this component if a credit rating or NAIC designation was obtained. The intent of the concept is not to address credit quality. Rather, the intent is to require that there must be economic substance to support the transformation of the underlying collateral risk, to bond risk. As a result of these discussions, revisions were incorporated to revise the terminology and related definition to reflect a "substantive credit enhancement." In addition to eliminating a perception that reporting entities could use credit ratings to support this distinction, this guidance incorporates principle concepts to ensure that the provision cannot be satisfied with structural elements that are merely nominal or lack economic substance.

45. Substantive credit enhancement can come in various forms, including but not limited to, subordination/overcollateralization, guarantees, or other forms of recourse. In whatever form the credit enhancement comes in, it must be of a level of significance that the holder of the debt instrument is in a substantively different position than owning the underlying collateral directly. Assessment of whether a credit enhancement has substance may involve an evaluation of the level of overcollateralization (loan-to-value or LTV) or the capacity of whatever form of subordination, guarantee or recourse to absorb collateral losses. The guidance intends to be specific that an NAIC designation, obtained from either the NAIC Securities Valuation Office (SVO) or from a Credit Rating Provider (CRP) does not provide standalone evidence to support a conclusion that the structure includes a substantive credit enhancement. Although the presence of independent market validation may provide evidence supporting the substance of a credit enhancement, that provision shall not be interpreted to indicate that the presence of an NRSRO rating is automatic validation that the substantive threshold has been met.

46. The following elements were specifically discussed with regards to the requirement for a substantive credit enhancement:

a. Agency-Backed Pass-Through Structures (e.g., RMBS/CMBS): These structures, when they have an agency guarantee, are expected to meet the substantive credit enhancement requirement with little analysis. Although the reporting entity participates on a proportional basis in the cash flows from the underlying mortgage loans held by the SPV, the reporting entity is in a different economic position than if it owned the underlying mortgages directly because the credit risk has been redistributed and assumed by the agencies.

b. Non-Agency Backed Pass-Through Structures: Unlike the above agency-backed example, a pass-through MBS without a credit enhancement, if one were to exist, would not put the

holder in a different economic position as owning the mortgage loans directly as they would participate proportionally in the first dollar of losses on the underlying loans. Pursuant to the intent of the overall principles-based bond / Schedule D-1 project and required substantive credit enhancement, the guidance does not permit use of an SPV to recharacterize an asset to qualify for reporting as a bond on Schedule D-1 if the holder is in the same economic position as holding the underlying investments directly. This would apply to any type of underlying asset. In contrast, if a debt instrument represents a senior interest in the pool of loans, through existence of a subordinated tranche for example, the holder may conclude that it is in a different economic position from holding the loans directly, provided the subordination is determined to be substantive.

c. Loan-To-Value (LTV) Assessments: An assessment of LTV at origination may provide evidence of substantive credit enhancement through overcollateralization. The review should be a holistic assessment, evaluating the expected LTV over the life of the transaction, in conjunction with the liquidity and market value volatility of the underlying collateral, particularly in points in time when the underlying equipment is expected to be off-lease or at the time of maturity if refinancing or sale is required. It is appropriate to consider any expected economic depreciation, but it is not appropriate to factor in any expected economic appreciation. Although an expected decline in the LTV ratio may support the presence of a credit enhancement, a declining LTV is not required, and an increasing LTV is not prohibited, as long as the structure continues to provide a substantive credit enhancement. An expected high LTV at maturity, relative to the market value volatility of the underlying collateral, is considered to lack substantive overcollateralization and would require other forms of credit enhancement in order to meet the substantive credit enhancement criteria.

d. The first loss position may be issued as part of an ABS structure in the form of debt or equity interest, or it may be retained by the sponsor and not be issued as part of the structure. The holder of the loss position, regardless of if it is issued as a tranche or retained by the issuer, does not impact the determination of whether the loss position provides substantive credit enhancement. Rather, the assessment focuses on whether the holder of the debt instrument is in a substantively different position than owning the underlying collateral directly. This assessment includes consideration on the first loss position (or more senior positions, if the first loss position is not sufficient) regardless of the holder of the loss positions. If the first loss position (or a more senior position(s), if the first loss position(s) lacks substantive credit enhancement) is issued as part of the structure and does not have substantive credit enhancement and is held by a reporting entity, the investment(s) does not qualify for reporting as a bond as it is a residual interest. All residual interests shall follow the accounting and reporting guidance in SSAP No 21.

47. Meaningful Level of Cash Flows to Service Debt: The element for meaningful cash flow generation is only a requirement for ABS that are backed by non-financial assets. ABS designs backed by financial assets, when there is no future performance obligation outside of default risk that could impact the ability to generate cash flows to service the debt, are not required to be assessed under the meaningful cash flow requirement.

48. To qualify as an ABS, there must be a meaningful level of cash flows generated from non-financial assets backing an ABS to service the debt, other than through the sale or refinancing of the assets. The evaluation is specific to each transaction and should consider the market volatility and remarketing potential of the underlying collateral, the variability of the cash flows produced, as well as the diversification of the source of cash flows within the structure. The main intent of this guidance is to ensure that non-financial

assets supporting structures reported as bonds on Schedule D-1 encompass a level of "cash generation" that is conducive to servicing traditional bond-like cash flows.

49. Consistent with the substance theme of the principles-based bond proposal, this guidance intends to prohibit situations in which the legal form of an investment is utilized to receive favorable accounting and reporting treatment, while the primary non-payment risk is the point-in-time valuation of an underlying asset. The prior guidance in SSAP No. 43 that focused on placing collateral assets in trust, with the SPV issuing a debt instrument, enabled situations in which non-cash generating structures could be reported as bonds on Schedule D-1. As a simple example, this guidance prevents artwork from being captured as the collateral backing a debt instrument issued by an SPV, with the reporting entity then reporting the SPV-issued note as a bond investment that reflects the expected future value that will be received upon the ultimate sale of the artwork.

50. The guidance requires meaningful cash generation to satisfy the debt instrument throughout the duration of the debt term. The timing of the cash generation, at points prior to maturity of the investment, is a key element as it intends to specifically exclude transactions in which the underlying assets must be sold or refinanced at maturity to produce cash to meet the meaningful requirement. However, this restriction is not intended to automatically exclude all structures that may incorporate collateral asset sales or refinancing throughout the debt duration as part of the expected cash generation. An example could be the securitization of short-term rental car receivables. Such a design could encompass both the rental car lease payments as well as periodic sales of the rental cars as the means to generate meaningful cash flows to service the debt. This design, with planned periodic sales of the non-financial collateral assets over the debt term, is distinctly different than a structure in which cash flows are not meaningfully generated over the course of the debt term and would rely predominantly on the sale or refinancing of the underlying collateral at maturity to satisfy the debt obligation. This restriction also does not exclude all structures that have any amount of sales or refinancing at the end of the debt term. Such investments can qualify for reporting as a bond on Schedule D-1 if they meet the meaningful cash generation criteria throughout the term of the instrument other than through the sale/refinancing at maturity.

51. The assessment of meaningful cash flows may require detailed evaluations as it is not permissible to conclude that the presence of any cash flows generated within the structure will result with the investment reaching the "meaningful" threshold. It is also not expected to commonly see ABS structures that include both financial and non-financial collateral. Such designs shall be reviewed to determine that the structure is in line with the principle intent of the bond definition and has not been developed to circumvent separate assessment or reporting of non-financial asset components. As a simplistic example, including mortgage-backed securities and artwork in a single structure, and identifying that the cash flows of the MBS satisfies the meaningful threshold with the artwork representing a minimal residual element, with a conclusion that the full structure qualifies for reporting as a bond on Schedule D-1 is not reflective of the intent of the principles-based standard. If there are instances in which financial asset and non-financial asset collateral are combined in a single ABS structure, consideration should occur on the intent of commingling these collateral elements pursuant to the intent of the principles-based bond definition and in assessing the meaningful cash flow requirements. Structures identified that have been developed to circumvent the provisions of the principle-based bond definition are not permitted to be reported as a bond on Schedule D-1 and shall be captured as a non-bond debt security in scope of SSAP No. 21.

52. The assessment of meaningful cash flows is specific to each transaction, determined at origination, and should consider various factors collectively in determining if the meaningful threshold is met. For this assessment, it is noted that an increase in price volatility or variability of cash flows requires a greater percentage of cash flows generated to service the debt from sources other than the sale or refinancing of the underlying collateral. On the flip side, as liquidity, diversification or overcollateralization increase, the required percentage of cash flows generated to service the debt from sources other than the sale or

refinancing of the underlying collateral is permitted to decrease. The following factors should be considered with the assessment of meaningful cash flows:

a. Price volatility in the principal market in the underlying collateral.

b. Liquidity in the principal market for the underlying collateral.

c. Diversification characteristics of the underlying collateral (i.e., types of collateral, geographic locations, sources of cash flows within the structure, etc.,)

d. Overcollateralization of the underlying collateral relative to the debt obligation.

e. Variability of cash flows, from sources other than sale or refinancing, expected to be generated from the underlying collateral.

53. The assessment of meaningful cash flows does permit a practical expedient under the principles-based bond definition. A reporting entity may consider an asset for which less than 50% of the original principal relies on sale or refinancing to meet the meaningful cash-flow generating criteria. (A structure with contractual cash flows that does not satisfy all of the interest stipulated in the structure does not qualify under the practical expedient.) In applying this practical expedient, only contractual cash flows of the non-financial asset may be considered. This practical expedient should not be construed to mean that assets cannot meet the meaningful criteria if they rely on the sale or refinancing to service any interest, an amount greater than 50% of the original principal or if they rely on cash flows that are not contracted at origination. Rather, such instances do not qualify under the practical expedient and would require a complete analysis of the noted factors in determining whether the meaningful cash-generating criteria has been met.

Additional Elements for Asset Backed Securities

54. When establishing the ABS definition and required components, various aspects were discussed to improve clarity on the application of the guidance.

55. Determination of "Assets" Backing Securities: Although the definition of an asset detailed in *SSAP No. 4—Assets and Nonadmitted Assets*, is applied throughout statutory accounting principles, the question was raised as to where the asset definition would be applied in determining a qualifying ABS. For example, an entity that expects to have subsequent receivables from future operations does not have recognized "assets" from those expectations as the requirements of the asset definition have not been met. However, if that entity were to sell the rights to future cash flows from expected operations, the selling entity would receive cash (a qualifying asset), and the acquiring entity would also have a recognized asset from the acquired right to future cash flows.

56. For purposes of qualifying as an "asset" permitted in an ABS structure, the definition of an asset must be met by the ABS Issuer. In some situations, particularly when the asset represents a right to future cash flows, the asset may not be in a form that could be liquidated to provide payment towards the debt obligations. (For example, if the asset represents acquired rights to future royalties, those royalty rights would have to materialize to have liquid assets available toward the debt obligations.) The ability to liquidate the backing collateral asset at a single point in time does not impact the structural determination of whether the issued security meets the definition of an ABS provided that the assets are expected to produce meaningful cash flows to service the debt terms. Additionally, the inability to liquidate the assets backing the instrument may impact the assessment of what constitutes substantive credit enhancement. Failure of cash flows to materialize may impact recoverability and require impairment of an ABS.

57. There is no requirement for a collateral asset backing an ABS structure to qualify as an admitted asset under statutory accounting. Assessing whether the underlying asset qualifies for admittance is not necessary as non-financial assets backing ABS must meet the meaningful cash-generating criteria. If the structure fails to meet the meaningful cash-generating requirement, the instrument does not qualify for reporting as a bond on Schedule D-1. Statutory accounting has not historically restricted bonds backed by inadmissible assets from being admissible, nor has it included any kind of evaluation of the cash flow producing ability of underlying assets. The principles-based bond definition adds a requirement to evaluate the cash flow producing ability of the underlying collateral, but continues to recognize that assets that may not be admissible if held individually on an insurer's balance sheet, may be well suited to support bond-like cash flows when securitized in large numbers with appropriate structuring (e.g. prioritization of cash flows).

58. Determining Whether the Structure Reflects "Financial" or "Non-Financial" Assets: The definition of a "financial asset" has previously been adopted from U.S. GAAP and is reflected in *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* as cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right 1) to receive cash or another financial instrument from a second entity or 2) to exchange other financial instruments on potentially favorable terms with the second entity.

59. For purposes of excluding financial assets from the ABS meaningful cash generation criteria, the financial asset definition was clarified, for the avoidance of doubt, to not include assets for which the realization of benefits from the rights to receive or exchange financial assets depends on the completion of a performance obligation such as with a lease, mortgage servicing right, royalty rights, etc. For purposes of applying the ABS guidance, when there is a performance obligation required before the cash flows are generated, the assets represent non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied. As another way to assess this clarification, if the assets backing the ABS are only subject to default risk (meaning the risk of nonpayment is solely based on failure of the underlying payer to satisfy its unconditional promise to pay), then the asset is a financial asset. If the asset is subject to any other risk in addition to default risk, then the assets represent non-financial assets. As simple illustrative examples:

a. A mortgage-backed security (MBS), where the underlying mortgages have been securitized into a structure, the mortgage receivables represent unconditional promises to pay, with no further performance obligation of the lender or any other party. This structure is considered to be backed by financial assets. Although this structure is excluded from the meaningful cash flow assessment, it must still comply with the substantive credit enhancement requirement.

b. A structure that represents the securitization of rental car leases is contingent on the lessor performing its side of the transaction (providing the car for use) before the lessee is obligated to pay. Therefore, a lease is a non-financial asset due to the performance obligation that must be satisfied in order for payment to become unconditional. Additionally, as is the case with short-term car rentals, the lease (rental agreement) may not be in place and the structure may represent a securitization of the rights to future rental payments, which adds an additional performance condition. This structure combines performance risk with default risk, resulting with the structure not qualifying for classification as being backed by financial assets. For this structure, the reporting entity would have to complete assessments that 1) the structure results with substantive credit enhancement and 2) the structure produces meaningful cash flows over the term of the instrument to satisfy the debt obligation other than through the sale or refinancing at maturity. If at origination, the contractual cash flows from the underlying collateral (leased

© 2024 National Association of Insurance Commissioners

rental cars) would be sufficient to satisfy all of the interest and at least 50% of the original principal, then the meaningful criteria would be met through the practical expedient. That means, as discussed in SSAP No. 26, paragraph 9.b., that the practical expedient can only be used if less than 50% of the principal relies upon sale or refinancing.

60. Whole-Business Securitizations: In most ABS structures, the assets backing the cash flows are specified and limited to a distinct collateral pool. For example, dedicated cash flows from specific lease arrangements, or specific receivables from credit cards or mortgages. However, ABS structures can exist that represent an entire range of operating revenues or cash flows generated by the business. These structures are often referred to as "whole business" or "operating asset" securitizations. These structures, which could only include cash flows from certain operating segments, and not necessarily the entire business of a company's operations, transfer the cash flows from the dedicated operations first to the investment holders, with the operating entity receiving their "operation proceeds" after the investment holders have been paid. This is different from a traditional bond structure where the operating entity first receives the proceeds from their operations and has discretion on how it uses those proceeds to continue operations and pay expenses and then ultimately pay the bond holders according to the debt terms. Further, debt holders in a whole-business securitization generally only have recourse to the cash flow streams pledged to support the debt, unlike a general credit obligation of the operating entity.

61. For the principles-based bond definition, structures that refer to whole-business securitizations, or that refer to operation proceeds as the collateral for the source of debt repayment still meet the definition as an ABS and do not reflect ICO. For these structures, the dedicated operational cash flows represent the defined collateral pool and should not be classified as ICO based on an interpretation that the proceeds represent the cash flows of an operating entity as they are not supported by the general creditworthiness of an operating entity, but rather only on referenced cash flow streams from the entity's operations.

62. Residual Tranches / "Equity" Components of Schedule D-1 Qualifying Structures: The assessment of qualifying Schedule D-1 investments has to consider the overall investment structure but focuses primarily on the specific instrument held by the reporting entity. Structures, particularly ABS, may include residual tranches that provide payment after pre-determined principal and interest payments have been made to other tranches or interests based on remaining available funds. Although payments to residual note holders could occur throughout an investment's duration, and not just at maturity, such instances still reflect the residual amount permitted to be distributed after other holders have received interest and principal payments. In all instances, despite whether other tranches of the investment structure qualify for reporting as a bond on Schedule D-1 reporting, residual tranches do not qualify for bond reporting on Schedule D-1.

63. Under prior guidance in SSAP No. 43, there was no exclusion that restricted residual tranches of qualifying securitizations from being captured in scope and being reported as bonds. From the outreach performed in developing the principles-based bond definition, it was identified that several insurers have historically reported these residual tranches on Schedule BA: Other Long-Term Invested Assets. However, it was noted that some reporting entities have reported these items as a bond on Schedule D-1 as a component of the securitization or as a beneficial interest in scope of SSAP No. 43. Although residual tranches (first loss tranches) do not receive CRP ratings or NAIC SVO designations, when reported on Schedule D-1, an NAIC designation is required. From information obtained, entities reporting residual tranches on Schedule D-1 have either been reporting as self-assigned 6* or they applied the NAIC 5GI concept to self-designate these securities. Under the 5GI concept, the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) permits self-designation as an NAIC 5 if the documentation necessary for a full SVO credit analysis does not exist, the issuer is current on all principal and interest payments, and the reporting entity has an expectation that they will receive all contracted interest and principal. The use of the NAIC 5GI concept to self-designate residual tranches on Schedule D-1 is a misapplication of this guidance. It is faulty to conclude that an investment is current and will provide

all contractual interest and principal payments when the investment provides payments based on remaining funds after obligations to other issued debt instruments from the structure are satisfied. Furthermore, the 5GI provision was intended to prevent an NAIC 6 designation simply because the documentation for a full credit analysis could not be provided or reviewed, such as situations involving foreign securities when the supporting documents are in a foreign language. The NAIC 5GI provision was not intended to permit self-assignment of an NAIC 5 designation to securities that would not qualify as a fixed-income instrument eligible for an NAIC designation under the P&P Manual.

64. With the identification that residual tranches are inconsistently reported, with some entities reporting as bonds on D-1 and others reporting on Schedule BA, the Working Group drafted and exposed agenda item 2021-15: SSAP No. 43 – Residual Tranches in September 2021 as an interim action prior to the conclusion of the bond project. The guidance within that agenda item clarified that residual tranches shall be reported on Schedule BA at lower of amortized cost or fair value. The guidance also clarified that the reference to residual tranches intends to capture securitization tranches and beneficial interests, as well as other structures captured in scope of SSAP No. 43 that reflect loss layers where failing to remit contractual interest or principal payments does not result in an act of default. Payments to holders of residual interests occur after contractual interest and principal payments have been made to holders of other tranches or interests and are based on the remaining available funds. Although payments can occur throughout an investment's duration, such instances still reflect the residual amount permitted to be distributed after other holders have received contracted interest and principal payments.

65. On November 10, 2021, the Statutory Accounting Principles (E) Working Group adopted agenda item 2021-15, clarifying that residual tranches are required to be reporting on Schedule BA: Other Long-Term Assets beginning December 31, 2022, with early adoption permitted. The effective date of this action allowed time for reporting entities to implement this change and to correspond with a Blanks (E) Working Group proposal to incorporate separate reporting lines for residuals, based on underlying characteristics of the structure, on Schedule BA. With the adoption of this guidance, the Working Group noted that reporting entities may elect to reclassify residual tranches or interests to Schedule BA in advance of the effective date. As of the effective date, residual tranches or interests previously reported on Schedule BA shall be reclassified to the appropriate residual tranche Schedule BA reporting line based on the underlying characteristics of the investment structure.

66. Along with the action to specify the Schedule BA reporting for residuals, the Statutory Accounting Principles (E) Working Group and the Valuation of Securities (E) Task Force provided a joint memorandum to the Blanks (E) Working Group to specifically identify that application of the NAIC 5GI process to residuals is an inaccurate application. Residual tranches or interests reported on Schedule D-1 for year-end 2021 shall be reported with an NAIC 6. The Task Force also received a referral requesting clarification of the NAIC 5GI process so future misapplications could be mitigated. The Task Force considered specific changes to address residuals and adopted those revisions during the 2021 Fall National Meeting.

67. Subsequent to the guidance adopted in agenda item 2021-15, additional revisions were adopted to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (agenda item 2023-12) and to *SSAP No. 30—Unaffiliated Common Stock* and *SSAP No. 32R—Preferred Stock* (agenda item 2023-23) to clarify that all residuals, regardless of legal form of the investment, shall be reported on the dedicated residual reporting lines on Schedule BA.

68. The adoption of SSAP No. 21 in accordance with the principles-based bond project, incorporated guidance for non-bond debt securities and residual interests. The residual guidance includes the definition, common traits in identifying residuals as well as accounting and reporting guidance. Although adopted with a January 1, 2025 effective date consistent with the bond project, reporting entities are permitted to early-adopt the residual guidance in 2024.This SSAP No. 21 residual guidance has the following key aspects:

a. Residuals are permitted to be admitted assets if debt securities from the same securitization qualify (or would qualify) as admitted assets. If a debt security held from the same structure is (or would be) nonadmitted, then any residual interests or first loss positions held from the same structure do not qualify as admitted assets. Residuals in the legal form of a SSAP No. 48 investment are not subject to the SSAP No. 48 audit requirements for admittance as they are captured in scope of SSAP No. 21 and not SSAP No. 48.

b. Residuals shall be initially reported at cost, or allocated cost (using proportional fair values) if acquired along with debt tranches from the securitization. Subsequent to initial acquisition, residuals shall be reported at either 1) the lower of adjusted cost or fair value under the Allowable Earned Yield method, with temporary reductions in fair value reported as unrealized losses, or 2) at the calculated practical expedient method permitted in SSAP No. 21. For the residual guidance, amortized cost is defined as the cost the residual reduced for distributions in excess of the Allowable Earned Yield and other-then-temporary impairments (OTTI). The Allowable Earned Yield is established at acquisition as the discount rate that equates the initial best estimate of the residual's cash flows to its acquisition cost. With this approach, interest income is recorded under the effective yield method using the Allowable Earned Yield, capped by the amount of cash distributions received. Amounts received in excess of the Allowable Earned Yield reduces amortized cost. The practical expedient calculates book/adjusted carrying value (BACV) such that all distributions received are treated as a reduction in BACV. With this approach, the reporting entity will not recognize any interest or investment income until the residual tranche has a BACV of zero.

c. Residuals shall be assessed for OTTI on an ongoing basis, with required assessment anytime that fair value is less than the reported value. For residuals measured using the Allowable Earned Yield method, an OTTI is considered to have occurred if the present value of expected cash flows discounted by the Allowable Earned Yield is less than amortized cost. For residuals measured under the practical expedient, an OTTI shall be considered to have occurred if the fair value of the residual is less than the BACV.

d. The residual guidance is adopted prospectively and includes transition guidance in applying the revised measurement method for securities previously captured in scope of another SSAP. This guidance mirrors concepts from the transition of the principles-based bond definition.

69. Stapling of Investments: The original exposure of the principles-based bond definition (May 2021) included an initial example detailing a situation where "equity interests" from a tranche (such as residuals) were required to be held by a reporting entity when holding debt tranches. That language identified situations where the reporting entity would be restricted from selling, assigning, or transferring the unsecured debt investment without also selling, assigning or transferring the equity interest to the same party. This restriction is often referred to as the "stapling" of investments. Pursuant to the guidance in the initial example, although the debt instrument would separately qualify as a creditor relationship for bond reporting, when considering the entirety of the holdings (both the residual/equity interests and debt tranches combined), the investment would be considered an equity instrument in substance. Although the debt instrument would appear to have a higher priority of payment, that priority would be supported by the residual/equity interest the reporting entity has to hold. Ultimately, the reporting entity would be subordinate to themselves as they would recognize a loss on the residual/equity tranche to safeguard payment under the debt tranche. Under that initial proposed example, all holdings under such situations, including the debt tranches, would not qualify as creditor relationships and would not qualify for bond reporting.

© 2024 National Association of Insurance Commissioners

70. After considering comments from the first exposure period, as well as discussing within the small group of industry and regulators, this example was eliminated from the principles-based bond definition. These discussions ultimately concluded that tranches that separately qualify as bonds should be reported as bonds even if other tranches from a structure that do not qualify as bonds are also held by the reporting entity. Elements noted as part of the decision to remove the stapling restriction include:

a. A key element in the initial proposal to require all of the holdings as equity was to ensure that the risk of the holdings was properly captured. It was noted that recent developments to tranche investments that were previously reported as investments in LLCs or joint ventures could result in RBC arbitrage. This is because the risk of the investment would be concentrated in a specific tranche intended to absorb losses, and only that limited tranche would be reported on Schedule BA with higher RBC charges. This would allow the debt tranches (as they are subordinated by the equity tranche) to likely qualify as bonds with Schedule D-1 reporting and lower RBC charges. However, because risk has been concentrated into the smaller equity tranche as a result of leverage, and because Schedule BA RBC charges are fixed and insensitive to leverage, there is a lowering of risk-based capital in total despite no change in risk. The subsequent discussions highlighted that this is an RBC issue for the equity tranche and is not an accounting classification issue. As consideration on appropriate risk charges for residual tranches has been requested to the Financial Condition (E) Committee and is a discussion item for the RBC Investment Risk and Evaluation (E) Working Group, this issue is not within the focus of the Statutory Accounting Principles (E) Working Group. It was also noted that consideration of statutory accounting provisions (such as nonadmittance) to achieve a desired risk assessment would be an inappropriate use of the accounting guidance. It was also noted that the investments within scope of these discussions are likely permitted for admittance under state law and incorporating statutory guidance different from state law would only result with identification of prescribed practices as domiciliary state laws and statutes are the ultimate authority for the application of SAP.

b. It was also identified that the initial exposed example was specific to investments that were "stapled" under contractual terms. This guidance would have only been applicable to dynamics in which there was an explicit restriction in the sale, assignment, or transfer of the residual/equity tranche separately from a debt tranche. It was identified that without an active market for residual/equity tranches (which is common) the explicit restrictions would not be necessary to achieve a similar result. Structures would only need to be designed to require initial acquisition of residual/equity tranches when acquiring debt tranches (with removal of the explicit disposal restrictions) to avoid the proposed stapling guidance. Since the proposed guidance could be easily avoided, the guidance would not address the underlying concern.

c. This discussion noted that it is quite common for acquisitions to require purchases of a vertical slice of a structure and for investments to be stapled for a short duration of time. These provisions are generally made for easier marketing and for easier compliance with conflict-of interest provisions. The short-term aspect of some stapled investments raised concerns as to how bond-qualifying debt tranches would be reported if stapling provisions to a residual/equity tranche were subsequently eliminated. This was identified as likely requiring a schedule move (from BA to D-1) with potential other accounting and reporting impacts (such as with NAIC designations and measurement method). This discussion noted that an issuer's stapling of investments may reflect a legitimate business purpose, and not intend for RBC arbitrage, and the elimination of such components after the stated timeframe could cause confusion or unnecessary noise in the financial statements from the

© 2024 National Association of Insurance Commissioners

reclassification of investments. This discussion further supported that the acquisition of different tranches, even if explicitly stapled, should not prevent separate debt (bond) and residual/equity recognition based on the characteristics of the specific tranche.

71. ABS as Short-Term or Cash Equivalent: With the required assessments and requirements for a security to qualify as ABS, as well as dedicated reporting based on the underlying collateral assets, ABS will no longer be permitted to be reported as short-term or cash equivalents. All qualifying ABS will be required to be reported on Schedule D-1-2, even if acquired within one year or less from the maturity date, to allow for full assessment of ABS held by a reporting entity by regulators. Investments captured in scope of SSAP No. 2R are intended to reflect situations in which limited risk remains, either from changes in credit-quality or interest rates, due to the short-duration until maturity. As ultimate cash flows from ABS may have other risks beyond default risk or interest rate risk (such as performance factors, balloon payments, collateral quality), reporting as a cash equivalent or short-term investment is not permitted to prevent inappropriate assumptions of the investment's remaining potential risk.

Key Discussions / Aspects in Developing the Definition

72. Refinancing Risk / Residual Risk Exposure: Discussion of refinancing risk (where there is outstanding debt owed at maturity that will need to be refinanced for the remaining principal to be received by the note holder) was a key element discussed in accordance with the meaningful cash flow requirement for non-financial ABS. This discussion highlighted that traditional refinancing risk is accepted in the context of corporate debt but is viewed differently when assessing the cash flows of non-financial assets in an ABS structure. This differentiation was confirmed, with identification that there are concerns unique to non-financial ABS.

73. The requirement for a non-financial ABS to produce meaningful cash flows to service the debt other than through the sale or refinancing of the collateral assets ensures that structures captured as a bond on Schedule D-1 actually reflect bond-like cash flows. Structures that rely on the sale or refinancing at maturity to generate cash flows to repay debt obligations ultimately reflect a point-in-time reliance on the underlying collateral asset values that does not reflect the intent of Schedule D-1 reporting of bond-like cash flows. These structures are more reflective of the underlying collateral risk, ultimately contingent on the market at a future point in time and whether the underlying assets can be sold or refinanced in accordance with original expectations at the time of the structure origination.

74. A key comment raised by industry with regards to the meaningful cash flow requirement, and the restriction against relying on the sale/refinancing at maturity to produce meaningful cash flows, is that consideration should be given to the level of overcollateralization that exists in a structure if the meaningful requirement will not be met without sale or refinancing. These industry comments take the position that as the level of overcollateralization to the debt obligation increases, then there is a greater likelihood that the debt issuer will be successful in refinancing or selling the assets and generate the means to repay the debt obligation. Although overcollateralization is a factor in securities for bond classification, allowing overcollateralization to override the requirement for meaningful cash flows other than the refinancing / sale at maturity is not permitted for the following reasons:

a. The intent of the principles-based bond definition is to clarify what shall be reported as bonds on Schedule D-1. Non-financial ABS that do not generate meaningful cash flows and rely on the refinancing or sale of the underlying assets do not reflect bond-like cash flows and are not characteristic of bond investments. These structures ultimately reflect equity (point-in-time) valuation risks of the assets held as collateral.

b. The industry position that overcollateralization safeguards the asset performance is an argument that supports the quality of the structure, but not the substance of the investment design. The principles-based bond definition does not factor in investment or credit quality within the determination of whether a structure qualifies for reporting as a bond on Schedule D-1. Permitting an assessment based on overcollateralization would introduce a concept that credit quality determines bond / Schedule D-1 reporting, and that is not an accurate conclusion in line with the principle concepts of bond classification.

75. Consistent with prior conclusions, reporting an investment as a bond on Schedule D-1 is not indicative of the quality of the investment, but rather reflects securities expected to generate bond-like cash flows. Securities reported as bonds on Schedule D-1 may be of high-quality or low-quality, but the reporting is based on the substance of the structure, which ultimately requires bond-like cash flows for all investments. This includes a requirement that non-financial ABS must produce meaningful cash flows through the use of the underlying collateral assets other than through the sale or refinancing of the assets.

76. Additionally, through the small group discussions around the refinancing restriction, it was noted that even if a debt instrument meets all of the criteria to be reported as a bond on Schedule D-1, there will still be a potential for unintentional RBC arbitrage related to securitizations, because the residual tranches absorb all of the redistributed risk of the underlying collateral, but receives a fixed RBC charge that is not in any way risk-rated. While this could be the case in any type of securitization, it is particularly pronounced if the underlying collateral is equity investments. Equity investments generally receive a base 30% RBC charge for life companies. If equity investments are securitized, the bond tranches will get low bond charges (<2%), while the residual tranche will continue to receive a flat 30% base charge. This will have the effect of bringing the overall weighted-average capital charge on the underlying investments from 30% to approximately 10-15%. This will occur even if the bond tranches have all of the substance associated with a bond. Following these discussions, it was identified that this regulatory concern may not be appropriate to address through the accounting standards but may warrant discussion under the Capital Adequacy (E) Task Force. Subsequent discussions from the Financial Condition (E) Committee directed the new RBC working group (the RBC Investment Risk and Evaluation (E) Working Group) to evaluate this and any other investment-related RBC items. Subsequent to these discussions, the RBC Investment Risk and Evaluation (E) Working Group assumed a project to assess RBC factors for residual interests. An interim approach was adopted to include a 30% base RBC factor with a 15% sensitivity test for year-end 2023, with a 45% base RBC factor and 0% sensitivity for year-end 2024. Continued discussion is expected under a long-term project.

77. Use of NAIC Designation / SVO Review in Determining Bond / Schedule D-1 Reporting: The accuracy of the financial statements, and compliance with statutory accounting provisions, is the responsibility of the reporting entity. Assessment and compliance with key concepts, such as the "meaningful cash flow generation" and "substantive credit enhancement" concepts for ABS are also the responsibility of the reporting entity, along with appropriate documentation of these assessments for regulator review when requested. Consistent with the existing *NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the NAIC Investment Analysis Office*, a reporting entity cannot utilize an NAIC designation to conclude on the substance of an investment or the resulting reporting schedule. Pursuant to the policy statement, obtaining an NAIC designation does not change an investment's applicable SSAP, annual or quarterly statement reporting schedule, or override SSAP guidance required for an investment to be an admitted asset.

78. Questions have been received whether an NAIC designation in the AVS+ product or an assessment of an investment from a "Regulatory Treatment Analysis Service" (RTAS) submission from the SVO can be utilized as support that an investment qualifies as a bond for Schedule D-1 reporting. These are inaccurate interpretations on the use of NAIC designations within those products. The assignment of an NAIC

designation (either from the SVO or CRP) reflects the credit quality of an investment. An assessment of credit quality does not provide assurances that the investment qualifies for reporting as a bond on Schedule D-1 as an ICO or an ABS. As part of this principles-based bond project, consideration is planned to expand the ability to report and use NAIC designations on Schedule BA so that investments that do not qualify as bonds can have appropriate risk assessments that factor in the credit quality of the investment. This capability would ultimately depend on action by the Capital Adequacy (E) Task Force.

79. Although the NAIC designation and RTAS processes cannot be used in determining Schedule D-1 compliance, it is envisioned that a small group of regulators and NAIC staff could be formed to review specific investment structures under the principle-based concepts to assist in assessments of complex new investment designs. If formed, it is anticipated that NAIC staff on the statutory accounting side and within the SVO would assist this small group.

80. Interest Only / Principal Only Strips: Discussion occurred on whether specific guidance should direct the reporting of interest only (IO) and principal only (PO) strips. The resulting conclusion from this discussion was that the principle concepts from the bond definition should continue to be applied to these investments. If the strips qualify within the definition as ICO, they would be captured in scope of that guidance. If the strips qualified as ABS, they would be captured in scope of that guidance. It was noted that interest-only strips shall also be assessed in accordance with the residual guidance. If the interest-only strip reflects excess interest (e.g., remaining differential spread from interest collected from interest paid), these investments would be akin to a residual investment without contractual interest or principal payments and shall be captured in scope of that guidance. (Residuals are in scope of SSAP No. 21 and required to be reported on Schedule BA. Residuals are not permitted to be reported on Schedule D-1.)

81. The discussion of IO/PO strips with industry representatives identified that they are not overly prevalent investments with insurance reporting entities. It was also noted that IO/PO based on RMBS are relatively rare due to the prepayment risk, however those based on CMBS generally have contractual provisions that prohibit prepayments, thus ensuring that they act more akin to typical bonds. This discussion further highlighted that changes to the principal-based bond definition are not justified for IO/PO investments, and insurers should document their accounting policies for these investments to demonstrate compliance with the bond definition.

82. The discussion of IO/PO strips focused on U.S. Treasury strips and mortgage-backed securities as likely investments, but it was noted that the application of the overall bond definition concepts should be applied to any future design of these investments. Specific elements noted for the two general designs:

a. U.S. Treasury Strips: Treasury Strips are created when a bond's coupons are separated from the bond. The coupons separated from the bond are sold individually (IO), becoming separate securities from the principal payments due at maturity (PO). U.S. Treasury Strips are backed by the U.S. government. U.S. Treasury strips (IO and PO) are considered U.S. government issues and would be captured with other securities backed by the U.S. government as ICO. Specific identification of U.S. Treasury strips as a separate reporting line of ICO investments, captured within the U.S. government category, was noted to be repetitive and not necessary.

b. Mortgage-Backed Securities and Other Non-Treasury Strips: Other IO and PO strips are required to be assessed in accordance with the principle concepts of the bond definition. It is anticipated that non-U.S. strips (including mortgage-backed security strips) would not qualify as ICO and shall be reviewed in accordance with the ABS concepts to determine whether the strip qualifies for reporting as a bond on Schedule D-1. The separation of the principal and interest components into separate securities does not change the application

of the principle concepts for determining whether a security qualifies as a bond. It was noted that IO strips could be high in the capital structure (supported by subordination) or could represent residual interests (reflecting the spread between proceeds collected and contractual interest). The specific details of the individual IO/PO security shall determine the appropriate accounting and reporting.

83. The discussion of IO/PO strips identified that there is no current need to have separate reporting lines to identify these items within the investment schedules. However, it was identified that the ability to identify these investments with a code (or other feature) would allow for future aggregation and assessment. This was requested to be considered as part of the reporting revisions.

84. Embedded Derivatives / Underlying Variables: Discussion occurred on the language that precludes bond reporting based on the appreciation or depreciation of an underlying collateral value or other variable. Although industry comments noted that the intent of the language was understood, it was identified that the language could be interpreted to mean that amounts in both the magnitude and timing of principal and interest payments must be known in advance, and it could also be interpreted to mean the amounts need to be contractual in nature but can still vary as long as the variability is not dependent on the appreciation or depreciation of an asset or variable. It was also noted that the reference to "other variable" could be interpreted to mean interest is not allowed to vary based on any variable or just the appreciation or depreciation of the variable. After discussing these comments, revisions were drafted to clarify that the exclusion is not intended to restrict variables that are commonly related to debt instruments, such as but not limited to, plain vanilla inflation or benchmark interest rate adjustments (such as with U.S. TIPs or SOFR-Linked coupons), scheduled interest rate step-ups, or credit-quality related interest rate adjustments. Furthermore, as detailed in footnote 3, this exclusion is not intended to encompass nominal interest rate adjustments. This guidance has also been incorporated within the provisions for determining whether a debt instrument represents a creditor relationship and is applicable for debt instruments structured as ICO and ABS.

Accounting for Debt Securities That Do Not Qualify as Bonds

85. Securities that reflect debt instruments that do not qualify for bond reporting as an ICO or an ABS shall follow specific guidance captured in SSAP No. 21 and be reported on Schedule BA. Investments in scope of this guidance are limited to items that would be in scope of SSAP No. 26, but that do not qualify for bond reporting as they reflect:

a. Debt securities for which the investment does not reflect a creditor relationship in substance.

b. Debt securities that do not qualify for bond reporting due to a lack of substantive credit enhancement.

c. Debt securities that do not qualify for bond reporting due solely to a lack of meaningful cash flows.

86. The debt securities captured in the SSAP No. 21 guidance meet the definition of assets as defined in SSAP No. 4 and are admitted assets to the extent they conform to the requirements within SSAP No. 21. The provisions are specific that the guidance for non-bond debt securities in SSAP No. 21 shall not be inferred to other securities or investment structures.

87. Debt securities in scope of SSAP No. 21 that do not qualify as bonds under SSAP No. 26 and for which the primary source of repayment is derived through rights to underlying collateral, qualify as admitted assets if the underlying collateral primarily qualify as admitted invested assets. As detailed in the

SSAP No. 21 guidance pertaining to residual tranches, any residual tranches or first loss positions held from the same securitization that did not qualify as a bond under SSAP No. 26 also only qualify as admitted assets to the extent the underlying collateral primarily qualifies as admitted invested assets.

88. Debt securities in scope of the SSAP No. 21 guidance shall be reported at acquisition at cost, including brokerage and other related fees on Schedule BA. Subsequent measurement shall reflect the lower of amortized cost or fair value. Changes in measurement to reflect the lower value or to reflect changes in fair value shall be recorded as unrealized gains or losses. Debt securities in scope of SSAP No. 21 shall then follow the guidance in SSAP No. 43 for calculating amortized cost, for determining and recognizing other-than-temporary impairments and for allocating unrealized and realized gains and losses between the asset valuation reserve (AVR) and the interest maintenance reserve (IMR).

89. During the SSAP No. 21 discussion, industry inquired on the direction to utilize SSAP No. 43 for the components detailed in paragraph 88, and not separately assess securities to determine if they are more akin to ICO or ABS and using either SSAP No. 26 or SSAP No. 43 based on those assessments for the calculation of amortized cost, OTTI and allocating AVR/IMR. With this discussion, it was noted that investments that fail the creditor relationship test are identified before determining whether the security would be an ICO or ABS, and as the components of SSAP No. 43 are more relevant for debt securities that do not qualify as bonds, and to ensure consistency for all non-bond debt securities in scope of SSAP No. 21, the decision to utilize SSAP No. 43 for all debt securities that do not qualify as bonds was retained.

Transition Guidance

90. At the time of transition to apply the guidance adopted to reflect the principles-based bond definition, reporting entities shall make their best efforts to assess investments to determine whether they qualify within the bond definition for reporting on Schedule D-1. The bond definition requires assessments at the time of acquisition (as of the origination date), and it is recognized that reporting entities may not have the means to complete historical assessments for securities held at the time of transition. For these instances, if information is not readily available for reporting entities to assess a security as of the date at origination, reporting entities may utilize current or acquisition information in concluding that a security qualifies for reporting as a bond as either an ICO or ABS.

91. Investments that were reported as a bond on Schedule D-1: Long-Term Bonds as of December 31, 2024, that do not qualify under the principle-based bond definition shall be reported as a disposal from that schedule, with a reacquisition on the appropriate reporting schedule as of January 1, 2025. These investments shall be accounted for in accordance with the resulting SSAP that addresses the specific investment structure. For securities that are reported at the lower of amortized cost or fair value under the guidance in SSAP No. 21 for non-bond debt securities, this could result with an unrealized loss in the measurement of the investment at the time of the reclassification. Although the adoption of this guidance is considered a change in accounting principle under *SSAP No. 3—Accounting Changes and Corrections of Errors*, the following transition guidance shall be applied on January 1, 2025, to ensure consistency in reporting and to allow investment schedules to roll appropriately:

a. Securities reclassified from Schedule D-1 as they no longer qualify under the bond definition shall be reported as a disposal from Schedule D-1 at amortized cost. Although no proceeds are received, amortized cost at the time of disposal shall be reported as consideration on Schedule D-4.

i. For securities held at amortized cost at the time of disposal, BACV and amortized cost shall agree, preventing gain or loss recognition at the time of reclassification.

ii. For securities held at fair value under the lower of amortized cost or fair value measurement method, previously reported unrealized losses shall be reversed on January 1, 2025, prior to disposal, resulting with a reported value that mirrors amortized cost at the time of disposal. This action prevents realized loss recognition at time of reclassification.

b. Securities reclassified from Schedule D-1 shall be recognized on the subsequent schedule (e.g., Schedule BA) with an actual cost that agrees to the disposal value (amortized cost). Immediately subsequent to recognition on the resulting schedule, the securities shall be reported in accordance with the measurement method prescribed by the applicable SSAP:

i. For securities previously reported at fair value on Schedule D-1 (under a lower of amortized cost or fair value measurement method), the reporting entity will recognize an unrealized loss to match the previously reported BACV. Subsequently, the security will continue to reflect a lower of amortized cost or fair value measurement method.

ii. For securities previously reported at amortized cost on Schedule D-1, if the subsequent applicable SSAP guidance requires a lower of amortized cost or fair value measurement method, then the reporting entity shall recognize an unrealized loss to the extent fair value is less than amortized cost.

c. After application of the transition guidance all securities shall reflect either the same reported value as of December 31, 2024 (amortized cost or fair value) or a lower reported value (if the security is subject to the lower of amortized cost or fair value measurement method). There should be no instances that result with a security having a greater reported value than what was presented on December 31, 2024. Subsequent to transition, securities reported at fair value may incur unrealized gains or losses due to fair value fluctuations, but should never have unrealized gains that result with a BACV that exceeds amortized cost.

92. With this transition guidance, changes in measurement for securities reclassified under the bond definition will be reported as a change in unrealized capital gains (losses) in the first quarter 2025 financial statements (unless sold in the interim with a realized gain or loss) and not as a change in accounting principle. To enable regulators the ability to identify the impact of securities reclassified under the bond definition, the following disclosure for the 2025 first quarter financial statement is required:

a. Aggregate BACV for all securities reclassified off Schedule D-1.

b. Aggregate BACV after transition for all securities reclassified off Schedule D-1 that resulted with a change in measurement basis. (This shall be a subset of the aggregate BACV reclassified off Schedule D-1 and captures the securities that moved from an amortized cost to a fair value measurement method under the lower of amortized cost or fair value approach.)

c. Aggregate surplus impact for securities reclassified off Schedule D-1. This shall include the difference between BACV as of December 31, 2024 and BACV after transition for those securities that moved from an amortized cost to a fair value measurement method under the lower of amortized cost or fair value approach.

© 2024 National Association of Insurance Commissioners

93. ABS that were previously reported as short-term (Schedule DA) or as a cash equivalent (Schedule E2) shall be reclassified to be reported on Schedule D-1-2 on January 1, 2025. Similar to the process detailed above, the securities shall be removed from Schedule DA and E2 at amortized cost, with reversal of any unrealized loss prior to the reclassification. The amortized cost shall be reported as "consideration received on disposals' on Schedule DA – Verification Between Years or Schedule E-2 – Verification Between Years, as applicable based on the prior reporting location. The security shall be recognized as an ABS acquired on Schedule D-3 at amortized cost. Immediately after initial recognition, if the security was required to be held at fair value, under the lower of amortized cost or fair value measurement method, the reporting entity shall recognize an unrealized loss.

94. The transition guidance shall be applied prospectively beginning with the first year of adoption (January 1, 2025). For disclosures that provide comparative information, reporting entities shall not restate the prior year's information in the 2025 disclosure.

Investment Examples – Securities That Do Not Represent Creditor Relationship Despite Legal Form

95. As detailed in the principles-based bond definition, an initial determinant is whether the investment is a security that represents a creditor relationship in substance. Examples included intend to identify scenarios that do not reflect an in-substance creditor relationship.

96. Example 1: Debt Instrument from SPV with Large Number of Diversified Equity Interests: A reporting entity invests in a debt instrument issued by a SPV that holds a large number of diversified equity interests with characteristics that support the production of predictable cash flows. The structure contains sufficient overcollateralization and liquidity provisions to ensure the production of adequate cash flows to service both principal and interest payments without significant reliance on refinancing or sale of the underlying equity investments. The debt instrument's periodic principal or interest payments, or both, contractually vary based on the appreciation or depreciation of the equity interests held in the SPV.

97. Example 1 Rationale: Because the instrument's principal or interest payments, or both, contractually vary with the appreciation or depreciation of the underlying equity interests, it contains an equity-like characteristic that is not representative of a creditor relationship. It would be inappropriate to conclude that a security with any variation in principal or interest payments, or both, due to underlying equity appreciation or depreciation, or an equity-based derivative, is a bond under the principles-based bond definition as such security would contain equity-like characteristics.

98. Example 2: Debt Instrument from SPV with Few Equity Interests, Not an Issuer Credit Obligation: A reporting entity invests in a debt instrument issued from a SPV that owns a portfolio of equity interests, and the debt instrument does not meet the definition of an ICO.

99. Example 2 Rationale: Determining whether debt instruments collateralized by equity interests qualify as bonds under the principles-based bond definition inherently requires significant judgment and analysis. Unlike debt instruments collateralized by assets with contractual cash flows, or debt instruments collateralized by cash-generating non-financial assets, debt instruments collateralized by equity interests may be dependent on cash flow distributions that are not contractually required to be made and/or may not be controlled by the issuer of the debt. In some instances, sale or refinancing of the underlying equity interests may be the only means of generating cash flows to service the debt instruments. As a result, there is a rebuttable presumption that a debt instrument collateralized by equity interests does not qualify as a bond. Notwithstanding this rebuttable presumption, it is possible for such debt instruments to qualify as bonds, if the characteristics of the underlying equity interests lend themselves to the production of predictable cash flows and the underlying equity risks have been sufficiently redistributed through the

capital structure of the issuer. Factors to consider in making this determination include but are not limited to:

a. Number and diversification of the underlying equity interests

b. Characteristics of the underlying equity interests (vintage, asset-types, etc.)

c. Liquidity facilities

d. Overcollateralization

e. Waiting period for distributions/paydowns to begin

f. Capitalization of interest

g. Covenants (e.g., loan-to-value trigger provisions)

h. Reliance on ongoing sponsor commitments

i. Source(s) of expected cash flows to service the debt (i.e., dividend distributions from the underlying collateral vs. sale or refinancing of the underlying collateral)

100. While reliance on the sale of underlying equity interests or refinancing at maturity does not preclude the rebuttable presumption from being overcome, it does require that other characteristics mitigate the inherent reliance on equity valuation risk to support the transformation of underlying equity risk to bond risk. As reliance on sale or refinancing increases, the more compelling the other factors needed to overcome the rebuttable presumption become.

101. The analysis of the underlying structure should be conducted and documented by a reporting entity at the time such an investment is acquired. The level of documentation and analysis required will vary based on the characteristics of the individual debt instrument, as well as the level of third-party and/or non-insurance company market validation to which the issuance has been subjected. For example, a debt instrument collateralized by fewer, less diversified equity interests would require more extensive and persuasive documented analysis than one collateralized by a large and diversified portfolio of equity interests. Likewise, a debt instrument that has been successfully marketed to unrelated and/or non-insurance company investors may provide enhanced market validation of the structure compared to one held only by related party and/or insurance company investors where capital relief may be the primary motivation for the securitization.

Investment Examples – Analysis of ABS Under the Meaningful Cash Flows and Substantive Credit Enhancement Concepts

102. All ABS structures are required to provide substantive credit enhancement to qualify for bond reporting on Schedule D-1. Furthermore, ABS structures that are backed by non-financial assets must generate meaningful cash flows to service the debt without reliance on the sale or refinancing at the maturity of the investment. The following provides examples of analysis under these criteria:

103. Example 3 – Agency Mortgage-Backed Securities: A reporting entity invests in debt instruments issued from a SPV sponsored by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, "Agency or Agencies"). These debt instruments pass through principal and interest payments received from underlying mortgage loans held by the SPV to the debtholders proportionally, with principal

and interest guaranteed by the Agencies. While there is prepayment and extension risk associated with the repayment of the underlying mortgage loans, the credit risk associated with the mortgage loans is assumed by the Agencies.

104. Example 3 Rationale: Although the reporting entity participates on a proportional basis in the cash flows from the underlying mortgage loans held by the SPV, the reporting entity is in a different economic position than if it owned the underlying mortgage loans directly because the credit risk has been redistributed and assumed by the Agencies. This is a substantive credit enhancement because a market participant (i.e., knowledgeable investor transacting at arm's length) would conclude the Agency guarantee is expected to absorb all losses from the debt instrument. Therefore, the holder of the debt instrument is in a substantively different economic position than if the holder owned the ABS Issuer's unguaranteed assets directly. When guarantees do not cover 100% of principal and interest as the Agency guarantees do in this example, it is still appropriate to determine if the guarantee is substantive in accordance with the requirements of the principles-based bond definition to determine if the holder is in a substantively different economic position than if the holder held the underlying assets directly.

105. Example 4 – Debt Instrument Issued by an SPV: A reporting entity invested in a debt instrument issued by a SPV. Payments under the instrument are secured by a note, a legal assignment from the borrower of a lease for real property and an assignment of the lease payments from an operating entity tenant. Additional security is provided by a mortgage on the leased property (the "underlying collateral"). The leased property is owned by the borrower under the note and the SPV does not have any ownership interest in the underlying collateral, though it has legal recourse to it through the mortgage. The tenant makes contractually-fixed payments over the life of the lease to the borrower, who has assigned both the lease and the lease payments to the SPV as security for the debt. While the debt is outstanding, the lease, the lease payment, and the mortgage all serve as security for the debtholders. Should a default occur, the debtholders can foreclose on and liquidate the real property as well as submit an unsecured lease claim in the lessee's bankruptcy for any defaulted lease payments. The loan-to-value (LTV) (as a percentage of property value) at origination is 100%.

106. The existing lease payments are sufficient to cover all interest payments and all scheduled debt amortization payments over the life of the debt instrument. However, at debt maturity, there is a balloon payment due, totaling 50% of the original outstanding debt principal amount. The corresponding lease has no balloon payment due at lease maturity, so the SPV will either need to refinance the debt or sell the underlying collateral to service the final debt balloon payment. The property has a high probability of appreciating in value over the term, however, ignoring any potential for appreciation, the 50% loan-to-value at maturity is the expected figure at the end of the debt term based solely on scheduled amortization payments. The real property is expected to be subject to some market value volatility and periods of lower liquidity at certain points in time but has a predictable value range and ready market over a longer period of time, such that the property could be liquidated over a reasonable period of time, if necessary.

107. Example 4 Rationale: The reporting entity determined that as a debtholder, they are in a fundamentally different position than if the real estate was owned directly. The lease is a cash generating non-financial asset which is expected to generate a meaningful level of cash flows for the repayment of the bonds which covers all interest payments and 50% of the principal payments. The level of reliance on the collateral value for sale or refinancing is just over the cutoff for using the practical expedient (greater than 50%), so a full analysis is required. In reaching its determination, the reporting entity considered the predictable nature of the cash flows, which are contractually fixed for the life of the debt instrument, as well as the ability of the underlying collateral value to provide for the balloon payment through sale or refinancing in light of its characteristics. While the real property may have some market value volatility and periods of lower liquidity at points in time, the cash flows produced by the lease were concluded to

reduce the loan balance to a level (50% loan-to-value) that would be able to be recovered by sale or refinancing at the maturity of the loan.

108. The reporting entity also determined that the structure provides substantive credit enhancement in the form of overcollateralization to conclude that investors are in a different economic position than holding the real property directly, in accordance with the requirements of the principles-based bond definition. In reaching this conclusion, the reporting entity noted that although the debt instrument starts with a 100% loan-to-value (not including the value of the contractually required lease payments), contractual fixed payments from the lease provide additional security such that the reporting entity is in a different economic position than owning the property directly. Lease cash flows are sufficient to cover the payment of all interest and 50% of the outstanding principal over the term of the lease. In the context of the predictable nature of the cash flows and collateral value range over time, the reporting entity concluded that a market participant (i.e., a knowledgeable investor transacting at arm's length) would consider this level of overcollateralization to put the investor in a substantially different economic position than owning the underlying property directly.

109. For the purpose of determining whether there is substantive overcollateralization, it is appropriate to consider any expected economic depreciation, if it is reasonably expected, but it is not appropriate to consider any expected economic appreciation. Note that a debt instrument with a LTV that is expected to decrease over time is not necessarily deemed to have substantive overcollateralization.

110. Example 5 – Debt Instrument Issued by an SPV With Lease Term Less than Debt Instrument: A reporting entity invested in a debt instrument with the same characteristics as described in Example 4, except that the existing lease at the time of origination has a contractual term that is shorter than that of the debt instrument. It is expected with a high degree of probability that the lease will be renewed, and a substantial leasing market exists to replace the lessee should they not renew. However, in the unlikely circumstance that the property cannot be re-leased, there would not be enough cash flows to service the scheduled principal and interest payments, and the property would have to be liquidated to pay off the debt upon default.

111. Example 5 – Rationale: All details of this example, including the expected collateral cash flows, are consistent with those in Example 4, except that the cash flows in Example 4 are contractually fixed for the duration of the debt while the cash flows in this example are subject to re-leasing risk. Notwithstanding the involvement of re-leasing risk, the reporting entity concluded that the ability to re-lease the property was highly predictable and supported the conclusion that the underlying collateral was expected to produce meaningful cash flows to service the debt.

112. This distinction is to highlight that the expected cash flows of a cash-generating non-financial asset may or may not be contractually fixed for the term of the bond. Certain securitized cash flow streams may not by their nature lend themselves to long-term contracts (e.g., single-family home rentals), but may nevertheless lend themselves to the production of predictable cash flows. While the non-contractual nature of the cash flows is an important consideration in determining whether a non-financial asset is expected to produce meaningful cash flows to service the debt, it does not, in and of itself, preclude a reporting entity from concluding that the assets are expected to produce meaningful cash flows.

113. Example 6 – Lease in SPV with 80% Balloon Payment: A reporting entity invested in a debt instrument issued by a SPV that owns equipment which is leased to an equipment operator. The equipment operator makes lease payments to the SPV, which are passed through to service the SPV's debt obligation. While the debt is outstanding, the equipment and lease are held in trust and pledged as collateral for the

debtholders. Should a default occur, the debtholders can foreclose on and liquidate the equipment as well as submit an unsecured lease claim in the lessee's bankruptcy for any defaulted lease payments. The LTV at origination is 70%.

114. The existing lease payments are sufficient to cover all interest payments and all scheduled debt amortization payments over the life of the debt instrument. However, at maturity, there is a balloon payment due, totaling 80% of the original outstanding principal amount. The corresponding lease has no balloon payment due at lease maturity, so the SPV will either need to refinance the debt or sell the underlying equipment to service the final debt balloon payment. The LTV at maturity is expected to increase to 95% considering the scheduled principal amortization payments net of the expected economic depreciation in the equipment value over the term of the debt. The equipment is expected to be subject to some market value volatility and periods of lower liquidity at certain points in time but has a predictable value range and ready market over a longer period of time, such that the equipment could be liquidated over a reasonable period of time, if necessary.

115. Example 6 Rationale: The equipment is a cash generating non-financial asset which is not expected to generate a meaningful level of cash flows for the repayment of the issued debt via the existing lease that covers all interest payments and 20% of principal payments. In reaching this determination, the reporting entity considered that, while the cash flows being produced are predictable, the ability to recover the principal of the debt investment is almost entirely reliant on the equipment retaining sufficient value to sell or refinance to satisfy the debt.

116. The reporting entity also determined that the structure lacks a substantive credit enhancement to conclude that investors are in a different economic position than holding the equipment directly, in accordance with the requirements of the principles-based bond definition. In reaching this conclusion, the reporting entity noted that the debt starts with a 70% LTV, but the overcollateralization is expected to deteriorate over the term of the debt as the equipment economically depreciates more quickly than the debt amortizes. This results in a high LTV (i.e., 95%) at maturity, relative to the market value volatility of the underlying collateral. Despite the predictable nature of the cash flows, the reporting entity concluded that the debt instrument lacked a substantive level of overcollateralization to conclude that the investor is in a different economic position than owning the underlying equipment directly. It was determined that the level of overcollateralization, as determined by a market participant (i.e., a knowledgeable investor transacting at arm's length), is nominal. Therefore, the reporting entity concluded that it was in a substantively similar position as if it owned the equipment directly.

117. For the purposes of determining whether there is substantive overcollateralization, it is appropriate to consider any expected economic depreciation, if it is reasonably expected, but it is not appropriate to factor in any expected economic appreciation. Note that a debt instrument with a LTV that is expected to increase over time is not necessarily deemed to have nominal overcollateralization.

Reflecting the Principles-Based Bond Proposal in SAP

118. The principles-based bond definition and the specific accounting guidance for bonds, including ICO and ABS, and the guidance for debt securities that do not qualify as bond be captured as new SAP concepts to existing SSAPs:

a. *SSAP No. 26—Bonds (Exhibit 1)*

b. *SSAP No. 43—Asset-Backed Securities* (renamed from Loan-Backed and Structured Securities) (Exhibit 2)

c. *SSAP No. 21—Other Admitted Assets (Exhibit 3)*

119. For SSAP No. 26, the revisions capture the full bond definition, and the guidance for determining whether a security qualifies as either an ICO or an ABS. The accounting guidance for ICO is retained within SSAP No. 26 and is not changed with the inclusion of the bond definition. Other key revisions include transition guidance to reclassify debt securities that do not qualify as bonds from Schedule D-1 to the subsequent schedule and to delete the glossary as no longer necessary.

120. For SSAP No. 43, in addition to revising the name to "Asset-Backed Securities," revisions reorder and streamline the existing guidance. Although the broad measurement concepts and requirements to assess cash flows have not changed, the guidance specific to whether collection of cash flows is probable, not probable, and pertains to beneficial interests has been eliminated. The guidance has been rewritten to provide consistent guidance for the assessment of cash flows and considering the impact of prepayments. These revisions are not expected to result in significant deviations from past practice as the resulting guidance is believed to be reflective of prominent past industry interpretations. Clarifications have been included to ensure recognition of an other-than-temporary impairment whenever a security is in an impaired state (fair value is less than amortized cost, regardless of if an unrealized loss has been recognized) and there is an adverse change in cash flows expected to be collected. Other key revisions include transition guidance to reclassify debt securities that do not qualify as bonds from Schedule D-1 to the subsequent schedule as well as to incorporate guidance that prohibits reporting ABS as cash equivalents or short-term investments and the process to reclassify any securities reported as such as of the effective date.

121. For SSAP No. 21, revisions incorporate new guidance for the accounting and reporting for debt securities that do not qualify as bonds as well as residual interests. For both sections, the revisions specify new measurement and admittance concepts for these securities and specify reporting on Schedule BA in designated reporting lines. For residuals, guidance is included for the recognition of other-than-temporary impairments and transition guidance for situations where the residual had a different measurement method prior to the effective date.

122. In addition, Exhibit 4, details "revisions to other SSAPs" adopted in accordance with the principles-based bond definition. This section identifies all SSAPs that have modified guidance, which predominantly reflects updated terms and references, but includes the revisions to SSAP No. 2R to restrict ABS from being in scope.

Discussion of Comments Received and Exposures

123. This section details key comments received from exposures of the principles-based bond definition revisions and the Working Group's consideration for potential edits.

a. Per the exposure of the issue paper and principles-based bond definition on March 2, 2022, with comments due May 6, 2022. The Working Group heard comments on July 18, 2022, and directed limited edits to be reflected as followed:

i. Revise the guidance related to U.S. Treasury Inflation Protected Securities (TIPs) and to clarify the guidance regarding variable contractual principal and interest payments. These revisions clarified that securities with plain-vanilla inflation adjustment mechanisms are not intended to be captured within the provisions that

© 2024 National Association of Insurance Commissioners

restrict bond classification due to varying principal or interest payments, as well as clarified that other variances in contractual amounts due to reference variables (and not just equity interests) are intended to be precluded from bond treatment.

ii. Revise guidance describing substantive credit enhancements, particularly to revise reference to the first loss "tranche" as the first loss "position" and clarify that securitization tranches that do not have contractual principal and interest payments along with substantive credit enhancement do not qualify as a Schedule D Bond and shall be reported on Schedule BA. (Tranches without contractual principal and interest payments are considered residual tranches shall be on Schedule BA.) (Subsequent to these edits further discussion and updates to the residual guidance were adopted. These revisions improve the guidance and remove specific references to contractual principal and interest payments.)

iii. Document the outcome of small group discussions around the application of the bond principles, particularly the equity-backed example, to feeder fund structures. Feeder fund structures shall not automatically be assumed to qualify for bond classification (even if the ultimate collateral is fixed income), nor be automatically precluded bond classification. The substance of the investment should be the determining factor in these and other similar situations. In particular, the assessment of feeder fund structures should evaluate whether the structure ensures the pass through of the underlying cash flows, or whether uncertainty as to the timing or amount of cash flows is introduced by the structure.

iv. Requested interested parties to work with NAIC staff in proposing revisions to capture the elements that may introduce equity-like characteristics into the main components of the bond definition.

b. In addition to the revisions incorporated from the July 18, 2022, call, the Working Group also heard comments and elected not to incorporate revisions for the following items:

i. The Working Group identified that non-bond items that are specifically scoped into SSAP No. 26 will not be identified in the bond definition. The Working Group was explicit that the inclusion of an investment in-scope of SSAP No. 26 did not make the investment a "bond" and such a distinction is necessary to prevent scope-creep or inference of other investments into the bond definition. For example, although SVO-Identified Bond ETFs, SVO-Identified CTLs and certificates of deposit that exceed one year are explicit inclusions to SSAP No. 26 and reported on Schedule D-1, these investments are not bonds.

ii. The Working Group did not incorporate industry-proposed edits to limit guidance that requires the consideration of all returns to equity-backed ABS. Rather, the Working Group clarified that all investments that have contractual principal and interest that can fluctuate due to a referenced variable shall consider all returns in excess of principal repayment as interest when determining whether the investment qualifies for bond reporting under the principles-based definition.

iii. The Working Group did not agree with comments supporting ABS to be reported as cash equivalents or short-term investments even if acquired with a maturity date that is less than 90-days or 1-year away. To ensure proper assessment under the bond definition, and reporting based on the underlying components of the

investments, the Working Group retained the provisions that all ABS shall be captured within SSAP No. 43 and be reported on Schedule D-1-2.

iv. The Working Group did not direct changes to the bond definition or issue paper after considering the industry "Lease-Backed Securities Working Group" May 5, 2022, comment letter. That letter, which is consistent with their prior comments, proposes to capture securities as ICO if they pass-through cash flows unaltered (such as with certain lease-backed structures) and are supported primarily by a single rated credit payor, though principal repayment is not fully supported by the obligation of that payor. The discussion noted that these securities shall follow the guidance for ABS if they are not fully supported by an underlying contractual obligation of a single operating entity, including the criteria for substantive credit enhancement and meaningful cash flows. The Working Group identified that these structures are not based on the credit worthiness of a single operating entity and rely on the underlying collateral for repayment, which is why they should be considered ABS rather than ICO. The comment letter also raised concerns around the guidance for evaluating project finance debt noting a perception that inconsistent classification may occur for investments with similar characteristics. As a result of the discussion, there were no changes to the exposed bond definition. Working Group members and other interested parties noted during the discussion that the guidance pertaining to project finance is intended to provide guidance for evaluating issuers that share characteristics of both operating entities and ABS Issuers (i.e., the middle of the spectrum). Nevertheless, the guidance is clear that issuers of project finance debt must themselves have the characteristics of operating entities in order for the debt instrument to qualify as an ICO. As such, project finance bonds issued by operating entities and other municipal revenue bonds will be retained as ICO as the design of these structures are supported by the credit worthiness of a single operating entity and are therefore different than the investment structures presented by the industry Lease-Backed Securities Working Group.

c. Per the exposure of the principles-based bond definition, and proposed revisions to SSAP No. 26 and SSAP No. 43 on August 10, 2022, with comments due October 7, 2022, comments were received from Fermat Capital, the industry Lease-Backed Securities Working Group and Interested Parties. After considering the comments, the following key revisions were incorporated:

i. Revisions to incorporate the entire bond definition within SSAP No. 26, with a deletion of bond definition guidance from SSAP No. 43. With this change, securities that qualify as ABS after application of the bond definition will follow the measurement and reporting guidance within SSAP No. 43. This edit prevents unintended inconsistencies in the guidance that could occur if aspects of the bond definition are in both SSAPs.

ii. Revisions to incorporate the guidance for determining a creditor relationship, which was in an exhibit, into the body of guidance within SSAP No. 26.

iii. Revisions to the examples for ABS analysis, which were moved to SSAP No. 26, to reflect a scenario in which payments under the instrument are secured by a note, a legal assignment from the borrower of a lease for real property and the assignment of the lease payments from an operating entity tenant. This revision

© 2024 National Association of Insurance Commissioners

was in response to comments from the industry Lease-Backed Security Working Group and detail that the SPV does not need to have ownership interest in the underlying collateral for the security to qualify as an ABS.

iv. Revisions to SSAP No. 26 to clarify that investments with specific guidance and reporting lines (such as surplus notes, working capital finance investments (WCFI) and structured settlements) shall follow the guidance in their specific SSAP and be reported on designated reporting lines. This edit was made in response to the comments from Fermat Capital, who identified that WCFI meet the definition of ICO. These investments shall follow the guidance *in SSAP No. 105R—Working Capital Finance Investments* and be reported on their specific reporting lines on Schedule BA.

v. Revisions to SSAP No. 26, and the addition of a new footnote, to clarify that the general creditworthiness of an entity can be direct or indirect recourse and is the primary source of repayment for issuer credit obligations.

vi. Revisions to SSAP No. 26 to clarify application when interest and principal vary based on the performance of an underlying value or variable. The revised guidance adds language to clarify that the exclusion is not intended to restrict variables that are commonly linked to debt instruments, such as plain-vanilla inflation or benchmark interest rates.

vii. Revisions to SSAP No. 26 to delete the proposed glossary, with the inclusion of the bank loan definition into a footnote. Other definitions were identified as not being necessary for retained inclusion in the statement.

viii. Revisions to SSAP No. 43 to identify Freddie-Mac When Issued Trust Certificates, pursuant to *INT 22-01: Freddie Mac When Issued K-Deal (WI Trust) Certificates*, as an explicit scope inclusion.

ix. Revisions to SSAP No. 43 to clarify the guidance for prospective adjustment method for high-credit quality investments, and on the assessment of cash flows. This guidance clarifies that if a security is in an unrealized loss position, and there is an adverse change in cash flow, the entity shall recognize an other-than-temporary impairment.

x. Revisions to both SSAP No. 26 and SSAP No. 43 to provide specialized transition and disclosure guidance for the reclassification of securities previously reported that will no longer qualify for reporting as bonds.

xi. Revision to the issue paper to clarify the application of the principles-based bond definition to feeder funds.

d. Per an exposure on November 16, 2022 of SSAP No. 26, SSAP No. 43 and other SSAPs that will be impacted under the bond project, until February 10, 2023, revisions were incorporated to reflect most of the interested party comments. The revised documents were discussed and exposed at the 2023 Spring National Meeting. Most of the edits were minor, but the following elements are specifically noted:

i. Revisions to SSAP No. 26 incorporated an exception for nominal interest rate adjustments. The guidance defines the exception as being too small to be taken into consideration when assessing an investment's substance as a bond. This revision was added based on industry's comments on inadvertent impact to sustainability-linked bonds, but the exception guidance is not limited to those specific bonds.

ii. Revisions clarify that replication (synthetic asset) transactions are addressed in *SSAP No. 86—Derivatives* and are not impacted by the principles-based bond definition.

iii. Revisions to SSAP No. 26 to explicitly identity that residuals, including first loss positions, do not qualify as bonds and shall be captured in *SSAP No. 21—Other Admitted Assets*.

iv. Revisions specific to transition that clarify that investment assessments are required as of origination and to permit current or acquisition information in determining whether investments qualify as bonds at the time of transition. The guidance was also clarified that the transition guidance shall be applied prospectively beginning with the first year of adoption. For disclosures that provide comparable information, reporting entities shall not restate the prior year's information in the 2025 disclosure.

v. With an exposure of the revised documents, an updated SSAP No. 21 was also exposed to update guidance for the measurement of debt securities at the lower of amortized cost or fair value and to incorporate proposed accounting and reporting guidance for residuals.

e. The Statutory Accounting Principles (E) Working Group received comments on June 9, 2023, from the 2023 Spring National Meeting exposure. No comments were received on SSAP No. 26, SSAP No. 43 or the document that detailed revisions to other SSAPs. The Working Group adopted the SSAP revisions reflected in these documents on August 12, 2023, during the 2023 Summer National Meeting, effective January 1, 2025.

f. During the 2023 Summer National Meeting, the Working Group considered comments on SSAP No. 21 pertaining to the guidance for debt securities that do not qualify as bonds and for residual interests and exposed a revised SSAP No. 21 until September 29, 2023. The revisions for debt securities that do not qualify as bonds reflect a majority of interested parties' comments.

i. For debt securities that do not qualify as bonds, revisions clarify that if the primary source of repayment is derived through underlying collateral, the investment shall only be admitted if the underlying collateral qualifies as admitted invested assets. For residuals, revisions clarify that if the reporting entity holds a debt tranche from the same securitization, and the debt tranche does not qualify as a bond (either an ICO or ABS), and the debt security does not qualify as an admitted asset under SSAP No. 21, then the residual does not qualify as an admitted asset.

ii. Revisions proposed new measurement methods for residuals. This guidance is different from what was proposed by interested parties but intends to reflect the highly uncertain amount and timing of residual cashflows. This proposed guidance will require all cash flows received to be treated as a return of principal until the

© 2024 National Association of Insurance Commissioners

BACV is zero. At that point, all cashflows received would be treated as interest income. This proposed guidance was noted to best suit how residuals work conceptually. The reporting BACV will reflect the potential risk of loss prior to recovering the initial investment, rather than requiring an assessment of potential loss over the entire life of the securitization.

g. During the 2023 Fall National Meeting, the Working Group considered comments and exposed an updated SSAP No. 21 until January 22, 2024. No comments were received on the section for non-bond debt securities, but comments focused on the guidance for residual interests. Revisions reflected in the 2023 Fall National Meeting exposure:

i. Revisions capture an Allowable Earned Yield method for the measurement of residuals. This guidance will limit the extent interest income can be recognized without recognizing cash flows as return of principal. Provisions were also included to permit a practical expedient to allow all cash flows received to be taken as a reduction of BACV. Under the practical expedient, interest income would not be recognized until BACV was zero.

ii. Revisions clarified the treatment of reductions in fair value as unrealized losses and updated OTTI guidance to be consistent with SSAP No. 43 and the assessment of the present value of expected cash flow to the BACV.

h. On February 22, 2024, an updated SSAP No. 21 reflecting a variety of edits from working with industry throughout the interim was exposed until March 7, 2024. The shortened comment period was proposed to allow for adoption consideration during the 2023 Spring National Meeting.

i. Revisions for residual incorporate the definition and characteristics captured in other SSAPs to make SSAP No. 21 the location for all residual guidance. All residuals shall follow the accounting, admittance and reporting guidance detailed in SSAP No. 21.

ii. Revisions clarified that residuals shall be accounted for at the lower of Allowable Earned Yield method or fair value, or under the practical expedient.

iii. Revisions eliminated the guidance that directed reclassification of residuals to other SSAPs and reporting schedules in situations when the residual tranches cease to meet the definition of residual tranches. With the deletion, once classified as a residual, an investment would retain that classification and reporting until it is disposed by the reporting entity.

iv. Revisions separate the OTTI calculation between items measured at the Allowable Earned Yield method and those that follow the practical expedient.

v. Revisions incorporate transition guidance for residuals that were accounted for under a different SSAP prior to the effective date.

vi. Revisions prescribe a January 1, 2025, effective date, but permit early adoption of the residual guidance.

History of Definition / Scope Development of SSAP No. 43 – Before the Principles-Based Definition

The following section details the historical development of SSAP No. 43 along with the prior benefits for reporting investments in scope of SSAP No. 43 and key issues from the prior guidance. Due to various revisions that have been reflected since its original adoption, this information is retained for historical reference on the SSAP No. 43 guidance prior to the reflection of the principles-based bond proposal.

124. *SSAP No. 43—Loan-backed and Structured Securities* was originally effective with the SAP codification and resulted with separate guidance for "bonds" (in SSAP No. 26) and "loan-backed and structured securities" (in SSAP No. 43). (The initial guidance indicated that investments in scope of SSAP No. 43 met the definition of a bond in *SSAP No. 26—Bonds, excluding Loan-backed and Structured Securities*.) Although most of the guidance between the original SSAP No. 26 and SSAP No. 43 was the same, the guidance in SSAP No. 43 recognized the need to review (at least quarterly) the assumptions and resulting cash flows of the underlying loans, as changes in assumptions could necessitate a recalculation of the effective yield or other-than-temporary impairment.

125. The original issue paper to SSAP No. 43 (Issue Paper No. 43) cited guidance originally contained in Chapter 1, *Bonds and Loaned Backed and Structured Securities*, from the *Accounting Practices and Procedures Manual of the Life and Accident and Health Insurance Companies*. The issue paper identified that the *Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies* contained similar guidance. In this Issue Paper No. 43, and the original SSAP No. 43, loan-backed securities were defined as "pass-through certificates, collateralized mortgage obligations (CMOs) and other securitized loans…" The reference to "securitized loans" was a key aspect of this original definition.

126. Original definition / scope guidance for SSAP No. 43:

> 2. Loan-backed securities are defined as pass-through certificates, collateralized mortgage obligations (CMOs), and other securitized loans not included in structured securities, as defined below, for which the payment of interest and/or principal is directly proportional to the interest and/or principal received by the issuer from the mortgage pool or other underlying securities.
>
> 3. Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has been allocated in a manner which is not proportional to interest and/or principal received by the issuer from the mortgage pool or other underlying securities.
>
> 4. Loan-backed securities are issued by special-purpose trusts (issuer) established by a sponsoring parent organization. Mortgage loans or other securities securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee under the issuer's obligation has been fully satisfied. The investor can only look to the issuer's assets (primarily the trusteed assets or third parties such as insurers or guarantors) for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying mortgage loans. Some sponsors do guarantee the performance of the underlying loans.
>
> 5. Loan-backed securities meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted asset to the extent they conform to the requirements of this statement.

127. In agenda item 2007-26, *FAS 156: Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140,* the Working Group adopted with modification FAS 156 in *SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, revising the terminology for "retained interests" to "interests that continue to be held by the transferor." This action also clarified that beneficial interests from the sale of loan-backed and structured securities shall be accounted

for in accordance with SSAP No. 43. This initial adoption identified that the holder of a beneficial interest in securitized financial assets should recognize the excess of all cash flows attributed to the beneficial interest estimated at the acquisition date over the initial investment as interest income over the life of the beneficial interest using the effective yield method.

128. In 2009, the Working Group adopted a substantively-revised SSAP No. 43 (effective September 30, 2009). The focus of the substantive revisions was to revise the valuation and impairment requirements based on the cash flows expected to be collected for the securities, rather than fair value. Although the focus of the revisions was inclusion of impairment guidance based on whether an entity has an intent to sell, whether an entity does not have the intent and ability to hold a security, and when there is a non-interest related decline if there is no intent to sell and the entity has the intent and ability to hold, the revisions resulted in a significant rewrite of the guidance in SSAP No. 43, including the guidance for beneficial interests. This guidance expanded the prior scope inclusion from "beneficial interests from the sale of LBSS," to include "purchased beneficial interests in securitized financial assets."

129. In agenda item 2010-12, Clarify Definitions of Loan-Backed and Structured Securities, the Working Group received a regulator-sponsored, nonsubstantive Form A with a proposal to revise the definitions of a loan-backed and structured security (LBSS). As a result of this proposal, the definition was revised to eliminate the reference to "securitized loans" and instead refer to "securitized assets." These revisions were adopted with an effective date of January 1, 2011.

a. Although the agenda item simply identifies that this item was exposed in August 2010, and then adopted after a single exposure in October 2010, with an effective date of January 1, 2011, there were significant comments received during the exposure period. In short summary, these comments highlighted that the scope of the changes were intended to move fixed-income assets that had been accounted for as bonds under SSAP No. 26 to SSAP No. 43 as LBSS. Particularly, the comments noted concerns with the movement of equipment trust certificates and credit tenant loans from the accounting provisions of SSAP No. 26 to the accounting rules of SSAP No. 43. These comments stated that "instruments with radically different sources of cash flows and risk characteristics utilize trust structures, and not all should be classified as loan-backed." There were no changes incorporated to the proposed guidance as a result of these comments, and the revisions were adopted as exposed.

130. In 2019, revisions to the definition and scope section were also adopted to clarify the identification of affiliate/related party transactions (agenda item 2019-03) as well as to explicitly capture mortgage-referenced securities issued from a government sponsored enterprise in scope of SSAP No. 43 (agenda item 2018-17). The inclusion of mortgage-referenced securities was a distinct departure from the "trust" structure required in determining inclusion within scope of SSAP No. 43, but was incorporated as the securities (with the referenced pool of assets), functions similarly to the securities held in trust and the referenced pool of assets can be assessed for the underlying credit risk

131. Between the adoption of agenda item 2010-12 and the items adopted in 2019, there were several revisions to SSAP No. 43, but those revisions did not impact the definition / scope of the statement. Those revisions included changes to incorporate price-point NAIC designations, guidance for interim financials for RMBC/CMBS, clarification of disclosures, updating Q/A guidance, and guidance for prepayment fees.

132. Definition of loan-backed and structured securities in the "As of March 2020" AP&P Manual:

> 2. Loan-backed securities are defined as securitized assets not included in structured securities, as defined below, for which the payment of interest and/or principal is directly

proportional to the payments received by the issuer from the underlying assets, including but not limited to pass-through securities, lease-backed securities, and equipment trust certificates.

3. Structured securities are defined as loan-backed securities which have been divided into two or more classes for which the payment of interest and/or principal of any class of securities has been allocated in a manner which is not proportional to payments received by the issuer from the underlying assets.

4. Loan-backed securities are issued by special-purpose corporations or trusts (issuer) established by a sponsoring organization. The assets securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee until the issuer's obligation has been fully satisfied. The investor only has direct recourse to the issuer's assets, but may have secondary recourse to third parties through insurance or guarantee for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying assets. Some sponsors do guarantee the performance of the underlying assets.

a. In determining whether a loan-backed structure is a related party investment, consideration shall be given to the substance of the transaction, and the parties whose action or performance materially impacts the insurance reporting entity holding the security. For example, although a loan-backed security may be acquired from a non-related issuer, if the assets held in trust predominantly[4] reflect assets issued by affiliates of the insurance reporting entity, and the insurance reporting entity only has direct recourse to the assets held in trust, the transaction shall be considered an affiliated investment, and the transaction shall also subject to the accounting and reporting provisions in *SSAP No. 25—Affiliates and Other Related Parties*.

5. Mortgage-referenced securities do not meet the definition of a loan-backed or structured security but are explicitly captured in scope of this statement. In order to qualify as a mortgage-referenced security, the security must be issued by a government sponsored enterprise[5] in the form of a "credit risk transfer" in which the issued security is tied to a referenced pool of mortgages. These securities do not qualify as "loan-backed securities" as the pool of mortgages are not held in trust and the amounts due under the investment are not backed or secured by the mortgage loans. Rather, these items reflect instruments in which the payments received are linked to the credit and principal payment risk of the underlying mortgage loan borrowers captured in the referenced pool of mortgages. For these instruments, reporting entity holders may not receive a return of their full principal as principal repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages. Unless specifically noted, the provisions for loan-backed securities within this standard apply to mortgage-referenced securities.

6. Investments within the scope of this statement are also subject to the provisions and disclosure requirements of SSAP No. 25 if the SSAP No. 43 transaction is a related party

[4] In applying this guidance, a reporting entity is not required to complete a detailed review of the assets held in trust to determine the extent, if any, the assets were issued by related parties. Rather, this guidance is a principle concept intended to prevent situations in which related party transactions (particularly those involving affiliates) is knowingly captured in a SSAP No. 43 structure and not identified as a related party transaction (or not reported as an affiliated investment on the investment schedule) because of the involvement of a non-related trustee or SSAP No. 43 security issuer. As identified in *SSAP No. 25—Affiliates and Other Related Parties*, it is erroneous to conclude that the inclusion of a non-related intermediary, or the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to identify and assess the investment transaction as a related party arrangement.

[5] Currently, only Fannie Mae and Freddie Mac are the government sponsored entities that issue qualifying mortgage-referenced securities. However, this guidance would apply to mortgage-referenced securities issued by any other government sponsored entity that subsequently engages in the transfer of residential mortgage credit risk.

arrangement[6]. Loan-backed and structured securities meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement and SSAP No. 25.

7. The scope of this statement encompasses all types of loan-backed and structured securities, including, but not limited to, the following:

a. Loan-backed and structured securities acquired at origination,

b. Loan-backed and structured securities acquired subsequent to origination for which it is probable, at acquisition, that the reporting entity will be able to collect all contractually required payments receivable, and are accounted for at acquisition under SSAP No. 103R,

c. Loan-backed and structured securities for which it is probable, either known at acquisition or identified during the holding period[7], that the reporting entity will be unable to collect all contractually required payments receivable, and

d. Transferor's beneficial interests in securitization transactions that are accounted for as sales under SSAP No. 103R and purchased beneficial interests in securitized financial assets[8].

Benefits of Reporting in Scope of SSAP No. 43 – Before the Principles-Based Definition

133. There are a variety of benefits for reporting investments as bonds on Schedule D-1. Also, with regards to bifurcated impairment, capturing an investment in scope of SSAP No. 43 may be more advantageous than capturing in scope of *SSAP No. 26—Bonds*. These benefits include:

a. Capturing an investment in scope of SSAP No. 26 or SSAP No. 43 results with reporting the investment on Schedule D-1, Long-Term Bonds. By reporting on this bond schedule, the investment is generally not subject to investment limitations, the asset is admitted and the investment has the benefit of lower risk-based capital (RBC) charges based on NAIC designation. (Moving held equity instruments from Schedule BA into a SSAP No. 43 trust has been particularly noted as providing "regulatory capital relief.")

b. Capturing an investment in scope of SSAP No. 26 or SSAP No. 43 may result in amortized cost reporting and a delay in recognizing decreases in value or other-than-temporary impairments than if the assets held in trust were reported separately on the statutory financial statements.

i. Under the SSAP No. 43 bifurcated impairment model, an entity is not required to recognize an OTTI or deviate from an amortized cost measurement as long as the entity can assert that they have the intent and ability to hold the SSAP No. 43 security to recover the amortized cost basis and there is no non-interest related

[6] As discussed in paragraph 4.a. of this statement, a SSAP No. 43 security may still be considered a related party transaction even if the asset trustee or security issuer is a non-related party.

[7] Securities classified within the type of paragraph 7.a. or 7.b. may be required to change classification to type 6.c. when it becomes probable that the reporting entity will be unable to collect all contractually required payments receivable.

[8] The accounting requirements related to these types of securities included in paragraphs 22-25 shall be determined at acquisition or initial transfer.

decline. (This has been a key factor in the PPN design, as a high-quality bond is placed in trust (along with other assets), and the bond – over several years – will single-handedly satisfy the contractual requirements of the 43 issued security, preventing any recognition of OTTI or a reduction of NAIC designation even when the other securities held in trust could completely default to zero.)

ii. The SSAP No. 43 bifurcated impairment can be considered an advantage over SSAP No. 26 as under SSAP No. 43, if there is an intent and ability to hold the asset, a reporting entity only has to recognize an OTTI for the portion of the non-interest related loss. Under SSAP No. 26, if there is any assessed OTTI (despite if interest or credit related), a reporting entity must recognize an OTTI down to the then-current fair value for the security.

iii. Prior to the principles-based bond project, guidance in SSAP No. 43 did not differentiate between different types of tranches or payment streams for the issued securities. This is easiest to illustrate through the "equity" tranche of a SSAP No. 43 investment but could be a factor if payments are provided sequentially. (Sequential payments are used to pay the senior notes first, until paid in full, before payments are allocated to junior notes.) For the "equity" tranche, which is a term that refers to the junior-most layer of issued SSAP No. 43 securities, this tranche is the first-loss position and only receives payment after all other layers have been satisfied. Without prior guidance in SSAP No. 43 for this layer, entities were able to classify these residual tranches as "bonds" on Schedule D-1, which did not properly reflect the nature of those investments.

c. SSAP No. 43 permits admittance of the security without any verification to the assets held in trust. As such, if a reporting entity was to derecognize a joint venture or LLC from Schedule BA and reacquire through the ownership of a SSAP No. 43 security, the reporting entity would be permitted to admit the security without any verification of the joint venture or LLC held in trust. Under *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, assets must have audited support (audited U.S. GAAP financials, audited reconciliation to U.S. GAAP, audited IFRS financials or audited U.S. tax basis equity) in order to be admitted in the statutory financial statements.

Key Issues with Scope / Definition Application of SSAP No. 43 – Before the Principles-Based Definition

134. With the existing guidance in SSAP No. 43, there are no restrictions to the assets that can be placed in trust and used to support securities issued from the trust structure. Although these structural designs are referred to as "securitizations" and reported as debt instruments, these investment structures may not reflect actual securitizations in which cash flows from multiple contractual debt obligations held in trust are used to pay principal and interest payments on the trust-issued security. The assets being securitized may include assets that are not cash flow producing, creating reliance on an underlying collateral valuation risk. Or, there may be no economic substance to the use of the securitization structure, such that the insurer is in the same economic position as owning the underlying assets directly. As a result, there is a regulatory concern that assets being represented as bonds may contain unidentifiable risks that regulators would not traditionally associate with bond risk.

135. As an additional issue of the existing guidance, questions have been raised on whether securities captured in scope of SSAP No. 43 would be "asset-backed securities" as defined by the Code of Federal Regulations (17 CFR 229.1101(c)). These questions have arisen as an SEC identified nationally recognized statistical rating organization (NRSRO) must be specifically approved to provide ratings of "asset-backed

© 2024 National Association of Insurance Commissioners

securities." Since the CFR definition is different than what is permitted in scope of SSAP No. 43, a rating from an NRSRO approved as a credit rating provider (CRP) that may not be approved by the SEC for "asset-backed securities" could provide a valid rating for a SSAP No. 43 instrument permitted as "filing exempt" if that asset was not an "asset-backed security." This has caused questions as regulators have identified designations given by CRPs not SEC approved to provide "ABS" designations and have questioned the use of these CRP ratings in determining the NAIC designation.

Issue Paper Exhibits:

Staff Note: Although not captured, the final issue paper retained for historical purposes will include the following Exhibits reflecting the adopted guidance to initially reflect the principles-based bond definition.

Exhibit 1 – SSAP No. 26—Bonds

Exhibit 2 – SSAP No. 43—Asset-Backed Securities

Exhibit 3 – SSAP No. 21—Other Admitted Assets

Exhibit 4 – Revisions to Other SSAPs

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Adoptions/Bond IP - Adopted 2024 Summer.docx

Ref #2022-12

Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A

Issue: Review of *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:
This agenda item provides a review of Interpretation (INT) 03-02*: Modification to an Existing Intercompany Pooling Arrangement*, because of conflicts between INT 03-02 and *SSAP No. 25—Affiliates and Other Related Parties.* This agenda item was prompted by the recent focus of Statutory Accounting Principles (E) Working Group on related party transactions, recent queries to NAIC about how broadly to apply the guidance in INT 03-02 and the review of the SSAP No. 62R, paragraph INT 03-02 addresses the valuation of bonds in instances when bonds are used instead of cash for the payment among affiliates for amounts due on modifications to existing intercompany reinsurance pooling contracts. The discrepancy between the INT 03-02 and SSAP No. 25 has been identified through recent discussions evaluating related party transactions. Key excerpts of INT 03-02 are in the Authoritative Literature section below.

The primary accounting question that is a concern for this agenda item is INT 03-02, paragraph 11b which asks, "What is the appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement?" The response provided in INT 03-02, paragraph 13 is, "The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities. Book value is defined in the glossary of the *Accounting Practices and Procedure Manual*."

INT 03-02 states that it is an interpretation of the following three reinsurance statements: *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*, *SSAP No. 62R—Property and Casualty Reinsurance* and *SSAP No. 63—Underwriting Pools. SSAP No. 25—Affiliates and Other Related Parties* is not listed as an interpreted statement. However, as described below, the consensus in INT 03-02, paragraph 13 is not consistent with the guidance in SSAP No. 25 regarding economic transactions between related parties.

The result of the consensus in INT 03-02, paragraph 13 allows assets used in affiliated payments for reinsurance contracts, which modify existing intercompany reinsurance pooling agreements, to be transferred using statutory book value. Note that in most cases, this means that bonds, which are likely the primary assets that would be used, would typically have a statutory book value that reflects amortized cost. The valuation of assets using statutory book value on transfer to an affiliate can result in substantial differences from the cash equivalent (fair value) for the payment due. For example, bonds reported at amortized cost book value could have a corresponding fair value that is materially higher or lower. This difference in valuation can result in an unacknowledged dividend or with the passing on of an investment loss.

SSAP No. 25 describes economic transactions and non-economic transactions (See Authoritative Literature). Economic transactions are defined as arm's-length transactions which results in the transfer of the risks and rewards of ownership and represents a consummated act thereof, i.e., "permanence." SSAP No. 25, paragraph 18 indicates

© 2024 National Association of Insurance Commissioners

that economic transactions between related parties shall be recorded at fair value at the date of the transaction and also notes that to the extent that the related parties are affiliates under common control, the controlling reporting entity shall defer the effects of such transactions that result in gains or increases in surplus until such time that the asset is sold outside the group.

It is quite possible, by using transfers at book value instead of fair value, to design a transaction with a very significant economic effect. The following example illustrates the concern with the results of the guidance in INT 03-02. For this example, $100 million is due on an existing intercompany reinsurance pooling agreement. INT 03-02 would allow bonds to be settled using statutory book value which may not be reflective of the fair value equivalent of a cash settlement.

Asset Used to Settle	Book Value (millions) Measurement for Settlement	Fair Value (millions)	Result	Consistent with SSAP No. 25 for an Economic Transaction?
Cash	$100	$100	No difference in basis	Yes
Bonds	$100	$ 85	$15 difference in fair value means the paid party received an amount less than what is actually owed. This approach could allow reporting entities to transfer impaired assets to affiliates in lieu of assessing OTTI.	No
Bonds	$100	$110	$10 difference in fair value means the paid party has received an asset greater than what was owed. This dynamic could result in an unrecognized gain or dividend.	No

The INT 03-02 direction to use statutory book value for the transfer of bonds between affiliated entities in most instances would conflict with the primary guidance on affiliated transactions contained in *SSAP No. 25—Affiliates and Other Related Parties.* For example, economic transactions between related parties are valued using fair value. (There are more nuances in SSAP No. 25 when payments have the possibility of being economic for one entity and noneconomic for an upper-level parent). NAIC staff recommends that the treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different if assets are transferred instead of cash for intercompany reinsurance.

Under INT 03-02, for intercompany reinsurance transactions, takes an approach that either SSAP No. 25 or SSAP No. 62R may apply, but multiple Working Group discussions have noted that SSAP No. 25 provides the overarching guidance that is relevant in evaluating all related party transactions. INT 03-02, paragraph 8 indicates that the statutory accounting intention is to avoid surplus gains for the ceding entity as a result of implementing a modification to an intercompany pooling arrangement. However, the guidance in SSAP No, 62R, paragraph 37 uses a more punitive method of accounting if there is a gain in surplus to the ceding entity as a result of the intercompany reinsurance transaction. Therefore, NAIC staff would characterize the SSAP No. 62R guidance as imposing an accounting penalty if there is a gain, rather than seeking to avoid recognizing such a gain. The INT also characterizes SSAP No. 25 as being for isolated transactions, which is inconsistent with discussions of the Working Group on the applicability of SSAP No. 25.

SSAP No. 62R, paragraph 36d (see Authoritative Literature) includes an exception to retroactive reinsurance accounting which allows prospective accounting treatment for intercompany reinsurance agreements and any

© 2024 National Association of Insurance Commissioners

amendments thereto, among companies 100% owned by a common parent or ultimate controlling person provided there is no gain in surplus as a result of the transaction. Paragraph 37 provides that if there is a gain to the ceding entity that a more restrictive method of accounting is required which is less beneficial to the financial statements. Whereas the INT tries to argue that statutory intent is to avoid surplus gain, NAIC staff would note that the goal is not to avoid gain as a result of the reinsurance transaction, but to impose a different accounting if there is a gain. NAIC staff would characterize evaluating reinsurance agreements for SSAP No. 62R, paragraph 36d or paragraph 37 as using the cash flows or corresponding equivalent fair value (cash equivalent) of the amounts payable or receivable in the reinsurance transactions to determine if there is a gain or loss to the ceding entity. The reinsurance cash flows evaluated should be the same as if the bond was sold for fair value and resulting cash equivalent obligation was paid. The fact that the bond sold has a gain or loss is not part of the reinsurance contract evaluation, the reinsurance contract that is an economic transaction evaluation is based on the cash equivalent value of the assets transferred less the liabilities transferred. The evaluation of gain or loss on the intercompany reinsurance transaction should give the same answer if either cash or assets were transferred.

Existing Authoritative Literature:

03-02*: Modification to an Existing Intercompany Pooling Arrangement* is attached in full. The following excerpts are from INT 03-02:

> 8. Therefore, based on the foregoing guidance and background, the statutory accounting intent is to avoid surplus gains for the ceding entity as a result of implementing a modification to an intercompany pooling arrangement. On that basis, such a modification does not represent an economic transaction to the insurance group or to the impacted companies. As such, the transfer of both the assets and the liabilities valued at statutory book value ensures that there is no impact to surplus as a result of implementing a modification to an existing pooling arrangement.
>
> 11. The accounting issues are:
>
> a. What is the relevant guidance for modifications to intercompany pooling arrangements?
>
> b. What is the appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement?
>
> The Working Group reached a consensus as follows:
>
> 12. SSAP No. 62R provides accounting for property and casualty reinsurance agreements including specific guidance on intercompany pooling agreements. SSAP No. 62R provides two methods of accounting for changes in intercompany pooling agreements, depending on whether or not the pooling results in a gain in surplus.
>
> 13. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities. Book value is defined in the glossary of the *Accounting Practices and Procedure Manual*.

SSAP No. 25—Affiliates and Other Related Parties

> **Transactions Involving the Exchange of Assets or Liabilities**
>
> 14. An arm's-length transaction is defined as a transaction in which willing parties, each being reasonably aware of all relevant facts and neither under compulsion to buy, sell, or loan, would be willing

to participate. A transaction between related parties involving the exchange of assets or liabilities shall be designated as either an economic transaction or non-economic transaction. An economic transaction is defined as an arm's-length transaction which results in the transfer of the risks and rewards of ownership and represents a consummated act thereof, i.e., "permanence." The appearance of permanence is also an important criterion in assessing the economic substance of a transaction. In order for a transaction to have economic substance and thus warrant revenue (loss) recognition, it must appear unlikely to be reversed. If subsequent events or transactions reverse the effect of an earlier transaction prior to the issuance of the financial statements, the reversal shall be considered in determining whether economic substance existed in the case of the original transaction. Subsequent events are addressed in SSAP No. 9—Subsequent Events. An economic transaction must represent a bonafide business purpose demonstrable in measurable terms. A transaction which results in the mere inflation of surplus without any other demonstrable and measurable betterment is not an economic transaction. The statutory accounting shall follow the substance, not the form of the transaction.

15. In determining whether there has been a transfer of the risks and rewards of ownership in the transfer of assets or liabilities between related parties, the following—and any other relevant facts and circumstances related to the transaction—shall be considered:

a. Whether the seller has a continuing involvement in the transaction or in the financial interest transferred, such as through the exercise of managerial authority to a degree usually associated with ownership;

b. Whether there is an absence of significant financial investment by the buyer in the financial interest transferred, as evidenced, for example, by a token down payment or by a concurrent loan to the buyer;

c. Whether repayment of debt that constitutes the principal consideration in the transaction is dependent on the generation of sufficient funds from the asset transferred;

d. Whether limitations or restrictions exist on the buyer's use of the financial interest transferred or on the profits arising from it;

e. Whether there is retention of effective control of the financial interest by the seller.

16. A transaction between related parties may meet the criteria for treatment as an economic transaction at one level of financial reporting but may not meet such criteria at another level of financial reporting. An example of such a transaction is a reporting entity purchasing securities at fair value from an affiliated reporting entity that carried the securities at amortized cost. This transaction meets the criteria of an economic transaction at this level of financial reporting, and therefore, the selling reporting entity would record a gain and the acquiring reporting entity would record the securities at their cost (fair value on the transaction date). At the common parent level of reporting, this transaction has resulted in the mere inflation of surplus, and therefore, is a non-economic transaction. The parent reporting entity shall defer the net effects of any gain or increase in surplus resulting from such transactions by recording a deferred gain and an unrealized loss. The deferred gain shall not be recognized by the parent reporting entity unless and until arms-length transaction(s) with independent third parties give rise to appropriate recognition of the gain.

17. A non-economic transaction is defined as any transaction that does not meet the criteria of an economic transaction. Similar to the situation described in paragraph 16, transfers of assets from a parent reporting entity to a subsidiary, controlled or affiliated entity shall be treated as non-economic transactions at the parent reporting level because the parent has continuing indirect involvement in the assets.

18. When accounting for a specific transaction, reporting entities shall use the following valuation methods:

a. Economic transactions between related parties shall be recorded at fair value at the date of the transaction. To the extent that the related parties are affiliates under common control, the controlling reporting entity shall defer the effects of such transactions that result in gains or increases in surplus (see paragraph 16);

b. Non-economic transactions between reporting entities, which meet the definition of related parties above, shall be recorded at the lower of existing book values or fair values at the date of the transaction;

c. Non-economic transactions between a reporting entity and an entity that has no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates, shall be recorded at the fair value at the date of the transaction; however, to the extent that the transaction results in a gain, that gain shall be deferred until such time as permanence can be verified;

d. Transactions which are designed to avoid statutory accounting practices shall be reported as if the reporting entity continued to own the assets or to be obligated for a liability directly instead of through a subsidiary.

Examples of transactions deemed to be non-economic include security swaps of similar issues between or among affiliated companies, and swaps of dissimilar issues accompanied by exchanges of liabilities between or among affiliates.

Transactions Involving Services

19. Transactions involving services between related parties can take a variety of different forms. One of the significant factors as to whether these transactions will be deemed to be arm's length is the amount charged for such services. In general, amounts charged for services are based either on current market rates or on allocations of costs. Determining market rates for services is difficult because the circumstances surrounding each transaction are unique. Unlike transactions involving the exchange of assets and liabilities between related parties, transactions for services create income on one party's books and expense on the second party's books, and therefore, do not lend themselves to the mere inflation of surplus. These arrangements are generally subject to regulatory approval.

20. Transactions involving services provided between related parties shall be recorded at the amount charged[1]. Regulatory scrutiny of related party transactions where amounts charged for services do not meet the fair and reasonable standard established by Appendix A-440, may result in (a) amounts charged being recharacterized as dividends or capital contributions, (b) transactions being reversed, (c) receivable balances being nonadmitted, or (d) other regulatory action. Expenses that result from cost allocations shall be allocated subject to the same fair and reasonable standards, and the books and records of each party shall disclose clearly and accurately the precise nature and details of the transaction. See *SSAP No 70—Allocation of Expenses* for additional discussion regarding the allocation of expenses.

SSAP No. 62R—Property and Casualty Reinsurance provides the following (**bolding added for emphasis**):

[1] The amount charged shall be reviewed when there are any modifications or waivers subsequent to the establishment of the contract terms. If waivers or modifications to amounts charged occur, the related party transaction shall be reassessed to determine whether the contract continues to reflect fair and reasonable standards. If the transaction was with a parent or other stockholder and the charge for services has been fully waived, then the guidance in SSAP No. 72 for recognition as contributed capital (forgiveness of reporting entity obligation) or as a dividend (forgiveness of amount owed to the reporting entity) shall apply.

36. The accounting principles for retroactive reinsurance agreements in paragraph 34 shall not apply to the following types of agreements (which shall be accounted for as prospective reinsurance agreements unless otherwise provided in this statement):

a. Structured settlement annuities for individual claims purchased to implement settlements of policy obligations;

b. Novations (i.e., (i) transactions in which the original direct insurer's obligations are completely extinguished, resulting in no further exposure to loss arising on the business novated or (ii) transactions in which the original assuming entity's obligations are completely extinguished) resulting in no further exposure to loss arising on the business novated, provided that (1) the parties to the transaction are not affiliates (or if affiliates, that the transaction has the prior approval of the domiciliary regulators of the parties) and (2) the accounting for the original reinsurance agreement will not be altered from retroactive to prospective;

c. The termination of, or reduction in participation in, reinsurance treaties entered into in the ordinary course of business;

d. Intercompany reinsurance agreements, and any amendments thereto, among companies 100% owned by a common parent or ultimate controlling person provided there is no gain in surplus as a result of the transaction; or

e. Reinsurance/retrocession agreements that meet the criteria of property/casualty run-off agreements described in paragraphs 102-105.

37. **Retroactive reinsurance agreements resulting in surplus gain to the ceding entity (with or without risk transfer)** entered into between affiliates or between insurers under common control (as those terms are defined in Appendix A-440) shall be reported as follows:

a. The consideration paid by the ceding entity shall be recorded as a deposit and reported as a nonadmitted asset; and

b. No deduction shall be made from loss and loss adjustment expense reserves on the ceding entity's balance sheet, schedules, and exhibits.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

INT 03-02 was exposed in March of 2003 and adopted in June 2003. The interpretation was not subsequently amended. The final vote on this consensus had three members opposed. The March 2003 exposure received six different comment letters to the Emerging Accounting Issues (E) Working Group from: 1) Ohio (EAIWG member); 2) New Hampshire (EAIWG member); 3) Interested parties, 4) Liberty Mutual and 5) PricewaterhouseCoopers (one of the very few letters ever submitted directly by the firm.) and 6) CNA. Five out of the six commenters noted concerns that the proposed guidance (which was ultimately adopted) would conflict with SSAP No. 25 guidance regarding economic transactions. While the interested parties' comment letter was more neutral, the verbal comments provided supported the use of SSAP No. 25.

Several commenters recommended not adopting the guidance regarding the use of book value and instead following SSAP No. 25 guidance for economic and non-economic transactions. The commenters noted that SSAP No. 25 directs the use of fair value when such transactions meet the definition of an economic transaction and that tax regulations would provide a result similar to SSAP No. 25. Multiple comments noted concerns similar to those highlighted in the illustration above. Commenters also noted that intercompany pooling reinsurance transactions

are economic transactions. They noted that when assets (such as bonds valued at amortized cost) are transferred, if the assets have a different fair value than book value, that difference should be recognized since the transferor no longer controls the assets. Commenters also noted that treatment for reinsurance transactions for asset transfers should not be different than the treatment for other intercompany transactions.

CNA comments were supportive of adopting the exposed consensus, the comment letter provided illustrations and noted that intercompany reinsurance agreements were subject to regulatory approval. The comments tried to illustrate concerns possibly having premature gain / surplus recognition.

The June 2003 minutes Emerging Accounting Issues (E) Working Group discussion on the INT 03-02 are excerpted below.

> The working group was referred to INT 03-02: *Modification to an existing intercompany pooling arrangement* (Attachment D). Written comments were received from Ohio, New Hampshire and interested parties. Ohio and New Hampshire believe that the transfer of assets and liabilities in an intercompany pooling arrangement constitute an economic transaction and the accounting guidance in SSAP No. 25—*Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25), should be followed. As such, the assets should be transferred at fair value and the ceding entity should record a realized gain or loss. Keith Bell (Travelers) spoke on behalf of interested parties. Interested parties commented that if the transaction was considered to be an economic transaction, SSAP No. 25 should be followed. If the modification of an intercompany pooling arrangement is considered a noneconomic transaction, the guidance in SSAP No.62—*Property and Casualty Reinsurance*(SSAP No. 62) is applied, as such, statutory book value should be used for assets and statutory value should be used for liabilities. Jeff Alton (CNA) presented his comments by summarizing the statements made in his comment letter. Mr. Alton stated that no revenue recognition should occur and suggested using a modified statutory book value for transferring assets and liabilities. Mr. Clark stated that the Statutory Accounting Principles Working Group must address the recommended transfer at modified statutory book value as this recommendation would require substantive adjustments to statutory accounting principles. Shelly Zimmerman (Liberty Mutual) provided comments which supported that intercompany pooling changes should follow the accounting guidance in SSAP No. 25 as these are economic transactions between affiliates. Jean Connelly (PriceWaterhouseCoopers) provided comments that summarize those outlined in the comment letter. Ms. Connelly stated that intercompany pooling arrangements are economic transactions and that INT 03-01 provides a substantive change to SSAP No. 25.
>
> Mr. Johnson then stated that he believes there is a stronger case for non-economic transaction treatment and as such, statutory book value is appropriate for valuation purposes. Additionally, all these transactions are subject to regulatory review under the Insurance Holding Company Act, affording regulators some control over the approval of these transactions. Mr. Fritsch commented that if this guidance is not adopted in the form of a new interpretation, SSAP No. 25 should be followed. Mr. Alton stated that he believes the current guidance in effect for intercompany pooling arrangements exists in SSAP No. 62, paragraph 30d which supports surplus neutrality: hence, the need is for an interpretation of paragraph 30d. Mr. Johnson stated that language clarification in SSAP No.61—*Life, Deposit-Type and Accident and Health Reinsurance*(SSAP No. 61) and SSAP No. 62 should be addressed as a project of the reinsurance subgroup of the SAPWG. Mr. Johnson made a motion to adopt Interpretation 03-02 with deletion of the first two sentences in paragraph 11. Mr. Stolte seconded the motion. Mr. Johnson requested a roll call vote. There were 9 yeas from Alabama, Connecticut, Florida, Illinois, Louisiana, Michigan, Texas, Pennsylvania and Virginia. There were 3 nays from New York, Ohio, and Wisconsin. Therefore, the working group adopted Interpretation 03-02 by consensus. Mr. Johnson also made a motion to refer to the Reinsurance Subgroup of the SAPWG, review of the current guidance in SSAP No. 61, SSAP No. 62 and SSAP No. 63—*Underwriting Pools and Associations Including Intercompany Pools.* Mr. Ford seconded the motion. The working group unanimously adopted the referral.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

Ref #2022-12

None

Convergence with International Financial Reporting Standards (IFRS): Not Applicable

Staff Review Completed by: Robin Marcotte – NAIC Staff, July - 2022

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose the intent to nullify INT 03-02, as it is inconsistent with SSAP No. 25 guidance regarding economic and non-economic transactions between related parties. The guidance in INT 03-02 can result with in essence, unrecognized gains (dividends) or losses through the using the statutory book valuation when using assets (bonds) to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements. Treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different when valuing assets for intercompany reinsurance transactions.

Status:
On August 10, 2022, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and exposed the intent to nullify INT 03-02.

On December 13, 2022, the Working Group moved this agenda item to the active listing, categorized as a SAP clarification, and re-exposed the intent to nullify INT 03-02. This re-exposure requested industry to provide comments on specific instances in which the interpretation was being applied. In addition, the following key points were noted for consideration during the exposure in response to some of the comments received.

1. In the current interest rate environment, the fair value of many bonds is below book value. For example, a bond with an amortized cost of 100 with a fair value of 85. The way INT 03-02 is written a bond with a fair value of 85 could be used to settle an intercompany reinsurance pooling obligation of 100. If the reporting entity paid with cash, they would be required to pay $100. The actual cash value of obligations when they are extinguished is a relevant measure of the transaction.

2. Using book value for measurement of payments between affiliates can result in either unrecognized or in effect dividend or losses. SSAP No. 25 requires such transfers of assets between affiliates to use fair value. If a subsidiary can pay the parent with assets that have a lower fair value than book value (ex, owes $100 but pays with a bond of 85), this has a similar effect as an unrecognized capital contribution to the subsidiary. SSAP No. 72 requires a capital contribution to be valued using fair value.

3. At the ultimate parent level such transfer of assets (in accordance with SSAP No. 25 guidance) may be noneconomic in that the parent continues to hold an interest in the same assets. Therefore, at the parent level, such transfers of assets may result in the deferral of gains. Staff believes that losses would not be deferred at the ultimate parent level.

4. While it may be more expedient to pay intercompany reinsurance pooling transactions with assets, the valuation used should be similar to if the obligation was extinguished with cash. Therefore, an entity can still choose to pay with assets, they just need to be valued consistently with SSAP No. 25 guidance.

5. SSAP No. 62R, paragraph 36d provides an exception to retroactive reinsurance accounting guidance which allows for prospective accounting treatment for intercompany reinsurance among 100% owned affiliated provided there is no gain to the ceding entity. If there is again to the ceding entity, there is guidance in SSAP No. 62R, paragraph 37 which requires a more punitive method of accounting than either prospective

© 2024 National Association of Insurance Commissioners

or retroactive reinsurance accounting. Therefore, NAIC staff comment is that the statutory accounting objective is to provide different treatment for retroactive reinsurance contracts if there is a gain to the ceding entity. This is another reason that the guidance in INT 03-02 is problematic. The object is to correctly measure the effects of the contract, which drives the accounting. The objective is not to obscure whether there is a gain to the ceding entity, which can happen in the event that the assets used in payment are not measured correctly.

6. Interested parties noted that modifications to intercompany pooling arrangements are typically effective retroactive to the beginning of the year. Staff notes that the payment value when the transaction is settled should be equivalent to the cash value of what is owed on the date of extinguishment of the liability.

7. Many of the interested parties' comments regarding GAAP use of book value are more relevant to consolidated basis accounting which is not consistent with the legal entity basis of statutory accounting.

8. Interested parties' comments noted that there is a difference in treatment for intercompany pooling participants who are not 100% owned by a common parent. NAIC staff notes that retroactive pooling agreement changes with participants that are not 100% under common control do not meet the exception to retroactive accounting provided in SSAP No. 62R, paragraph 36d. NAIC staff notes that SSAP No. 62R, paragraph 37 provides guidance for retroactive reinsurance agreements among affiliates where there is a gain to the ceding entity. Therefore, the regulatory objective is not to avoid gain but to properly account for intercompany retroactive contracts that include gains.

On March 22, 2023, the Working Group re-exposed the intent to nullify INT 03-02, effective December 31, 2023. The nullification is proposed as INT 03-02 is inconsistent with SSAP No. 25 guidance regarding economic and non-economic transactions between related parties. The guidance in INT 03-02 can result with, in essence, unrecognized gains (dividends) or losses through the using the statutory book valuation when using assets (bonds) to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements. Treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different when valuing assets for intercompany reinsurance transactions.

On August 13, 2023, the Statutory Accounting Principles (E) Working Group re-exposed the intent to nullify INT 03-02 and directed NAIC staff to work with industry regarding some of their comments and examples to be submitted by industry.

On December 1, 2023, the Statutory Accounting Principles (E) Working Group deferred action on this agenda item and directed NAIC staff to continue working with interested parties on the proposal.

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed its intent to nullify INT 03-02, and exposed revisions to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 63—Underwriting Pools* to address transfers of assets when modifying intercompany pooling agreements. The exposed revisions were based on interested parties' comments with minor edits proposed by NAIC staff.

Exposed Revisions to SSAP No. 25 and SSAP No. 63 are illustrated below.

SSAP No. 25—Affiliates and Other Related Parties

4. If a company transfers assets or liabilities to effectuate a modification to an existing intercompany pooling arrangement, the transaction, including the transfer of assets, shall be accounted for and valued in accordance with the guidance in *SSAP No. 63—Underwriting Pools*. The guidance in SSAP No. 63 regarding the transfers of assets or liabilities to effectuate a modification of an intercompany pooling

arrangements shall not be applied or analogized to other transactions involving transfers of assets and liabilities.

SSAP No. 63—Underwriting Pools (only impacted paragraph are reflected.)

1. This statement establishes statutory accounting principles for underwriting pools and associations, including intercompany pooling arrangements.

8. Insurance groups that utilize intercompany pooling arrangements often modify these arrangements from time to time for various business reasons. These business reasons commonly include mergers, acquisitions, dispositions, or a restructuring of the group's legal entity structure. In order to effectuate a relatively simple modification, such as changing pooling participation percentages without changing the pool participants, companies often simply amend the existing pooling agreement. Alternatively, in order to effectuate a more complex modification, such as changing (by adding or removing) the number of pool participants, a company may commute the existing pooling agreement and execute a new pooling agreement(s). In conjunction with executing the appropriate intercompany pooling agreements, a transfer of assets and liabilities amongst the impacted affiliates may also be required in order to implement the new pooling agreement(s). The following subparagraphs provide guidance specific to modifications of intercompany pooling arrangements and shall not be applied to an analogous transaction or event.

a. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new intercompany pooling agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities.

b. The net amount of the assets and liabilities being moved among entities as a result of a modification to an intercompany pooling shall be used to settle the intercompany payable/receivable (i.e., the assets that are transferred in conjunction with the modification) to minimize the amount of assets transferred in the modification.

12. Note that other applicable reinsurance guidance from *SSAP No. 61R—Life, Deposit Type and Accident and Health Reinsurance* or *SSAP No. 62R—Property and Casualty Reinsurance*, depending on the type of business, applies to intercompany pooling arrangements and voluntary and involuntary pools. This includes the SSAP No. 62R guidance in paragraphs 33 through 39 regarding retroactive reinsurance.

New disclosure in paragraph 13

13.i For modifications to an existing intercompany pooling arrangement that involve the transfer of assets with fair values that differ from cost or amortized cost, the statement value and fair value of assets received or transferred by the reporting entity.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group adopted as final, revisions to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 63—Underwriting Pools* to address transfers of assets when modifying intercompany pooling agreements. Effective upon adoption, this agenda item also nullifies *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*. The exposed disclosure to SSAP No. 63, paragraph 13i, was modified from the exposure to incorporate revisions suggested by interested parties.

Adopted revisions are illustrated below.
SSAP No. 25—Affiliates and Other Related Parties

4. If a company transfers assets or liabilities to effectuate a modification to an existing intercompany pooling arrangement, the transaction, including the transfer of assets, shall be accounted for and valued in accordance with the guidance in *SSAP No. 63—Underwriting Pools*. The guidance in SSAP No. 63 regarding the transfers of assets or liabilities to effectuate a modification of an intercompany pooling arrangements shall not be applied or analogized to other transactions involving transfers of assets and liabilities.

SSAP No. 63—Underwriting Pools (only impacted paragraphs are reflected.)

1. This statement establishes statutory accounting principles for underwriting pools and associations, including intercompany pooling arrangements.

8. Insurance groups that utilize intercompany pooling arrangements often modify these arrangements from time to time for various business reasons. These business reasons commonly include mergers, acquisitions, dispositions, or a restructuring of the group's legal entity structure. In order to effectuate a relatively simple modification, such as changing pooling participation percentages without changing the pool participants, companies often simply amend the existing pooling agreement. Alternatively, in order to effectuate a more complex modification, such as changing (by adding or removing) the number of pool participants, a company may commute the existing pooling agreement and execute a new pooling agreement(s). In conjunction with executing the appropriate intercompany pooling agreements, a transfer of assets and liabilities amongst the impacted affiliates may also be required in order to implement the new pooling agreement(s). The following subparagraphs provide guidance specific to modifications of intercompany pooling arrangements and shall not be applied to an analogous transaction or event.

a. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new intercompany pooling agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities.

b. The net amount of the assets and liabilities being moved among entities as a result of a modification to an intercompany pooling shall be used to settle the intercompany payable/receivable (i.e., the assets that are transferred in conjunction with the modification) to minimize the amount of assets transferred in the modification.

13. Note that other applicable reinsurance guidance from *SSAP No. 61R—Life, Deposit Type and Accident and Health Reinsurance* or *SSAP No. 62R—Property and Casualty Reinsurance*, depending on the type of business, applies to intercompany pooling arrangements and voluntary and involuntary pools. This includes the SSAP No. 62R guidance in paragraphs 33 through 39 regarding retroactive reinsurance.

New disclosure in paragraph 13 as modified after exposure:

13.i The statement value and fair value of assets received or transferred by the reporting entity for modifications to an existing intercompany pooling arrangement that involved the transfer of assets with fair value that differ from statement value.

© 2024 National Association of Insurance Commissioners

Ref# 2022-12

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 03-02: Modification to an Existing Intercompany Pooling Arrangement

NULLIFIED BY AGENDA ITEM 2022-12

INT 03-02 Dates Discussed

March 9, 2003; June 22, 2003; August 10, 2022; December 13, 2022; March 22, 2023; August 13, 2023; December 1, 2023; March 16, 2024; August 13, 2024

INT 03-02 References

Current:
SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance
SSAP No. 62R—Property and Casualty Reinsurance
SSAP No. 63—Underwriting Pools

INT 03-02 Issue

1. Insurance groups that utilize intercompany pooling arrangements often modify these arrangements from time to time for various business reasons. These business reasons commonly include mergers, acquisitions, dispositions or a restructuring of the group's legal entity structure. As an insurance group's business objectives and strategies evolve, it may be necessary for the insurance group's legal entity structure to similarly evolve in order to address the insurance group's business needs.

2. SSAP No. 63, paragraphs 5 and 7, defines and describes intercompany pooling as an arrangement among affiliated entities whereby "all of the pooled business is ceded to the lead entity and then retroceded back to the pool participants in accordance with their stipulated shares." This arrangement is established through "a conventional quota share reinsurance agreement…" Arrangements whereby there is one lead company that retains 100% of the pooled business and all or some of the affiliated companies have a 0% net share of the pool may qualify as intercompany pooling."

3. Therefore, in order to effectuate a modification to the existing intercompany pooling arrangement, companies must either 1) amend the existing reinsurance agreement, or 2) execute new agreements. The latter scenario may entail executing at least two agreements: a commutation of the existing agreement, and a new quota share agreement(s) that covers both past and future periods.

4. To illustrate, in order to effectuate a relatively simple modification, such as changing pooling participation percentages without changing the pool participants, companies often simply amend the existing pooling agreement. Alternatively, in order to effectuate a more complex modification, such as changing (by adding or removing) the number of pool participants, a company must commute the existing pooling agreement and execute a new quota share agreement(s). In conjunction with executing the appropriate reinsurance agreements, a transfer of assets and liabilities amongst the impacted affiliates is also required in order to implement the new reinsurance agreement(s). At issue is the appropriate valuation basis to be used for assets and liabilities that are transferred pursuant to the new reinsurance agreement(s).

© 2024 National Association of Insurance Commissioners

5. Since SSAP No. 63 does not specifically address modifications to intercompany pooling arrangements, insurance groups that modify their intercompany pooling arrangements must refer elsewhere in Statutory Accounting Principles (SAP) for relevant guidance. The obvious guidance for such transactions is SSAP No. 62R since an intercompany pooling arrangement is, by definition, affiliated reinsurance. There is, however, a minority opinion that *SSAP No. 25—Affiliates and Other Related Parties* appears to apply due to the affiliated nature of these transactions. Since the guidance and intent of SSAP No. 62R and SSAP No. 25 provide for different valuation bases, this interpretation serves to provide definitive guidance as to which SSAP is relevant for these transactions and, therefore, clarify the appropriate valuation basis to be used for assets and liabilities transferred pursuant to a modification to an intercompany pooling arrangement.

SSAP No. 62R Approach:

6. This approach refers to the guidance and statutory accounting intent from SSAP No. 62R since intercompany pooling arrangements are defined and established through reinsurance. Further, since modifications to intercompany pooling agreements typically involve the transfer of net liabilities incurred since the inception of the existing pooling agreement (i.e., prior to the effective date of the new agreement), the retroactive reinsurance accounting guidance in paragraphs 33-39 of SSAP No. 62R is applicable. Paragraph 33 states that this special accounting treatment is warranted "due to the potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results…" However, paragraph 36.d. specifically applies to intercompany reinsurance arrangements, and amendments to intercompany reinsurance agreements, since the reinsurance agreement is among companies 100% owned by a common parent. This paragraph allows prospective accounting treatment for intercompany reinsurance agreements that do not result in a gain in surplus as a result of the transaction.

7. To provide historical perspective, prior to the adoption (with modification) of FASB *Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (FAS 113) as SAP, paragraph 36.d. was added as one of the SAP modifications. The intent of adding paragraph 36.d. was to specifically exclude intercompany reinsurance agreements among entities 100% owned by a common parent from retroactive reinsurance accounting requirements as a result of amending or modifying these agreements, provided there is no surplus gain. The presumption in this intent was that there would be no gains to the ceding entity resulting from implementing amendments or modifications to these types of reinsurance agreements.

8. Therefore, based on the foregoing guidance and background, the statutory accounting intent is to avoid surplus gains for the ceding entity as a result of implementing a modification to an intercompany pooling arrangement. On that basis, such a modification does not represent an economic transaction to the insurance group or to the impacted companies. As such, the transfer of both the assets and the liabilities valued at statutory book value ensures that there is no impact to surplus as a result of implementing a modification to an existing pooling arrangement.

SSAP No. 25 Approach:

9. An approach different from that which refers to reinsurance accounting guidance is to refer to the guidance in SSAP No. 25 since some may view a modification to an intercompany pooling agreement as a related party transaction involving the exchange of assets or liabilities. In this case, paragraphs 14-18 of SSAP No. 25 would appear applicable. This guidance specifies differing valuation bases, depending on whether the transaction is considered an economic or a non-economic transaction. SSAP No. 25, paragraph 14, states that "…The appearance of permanence is also an important criterion is assessing the economic substance of a transaction. In order for a transaction to have economic substance and thus warrant revenue (loss) recognition, it must appear unlikely to be reversed …" Since insurance groups

© 2024 National Association of Insurance Commissioners

often modify intercompany pooling arrangements, this type of transaction is not permanent, and may be construed as a non-economic transaction. SSAP No. 25, paragraph 18.b., states that "non-economic transactions … shall be recorded at the lower of existing book value or fair value at the date of the transaction."

10. It appears that this guidance is intended to address matters involving discrete or isolated transfers of assets and/or liabilities between affiliates rather than transfers of assets and liabilities effected in relation to executing reinsurance transactions (the guidance for which is SSAP No. 62R). Additionally, application of this guidance would result in a change to the surplus of the insurance group as a result of implementing a modification to an existing intercompany pooling arrangement. As previously stated, the statutory accounting intent is to avoid surplus gains for the insurance group as a result of implementing a modification to an intercompany pooling arrangement.

11. The accounting issues are:

a. What is the relevant guidance for modifications to intercompany pooling arrangements?

b. What is the appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement?

INT 03-02 Discussion

The Working Group reached a consensus as follows:

12. SSAP No. 62R provides accounting for property and casualty reinsurance agreements including specific guidance on intercompany pooling agreements. SSAP No. 62R provides two methods of accounting for changes in intercompany pooling agreements, depending on whether or not the pooling results in a gain in surplus.

13. The appropriate valuation basis to be used for assets and liabilities that are transferred among affiliates in conjunction with the execution of a new reinsurance agreement(s) that serves to substantively modify an existing intercompany pooling arrangement is statutory book value for assets and statutory value for liabilities. Book value is defined in the glossary of the *Accounting Practices and Procedure Manual*.

INT 03-02 Status

14. No further discussion is planned.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Adoptions/22-12a INT 03-02.docx

© 2024 National Association of Insurance Commissioners

Summer National Meeting - Review of GAAP Exposures for Statutory Accounting:

Pursuant to a 2014 direction from the SAPWG chair, there is a desire for the Statutory Accounting Principles (E) Working Group to be more proactive in considering FASB exposures that may be significant to statutory accounting and reporting. Historically, the SAPWG has commented on limited, key FASB exposures – mostly pertaining to insurance contracts and financial instruments. To ensure consideration of all FASB exposures, staff prepared this memorandum to highlight the current exposures, comment deadlines, and to provide a high-level summary of the exposed item's potential impact to statutory accounting. It is anticipated that this information would assist the Working Group in determining whether a comment letter should be submitted to the FASB on the issues. Regardless of the Working Group's election to submit comments to the FASB on proposed accounting standards, under the NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process, issued US GAAP guidance noted in the hierarchy within Section V of the Preamble to the *Accounting Practices and Procedures Manual* must be considered by the Statutory Accounting Principles (E) Working Group.

FASB Exposures: Exposure Documents and Public Comment Documents (fasb.org)

Exposed FASB Guidance	Comment Deadline & Initial Staff Comments
Proposed Accounting Standards Update—*Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for a Share-Based Payment from a Customer in a Revenue Contract*	October 21, 2024

Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606)—Derivatives Scope Refinements and Scope Clarification for a Share-Based Payment from a Customer in a Revenue Contract

Topic 815, Derivatives and Hedging, establishes accounting requirements for contracts that meet the characteristics-based definition of a derivative and are not otherwise excluded from the Topic's scope. Because of the broad interpretation of the definition of a derivative, many types of contracts are being evaluated and potentially accounted for as derivatives.

In response to the 2021 Invitation to Comment, Agenda Consultation, stakeholders indicated that practice questions have emerged about the application of the definition of a derivative (and the related scope exceptions) to (1) certain emerging transactions, such as bonds in which interest payments may vary based on environmental, social, and governance (ESG)-linked metrics, and (2) certain longstanding transactions, such as research and development funding arrangements and litigation funding arrangements.

A frequently cited challenge was the broad and evolving interpretation of the derivative definition and the complexity of applying scope exceptions to certain contracts with variables (referred to as "underlyings") based on operations or activities specific to one of the parties to the contract. Some respondents noted that because those contracts relate to the performance of a party to the contract, accounting for those contracts as derivatives measured at fair value does not provide decision-useful information. Those respondents indicated that other guidance in generally accepted accounting principles (GAAP) exists to account for those contracts. Furthermore, respondents noted that because of the cost and complexity of applying the derivative guidance, some entities may structure those transactions to avoid accounting for them as derivatives. The amendments in this proposed Update address the issues raised by stakeholders by expanding the scope of an existing exception in Topic 815.

© 2024 National Association of Insurance Commissioners

The amendments in this proposed Update would apply to all entities that enter into certain contracts with underlyings based on operations or activities specific to one of the parties to the contract.

The amendments in this proposed Update would exclude derivative accounting contracts with underlyings that are based on operations or activities specific to one of the parties to the contract. The scope exception would include variables based on financial statement metrics of one of the parties to the contract (for example, earnings before interest, taxes, depreciation, and amortization; net income; expenses; or total equity), as well as the occurrence or nonoccurrence of an event related to the operations or activities specific to one of the parties to the contract. However, contracts with a single underlying based on either (1) a market rate, market price, or market index or (2) the price or performance of a financial asset or financial liability of one of the parties to the contract would not qualify for the proposed scope exception.

Contracts with multiple underlyings for which some are excluded from derivative accounting, and some are not would be evaluated on the basis of the predominant characteristics of the contract to determine whether the entire contract (or embedded feature) is subject to the requirements of Topic 815.

The amendments in this proposed Update would change the predominant characteristics assessment to require that an entity assess which underlying is expected to have the largest expected effect on changes in the fair value of the contract (or embedded feature).

Issue 2: Scope Clarification for a Share-Based Payment from a Customer in a Revenue Contract

The Board received feedback from some stakeholders that there is a lack of clarity about which guidance an entity should apply to recognize share-based payments, such as warrants or shares, received from a customer that are consideration for the transfer of goods or services. For example, if an entity receives share-based payments from a customer and those share-based payments are contingent on the satisfaction of performance obligations, some stakeholders recently indicated that it is unclear to them whether those share-based payments (1) should be recognized at contract inception as a derivative asset under Topic 815 or an equity security under Topic 321, Investments— Equity Securities, or (2) should not be recognized until the entity satisfies its performance obligations under Topic 606, Revenue from Contracts with Customers. In response to this feedback, the Board decided to clarify the accounting by an entity that receives a share-based payment from a customer that is consideration for the transfer of goods or services.

The amendments in this proposed Update would apply to all entities that receive a share-based payment from a customer that is consideration for the transfer of goods or services.

The amendments in this proposed Update would clarify that an entity should apply the guidance in Topic 606, including the guidance on noncash consideration in paragraphs 606-10-32-21 through 32-24, to a contract with a share-based payment (for example, shares, share options, or other equity instruments) from a customer that is consideration for the transfer of goods or services. Accordingly, under Topic 606, the share-based payment should be recognized as an asset measured at the estimated fair value at contract inception under Topic 606 when the entity's right to receive or retain the share-based payment from a customer is no longer contingent on the satisfaction of a performance obligation. In addition, the amendments in this proposed Update would clarify that the guidance in Topic 815 and Topic 321 should not be applied unless and until the share-based payment from a customer that is consideration for the transfer of goods or services is recognized as an asset under Topic 606.

The amendments in this proposed Update would reduce diversity in the accounting for share-based payments from a customer that are consideration for the transfer of goods or services by clarifying that entities should apply the guidance in Topic 606. The proposed amendments would provide investors with more comparable information and would reduce accounting complexity and related reporting costs for preparers and auditors.

© 2024 National Association of Insurance Commissioners

Staff Review and Commentary:

Comment deadline is October 21, 2024

NAIC staff recommend that ASU be reviewed under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements.*

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Meeting/I - Review of GAAP Exposures.docx

© 2024 National Association of Insurance Commissioners

August 13, 2024

To: Dale Bruggeman (MO), Chair, Statutory Accounting Principles (E) Working Group
Kevin Clark, (IA), Vice Chair, Statutory Accounting Principles (E) Working Group

From: Rachel Hemphill (TX), Chair, Life Actuarial (A) Task Force,
Craig Chupp (VA), Vice Chair, Life Actuarial (A) Task Force

RE: Life Actuarial (A) Task Force Coordination with the Statutory Accounting Principles (E) Working Group 2024

The Statutory Accounting Principles (E) Working Group charges requires the Working Group to coordinate with the Life Actuarial (A) Task Force on changes to the AP&P Manual related to the *Valuation Manual* (VM)-A, Requirements, and VM-C, Actuarial Guidelines, as well as other VM requirements. This process will include the receipt of periodic reports on changes to the VM on items that require coordination. To facilitate the coordination, the Task Force will provide to the Working Group a memorandum of VM amendments, actuarial guidelines and valuation related NAIC model revisions. This memorandum provides the Working Group updates to the publications since the 2023 NAIC Fall Meeting.

Valuation Manual – Attachment A to this memo includes a detailed listing of the amendments made to the VM since the 2023 NAIC Summer Meeting. The amendments, with the exception of APF 2024-10, were adopted by the Life Insurance and Annuities (A) Committee on July 15, 2024. APF 2024-10 amends a health insurance section of the VM and was adopted by the Health Insurance and Managed Care (B) Committee on June 13, 2024. All of the amendments will be considered by the Executive (EX) Committee and Plenary at the 2024 NAIC Summer Meeting.

Actuarial Guidelines – Since the 2023 NAIC Fall Meeting the Task Force has not created or revised any actuarial guidelines.

NAIC Models – The Task Force has not created or revised any models since the 2023 NAIC Fall Meeting

© 2024 National Association of Insurance Commissioners

LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date
2023-08	VM- 20 Section 7.D.7, VM-30 Section 3.B.5	Clarifies the allocation of negative interest maintenance reserves (IMR) for VM-20 and VM-30 and that non-admitted IMR is excluded from the allocation.	8/31/2023
2023-09	VM-20 Section 9.C.2.h	This amendment requires companies to apply historical mortality improvement rates, which may be negative.	10/5/2023
2023-11	VM-20 Section 8.C.17 and VM-21 Section 1.C.3	This amendment proposes removal of references to risk-based capital (RBC) in VM-20 and VM-21 that are inconsistent with the purpose, scope, and intended use of RBC to be consistent with improvements made in related sections of the VM-22 draft.	1/25/2024
2023-12	VM-01 and VM-30 Section 3.B	This amendment clarifies expectations on the reflection of equity return volatility in VM-30 cash-flow testing.	2/29/2024
2024-01	VM-01 "Qualified Actuary"	Model 820 specifically calls out a qualified actuary as a person “who meets the requirements specified in the valuation manual.” This amendment adds the requirement that "A qualified actuary must meet the specific qualification standard for providing a NAIC Annual Statement Opinion".	4/25/2024
2024-02	VM-G Governance in PBR Actuarial Report, VM-31 Section 3.C.7 and Sections 3.C.8 - 3.C.11, VM-31 Section 3.B.6	This amendment clarifies that documentation on VM-G applies to all products subject to principle-based reserves (PBR). Currently VM-G documentation is only required in the Life PBR Actuarial Report.	2/29/2024
2024-04	VM-20 Section 9.D.5	This amendment updates the industry lapse experience table used for minimally funded universal life with secondary guarantee (ULSG) policies to the term-to-100 lapse experience table published by the Canadian Institute of Actuaries in December 2021.	4/25/2024
2024-06	VM-22 Section 3.C.3	This amendment permits companies to elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts, with prior approval of the domiciliary commissioner.	6/6/2024
2024-05	Valuation Manual II, Subsection 3: Deposit-Type Contracts	This amendment allows companies to consistently determine statutory maximum valuation interest rates monthly rather than annually for certain simple deposit-type contracts with prior approval of the domiciliary commissioner.	6/6/2024
2024-09	VM-21 Section 3.A and VM-21 Section 4.B.1	This amendment corrects the order of operations for the pre-tax IMR application in VM-21.	6/6/2024

© 2024 National Association of Insurance Commissioners

LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date
2023-13	VM-M Sections 1 and 2, VM-31 Section 3.D.3, VM-20 Sections 3.C.1.h, 9.C.3.b and 9.C.3.g	This amendment requires the use of non-U.S. mortality tables for blocks of business issued in foreign countries covering insureds who are not residents of the U.S. These tables must be approved by LATF before being used for reserve purposes. This amendment also adds several annuity tables to VM-M.	6/13/2024
2024-07	VM-21 Section 6.C.2, VM-21 Section 6.C.6, VM-21 Section 6.C.9, VM-21 Section 11.B.3	This amendment makes updates to VM-21 standard projection amount maintenance expense, full surrender, and mortality assumptions.	6/13/2024
2024-08	VM-21 Section 4.B.3	This amendment clarifies the calculation of the Net Asset Earned Rate (NAER) on additional assets, providing additional detail on how the initial additional asset portfolio is constructed and how it is reinvested.	6/13/2024
2024-10	VM-26, Section 3.B	Updates the margins for credit disability insurance reserves based on the Society of Actuaries' "2023 Credit Disability Study Report"	5/23/24

© 2024 National Association of Insurance Commissioners

MEMORANDUM

TO: Statutory Accounting Principles (E) Working Group

FROM: NAIC Staff

DATE: July 29, 2024

RE: IMR Ad Hoc Group – Discussion Update

The intent of this memorandum is to provide an update on the discussions that have occurred at the IMR Ad Hoc Group. This group is discussing the interest maintenance reserve (IMR) to establish a framework on the long-term project to review and determine appropriate treatment on IMR under the statutory accounting framework, including consideration of net negative (disallowed) IMR. Participants of the group include regulators representing SAPWG, Life Actuarial (A) Task Force and the Life Risk-Based Capital Working Group, along with industry representing both accounting and actuarial interests.

An initial update was provided during the 2024 Spring National Meeting where it was noted that the IMR Ad Hoc Group conducted their first meeting on Oct. 2, 2023, and has met regularly, approximately every other week. Since the last update, the discussions have focused on 1) IMR from "economic effective" (non-accounting effective) derivatives, 2) Separate account transfers for cash between the general account and a book-value separate account, and 3) IMR from reinsurance transactions. As a result of the ad hoc group discussions, agenda items for derivatives and separate accounts have been presented to the full Statutory Accounting Principles (E) Working Group. The following discussion topics are still anticipated in the ad hoc group: 1) IMR from reinsurance transactions, 2) IMR allocation from *SSAP No. 26—Bond* (issuer credit obligation) investments (e.g., bifurcation and/or reassessment of IMR determination from designation change), 3) reinvestment requirements, 4) guidance on excess withdrawals, and 5) admittance of net negative IMR.

In the interim, in addition to compiling information on the 2023 reported IMR in the statutory financial statements, NAIC staff also reviewed the narrative disclosures, and presented aggregated information to the IMR Ad Hoc Group. From the review, 173 insurers admitted net negative IMR pursuant to the INT, but 57 (33%) of those insurers did not include any aspect of the required disclosures. For the 116 companies that included disclosures, not all the companies included the full disclosures, including the attestation. NAIC staff notes that the disclosure review was manual, and the disclosure will be data-captured for 2024 and easier to assess. If desired, NAIC staff can provide company-specific detail to regulators.

NAIC staff has summary details for all IMR Ad Hoc calls and can provide additional information as requested.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

© 2024 National Association of Insurance Commissioners

Draft: 8/13/24

Blanks (E) Working Group
Virtual Meeting
August 7, 2024

The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Aug. 7, 2024. The following Working Group members participated: Debbie Doggett, Chair (MO); Steve Drutz, Vice Chair (WA); Kim Hudson (CA); Wayne Shepherd (CT); N. Kevin Brown (DC); Tom Hudson (DE); Nicole Crockett and Carly Wagoner (FL); Kevin Clark (IA); Amanda Denton and Roy Eft (IN); Kristin Hynes and Jason Tippett (MI); Tadd Wegner (NE); John Sirovetz (NJ); Dale Bruggeman and Tracy Snow (OH); Diane Carter (OK); Paul Throckmorton (OR); Diana Sherman (PA); Matthew Tarpley (TX); Jake Garn (UT); Adrian Jaramillo (WI); and Mary Jo Lewis (WV).

1. Adopted its May 23 Minutes

Doggett indicated that the materials for this meeting include minutes from the Working Group's May 23 meeting, during which the Working Group adopted 11 proposals, deferred one proposal, and adopted its editorial listing.

Snow made a motion, seconded by Drutz, to adopt the Working Group's May 23 minutes (Attachment Two-A). The motion passed unanimously.

2. Adopted Proposals

A. Agenda Item 2024-11BWG

Bruggeman stated that this agenda item captures the revisions to the annual statement instructions for investments in tax credit structure, which reflect adopted revisions to the *Accounting Practices and Procedures Manual* (AP&P Manual) through Statutory Accounting Principles (E) Working Group agenda item 2022-14: New Market Tax Credits. Revisions were made to the proposal to incorporate some editorial comments received from industry. Industry's requests to retain the guaranteed federal tax credit investment reporting line and to eliminate the criteria stipulating the duration of tax credit guarantees on qualifying state and federal tax credit investments were not incorporated into the proposal.

Brad Elphick (Novogradac & Company) expressed concerns with the proposal and possible unintended consequences. He stated that new market tax credits and long-term housing tax credits have many differences in structure, the risks associated with them, the roles that industry participants play, and the availability of guarantees.

David Brenner (Husch Blackwell) stated that, as a tax adviser, he follows the Internal Revenue Service (IRS) safe harbor provisions; however, a new market tax credit is fundamentally different from a low-income housing tax credit. He stated that on day one, the tax credits are set, and there is no variability in the amount of credits that will be received over the compliance period. He stated that the guarantee provided is a guarantee of the credits themselves rather than a yield because there is not much of a yield component in a new market.

Julie Gann (NAIC) stated that the guidance has already been adopted by the Statutory Accounting Principles (E) Working Group after being deferred to allow interested parties more time to submit comments. It must be adopted by the Blanks (E) Working Group today to be in effect for Jan. 1, 2025, when the statutory accounting guidance will go into effect. She stated that this sounds like a risk-based capital (RBC) issue, where the federal guaranteed line is being removed because, in accordance with the referenced case, those no longer exist for the

© 2024 National Association of Insurance Commissioners

original intent of that guidance. The Statutory Accounting Principles (E) Working Group sent a referral to the RBC groups to have them look at the RBC factors for the remaining reporting line. Any RBC change will not go into effect until year-end 2025, so there is still time to have those discussions with the RBC groups.

Wil Oden (NAIC) stated that the new market tax credits would likely fall into what is now referred to as the qualifying tax credit bucket. RBC groups would be the ones to set the factors. This guidance simply established the reporting category.

Bruggeman made a motion, seconded by Hudson, to adopt the modifications to the proposal. The motion passed unanimously. Bruggeman made a motion, seconded by Hudson, to adopt the modified proposal (Attachment Two-B). The motion passed unanimously.

B. Agenda Item 2024-12BWG

Bruggeman stated that this agenda item captures the bond reporting revisions for the quarterly statement instructions. Only a few editorial comments were received from industry, and revisions were made for two of the three comments. The specific identification for cash pooling transactions on the cash equivalent schedule (Schedule E, Part 2) has been retained.

Bruggeman made a motion, seconded by Drutz, to adopt the modifications to the proposal. The motion passed unanimously. Bruggeman made a motion, seconded by Eft, to adopt the modified proposal (Attachment Two-C). The motion passed unanimously.

3. Received a Memorandum from the Statutory Accounting Principles (E) Working Group

Bruggeman stated that this memorandum is intended to communicate an interim reporting exception for collateral loans backed by mortgage loans. Although the Statutory Accounting Principles (E) Working Group has a current project to review the reporting of collateral loans on Schedule BA and through the asset valuation reserve (AVR), it was identified that some reporting entities have previously been reporting collateral loans backed by mortgage loans through different lines on Schedule BA for look-through AVR treatment. With the deletion of the reporting lines previously used by industry and clarification that all collateral loans shall be reported on the collateral loan Schedule BA reporting line, the Statutory Accounting Principles (E) Working Group has proposed an interim AVR allocation until the collateral loan project has been finalized. As detailed in the memorandum, reporting entities shall report all collateral loans on the dedicated Schedule BA reporting line, but collateral loans backed by mortgage loans shall flow through AVR in lines 38–64 based on the underlying mortgage loan characteristics. The amount taken to the AVR per this interim instruction shall agree to the new data-captured footnote that details all collateral loans based on the type of collateral that secures the loan. In addition to the Statutory Accounting Principles (E) Working Group supporting this interim allocation, the Life Risk-Based Capital (E) Working Group adopted an editorial change on June 18 to allow a bifurcation of collateral loans in the RBC formula to facilitate this reporting.

The Statutory Accounting Principles (E) Working Group recommends that the memorandum detailing the interim changes to existing reporting instructions be posted on the Blanks (E) Working Group web page. As noted, the Statutory Accounting Principles (E) Working Group has a current project to review the reporting of collateral loans, with a proposal to flow through AVR. (Collateral loans currently do not flow through AVR.) The Statutory Accounting Principles (E) Working Group anticipates an exposure at the Summer National Meeting with proposed Schedule BA and AVR reporting lines. The Statutory Accounting Principles (E) Working Group will inform the Blanks (E) Working Group once revisions are adopted and when the interim exception will no longer be permitted.

© 2024 National Association of Insurance Commissioners

Bruggeman made a motion, seconded by Clark, to receive the Statutory Accounting Principles (E) Working Group memorandum (Attachment Two-D). The motion passed unanimously.

4. Adopted the Editorial Listing

Snow made a motion, seconded by Clark, to adopt the editorial listing (Attachment Two-E). The motion passed unanimously.

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

SharePoint/NAIC Support Staff Hub/Committees/E Committee/APPTF/2024 Summer NM/Minutes/BWG/08 07 2024 blanks.docx

© 2024 National Association of Insurance Commissioners

Draft: 5/28/24

Blanks (E) Working Group
Virtual Meeting
May 23, 2024

The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met May 23, 2024. The following Working Group members participated: Pat Gosselin, Chair (NH); Steve Drutz, Vice Chair (WA); David Phifer (AK); Laura Clements (CA); Wayne Shepherd (CT); N. Kevin Brown (DC); Tom Hudson (DE); Nicole Crockett (FL); Daniel Mathis (IA); Roy Eft (IN); Kristin Hynes and Jason Tippett (MI); Debbie Doggett (MO); Lindsay Crawford (NE); John Sirovetz (NJ); Dale Bruggeman and Tracy Snow (OH); Diane Carter (OK); Miriam Fisk and Shawn Frederick (TX); Jake Garn (UT); Adrian Jaramillo (WI); and Mary Jo Lewis (WV).

1. Adopted its Feb. 21 Minutes

Gosselin indicated that during its Feb. 21 meeting, the Working Group took the following action: 1) adopted its Nov. 7, 2023, minutes; 2) re-exposed proposal 2023-12BWG related to debt securities on Schedule BA; 3) adopted five proposals; 4) exposed six new items; and 5) adopted it editorial listing.

Drutz made a motion, seconded by Hynes, to adopt the Working Group's Feb. 21 minutes (*see NAIC Proceedings – Spring 2024, Accounting Practices and Procedures (E) Task Force, Attachment Two*). The motion passed unanimously.

2. Adopted Proposals

A. Agenda Item 2023-12BWG

Bruggeman stated that this proposal incorporates revisions to Schedule BA to add reporting lines for non-bond debt securities in accordance with the principle-based bond guidance adopted to *Statement of Statutory Accounting Principle (SSAP) No. 21—Other Admitted Assets*, as well as *SSAP No. 26R—Bonds* and *SSAP No. 43R—Loan-Backed and Structured Securities.* He stated that this blanks proposal would be effective Jan. 1, 2025, which corresponds with the effective date for the adopted bond definition. In addition to the non-bond debt security reporting lines, other clarification revisions to Schedule BA have been included. These include the elimination of the non-registered private fund reporting line so that all investments in the scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* are captured on a single line. Modifications to the instructions are captured to improve clarity and consistency in reporting. He stated that this proposal does not include revisions to the reporting lines for tax credits or collateral loans related to other Statutory Accounting Principles (E) Working Group projects. Those items will be addressed in different proposals.

Bruggeman stated that the Statutory Accounting Principles (E) Working Group met May 15 to discuss industry comments, and it supports the proposal with a few additional modifications, which are reflected within the document. First, the Statutory Accounting Principles (E) Working Group changed the residual underlying characteristic category of "Fixed Income Instruments" to "Bonds." Revisions were made to clarify that residual tranches of collateralized loan obligations (CLOs) shall be reported in the "underlying characteristics of bonds" reporting line. Revisions have been proposed to provide examples of items that shall be captured in the "underlying characteristics of other" reporting line. These examples include but are not limited to student loans, auto loans, and aircraft or train car leases. Next, it incorporated revisions to specify that the maturity date column shall be completed for all Schedule BA investments with a stated maturity date. This action is different from what industry proposed but is in line with the original intent; 3) corrected an erroneous deletion in the name of the

© 2024 National Association of Insurance Commissioners

"Joint Venture, Partnerships or Limited Liability Companies" investment reporting line. This was identified by interested parties in their collateral loan comments.

Bruggeman made a motion, seconded by Eft, to adopt the modifications to the proposal. The motion passed unanimously. Bruggeman made a motion, seconded by Eft, to adopt the modified proposal (Attachment Two-A1). The motion passed unanimously.

B. Agenda Item 2024-01BWG

Bruggeman stated that this proposal updates instructions to explicitly state that investments in the form of preferred or common stock, that are in substance residual interests, shall be reported on Schedule BA in the dedicated reporting lines for residuals.

Bruggeman made a motion, seconded by Sirovetz, to adopt the proposal (Attachment Two-A2). The motion passed unanimously.

C. Agenda Item 2024-02BWG

Bruggeman stated that this blanks proposal adjusts the cash equivalent and short-term investment instructions and reporting lines to reflect the changes adopted by the Statutory Accounting Principles (E) Working Group, reducing the types of investments permitted for short-term or cash equivalent reporting. The effective date of this proposal is Jan. 1, 2025, to mirror the bond proposal's effective date. The elimination of asset-backed securities from short-term and cash equivalent reporting was driven by the principles-based bond project. Interested parties noted that corresponding revisions were needed to the Schedule DA Verification, five-year historical, and the asset valuation reserve (AVR). Those edits have been made. The interested parties' suggestion to rename Schedule BA to "Other Invested Assets" was not done, as this would impact other areas of the blank besides just Schedule BA. This would need to be done in a separate proposal.

Bruggeman made a motion, seconded by Drutz, to adopt the modifications to the proposal. The motion passed unanimously. Drutz made a motion, seconded by Shepherd, to adopt the proposal with the minor word modification (Attachment Two-A3). The motion passed unanimously.

D. Agenda Item 2024-03BWG

Charles Therriault (NAIC) stated that this proposal updates General Interrogatory 35 to clarify the reporting of private letter (PL)-rated securities. Interested parties identified a minor editorial change, replacing "was derived" with "were derived."

Drutz made a motion, seconded by Doggett, to adopt the proposal with the minor word modification (Attachment Two-A4). The motion passed unanimously.

E. Agenda Item 2024-04BWG

Scott O'Neal (NAIC) stated that this proposal adds clarifying language to the VM-20, Requirements for Principle-Based Reserves for Life Products Supplement in the life blank to include separate accounts where applicable. This is intended to address inconsistencies found in the current reporting. There were no comments.

Doggett made a motion, seconded by Drutz, to adopt the proposal (Attachment Two-A5). The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

F. Agenda Item 2024-05BWG

Bruce Jenson (NAIC) stated that this proposal adds clarifying language to the annual General Interrogatory 29.05 (Quarterly General Interrogatory 17.5) to clarify that all investment advisors with discretion to make investment decisions, including sub-advisors, should be disclosed in the interrogatory. This change is effective for 2024. There were no interested party comments.

Hynes made a motion, seconded by Mathis, to adopt the proposal (Attachment Two-A6). The motion passed unanimously.

G. Agenda Item 2024-06BWG

Fisk stated that this proposal relates to the Property & Casualty (P/C) and Title Actuarial Opinions. It limits the requirement to send qualification documentation to the board of directors only at the initial appointment and not annually thereafter. It was decided by the Actuarial Opinion (C) Working Group that since the information does not change significantly from year to year, it was no longer needed on an annual basis. This proposed change is to be effective for annual 2024.

Drutz made a motion, seconded by Eft, to adopt the proposal (Attachment Two-A7). The motion passed unanimously.

H. Agenda Item 2024-07BWG

Bruggeman stated that this proposal modifies the new interest maintenance reserve (IMR) disclosure to separate derivative information between the general and separate accounts (insulated and non-insulated). It adds a general interrogatory for the required attestation. A review of the narrative disclosure included in the 2023 financials identified that a number of companies that admitted net negative disallowed IMR did not fully report the disclosure information. Please note that any company admitting IMR under the interim interpretation is required to fully complete the disclosure.

Bruggeman made a motion, seconded by Eft, to adopt the proposal (Attachment Two-A8). The motion passed unanimously.

I. Agenda Item 2024-08BWG

Bruggeman stated that this proposal revises the IMR and the AVR instructions to eliminate guidance that directs investments with credit losses to be reported in the IMR. For bonds, the revised guidance stipulates that if a known credit event has occurred, that is not yet reflected in the NAIC Designations at the time of the sale, the gain/loss shall be allocated to AVR if that impact is predominantly credit-related. For preferred stocks, the guidance directs that all mandatory convertible preferred stocks and perpetual preferred stocks follow the treatment of equity investments, with gains/losses excluded from IMR. For mortgage loans, the guidance directs that predominantly interest-related gains/losses go to IMR, and those predominantly credit-related go to AVR, with the clarification of specific situations that result in AVR reporting.

Bruggeman made a motion, seconded by Drutz, to adopt the proposal (Attachment Two-A9). The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

J. Agenda Item 2024-09BWG

Bruggeman stated that this proposal adds a new year-end 2024 data-captured note on the types of collateral, in the aggregate, backing collateral loans. Although some industry comments are reflected, the revision was not incorporated to prevent companies from identifying non-qualifying collateral as an admitted asset. Although such admittance would not be in line with SSAP No. 21, if the note prevented identifying those items as admitted, companies that get permitted practices for such instances would not be able to fully complete the note. As noted above, a cross-check will be added to verify the total in the note and the amount reported on Schedule BA for collateral loans. As a reminder, all collateral loans shall be reported on the collateral loan line.

Bruggeman made a motion, seconded by Drutz, to adopt the modifications to the proposal. The motion passed unanimously. Bruggeman made a motion, seconded by Sirovetz, to adopt the modified proposal (Attachment Two-A10). The motion passed unanimously.

K. Agenda Item 2024-10BWG

Bruggeman stated that this proposal deletes the federal Affordable Care Act (ACA) disclosures related to the transitional reinsurance program and risk corridors programs, which are no longer in effect. Other edits include updating references to the "risk adjustment" program, which is the only risk-sharing program still in effect. On May 15, the Statutory Accounting Principles (E) Working Group adopted agenda item 2024-13, with the edit to *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act*, paragraph 62, which corresponds to the edits to Notes 24E(4)/(5) and 24F(4)/(5) in the modification to this blanks proposal.

Bruggeman made a motion, seconded by Hynes, to adopt the modifications to the proposal. The motion passed unanimously. Bruggeman made a motion, seconded by Eft, to adopt the modified proposal (Attachment Two-A11). The motion passed unanimously.

3. Deferred Items

A. Agenda Item 2024-11BWG

Bruggeman stated that this proposal replaces all terminology in the blanks related to low-income tax credit investments with new terminology in accordance with the adoption of agenda item 2022-14. Additionally, the reporting line for federal guaranteed programs is proposed to be deleted because these types of tax credit investment structures were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012. While interested parties' request for deferral is not being opposed, it is preferred that interested parties provide examples of recently issued federal guaranteed New Markets Tax Credit (NMTC) investments and an explanation of why these guarantees do not run afoul of the Historic Boardwalk ruling in the interested parties' comment letter.

Bruggeman made a motion, seconded by Hynes, to defer the proposal to allow time for additional public comments ending July 8. The motion passed unanimously.

4. Exposed New Items

A. Agenda Item 2024-12BWG

Bruggeman stated that this blank proposal updates the quarterly investment schedules for editorial items related to the bond project, proposal 2023-06BWG, that was adopted Nov. 7, 2023. This includes Schedule D Verification,

© 2024 National Association of Insurance Commissioners

Schedule D, Part 1B, Schedule D, Part 3 and 4, Schedule DL, Part 1 and 2, and Schedule E Part 1 and 2. The proposal updates the Quarterly Investment Schedule General Instructions for the changes that were adopted in the Annual Investment Schedule General Instructions.

The Working Group agreed to expose agenda item 2024-12BWG for a 45-day public comment period ending July 8.

5. Adopted the Editorial Listing

Snow made a motion, seconded by Eft, to adopt the editorial listing (Attachment Two-A12). The motion passed unanimously.

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

SharePoint/NAIC Support Staff Hub/Committees/E Committee/APPTF/2024 Summer NM/Minutes/BWG/05 23 2024 blanks.docx

© 2024 National Association of Insurance Commissioners

Attachment Two-A1
Accounting Practices and Procedures (E) Task Force
8/14/24

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 09/07/2023	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2023-12BWG MOD
TELEPHONE:	Year 2025
EMAIL ADDRESS:	Changes to Existing Reporting [X]
ON BEHALF OF:	New Reporting Requirement [ ]
NAME: Dale Bruggeman	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE: Chair SAPWG	No Impact [ ]
AFFILIATION: Ohio Department of Insurance	Modifies Required Disclosure [X]
ADDRESS: 50W. Town St., 3rd FL., Ste. 300	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
Columbus, OH 43215	****If Yes, complete question below****
	DISPOSITION
	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[ ] Received For Public Comment
	[X] Adopted Date 05/23/2024
	[ ] Rejected Date
	[ ] Deferred Date
	[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[X] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[X] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: 1st Quarter 2025

IDENTIFICATION OF ITEM(S) TO CHANGE

Categorize debt securities on Schedule BA that do not qualify as bonds under *SSAP No. 26 – Bonds* or *SSAP No. 43R – Asset-Backed Securities* and are captured in scope of *SSAP No. 21R – Other Invested Assets*.

Note on adopted SAP Item 2023-28 for collateral loan reporting – the effective date for the collateral loan reporting is Annual 2024. Due to this being effective before proposal 2023-12BWG, the changes for collateral loan reporting are not shown in this proposal but will be incorporated into the Annual and Quarterly Statement Instructions once this proposal is adopted and implemented into the statement instructions.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal updates the Schedule BA categories per the Statutory Accounting Principles Working Group's bond project and clarify/streamline reporting on Schedule BA.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

AIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

**** This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE BA – PARTS 1, 2 AND 3

OTHER LONG-TERM INVESTED ASSETS – GENERAL INSTRUCTIONS

Include only those classes of invested assets not clearly or normally includable in any other invested asset schedule, or that have been specifically identified for reporting on Schedule BA: Other Invested Assets. Investments shall be reported in the designated reporting category and reporting line that represents the investment. Investments that do not fit within any specific reporting line shall be captured as an "Any Other Class of Asset". ~~Such assets should include any assets previously written off for book purposes, but which still have a market or investment value. Give a detailed description of each investment and the underlying security. If an asset is to be recorded in Schedule BA that is normally reported in one of the other invested asset schedules, make full disclosure in the Name or Description column of the reason for recording such an asset in Schedule BA.~~

For accounting guidance related to foreign currency transactions and translations, refer to *SSAP No. 23—Foreign Currency Transactions and Translations.*

If a reporting entity has any detail lines reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

Group or Category	Line Number
Debt Securities That Do Not Qualify as Bonds	
Debt Securities That Do Not Reflect a Creditor Relationship in Substance	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0199999
Affiliated	0299999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0399999
Affiliated	0499999
Debt Securities That Lack Substantive Credit Enhancement	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0599999
Affiliated	0699999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0799999
Affiliated	0899999
Debt Securities That Do Not Qualify as Bonds Solely to a Lack of Meaningful Cash Flows	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0999999
Affiliated	1099999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	1199999
Affiliated	1299999
~~Oil and Gas Production~~	
~~Unaffiliated~~	~~0199999~~
~~Affiliated~~	~~0299999~~
~~Transportation Equipment~~	
~~Unaffiliated~~	~~0399999~~
~~Affiliated~~	~~0499999~~
~~Mineral Rights~~	
~~Unaffiliated~~	~~0599999~~

© 2024 National Association of Insurance Commissioners

~~Affiliated ..... 0699999~~

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Bonds~~

~~NAIC Designation Assigned by the Securities Valuation Office (SVO)~~

~~Unaffiliated ..... 0799999~~
~~Affiliated ..... 0899999~~

~~NAIC Designation Not Assigned by the Securities Valuation Office (SVO)~~

~~Unaffiliated ..... 0999999~~
~~Affiliated ..... 1099999~~

~~Mortgage Loans~~

~~Unaffiliated ..... 1199999~~
~~Affiliated ..... 1299999~~

~~Other Fixed Income Instruments~~

~~Unaffiliated ..... 1399999~~
~~Affiliated ..... 1499999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of:

~~Fixed Income Instruments~~Bonds

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated ..... ~~1599999~~1399999
Affiliated ..... ~~1699999~~1499999

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated ..... ~~1799999~~1599999
Affiliated ..... ~~1899999~~1699999

Preferred Stocks

Unaffiliated 1799999
Affiliated 1899999

Common Stocks

Unaffiliated 1999999
Affiliated 2099999

Real Estate

Unaffiliated 2199999
Affiliated 2299999

Mortgage Loans

Unaffiliated 2399999
Affiliated 2499999

Other

Unaffiliated 2599999
Affiliated 2699999

Surplus ~~Debentures, etc.~~Notes

Unaffiliated..... 2799999
Affiliated 2899999

Capital Notes

Unaffiliated..... 2999999
Affiliated 3099999

Collateral Loans

Unaffiliated..... ~~2999999~~3199999
Affiliated ..... ~~3099999~~3299999

© 2024 National Association of Insurance Commissioners

Non-collateral Loans
Unaffiliated ~~3199999~~3399999
Affiliated ~~3299999~~3499999

~~Capital Notes~~
~~Unaffiliated 3399999~~
~~Affiliated 3499999~~

Guaranteed Federal Low Income Housing Tax Credit
Unaffiliated 3599999
Affiliated 3699999

Non-Guaranteed Federal Low Income Housing Tax Credit
Unaffiliated 3799999
Affiliated 3899999

Guaranteed State Low Income Housing Tax Credit
Unaffiliated 3999999
Affiliated 4099999

Non-Guaranteed State Low Income Housing Tax Credit
Unaffiliated 4199999
Affiliated 4299999

All Other Low Income Housing Tax Credit
Unaffiliated 4399999
Affiliated 4499999

Working Capital Finance Investment
Unaffiliated 4599999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

~~Fixed Income Instruments~~Bonds
Unaffiliated 4699999
Affiliated 4799999

Preferred Stock
Unaffiliated 4899999
Affiliated 4999999

Common Stock
Unaffiliated ~~4899999~~5099999
Affiliated ~~4999999~~5199999

~~Preferred Stock~~
~~Unaffiliated 5099999~~
~~Affiliated 5199999~~

Real Estate
Unaffiliated 5299999
Affiliated 5399999

Mortgage Loans
Unaffiliated 5499999
Affiliated 5599999

Other
Unaffiliated 5699999
Affiliated 5799999

Any Other Class of Assets
Unaffiliated 5899999
Affiliated 5999999

© 2024 National Association of Insurance Commissioners

Subtotals

Unaffiliated ..... ~~6099999~~6899999
Affiliated ..... ~~6199999~~6999999
TOTALS ..... ~~6299999~~7099999

The following listing is intended to give examples of investments to be included in each category; however, the list should not be considered all-inclusive~~, and it should not be implied that any invested asset currently being reported in Schedules A, B or D is to be reclassified to Schedule BA~~:

~~**Oil and Gas Production**~~

~~Include: Offshore oil and gas leases.~~

~~**Transportation Equipment**~~

~~Include: Aircraft owned under leveraged lease agreements.~~
~~Motor Vehicle Trust Certificates.~~

~~**Mineral Rights**~~

~~Include: Investments in extractive materials.~~

~~Timber Deeds.~~

Debt Securities That Do Not Qualify as Bonds

Include: Debt securities captured in *SSAP No. 21 – Other Admitted Assets*. This is specific to securities, as that term is defined in *SSAP No. 26 – Bonds*, ~~whereby there is a fixed schedule for one or more future payments (referred to as debt securities),~~ but for which the security does not qualify for bond reporting under SSAP No. 26 as an issuer credit obligation or an asset-backed security.

Investments that have been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* shall be reported on Lines 0199999, 0299999, 0599999, 0699999, 0999999, and 1099999.

Investments that have not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Designations received from an SEC NRSRO are permitted to be reported but are not required. Report these investments on Lines 0399999, 0499999, 0799999, 0899999, 1199999 and 1299999.

Exclude: Any investment that does not qualify as a security. This term is defined in SSAP No. 26R.

Any investment that is not captured as a debt security that does not qualify as a bond pursuant to *SSAP No. 21R—Other Admitted Assets*.

~~**Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument**~~

~~Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).~~

~~Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.~~

© 2024 National Association of Insurance Commissioners

~~Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics:

Include: Items in scope of *SSAP No. 48 – Joint Ventures, Partnerships or Limited Liability Companies*, which includes non-registered private funds. Investments shall be reported based on their underlying characteristics as described below. Investments shall be assigned fully to a subcategory. There should not be any bifurcation of the SSAP No. 48 investment among the subcategories.

Structured Security payment rights in scope of SSAP No. 21 that have an SVO-Assigned designation. Structured security payments rights that do not have an SVO-Assigned designation shall be reported as an Any Other Class of Asset.

Exclude: Any investment that is not captured in scope of SSAP No. 48.

~~Fixed Income Instruments~~Bonds

Include: Investments in scope of SSAP No. 48 with underlying collateral that has contractual principal and/or interest payments, excluding mortgage loans.

Structured Settlement payment rights in scop of SSAP no. 21R that have an SVO-Assigned designation.

~~Leveraged Buy-out Fund.~~Joint ventures, partnerships or limited liability companies (Including Non-Registered Private Funds) investments that are engaged in bond strategies.

~~A fund investing in the "Z" strip of Collateralized Mortgage Obligations.~~

~~Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments~~Investments on the NAIC List of Schedule BA Non-Registered Private Funds with Underlying Assets Having Characteristics of Bonds or Preferred Stock and structured settlement payment rights in scope of SSAP No. 21R that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* ~~for this category~~. Report these investments on Lines ~~1599999~~ 1399999 and ~~1699999~~1499999.

Any investments deemed by the reporting entity to possess the underlying characteristics of ~~fixed income instruments~~bonds that ~~has~~ have not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* ~~for this category~~. Designations received from an SEC NRSRO are permitted to be reported but are not required. Report these investments on Lines ~~1799999~~ 1599999 and ~~1899999~~1699999.

Preferred Stocks

Include: ~~Preferred Stock Interests~~Investments in scope of SSAP No. 48 with underlying characteristics of securities that represents ownership of a corporation and gives the holder a claim prior to the claims of common stockholders on earnings and also generally on assets in the event of liquidation.

Common Stocks

Include: Investments in scope of SSAP No. 48 with underlying characteristics of Venture Capital Funds or other underlying equity investments.

Real Estate

Include: Investments in scope of SSAP No. 48 with underlying collateral that reflects ~~R~~real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Mortgage Loans

Include: Items in scope of SSAP No. 48 that reflect ~~M~~mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Other

Include: Items in scope of SSAP No. 48 that do not fit within the specific categories.

Limited partnership interests in oil and gas production.

Forest product partnerships.

Other ~~I~~investments within the Joint Venture, ~~and~~ Partnership or Limited Liability Companies ~~I~~interests category that do not qualify for inclusion in the "~~Fixed Income Instruments~~Bonds," "Common Stocks," "Real Estate" or "Mortgage Loans" subcategories.

~~Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).~~

Surplus ~~Debentures, etc.~~Notes

Include: That portion of any subordinated indebtedness, surplus debenture, surplus note, debenture note, premium income note, bond, or other contingent evidence of indebtedness that is reported in the surplus of the issuer.

Capital Notes

Include: The portion of any capital note that is reported on the line for capital notes of the issuing insurance reporting entity.

Collateral Loans

Include: Refer to *SSAP No. 21R—Other Admitted Assets* for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21R shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

© 2024 National Association of Insurance Commissioners

Non-collateral Loans

Include: ~~For purposes of this section, n~~Non-collateral loans are considered the unpaid portion of loans previously made to another organization or individual in which the reporting entity has a right to receive money for the loan, but for which the reporting entity has not obtained collateral to secure the loan.

Non-collateral loans shall not include investments captured in scope of *SSAP No. 26 – Bonds*, *SSAP No. 37 – Mortgage Loans*, *SSAP No. 43 – Asset-Backed Securities*, or *SSAP No. 49 – Policy Loans*.~~those instruments that meet the definition of a bond, per *SSAP No. 26R—Bonds*, a mortgage loan per *SSAP No. 37—Mortgage Loans*, loan-backed or structuredasset-backed securities per *SSAP No. 43R—Loan-Backed and Structured Securities*, or a policy or contract loan per *SSAP No. 49—Policy Loans*.~~

In the description column, provide the name of the actual borrower. For affiliated entities, state if the borrower is a parent, subsidiary, affiliate, officer or director. Refer to *SSAP No. 20—Nonadmitted Assets* and *SSAP No. 25—Affiliates and Other Related Parties* for accounting guidance.

~~**Capital Notes**~~

~~Include: The portion of any capital note that is reported on the line for capital notes of the issuing insurance reporting entity.~~

Low Income Housing Tax Credit

Include: All Low Income Housing Tax Credit Investments (LIHTC or affordable housing) that are in the form of a Limited Partnership or a Limited Liability Company including those investments that have the following risk mitigation factors:

A. Guaranteed Low Income Housing Tax Credit Investments. There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment.

B. Non-guaranteed Low Income Housing Tax Credit Investments.

I. A level of leverage below 50%. For a LIHTC Fund, the level of leverage is measured at the fund level.

II. There is a Tax Credit Guarantee Agreement from General Partner or managing member. This agreement requires the General Partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For a LIHTC Fund, a Tax Credit Guarantee is required from the developers of the lower tier LIHTC properties to the upper tier partnership and all other LIHTC investments.

III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable foreclosure risk at the time of the investment.

Non-qualifying LIHTCs should be reported in the "All Other" category

© 2024 National Association of Insurance Commissioners

Working Capital Finance Investment

Include: Investments in an interest in a Confirmed Supplier Receivables (CSR) under a Working Capital Finance Program (WCFP) that is designated by the SVO as meeting the criteria specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for an NAIC "1" or "2."

Working Capital Finance Program (WCFP)

Open account program under which an Investor may purchase interests, or evidence thereof, in commercial non-insurance receivables. A WFCP is created for the benefit of a commercial investment grade obligor and its suppliers of goods or services and facilitated by a financial intermediary.

Confirmed Supplier Receivables (CSR)

A first priority perfected security interest claim or right to payment of a monetary obligation from the Obligor arising from the sale of goods or services from the Supplier to the Obligor the payment of which the Obligor has confirmed by representing and warranting that it will not protest, delay, or deny, nor offer nor assert any defenses against, payment to the supplier or any party taking claim or right to payment from the supplier.

See *SSAP No. 105R—Working Capital Finance Investments* for accounting guidance.

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There ~~shouldn't~~ should not be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captured in scope of *SSAP No. 21R – Other Admitted Assets.* The scope of SSAP No. 21R includes all in-substance residuals regardless of the investment form. Therefore, this category shall include investments that reflect in-substance residuals in the form of 1) an investment in a securitization tranche or beneficial interest, 2) an investment in a joint venture, partnership or limited liability company, 3) an investment in preferred stock 4) an investment in common stock, or 5) any other investment structure. ~~captures from securitization tranches and beneficial interests as well as other structures captured in scope of *SSAP No. 43R—Loan-Backed and Structured Asset-Backed Securities*, that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See SSAP No. 43R for accounting guidance.~~

~~Investments in joint ventures, partnerships and limited liability companies captured in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests, or that predominantly hold residual interests.~~

~~This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.~~

~~**Fixed Income Instruments**~~**Bonds**

Include: Investments with underlying collateral which, if held individually, would be reported ~~on *Schedule D – Part 1 – Long-Term Bonds*~~as issuer credit obligations on *Schedule D – Part 1 – Section 1*, or as asset-backed securities on *Schedule D – Part 1 – Section 2*. Residual tranches from collateralized loan obligations (CLOs) shall be captured within this reporting line.

Preferred Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*

Common Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 2 – Common Stocks*

~~**Preferred Stocks**~~

~~Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*~~

Real Estate

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule A – Real Estate Owned*

Mortgage Loans

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule B – Mortgage Loans*

Other

Include: Items that do not qualify for inclusion in the above subcategories. Examples include, but are not limited to, residual tranches from investments with underlying assets of student loans, aircraft leases or train car leases.

Any Other Class of Assets

Include: Investments that do not fit into one of the other categories. An example of items that may be included are reverse mortgages.

All structured settlement income streams acquired as investments where the reporting entity acquires the legal right to receive payments. (Valuation and admittance provisions are detailed in *SSAP No. 21R—Other Admitted Assets*.)

This category shall also include oil and gas leases, aircraft owned under leveraged lease arrangements, investments in extractive materials and timber deeds that are not owned within a partnership, LLC or joint venture structure.

© 2024 National Association of Insurance Commissioners

SCHEDULE BA – PART 1

OTHER LONG-TERM INVESTED ASSETS OWNED DECEMBER 31 OF CURRENT YEAR

Refer to *SSAP No. 23—Foreign Currency Transactions and Translations* for accounting guidance.

Column 1 – CUSIP Identification

~~This column must be completed for those investments included on Lines 0799999 and 1599999.~~

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard & Poor's CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard & Poor's CUSIP Bureau: *www.cusip.com/cusip/index.htm*.

~~For those investments not included on Lines 0799999 and 1599999, a CUSIP should be provided if one has been assigned.~~

If no CUSIP number exists, the CUSIP field should be zero-filled.

Column 2 – Name or Description

Show name of the asset, such as the name of a limited partnership. If not applicable, show description of the asset.

Column 3 – Restricted Asset Code

~~Enter "^" in this column for all assets that are bifurcated between the insulated separate account filing and the non-insulated separate account filing.~~

If long-term invested assets are not under the exclusive control of the company as shown in the General Interrogatories, it is to be identified by placing one of the **symbols identified in the Investment Schedules General Instructions** in this column.

~~**Separate Account Filing Only:**~~

~~If the asset is a bifurcated asset between the insulated separate account filing and the non-insulated separate account filing, the "^" should appear first, immediately followed by the appropriate code (**identified in the Investment Schedules General Instructions**).~~

Detail Eliminated To Conserve Space

Column 7 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

This column must be completed for those investments included on Lines ~~0799999~~0199999, ~~0899999~~0299999, ~~1599999~~0599999, ~~1699999~~ 0699999, 0999999, 1099999, 1399999, 1499999,and 4599999. For all other lines the column may be completed if the investment has an NAIC Designation received from the SVO or from an NAIC CRP.

For investments noted above, insert the appropriate combination of the NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol. ~~The list of valid SVO Administrative Symbols is shown below.~~

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC's website for the Securities Valuation Office (*www.naic.org/svo.htm*).

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- ~~NAIC Designation Column 7A~~
- ~~NAIC Designation Modifier Column 7B~~
- ~~SVO Administrative Symbol Column 7C~~

On the printed page the sub-columns should be displayed with a "." between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., "1.A YE").

NAIC Designation Modifier:

As defined in the P&P Manual, there is not an NAIC Designation Modifier for investments reporting an NAIC Designation 6, therefore, the NAIC Designation Modifier field should be left blank.

Refer to the P&P Manual for the application of these modifiers.

Detail Eliminated To Conserve Space

**** Columns 21 through 27 will be electronic only. ****

Column 21 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

6. The investment does not involve a related party.

Column ~~21~~22 – Fair Value Hierarchy Level and Method Used to Obtain Fair Value Code

Report the fair value level that represents the inputs used to determine fair value. Whenever possible, the reported fair value shall reflect level 1, followed by level 2, and then level 3. In all situations fair value shall be determined in accordance with *SSAP No. 100R – Fair* Value. ~~Whenever possible, fair value should represent the price at which the security could be sold, based on market information. Fair value should only be determined analytically when the market based value cannot be obtained.~~

The following is a listing of valid fair value level indicators to show the fair value hierarchy level.

"1" for Level 1

"2" for Level 2

"3" for Level 3

The following is a listing of the valid method indicators to show the method used by the reporting entity to determine the Rate Used to Obtain Fair Value.

"a" for securities where the rate is determined by a pricing service.

"b" for securities where the rate is determined by a stock exchange.

"c" for securities where the rate is determined by a broker or custodian. The reporting entity should obtain and maintain the pricing policy for any broker or custodian used as a pricing source. In addition, the broker must either be approved by the reporting entity as a counterparty for buying and selling securities or be an underwriter of the security being valued. (Reporting entities shall utilize source "c" to capture any other method used by the reporting entity to obtain observable inputs resulting in a hierarchy Level 1 or Level 2. Documentation of this source shall then be included in Column 22.)

"d" for securities where the rate is determined by the reporting entity or a third party contracted by the reporting entity. The reporting entity is required to maintain a record of the pricing methodology used.

"e" for securities where the rate is determined by the unit price published in the NAIC *Valuation of Securities*.

Enter a combination of hierarchy and method indicator. The fair value hierarchy level indicator would be listed first and the method used to determine fair value indicator would be listed next. For example, use "1b" to report Level 1 for the fair value hierarchy level and stock exchange for the method used to determine fair value.

The guidance in *SSAP No. 100R—Fair Value* allows the use of net asset value per share (NAV) instead of fair value for certain investments. If NAV) is used instead of fair value leave blank.

© 2024 National Association of Insurance Commissioners

Column ~~22~~23 – Source Used to Obtain Fair Value

For Method Code "a," identify the specific pricing service used.

For Method Code "b," identify the specific stock exchange used.

The listing of most **stock exchange codes can be found in the Investment Schedules General Instructions.**

For Method Code "c," identify the specific broker or custodian used.

For Method Code "d," leave blank.

For Method Code "e," leave blank.

If net asset value (NAV) is used instead of fair value, the reporting entity should use "NAV" to indicate net asset value used instead of fair value.

~~Column 23 Legal Entity Identifier (LEI)~~

~~Provide the 20-character Legal Entity Identifier (LEI) for any issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.~~

Column 24 – Postal Code

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated 1199999~~

~~Affiliated 1299999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies **(Including Non-Registered Private Funds)** ~~Interests~~ with Underlying Assets Having the Characteristics of~~:~~

Real Estate

Unaffiliated 2199999

Affiliated 2299999

Mortgage Loans

Unaffiliated 2399999

Affiliated 2499999

The postal code(s) reported in this column should reflect the location of the underlying property. For U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. Outside the U.S. states, territories and possessions, use that country's equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD).

© 2024 National Association of Insurance Commissioners

Column 25 – Property Type

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of~~:~~

Real Estate

Unaffiliated..... 2199999

Affiliated..... 2299999

Mortgage Loans

Unaffiliated..... 2399999

Affiliated..... 2499999

For property type, use one of the following codes to indicate the primary use of the property:

OF Office

RT Retail

MU Apartment/Multifamily

IN Industrial

HC Medical/Health Care

MX Mixed Use

LO Lodging

OT Other

Column 26 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.
~~Use only for securities included in the following subtotal lines.~~

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

~~State the date the mortgage loan matures.~~

~~Column 27 – Investments Involving Related Parties~~

~~Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.~~

~~Enter one of the following codes to identify the role of the related party in the investment.~~

~~1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.~~

~~2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.~~

~~3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.~~

~~4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.~~

~~5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.~~

~~6. The investment does not involve a related party.~~

NAIC Designation Category Footnote:

Provide the total book/adjusted carrying value amount by NAIC Designation Category that represents the amount in reported in Column 12.

© 2024 National Association of Insurance Commissioners

SCHEDULE BA – PART 2

OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND ADDITIONS MADE DURING THE YEAR

This schedule should reflect not only those newly acquired long-term invested assets, but also any increases or additions to long-term invested assets acquired in the current and prior periods, including, for example, capital calls from existing limited partnerships.

Column 1 – CUSIP Identification

~~This column must be completed for those investments included on Lines 0799999 and 1599999.~~

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard & Poor's CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard & Poor's CUSIP Bureau: *www.cusip.com/cusip/index.htm*.

~~For those investments not included on Lines 0799999 and 1599999, a CUSIP should be provided if one has been assigned.~~

If no CUSIP number exists, the CUSIP field should be zero-filled.

Detail Eliminated To Conserve Space

**** Columns 12 through 16 will be electronic only. ****

Column 12 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

6. The investment does not involve a related party.

~~Column 12 Legal Entity Identifier (LEI)~~

~~Provide the 20-character Legal Entity Identifier (LEI) for any issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.~~

Column 13 – Postal Code

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated 1199999~~

~~Affiliated 1299999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of:

Real Estate

Unaffiliated 2199999

Affiliated 2299999

Mortgage Loans

Unaffiliated 2399999

Affiliated 2499999

The postal code(s) reported in this column should reflect the location of the underlying property. For U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. Outside the U.S. states, territories and possessions, use that country's equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD).

Column 14 – Property Type

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated 1199999~~

~~Affiliated 1299999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of:

Real Estate

Unaffiliated 2199999

Affiliated 2299999

Mortgage Loans

Unaffiliated..... 2399999

Affiliated..... 2499999

For property type, use one of the following codes to indicate the primary use of the property:

OF	Office
RT	Retail
MU	Apartment/Multifamily
IN	Industrial
HC	Medical/Health Care
MX	Mixed Use
LO	Lodging
OT	Other

Column 15 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.
~~Use only for securities included in the following subtotal lines.~~

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

~~State the date the mortgage loan matures.~~

~~Column 16 Investments Involving Related Parties~~

~~Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.~~

~~Enter one of the following codes to identify the role of the related party in the investment.~~

~~1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.~~

~~2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.~~

~~3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.~~

~~4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.~~

~~5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.~~

~~6. The investment does not involve a related party.~~

SCHEDULE BA – PART 3

OTHER LONG-TERM INVESTED ASSETS DISPOSED, TRANSFERRED OR REPAID DURING THE YEAR

This schedule should reflect not only disposals of an entire "other invested asset" but should also include partial disposals and amounts received during the year on investments still held, including, for example, return of capital distributions from limited partnerships.

Column 1 – CUSIP Identification

~~This column must be completed for those investments included on Lines 0799999 and 1599999.~~

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard & Poor's CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard & Poor's CUSIP Bureau: *www.cusip.com/cusip/index.htm*.

~~For those investments not included on Lines 0799999 and 1599999, a CUSIP should be provided if one has been assigned.~~

If no CUSIP number exists, the CUSIP field should be zero-filled.

Detail Eliminated To Conserve Space

**** Columns 21 through 25 will be electronic only. ****

Column 21 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

© 2024 National Association of Insurance Commissioners

6. The investment does not involve a related party.

~~Column 21 Legal Entity Identifier (LEI)~~

~~Provide the 20-character Legal Entity Identifier (LEI) for any issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.~~

Column 22 – Postal Code

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated 1199999~~

~~Affiliated 1299999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of:

Real Estate

Unaffiliated 2199999

Affiliated 2299999

Mortgage Loans

Unaffiliated 2399999

Affiliated 2499999

The postal code(s) reported in this column should reflect the location of the underlying property. For U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. Outside the U.S. states, territories and possessions, use that country's equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example of two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD).

Column 23 – Property Type

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated 1199999~~

~~Affiliated 1299999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of:

Real Estate

Unaffiliated 2199999

Affiliated 2299999

Mortgage Loans

Unaffiliated..... 2399999

Affiliated..... 2499999

For property type, use one of the following codes to indicate the primary use of the property:

OF	Office
RT	Retail
MU	Apartment/Multifamily
IN	Industrial
HC	Medical/Health Care
MX	Mixed Use
LO	Lodging
OT	Other

Column 24 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.
~~Use only for securities included in the following subtotal lines.~~

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

~~State the date the mortgage loan matures.~~

~~Column 25 Investments Involving Related Parties~~

~~Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.~~

~~Enter one of the following codes to identify the role of the related party in the investment.~~

~~1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.~~

~~2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.~~

~~3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.~~

~~4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.~~

~~5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.~~

~~6. The investment does not involve a related party.~~

ASSET VALUATION RESERVE
EQUITY AND OTHER INVESTED ASSET COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve targets for the common stock, real estate and other invested assets sub-components of the equity component of the AVR. Instructions apply to the general account and to the separate accounts, if applicable.

Detail Eliminated To Conserve Space

Lines 22 through 28 – Other Invested Assets with Underlying Characteristics of Bonds

Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to bonds (Lines ~~0799999 and 0899999 and the portion of Lines 1399999, 1499999, 1599999 and 1699999 that applies to fixed income instruments similar to bonds~~0199999, 0299999, 0599999, 0699999, 0999999, 1099999, 1399999, and 1499999) that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* in Columns 1 and 4. Follow the SVO guidelines and categorize these assets into NAIC designations one through six as directed by the NAIC Securities Valuation Office instructions, except those exempt obligations (as listed in the AVR instructions for Line 2) which should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9 and report the products by designation in Columns 6, 8 and 10, respectively.

Lines 30 through 35 – Other Invested Assets with Underlying Characteristics of Preferred Stocks

Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to preferred stocks (~~the portion of~~ Lines ~~1399999, 1499999, 1599999 and 1699999 that applies to fixed income instruments similar to preferred stocks~~1799999 and 1899999). ~~that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* and certain surplus debentures (included in Lines 2799999 and 2899999) and capital notes (included in Lines 3399999 and 3499999) in Columns 1 and 4. Follow the SVO guidelines and categorize these assets into classes P1 through P6 or RP1 through RP6 as directed by the NAIC Securities Valuation Office instructions. For surplus debentures and capital notes, use the Credit Rating Provider (CRP) rating to categorize these assets as if the SVO had assigned an NAIC designation of 1 through 6. ONLY those surplus debentures and capital notes with a CRP rating equivalent to an NAIC 1 or NAIC 2 designation may be included in this section (in Lines 30 and 31).~~ Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

~~Include: Surplus debentures and capital notes that possess a CRP rating equivalent to an NAIC 1 or NAIC 2 designation.~~

~~Exclude: All surplus debentures and capital notes that do NOT possess an CRP rating equivalent to an NAIC 1 or NAIC 2 designation. These surplus debentures are to be reported in Line 83 (Other Invested Assets – Schedule BA) of this schedule.~~

Lines 38 through 63 – Other Invested Assets with Underlying Characteristics of Mortgage Loans

Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to mortgage loans (Lines ~~1199999, 1299999,~~ 2399999 and 2499999), excluding any mortgage-backed/asset-backed securities included in Lines 22 through 28 above, in Columns 1 and 4. Categorize the mortgage loans as indicated in Lines 38 through 55.

For Lines 38 through 63, the classification methodology for mortgages is outlined in the Life Risk-Based Capital instructions. Multiply the amount in Column 4 for each category by the reserve factors in Columns 5, 7 and 9, Lines 38 through 63. Report the products by category in Columns 6, 8 and 10, respectively. For 2015 reporting, unaffiliated, overdue and in process of foreclosure mortgages that are insured or guaranteed should be included in Lines 47, 49, 52 or 54.

Detail Eliminated To Conserve Space

Lines 94 through 100 – Other Invested Assets with Underlying Characteristics of Surplus Notes and Capital Notes

Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to surplus notes and capital notes in Columns 1 and 4. Use the Credit Rating Provider (CRP) rating to categorize these assets as if the SVO had assigned an NAIC designation of 1 through 6. If no CRP rating, then report based on the reporting entity's assumption of credit risk. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line ~~94~~ 101 & 102~~95~~ – Working Capital Finance Investments

Report the book/adjusted carrying value of all working capital finance investments owned (Schedule BA, Part 1, Line 4599999) in Columns 1 and 4. Categorize the working capital finance investments into NAIC designations 1 or 2 as directed by the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line ~~96~~103 – Other Invested Assets – Schedule BA

Report the book/adjusted carrying value of all other Schedule BA investments owned that cannot be classified into one of the above categories ~~(Lines 0199999, 0299999, 0399999, 0499999, 0599999, 0699999, 0999999, 1099999, 1799999, 1899999, 2599999, 2699999, 2799999, 2899999, 3399999, 3499999, 5899999 and 5999999)~~ in Column 1 and any encumbrances on these assets in Column 3. Schedule DL, Part 1 investments reported on Line 9409999999 would be included in this total if not classified in one of the above categories. Collateral loans (Lines ~~2999999~~ 3199999 and ~~3099999~~3299999) have been intentionally excluded from this total. ~~For surplus debentures and capital notes, the amount to report in Column 1 is to be calculated based upon the accounting prescribed in *SSAP No. 41 – Surplus Notes*. Report the sum of Columns 1 and 3 in Column 4. Column 4 may not be less than zero. Note that ALL surplus debentures and capital notes should be included here in Line 96, EXCEPT those with a CRP rating equivalent to an NAIC 1 or NAIC 2 designation (which are reported in Lines 30 and 31 of this schedule).~~ Multiply the amount in Column 4 by the reserve factors provided in Columns 5, 7 and 9, and report the products in Columns 6, 8 and 10, respectively.

~~Exclude: All surplus debentures and capital notes that possess a CRP rating equivalent to an NAIC 1 or NAIC 2 designation. These surplus debentures are to be reported in Line 30 and 31 (Other Invested Assets with Underlying Characteristics of Preferred Stocks) of this schedule.~~

Line ~~97~~101 – Other Short-Term Invested Assets – Schedule DA

Report the book/adjusted carrying value of all other Schedule DA (Lines 7029999999 and 7509999999) and Schedule DL, Part 1 (Line 9509999999) assets owned that cannot be classified into one of the above categories in Column 1 and any encumbrances on these assets in Column 3. Report the sum of Columns 1 and 3 in Column 4. Multiply the amount on Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Line ~~98~~105 – Total Other Invested Assets – Schedules BA & DA

The Columns 6, 8 and 10 amounts must be combined with Columns 6, 8 and 10, Line 21 amounts and reported on the Asset Valuation Reserve Page, Column 5, Lines 7, 10 and 9, respectively.

NOTE: Other invested asset reserves will be calculated based on the nature of the underlying investments related to the Schedule BA and Schedule DA assets. Assets should be categorized as if the company owned the underlying investment. For example:

- Mortgage participation certificates and similar holdings should be classified as fixed income assets.
- Gas and oil production and mineral rights have potential variability of return and should be categorized as equity investments.
- Partnership investments should be classified as fixed or equity investments or as equity real estate, depending on the purpose of the partnership. The maximum AVR factor would be that appropriate for the asset classification.
- A “look through” approach should be taken for any Schedule BA and Schedule DA assets not specifically listed, so as to reflect in the AVR calculation the essential nature of the investments.

© 2024 National Association of Insurance Commissioners

QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE BA – PARTS 2 AND 3

OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND DISPOSED OF

Report the other long-term assets acquired during the current quarter. Investments acquired and sold during the same quarter should be reported in both Part 2 and Part 3. Include only those classes of invested assets not clearly or normally includable in any other invested asset schedule, or that have been specifically identified for reporting on Schedule BA: Other Invested Assets. Investments shall be reported in the designated reporting category and reporting line that represents the investment. Investments that do not fit within any specific reporting line shall be captured as an "Any other Class of Asset". ~~Such assets should include any assets previously written off for book purposes, but that still have a market or investment value. Give a detailed description of each investment and the underlying security. If an asset is to be recorded in Schedule BA that is normally reported in one of the other invested asset schedules, make full disclosure in a footnote of the reason for recording such an asset in Schedule BA.~~

For accounting guidance related to foreign currency transactions and translations, refer to *SSAP No. 23—Foreign Currency Transactions and Translations*.

If a reporting entity has any detail lines reported for any of the following required groups, categories or subcategories, it shall report the subtotal amount of the corresponding group, category or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

Group or Category	Line Number
Debt Securities That Do Not Qualify as Bonds	
Debt Securities That Do Not Reflect a Creditor Relationship in Substance	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0199999
Affiliated	0299999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0399999
Affiliated	0499999
Debt Securities That Lack Substantive Credit Enhancement	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0599999
Affiliated	0699999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0799999
Affiliated	0899999
Debt Securities That Do Not Qualify as Bonds ~~Soley~~Solely to a Lack of Meaningful Cash Flows	
NAIC Designation Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	0999999
Affiliated	1099999
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)	
Unaffiliated	1199999
Affiliated	1299999
~~Oil and Gas Production~~	
~~Unaffiliated~~	~~0199999~~
~~Affiliated~~	~~0299999~~
~~Transportation Equipment~~	
~~Unaffiliated~~	~~0399999~~
~~Affiliated~~	~~0499999~~
~~Mineral Rights~~	

© 2024 National Association of Insurance Commissioners

~~Unaffiliated ..... 0599999~~
~~Affiliated ..... 0699999~~

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Bonds~~

~~NAIC Designation Assigned by the Securities Valuation Office (SVO)~~

~~Unaffiliated ..... 0799999~~
~~Affiliated ..... 0899999~~

~~NAIC Designation Not Assigned by the Securities Valuation Office (SVO)~~

~~Unaffiliated ..... 0999999~~
~~Affiliated ..... 1099999~~

~~Mortgage Loans~~

~~Unaffiliated ..... 1199999~~
~~Affiliated ..... 1299999~~

~~Other Fixed Income Instruments~~

~~Unaffiliated ..... 1399999~~
~~Affiliated ..... 1499999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of:

~~Fixed Income Instruments~~Bonds

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated ..... ~~1599999~~1399999
Affiliated ..... ~~1699999~~1499999

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated ..... ~~1799999~~1599999
Affiliated ..... ~~1899999~~1699999

Preferred Stocks

Unaffiliated 1799999
Affiliated 1899999

Common Stocks

Unaffiliated 1999999
Affiliated 2099999

Real Estate

Unaffiliated 2199999
Affiliated 2299999

Mortgage Loans

Unaffiliated 2399999
Affiliated 2499999

Other

Unaffiliated 2599999
Affiliated 2699999

Surplus ~~Debentures, etc.~~Notes

Unaffiliated 2799999
Affiliated 2899999

Capital Notes

Unaffiliated 2999999
Affiliated 3099999

Collateral Loans

Unaffiliated ..... ~~2999999~~3199999
Affiliated ..... ~~3099999~~3299999

© 2024 National Association of Insurance Commissioners

Non-collateral Loans
Unaffiliated ~~3199999~~3399999
Affiliated ~~3299999~~3499999

~~Capital Notes~~
~~Unaffiliated 3399999~~
~~Affiliated 3499999~~

Guaranteed Federal Low Income Housing Tax Credit
Unaffiliated 3599999
Affiliated 3699999

Non-Guaranteed Federal Low Income Housing Tax Credit
Unaffiliated 3799999
Affiliated 3899999

Guaranteed State Low Income Housing Tax Credit
Unaffiliated 3999999
Affiliated 4099999

Non-Guaranteed State Low Income Housing Tax Credit
Unaffiliated 4199999
Affiliated 4299999

All Other Low Income Housing Tax Credit
Unaffiliated 4399999
Affiliated 4499999

Working Capital Finance Investment
Unaffiliated 4599999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:
~~Fixed Income Instruments~~Bonds
Unaffiliated 4699999
Affiliated 4799999
Preferred Stock
Unaffiliated 4899999
Affiliated 4999999
Common Stock
Unaffiliated ~~4899999~~5099999
Affiliated ~~4999999~~5199999
~~Preferred Stock~~
~~Unaffiliated 5099999~~
~~Affiliated 5199999~~
Real Estate
Unaffiliated 5299999
Affiliated 5399999
Mortgage Loans
Unaffiliated 5499999
Affiliated 5599999
Other
Unaffiliated 5699999
Affiliated 5799999

Any Other Class of Assets
Unaffiliated 5899999
Affiliated 5999999

© 2024 National Association of Insurance Commissioners

Subtotals

Unaffiliated ..... ~~6099999~~6899999
Affiliated ..... ~~6199999~~6999999
TOTALS ..... ~~6299999~~7099999

The following listing is intended to give examples of investments to be included in each category; however, the list should not be considered all-inclusive~~, and it should not be implied that any invested asset currently being reported in Schedules A, B or D is to be reclassified to Schedule BA~~.

~~**Oil and Gas Production**~~

~~Include: Offshore oil and gas leases.~~

~~**Transportation Equipment**~~

~~Include: Aircraft owned under leveraged lease agreements.~~
~~Motor Vehicle Trust Certificates.~~

~~**Mineral Rights**~~

~~Include: Investments in extractive materials.~~

~~Timber Deeds.~~

Debt Securities That Do Not Qualify as Bonds

Include: Debt securities captured in *SSAP No. 21 – Other Admitted Assets*. This is specific to securities, as that term is defined in *SSAP No. 26 – Bonds*, ~~whereby there is a fixed schedule for one or more future payments (referred to as debt securities),~~ but for which the security does not qualify for bond reporting under SSAP No. 26 as an issuer credit obligation or an asset-backed security.

Investments that have been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* shall be reported on Lines 0199999, 0299999, 0599999, 0699999, 0999999, and 1099999.

Investments that have not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Designations received from an SEC NRSRO are permitted to be reported but are not required. Report these investments on Lines 0399999, 0499999, 0799999, 0899999, 1199999 and 1299999.

Exclude: Any investment that does not qualify as a security. This term is defined in SSAP No. 26R.

Any investment that is not captured as a debt security that does not qualify as a bond pursuant to *SSAP No. 21R—Other Admitted Assets*.

~~**Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument**~~

~~Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).~~

~~Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.~~

~~Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics:

Include: Items in scope of *SSAP No. 48 – Joint Ventures, Partnerships or Limited Liability Companies*, which includes non-registered private funds. Investments shall be reported based on their underlying characteristics as described below. Investments shall be assigned fully to a subcategory. There should not be any bifurcation of the SSAP No. 48 investment among the subcategories.

Structured Security payment rights in scope of SSAP No. 21 that have an SVO-Assigned designation. Structured security payments rights that do not have an SVO-Assigned designation shall be reported as an Any Other Class of Asset.

Exclude: Any investment that is not captured in scope of SSAP No. 48.

~~Fixed Income Instruments~~Bonds

Include: Investments in scope of SSAP No. 48 with underlying collateral that has contractual principal and/or interest payments, excluding mortgage loans.

Structured Settlement payment rights in scope of SSAP No. 21R that have an SVO-Assigned designation.

~~Joint ventures, partnerships or limited liability companies (including non-registered private funds) investments that are engaged in bond strategies. Leveraged Buy-out Fund.~~

~~A fund investing in the "Z" strip of Collateralized Mortgage Obligations.~~

~~Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments~~Investments on the NAIC List of Schedule BA Non-Registered Private Funds with Underlying Assets Having Characteristics of Bonds or Preferred Stock and structured settlement payment rights in scope of SSAP No. 21R that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* ~~for this category~~. Report these investments on Lines ~~1599999~~ 1399999 and ~~1699999~~1499999.

~~Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments~~bonds that ~~has~~ have not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* ~~for this category~~. Designations received from an SEC NRSRO are permitted to be reported but are not required. Report these investments on Lines ~~1799999~~ 1599999 and ~~1899999~~1699999.

Preferred Stocks

Include: ~~Preferred Stock Interests~~Investments in scope of SSAP No. 48 with underlying characteristics of securities that represents ownership of a corporation and gives the holder a claim prior to the claims of common stockholders on earnings and also generally on assets in the event of liquidation.

Common Stocks

Include: Investments in scope of SSAP No. 48 with underlying characteristics of Venture Capital Funds or other underlying equity investments.

Real Estate

Include: Investments in scope of SSAP No. 48 with underlying collateral that reflects ~~R~~real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Mortgage Loans

Include: Items in scope of SSAP No. 48 that reflect ~~M~~mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Other

Include: Items in scope of SSAP No. 48 that do not fit within the specific categories.

Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the "~~Fixed Income Instruments~~Bonds," "Common Stocks," "Real Estate" or "Mortgage Loans" subcategories.

~~Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).~~

Surplus ~~Debentures, etc.~~Notes

Include: That portion of any subordinated indebtedness, surplus debenture, surplus note, debenture note, premium income note, bond, or other contingent evidence of indebtedness that is reported on the surplus.

Capital Notes

Include: The portion of any capital note that is reported on the line for capital notes of the issuing insurance reporting entity.

Collateral Loans

Include: Refer to *SSAP No. 21R—Other Admitted Assets*, for a definition of collateral loans. Loans that are backed by any form of collateral, regardless of if the collateral is sufficient to fully cover the loan, shall be captured in this category. Guidance in SSAP No. 21R shall be followed to determine nonadmittance.

In the description column, the name of the actual borrower and state if the borrower is a parent, subsidiary, affiliate, officer or director. Also include the type of collateral held.

Non-collateral Loans

Include: ~~For purposes of this section, n~~Non-collateral loans are considered the unpaid portion of loans previously made to another organization or individual in which the reporting entity has a right to receive money for the loan, but for which the reporting entity has not obtained collateral to secure the loan.

Non-collateral loans shall not include investments captured in scope of *SSAP No. 26 – Bonds*, *SSAP No. 37 – Mortgage Loans*, *SSAP No. 43R – Asset-Backed Securities*, or *SSAP No. 49 – Policy Loans*.~~those instruments that meet the definition of a bond, per *SSAP No. 26R—Bonds*, a mortgage loan per *SSAP No. 37—Mortgage Loans*, loan-backed or structuredasset-backed securities per *SSAP No. 43R—Loan-Backed and Structured Securities*, or a policy or contract loan per *SSAP No. 49—Policy Loans*.~~

In the description column, provide the name of the actual borrower. For affiliated entities, state if the borrower is a parent, subsidiary, affiliate, officer or director. Refer to *SSAP No. 20—Nonadmitted Assets* and *SSAP No. 25—Affiliates and Other Related Parties*, for accounting guidance.

~~**Capital Notes**~~

~~Include: The portion of any capital note that is reported on the line for capital notes of the issuing insurance reporting entity.~~

Low Income Housing Tax Credit

Include: All Low Income Housing Tax Credit Investments (LIHTC or affordable housing) that are in the form of a Limited Partnership or a Limited Liability Company, including those investments that have the following risk mitigation factors:

A. Guaranteed Low Income Housing Tax Credit Investments. There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment.

B. Non-guaranteed Low Income Housing Tax Credit Investments.

I. A level of leverage below 50%. For a LIHTC Fund, the level of leverage is measured at the fund level.

II. There is a Tax Credit Guarantee Agreement from General Partner or managing member. This agreement requires the General Partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For a LIHTC Fund, a Tax Credit Guarantee is required from the developers of the lower tier LIHTC properties to the upper tier partnership and all other LIHTC investments.

III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable foreclosure risk at the time of the investment.

Non-qualifying LIHTCs should be reported in the "All Other" category

Working Capital Finance Investment

Include: Investments in an interest in a Confirmed Supplier Receivables (CSR) under a Working Capital Finance Program (WCFP) that is designated by the SVO as meeting the criteria specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for an NAIC "1" or "2."

Working Capital Finance Program (WCFP)

Open account program under which an Investor may purchase interests, or evidence thereof, in commercial non-insurance receivables. A WFCP is created for the benefit of a commercial investment grade obligor and its suppliers of goods or services and facilitated by a financial intermediary.

Confirmed Supplier Receivables (CSR)

A first priority perfected security interest claim or right to payment of a monetary obligation from the Obligor arising from the sale of goods or services from the Supplier to the Obligor, the payment of which the Obligor has confirmed by representing and warranting that it will not protest, delay, or deny, nor offer nor assert any defenses against payment to the supplier or any party taking claim or right to payment from the supplier.

See *SSAP No. 105R—Working Capital Finance Investments*, for accounting guidance

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There should not be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests captured in scope of *SSAP No. 21R – Other Admitted Assets*. The scope of SSAP No. 21R includes all in-substance residuals regardless of the investment form. Therefore, this category shall include investments that reflect in-substance residuals in the form of 1) an investment in a securitization tranche or beneficial interest, 2) an investment in a joint venture, partnership or limited liability company, 3) an investment in preferred stock, 4) an investment in common stock, or 5) any other investment structure. ~~captures securitization tranches and beneficial interests as well as other structures captured in scope of *SSAP No. 43R—Loan-Backed and StructuredAsset-Backed Securities*, that reflect loss layers without any contractual payments, whether interest or principal, or both. Payments to holders of these investments occur after contractual interest and principal payments have been made to other tranches or interests and are based on the remaining available funds. See SSAP No. 43R for accounting guidance.~~

~~Investments in joint ventures, partnerships and limited liability companies captured in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests, or that predominantly hold residual interests.~~

~~This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.~~

~~**Fixed Income Instruments**~~**Bonds**

Include: Investments with underlying collateral which, if held individually, would be reported ~~*on Schedule D – Part 1 – Long Term Bonds*~~as issuer credit obligations on *Schedule D – Part 1 – Section 1*, or as asset-backed securities on *Schedule D – Part 1 – Section 2*. Residual tranches from collateralized loan obligations (CLOs) shall be captured within this reporting line.

Preferred Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*

Common Stocks

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 2 – Common Stocks*

~~**Preferred Stocks**~~

~~Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*~~

Real Estate

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule A – Real Estate Owned*

Mortgage Loans

Include: Investments with underlying collateral which, if held individually, would be reported on *Schedule B – Mortgage Loans*

Other

Include: Items that do not qualify for inclusion in the above subcategories. Examples include, but are not limited to, residual tranches from investments with underlying assets of student loans, aircraft leases or train car leases.

Any Other Class of Assets

Include: Investments that do not fit into one of the other categories. An example of items that may be included are reverse mortgages.

All structured settlement income streams acquired as investments where the reporting entity acquires the legal right to receive payments. (Valuation and admittance provisions are detailed in *SSAP No. 21R—Other Admitted Assets*.)

This category shall also include oil and gas leases, aircraft owned under leveraged lease arrangements, investments in extractive materials and timber deeds that are not owned within a partnership, LLC or joint venture structure.

© 2024 National Association of Insurance Commissioners

SCHEDULE BA – PART 2

OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND ADDITIONS MADE DURING THE CURRENT QUARTER

This schedule should reflect not only those newly acquired long-term invested assets, but also any increases or additions to long-term invested assets acquired in the current and prior periods, including, for example, capital calls from existing limited partnerships.

Column 1 – CUSIP Identification

~~This column must be completed for those investments included on Lines 0799999, 0899999, 1599999 and 1699999.~~

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard & Poor's CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard & Poor's CUSIP Bureau: *www.cusip.com/cusip/index.htm*.

~~For those investments not included on Lines 0799999, 0899999, 1599999 and 1699999, a CUSIP should be provided if one has been assigned.~~

If no CUSIP number exists, the CUSIP field should be zero-filled.

Detail Eliminated To Conserve Space

Column 6 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

This column must be completed for those investments included on Lines ~~0799999~~0199999, ~~0899999~~0299999, ~~1599999~~0599999, ~~1699999~~ 0699999, 0999999, 1099999, 1399999, 1499999, and 4599999. For all other lines, the column may be completed if the investment has an NAIC Designation received from the SVO or from an NAIC CRP.

For the investments noted above, insert the appropriate combination of the NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol. ~~The list of valid SVO Administrative Symbols is shown below.~~

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC's website for the Securities Valuation Office (*www.naic.org/svo.htm*).

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

- ~~NAIC Designation Column 6A~~
- ~~NAIC Designation Modifier Column 6B~~
- ~~SVO Administrative Symbol Column 6C~~

On the printed page the sub-columns should be displayed with a "." between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., "1.A YE").

© 2024 National Association of Insurance Commissioners

Detail Eliminated To Conserve Space

**** Columns 14 through 18 will be electronic only. ****

Column 14 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

6. The investment does not involve a related party.

~~Column 14 Legal Entity Identifier (LEI)~~

~~Provide the 20-character Legal Entity Identifier (LEI) for issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.~~

Column 15 – Postal Code

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of:

Real Estate

Unaffiliated..... 2199999

Affiliated..... 2299999

Mortgage Loans

Unaffiliated.....2399999

Affiliated.....2499999

The postal code(s) reported in this column should reflect the location of the underlying property. For U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. Outside the U.S. states, territories and possessions, use that country's equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example of two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD)

Column 16 – Property Type

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated.....1199999~~

~~Affiliated.....1299999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of:

Real Estate

Unaffiliated.....2199999

Affiliated.....2299999

Mortgage Loans

Unaffiliated.....2399999

Affiliated.....2499999

For property type, use one of the following codes to indicate the primary use of the property:

OF	Office
RT	Retail
MU	Apartment/Multifamily
IN	Industrial
HC	Medical/Health Care
MX	Mixed Use
LO	Lodging
OT	Other

Column 17 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits.

However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.
~~Use only for securities included in the following subtotal lines.~~

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

~~State the date the mortgage loan matures.~~

~~Column 18 Investments Involving Related Parties~~

~~Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.~~

~~Enter one of the following codes to identify the role of the related party in the investment.~~

~~1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.~~

~~2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.~~

~~3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.~~

~~4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.~~

~~5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.~~

~~6. The investment does not involve a related party.~~

SCHEDULE BA – PART 3

OTHER LONG-TERM INVESTED ASSETS DISPOSED, TRANSFERRED OR REPAID DURING THE CURRENT QUARTER

This schedule should reflect not only disposals of an entire "other invested asset" but should also include partial disposals and amounts received during the year on investments still held, including, for example, return of capital distributions from limited partnerships.

Column 1 – CUSIP Identification

~~This column must be completed for those investments included on Lines 0799999, 0899999, 1599999 and 1699999.~~

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard & Poor's CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard & Poor's CUSIP Bureau: *www.cusip.com/cusip/index.htm*.

~~For those investments not included on Lines 0799999, 0899999, 1599999 and 1699999, a CUSIP should be provided if one has been assigned.~~

If no CUSIP number exists, the CUSIP field should be zero-filled.



**** Columns 21 through 25 will be electronic only. ****

Column 21 – Investments Involving Related Parties

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

6. The investment does not involve a related party.

~~Column 21 Legal Entity Identifier (LEI)~~

~~Provide the 20-character Legal Entity Identifier (LEI) for issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.~~

Column 22 – Postal Code

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated ..... 1199999~~

~~Affiliated ..... 1299999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of:

Real Estate

Unaffiliated 2199999

Affiliated 2299999

Mortgage Loans

Unaffiliated 2399999

Affiliated 2499999

The postal code(s) reported in this column should reflect the location of the underlying property. For U.S. states, territories and possessions, use the five-digit ZIP code and not the ZIP+4 code. Outside the U.S. states, territories and possessions, use that country's equivalent to the ZIP code. Multiple postal codes should be entered if the underlying properties are located in more than one postal code and listed from highest to lowest value associated with the underlying properties separated by commas.

Example of two U.S. postal codes and one United Kingdom postal code (51501,68104,E4 7SD)

Column 23 – Property Type

Use only for securities included in the following subtotal lines.

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated ..... 1199999~~

~~Affiliated ..... 1299999~~

Interests in Joint Ventures, Partnerships or Limited Liability ~~Company~~ Companies (Including Non-Registered Private Funds) ~~Interests~~ with Underlying Assets Having the Characteristics of:

Real Estate

Unaffiliated 2199999

Affiliated 2299999

© 2024 National Association of Insurance Commissioners

Mortgage Loans

Unaffiliated..... 2399999

Affiliated..... 2499999

For property type, use one of the following codes to indicate the primary use of the property:

OF	Office
RT	Retail
MU	Apartment/Multifamily
IN	Industrial
HC	Medical/Health Care
MX	Mixed Use
LO	Lodging
OT	Other

Column 24 – Maturity Date

The maturity date shall be reported for all investments on Schedule BA that have a stated maturity date. This is anticipated to include, but not limited to, all investments captured as non-bond debt securities, surplus notes, capital notes, collateral loans, non-collateral loans, and investments in tax credits. However, this list should not be considered all-inclusive for investments captured on other reporting lines with stated maturity dates.

~~Use only for securities included in the following subtotal lines.~~

~~Non-Registered Private Funds with Underlying Assets Having Characteristics of:~~

~~Mortgage Loans~~

~~Unaffiliated..... 1199999~~

~~Affiliated..... 1299999~~

~~State the date the mortgage loan matures.~~

~~Column 25 Investments Involving Related Parties~~

~~Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control/affiliation.~~

~~Enter one of the following codes to identify the role of the related party in the investment.~~

~~1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a direct credit exposure.~~

~~2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.~~

~~3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies involving a relationship with a related party as sponsor, originator,~~

~~manager, servicer or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.~~

~~4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer or other similar influential role.~~

~~5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.~~

~~6. The investment does not involve a related party.~~

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE BA – PART 1

Showing Other Long-Term Invested Assets OWNED December 31 of Current Year

1	2	3	Location		6	7	8	9	10	11	12	Change in Book/Adjusted Carrying Value					18	19	20
			4	5								13	14	15	16	17			
CUSIP Identification	Name or Description	Restricted Asset Code	City	State	Name of Vendor or General Partner	NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol	Date Originally Acquired	Type and Strategy	Actual Cost	Fair Value	Book/ Adjusted Carrying Value Less Encumbrances	Unrealized Valuation Increase/ (Decrease)	Current Year's (Depreciation) or (Amortization)/ Accretion	Current Year's Other-Than-Temporary Impairment Recognized	Capitalized Deferred Interest and Other	Total Foreign Exchange Change in B./A.C.V.	Investment Income	Commitment for Additional Investment	Percentage of Ownership
6299999 Totals																			XXX

1.

Line Number	Book/Adjusted Carrying Value by NAIC Designation Category Footnote:					
1A	1A $ ----------	1B $ ----------	1C $ ----------	1D $ ----------	1E $ ----------	1F $ ---------- 1G $ ----------
1B	2A $ ----------	2B $ ----------	2C $ ----------			
1C	3A $ ----------	3B $ ----------	3C $ ----------			
1D	4A $ ----------	4B $ ----------	4C $ ----------			
1E	5A $ ----------	5B $ ----------	5C $ ----------			
1F	6 $ ----------					

ASSET VALUATION RESERVE
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

							Basic Contribution		Reserve Objective		Maximum Reserve	
			1	2	3	4	5	6	7	8	9	10
Line Number	NAIC Designation	Description	Book/ Adjusted Carrying Value	Reclassify Related Party Encumbrances	Add Third Party Encumbrances	Balance for AVR Reserve Calculations (Cols. 1+2+3)	Factor	Amount (Cols. 4x5)	Factor	Amount (Cols. 4x7)	Factor	Amount (Cols. 4x9)
		COMMON STOCK										
1		Unaffiliated Public		XXX	XXX		0.0000		0.1580 (a)		0.1580 (a)	
2		Unaffiliated Private		XXX	XXX		0.0000		0.1945		0.1945	
3		Federal Home Loan Bank		XXX	XXX		0.0000		0.0061		0.0097	
4		Affiliated Life with AVR		XXX	XXX		0.0000		0.0000		0.0000	
		Affiliated Investment Subsidiary:										
5		Fixed Income Exempt Obligations					XXX		XXX		XXX	
6		Fixed Income Highest Quality					XXX		XXX		XXX	
7		Fixed Income High Quality					XXX		XXX		XXX	
8		Fixed Income Medium Quality					XXX		XXX		XXX	
9		Fixed Income Low Quality					XXX		XXX		XXX	
10		Fixed Income Lower Quality					XXX		XXX		XXX	
11		Fixed Income In or Near Default					XXX		XXX		XXX	
12		Unaffiliated Common Stock Public					0.0000		0.1580 (a)		0.1580 (a)	
13		Unaffiliated Common Stock Private					0.0000		0.1945		0.1945	
14		Real Estate					(b)		(b)		(b)	
15		Affiliated-Certain Other (See SVO Purposes & Procedures Manual)		XXX	XXX		0.0000		0.1580		0.1580	
16		Affiliated - All Other		XXX	XXX		0.0000		0.1945		0.1945	
17		Total Common Stock (Sum of Lines 1 through 16)					XXX		XXX		XXX	
		REAL ESTATE										
18		Home Office Property (General Account only)					0.0000		0.0912		0.0912	
19		Investment Properties					0.0000		0.0912		0.0912	
20		Properties Acquired in Satisfaction of Debt					0.0000		0.1337		0.1337	
21		Total Real Estate (Sum of Lines 18 through 20)					XXX		XXX		XXX	
		OTHER INVESTED ASSETS INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF BONDS										
22		Exempt Obligations		XXX	XXX		0.0000		0.0000		0.0000	
23	1	Highest Quality		XXX	XXX		0.0005		0.0016		0.0033	
24	2	High Quality		XXX	XXX		0.0021		0.0064		0.0106	
25	3	Medium Quality		XXX	XXX		0.0099		0.0263		0.0376	
26	4	Low Quality		XXX	XXX		0.0245		0.0572		0.0817	
27	5	Lower Quality		XXX	XXX		0.0630		0.1128		0.1880	
28	6	In or Near Default		XXX	XXX		0.0000		0.2370		0.2370	
29		Total with Bond Characteristics (Sum of Lines 22 through 28)		XXX	XXX		XXX		XXX		XXX	

© 2024 National Association of Insurance Commissioners

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

			1	2	3	4	Basic Contribution		Reserve Objective		Maximum Reserve	
							5	6	7	8	9	10
Line Number	NAIC Desig-nation	Description	Book/ Adjusted Carrying Value	Reclassify Related Party Encumbrances	Add Third Party Encumbrances	Balance for AVR Reserve Calculations (Cols. 1+2+3)	Factor	Amount (Cols.4x5)	Factor	Amount (Cols. 4x7)	Factor	Amount (Cols.4x9)
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF PREFERRED STOCKS										
30	1	Highest Quality		XXX	XXX		0.0005		0.0016		0.0033	
31	2	High Quality		XXX	XXX		0.0021		0.0064		0.0106	
32	3	Medium Quality		XXX	XXX		0.0099		0.0263		0.0376	
33	4	Low Quality		XXX	XXX		0.0245		0.0572		0.0817	
34	5	Lower Quality		XXX	XXX		0.0630		0.1128		0.1880	
35	6	In or Near Default		XXX	XXX		0.0000		0.2370		0.2370	
36		Affiliated Life with AVR		XXX	XXX		0.0000		0.0000		0.0000	
37		Total with Preferred Stock Characteristics (Sum of Lines 30 through 36)		XXX	XXX		XXX		XXX		XXX	
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF MORTGAGE LOANS										
		In Good Standing Affiliated:										
38		Mortgages – CM1 – Highest Quality			XXX		0.0011		0.0057		0.0074	
39		Mortgages – CM2 – High Quality			XXX		0.0040		0.0114		0.0149	
40		Mortgages – CM3 – Medium Quality			XXX		0.0069		0.0200		0.0257	
41		Mortgages – CM4 – Low Medium Quality			XXX		0.0120		0.0343		0.0428	
42		Mortgages – CM5 – Low Quality			XXX		0.0183		0.0486		0.0628	
43		Residential Mortgages – Insured or Guaranteed			XXX		0.0003		0.0007		0.0011	
44		Residential Mortgages – All Other		XXX	XXX		0.0015		0.0034		0.0046	
45		Commercial Mortgages – Insured or Guaranteed			XXX		0.0003		0.0007		0.0011	
		Overdue, Not in Process Affiliated:										
46		Farm Mortgages			XXX		0.0480		0.0868		0.1371	
47		Residential Mortgages – Insured or Guaranteed			XXX		0.0006		0.0014		0.0023	
48		Residential Mortgages – All Other			XXX		0.0029		0.0066		0.0103	
49		Commercial Mortgages – Insured or Guaranteed			XXX		0.0006		0.0014		0.0023	
50		Commercial Mortgages –- All Other			XXX		0.0480		0.0868		0.1371	
		In Process of Foreclosure Affiliated:										
51		Farm Mortgages			XXX		0.0000		0.1942		0.1942	
52		Residential Mortgages – Insured or Guaranteed			XXX		0.0000		0.0046		0.0046	
53		Residential Mortgages – All Other			XXX		0.0000		0.0149		0.0149	
54		Commercial Mortgages – Insured or Guaranteed			XXX		0.0000		0.0046		0.0046	
55		Commercial Mortgages – All Other			XXX		0.0000		0.1942		0.1942	
56		Total Affiliated (Sum of Lines 38 through 55)			XXX		XXX		XXX		XXX	
57		Unaffiliated – In Good Standing With Covenants			XXX		(c)		(c)		(c)	
58		Unaffiliated – In Good Standing Defeased With Government Securities			XXX		0.0011		0.0057		0.0074	
59		Unaffiliated – In Good Standing Primarily Senior			XXX		0.0040		0.0114		0.0149	
60		Unaffiliated – In Good Standing All Other			XXX		0.0069		0.0200		0.0257	
61		Unaffiliated – Overdue, Not in Process			XXX		0.0480		0.0868		0.1371	
62		Unaffiliated – In Process of Foreclosure			XXX		0.0000		0.1942		0.1942	
63		Total Unaffiliated (Sum of Lines 57 through 62)			XXX		XXX		XXX		XXX	
64		Total with Mortgage Loan Characteristics (Lines 56 + 63)			XXX		XXX		XXX		XXX	

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

Line Number	NAIC Designation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution 5 Factor	Basic Contribution 6 Amount (Cols. 4x5)	Reserve Objective 7 Factor	Reserve Objective 8 Amount (Cols. 4x7)	Maximum Reserve 9 Factor	Maximum Reserve 10 Amount (Cols. 4x9)
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF COMMON STOCK										
65		Unaffiliated Public		XXX	XXX		0.0000		0.1580(a)		0.1580(a)	
66		Unaffiliated Private		XXX	XXX		0.0000		0.1945		0.1945	
67		Affiliated Life with AVR		XXX	XXX		0.0000		0.0000		0.0000	
68		Affiliated Certain Other (See SVO Purposes & Procedures Manual)		XXX	XXX		0.0000		0.1580		0.1580	
69		Affiliated Other - All Other		XXX	XXX		0.0000		0.1945		0.1945	
70		Total with Common Stock Characteristics (Sum of Lines 65 through 69)		XXX	XXX		XXX		XXX		XXX	
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF REAL ESTATE										
71		Home Office Property (General Account only)					0.0000		0.0912		0.0912	
72		Investment Properties					0.0000		0.0912		0.0912	
73		Properties Acquired in Satisfaction of Debt					0.0000		0.1337		0.1337	
74		Total with Real Estate Characteristics (Sum of Lines 71 through 73)					XXX		XXX		XXX	
		LOW INCOME HOUSING TAX CREDIT INVESTMENTS										
75		Guaranteed Federal Low-Income Housing Tax Credit					0.0003		0.0006		0.0010	
76		Non-guaranteed Federal Low-Income Housing Tax Credit					0.0063		0.0120		0.0190	
77		Guaranteed State Low Income Housing Tax Credit					0.0003		0.0006		0.0010	
78		Non-guaranteed State Low Income Housing Tax Credit					0.0063		0.0120		0.0190	
79		All Other Low-Income Housing Tax Credit					0.0273		0.0600		0.0975	
80		Total LIHTC (Sum of Lines 75 through 79)					XXX		XXX		XXX	
		RESIDUAL TRANCHES OR INTERESTS										
81		~~Fixed Income Instruments~~Bonds – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
82		~~Fixed Income Instruments~~Bonds – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
83		Common Stock – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
84		Common Stock – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
85		Preferred Stock – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
86		Preferred Stock – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
87		Real Estate – Unaffiliated					0.0000		0.1580		0.1580	
88		Real Estate – Affiliated					0.0000		0.1580		0.1580	
89		Mortgage Loans – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
90		Mortgage Loans – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
91		Other – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
92		Other – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
93		Total Residual Tranches or Interests (Sum of Lines 81 through 92)					XXX		XXX		XXX	
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF SURPLUS NOTES & CAPITAL NOTES										
94	1	Highest Quality		XXX	XXX		0.0005		0.0016		0.0033	
95	2	High Quality		XXX	XXX		0.0021		0.0064		0.0106	
96	3	Medium Quality		XXX	XXX		0.0099		0.0263		0.0376	
97	4	Low Quality		XXX	XXX		0.0245		0.0572		0.0817	
98	5	Lower Quality		XXX	XXX		0.0630		0.1128		0.1880	
99	6	In or Near Default		XXX	XXX		0.0000		0.2370		0.2370	
100		Total with Bond Characteristics (Sum of Lines 94 through 100)		XXX	XXX		XXX		XXX		XXX	
		ALL OTHER INVESTMENTS										
101~~94~~		NAIC 1 Working Capital Finance Investments		XXX			0.0000		0.0042		0.0042	
102~~95~~		NAIC 2 Working Capital Finance Investments		XXX			0.0000		0.0137		0.0137	
103~~96~~		Other Invested Assets - Schedule BA		XXX			0.0000		0.1580		0.1580	
104~~97~~		Other Short-Term Invested Assets - Schedule DA		XXX			0.0000		0.1580		0.1580	
105~~98~~		Total All Other (Sum of Lines 94, 95, 96 and 97)		XXX			XXX		XXX		XXX	
106~~99~~		Total Other Invested Assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 80, 93, 100 and ~~98~~105)					XXX		XXX		XXX	

(a) Times the company's weighted average portfolio beta (Minimum .1215, Maximum .2431).
(b) Determined using same factors and breakdowns used for directly owned real estate.
(c) This will be the factor associated with the risk category determined in the company generated worksheet.

W:\QA\BlanksProposals\2023-12BWG_Modified.docx

Attachment Two-A2
Accounting Practices and Procedures (E) Task Force
8/14/24

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE:	**01/03/2024**
CONTACT PERSON:	
TELEPHONE:	
EMAIL ADDRESS:	
ON BEHALF OF:	
NAME:	**Dale Bruggeman**
TITLE:	**Chair SAPWG**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50W. Town St., 3rd FL., Ste. 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-01BWG
Year 2024
Changes to Existing Reporting [X]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [ ]
Modifies Required Disclosure [X]

Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
****If Yes, complete question below****

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[X] Adopted Date 05/23/2024
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2024

IDENTIFICATION OF ITEM(S) TO CHANGE

Identify where common stock and preferred stock residual interests should be reported on the investment schedules.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal updates the Investment Schedules General Instructions to identify that common and preferred stock residual interests should be reported on Schedule BA. (SAPWG Item 2023-23)

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

INVESTMENT SCHEDULES GENERAL INSTRUCTIONS
(Applies to all investment schedules)

Detail Eliminated To Conserve Space

General Classifications Preferred Stock Only:

Refer to *SSAP No. 32R—Preferred Stock* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

Investments in the form of preferred stock that are in substance residual interests or a residual security tranche, as defined in *SSAP No. 43R—Loan-Backed and Structured Securities* or *SSAP No. 48—Joint Ventures, Partnerships, and Limited Liability Companies*, shall be reported on Schedule BA – Other Long-Term Assets in the reporting lines for residuals.

Industrial and Miscellaneous (Unaffiliated):

All unaffiliated preferred stocks. Include Public Utilities, Banks, Trusts and Insurance Companies. This category includes Exchange Traded Funds included on the "List of Exchange Traded Funds Eligible for Reporting as a Schedule D Preferred Stock" as found on the Securities Valuation Office Web page (*https://www.naic.org/svo.htm*). Include publicly traded stock warrants captured in the scope of *SSAP No. 32R—Preferred Stock.*

Parent, Subsidiaries and Affiliates:

Defined by *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

General Classifications Common Stock Only:

Refer to *SSAP No. 30R—Unaffiliated Common Stock* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

Investments in the form of common stock that are in substance residual interests or a residual security tranche, as defined in *SSAP No. 43R—Loan-Backed and Structured Securities* or *SSAP No. 48—Joint Ventures, Partnerships, and Limited Liability Companies*, shall be reported on Schedule BA – Other Long-Term Assets in the reporting lines for residuals.

© 2024 National Association of Insurance Commissioners

SCHEDULE D – PART 2 – SECTION 1

PREFERRED STOCKS OWNED DECEMBER 31 OF CURRENT YEAR

Stocks are to be grouped as listed below and arranged alphabetically, showing a subtotal for each category.

Investments that are in substance residual interests or a residual security tranche shall not be captured on this schedule. These investments shall be reported on Schedule BA – Other Long-Term Assets.

© 2024 National Association of Insurance Commissioners

SCHEDULE D – PART 2 – SECTION 2

COMMON STOCKS OWNED DECEMBER 31 OF CURRENT YEAR

Stocks are to be grouped as listed below and arranged alphabetically, showing a subtotal for each category.

Investments that are in substance residual interests or a residual security tranche shall not be captured on this schedule. These investments shall be reported on Schedule BA – Other Long-Term Assets.

© 2024 National Association of Insurance Commissioners

QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

INVESTMENT SCHEDULES GENERAL INSTRUCTIONS
(Applies to all investment schedules)

Detail Eliminated To Conserve Space

General Classifications Preferred Stock Only:

Refer to *SSAP No. 32R—Preferred Stock* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

Investments in the form of preferred stock that are in substance residual interests or a residual security tranche, as defined in *SSAP No. 43R—Loan-Backed and Structured Securities* or *SSAP No. 48—Joint Ventures, Partnerships, and Limited Liability Companies*, shall be reported on Schedule BA – Other Long-Term Assets in the reporting lines for residuals.

Industrial and Miscellaneous (Unaffiliated):

All unaffiliated preferred stocks. Include Public Utilities, Banks, Trusts and Insurance Companies. This category includes Exchange Traded Funds included on the "List of Exchange Traded Funds Eligible for Reporting as a Schedule D Preferred Stock" as found on the Securities Valuation Office Web page (*https://www.naic.org/svo.htm*). Include publicly traded stock warrants captured in the scope of *SSAP No. 32R—Preferred Stock.*

Parent, Subsidiaries and Affiliates:

Defined by *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

General Classifications Common Stock Only:

Refer to *SSAP No. 30R—Unaffiliated Common Stock* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

Investments in the form of common stock that are in substance residual interests or a residual security tranche, as defined in *SSAP No. 43R—Loan-Backed and Structured Securities* or *SSAP No. 48—Joint Ventures, Partnerships, and Limited Liability Companies*, shall be reported on Schedule BA – Other Long-Term Assets in the reporting lines for residuals.

© 2024 National Association of Insurance Commissioners

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 01/03/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2024-02BWG MOD
TELEPHONE:	Year 2024
EMAIL ADDRESS:	Changes to Existing Reporting [X]
ON BEHALF OF:	New Reporting Requirement [ ]
NAME: Dale Bruggeman	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE: Chair SAPWG	No Impact [ ]
AFFILIATION: Ohio Department of Insurance	Modifies Required Disclosure [X]
ADDRESS: 50W. Town St., 3rd FL., Ste. 300	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
Columbus, OH 43215	***If Yes, complete question below***
	DISPOSITION
	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[ ] Received For Public Comment
	[X] Adopted Date 05/23/2024
	[ ] Rejected Date
	[ ] Deferred Date
	[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[X] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: 1st Quarter 2025

IDENTIFICATION OF ITEM(S) TO CHANGE

Remove categories from Schedule DA, Part 1 and Schedule E, Part 2 that should be reported on Schedule BA. Add clarifying instructions on what should be included in Other Short-Term and Other Cash Equivalent categories. Make corresponding changes to Schedule DA Verification, 5-year Historical, and Asset Valuation Reserve.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal updates the Investment Schedules General Instructions to identify what should be included in the Other Short-Term and Other Cash Equivalent categories and to add clarity of what should be reported on Schedule BA. (SAPWG Item 2023-17).

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

INVESTMENT SCHEDULES GENERAL INSTRUCTIONS
(Applies to all investment schedules)

Detail Eliminated To Conserve Space

General Classifications Short-Term Investments Only:

Refer to *SSAP No. 2R— Cash, Cash Equivalents, Drafts and Short-Term Investments*. The following investments are not permitted to be reported as short-term investments regardless of maturity date:

- Asset-backed securities captured in scope of *SSAP No. 43R - Asset-backed Securities*
- All investments that are reported on Schedule BA, including but not limited to:
  - All debt securities that do not qualify as bonds in scope of *SSAP No. 21R – Other Admitted Assets*
  - Collateral/Non-Collateral loans captured in scope of SSAP No. 21R.
  - Working capital finance investments in scope of *SSAP No. 105R – Working Capital Finance Investments*
  - Surplus notes in scope of *SSAP No. 41R – Surplus Notes*
- Mortgage loans captured in scope of *SSAP No. 37 – Mortgage Loans*
- Derivative instruments in scope of *SSAP No. 86 – Derivatives* or *SSAP No. 108 – Derivatives Hedging Variable Annuity Guarantees*
- Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

Other Short-Term Investments:

Report investments that qualify as short-term investments pursuant to *SSAP No. 2R - Cash, Cash Equivalents, Drafts and Short-Term Investments* that do not fit within a specific reporting line. (Specific reporting lines shall be utilized when applicable.)

General Classifications Cash Equivalents Only:

Refer to *SSAP No. 2R— Cash, Cash Equivalents, Drafts and Short-Term Investments*. The following investments are not permitted to be reported as short-term investments regardless of maturity date:

- Asset-backed securities captured in scope of *SSAP No. 43R - Asset-backed Securities*
- All investments that are reported on Schedule BA, including but not limited to:
  - All debt securities that do not qualify as bonds in scope of *SSAP No. 21R – Other Admitted Assets*
  - Collateral/Non-Collateral loans captured in scope of SSAP No. 21R.
  - Working capital finance investments in scope of *SSAP No. 105R – Working Capital Finance Investments*
  - Surplus notes in scope of *SSAP No. 41R – Surplus Notes*
- Mortgage loans captured in scope of *SSAP No. 37 – Mortgage Loans*
- Derivative instruments in scope of *SSAP No. 86 – Derivatives* or *SSAP No. 108 – Derivatives Hedging Variable Annuity Guarantees*
- Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

© 2024 National Association of Insurance Commissioners

Money Market Mutual Funds:

All investment in shares of funds regulated as money market mutual funds by the U.S. Securities and Exchange Commission.

Other Cash Equivalent:

Report investments that qualify as Cash Equivalents pursuant to *SSAP No. 2R - Cash, Cash Equivalents, Drafts and Short-Term Investments* that do not fit within a specific reporting line. (Specific reporting lines shall be utilized when applicable.)

© 2024 National Association of Insurance Commissioners

SCHEDULE DA – PART 1

SHORT-TERM INVESTMENTS OWNED DECEMBER 31 OF CURRENT YEAR

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999
Total Issuer Credit Obligations	
Subtotals – Issuer Credit Obligations (Unaffiliated)	0489999999
(Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, and 0269999999)	
Subtotals – Issuer Credit Obligations (Affiliated)	0499999999
(Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, and 0279999999)	
Subtotals – Issuer Credit Obligations	0509999999
~~Parent, Subsidiaries and Affiliates~~	
~~Mortgage Loans~~	~~7019999999~~
~~Other Short-Term Invested Assets~~	~~7029999999~~

© 2024 National Association of Insurance Commissioners

~~Subtotals – Parent, Subsidiaries and Affiliates ..... 7109999999~~
~~Mortgage Loans ..... 7309999999~~
Other Short-Term Invested Assets (Unaffiliated) 7499999999
Other Short-Term Invested Assets (Affiliated) 7509999999
Total Short-Term Investments (Unaffiliated) 7689999999
(Sum of Lines: 0489999999 and 7499999999)
Total Short-Term Investments (Affiliated) 7699999999
(Sum of Lines: 0499999999 and 7509999999)
Total Short-Term Investments 7709999999

SCHEDULE E – PART 2 – CASH EQUIVALENTS

List all investments owned whose maturities (or repurchase dates under repurchase agreement) at the time of acquisition were three months or less and defined as cash equivalents in accordance with *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*. Include Money Market Mutual Funds.

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct & Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999
Total – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, 0249999999, and 0269999999)	0489999999
Total – Issuer Credit Obligations (Affiliated)	0499999999

© 2024 National Association of Insurance Commissioners

(Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0259999999, and 0279999999)

Total – Total Issuer Credit Obligations 0509999999

Sweep Accounts 8109999999

Exempt Money Market Mutual Funds – as Identified by SVO 8209999999

All Other Money Market Mutual Funds 8309999999

Qualified Cash Pools Under SSAP No. 2R 8409999999

Other Cash Equivalents (Unaffiliated) 8499999999

Other Cash Equivalents (Affiliated) 8509999999

Total Cash Equivalents (Unaffiliated) 8589999999

(Sum of Lines: 0489999999, 8409999999, and 8499999999)

Total Cash Equivalents (Affiliated) 8599999999

(Sum of Lines: 0499999999, 8109999999, 8209999999, 8309999999, and 8509999999)

Total Cash Equivalents 8609999999

SCHEDULE DA – VERIFICATION BETWEEN YEARS

SHORT-TERM INVESTMENTS

Report the aggregate amounts required by type of short-term investment asset. The categories of assets to be reported are: bonds; ~~mortgage loans;~~and other short-term investment assets~~; and investments in parent, subsidiaries and affiliates~~. A grand total of all activity is also required.

ANNUAL STATEMENT INSTRUCTIONS – HEALTH

FIVE-YEAR HISTORICAL DATA

Detail Eliminated To Conserve Space

Investments in Parent, Subsidiaries and Affiliates

Line 26 – Affiliated Bonds

All years .....Schedule D Summary, Line 12, Column 1

Line 27 – Affiliated Preferred Stocks

All years .....Schedule D Summary, Line 18, Column 1

Line 28 – Affiliated Common Stocks

All years .....Schedule D Summary, Line 24, Column 1

~~Line 29 – Affiliated Short-term Investment~~

~~All years .....Subtotal included in Schedule DA, Verification Between Years, Column 5, Line 10~~

Line 33 – Total Investment in Parent

Report the amount of investments reported in Lines 26 to 31 above that are in an immediate or indirect parent.

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

FIVE-YEAR HISTORICAL DATA

Detail Eliminated To Conserve Space

Investments in Parent, Subsidiaries and Affiliates

Line 44 – Affiliated Bonds

All years .....Schedule D Summary, Line 12, Column 1

Line 45 – Affiliated Preferred Stocks

All years .....Schedule D Summary, Line 18, Column 1

Line 46 – Affiliated Common Stocks

All years .....Schedule D Summary, Line 24, Column 1

~~Line 47 – Affiliated Short-term Investments~~

~~All years .....Subtotal included in Schedule DA, Verification Between Years, Column 5, Line 10~~

Line 51 – Total Investment in Parent

Report the amount of investments reported in Lines 44 to 49 above that are in an immediate or indirect parent.

ASSET VALUATION RESERVE

DEFAULT COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS

Detail Eliminated To Conserve Space

~~Line 59 – Total Schedule DA Mortgages~~

~~Report the book/adjusted carrying value of all Schedule DA mortgage loans (Lines 7019999999 and 7309999999) and any applicable investments from Schedule DL, Part 1, Line 9509999999 owned in Column 1. Any related encumbrances should be deducted in Column 2. Multiply the amount in Column 4 by the reserve factors for the Schedule B mortgages and report the products in Columns 6, 8 and 10.~~

ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

FIVE-YEAR HISTORICAL DATA

Detail Eliminated To Conserve Space

Investments in Parent, Subsidiaries and Affiliates

Line 42 – Affiliated Bonds

All years .....Schedule D Summary, Line 12, Column 1

Line 43 – Affiliated Preferred Stocks

All years .....Schedule D Summary, Line 18, Column 1

Line 44 – Affiliated Common Stock

All years .....Schedule D Summary, Line 24, Column 1

~~Line 45 – Affiliated Short-term Investments~~

~~All years .....Schedule DA Verification Between Years, Column 5, Line 10~~

Line 49 – Total Investment in Parent

Report the amount of investments reported in Lines 42 to 47 above that are in an immediate or indirect parent.

Line 50 – Percentage of Investments in Parents, Subsidiaries and Affiliates to Surplus as Regards Policyholders

All years .....Five Year Historical, Line 48 divided by Page 3, Column 1, Line 37 x 100.0

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – TITLE

FIVE-YEAR HISTORICAL DATA

Detail Eliminated To Conserve Space

Investment in Parent, Subsidiaries and Affiliates

Line 38 – Affiliated Bonds

All years.....Schedule D Summary, Line 12, Column 1

Line 39 – Affiliated Preferred Stock

All years.....Schedule D Summary, Line 18, Column 1

Line 40 – Affiliated Common Stock

All years.....Schedule D Summary, Line 24, Column 1

~~Line 41 – Affiliated Short-term Investments~~

~~All years.....Subtotal included in Schedule DA, Verification Between Years, Column 5, Line 10~~

Line 45 – Total Investment in Parent

Report the amount of investments reported in Lines 38 to 43 above that are in an immediate or indirect parent.

Line 46 – Percentage of Investments in Parent, Subsidiaries and Affiliates to Surplus as Regards to Policyholders

All years.....Line 44 divided by Page 3, Line 32, Column 1 x 100.0

© 2024 National Association of Insurance Commissioners

QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

INVESTMENT SCHEDULES GENERAL INSTRUCTIONS
(Applies to all investment schedules)

Detail Eliminated To Conserve Space

General Classifications Short-Term Investments Only:

Refer to *SSAP No. 2R— Cash, Cash Equivalents, Drafts and Short-Term Investments*. The following investments are not permitted to be reported as short-term investments regardless of maturity date:

- Asset-backed securities captured in scope of *SSAP No. 43R - Asset-backed Securities*
- All investments that are reported on Schedule BA, including but not limited to:
  - All debt securities that do not qualify as bonds in scope of *SSAP No. 21R – Other Admitted Assets*
  - Collateral/Non-Collateral loans captured in scope of SSAP No. 21R.
  - Working capital finance investments in scope of *SSAP No. 105R – Working Capital Finance Investments*
  - Surplus notes in scope of *SSAP No. 41R – Surplus Notes*
- Mortgage loans captured in scope of *SSAP No. 37 – Mortgage Loans*
- Derivative instruments in scope of *SSAP No. 86 – Derivatives* or *SSAP No. 108 – Derivatives Hedging Variable Annuity Guarantees*
- Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

Other Short-Term Investments:

Report investments that qualify as short-term investments pursuant to *SSAP No. 2R - Cash, Cash Equivalents, Drafts and Short-Term Investments* that do not fit within a specific reporting line. (Specific reporting lines shall be utilized when applicable.)

General Classifications Cash Equivalents Only:

Refer to *SSAP No. 2R— Cash, Cash Equivalents, Drafts and Short-Term Investments*. The following investments are not permitted to be reported as short-term investments regardless of maturity date:

- Asset-backed securities captured in scope of *SSAP No. 43R - Asset-backed Securities*
- All investments that are reported on Schedule BA, including but not limited to:
  - All debt securities that do not qualify as bonds in scope of *SSAP No. 21R – Other Admitted Assets*
  - Collateral/Non-Collateral loans captured in scope of SSAP No. 21R.
  - Working capital finance investments in scope of *SSAP No. 105R – Working Capital Finance Investments*
  - Surplus notes in scope of *SSAP No. 41R – Surplus Notes*
- Mortgage loans captured in scope of *SSAP No. 37 – Mortgage Loans*
- Derivative instruments in scope of *SSAP No. 86 – Derivatives* or *SSAP No. 108 – Derivatives Hedging Variable Annuity Guarantees*
- Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

Money Market Mutual Funds:

All investment in shares of funds regulated as money market mutual funds by the U.S. Securities and Exchange Commission.

Other Cash Equivalent:

Report investments that qualify as Cash Equivalents pursuant to *SSAP No. 2R - Cash, Cash Equivalents, Drafts and Short-Term Investments* that do not fit within a specific reporting line. (Specific reporting lines shall be utilized when applicable.)

SCHEDULE E – PART 2 – CASH EQUIVALENTS

INVESTMENTS OWNED END OF CURRENT QUARTER

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Quality as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Quality as SVO-Identified Credit Tenant Loans (Affiliated)	0229999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999
Total – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, 0249999999, and 0269999999)	0489999999
Total – Issuer Credit Obligations (Affiliated) (Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0259999999, and 0279999999)	0499999999
Total Issuer Credit Obligations	0509999999
Sweep Accounts	8109999999
Exempt Money Market Mutual Funds – as Identified by SVO	8209999999
All Other Money Market Mutual Funds	8309999999
Qualified Cash Pools Under SSAP No. 2R	8409999999
Other Cash Equivalents (Unaffiliated)	8499999999
Other Cash Equivalents (Affiliated)	8509999999

© 2024 National Association of Insurance Commissioners

Total Cash Equivalents (Unaffiliated) 8589999999
(Sum of Lines: 0489999999, 8109999999, 8209999999, 8309999999, 8409999999, and 8499999999)

Total Cash Equivalents (Affiliated) 8599999999
(Sum of Lines: 0499999999 and 8509999999)

Total Cash Equivalents 8609999999

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

SCHEDULE DA – VERIFICATION BETWEEN YEARS
Short-Term Investments

	1 Total	2 Bonds	~~3~~ ~~Mortgage Loans~~	4 Other Short-term Investment Assets (a)	~~5~~ ~~Investments in Parent, Subsidiaries and Affiliates~~
1. Book/adjusted carrying value, December 31 of prior year					
2. Cost of short-term investments acquired					
3. Accrual of discount					
4. Unrealized valuation increase/(decrease)					
5. Total gain (loss) on disposals					
6. Deduct consideration received on disposals					
7. Deduct amortization of premium					
8. Total foreign exchange change in book/adjusted carrying value					
9. Deduct current year's other-than-temporary impairment recognized					
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)					
11. Deduct total nonadmitted amounts					
12. Statement value at end of current period (Line 10 minus Line 11)					

(a) Indicate the category of such assets, for example, joint ventures, transportation equipment: _____.

ANNUAL STATEMENT BLANK –HEALTH

FIVE–YEAR HISTORICAL DATA

	1 2024	2 2023	3 2022	4 2021	5 2020
Balance Sheet (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 28)					
2. Total liabilities (Page 3, Line 24)					
3. Statutory minimum capital and suplus requirement					
4. Total capital and surplus (Page 3, Line 33)					
Income Statement (Page 4)					
5. Total revenues (Line 8)					
6. Total medical and hospital expenses (Line 18)					
7. Claims adjustment expenses (Line 20)					
8. Total administrative expenses (Line 21)					
9. Net underwriting gain (loss) (Line 24)					
10. Net investment gain (loss) (Line 27)					
11. Total other income (Lines 28 plus 29)					
12. Net income or (loss) (Line 32)					
Cash Flow (Page 6)					
13. Net cash from operations (Line 11)					
Risk-Based Capital Analysis					
14. Total adjusted capital					
15. Authorized control level risk-based capital					
Enrollment (Exhibit 1)					
16. Total members at end of period (Column 5, Line 7)					
17. Total members months (Column 6, Line 7)					
Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3, and 5) x 100.0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Lines 18 plus Line 19)					
20. Cost containment expenses					
21. Other claims adjustment expenses					
22. Total underwriting deductions (Line 23)					
23. Total underwriting gain (loss) (Line 24)					
Unpaid Claims Analysis (U&I Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 17, Col. 5)					
25. Estimated liability of unpaid claims-[prior year (Line 17, Col. 6)]					
Investments in Parent, Subsidiaries and Affiliates					
26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1)					
27. Affiliated preferred stocks (Sch. D Summary, Line 18, Col. 1)					
28. Affiliated common stocks (Sch. D Summary, Line 24, Col. 1)					
~~29. Affiliated short-term investments (subtotal included in Sch. DA Verification, Col. 5, Line 10)~~					
30. Affiliated mortgage loans on real estate					
31. All other affiliated					
32. Total of above Lines 26 to 31					
33. Total investment in parent included in Lines 26 to 31 above.					

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of *SSAP No. 3—Accounting Changes and Correction of Errors*? Yes [ ] No [ ]
If no, please explain .....

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL

FIVE–YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e., 17.6
$000 omitted for amounts of life insurance

	1 2024	2 2023	3 2022	4 2021	5 2020
Life Insurance in Force					
(Exhibit of Life Insurance)					
1. Ordinary-whole life and endowment (Line 34, Col. 4)					
2. Ordinary-term (Line 21, Col. 4, less Line 34, Col. 4)					
3. Credit life (Line 21, Col. 6)					
4. Group, excluding FEGLI/SGLI (Line 21, Col. 9 less Lines 43 & 44, Col. 4)					
5. Industrial (Line 21, Col. 2)					
6. FEGLI/SGLI (Lines 43 & 44, Col. 4)					
7. Total (Line 21, Col. 10)					
7.1 Total in force for which VM-20 deterministic/stochastic reserves are calculated					
New Business Issued					
(Exhibit of Life Insurance)					
8. Ordinary-whole life and endowment (Line 34, Col. 2)					
9. Ordinary-term (Line 2, Col. 4, less Line 34, Col. 2)					
10. Credit life (Line 2, Col. 6)					
11. Group (Line 2, Col. 9)					
12. Industrial (Line 2, Col. 2)					
13. Total (Line 2, Col. 10)					
Premium Income-Lines of Business					
(Exhibit 1 – Part 1)					
14. Individual life (Line 20.4, Col. 2)					
15. Group life (Line 20.4, Col. 3)					
16. Individual annuities (Line 20.4, Col. 4)					
17. Group annuities (Line 20.4, Col. 5)					
18. Accident & Health (Line 20.4, Col. 6)					
19. Other lines of business (Line 20.4, Col. 8)					
20. Total					
Balance Sheet					
(Pages 2 and 3)					
21. Total admitted assets excluding Separate Accounts business (Page 2, Line 26, Col. 3)					
22. Total liabilities excluding Separate Accounts business (Page 3, Line 26)					
23. Aggregate life reserves (Page 3, Line 1)					
23.1 Excess VM-20 deterministic/stochastic reserve over NPR related to Line 7.1					
24. Aggregate A & H reserves (Page 3, Line 2)					
25. Deposit-type contract funds (Page 3, Line 3)					
26. Asset valuation reserve (Page 3, Line 24.01)					
27. Capital (Page 3, Lines 29 & 30)					
28. Surplus (Page 3, Line 37)					
Cash Flow (Page 5)					
29. Net cash from operations (Line 11)					
Risk-Based Capital Analysis					
30. Total adjusted capital					
31. Authorized control level risk-based capital					
Percentage Distribution of Cash, Cash Equivalents and Invested Assets					
(Page 2, Col. 3) (Line No./Page 2, Line 12, Col. 3) x 100.0					
32. Bonds (Line 1)					
33. Stocks (Lines 2.1 and 2.2)					
34. Mortgage loans on real estate (Lines 3.1 and 3.2)					
35. Real estate (Lines 4.1, 4.2 and 4.3)					
36. Cash, cash equivalents and short-term investments (Line 5)					
37. Contract loans (Line 6)					
38. Derivatives (Page 2, Line 7)					
39. Other invested assets (Line 8)					
40. Receivables for securities (Line 9)					
41. Securities lending reinvested collateral assets (Line 10)					
42. Aggregate write-ins for invested assets (Line 11)					
43. Cash, cash equivalents and invested assets (Line 12)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
44. Affiliated bonds (Sch. D Summary, Line 12, Col. 1)					
45. Affiliated preferred stocks (Sch. D Summary, Line 18, Col. 1)					
46. Affiliated common stocks (Sch. D Summary, Line 24, Col. 1)					
~~47. Affiliated short-term investments (subtotal included in Schedule DA Verification, Col. 5, Line 10)~~					
48. Affiliated mortgage loans on real estate					
49. All other affiliated					
50. Total of above Lines 44 to 49					
51. Total investment in parent included in Lines 44 to 49 above					

© 2024 National Association of Insurance Commissioners

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
DEFAULT COMPONENT

Line Number	NAIC Designation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution 5 Factor	Basic Contribution 6 Amount (Cols. 4x5)	Reserve Objective 7 Factor	Reserve Objective 8 Amount (Cols. 4x7)	Maximum Reserve 9 Factor	Maximum Reserve 10 Amount (Cols. 4x9)
		MORTGAGE LOANS										
		In Good Standing:										
35		Farm Mortgages – CM1 – Highest Quality			XXX		0.0011		0.0057		0.0074	
36		Farm Mortgages – CM2 – High Quality			XXX		0.0040		0.0114		0.0149	
37		Farm Mortgages – CM3 – Medium Quality			XXX		0.0069		0.0200		0.0257	
38		Farm Mortgages – CM4 – Low Medium Quality			XXX		0.0120		0.0343		0.0428	
39		Farm Mortgages – CM5 – Low Quality			XXX		0.0183		0.0486		0.0628	
40		Residential Mortgages – Insured or Guaranteed			XXX		0.0003		0.0007		0.0011	
41		Residential Mortgages – All Other			XXX		0.0015		0.0034		0.0046	
42		Commercial Mortgages – Insured or Guaranteed			XXX		0.0003		0.0007		0.0011	
43		Commercial Mortgages – All Other – CM1 – Highest Quality			XXX		0.0011		0.0057		0.0074	
44		Commercial Mortgages – All Other – CM2 – High Quality			XXX		0.0040		0.0114		0.0149	
45		Commercial Mortgages – All Other – CM3 – Medium Quality			XXX		0.0069		0.0200		0.0257	
46		Commercial Mortgages – All Other – CM4 – Low Medium Quality			XXX		0.0120		0.0343		0.0428	
47		Commercial Mortgages – All Other – CM5 – Low Quality			XXX		0.0183		0.0486		0.0628	
		Overdue, Not in Process:										
48		Farm Mortgages			XXX		0.0480		0.0868		0.1371	
49		Residential Mortgages – Insured or Guaranteed			XXX		0.0006		0.0014		0.0023	
50		Residential Mortgages - All Other			XXX		0.0029		0.0066		0.0103	
51		Commercial Mortgages - Insured or Guaranteed			XXX		0.0006		0.0014		0.0023	
52		Commercial Mortgages - All Other			XXX		0.0480		0.0868		0.1371	
		In Process of Foreclosure:										
53		Farm Mortgages			XXX		0.0000		0.1942		0.1942	
54		Residential Mortgages - Insured or Guaranteed			XXX		0.0000		0.0046		0.0046	
55		Residential Mortgages - All Other			XXX		0.0000		0.0149		0.0149	
56		Commercial Mortgages - Insured or Guaranteed			XXX		0.0000		0.0046		0.0046	
57		Commercial Mortgages - All Other			XXX		0.0000		0.1942		0.1942	
58		Total Schedule B Mortgages (Sum of Lines 35 through 57)			XXX		XXX		XXX		XXX	
~~59~~		~~Schedule DA Mortgages~~			~~XXX~~		~~0.0034~~		~~0.0114~~		~~0.0149~~	
60		Total Mortgage Loans on Real Estate (Lines 58 + 59)			XXX		XXX		XXX		XXX	

ANNUAL STATEMENT BLANK – PROPERTY

FIVE–YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e., 17.6.

		1 2024	2 2023	3 2022	4 2021	5 2020
	Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1.	Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)					
2.	Property lines (Lines 1, 2, 9, 12, 21 & 26)					
3.	Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)					
4.	All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)					
5.	Nonproportional reinsurance lines (Lines 31, 32 & 33)					
6.	Total (Line 35)					
	Net Premiums Written (Page 8, Part 1B, Col. 6)					
7.	Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3,19.4)					
8.	Property lines (Lines 1, 2, 9, 12, 21 & 26)					
9.	Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)					
10.	All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)					
11.	Nonproportional reinsurance lines (Lines 31, 32 & 33)					
12.	Total (Line 35)					
	Statement of Income (Page 4)					
13.	Net underwriting gain (loss) (Line 8)					
14.	Net investment gain (loss) (Line 11)					
15.	Total other income (Line 15)					
16.	Dividends to policyholders (Line 17)					
17.	Federal and foreign income taxes incurred (Line 19)					
18.	Net income (Line 20)					
	Balance Sheet Lines (Pages 2 and 3)					
19.	Total admitted assets excluding protected cell business (Page 2, Line 26, Col. 3)					
20.	Premiums and considerations (Page 2, Col. 3)					
	20.1 In course of collection (Line 15.1)					
	20.2 Deferred and not yet due (Line 15.2)					
	20.3 Accrued retrospective premiums (Line 15.3)					
21.	Total liabilities excluding protected cell business (Page 3, Line 26)					
22.	Losses (Page 3, Line 1)					
23.	Loss adjustment expenses (Page 3, Line 3)					
24.	Unearned premiums (Page 3, Line 9)					
25.	Capital paid up (Page 3, Lines 30 & 31)					
26.	Surplus as regards policyholders (Page 3, Line 37)					
	Cash Flow (Page 5)					
27.	Net cash from operations (Line 11)					
	Risk-Based Capital Analysis					
28.	Total adjusted capital					
29.	Authorized control level risk-based capital					
	Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 12, Col. 3) x 100.0					
30.	Bonds (Line 1)					
31.	Stocks (Lines 2.1 & 2.2)					
32.	Mortgage loans on real estate (Lines 3.1 and 3.2)					
33.	Real estate (Lines 4.1, 4.2 & 4.3)					
34.	Cash, cash equivalents and short-term investments (Line 5)					
35.	Contract loans (Line 6)					
36.	Derivatives (Line 7)					
37.	Other invested assets (Line 8)					
38.	Receivables for securities (Line 9)					
39.	Securities lending reinvested collateral assets (Line 10)					
40.	Aggregate write-ins for invested assets (Line 11)					
41.	Cash, cash equivalents and invested assets (Line 12)	100.0	100.0	100.0	100.0	100.0
	Investments in Parent, Subsidiaries and Affiliates					
42.	Affiliated bonds, (Sch. D, Summary, Line 12, Col. 1)					
43.	Affiliated preferred stocks (Sch. D, Summary, Line 18, Col. 1)					
44.	Affiliated common stocks (Sch. D, Summary, Line 24, Col. 1)					
45.	~~Affiliated short-term investments (subtotals included in Schedule DA Verification, Col. 5, Line 10)~~					
46.	Affiliated mortgage loans on real estate					
47.	All other affiliated					
48.	Total of above Lines 42 to 47					
49.	Total investment in parent included in Lines 42 to 47 above					
50.	Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 48 above divided by Page 3, Col. 1, Line 37 x 100.0)					

ANNUAL STATEMENT BLANK – TITLE

FIVE–YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e. 17.6.

		1 2024	2 2023	3 2022	4 2021	5 2020
	Source of Direct Title Premiums Written (Part 1A)					
1.	Direct operations (Part 1A, Line 1, Col. 1)					
2.	Non-affiliated agency operations (Part 1A, Line 1, Col. 2)					
3.	Affiliated agency operations (Part 1A, Line 1, Col. 3)					
4.	Total					
	Operating Income Summary (Page 4 & Part 1)					
5.	Premiums earned (Part 1B, Line 3)					
6.	Escrow and settlement service charges (Part 1A, Line 2)					
7.	Title examinations (Part 1A, Line 3)					
8.	Searches and abstracts (Part 1A, Line 4)					
9.	Surveys (Part 1A, Line 5)					
10.	Aggregate write-ins for service charges (Part 1A, Line 6)					
11.	Other operating income (Page 4, Line 2)					
12.	Total operating income (Page 4, Line 3)					
	Statement of Income (Page 4)					
13.	Net operating gain or (loss) (Line 8)					
14.	Net investment gain or (loss) (Line 11)					
15.	Total other income (Line 12)					
16.	Federal and foreign income taxes incurred (Line 14)					
17.	Net income (Line 15)					
	Balance Sheet (Pages 2 and 3)					
18.	Title insurance premiums and fees receivable (Page 2, Line 15, Col. 3)					
19.	Total admitted assets excluding segregated accounts (Page 2, Line 26, Col. 3)					
20.	Known claims reserve (Page 3, Line 1)					
21.	Statutory premium reserve (Page 3, Line 2)					
22.	Total liabilities (Page 3, Line 23)					
23.	Capital paid up (Page 3, Lines 25 + 26)					
24.	Surplus as regards policyholders (Page 3, Line 32)					
	Cash Flow (Page 5)					
25.	Net cash from operations (Line 11)					
	Percentage Distribution of Cash, Cash-Equivalents and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 12, Col. 3) x 100.0					
26.	Bonds (Line 1)					
27.	Stocks (Lines 2.1 & 2.2)					
28.	Mortgage loans on real estate (Line 3.1 and 3.2)					
29.	Real estate (Lines 4.1, 4.2 & 4.3)					
30.	Cash, cash equivalents and short-term investments (Line 5)					
31.	Contract loans (Line 6)					
32.	Derivatives (Line 7)					
33.	Other invested assets (Line 8)					
34.	Receivable for securities (Line 9)					
35.	Securities lending reinvested collateral assets (Line 10)					
36.	Aggregate write-ins for invested assets (Line 11)					
37.	Subtotals cash, cash equivalents and invested assets (Line 12)	100.0	100.0	100.0	100.0	100.0
	Investments in Parent, Subsidiaries and Affiliates					
38.	Affiliated bonds (Sch. D Summary, Line 12, Col. 1)					
39.	Affiliated preferred stocks (Sch. D, Summary, Line 18, Col. 1)					
40.	Affiliated common stocks (Sch. D, Summary, Line 24, Col. 1)					
~~41.~~	~~Affiliated short-term investments (subtotals included in Schedule DA Verification, Col. 5, Line 10)~~					
42.	Affiliated mortgage loans on real estate					
43.	All other affiliated					
44.	Total of above Lines 38 to 43					
45.	Total investment in parent included in Lines 38 to 43 above					
46.	Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 44 above divided by Page 3, Line 32, Col. 1 x 100.0)					

Attachment Two-A4
Accounting Practices and Procedures (E) Task Force
8/14/24

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 01/11/2024	**FOR NAIC USE ONLY**
CONTACT PERSON: Charles Therriault	Agenda Item # 2024-03BWG MOD
TELEPHONE: 212-386-1920	Year 2024
EMAIL ADDRESS: ctherriault@naic.org	Changes to Existing Reporting [X] New Reporting Requirement [ ]
ON BEHALF OF:	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT** No Impact [X] Modifies Required Disclosure [ ]
NAME: Carrie Mears	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No] ****If Yes, complete question below****
TITLE: Chief Insurance Investment Specialist - IA	**DISPOSITION**
AFFILIATION: Valuation of Securities (E) Task Force	[ ] Rejected For Public Comment [ ] Referred To Another NAIC Group [ ] Received For Public Comment [X] Adopted Date 05/23/2024 [ ] Rejected Date [ ] Deferred Date [ ] Other (Specify)
ADDRESS:	

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[ ] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2024

IDENTIFICATION OF ITEM(S) TO CHANGE

Update General Interrogatory 35 for private letter rating security reporting to clarify what should be included.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal adds clarification on what should be reported in interrogatory 35 for private letter rating securities. There was inconsistent reporting for this interrogatory and with the new instructions it should help identify what needs to be reported.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

**** This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

INVESTMENT

Detail Eliminated To Conserve Space

35. By self-designating PLGI securities, the reporting entity is certifying its compliance with the requirements as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) for private letter rating (PLR) securities and the following elements of each self-designated PLGI security:

    a. The security was either:

        i. ~~purchased~~ issued prior to January 1, 2018 (which is exempt from PLR filing requirements pursuant to the P&P Manual), or

        ii. issued from January 1, 2018 to December 31, 2021 and subject to a confidentiality agreement executed prior to January 1, 2022 which confidentiality agreement remains in force, for which an insurance company cannot provide a copy of a private letter rating rationale report to the SVO due to confidentiality or other contractual reasons ("waived submission PLR securities").

    b. The reporting entity is holding capital commensurate with the NAIC Designation and NAIC Designation Category reported for the security.

    c. The NAIC Designation and NAIC Designation Category ~~was~~ were derived from the credit rating assigned by an NAIC CRP in its legal capacity as an NRSRO which is shown on a current private letter rating, dated during the financial statement year, held by the insurer and available for examination by state insurance regulators.

    d. ~~The~~ Other than for waived submission PLR securities, defined above, on or after January 1, 2024 for any PLR securities issued on or after January 1, 2022, if the reporting entity is not permitted to share this private credit rating or the private rating letter rationale report of the PL security with the SVO, it certifies that it is reporting it as an NAIC 5.B GI and may not assign any other self-designation.

    Has the reporting entity self-designated PLGI ~~securities~~to securities, all of which meet the above requirement and as specified in the P&P Manual? Yes [ ] No [ ]

Attachment Two-A5
Accounting Practices and Procedures (E) Task Force
8/14/24

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE:	**1/10/24**
CONTACT PERSON:	**Scott O'Neal**
TELEPHONE:	**816 783 8814**
EMAIL ADDRESS:	**soneal@naic.org**
ON BEHALF OF:	**Rachel Hemphill, Chair, LATF**
NAME:	**Scott O'Neal**
TITLE:	**Life Examination Actuary**
AFFILIATION:	**NAIC**
ADDRESS:	**1100 Walnut St, Suite 1500**
	Kansas City, MO 64106

FOR NAIC USE ONLY

Agenda Item # 2024-04BWG
Year 2024
Changes to Existing Reporting [X]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [X]
Modifies Required Disclosure [ ]

Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [NO]
****If Yes, complete question below****

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[X] Adopted Date 05/23/2024
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[ ] Title
[ ] Property/Casualty	[ ] Protected Cell	[ ] Other
[ ] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: 2024 Annual

IDENTIFICATION OF ITEM(S) TO CHANGE

Add clarifying language to VM-20 supplement to include separate accounts where applicable.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal is to address the inconsistent reporting by companies not including separate account amounts on the VM-20 supplement.

****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: For 2024 Annual Statement Blank Instructions

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

VM-20 RESERVES SUPPLEMENT

Life Insurance Reserves Valued According to VM-20 by Product Type

This Supplement provides information on the reserves required to be calculated by Section VM-20 of the *Valuation Manual*. This includes the Net Premium Reserve and, as applicable, the Deterministic Reserve and the Stochastic Reserve. Only business issued on or after Jan. 1, 2017, valued by the requirements of VM-20 should be reported in Part 1A and Part 1B. Part 1A and Part 1B are intended to aid regulators in the analysis of reserves as determined under Section VM-20 of the *Valuation Manual* for both the prior and current year.

This Supplement also provides information regarding business where VM-20 of the *Valuation Manual* is not required to be applied. Companies exempted from the requirements of Section VM-20 are not required to complete Part 1A or Part 1B of this Supplement but must complete Part 2 or Part 3 as applicable.

VM-20 RESERVES SUPPLEMENT – PART 1A

Life Insurance Reserves Valued According to VM-20 by Product Type

Part 1A of this Supplement breaks out, by product type, the prior year and current year reported reserves on a Post-Reinsurance-Ceded and Pre-Reinsurance-Ceded basis as defined in Section 8.D of Section VM-20 of the *Valuation Manual*. The Due and Deferred Premium Asset for the current year is also shown.

Section VM-20 of the *Valuation Manual* requires that the Post-Reinsurance-Ceded Reserve be determined by three VM-20 Reserving Categories: Term Insurance, Universal Life with Secondary Guarantees (ULSG) and all other. Term Insurance should be reported on line 1.1. ULSG, including Variable Universal Life with a secondary guarantee, Indexed life insurance with a secondary guarantee, regular Universal Life with a secondary guarantee, and ULSG policies with a non-material secondary guarantee as defined in Section VM-01 of the *Valuation Manual*, should be reported on line 1.2. Each of the other products reported in lines 1.3 – 1.8 should be determined as the sum of the policy reserves using the policy reserves determined following the allocation process of VM-20 Section 2. A similar process should be used for each of the pre-reinsurance-ceded reserves. Both Post-Reinsurance-Ceded Reserves and Pre-Reinsurance-Ceded Reserves, as defined in VM-20, include separate account amounts where applicable to the policies in scope.

© 2024 National Association of Insurance Commissioners

Attachment Two-A6
Accounting Practices and Procedures (E) Task Force
8/14/24

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE:	**1/18/24**
CONTACT PERSON:	**Bruce Jenson (NAIC)**
TELEPHONE:	**816-783-8348**
EMAIL ADDRESS:	**bjenson@naic.org**
ON BEHALF OF:	**Risk-Focused Surveillance (E) Working Group**
NAME:	**Amy Malm - Chair**
TITLE:	**Administrator, Division of Financial Reg**
AFFILIATION:	**Wisconsin Office of the Commissioner**
ADDRESS:	**125 S Webster St**
	Madison, WI 53703

FOR NAIC USE ONLY

Agenda Item # 2024-05BWG
Year 2024
Changes to Existing Reporting [X]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [X]
Modifies Required Disclosure [ ]

Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [NO]
****If Yes, complete question below****

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[X] Adopted Date 05/23/2024
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2024

IDENTIFICATION OF ITEM(S) TO CHANGE

Add clarifying language to Annual General Interrogatory 29.05 (Quarterly General Interrogatory 17.5) to clarify that all investment advisors with discretion to make investment decisions, including sub-advisors, should be disclosed through the interrogatory.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

Some insurers are not disclosing sub-advisors with discretion to make investment decisions through the interrogatory.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

INVESTMENT

Detail Eliminated To Conserve Space

29.05 Identify all investment advisors, investment managers and broker/dealers, including individuals who have the authority to make investment decisions on behalf of the reporting entity. This includes both primary and sub-advisors. For assets that are managed internally by employees of the reporting entity, note as such.

Name of Firm or Individual:

Should be name of firm or individual that is party to the Investment Management Agreement

Affiliation:

Note if firm or individual is affiliated, unaffiliated or an employee by using the following codes:

A Investment management is handled by firms/individuals affiliated with the reporting entity.

U Investment management is handled by firms/individuals unaffiliated with the reporting entity.

I Investment management is handled internally by individuals that are employees of the reporting entity.

29.0597 If the total assets under management of any the firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") listed in the table for Question29.05 are greater than 10% of the reporting entity's invested assets (Line 12 of the Asset page), answer "YES" to Question29.0597.

29.0598 If the total assets under management of all the firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") listed in the table for Question 29.05 are greater than 50% of the reporting entity's invested assets (Line 12 of the Asset page), answer "YES" to Question 29.0598. When determining the aggregate total of assets under management, include all firms/individuals unaffiliated with the reporting entity not just those who manage more than 10% of the reporting entity's assets.

29.06 For assets managed by an affiliated or unaffiliated firm or individual, provide for each firm or individual the Central Registration Depository Number, Legal Entity Identifier (LEI), who they are registered with and if an Investment Management Agreement has been filed for each firm or individual.

Central Registration Depository Number

The Central Registration Depository (CRD) number is a number issued by the Financial Industry Regulatory Authority (FINRA) to brokers, dealers or individuals when licensed, and can be verified against their database *www.finra.org*. These brokers, dealers or individuals would be those contracted to manage some of the reporting entity's investments or funds and invest them for the reporting entity. The brokers, dealers or individuals can be affiliated or unaffiliated with the reporting entity. The reporting entity must list all brokers, dealers or individuals who have the authority to make investments on behalf of the reporting entity.

Name of Firm or Individual:

Should be name of firm or individual provided for 29.05.

© 2024 National Association of Insurance Commissioners

~~Central Registration Depository Number~~

~~The Central Registration Depository (CRD) number is a number issued by the Financial Industry Regulatory Authority (FINRA) to brokers, dealers or individuals when licensed, and can be verified against their database *www.finra.org*. These brokers, dealers or individuals would be those contracted to manage some of the reporting entity's investments or funds and invest them for the reporting entity. The brokers, dealers or individuals can be affiliated or unaffiliated with the reporting entity. The reporting entity must list all brokers, dealers or individuals who have the authority to make investments on behalf of the reporting entity.~~

Legal Entity Identifier (LEI)

Provide the 20-character Legal Entity Identifier (LEI) for issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.

Registered With:

If a Registered Investment Advisor, specify if registered with Securities Exchange Commission or state securities authority. Note if not a Registered Investment Advisor.

Investment Management Agreement (IMA) Filed:

Indicate if a current Investment Management Agreement (IMA) has been filed with the state of domicile or the insurance department in another state(s). Use one of the codes below to indicate if the IMA has been filed and with whom it was filed.

DS If the current IMA has been filed with the state of domicile regardless if it was also filed with another state.

OS If the current IMA has been filed with a state(s) other than the state of domicile but not the state of domicile.

NO If the current IMA has not been filed with any state.

© 2024 National Association of Insurance Commissioners

QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

GENERAL INTERROGATORIES

INVESTMENT

Detail Eliminated To Conserve Space

17.5 Identify all investment advisors, investment managers and broker/dealers, including individuals who have the authority to make investment decisions on behalf of the reporting entity. This includes both primary and sub-advisors. For assets that are managed internally by employees of the reporting entity, note as such.

Name of Firm or Individual:

Should be name of firm or individual that is party to the Investment Management Agreement

Affiliation:

Note if firm or individual is affiliated, unaffiliated or an employee by using the following codes:

A Investment management is handled by firms/individuals affiliated with the reporting entity.

U Investment management is handled by firms/individuals unaffiliated with the reporting entity.

I Investment management is handled internally by individuals that are employees of the reporting entity.

17.5097 If the total assets under management of any the firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") listed in the table for Question 17.5 are greater than 10% of the reporting entity's invested assets (Line 12 of the Asset page), answer "YES" to Question 17.5097.

17.5098 If the total assets under management of all the firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") listed in the table for Question 17.5 are greater than 50% of the reporting entity's invested assets (Line 12 of the Asset page), answer "YES" to Question 17.5098. When determining the aggregate total of assets under management, include all firms/individuals unaffiliated with the reporting entity, not just those who manage more than 10% of the reporting entity's assets.

17.6 For assets managed by an affiliated or unaffiliated firm or individual, provide for each firm or individual the Central Registration Depository Number, Legal Entity Identifier (LEI), who they are registered with and if an Investment Management Agreement has been filed for each firm or individual.

Central Registration Depository Number

The Central Registration Depository (CRD) number is a number issued by the Financial Industry Regulatory Authority (FINRA) to brokers, dealers or individuals when licensed, and can be verified against their database *www.finra.org*. These brokers, dealers or individuals would be those contracted to manage some of the reporting entity's investments or funds and invest them for the reporting entity. The brokers, dealers or individuals can be affiliated or unaffiliated with the reporting entity. The reporting entity must list all brokers, dealers or individuals who have the authority to make investments on behalf of the reporting entity.

Name of Firm or Individual:

Should be name of firm or individual provided for 17.5

~~Central Registration Depository Number~~

~~The Central Registration Depository (CRD) number is a number issued by the Financial Industry Regulatory Authority (FINRA) to brokers, dealers or individuals when licensed, and can be verified against their database *www.finra.org*. These brokers, dealers or individuals would be those contracted to manage some of the reporting entity's investments or funds and invest them for the reporting entity. The brokers, dealers or individuals can be affiliated or unaffiliated with the reporting entity. The reporting entity must list all brokers, dealers or individuals who have the authority to make investments on behalf of the reporting entity.~~

Legal Entity Identifier (LEI)

Provide the 20-character Legal Entity Identifier (LEI) for issuer as assigned by a designated Local Operating Unit. If no LEI number has been assigned, leave blank.

Registered With:

If a Registered Investment Advisor, specify if registered with the Securities Exchange Commission or state securities authority. Note if not a Registered Investment Advisor.

Investment Management Agreement (IMA) Filed:

Indicate if a current Investment Management Agreement (IMA) has been filed with the state of domicile or the insurance department in another state(s). Use one of the codes below to indicate if the IMA has been filed and with whom it was filed.

DS If the current IMA has been filed with the state of domicile regardless if it was also filed with another state.

OS If the current IMA has been filed with a state(s) other than the state of domicile but not the state of domicile.

NO If the current IMA has not been filed with any state.

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

INVESTMENT

Detail Eliminated To Conserve Space

29.05 Investment management – Identify all investment advisors, investment managers, broker/dealers, including individuals that have the authority to make investment decisions on behalf of the reporting entity. This includes both primary and sub-advisors. For assets that are managed internally by employees of the reporting entity, note as such. ["…that have access to the investment accounts"; "…handle securities"]

1 Name of Firm or Individual	2 Affiliation

29.0597 For those firms/individuals listed in the table for Question 29.05, do any firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") manage more than 10% of the reporting entity's invested assets? Yes [ ] No [ ]

29.0598 For firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") listed in the table for Question 29.05, does the total assets under management aggregate to more than 50% of the reporting entity's invested assets? Yes [ ] No [ ]

29.06 For those firms or individuals listed in the table for 29.05 with an affiliation code of "A" (affiliated) or "U" (unaffiliated), provide the information for the table below.

1 Central Registration Depository Number	2 Name of Firm or Individual	3 Legal Entity Identifier (LEI)	4 Registered With	5 Investment Management Agreement (IMA) Filed

© 2024 National Association of Insurance Commissioners

QUARTERLY STATEMENT BLANK – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

INVESTMENT

Detail Eliminated To Conserve Space

17.5 Investment management – Identify all investment advisors, investment managers, broker/dealers, including individuals that have the authority to make investment decisions on behalf of the reporting entity. This includes both primary and sub-advisors. For assets that are managed internally by employees of the reporting entity, note as such. ["…that have access to the investment accounts"; "…handle securities"]

1 Name of Firm or Individual	2 Affiliation

17.5097 For those firms/individuals listed in the table for Question 17.5, do any firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") manage more than 10% of the reporting entity's invested assets? Yes [ ] No [ ]

17.5098 For firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") listed in the table for Question 17.5, does the total assets under management aggregate to more than 50% of the reporting entity's invested assets? Yes [ ] No [ ]

17.6 For those firms or individuals listed in the table for 17.5 with an affiliation code of "A" (affiliated) or "U" (unaffiliated), provide the information for the table below.

1 Central Registration Depository Number	2 Name of Firm or Individual	3 Legal Entity Identifier (LEI)	4 Registered With	5 Investment Management Agreement (IMA) Filed

© 2024 National Association of Insurance Commissioners

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE:	**01/24/2024**
CONTACT PERSON:	**Kris DeFrain**
TELEPHONE:	**816-783-8229**
EMAIL ADDRESS:	**kdefrain@naic.org**
ON BEHALF OF:	
NAME:	**Miriam Fisk**
TITLE:	**Chair**
AFFILIATION:	**Actuarial Opinion (C) Working Group**
ADDRESS:	**Miriam.fisk@tdi.texas.gov**

FOR NAIC USE ONLY

Agenda Item # 2024-06BWG
Year 2024
Changes to Existing Reporting [X]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [X]
Modifies Required Disclosure [ ]

Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [NO]
****If Yes, complete question below****

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[X] Adopted Date 05/23/2024
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[ ] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[ ] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2024

IDENTIFICATION OF ITEM(S) TO CHANGE

Property/Casualty Changes: Limit the requirement to send qualification documentation to the Board of Directors only at the initial appointment and not annually thereafter.

Title Changes: Update the title instructions so they are more similar to Property/Casualty instructions.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The qualification documentation provides useful information to the Board and to regulators. The qualification documentation for a particular Appointed Actuary does not change significantly from year to year, which reduces the need for the Board and regulators to receive the documentation annually. That said, both the Board and regulators can still request updated qualification documentation at any time.

It has been beneficial in years past to maintain consistency between the title and property/casualty instructions. The proposal brings the title instructions up to date with the property/casualty instructions. One exception is the extensive requirements for evaluation of P/C appointed actuary qualification are not proposed for title because title insurance was not included in the NAIC's appointed actuary qualifications project.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:
Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTION –PROPERTY/CASUALTY

ACTUARIAL OPINION

1. There is to be included with or attached to Page 1 of the Annual Statement the statement of the Appointed Actuary, entitled "Statement of Actuarial Opinion" (Actuarial Opinion), setting forth his or her opinion relating to reserves specified in the SCOPE paragraph. The Actuarial Opinion, both the narrative and required Exhibits, shall be in the format of and contain the information required by this section of the *Annual Statement Instructions – Property and Casualty*.

   Upon initial engagement, the Appointed Actuary must be appointed by the Board of Directors by Dec. 31 of the calendar year for which the opinion is rendered. The Company shall notify the domiciliary commissioner within five business days of the initial appointment with the following information:

   a. Name and title (and, in the case of a consulting actuary, the name of the firm).

   b. Manner of appointment of the Appointed Actuary (e.g., who made the appointment and when).

   c. A statement that the person meets the requirements of a Qualified Actuary (or was approved by the domiciliary commissioner) and that documentation was provided to the Board of Directors.

   Once this notification is furnished, no further notice is required with respect to this person unless the Board of Directors takes action to no longer appoint or retain the actuary or the actuary no longer meets the requirements of a Qualified Actuary.

   If subject to the *U.S. Qualification Standards*, the Appointed Actuary shall annually attest to having met the continuing education requirements under Section 3 of the *U.S. Qualification Standards* for issuing Actuarial Opinions. As agreed with the actuarial organizations, the Casualty Actuarial Society (CAS) and Society of Actuaries (SOA) will determine the process for receiving the attestations for their respective members and make available the attestations to the public. An Appointed Actuary subject to the *U.S. Qualification Standards* and not a member of the CAS or SOA shall select one of the above organizations to submit their attestation.

   The Appointed Actuary shall provide to the Board of Directors qualification documentation on occasion of their appointment~~, and on an annual basis thereafter,~~ directly or through company management. The documentation should include brief biographical information and a description of how the definition of "Qualified Actuary" is met or expected to be met (in the case of continuing education) for that year. The documentation should describe the Appointed Actuary's responsible experience relevant to the subject of the Actuarial Opinion. The Board of Directors shall document their review of those materials and any other information they may deem relevant, including information that may be requested directly from the Appointed Actuary. It is generally expected that the review of the Appointed Actuary's qualification documentation should take place at the level within a holding company structure that is responsible for overseeing insurance operations. If a statutory entity is a subsidiary or a non-lead pool member with an Appointed Actuary whose qualifications were reviewed by the pool lead or principal's Board, the statutory entity's Board can satisfy the review requirement by acknowledging the parent Board's review. This can be done by noting in the meeting minutes the name of the principal or lead entity and the date the parent Board reviewed the qualification documentation, or by attaching a copy of the parent Board's meeting minutes reflecting their review of the qualification documentation. The qualification documentation shall be considered workpapers and be available for inspection upon regulator request or during a financial examination.

   If an actuary who was the Appointed Actuary for the immediately preceding filed Actuarial Opinion is replaced by an action of the Board of Directors, the Insurer shall within five (5) business days notify the Insurance Department of the state of domicile of this event. The Insurer shall also furnish the domiciliary commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former Appointed Actuary regarding the content of the opinion on matters of the risk of material adverse deviation, required disclosures, scope, procedures, type of opinion issued, substantive wording of the opinion or data quality. The disagreements required to be reported in response to this paragraph include both those resolved to the former Appointed Actuary's satisfaction and those not resolved to the former Appointed Actuary's satisfaction. The letter should include a description of ~~the~~ each disagreement and the nature of its resolution (or that it was not resolved). Within this same ten (10) business days, the Insurer shall in writing also request such

© 2024 National Association of Insurance Commissioners

former Appointed Actuary to furnish a letter addressed to the Insurer stating whether the Appointed Actuary agrees with the statements contained in the Insurer's letter and, if not, stating the reasons for which he or she does not agree. The former Appointed Actuary shall provide a written response to the insurer within ten (10) business days of such request, and the Insurer shall furnish such responsive letter from the former Appointed Actuary to the domiciliary commissioner together with its own responses.

The Appointed Actuary must report to the Board of Directors each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors. The minutes of the Board of Directors should indicate that the Appointed Actuary has presented such information to the Board of Directors and identify the manner of presentation (e.g., webinar, in-person presentation, written). A separate Actuarial Opinion is required for each company filing an Annual Statement. When there is an affiliated company pooling arrangement, one Actuarial Report for the aggregate pool is sufficient, but there must be addendums to the Actuarial Report to cover non-pooled reserves for individual companies.

The Actuarial Opinion and the supporting Actuarial Report and workpapers should be consistent with the appropriate Actuarial Standards of Practice (ASOPs), including, but not limited to, ASOP No. 23, ASOP No. 36, ASOP No. 41 and ASOP No. 43, as promulgated by the Actuarial Standards Board.

Detail Eliminated To Conserve Space

1C. Reporting Requirements for Pooled Companies

For each company in the pool, the Appointed Actuary shall include a description of the pool, identification of the lead company and a listing of all companies in the pool, their state of domicile and their respective pooling percentages.

Exhibits A and B for each company in the pool should represent the company's share of the pool and should reconcile to the financial statement for that company.

The following paragraph applies to companies that have a 0% share of the pool (no reported Schedule P data). The company shall submit an Actuarial Opinion that reads similar to that provided for the lead company. For example, the IRIS ratio and risk of material adverse deviation discussions, and other relevant comments shall relate to the risks of the lead company in the pool. The Exhibit B responses to question 5 should be $0 and to question 6 should be "not applicable." Exhibits A and B of the lead company should be attached as an addendum to the PDF file and/or hard copy being filed (but would not be reported by the 0% companies in their data capture).

2. The Actuarial Opinion must consist of an IDENTIFICATION paragraph identifying the Appointed Actuary; a SCOPE paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the Appointed Actuary's work; an OPINION paragraph expressing his or her opinion with respect to such subjects; and one or more additional RELEVANT COMMENTS paragraphs. These four sections must be clearly designated.

3. The IDENTIFICATION paragraph should indicate the Appointed Actuary's relationship to the Company, qualifications for acting as Appointed Actuary and date of appointment and specify that the appointment was made by the Board of Directors. ~~Additionally, the IDENTIFICATION paragraph should include a statement asserting that the Appointed Actuary has complied with the requirement to provide qualification documentation to the Board of Directors, either directly or through company management.~~

If the Appointed Actuary was approved by the Academy to be a "Qualified Actuary," with or without limitation, or if the Appointed Actuary is not a Qualified Actuary but was approved by the domiciliary commissioner, the company must attach, each year, the approval letter and reference such in the identification paragraph.

ANNUAL STATEMENT INSTRUCTIONS –TITLE

ACTUARIAL OPINION

1. There is to be included with or attached to Page 1 of the Annual Statement, the statement of a Qualified Actuary, entitled "Statement of Actuarial Opinion" (Actuarial Opinion) setting forth his or her opinion relating to reserves specified in the SCOPE paragraph. The Actuarial Opinion, both the narrative and **required** exhibits, shall be in the format of and contain the information required by this section of the *Annual Statement Instructions – Title*.

   Upon initial engagement, ~~T~~the ~~Qualified~~ Appointed Actuary must be appointed by the Board of Directors ~~or its equivalent, or by a committee of the Board,~~ by ~~December~~ Dec. 31 of the calendar year for which the opinion is rendered. ~~Upon initial appointment (or "retention"), the~~ The Company shall notify the domiciliary commissioner within five business days of the appointment with the following information:

   a. Name and title (and, in the case of a consulting actuary, the name of the firm).

   b. Manner of appointment of the Appointed Actuary (e.g., who made the appointment and when).

   c. A statement that the person meets the requirements of a Qualified Actuary (or was approved by the domiciliary commissioner).

   Once this notification is furnished, no further notice is required with respect to this person unless the Board of Directors takes action to no longer appoint or retain the actuary or the actuary no longer meets ~~the actuary ceases to be appointed or retained or ceases to meet~~ the requirements of a Qualified Actuary.

   If an actuary who was the Appointed Actuary for the immediately preceding filed Actuarial Opinion is replaced by an action of the Board of Directors, the Insurer shall within five (5) business days notify the Insurance Department of the state of domicile of this event. The Insurer shall also furnish the domiciliary commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former Appointed Actuary regarding the content of the opinion on matters of the risk of material adverse deviation, required disclosures, scope, procedures, type of opinion issued, substantive wording of the opinion or data quality. The disagreements required to be reported in response to this paragraph include both those resolved to the former Appointed ~~a~~Actuary's satisfaction and those not resolved to the former Appointed ~~a~~Actuary's satisfaction. The letter should include a description of ~~the~~ each disagreement~~s~~ and the nature of its resolution (or that it was not resolved). Within this same ten (10) business days, ~~T~~the Insurer shall in writing also request ~~in writing~~ such former Appointed ~~a~~Actuary to furnish a letter addressed to the Insurer stating whether the Appointed ~~a~~Actuary agrees with the statements contained in Insurer's letter and, if not, stating the reasons for which he or she does not agree~~;~~. The former Appointed Actuary shall provide a written response to the insurer within ten (10) business days of such request, and the Insurer shall furnish such responsive letter from the former Appointed ~~a~~Actuary to the domiciliary commissioner together with its own responses.

   The Appointed Actuary must report to the Board of Directors ~~or the Audit Committee~~ each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors. The minutes of the Board of Directors should indicate that the Appointed Actuary has presented such information to the Board of Directors ~~or the Audit Committee~~ and ~~that the Actuarial Opinion and the Actuarial Report were made available~~identify the manner of presentation (e.g., webinar, in-person presentation, written). A separate Actuarial Opinion is required for each company filing an Annual Statement. When there is an affiliated company pooling arrangement, one Actuarial Report for the aggregate pool is sufficient, but there must be addendums to the Actuarial Report to cover non-pooled reserves for individual companies.

   The Actuarial Opinion and the supporting Actuarial Report and workpapers, should be consistent with the appropriate Actuarial Standards of Practice (ASOPs), including but not limited to ASOP No. 23, ASOP No. 36, ASOP No. 41 and ASOP No. 43, as promulgated by the Actuarial Standards Board.

© 2024 National Association of Insurance Commissioners

1A. Definitions

"Appointed Actuary" is a Qualified Actuary (or individual otherwise approved by the domiciliary commissioner) appointed by the Board of Directors in accordance with Section 1 of these instructions.

"Board of Directors" can include the designated Board of Directors, its equivalent or an appropriate committee directly reporting to the Board of Directors.

"Qualified Actuary" is a person who is either:

(i) A member in good standing of the Casualty Actuarial Society; or

(ii) An actuary evaluated by the Casualty Practice Council of the American Academy of Actuaries and determined to be a Qualified Actuary for title insurance.~~A member in good standing of the American Academy of Actuaries who has been approved as qualified for signing casualty loss reserve opinions by the Casualty Practice Council of the American Academy of Actuaries.~~

"Insurer" or "Company" means a reporting entity authorized to write title insurance under the laws of any state and who files on the Title Blank.

"Actuarial Report" means a document or other presentation, prepared as a formal means of conveying to the state regulatory authority and the Board of Directors~~, or its equivalent,~~ the Appointed ~~a~~Actuary's professional conclusions and recommendations, of recording and communicating the methods and procedures, of assuring that the parties addressed are aware of the significance of the Appointed ~~a~~Actuary's opinion or findings and of documenting the analysis underlying the opinion. The ~~expected~~ required content of the Actuarial Report is further described in paragraph 7. (Note that the inclusion of the Board of Directors as part of the intended audience for the Actuarial Report does not change the content of the Actuarial Report as described in paragraph 7. The Appointed Actuary should present findings to the Board of Directors in a manner deemed suitable for such audience.)

1B. Exemptions

An insurer who intends to file for one of the exemptions under this section must submit a letter of intent to its domiciliary commissioner no later than December 1 of the calendar year for which the exemption is to be claimed. The commissioner may deny the exemption prior to December 31 of the same year if the exemption is deemed inappropriate.

A copy of the approved exemption must be filed with the Annual Statement in all jurisdictions in which the company is authorized.

Exemption for Small Companies

An insurer that has less than $1,000,000 total direct plus assumed written premiums during a calendar year, and less than $1,000,000 total direct plus assumed loss and loss adjustment expense reserves at year-end, in lieu of the Actuarial Opinion required for the calendar year, may submit an affidavit under oath of an officer of the insurer that specifies the amounts of direct plus assumed written premiums and direct plus assumed loss and loss adjustment reserves.

Exemption for Insurers under Supervision or Conservatorship

Unless ordered by the domiciliary commissioner, an insurer that is under supervision or conservatorship pursuant to statutory provision is exempt from the filing requirements contained herein.

Exemption for Nature of Business

An insurer otherwise subject to the requirement and not eligible for an exemption as enumerated above may apply to its domiciliary commissioner for an exemption based on the nature of business written.

© 2024 National Association of Insurance Commissioners

Financial Hardship Exemption

An insurer otherwise subject to this requirement and not eligible for an exemption as enumerated above may apply to the commissioner for a financial hardship exemption.

Financial hardship is presumed to exist if the projected reasonable cost of the opinion would exceed the lesser of:

(i) One percent (1%) of the insurer's capital and surplus reflected in the insurer's latest quarterly statement for the calendar year for which the exemption is sought; or

(ii) Three percent (3%) of the insurer's direct plus assumed premiums written during the calendar year for which the exemption is sought as projected from the insurer's latest quarterly statements filed with its domiciliary commissioner.

2. The ~~Statement of~~ Actuarial Opinion must consist of an IDENTIFICATION paragraph identifying the Appointed Actuary; a SCOPE paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the Appointed ~~a~~Actuary's work; an OPINION paragraph expressing his or her opinion with respect to such subjects; and one or more additional RELEVANT COMMENTS paragraphs. These four sections must be clearly designated.

3. The IDENTIFICATION paragraph should indicate the Appointed Actuary's relationship to the Company, qualifications for acting as Appointed Actuary~~,~~ and date of appointment, and specify that the appointment was made by the Board of Directors ~~(or its equivalent) or by a committee of the Board~~.

~~A member of the American Academy of Actuaries qualifying under paragraph 1A(ii) must attach, each year, a copy of the approval letter from the Academy.~~

If the Appointed Actuary was approved by the Academy to be a "Qualified Actuary," with or without limitation, or if the Appointed Actuary is not a Qualified Actuary but was approved by the domiciliary commissioner, the company must attach, each year, the approval letter and reference such in the identification paragraph. ~~These instructions require that a Qualified Actuary prepare the Actuarial Opinion. If a person who does not meet the definition of a Qualified Actuary has been approved by the insurance regulatory official of the domiciliary state, the Company must attach, each year, a letter from that official stating that the individual meets the state's requirements for rendering the Actuarial Opinion.~~

4. The SCOPE paragraph should contain a sentence such as the following:

> "I have examined the actuarial assumptions and methods used in determining reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 20__, and reviewed information provided to me through XXX date."

Exhibit A should list those items and amounts with respect to which the Appointed Actuary is expressing an opinion.

The Appointed Actuary should state that the items in the SCOPE paragraph, on which he or she is expressing an opinion, reflect the Disclosure items (8 through ~~14~~13) in Exhibit B.

The SCOPE paragraph should include a paragraph such as the following regarding the data used by the Appointed Actuary in forming the opinion:

> "In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by _____ (officer name~~, affiliation~~ and ~~relation to~~title at the Company). I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P, Parts 1 and 2 of the Company's current Annual Statement. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary."

5. The OPINION paragraph should include a sentence that at least covers the points listed in the following illustration:

"In my opinion, the amounts carried in Exhibit A on account of the items identified:

A. Meet the requirements of the insurance laws of (state of domicile).

B. Are computed in accordance with accepted actuarial standards.

C. Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements."

If there is any aggregation or combination of items in Exhibit A, the opinion language should clearly identify the combined items.

Insurance laws and regulations shall at all times take precedence over the actuarial standards.

If the Appointed ~~a~~Actuary has made use of the work of another actuary not within the Appointed Actuary's control (such as for pools and associations, for a subsidiary or for special lines of business) for a material portion of the reserves, the other actuary must be identified by name, credential and affiliation within the OPINION paragraph. If the Appointed Actuary has made use of the work of a non-actuary (such as for modeling) for a material portion of the reserves, that individual must be identified by name and affiliation and a description of the type of analysis performed must be provided.

A Statement of Actuarial Opinion should be made in accordance with one of the following sections (a through e). The Appointed ~~a~~Actuary must explicitly identify in Exhibit B which type applies.

a. Determination of Reasonable Provision. When the carried reserve amount is within the Appointed ~~a~~Actuary's range of reasonable reserve estimates, the Appointed ~~a~~Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount makes a reasonable provision for the liabilities associated with the specified reserves.

b. Determination of Deficient or Inadequate Provision. When the carried reserve amount is less than the minimum amount that the Appointed ~~a~~Actuary believes is reasonable, the Appointed ~~a~~Actuary should issue a ~~s~~Statement of ~~a~~Actuarial ~~o~~Opinion that the carried reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves. In addition, the Appointed ~~a~~Actuary should disclose the minimum amount that the Appointed ~~a~~Actuary believes is reasonable.

c. Determination of Redundant or Excessive Provision. When the carried reserve amount is greater than the maximum amount that the Appointed ~~a~~Actuary believes is reasonable, the Appointed ~~a~~Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves. In addition, the Appointed ~~a~~Actuary should disclose the maximum amount that the Appointed ~~a~~Actuary believes is reasonable.

d. Qualified Opinion. When, in the Appointed ~~a~~Actuary's opinion, the reserves for a certain item or items are in question because they cannot be reasonably estimated or the Appointed ~~a~~Actuary is unable to render an opinion on those items, the Appointed ~~a~~Actuary should issue a qualified Statement of Actuarial Opinion. The Appointed ~~a~~Actuary should disclose the item (or items) to which the qualification relates, the reason(s) for the qualification~~,~~ and the amounts for such item(s), if disclosed by the Company. Such a qualified opinion should state whether the ~~stated~~ carried reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, *except for* the item (or items) to which the qualification relates. The Appointed ~~a~~Actuary is not required to issue a qualified opinion if the Appointed ~~a~~Actuary reasonably believes that the item (or items) in question are not likely to be material.

e. No Opinion. The Appointed ~~a~~Actuary's ability to give an opinion is dependent upon data, analyses, assumptions, and related information that are sufficient to support a conclusion. If the Appointed ~~a~~Actuary cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions,

© 2024 National Association of Insurance Commissioners

or related information, then the Appointed ~~a~~Actuary may issue a statement of no opinion. A statement of no opinion should include a description of the reasons why no opinion could be given.

6. The Appointed Actuary must provide RELEVANT COMMENT paragraphs to address the following topics of regulatory importance.

A. Company-Specific Risk Factors

The Appointed Actuary should include an explanatory paragraph to describe the major factors, combination of factors or particular conditions underlying the risks and uncertainties the actuary considers relevant. The explanatory paragraph should not include general, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces, etc., nor is the Appointed Actuary required to include an exhaustive list of all potential sources of risks and uncertainties.

~~a~~B. Risk of Material Adverse Deviation.

The Appointed Actuary must provide specific RELEVANT COMMENT paragraphs to address the risk of material adverse deviation. The Appointed Actuary must identify the materiality standard and the basis for establishing this standard ~~with respect to the relevant characteristics of the Company~~. The materiality standard must also be disclosed in U.S. dollars in Exhibit B: Disclosures. ~~The Appointed Actuary should include an explanatory paragraph to describe the major factors, combination of factors or particular conditions underlying the risks and uncertainties the actuary considers relevant. The explanatory paragraph should not include general, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces, etc., nor is the Appointed Actuary required to include an exhaustive list of all potential sources of risks and uncertainties.~~ The Appointed Actuary should explicitly state whether or not he or she reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation. This determination is also to be disclosed in Exhibit B.

~~b~~C. Other Disclosures in Exhibit B

RELEVANT COMMENT paragraphs should describe the significance of each of the remaining Disclosure items (8 through 14) in Exhibit B. The Appointed Actuary should address the items individually and in combination when commenting on a material impact.

~~If the Company's reserves will cause the ratio of One Year or Two Year Known Claims Reserve Development (shown in Schedule P, Part 3) to the respective prior year's Policyholders' Surplus to be greater than 20%, the Appointed Actuary must include RELEVANT COMMENT on the factors that led to the exceptional reserve development.~~

~~c~~D. Reinsurance

RELEVANT COMMENT paragraphs should address reinsurance collectability, retroactive reinsurance and financial reinsurance .

The Appointed Actuary's comments on reinsurance collectability should address any uncertainty associated with including potentially-uncollectable amounts in the estimate of ceded reserves. Before commenting on reinsurance collectability, the Appointed Actuary should solicit information from management on any actual collectability problems, review ratings given to reinsurers by a recognized rating service, and examine Schedule F for the current year for indications of regulatory action or reinsurance recoverable on paid losses over ninety (90) days past due. The comment should also reflect any other information the actuary has received from management or that is publicly available about the capability or willingness of reinsurers to pay claims. The Appointed Actuary's comments do not imply an opinion on the financial condition of any reinsurer.

© 2024 National Association of Insurance Commissioners

Retroactive reinsurance refers to agreements referenced in *SSAP No. 62R—Property and Casualty Reinsurance* of the *Accounting Practices and Procedures Manual*.

Financial reinsurance refers to contracts referenced in *SSAP No. 62R—Property and Casualty Reinsurance* of the *Accounting Practices and Procedures Manual* in which credit is not allowed for the ceding insurer because the arrangements do not include a transfer of both timing and underwriting risk that the reinsurer undertakes in fact to indemnify the ceding insurer against loss or liability by reason of the original insurance.

~~d~~E. Reserve Development

If the Company's reserves will cause the ratio of One-Year or Two-Year Known Claims Reserve Development (shown in Schedule P, Part 3) or One-Year or Two-Year Reserve Development (shown in Schedule P, Part 2) to the respective prior year's Policyholders' Surplus to be greater than 20%, the Appointed actuary must include RELEVANT COMMENT on the factors that led to the exceptional reserve development.

~~e~~F. Methods and Assumptions

If there has been any significant change in the actuarial assumptions and/or methods from those previously employed, that change should be described in a RELEVANT COMMENT paragraph. If the Appointed Actuary is newly~~-~~ appointed and does not review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.

7. The Actuarial Opinion must include assurance that an Actuarial Report and underlying actuarial workpapers supporting the Actuarial Opinion will be maintained at the Company and available for examination for seven (7) years. The Actuarial Report contains significant proprietary information. It is expected that the Actuarial Report be held confidential and not be intended for public inspection. The Actuarial Report must be available by May 1 of the year following the year-end for which the Actuarial Opinion was rendered or within two (2) weeks after a request from an individual state commissioner.

   The Actuarial Report should be consistent with the documentation and disclosure requirements of ASOP No. 41, Actuarial Communications. The Actuarial Report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to ~~e~~Company management, the Board of Directors, the regulator, or other authority the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data (e.g., loss triangles) to the conclusions.

   The Actuarial Report must also include:

   - A description of the Appointed Actuary's relationship to the Company, with clear presentation of the Appointed Actuary's role in advising the Board of Directors and/or management regarding the carried reserves. The Actuarial Report should identify how and when the Appointed Actuary presents the analysis to the Board and, where applicable, to the officer(s) of the Company responsible for determining the carried reserves.

   - An exhibit that ties to the Annual Statement and compares the Appointed Actuary's conclusions to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis. The Appointed Actuary's conclusions include the Appointed Actuary's point estimate(s), range(s) of reasonable estimates or both.

   - An exhibit that reconciles and maps the data used by the Appointed Actuary, consistent with the segmentation of exposure or liability groupings used in the Appointed Actuary's analysis, to the Annual Statement Schedule P.

© 2024 National Association of Insurance Commissioners

- An exhibit or appendix showing the change in the Appointed Actuary's estimates from the prior Actuarial Report, including extended discussion of factors underlying any material changes. The exhibit or appendix should illustrate the changes on a net basis but should also include the changes on a gross basis, if relevant. If the Appointed Actuary is newly-appointed and does not review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.

- Extended comments on trends that indicate the presence or absence of risks and uncertainties that could result in material adverse deviation.

- Extended comments on factors that led to exceptional reserve development, as defined in ~~6C and 6D~~6E, and how these factors were addressed in prior and current analyses.

8. The ~~statement~~ Actuarial Opinion should conclude with the signature of the Appointed Actuary responsible for providing the Actuarial Opinion and the date when the Opinion was rendered. The signature and date should appear in the following format:

_____
Signature of Appointed Actuary
Printed name of Appointed actuary
Employer's name
Address of Appointed Actuary
Telephone number of Appointed Actuary
Email address of Appointed Actuary
Date opinion was rendered

The same information should be reproduced within the Actuarial Report, along with the date the Actuarial Report was finalized.

9. The Insurer required to furnish an Actuarial Opinion shall require its Appointed Actuary to notify its Board of Directors or its audit committee in writing within five (5) business days after any determination by the Appointed Actuary that the Actuarial Opinion submitted to the domiciliary commissioner was in error as a result of reliance on data or other information (other than assumptions) that, as of the balance sheet date, was factually incorrect. The Opinion shall be considered to be in error if the Actuarial Opinion would have not been issued or would have been materially altered had the correct data or other information been used. The Actuarial Opinion shall not be considered to be in error if it would have been materially altered or not issued solely because of data or information concerning events subsequent to the balance sheet date or because actual results differ from those projected. Notification is required when discovery is made between the issuance of the Actuarial Opinion and Dec. 31 of that year. Notification should include a summary of such findings.

~~Notification shall be required for any such determination made between the issuance of the Actuarial Opinion and the balance sheet date for which the next Actuarial Opinion will be issued. The notification should include a summary of such findings and an amended Actuarial Opinion.~~

~~An Insurer who is notified pursuant to the preceding paragraphs shall forward a copy of the summary and the amended Actuarial Opinion to the domiciliary commissioner within five (5) business days of receipt of such and shall provide the Appointed Actuary making the notification with a copy of the summary and amended Actuarial Opinion being furnished to the domiciliary commissioner. If the Appointed Actuary fails to receive such copy within the five (5) business day period referred to in the previous sentence, the Appointed Actuary shall notify the domiciliary commissioner within the next five (5) business days that the submitted Actuarial Opinion should no longer be relied upon or such other notification recommended by the actuary's attorney.~~

If the Appointed Actuary learns that the data or other information relied upon was factually incorrect, but cannot immediately determine what, if any, changes are needed in the Actuarial Opinion, the Appointed ~~a~~Actuary and the Company should quickly undertake ~~as quickly as is reasonably practical those~~ procedures necessary for the Appointed Actuary to make ~~the~~ such determination ~~discussed above~~. If the Insurer does not provide the necessary data corrections and other support (including financial support) within ten (10) business days, the Appointed ~~a~~Actuary should proceed with the notification to the Board of Directors and the domiciliary commissioner~~discussed above~~.

© 2024 National Association of Insurance Commissioners

An Insurer who is notified pursuant to the preceding paragraphs shall forward a copy of the amended Actuarial Opinion to the domiciliary commissioner within five (5) business days of receipt of such and shall provide the Appointed Actuary making the notification with a copy of the letter and amended Actuarial Opinion being furnished to the domiciliary commissioner. If the Appointed Actuary fails to receive such copy within the five (5) business day period referred to in the previous sentence, the Appointed Actuary shall notify the domiciliary commissioner within the next five (5) business days that an amended Actuarial Opinion has been finalized.

No Appointed Actuary shall be liable in any manner to any person for any statement made in connection with the above paragraphs if such statement is made in a good faith effort to comply with the above paragraphs.

10. Data in Exhibit A and Exhibit B are to be filed in both print and data capture format.

STATEMENT OF ACTUARIAL OPINION

Exhibit A: SCOPE
DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMAT

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES:		Amount
1. Unpaid Losses and Loss Adjustment Expenses (Schedule P, Part 1, Total Column 24 * 1000 or Total Column 34 * 1000 if discounting is allowable under state law)	$	_____
2. Unpaid Losses and Loss Adjustment Expenses - Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Columns 17, 18, 20, 21, and 23, Line 12 ~~x~~ * 1000)	$	_____
3. Other items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	$	_____

Exhibit B: DISCLOSURES
DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMAT

NOTE: Exhibit B should be completed for Net dollar amounts included in the SCOPE. If an answer would be different for Direct and Assumed amounts, identify and discuss the difference within RELEVANT COMMENTS.

	Last	First	Middle
1. Name of the Appointed Actuary	_____	_____	_____
2. The Appointed Actuary's relationship to the Company.			
Enter E or C based upon the following:			
E - If an Employee of the Company or Group			_____
C - If a Consultant			_____
3. The Appointed Actuary has the following designation (indicated by the letter code):			
F - If a Fellow of the Casualty Actuarial Society (FCAS)			
A - If an Associate of the Casualty Actuarial Society (ACAS)			_____
M - If not a member of the Casualty Actuarial Society, but a Member of the American Academy of			_____

Actuaries (MAAA) approved by the Casualty Practice Council, as documented with the attached approval letter.

O - For Other

4. Type of Opinion, as identified in the OPINION paragraph. Enter R, I, E, Q, or N based upon the following:

   R - If Reasonable

   I - If Inadequate or Deficient Provision

   E - If Excessive or Redundant Provision

   Q - If Qualified (use Q when part of the OPINION is Qualified)

   N - If No Opinion

   _____
   _____
   _____
   _____

5. Materiality Standard expressed in U.S. dollars (used to answer question #6) $ _____

6. Are there significant risks that could result in Material Adverse Deviation?

   _____
   _____
   _____
   _____

7. Statutory Surplus (Liabilities, Surplus, and Other Funds Page, Line 32) $ _____

8. Known claims reserve (Liabilities, Surplus, and Other Funds Page, Line 1) $ _____

9. Statutory premium reserve (Liabilities, Surplus, and Other Funds Page, Line 2) $ _____

10. Aggregate of other reserves required by law (Liabilities, Surplus, and Other Funds Page, Line 3) $ _____

11. Supplemental reserve (Liabilities, Surplus, and Other Funds Page, Line 4) $ _____

12. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P $ _____

13. Discount included as a reduction to loss reserves and loss adjustment expense reserves as reported in Schedule P $ _____

14. Other items on which the Appointed Actuary is providing relevant comment (list separately, adding additional lines as needed) $ _____

© 2024 National Association of Insurance Commissioners

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 03/01/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2024-07BWG
TELEPHONE:	Year 2024
EMAIL ADDRESS:	Changes to Existing Reporting [ ]
ON BEHALF OF:	New Reporting Requirement [X]
NAME: Dale Bruggeman	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE: Chair SAPWG	No Impact [X]
AFFILIATION: Ohio Department of Insurance	Modifies Required Disclosure [ ]
ADDRESS: 50W. Town St., 3rd Fl., Ste. 300	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
Columbus, OH 43215	***If Yes, complete question below***
	DISPOSITION
	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[ ] Received For Public Comment
	[X] Adopted Date 05/23/2024
	[ ] Rejected Date
	[ ] Deferred Date
	[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2024

IDENTIFICATION OF ITEM(S) TO CHANGE

Update the illustration under Note 5S(A) – Investments for Net Negative (Disallowed) Interest Maintenance Reserve (IMR) to add separate account breakout. Add a new general interrogatory for a company attestation for separate accounts. *(This goes with adopted Blanks Working Group proposal 2023-13BWG)*

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal updates Notes to Financial Statement and General Interrogatories for the Statutory Accounting Principles Working Group's disclosure on Net Negative (Disallowed) Interest Maintenance Reserve (INT 23-01)

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

NOTES TO FINANCIAL STATEMENTS

5. Investments

Illustration:

Detail Eliminated To Conserve Space

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

S. Reporting Net Negative (Disallowed) Interest Maintenance Reserve (IMR)

(1) Net negative (disallowed) IMR

	Total	General Account	Insulated Separate Account	Non-Insulated Separate Account
	$	$	$	$ .....

(2) Negative (disallowed) IMR admitted

	Total	General Account	Insulated Separate Account	Non-Insulated Separate Account
	$	$	$	$ .....

(3) Calculated adjusted capital and surplus

	Total
Prior Period General Account Capital & Surplus From Prior Period SAP Financials	$ .....
Net Positive Goodwill (admitted)	$ .....
EDP Equipment & Operating System Software (admitted)	$ .....
Net DTAs (admitted)	$ .....
Net Negative (disallowed) IMR (admitted)	$ .....
Adjusted Capital & Surplus	$ .....

(4) Percentage of adjusted capital and surplus

	Total
Percentage of Total Net Negative (disallowed) IMR admitted in General Account or recognized in Separate Account to adjusted capital and surplus	%

(5) Allocated gains/losses to IMR from derivatives

a. General Account

	Gains	Losses
Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period	$	$ .....

© 2024 National Association of Insurance Commissioners

Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period	$	$ .....
Fair Value Derivative Gains & Losses Amortized Over Current Period	$	$ .....
Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total	$	$ .....

b. Separate Account - Insulated

	Gains	Losses
Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period	$	$ .....
Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period	$	$ .....
Fair Value Derivative Gains & Losses Amortized Over Current Period	$	$ .....
Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total	$	$ .....

c. Separate Account – Non-Insulated

	Gains	Losses
Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period	$	$ .....
Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period	$	$ .....
Fair Value Derivative Gains & Losses Amortized Over Current Period	$	$ .....
Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total	$	$ .....

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT BLANK – SEPARATE ACCOUNTS

GENERAL INTERROGATORIES

Detail Eliminated To Conserve Space

Reporting Differences Between GAAP and SAP Financial Statements (This disclosure is applicable to all reporting entities regardless if they file GAAP financial statements)

8.1 Does the reporting entity file GAAP financial statements? Yes [ ] No [ ]

8.2 In accordance with the different separate account reporting requirements between GAAP (SOP 03-1) and statutory accounting, does the reporting entity have products that are classified within the separate account that were, or would have been if GAAP financial statements had been completed, required to be reported within the general account under GAAP financials? Pursuant to SOP 03-1, all of the following conditions must be met to receive separate account reporting classification under GAAP: Yes [ ] No[ ] N/A [ ]

a. Legal Recognition - The separate account is legally recognized. That is, the separate account is established, approved, and regulated under special rules such as state insurance laws, federal securities laws, or similar foreign laws.

b. Legally Insulated - The separate account assets supporting the contract liabilities are legally insulated from the general account liabilities of the insurance enterprise (that is, the contract holder is not subject to insurer default risk to the extent of the assets held in the separate account).

c. Investment Directive - The reporting entity must, as a result of contractual, statutory, or regulatory requirements, invest the contract holder's funds within the separate account as directed by the contract holder in designated investment alternatives or in accordance with specific investment objectives or policies.

d. Investment Performance - All investment performance, net of contract fees and assessments, must as a result of contractual, statutory, or regulatory requirements be passed through to the individual contract holder. Contracts may specify conditions under which there may be a minimum guarantee, but not a ceiling, as a ceiling would prohibit all investment performance from being passed through to the contract holder

8.3 Identify all separate account products and identify whether each product was classified within a separate account for GAAP reporting purposes. (For non-GAAP filers, this disclosure should reflect whether the GAAP classification would have been the same if GAAP financials had been completed.) For products that were (or would have been) reported differently, identify which SOP 03-1 condition prevented separate account GAAP classification for that particular product.

1 Product Identifier	2 Same as GAAP / Condition that Requires GAAP General Account Reporting

Interest Maintenance Reserve (IMR)

9. Reporting entities admitting net negative (disallowed) interest maintenance reserve (IMR) attest to the following:

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

b. 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 derivate gains were reversed to IMR and amortized in lieu of being recognized as realized gains upon derivative termination.

c. Any deviation to (a) 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.

d. Asset sales that were generating admitted negative IMR were not compelled by liquidity pressures (e.g., to fund significant cash outflows including, but not limited to excess withdrawals and collateral calls).

Is the reporting entity admitting net negative (disallowed) IMR in accordance with these criteria? Yes [ ] No[ ] N/A [ ]

© 2024 National Association of Insurance Commissioners

Attachment Two-A9
Accounting Practices and Procedures (E) Task Force
8/14/24

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE:	**03/01/2024**
CONTACT PERSON:	
TELEPHONE:	
EMAIL ADDRESS:	
ON BEHALF OF:	
NAME:	**Dale Bruggeman**
TITLE:	**Chair SAPWG**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50W. Town St., 3rd FL., Ste. 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-08BWG
Year 2024
Changes to Existing Reporting [X]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [ ]
Modifies Required Disclosure [X]

Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
****If Yes, complete question below****

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[X] Adopted Date 05/23/2024
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[ ] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[ ] Property/Casualty	[ ] Protected Cell	[ ] Other
[ ] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2024

IDENTIFICATION OF ITEM(S) TO CHANGE

Update the Interest Maintenance Reserve and Asset Valuation Reserve instructions for specific allocation guidance for NAIC Designation Changes for Debt Securities (excluding LBSS), Mortgage Loans, and perpetual preferred stocks. *(SAPWG agenda items: 2023-15 & 2023-29)*

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

Update the instructions for the changes made in the SAPWG agenda items 2023-15 and 2023-29.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

INTEREST MAINTENANCE RESERVE

This exhibit is designed to capture the realized capital gains (losses) that result from changes in the overall level of interest rates and amortize them into income over the approximate remaining life of the investment sold.

Detail Eliminated To Conserve Space

Line 2 – Current Year's Realized Pre-tax Capital Gains (Losses) of $_____ Transferred into the Reserve Net of Taxes of $_____

Include interest-rate-related realized capital gains (losses), net of capital gains tax thereon. All realized capital gains (losses) transferred to the IMR are net of capital gains taxes thereon. Exclude non-interest-related (default) realized capital gains and (losses), realized capital gains (losses) on equity investments, and unrealized capital gains (losses).

All realized capital gains (losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains (losses) must be classified as either interest (IMR) or non-interest (AVR) related, not a combination except as specified in *SSAP No. 43R—Loan-Backed and Structured Securities*. Purchase lots with the same CUSIP are treated as individual assets for IMR and Asset Valuation Reserve (AVR) purposes.

Exclude those capital gains and (losses) that, in accordance with contract terms have been used to directly increase or (decrease) contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and (losses).

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains (losses) net of tax, the capital gains tax associated with those capital gains (losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and redeemable preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period is ~~NOT~~ different from its NAIC designation at the beginning of the holding period by ~~more than one~~one or less NAIC designation. ~~Exclude any such gains (losses) exempt from the IMR.~~However, if the security sold also includes the following, it should not be included in IMR:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain (loss) from the sale was predominantly credit related.

Exchange Traded Funds (ETFs) as listed on the SVO Identified Bond ETF List (thereafter subject to bond IMR guidelines~~) and the SVO Identified Preferred Stock ETF List (thereafter subject to preferred stock IMR guidelines)~~. Include any capital gains (losses) realized by the Company, whether from sale of the ETF or capital gains distributions by the ETF. If the ETF is removed from either SVO ETF list, the ETF is reported and treated as common stock, with any capital gains/(losses) excluded from the IMR. (Mandatory convertible preferred stocks (regardless if redeemable or perpetual) and investments on the SVO-Identified Preferred Stock List are captured

as perpetual preferred stock and treated as equity investments, with gains and losses excluded from IMR.)

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where the realized gains (losses) more predominantly reflect interest-related changes. By default, mortgage loans that meet any of the following criteria shall not be considered to reflect interest-related losses. Realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is ~~NOT~~ more than 90 days past due, or
- The loan is ~~NOT~~ in process of foreclosure, or
- The loan is ~~NOT~~ in course of voluntary conveyance, or
- The terms of the loan have ~~NOT~~ been restructured during the prior two years.

Additional Provisions for Including/Excluding Gains (Losses) from IMR:

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains (losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and (losses) on fixed income assets held on Schedule D. A capital gain (loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain (loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

Realized capital gains (losses) on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of 6 at any time during the holding period should be excluded from the IMR and included as a non-interest-related gain (loss) in the AVR.

Realized capital gains (losses) on ~~any~~ redeemable preferred stock that had an NAIC/SVO designation of ~~RP4, RP5 or RP6 or P4, P5 or P6~~4-6 at any time during the holding period should be reported as non-interest-related gains (losses) in the AVR.

The holding period for debt securities (excluding loan-backed and structured securities) and redeemable preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990. For redeemable preferred stocks acquired before Jan. 1, 1993, the holding period is presumed to have begun on Dec. 31, 1992. For ~~SVO~~ SVO-Identified Bond ETFs, the holding period is defined as one calendar year to expected maturity. For ~~SVO~~ SVO-Identified ~~Funds~~ Bond ETFs designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

Detail Eliminated To Conserve Space

© 2024 National Association of Insurance Commissioners

ASSET VALUATION RESERVE

This exhibit and its supporting calculations are designed to address the non-interest-related (default) and equity risks of the company's assets by calculating a basic contribution, a reserve objective and a maximum reserve amount and controlling the flow of the reserve from/into surplus. These instructions cover the Asset Valuation Reserve (AVR) for both the General Account Statement and the Separate Account Statement. If an AVR is required for investments in the Separate Accounts Statement, it is combined with the General Account AVR and accounted for in the General Accounts statement. Worksheets supporting the separate accounts portion of the reserve are included with the Separate Accounts Statement. The criteria for determining when an AVR is required for separate accounts are described in the Separate Accounts AVR Worksheet instructions.

Detail Eliminated To Conserve Space

Line 2 – Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses) (which includes, but is not limited to, common stock, perpetual preferred stock, mandatory convertible preferred stock (regardless if redeemable or perpetual) and SVO-Identified Preferred Stock ETFs), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than on NAIC designation shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR. ~~by more than one NAIC/SVO designation. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990.~~However, securities without more than one designation change shall be included in the AVR if it includes the following:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain (loss) from the sale was predominantly credit related.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26R—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with *SSAP No. 43R—Loan-Backed and Structured Securities*, for loan-backed and structured securities only:

- Other-Than-Temporary Impairment – Non-interest-related other-than-temporary impairment losses shall be recorded through the AVR. If the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the non-interest-related portion of the other-than-

temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR. The analysis for bifurcating impairment losses between AVR and IMR shall be completed as of the date when the other-than-temporary impairment is determined.

- Security Sold at a Loss Without Prior OTTI – An entity shall bifurcate the loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. As such, an entity shall report the loss in separate AVR and IMR components as appropriate.

- Security Sold at a Loss with Prior OTTI – An entity shall bifurcate the current realized loss into AVR and IMR portions depending on interest- and non-interest-related declines in accordance with the analysis performed as of the date of sale. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.

- Security Sold at a Gain with Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale. The bifurcation between AVR and IMR that occurs as of the date of sale may be different from the AVR and IMR allocation that occurred at the time of previous other-than-temporary impairments. An entity shall not adjust previous allocations to AVR and IMR that resulted from previous recognition of other-than-temporary impairments.

- Security Sold at a Gain Without Prior OTTI – An entity shall bifurcate the gain into AVR and IMR portions depending on interest and non-interest factors in accordance with the analysis performed as of the date of sale.

In addition, all gains (losses), net of capital gains tax, on mortgage loans where the realized gains (losses) more predominantly reflect non-interest-related changes. By default, mortgage loans that meet any of the following criteria shall be considered to reflect non-interest-related changes and realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

~~Would be classified as non-interest-related gains (losses).~~

The gain (loss), net of capital gains tax, on any debt security (excluding loan-backed and structured securities) that has had an NAIC/SVO designation of "6" at any time during the holding period should be reported as a credit related gain (loss).

All capital gains (losses), net of capital gains tax, from redeemable preferred stock that had an NAIC/SVO designation of ~~RP4, RP5 or RP6 or P4, P5 or P6~~4-6 at any time during the holding period should be reported as on-interest-related gains (losses) in the AVR.

However, for a convertible bond or redeemable preferred stock purchased while its conversion value exceeds its par value, any gain (loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock's current market price.

Report all realized equity capital gains (losses), net of capital gains tax, in the appropriate sub-components.

© 2024 National Association of Insurance Commissioners

The following guidance pertains to instruments in Scope of *SSAP No. 86—Derivatives*:

- For derivative instruments used in hedging transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains (losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains (losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.

- For income generation derivative transactions, the determination of whether the capital gains (losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains (losses), net of capital gains tax should be included in the same sub-component where the realized gains (losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to *SSAP No. 86—Derivatives* for accounting guidance.

Realized gains (losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.

© 2024 National Association of Insurance Commissioners

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE:	**03/01/2024**
CONTACT PERSON:	
TELEPHONE:	
EMAIL ADDRESS:	
ON BEHALF OF:	
NAME:	**Dale Bruggeman**
TITLE:	**Chair SAPWG**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50W. Town St., 3rd Fl., Ste. 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-09BWG MOD
Year 2024
Changes to Existing Reporting [ ]
New Reporting Requirement [X]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [X]
Modifies Required Disclosure [ ]

Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
****If Yes, complete question below****

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[X] Adopted Date 05/23/2024
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[X] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2024

IDENTIFICATION OF ITEM(S) TO CHANGE

Add a note (5T) to the Notes to Financials to be data captured to report the aggregate collateral loans by qualifying investment collateral. Add crosscheck between Schedule BA, Part 1 Book Adjusted Carrying Value column and Note 5(T) Total Line.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal updates Notes to Financial Statement for the Statutory Accounting Principles Working Group's disclosure on Collateral Loan Reporting (INT 23-28)

****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, HEALTH, PROPERTY AND TITLE

NOTES TO FINANCIAL STATEMENTS

5. Investments

Instruction:

T. Aggregate Collateral Loans by Qualifying Investment Collateral

Pursuant to *SSAP No. 21 R – Other Admitted Assets,* nonadmittance of a collateral loan is required when the fair value of the collateral is not sufficient to cover the collateral loan or if the collateral securing the loan is not a qualifying investment. This includes situations in which collateral in form of joint ventures, partnerships, limited liability companies (LLCs) or subsidiaries, controlled, and affiliates (SCAs) is not supported by an audit as required by SSAP No. 48 or SSAP No. 97.

Collateral loans shall be reported based on the type of qualifying investment that secures the loan. An aggregate note disclosure shall identify the total amount of collateral loans, and the collateral loans admitted and nonadmitted by qualifying investment type.

The other qualifying investment category shall only be used to capture collateral loans secured by collateral in the form of contract loans, derivatives, other invested assets not separately reported, receivables for securities, securities lending and any investments that would qualify as a write-in for invested assets. All collateral loans secured by collateral that does not qualify as an investment are required to be nonadmitted under SSAP No. 21R.

Note: Collateral Loans with collateral that does not qualify as an investment are not permitted under SSAP No. 21R. Amounts reported as admitted within this category shall be supported by a prescribed or permitted practice disclosure.

Detail Eliminated To Conserve Space

© 2024 National Association of Insurance Commissioners

Illustration:

T. Aggregate Collateral Loans by Qualifying Investment Collateral

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

Collateral Type	Aggregate Collateral Loan*	Admitted	Nonadmitted
(1) Cash, Cash Equivalent & ST Investments			
a. Affiliated	.....	.....	.....
b. Unaffiliated	.....	.....	.....
(2) Bonds			
a. Affiliated	.....	.....	.....
b. Unaffiliated	.....	.....	.....
(3) Loan-Backed and Structured Securities			
a. Affiliated	.....	.....	.....
b. Unaffiliated	.....	.....	.....
(4) Preferred Stocks			
a. Affiliated	.....	.....	.....
b. Unaffiliated	.....	.....	.....
(5) Common Stocks			
a. Affiliated	.....	.....	.....
b. Unaffiliated	.....	.....	.....
(6) Real Estate			
a. Affiliated	.....	.....	.....
b. Unaffiliated	.....	.....	.....
(7) Mortgage Loans			
a. Affiliated	.....	.....	.....
b. Unaffiliated	.....	.....	.....
(8) Joint Ventures, Partnerships, LLC			
a. Affiliated	.....	.....	.....
b. Unaffiliated	.....	.....	.....
(9) Other Qualifying Investments			
a. Affiliated	.....	.....	.....
b. Unaffiliated	.....	.....	.....
(10) Collateral Does not Qualify as an Investment			
a. Affiliated	.....	.....	.....
b. Unaffiliated	.....	.....	.....
(11) Total	.....	.....	.....

* Aggregate Collateral Loan Total Line should equal Schedule BA, Part 1, Column 12, Book Adjusted Carrying Value

© 2024 National Association of Insurance Commissioners

Attachment Two-A11
Accounting Practices and Procedures (E) Task Force
8/14/24

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

	DATE: 03/01/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:		Agenda Item # 2024-10BWG MOD
		Year 2024
TELEPHONE:		Changes to Existing Reporting [X]
		New Reporting Requirement [ ]
EMAIL ADDRESS:		**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
ON BEHALF OF:		No Impact [X]
		Modifies Required Disclosure [ ]
NAME:	Dale Bruggeman	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
TITLE:	Chair SAPWG	***If Yes, complete question below***
AFFILIATION:	Ohio Department of Insurance	**DISPOSITION**
ADDRESS:	50W. Town St., 3rd Fl., Ste. 300	[ ] Rejected For Public Comment
	Columbus, OH 43215	[ ] Referred To Another NAIC Group
		[ ] Received For Public Comment
		[X] Adopted Date 05/23/2024
		[ ] Rejected Date
		[ ] Deferred Date
		[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[ ] **BLANK**	
[X] Life, Accident & Health/Fraternal	[ ] Separate Accounts	[ ] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: Annual 2024

IDENTIFICATION OF ITEM(S) TO CHANGE

Remove the ACA SSAP No. 107 disclosure on the transitional reinsurance program and the risk corridors program from Note 24E in the Notes to Financials (Note 24F for Property/Casualty) in the Annual Statement Instructions.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposal updates Notes to Financial Statement for the Statutory Accounting Principles Working Group's disclosure on updating SSAP No. 107 disclosures. (SAPWG Ref # 2024-13)

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL AND HEALTH

NOTES TO FINANCIAL STATEMENTS

24. Retrospectively Rated Contracts & Contracts Subject to Redetermination

Instruction:

Detail Eliminated To Conserve Space

E. Risk-Sharing Provisions of the Affordable Care Act (ACA)

(1) Reporting entities shall also indicate if they wrote any accident and health insurance premium that is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc.

NOTE: Any reporting entity that reports accident and health insurance premium and losses on their statement that is subject to the Affordable Care Act risk-sharing provisions **MUST** complete the tables illustrated for the disclosures below, even if all amounts in the illustrated table are zero.

(2) Impact of Risk-Sharing Provisions of the Affordable Care Act on Admitted Assets, Liabilities and Revenue for the Current Year

The financial statements shall disclose the admitted assets, liabilities and revenue elements ~~by~~ for the permanent risk adjustment program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods that are impacted by programs. The disclosure should include the following:

- Permanent ACA Risk Adjustment Program
  - Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)
  - Risk adjustment user fees payable for ACA Risk Adjustment
  - Premium adjustments payable due to ACA Risk Adjustment (including high-risk pool premium)
  - Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
  - Reported in expenses as ACA Risk Adjustment user fees (incurred/paid)

~~- Transitional ACA Reinsurance Program~~

~~- Amounts recoverable for claims paid due to ACA Reinsurance~~

~~- Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)~~

~~- Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~

~~- Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium~~

~~- Ceded reinsurance premiums payable due to ACA Reinsurance~~

~~- Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance~~

~~➢ Ceded reinsurance premiums due to ACA Reinsurance~~

~~➢ Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~

~~➢ ACA Reinsurance contributions – not reported as ceded premium~~

~~• Temporary ACA Risk Corridors Program~~

~~➢ Accrued retrospective premium due to ACA Risk Corridors~~

~~➢ Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~

~~➢ Effect of ACA Risk Corridors on net premium income (paid/received)~~

~~➢ Effect of ACA Risk Corridors on change in reserves for rate credits~~

(3) Roll-Forward of Prior Year ACA Risk-Sharing Provisions

A roll-forward of prior year ACA risk-sharing provisions for the risk adjustment program for the following asset (gross of any nonadmission) and liability balances shall be disclosed, along with the reasons for adjustments (e.g., federal audits, revised participant counts, information which impacted risk score projections, etc.) to prior year balance.

- Permanent ACA Risk Adjustment Program
  - ➢ Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)
  - ➢ Premium adjustments payable due to ACA Risk Adjustment (including high-risk pool premium)

~~• Transitional ACA Reinsurance Program~~

~~➢ Amounts recoverable for claims paid due to ACA Reinsurance~~

~~➢ Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)~~

~~➢ Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~

~~➢ Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium~~

~~➢ Ceded reinsurance premiums payable due to ACA Reinsurance~~

~~➢ Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance~~

~~• Temporary ACA Risk Corridors Program~~

~~➢ Accrued retrospective premium due to ACA Risk Corridors~~

~~➢ Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~

~~(4) Roll-Forward of Risk Corridors Asset and Liability Balances by Program Benefit Year~~

~~Provide an additional roll forward of the risk corridors asset and liability balances and subsequent adjustments by program benefit year. The beginning receivable or payable in the roll-forward will reflect the prior year-end balance for the specified benefit year.~~

~~(5) ACA Risk Corridors Receivable as of Reporting Date~~

~~The following information is required for risk corridors balances by program benefit year:~~

- ~~Estimated amount to be filed or final amounts filed with federal agency~~
- ~~Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)~~
- ~~Amounts received from federal agency~~
- ~~Asset balance gross of nonadmission~~
- ~~Nonadmitted amounts~~
- ~~Net admitted assets~~

Illustration:

Detail Eliminated To Conserve Space

E. Risk-Sharing Provisions of the Affordable Care Act (ACA)

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

NOTE: Any reporting entity that reports accident and health insurance premium and losses on their statement that is subject to the federal Affordable Care Act risk-sharing provisions MUST complete the tables (24E(2) through 24E(5)) illustrated below, even if all amounts in the table are zero.

(1) Did the reporting entity write accident and health insurance premium that is subject to the Affordable Care Act risk-sharing provisions (YES/NO)? _____

The company had zero balances for the risk ~~corridors~~ adjustments program due a lack of sufficient data to estimate the recoverable amounts.

(2) Impact of Risk-Sharing Provisions of the Affordable Care Act on Admitted Assets, Liabilities and Revenue for the Current Year

		AMOUNT
a.	Permanent ACA Risk Adjustment Program	
	Assets	
1.	Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)	$ _____
	Liabilities	
2.	Risk adjustment user fees payable for ACA Risk Adjustment	$ _____
3.	Premium adjustments payable due to ACA Risk Adjustment (including high-risk pool premium)	$ _____
	Operations (Revenue & Expense)	
4.	Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment	$ _____
5.	Reported in expenses as ACA Risk Adjustment user fees (incurred/paid)	$ _____

© 2024 National Association of Insurance Commissioners

~~b. Transitional ACA Reinsurance Program~~

~~Assets~~

~~1. Amounts recoverable for claims paid due to ACA Reinsurance $ _____~~

~~2. Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability) $ _____~~

~~3. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance $ _____~~

~~Liabilities~~

~~4. Liabilities for contributions payable due to ACA Reinsurance - not reported as ceded premium $ _____~~

~~5. Ceded reinsurance premiums payable due to ACA Reinsurance $ _____~~

~~6. Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance $ _____~~

~~Operations (Revenue & Expense)~~

~~7. Ceded reinsurance premiums due to ACA Reinsurance $ _____~~

~~8. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments $ _____~~

~~9. ACA Reinsurance contributions - not reported as ceded premium $ _____~~

~~c. Temporary ACA Risk Corridors Program~~

~~Assets~~

~~1. Accrued retrospective premium due to ACA Risk Corridors $ _____~~

~~Liabilities~~

~~2. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors $ _____~~

~~Operations (Revenue & Expense)~~

~~3. Effect of ACA Risk Corridors on net premium income (paid/received) $ _____~~

~~4. Effect of ACA Risk Corridors on change in reserves for rate credits $ _____~~

© 2024 National Association of Insurance Commissioners

(3) Roll-forward of prior year ACA risk-sharing provisions for the following asset (gross of any nonadmission) and liability balances, along with the reasons for adjustments to prior year balance.

	Accrued During the Prior Year on Business Written Before Dec 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before Dec 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 - 3)	Prior Year Accrued Less Payments (Col 2 - 4)	To Prior Year Balances	To Prior Year Balances		Cumulative Balance from Prior Years (Col 1–3+7)	Cumulative Balance from Prior Years (Col 2–4+8)
	1	2	3	4	5	6	7	8		9	10
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable	(Payable)
a. Permanent ACA Risk Adjustment Program											
1. Premium adjustments receivable (including high-risk pool payments)	$	$	$	$	$	$	$	$	A	$	$
2. Premium adjustments (payable) (including high-risk pool premium)	$	$	$	$	$	$	$	$	B	$	$
3. ~~Sub~~Total ACA Permanent Risk Adjustment Program	$	$	$	$	$	$	$	$		$	$
~~b. Transitional ACA Reinsurance Program~~											
~~1. Amounts recoverable for claims paid~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~C~~	~~$~~	~~$~~
~~2. Amounts recoverable for claims unpaid (contra liability)~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~D~~	~~$~~	~~$~~
~~3. Amounts receivable relating to uninsured plans~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~E~~	~~$~~	~~$~~
~~4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~F~~	~~$~~	~~$~~
~~5. Ceded reinsurance premiums payable~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~G~~	~~$~~	~~$~~
~~6. Liability for amounts held under uninsured plans~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~H~~	~~$~~	~~$~~
~~7. Subtotal ACA Transitional Reinsurance Program~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~
~~c. Temporary ACA Risk Corridors Program~~											
~~1. Accrued retrospective premium~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~I~~	~~$~~	~~$~~
~~2. Reserve for rate credits or policy experience rating refunds~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~J~~	~~$~~	~~$~~
~~3. Subtotal ACA Risk Corridors Program~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~
~~d. Total for ACA Risk-Sharing Provisions~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~

Explanations of Adjustments

A .....

B .....

C .....

D .....

E .....

F .....

G .....

H .....

I .....

J .....

© 2024 National Association of Insurance Commissioners

(4) Roll Forward of Risk Corridors Asset and Liability Balances by Program Benefit Year

Risk Corridors Program Year	Accrued During the Prior Year on Business Written Before Dec 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before Dec 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 - 3)	Prior Year Accrued Less Payments (Col 2 - 4)	To Prior Year Balances	To Prior Year Balances		Cumulative Balance from Prior Years (Col 1- 3+7)	Cumulative Balance from Prior Years (Col 2- 4+8)
	1	2	3	4	5	6	7	8		9	10
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable	(Payable)
a. 2014											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	A	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	B	$	$
b. 2015											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	C	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	D	$	$
c. 2016											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	E	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	F	$	$
d. Total for Risk Corridors	$	$	$	$	$	$	$	$		$	$

Explanations of Adjustments

A .....

B .....

C .....

D .....

E .....

F .....

24E(4)d (Columns 1 through 10) should equal 24E(3)c3 (Column 1 through 10 respectively)

(5) ACA Risk Corridors Receivable as of Reporting Date

Risk Corridors Program Year	1 Estimated Amount to be Filed or Final Amount Filed with CMS	2 Non-Accrued Amounts for Impairment or Other Reasons	3 Amounts received from CMS	4 Asset Balance (Gross of Non-admissions) (1-2-3)	5 Non-admitted Amount	6 Net Admitted Asset (4-5)
a. 2014	$	$	$	$	$	$
b. 2015	$	$	$	$	$	$
c. 2016	$	$	$	$	$	$
d. Total (a+b+c)	$	$	$	$	$	$

24E(5)d (Column 4) should equal 24E(3)c1 (Column 9)
24E(5)d (Column 6) should equal 24E(2)c1

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – PROPERTY/CASUALTY

NOTES TO FINANCIAL STATEMENTS

24. Retrospectively Rated Contracts & Contracts Subject to Redetermination

Instruction:

Detail Eliminated To Conserve Space

F. Risk-Sharing Provisions of the Affordable Care Act (ACA)

(1) Reporting entities shall also indicate if they wrote any accident and health insurance premium that is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc.

NOTE: Any reporting entity that reports accident and health insurance premium and losses on their statement that is subject to the Affordable Care Act risk-sharing provisions **MUST** complete the tables illustrated for the disclosures below, even if all amounts in the illustrated table are zero.

(2) Impact of Risk-Sharing Provisions of the Affordable Care Act on Admitted Assets, Liabilities and Revenue for the Current Year

The financial statements shall disclose the admitted assets, liabilities and revenue elements ~~by~~ for the permanent risk adjustment program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods that are impacted by programs. The disclosure should include the following:

- Permanent ACA Risk Adjustment Program
  - Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)
  - Risk adjustment user fees payable for ACA Risk Adjustment
  - Premium adjustments payable due to ACA Risk Adjustment (including high-risk pool premium)
  - Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
  - Reported in expenses as ACA Risk Adjustment user fees (incurred/paid)

~~• Transitional ACA Reinsurance Program~~

~~➢ Amounts recoverable for claims paid due to ACA Reinsurance~~

~~➢ Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)~~

~~➢ Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~

~~➢ Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium~~

~~➢ Ceded reinsurance premiums payable due to ACA Reinsurance~~

~~➢ Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance~~

~~➢ Ceded reinsurance premiums due to ACA Reinsurance~~

~~➢ Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~

~~➢ ACA Reinsurance contributions – not reported as ceded premium~~

~~• Temporary ACA Risk Corridors Program~~

~~➢ Accrued retrospective premium due to ACA Risk Corridors~~

~~➢ Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~

~~➢ Effect of ACA Risk Corridors on net premium income (paid/received)~~

~~➢ Effect of ACA Risk Corridors on change in reserves for rate credits~~

(3) Roll-Forward of Prior Year ACA Risk-Sharing Provisions

A roll-forward of prior year ACA risk-sharing provisions for the risk adjustment program for the following asset (gross of any nonadmission) and liability balances shall be disclosed, along with the reasons for adjustments (e.g., federal audits, revised participant counts, information which impacted risk score projections, etc.) to prior year balance.

- Permanent ACA Risk Adjustment Program
  - ➢ Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)
  - ➢ Premium adjustments payable due to ACA Risk Adjustment (including high-risk pool premium)

~~• Transitional ACA Reinsurance Program~~

~~➢ Amounts recoverable for claims paid due to ACA Reinsurance~~

~~➢ Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)~~

~~➢ Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~

~~➢ Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium~~

~~➢ Ceded reinsurance premiums payable due to ACA Reinsurance~~

~~➢ Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance~~

~~• Temporary ACA Risk Corridors Program~~

~~➢ Accrued retrospective premium due to ACA Risk Corridors~~

~~➢ Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~

~~(4) Roll-Forward of Risk Corridors Asset and Liability Balances by Program Benefit Year~~

~~Provide an additional roll-forward of the risk corridors asset and liability balances and subsequent adjustments by program benefit year. The beginning receivable or payable in the roll-forward will reflect the prior year-end balance for the specified benefit year.~~

~~(5) ACA Risk Corridors Receivable as of Reporting Date~~

~~The following information is required for risk corridors balances by program benefit year:~~

~~• Estimated amount to be filed or final amounts filed with federal agency;~~

~~• Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns);~~

~~• Amounts received from federal agency;~~

~~• Asset balance gross of nonadmission;~~

~~• Nonadmitted amounts;~~

~~• Net admitted assets.~~

Illustration:

Detail Eliminated To Conserve Space

F. Risk-Sharing Provisions of the Affordable Care Act (ACA)

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

NOTE: Any reporting entity that reports accident and health insurance premium and losses on their statement that is subject to the federal Affordable Care Act risk-sharing provisions MUST complete the tables (24F(2) through 24F(5)) illustrated below, even if all amounts in the table are zero.

(1) Did the reporting entity write accident and health insurance premium that is subject to the Affordable Care Act risk-sharing provisions (YES/NO)? _____

The company had zero balances for the risk ~~corridors~~ adjustment program due a lack of sufficient data to estimate the recoverable amounts.

(2) Impact of Risk-Sharing Provisions of the Affordable Care Act on Admitted Assets, Liabilities and Revenue for the Current Year

		AMOUNT
a.	Permanent ACA Risk Adjustment Program	
	Assets	
1.	Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)	$ _____
	Liabilities	
2.	Risk adjustment user fees payable for ACA Risk Adjustment	$ _____
3.	Premium adjustments payable due to ACA Risk Adjustment (including high-risk pool premium)	$ _____
	Operations (Revenue & Expense)	
4.	Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment	$ _____
5.	Reported in expenses as ACA Risk Adjustment user fees (incurred/paid)	$ _____
~~b.~~	~~Transitional ACA Reinsurance Program~~	
	~~Assets~~	
~~1.~~	~~Amounts recoverable for claims paid due to ACA Reinsurance~~	~~$ _____~~
~~2.~~	~~Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)~~	~~$ _____~~
~~3.~~	~~Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~	~~$ _____~~

~~Liabilities~~

~~4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium $ _____~~

~~5. Ceded reinsurance premiums payable due to ACA Reinsurance $ _____~~

~~6. Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance $ _____~~

~~Operations (Revenue & Expense)~~

~~7. Ceded reinsurance premiums due to ACA Reinsurance $ _____~~

~~8. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments $ _____~~

~~9. ACA Reinsurance contributions – not reported as ceded premium $ _____~~

~~e. Temporary ACA Risk Corridors Program~~

~~Assets~~

~~1. Accrued retrospective premium due to ACA Risk Corridors $ _____~~

~~Liabilities~~

~~2. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors $ _____~~

~~Operations (Revenue & Expense)~~

~~3. Effect of ACA Risk Corridors on net premium income (paid/received) $ _____~~

~~4. Effect of ACA Risk Corridors on change in reserves for rate credits $ _____~~

(3) Roll-forward of prior year ACA risk-sharing provisions for the following asset (gross of any nonadmission) and liability balances, along with the reasons for adjustments to prior year balance.

	Accrued During the Prior Year on Business Written Before Dec 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before Dec 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 - 3)	Prior Year Accrued Less Payments (Col 2 - 4)	To Prior Year Balances	To Prior Year Balances		Cumulative Balance from Prior Years (Col 1–3+7)	Cumulative Balance from Prior Years (Col 2–4+8)
	1	2	3	4	5	6	7	8		9	10
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable	(Payable)
a. Permanent ACA Risk Adjustment Program											
1. Premium adjustments receivable (including high-risk pool payments)	$	$	$	$	$	$	$	$	A	$	$
2. Premium adjustments (payable) (including high-risk pool premium)	$	$	$	$	$	$	$	$	B	$	$
3. ~~Sub~~Total ACA Permanent Risk Adjustment Program	$	$	$	$	$	$	$	$		$	$
~~b. Transitional ACA Reinsurance Program~~											
~~1. Amounts recoverable for claims paid~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~C~~	~~$~~	~~$~~
~~2. Amounts recoverable for claims unpaid (contra liability)~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~D~~	~~$~~	~~$~~
~~3. Amounts receivable relating to uninsured plans~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~E~~	~~$~~	~~$~~
~~4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~F~~	~~$~~	~~$~~
~~5. Ceded reinsurance premiums payable~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~G~~	~~$~~	~~$~~
~~6. Liability for amounts held under uninsured plans~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~H~~	~~$~~	~~$~~
~~7. Subtotal ACA Transitional Reinsurance Program~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~
~~c. Temporary ACA Risk Corridors Program~~											
~~1. Accrued retrospective premium~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~I~~	~~$~~	~~$~~
~~2. Reserve for rate credits or policy experience rating refunds~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~J~~	~~$~~	~~$~~
~~3. Subtotal ACA Risk Corridors Program~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~
~~d. Total for ACA Risk-Sharing Provisions~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~

Explanations of Adjustments

A .....

B .....

C .....

D .....

E .....

F .....

G .....

H .....

I .....

J .....

© 2024 National Association of Insurance Commissioners

(4) Roll Forward of Risk Corridors Asset and Liability Balances by Program Benefit Year

Risk Corridors Program Year	Accrued During the Prior Year on Business Written Before Dec 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before Dec 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 - 3)	Prior Year Accrued Less Payments (Col 2 - 4)				Cumulative Balance from Prior Years (Col 1- 3+7)	Cumulative Balance from Prior Years (Col 2- 4+8)
	1	2	3	4	5	6	7	8		9	10
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable	(Payable)
a. 2014											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	A	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	B	$	$
b. 2015											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	C	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	D	$	$
c. 2016											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	E	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	F	$	$
d. Total for Risk Corridors	$	$	$	$	$	$	$	$		$	$

Explanations of Adjustments

A .....

B .....

C .....

D .....

E .....

F .....

24F(4)d (Columns 1 through 10) should equal 24F(3)c3 (Column 1 through 10 respectively)

(5) ACA Risk Corridors Receivable as of Reporting Date

Risk Corridors Program Year	1 Estimated Amount to be Filed or Final Amount Filed with CMS	2 Non-Accrued Amounts for Impairment or Other Reasons	3 Amounts received from CMS	4 Asset Balance (Gross of Non-admissions) (1-2-3)	5 Non-admitted Amount	6 Net Admitted Asset (4-5)
a. 2014	$	$	$	$	$	$
b. 2015	$	$	$	$	$	$
c. 2016	$	$	$	$	$	$
d. Total (a+b+c)	$	$	$	$	$	$

24F(5)d (Column 4) should equal 24F(3)c1 (Column 9)
24F(5)d (Column 6) should equal 24F(2)c1

QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL AND HEALTH

NOTES TO FINANCIAL STATEMENTS

24. Retrospectively Rated Contracts & Contracts Subject to Redetermination

Instruction:

E. Risk-Sharing Provisions of the Affordable Care Act (ACA)

(1) Reporting entities shall also indicate if they wrote any accident and health insurance premium that is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc.

NOTE: Any reporting entity that reports accident and health insurance premium and losses on their statement that is subject to the Affordable Care Act risk-sharing provisions **MUST** complete the tables illustrated for the disclosures below, even if all amounts in the illustrated table are zero.

(2) Impact of Risk-Sharing Provisions of the Affordable Care Act on Admitted Assets, Liabilities and Revenue for the Current Year

The financial statements shall disclose the admitted assets, liabilities and revenue elements ~~by~~ for the permanent risk adjustment program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods that are impacted by programs. The disclosure should include the following:

- Permanent ACA Risk Adjustment Program
  - Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)
  - Risk adjustment user fees payable for ACA Risk Adjustment
  - Premium adjustments payable due to ACA Risk Adjustment (including high-risk pool premium)
  - Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
  - Reported in expenses as ACA Risk Adjustment user fees (incurred/paid)

~~• Transitional ACA Reinsurance Program~~

~~➢ Amounts recoverable for claims paid due to ACA Reinsurance~~

~~➢ Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)~~

~~➢ Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~

~~➢ Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium~~

~~➢ Ceded reinsurance premiums payable due to ACA Reinsurance~~

~~➢ Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance~~

~~➢ Ceded reinsurance premiums due to ACA Reinsurance~~

~~➢ Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~

~~➢ ACA Reinsurance contributions – not reported as ceded premium~~

- ~~Temporary ACA Risk Corridors Program~~
  - ~~Accrued retrospective premium due to ACA Risk Corridors~~
  - ~~Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~
  - ~~Effect of ACA Risk Corridors on net premium income (paid/received)~~
  - ~~Effect of ACA Risk Corridors on change in reserves for rate credits~~

(3) Roll-Forward of Prior Year ACA Risk-Sharing Provisions

A roll-forward of prior year ACA risk-sharing provisions for the risk adjustment program for the following asset (gross of any nonadmission) and liability balances shall be disclosed, along with the reasons for adjustments (e.g., federal audits, revised participant counts, information which impacted risk score projections, etc.) to prior year balance.

- Permanent ACA Risk Adjustment Program
  - Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)
  - Premium adjustments payable due to ACA Risk Adjustment (including high-risk pool premium)
- ~~Transitional ACA Reinsurance Program~~
  - ~~Amounts recoverable for claims paid due to ACA Reinsurance~~
  - ~~Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)~~
  - ~~Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~
  - ~~Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium~~
  - ~~Ceded reinsurance premiums payable due to ACA Reinsurance~~
  - ~~Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance~~
- ~~Temporary ACA Risk Corridors Program~~
  - ~~Accrued retrospective premium due to ACA Risk Corridors~~
  - ~~Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~

~~(4) Roll-Forward of Risk Corridors Asset and Liability Balances by Program Benefit Year~~

~~Provide an additional roll forward of the risk corridors asset and liability balances and subsequent adjustments by program benefit year. The beginning receivable or payable in the roll-forward will reflect the prior year-end balance for the specified benefit year.~~

~~(5) ACA Risk Corridors Receivable as of Reporting Date~~

~~The following information is required for risk corridors balances by program benefit year:~~

- ~~Estimated amount to be filed or final amounts filed with federal agency~~
- ~~Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)~~
- ~~Amounts received from federal agency~~
- ~~Asset balance gross of nonadmission~~
- ~~Nonadmitted amounts~~
- ~~Net admitted assets~~

Illustration:

E. Risk-Sharing Provisions of the Affordable Care Act (ACA)

NOTE: Any reporting entity that reports accident and health insurance premium and losses on their statement that is subject to the federal Affordable Care Act risk-sharing provisions MUST complete the tables illustrated below, even if all amounts in the table are zero.

(1) Did the reporting entity write accident and health insurance premium that is subject to the Affordable Care Act risk-sharing provisions (YES/NO)? _____

The company had zero balances for the risk ~~corridors~~ adjustments program due a lack of sufficient data to estimate the recoverable amounts.

(2) Impact of Risk-Sharing Provisions of the Affordable Care Act on Admitted Assets, Liabilities and Revenue for the Current Year

		AMOUNT
a.	Permanent ACA Risk Adjustment Program	
	Assets	
1.	Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)	$ _____
	Liabilities	
2.	Risk adjustment user fees payable for ACA Risk Adjustment	$ _____
3.	Premium adjustments payable due to ACA Risk Adjustment (including high-risk pool premium)	$ _____
	Operations (Revenue & Expense)	
4.	Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment	$ _____
5.	Reported in expenses as ACA Risk Adjustment user fees (incurred/paid)	$ _____
~~b.~~	~~Transitional ACA Reinsurance Program~~	
	~~Assets~~	
~~1.~~	~~Amounts recoverable for claims paid due to ACA Reinsurance~~	~~$ _____~~
~~2.~~	~~Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)~~	~~$ _____~~
~~3.~~	~~Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~	~~$ _____~~
	~~Liabilities~~	
~~4.~~	~~Liabilities for contributions payable due to ACA Reinsurance not reported as ceded premium~~	~~$ _____~~
~~5.~~	~~Ceded reinsurance premiums payable due to ACA Reinsurance~~	~~$ _____~~
~~6.~~	~~Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance~~	~~$ _____~~
	~~Operations (Revenue & Expense)~~	
~~7.~~	~~Ceded reinsurance premiums due to ACA Reinsurance~~	~~$ _____~~
~~8.~~	~~Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~	~~$ _____~~

~~9. ACA Reinsurance contributions not reported as ceded premium $ _____~~

~~c. Temporary ACA Risk Corridors Program~~

~~Assets~~

~~1. Accrued retrospective premium due to ACA Risk Corridors $ _____~~

~~Liabilities~~

~~2. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors $ _____~~

~~Operations (Revenue & Expense)~~

~~3. Effect of ACA Risk Corridors on net premium income (paid/received) $ _____~~

~~4. Effect of ACA Risk Corridors on change in reserves for rate credits $ _____~~

(3) Roll-forward of prior year ACA risk-sharing provisions for the following asset (gross of any nonadmission) and liability balances, along with the reasons for adjustments to prior year balance.

	Accrued During the Prior Year on Business Written Before Dec. 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before Dec. 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 - 3)	Prior Year Accrued Less Payments (Col 2 - 4)	To Prior Year Balances	To Prior Year Balances		Cumulative Balance from Prior Years (Col 1–3+7)	Cumulative Balance from Prior Years (Col 2–4+8)
	1	2	3	4	5	6	7	8		9	10
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable	(Payable)
a. Permanent ACA Risk Adjustment Program											
1. Premium adjustments receivable (including high-risk pool payments)	$	$	$	$	$	$	$	$	A	$	$
2. Premium adjustments (payable) (including high-risk pool premium)	$	$	$	$	$	$	$	$	B	$	$
3. ~~Sub~~Total ACA Permanent Risk Adjustment Program	$	$	$	$	$	$	$	$		$	$
~~b. Transitional ACA Reinsurance Program~~											
~~1. Amounts recoverable for claims paid~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~C~~	~~$~~	~~$~~
~~2. Amounts recoverable for claims unpaid (contra liability)~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~D~~	~~$~~	~~$~~
~~3. Amounts receivable relating to uninsured plans~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~E~~	~~$~~	~~$~~
~~4. Liabilities for contributions payable due to ACA Reinsurance not reported as ceded premium~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~F~~	~~$~~	~~$~~
~~5. Ceded reinsurance premiums payable~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~G~~	~~$~~	~~$~~
~~6. Liability for amounts held under uninsured plans~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~H~~	~~$~~	~~$~~
~~7. Subtotal ACA Transitional Reinsurance Program~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~
~~c. Temporary ACA Risk Corridors Program~~											
~~1. Accrued retrospective premium~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~I~~	~~$~~	~~$~~
~~2. Reserve for rate credits or policy experience rating refunds~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~J~~	~~$~~	~~$~~
~~3. Subtotal ACA Risk Corridors Program~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~
~~d. Total for ACA Risk-Sharing Provisions~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~

Explanations of Adjustments

A .....

B .....

C .....

D .....

E .....

F .....

G .....

H .....

I .....

J .....

(4) Roll Forward of Risk Corridors Asset and Liability Balances by Program Benefit Year

Risk Corridors Program Year	Accrued During the Prior Year on Business Written Before Dec. 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before Dec. 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 - 3)	Prior Year Accrued Less Payments (Col 2 - 4)	To Prior Year Balances	To Prior Year Balances		Cumulative Balance from Prior Years (Col 1- 3+7)	Cumulative Balance from Prior Years (Col 2- 4+8)
	1	2	3	4	5	6	7	8		9	10
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable	(Payable)
a. 2014											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	A	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	B	$	$
b. 2015											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	C	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	D	$	$
c. 2016											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	E	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	F	$	$
d. Total for Risk Corridors	$	$	$	$	$	$	$	$		$	$

Explanations of Adjustments

A .....
B .....
C .....
D .....
E .....
F .....

24E(4)d (Columns 1 through 10) should equal 24E(3)c3 (Column 1 through 10, respectively)

(5) ACA Risk Corridors Receivable as of Reporting Date

Risk Corridors Program Year	1 Estimated Amount to be Filed or Final Amount Filed with CMS	2 Nonaccrued Amounts for Impairment or Other Reasons	3 Amounts received from CMS	4 Asset Balance (Gross of Nonadmissions) (1-2-3)	5 Nonadmitted Amount	6 Net Admitted Asset (4-5)
a. 2014	$	$	$	$	$	$
b. 2015	$	$	$	$	$	$
c. 2016	$	$	$	$	$	$
d. Total (a+b+c)	$	$	$	$	$	$

24E(5)d (Column 4) should equal 24E(3)c1 (Column 9)
24E(5)d (Column 6) should equal 24E(2)c1

© 2024 National Association of Insurance Commissioners

QUARTERLY STATEMENT INSTRUCTIONS – PROPERTY/CASUALTY

NOTES TO FINANCIAL STATEMENTS

24. Retrospectively Rated Contracts & Contracts Subject to Redetermination

Instruction:

F. Risk-Sharing Provisions of the Affordable Care Act (ACA)

(1) Reporting entities shall also indicate if they wrote any accident and health insurance premium that is subject to the Affordable Care Act risk-sharing provisions. In the event that the balances are zero, the reporting entity should provide context to explain the reasons for the zero balances, including insufficient data to make an estimate, no balances or premium was excluded from the program, etc.

NOTE: Any reporting entity that reports accident and health insurance premium and losses on their statement that is subject to the Affordable Care Act risk-sharing provisions **MUST** complete the tables illustrated for the disclosures below, even if all amounts in the illustrated table are zero.

(2) Impact of Risk-Sharing Provisions of the Affordable Care Act on Admitted Assets, Liabilities and Revenue for the Current Year

The financial statements shall disclose the admitted assets, liabilities and revenue elements ~~by~~ for the permanent risk adjustment program regarding the risk-sharing provisions of the Affordable Care Act for the reporting periods that are impacted by programs. The disclosure should include the following:

- Permanent ACA Risk Adjustment Program
  - Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)
  - Risk adjustment user fees payable for ACA Risk Adjustment
  - Premium adjustments payable due to ACA Risk Adjustment (including high-risk pool premium)
  - Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
  - Reported in expenses as ACA Risk Adjustment user fees (incurred/paid)

~~- Transitional ACA Reinsurance Program~~

~~- Amounts recoverable for claims paid due to ACA Reinsurance~~

~~- Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)~~

~~- Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~

~~- Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium~~

~~- Ceded reinsurance premiums payable due to ACA Reinsurance~~

~~- Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance~~

~~- Ceded reinsurance premiums due to ACA Reinsurance~~

~~- Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~

~~- ACA Reinsurance contributions – not reported as ceded premium~~

- ~~Temporary ACA Risk Corridors Program~~
  - ~~Accrued retrospective premium due to ACA Risk Corridors~~
  - ~~Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~
  - ~~Effect of ACA Risk Corridors on net premium income (paid/received)~~
  - ~~Effect of ACA Risk Corridors on change in reserves for rate credits~~

(3) Roll-Forward of Prior Year ACA Risk-Sharing Provisions

A roll-forward of prior year ACA risk-sharing provisions for the risk adjustment program for the following asset (gross of any nonadmission) and liability balances shall be disclosed, along with the reasons for adjustments (e.g., federal audits, revised participant counts, information which impacted risk score projections, etc.) to prior year balance.

- Permanent ACA Risk Adjustment Program
  - Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)
  - Premium adjustments payable due to ACA Risk Adjustment (including high-risk pool premium)
- ~~Transitional ACA Reinsurance Program~~
  - ~~Amounts recoverable for claims paid due to ACA Reinsurance~~
  - ~~Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)~~
  - ~~Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~
  - ~~Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium~~
  - ~~Ceded reinsurance premiums payable due to ACA Reinsurance~~
  - ~~Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance~~
- ~~Temporary ACA Risk Corridors Program~~
  - ~~Accrued retrospective premium due to ACA Risk Corridors~~
  - ~~Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors~~

~~(4) Roll-Forward of Risk Corridors Asset and Liability Balances by Program Benefit Year~~

~~Provide an additional roll-forward of the risk corridors asset and liability balances and subsequent adjustments by program benefit year. The beginning receivable or payable in the roll-forward will reflect the prior year-end balance for the specified benefit year.~~

~~(5) ACA Risk Corridors Receivable as of Reporting Date~~

~~The following information is required for risk corridors balances by program benefit year:~~

- ~~Estimated amount to be filed or final amounts filed with federal agency~~
- ~~Amounts impaired or amounts not accrued for other reasons (not withstanding collectability concerns)~~
- ~~Amounts received from federal agency~~
- ~~Asset balance gross of nonadmission~~
- ~~Nonadmitted amounts~~
- ~~Net admitted assets~~

Illustration:

F. Risk-Sharing Provisions of the Affordable Care Act (ACA)

NOTE: Any reporting entity that reports accident and health insurance premium and losses on their statement that is subject to the federal Affordable Care Act risk-sharing provisions MUST complete the tables illustrated below, even if all amounts in the table are zero.

(1) Did the reporting entity write accident and health insurance premium that is subject to the Affordable Care Act risk-sharing provisions (YES/NO)? _____

The company had zero balances for the risk ~~corridors~~ adjustment program due a lack of sufficient data to estimate the recoverable amounts.

(2) Impact of Risk-Sharing Provisions of the Affordable Care Act on Admitted Assets, Liabilities and Revenue for the Current Year

		AMOUNT
a.	Permanent ACA Risk Adjustment Program	
	Assets	
1.	Premium adjustments receivable due to ACA Risk Adjustment (including high-risk pool payments)	$ _____
	Liabilities	
2.	Risk adjustment user fees payable for ACA Risk Adjustment	$ _____
3.	Premium adjustments payable due to ACA Risk Adjustment (including high risk-pool premium)	$ _____
	Operations (Revenue & Expense)	
4.	Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment	$ _____
5.	Reported in expenses as ACA Risk Adjustment user fees (incurred/paid)	$ _____
~~b.~~	~~Transitional ACA Reinsurance Program~~	
	~~Assets~~	
~~1.~~	~~Amounts recoverable for claims paid due to ACA Reinsurance~~	~~$ _____~~
~~2.~~	~~Amounts recoverable for claims unpaid due to ACA Reinsurance (Contra Liability)~~	~~$ _____~~
~~3.~~	~~Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance~~	~~$ _____~~
	~~Liabilities~~	
~~4.~~	~~Liabilities for contributions payable due to ACA Reinsurance not reported as ceded premium~~	~~$ _____~~
~~5.~~	~~Ceded reinsurance premiums payable due to ACA Reinsurance~~	~~$ _____~~
~~6.~~	~~Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance~~	~~$ _____~~
	~~Operations (Revenue & Expense)~~	
~~7.~~	~~Ceded reinsurance premiums due to ACA Reinsurance~~	~~$ _____~~
~~8.~~	~~Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments~~	~~$ _____~~

~~9. ACA Reinsurance contributions – not reported as ceded premium $ _____~~

~~c. Temporary ACA Risk Corridors Program~~

~~Assets~~

~~1. Accrued retrospective premium due to ACA Risk Corridors $ _____~~

~~Liabilities~~

~~2. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors $ _____~~

~~Operations (Revenue & Expense)~~

~~3. Effect of ACA Risk Corridors on net premium income (paid/received) $ _____~~

~~4. Effect of ACA Risk Corridors on change in reserves for rate credits $ _____~~

(3) Roll-forward of prior year ACA risk-sharing provisions for the following asset (gross of any nonadmission) and liability balances, along with the reasons for adjustments to prior year balance.

	Accrued During the Prior Year on Business Written Before Dec. 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before Dec. 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 - 3)	Prior Year Accrued Less Payments (Col 2 - 4)	To Prior Year Balances	To Prior Year Balances		Cumulative Balance from Prior Years (Col 1–3+7)	Cumulative Balance from Prior Years (Col 2–4+8)
	1	2	3	4	5	6	7	8		9	10
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable	(Payable)
a. Permanent ACA Risk Adjustment Program											
1. Premium adjustments receivable (including high-risk pool payments)	$	$	$	$	$	$	$	$	A	$	$
2. Premium adjustments (payable) (including high-risk pool premium)	$	$	$	$	$	$	$	$	B	$	$
3. ~~Sub~~Total ACA Permanent Risk Adjustment Program	$	$	$	$	$	$	$	$		$	$
~~b. Transitional ACA Reinsurance Program~~											
~~1. Amounts recoverable for claims paid~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~C~~	~~$~~	~~$~~
~~2. Amounts recoverable for claims unpaid (contra liability)~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~D~~	~~$~~	~~$~~
~~3. Amounts receivable relating to uninsured plans~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~E~~	~~$~~	~~$~~
~~4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~F~~	~~$~~	~~$~~
~~5. Ceded reinsurance premiums payable~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~G~~	~~$~~	~~$~~
~~6. Liability for amounts held under uninsured plans~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~H~~	~~$~~	~~$~~
~~7. Subtotal ACA Transitional Reinsurance Program~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~
~~c. Temporary ACA Risk Corridors Program~~											
~~1. Accrued retrospective premium~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~I~~	~~$~~	~~$~~
~~2. Reserve for rate credits or policy experience rating refunds~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~J~~	~~$~~	~~$~~
~~3. Subtotal ACA Risk Corridors Program~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~
~~d. Total for ACA Risk-Sharing Provisions~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~	~~$~~		~~$~~	~~$~~

Explanations of Adjustments

A .....

B .....

C .....

D .....

E .....

F .....

G .....

H .....

I .....

J .....

(4) Roll Forward of Risk Corridors Asset and Liability Balances by Program Benefit Year

Risk Corridors Program Year	Accrued During the Prior Year on Business Written Before Dec. 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before Dec. 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments (Col 1 – 3)	Prior Year Accrued Less Payments (Col 2 – 4)	To Prior Year Balances	To Prior Year Balances		Cumulative Balance from Prior Years (Col 1–3+7)	Cumulative Balance from Prior Years (Col 2–4+8)
	1	2	3	4	5	6	7	8		9	10
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Ref	Receivable	(Payable)
a. 2014											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	A	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	B	$	$
b. 2015											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	C	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	D	$	$
c. 2016											
1. Accrued retrospective premium	$	$	$	$	$	$	$	$	E	$	$
2. Reserve for rate credits or policy experience rating refunds	$	$	$	$	$	$	$	$	F	$	$
d. Total for Risk Corridors	$	$	$	$	$	$	$	$		$	$

Explanations of Adjustments

A .....

B .....

C .....

D .....

E .....

F .....

24F(4)d (Columns 1 through 10) should equal 24F(3)c3 (Column 1 through 10 respectively)

(5) ACA Risk Corridors Receivable as of Reporting Date

Risk Corridors Program Year	1 Estimated Amount to be Filed or Final Amount Filed with CMS	2 Nonaccrued Amounts for Impairment or Other Reasons	3 Amounts received from CMS	4 Asset Balance (Gross of Nonadmissions) (1-2-3)	5 Nonadmitted Amount	6 Net Admitted Asset (4-5)
a. 2014	$	$	$	$	$	$
b. 2015	$	$	$	$	$	$
c. 2016	$	$	$	$	$	$
d. Total (a+b+c)	$	$	$	$	$	$

24F(5)d (Column 4) should equal 24F(3)c1 (Column 9)
24F(5)d (Column 6) should equal 24F(2)c1

Blanks (E) Working Group
Editorial Revisions to the Blanks and Instructions
(presented at the May 23, 2024, Meeting)

Statement Type:
H = Health; **L/F** = Life/Fraternal Combined; **P/C** = Property/Casualty; **SA** = Separate Accounts; **T** = Title

Effective	Table Name	Description	Statement Type	Filing Type
2024	General Interrogatories – Part 2	**CHANGE TO INSTRUCTION** Interrogatory for net negative (disallowed) IMR was moved to Life/Fraternal interrogatories Part 2 Instructions for each statement type needs to be removed. (2023-13BWG) 9. Answer "YES" if the company is admitting net negative (disallowed) interest maintenance reserve (IMR). ~~Life/Fraternal companies should answer "YES" or "NO". Property/Casualty, Health, and Title companies should answer "N/A"~~	L/F	Annual
2024	Market Conduct Annual Statement (MCAS) Premium Exhibit for Year	**CHANGE TO INSTRUCTION** Add clarifying instructions for pages that are all No responses to not be included in the filing. A schedule must be prepared and submitted for each jurisdiction in which the company answered "Yes" to having MCAS Reportable Premiums/Considerations. Supplement pages should not be filed for any state or jurisdiction where the company would file all "No" responses.	H, L/F, P/C	Annual
2024	Schedule P, Part 3J & 3T	**CHANGE TO BLANK** Update Columns 11 and 12 on the Annual Statement Blank for Parts 3J and 3T to remove the "XXX"s that were added by accident to adopted Proposal 2023-16BWG. **SCHEDULE P – PART 3J – AUTO PHYSICAL DAMAGE** 11 / 12 Years in Which Losses Were Incurred | Number of Claims Closed With Loss Payment | Number of Claims Closed Without Loss Payment	P/C	Annual

Effective	Table Name	Description	Statement Type	Filing Type
		1. Prior ... Detail Eliminated To Conserve Space ~~XXX~~ ~~XXX~~ 2. 2015 ... ~~XXX~~ ~~XXX~~ 3. 2016 ... ~~XXX~~ ~~XXX~~ 4. 2017 ... ~~XXX~~ ~~XXX~~ 5. 2018 ... ~~XXX~~ ~~XXX~~ 6. 2019 ... ~~XXX~~ ~~XXX~~ 7. 2020 ... ~~XXX~~ ~~XXX~~ 8. 2021 ... ~~XXX~~ ~~XXX~~ 9. 2022 ... ~~XXX~~ ~~XXX~~ 10. 2023 ... ~~XXX~~ ~~XXX~~ 11. 2024 ~~XXX~~ ~~XXX~~ **SCHEDULE P – PART 3T - WARRANTY** Years in Which Losses Were Incurred; Detail Eliminated To Conserve Space; 11 Number of Claims Closed With Loss Payment; 12 Number of Claims Closed Without Loss Payment 1. Prior ... ~~XXX~~ ~~XXX~~ 2. 2015 ... ~~XXX~~ ~~XXX~~ 3. 2016 ... ~~XXX~~ ~~XXX~~ 4. 2017 ... ~~XXX~~ ~~XXX~~ 5. 2018 ... ~~XXX~~ ~~XXX~~ 6. 2019 ... ~~XXX~~ ~~XXX~~ 7. 2020 ... ~~XXX~~ ~~XXX~~ 8. 2021 ... ~~XXX~~ ~~XXX~~ 9. 2022 ... ~~XXX~~ ~~XXX~~ 10. 2023 ... ~~XXX~~ ~~XXX~~ 11. 2024 ~~XXX~~ ~~XXX~~		
2024	Analysis of Operations by Lines of Business – Individual Annuities	**CHANGE TO INSTRUCTION** Update the crosscheck reference between Analysis of Operations by LOB – Individual Annuities and Exhibit 1 Part 2 to account for all commissions reported. Line 21 – Commissions on Annuity Considerations and Deposit-Type Contracts (Direct Business Only) ~~Columns 2, 3, 4, 5 and 7~~Column 1 should agree with Exhibit 1 Part 2, Line 31, Column 4.	L/F	Annual
2024	Analysis of Operations by Lines of Business – Group Annuities	**CHANGE TO INSTRUCTION** Update the crosscheck reference between Analysis of Operations by LOB – Group Annuities and Exhibit 1 Part 2 to account for all commissions reported. Line 21 – Commissions on Annuity Considerations and Deposit-Type Contracts (Direct Business Only)	L/F	Annual

Effective	Table Name	Description	Statement Type	Filing Type
		~~Columns 2, 3, 4, 5 and 7~~Column 1 should agree with Exhibit 1 Part 2, Line 31, Column 5.		
2024	Summary of Operations	**CHANGE TO BLANK** Update the crosscheck reference between Summary of Operations and Exhibit 1 Part 1 because Summary of Operations includes YRT business and Exhibit 1, Part 1 does not include YRT business. 1. Premiums and annuity considerations for life and accident and health contracts ~~(Exhibit 1, Part 1, Line 20.4, Col. 1, less Col. 8)~~	L/F	Annual
2024	Notes to Financial Statements	**CHANGE TO INSTRUCTION** Add letters and formulas to the illustration for Notes 5S(3) and 5S(5) to be consistent with the format in the other Notes to Financial Statements. (*This note is only for Life/Fraternal companies but is marked for all statement types because it is included in all statement instructions*.) Illustration for Note 5S: (3) Calculated adjusted capital and surplus a. Prior Period General Account Capital & Surplus From Prior Period SAP Financials b. Net Positive Goodwill (admitted) c. EDP Equipment & Operating System Software (admitted) d. Net DTAs (admitted) e. Net Negative (disallowed) IMR (admitted) f. Adjusted Capital & Surplus (a-(b+c+d+e)) (5) Allocated gains/losses to IMR from derivatives a. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period b. Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period c. Fair Value Derivative Gains & Losses Amortized Over Current Period d. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total	H, L/F, P/C, T	Annual
2024	Life, Health and Annuity Guaranty Association Assessable Premium Exhibit Part 1	**CHANGE TO INSTRUCTION** Update a misspelled word to provide clarity to the instructions.	H, L/F, P/C	Annual

Effective	Table Name	Description	Statement Type	Filing Type
		Line 8 – Enter amounts received during the current year only for supplemental contracts (with and without life contingencies) and contracts associated with retained asset programs BUT ONLY IF such amounts are included in APE Pt. 1 Line 5 AND the prior year amounts for the original contracts were reported as assessable premium.		
2024	Analysis of Operations By Lines of Business – Accident and Health	**CHANGE TO INSTRUCTION** Update the crosscheck reference for the Analysis of Operations by LOB – Accident and Health to include Line 6 in order to include the ceded portion of commission expenses. Column 1 – Total Line 6 plus the s~~S~~um of Lines 21 through 24 should equal Health Analysis of Operations by Lines of Business Supplement Line 19 plus 20 (Column 1 minus Column 14).	L/F	Annual
2024	Health Supplement – Analysis of Operations By Lines of Business	**CHANGE TO INSTRUCTION** Update the crosscheck reference for the Analysis of Operations by LOB – Accident and Health to include Line 6 in order to include the ceded portion of commission expenses. Column 1 – Total Column 1 (Line 19 plus Line 20) minus Column 14 (Line 19 plus Line 20) should equal Analysis of Operations by Lines of Business – Accident and Health Column 1, Line 6 plus the sum of Lines 21 through 24.	L/F	Annual
2024	Schedule P, Part 1, Summary	**CHANGE TO BLANK** Update Column 25 on Schedule P, Part 1, Summary to remove the XXX's and allow a sum for all of Part 1, except 1N, 1O and 1P. **SCHEDULE P – PART 1 – SUMMARY** Years in Which Premiums Were Earned and Losses Were Incurred | | 25 Number of Claims Outstanding Direct and Assumed	P/C	Annual

Effective	Table Name	Description				Statement Type	Filing Type
			1. Prior ..... 2. 2015 ..... 3. 2016 ..... 4. 2017 ..... 5. 2018 ..... 6. 2019 ..... 7. 2020 ..... 8. 2021 ..... 9. 2022 ..... 10. 2023 ..... 11. 2024	Detail Eliminated To Conserve Space	~~XXX~~ ~~XXX~~ ~~XXX~~ ~~XXX~~ ~~XXX~~ ~~XXX~~ ~~XXX~~ ~~XXX~~ ~~XXX~~ ~~XXX~~ ~~XXX~~		

Attachment Two-B
Accounting Practices and Procedures (E) Task Force
8/14/24

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE:	**03/21/2024**
CONTACT PERSON:	
TELEPHONE:	
EMAIL ADDRESS:	
ON BEHALF OF:	
NAME:	**Dale Bruggeman**
TITLE:	**Chair SAPWG**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50W. Town St., 3rd Fl., Ste. 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-11BWG MOD
Year 2025
Changes to Existing Reporting [X]
New Reporting Requirement [ ]

REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT

No Impact [X]
Modifies Required Disclosure [ ]

Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
****If Yes, complete question below****

DISPOSITION

[ ] Rejected For Public Comment
[ ] Referred To Another NAIC Group
[ ] Received For Public Comment
[X] Adopted Date 08/07/2024
[ ] Rejected Date
[ ] Deferred Date
[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[X] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[ ] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[X] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: January 1, 2025

IDENTIFICATION OF ITEM(S) TO CHANGE

Update the Annual and Quarterly Instructions and Blanks for the New Market Tax Credit changes. Changes will be made to: Annual – Assets, Notes to Financial Statements 5K, 14A, and 21E, AVR, and Schedule BA, Part 1, 3, and Verification Between Years. Quarterly changes – Assets and Schedule BA, Part 3 and Verification Between Years.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The reason for this proposal is to update the instructions and blanks for the Statutory Accounting Principles Working Group's conceptual changes to *SSAP No. 93 – Low Income Housing Tax Credit Property Investments* and *SSAP No. 94R – Transferable and Nontransferable State Tax Credits* resulting from the New Market Tax Credits project. (SAPWG Ref # 2022-14) Note that the guaranteed federal investment line was eliminated as these types of tax credit investment structures were substantially eliminated by the Historic Boardwalk Hall, LLC v. Comm of Internal Revenue court decision in 2012.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

© 2024 National Association of Insurance Commissioners

** This section must be completed on all forms. Revised 11/17/2022

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

ASSETS

The value for real estate, bonds, stocks, and the amount loaned on mortgages must, in all cases, prove with corresponding values and admitted assets supported by the corresponding schedules.

Detail Eliminated To Conserve Space

Line 8 – Other Invested Assets (Schedule BA Assets)

Report admitted investments reported on Schedule BA and not included under another classification.

Include: Loans.

Certain affiliated securities, such as joint ventures, partnerships and limited liability companies (*SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*).

~~Low-Income Housing Tax Credit Property Investments~~All investments in tax credit structures (*SSAP No. 93—~~Low-Income Housing Tax Credit Property~~ Investments in Tax Credit Structures*).

Detail Eliminated To Conserve Space

NOTES TO FINANCIAL STATEMENTS

Notes to the Annual Statement are to be filed on March 1.

Detail Eliminated To Conserve Space

5. Investments

Instruction:

Detail Eliminated To Conserve Space

K. ~~Low-Income Housing Tax Credits (LIHTC)~~Investments in Tax Credit Structures (tax credit investments)

For investments in ~~low-income housing tax credits (LIHTC)~~tax credit structures within the scope of *SSAP No. 93—Investments in Tax Credit Structures*, disclose the following:

(1) ~~The number of remaining years of unexpired tax credits and the required holding period for the LIHTC investments.~~Information that enables users of its financial statements to understand the following information about its investments in projects that generate tax credits and other tax benefits from tax programs:

a. The nature of its investments in projects that generate tax credits and other tax benefits.

b. The effect of the recognition and measurement of its investments in projects that generate tax credits and other tax benefits and the related tax credits on its financial position and results of operations.

(2) ~~The amount of LIHTC and other tax benefits recognized during the years presented.~~The amount of tax credits and other tax benefits recognized during the reporting period(s).

(3) The balance of the investment recognized in the statement of financial position for the reporting period(s) presented.

(4) ~~If the LIHTC property is currently subject to any regulatory reviews and the status of such review (e.g., investigations by the housing authority).~~The amount of investment amortization and non-income tax related activity recognized as a component of net investment income, and other returns allocated that were recognized outside of income tax expense.

(5) An aggregate schedule of tax credits expected to be generated each year for the subsequent five years and thereafter, disaggregated by transferable/certificated and non-transferable.

(6) Any commitment or contingent commitment (e.g., guarantees or commitments to provide additional capital contributions) including the amount of contributions that are contingent commitments related to tax credit investments and the year(s) that contingent commitments are expected to be paid shall be disclosed.

(~~5~~7) ~~The significance of an investment to the reporting entity's financial position and results of operations shall be considered in evaluating the extent of disclosures of the financial position and results of operations of an investment in an LIHTC. If, in the aggregate, the LIHTC investments exceed 10% of the total admitted assets of the reporting entity, the following disclosures shall be made:~~The following disclosures shall be included if applicable to tax credit investments:

a. ~~(1) The name of each partnership or limited liability entity and percentage of ownership; (2) the accounting policies of the reporting entity with respect to investments in partnerships~~

~~and limited liability entities; (3) the difference, if any, between the amount at which the investment is carried and the amount of underlying equity in net assets (i.e., nonadmitted goodwill or other nonadmitted assets); and (4) the accounting treatment of the difference.~~If the underlying project is currently subject to any regulatory reviews and the status of such review. (Example: Investigations by the housing authority.)

b. ~~For partnerships and limited liability entities for which a quoted fair value is available, the aggregate value of each partnership, or limited liability entity investment based on the quoted fair value.~~Significant modifications or events that resulted in a change in the nature of the investment or a change in the relationship with the underlying project for investments in scope.

~~c. Summarized information as to assets, liabilities, and results of operations for partnerships, and limited liability entities either individually or in groups.~~

(~~6~~8) A reporting entity that recognizes an impairment loss shall disclose the following in the financial statements that include the period of the impairment write-down:

a. A description of the impaired assets and the facts and circumstances leading to the impairment; and

b. The amount of the impairment and how fair value was determined.

(~~7~~9) ~~The amount and nature of the write-downs or reclassifications made during the year resulting from the forfeiture or ineligibility of tax credits, etc. These write-downs may be based on actual property-level foreclosure, loss of qualification due to occupancy levels, compliance issues with tax code provisions within an LIHTC investment or other issues.~~Disclosure of ~~the following regarding~~ tax credits allocated from tax credit investments and ~~are~~ unused as of the reporting period(s) are to be disclosed within Note 21 (State and Federal Tax Credits). ~~For purposes of this disclosure, total unused tax credits represent the entire tax credits available:~~

~~a. Carrying value of tax credits, disaggregated by transferable/certificated and non-transferable, gross of any related tax liabilities by jurisdiction and in total.~~

~~b. Total unused tax credits by jurisdiction, disaggregated by transferable/certificated and non-transferable.~~

~~c. Method of estimating utilization of remaining tax credits or other projected recovery of the current carrying value; and~~

~~d. Impairment amount recognized by the reporting period(s), if any.~~

~~e. Identify tax credits by transferable/certificated and non-transferable classifications and identify the admitted and nonadmitted portions of each classification.~~

Detail Eliminated To Conserve Space

14. Liabilities, Contingencies and Assessments

Instruction:

For disclosures related to *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets, SSAP No. 35R—Guaranty Fund and Other Assessments, SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, describe the nature of any material contingencies in accordance with SSAP No. 5R and report total contingent liabilities.

A. Contingent Commitments

(1) Disclose any commitment or contingent commitment to an SCA entity, joint venture, partnership, or limited liability company (e.g., guarantees or commitments to provide additional capital contributions).

Include any commitment or contingent commitment (e.g., guarantees or commitments to provide additional capital contributions) including the amount of equity contributions that are contingent commitments related to ~~LIHTC properties~~ investments in tax credit structures and the year(s) that contingent commitments are expected to be paid. Refer to *SSAP No. 93—~~Low Income Housing~~Investments in Tax Credit ~~Property Investments~~Structures* for accounting guidance.

Include any commitment or contingent commitment to purchase tax credits. Refer to *SSAP No. 94R-State and Federal Tax Credits* for accounting guidance.

Detail Eliminated To Conserve Space

21. Other Items

Instruction:

Detail Eliminated To Conserve Space

E. State ~~Transferable and Non-transferable~~and Federal Tax Credits

Note: As directed in Note 5, Tax credits allocated from tax credit investments and unused as of the reporting period(s) are to be included in the disclosures below.

Disclose the following regarding state ~~transferable and non-transferable~~and federal tax credits within the scope of *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94R—State and Federal Tax Credits* for the reporting period(s) presented. For purposes of this disclosure, total unused ~~transferable and non-transferable state~~ tax credits represent the entire ~~transferable and non-transferable state~~ tax credits available:

(1) Carrying value of ~~transferable and non-transferable state~~ tax credits, disaggregated by transferable/certificated and non-transferable, gross of any related ~~state~~ tax liabilities ~~and total unused transferable and non-transferable state tax credits by state and in total~~by jurisdiction and in total;

(2) Total unused tax credits by jurisdiction, disaggregated by transferable/certificated and non-transferable;

(~~2~~3) Method of estimating utilization of remaining ~~transferable and non-transferable state~~ tax credits or other projected recovery of the current carrying value; and

© 2024 National Association of Insurance Commissioners

(~~3~~4) Impairment amount recognized by the reporting period, if any.

(~~4~~5) Identify ~~state~~ tax credits by transferable/certificated and non-transferable classifications and identify the admitted and nonadmitted portions of each classification.

(6) Any commitment or contingent commitment to purchase tax credits.

Detail Eliminated To Conserve Space

Illustration:

E. State ~~Transferable and Non-transferable~~and Federal Tax Credits

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

(1) ~~Carrying Value of Transferable and Non-transferable State Tax Credits Gross of any Related Tax Liabilities and Total Unused Transferable and Non-transferable State Tax Credits by State and in Total~~Carrying Value of State and Federal Tax Credits, Disaggregated by Transferable/Certificated and Non-transferable, Gross of any Related Tax Liabilities by Jurisdiction and in Total

Description of ~~State~~ Transferable and Non-transferable Tax Credits	~~State~~Jurisdiction	Carrying Value	Unused Amount
Total			

(2) Total unused tax credits by jurisdiction, disaggregated by transferable/certificated and non-transferable;

	State Abbreviation*	Transferable / Certificated	Nontransferable	Total
a. State				
Total		XXX	XXX	XXX
b. Federal				
c. Total (a+b)		XXX	XXX	XXX

** Only applicable to State section of table*

(~~2~~3) Method of Estimating Utilization of Remaining ~~Transferable and Non-transferable~~ State and Federal Tax Credits

The Company estimated the utilization of the remaining ~~transferable and non-transferable~~ state and federal tax credits by projecting future premium taking into account policy growth and rate changes, projecting future tax liability based on projected premium, tax rates and tax credits, and comparing projected future tax liability to the availability of remaining ~~transferable and non-transferable~~ state and federal tax credits.

(~~3~~4) Impairment Loss

© 2024 National Association of Insurance Commissioners

The Company recognized an impairment loss of $_____ related to the write-down as a result of impairment analysis of the carrying amount for state ~~transferable and non-transferable~~and federal tax credits.

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

(45) State and Federal Tax Credits Admitted and Nonadmitted, disaggregated by Transferable/Certificated and Non-transferable.

	Total Admitted	Total Nonadmitted
a. State		
1. Transferable	_____	_____
2. Non-transferable	_____	_____
b. Federal		
1. Transferable	_____	_____
2. Non-transferable	_____	_____

Detail Eliminated To Conserve Space

SCHEDULE BA – PARTS 1, 2 AND 3

OTHER LONG-TERM INVESTED ASSETS – GENERAL INSTRUCTIONS

Drafting Note – the line references to Schedule BA may be updated after the BA proposal (2023-12BWG) is adopted. The line reference updates will be made in the instructions and not shown in this proposal.

Detail Eliminated To Conserve Space

~~Guaranteed Federal Low Income Housing Tax Credit~~

~~Unaffiliated ..... 3599999~~
~~Affiliated ..... 3699999~~

Yield Guaranteed State Tax Credit Investments

Unaffiliated 3599999
Affiliated 3699999

~~Non-Guaranteed~~Qualifying Federal ~~Low Income Housing~~ Tax Credit Investments

Unaffiliated 3799999
Affiliated 3899999

~~Yield Guaranteed State Tax Credit Investments~~

~~Unaffiliated ..... 3799999~~
~~Affiliated ..... 3899999~~

~~Non-Guaranteed~~Qualifying State ~~Low Income Housing~~ Tax Credit Investments

Unaffiliated ..... ~~4199999~~3999999
Affiliated ..... ~~4299999~~4099999

All Other ~~Low Income Housing~~ Tax Credit Investments

Unaffiliated ..... ~~4399999~~4199999
Affiliated ..... ~~4499999~~4299999

Working Capital Finance Investment

Unaffiliated ..... ~~4599999~~4399999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Fixed Income Instruments

Unaffiliated ..... ~~4699999~~4499999
Affiliated ..... ~~4799999~~4599999

Common Stock

Unaffiliated ..... ~~4899999~~4699999
Affiliated ..... ~~4999999~~4799999

Preferred Stock

Unaffiliated ..... ~~5099999~~4899999
Affiliated ..... ~~5199999~~4999999

Real Estate

Unaffiliated ..... ~~5299999~~5099999
Affiliated ..... ~~5399999~~5199999

Mortgage Loans

Unaffiliated ..... ~~5499999~~5299999
Affiliated ..... ~~5599999~~5399999

Other

Unaffiliated ..... ~~5699999~~5499999
Affiliated ..... ~~5799999~~5599999

© 2024 National Association of Insurance Commissioners

Any Other Class of Assets

Unaffiliated ..... ~~5899999~~5699999
Affiliated ..... ~~5999999~~5799999

Subtotals

Unaffiliated 6099999
Affiliated 6199999

TOTALS 6299999

Detail Eliminated To Conserve Space

~~Low Income Housing~~Investments in Tax Credit Structures

Include: All ~~Low Income Housing~~Investments in Tax Credit Structures (Tax Credit Investments) ~~(LIHTC or affordable housing)~~~~qualifying under~~within the scope of *SSAP No. 93 – Tax Credit Investments,* ~~that are in the form of a Limited Partnership or a Limited Liability Company~~ including those investments that have the following risk mitigation factors:

A. ~~State~~ Yield Guaranteed State ~~Low Income Housing~~ Tax Credit Investments.

I. There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment. This reporting line is only allowed for tax credit investments which issue state tax credits.

~~a. Tax credit investments which would have previously been reported under the Guaranteed Federal tax credit investment reporting line should now be reported in Other Tax Credit Investments. This reporting line was removed as these types of tax credit investment structure were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012.~~

B. Qualifying State and Federal ~~Non-guaranteed Low Income Housing~~ Tax Credit Investments.

Investments reported on these lines must have all of the following risk mitigation factors:

I. A level of leverage below 50%. For a ~~LIHTC Fund~~tax credit investment fund, the level of leverage is measured at the fund level.

II. There is a Tax Credit Guarantee Agreement, or equivalent insurance acquired, at arm's length, by the investor ~~from General Partner or managing member~~. This agreement requires the General Partner, ~~or~~ managing member, developer, or insurer to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the duration of the regulatory compliance period of the tax credit program. ~~for the life of the partnership.~~ For a ~~LIHTC Fund~~tax credit investment fund, a Tax Credit Guarantee Agreement is required from the developers of the lower tier ~~LIHTC properties~~projects to the upper tier partnership and all other ~~LIHTC~~ investments.

III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable

~~foreclosure~~ loss risks ~~at the time of the investment~~as of the current reporting period.

C. Other Tax Credit Investments.

I. Any tax credit investment which cannot be reported as either yield guaranteed or ~~non-guaranteed~~qualifying.

a. Federal tax credit investments with all-inclusive yield guarantees which would have previously been reported under the Guaranteed Federal Tax Credit Investment reporting line and are still within the scope of SSAP No. 93 shall be reported in Other Tax Credit Investments. This Federal Guaranteed reporting line was removed as these types of tax credit investment structure were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012.

~~Non-qualifying LIHTCs should be reported in the "All Other" category~~



SCHEDULE BA – PART 1

OTHER LONG-TERM INVESTED ASSETS OWNED DECEMBER 31 OF CURRENT YEAR



Column 14 – Current Year's (Depreciation) or (Amortization)/Accretion

This amount represents depreciation expense for the period (where appropriate), amortization of premium and the accrual of discount, and proportional amortization of tax credit investments. The accrual of discount amounts in this column are to be reported as increases to investment income in the Exhibit of Net Investment Income, while the amortization of premium amounts and tax credit investments are to be reported as decreases to investment income. See Column 13 for discussion of an unrealized valuation increase/(decrease) where the real estate is carried at fair value and (depreciation) and/or (amortization)/accretion has been recorded.



SCHEDULE BA – PART 3

OTHER LONG-TERM INVESTED ASSETS DISPOSED, TRANSFERRED OR REPAID DURING THE YEAR

Detail Eliminated To Conserve Space

Column 10 – Current Year's (Depreciation) or (Amortization)/Accretion

This amount represents depreciation expense for the period (where appropriate), amortization of premium and the accrual of discount, and proportional amortization of tax credit investments. The accrual of discount amounts in this column are to be reported as increases to investment income in the Exhibit of Net Investment Income, while the amortization of premium amounts and tax credit investments are to be reported as decreases to investment income. See column 9 for discussion of an unrealized valuation increase/(decrease) where the real estate is carried at fair value and (depreciation) and/or (amortization)/accretion has been recorded.

Detail Eliminated To Conserve Space

© 2024 National Association of Insurance Commissioners

ANNUAL STATEMENT INSTRUCTIONS – LIFE/FRATERNAL

****Drafting Note – the line references to Schedule BA may be updated after the BA proposal (2023-12BWG) is adopted. The line reference updates will be made in the instructions and not shown in this proposal.****

ASSET VALUATION RESERVE

**EQUITY AND OTHER INVESTED ASSET COMPONENT –
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS**

Detail Eliminated To Conserve Space

Lines 75 through ~~80~~79 – ~~Low Income Housing Tax Credit~~ Investments in Tax Credit Structures

Report Column 1 in accordance with *SSAP No. 93—~~Low Income Housing Tax Credit Property Investments~~Investments in Tax Credit Structures*.

~~For Line 75, report guaranteed low income housing tax credit (LIHTC) investments. There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment. Line 75 should equal Schedule BA, Part 1, Column 12, Line 3599999 + Line 3699999.~~Investments in tax credit structures (tax credit investments) must meet the requirements of SSAP No. 93 to be reported on Lines 75 through 79.

~~For Line 76, report non-guaranteed LIHTC investments with the following risk mitigation factors~~Only tax credits investments which issue federal tax credits and have the following risk mitigation factors can be reported as ~~non-guaranteed~~qualifying federal tax credit investments on Line ~~5~~76:

I. A level of leverage below 50%. For ~~LIHTC Fund~~a tax credit investment fund, the level of leverage is measured at the fund level.

II. There is a Tax Credit Guarantee Agreement, or equivalent insurance acquired, at arm's length, by the investor ~~from General Partner or managing member~~. This agreement requires the General Partner, ~~or~~ managing member, developer, or insurer to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the duration of the regulatory compliance period of the tax credit program.~~for the life of the partnership.~~ For ~~an LIHTC Fund~~a tax credit investment fund, a Tax Credit Guarantee Agreement is required from the developers of the lower tier ~~LIHTC properties~~projects to the upper tier partnership.

III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable ~~foreclosure~~ loss risks ~~at the time of~~as of the ~~investment~~current reporting period.

Line 76 ~~75~~ should equal Schedule BA, Part 1, Column 12, Line 3799999 ~~3599999~~ + Line 3899999~~3699999~~.

~~Only federal low-income housing tax credit investments can be reported on Lines 75 and 76.~~Only tax credit investments which issue state tax credits and, ~~State low-income housing tax credit investments that meet the requirements of SSAP No. 93 and that,~~ at a minimum, have an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment ~~meet the requirements for federal guaranteed programs should~~can be reported as yield guaranteed state investments on Line ~~77~~75. Line ~~77~~ 75 should equal Schedule BA, Part 1, Column 12, Line ~~3999999~~ 3599999 + Line ~~4099999~~3699999.

~~State low-income housing tax credit investments that do not meet the requirements of SSAP No. 93 and that do not~~Tax credit investments which issue state tax credits and, at a minimum, meet the same requirements for qualifying federal ~~non-guaranteed~~tax credit ~~programs~~ investments (as detailed above) should be reported as ~~non-guaranteed~~qualifying state tax credit investments on Line ~~78~~77. Line ~~78~~-77 should equal Schedule BA, Part 1, Column 12, Line ~~4199999~~ 3999999 + Line ~~4299999~~4099999.

~~Any~~ All other ~~low-income housing~~ tax credit investments ~~that meet the requirements of SSAP No. 93 and~~which cannot be reported on Lines 75 through ~~78~~-77 should be reported as other tax credit investments on Line ~~79~~78. Line ~~79~~-78 should equal Schedule BA, Part 1, Column 12, Line ~~4399999~~ 4199999 + Line ~~4499999~~4299999.

Multiply the amount in Column 4 for each category by the reserve factors for Page 34, Columns 5, 7 and 9, Lines 75 through ~~79~~78. Report the products by category in Columns 6, 8 and 10, respectively.

Lines ~~81~~80 through ~~91~~90 – Residual Tranches or Interests

Line ~~81~~80 – Fixed Income Instruments – Unaffiliated *(Detail Eliminated to Conserve Space)*

Line ~~82~~81 – Fixed Income Instruments – Affiliated *(Detail Eliminated to Conserve Space)*

Line ~~83~~82 – Common Stock – Unaffiliated *(Detail Eliminated to Conserve Space)*

Line ~~84~~83 – Common Stock – Affiliated *(Detail Eliminated to Conserve Space)*

Line ~~85~~84 – Preferred Stock – Unaffiliated *(Detail Eliminated to Conserve Space)*

Line ~~86~~85 – Preferred Stock – Affiliated *(Detail Eliminated to Conserve Space)*

Line ~~87~~86 – Real Estate – Unaffiliated *(Detail Eliminated to Conserve Space)*

Line ~~88~~87 – Real Estate – Affiliated *(Detail Eliminated to Conserve Space)*

Line ~~89~~88 – Mortgage Loans – Unaffiliated *(Detail Eliminated to Conserve Space)*

Line ~~90~~89 – Mortgage Loans – Affiliated *(Detail Eliminated to Conserve Space)*

Line ~~91~~90 – Other – Unaffiliated *(Detail Eliminated to Conserve Space)*

Line ~~92~~91 – Other – Affiliated *(Detail Eliminated to Conserve Space)*

Line ~~94~~-93 & ~~95~~94 – Working Capital Finance Investments *(Detail Eliminated to Conserve Space)*

Line ~~96~~95 – Other Invested Assets – Schedule BA *(Detail Eliminated to Conserve Space)*

Line ~~97~~96 – Other Short-Term Invested Assets – Schedule DA *(Detail Eliminated to Conserve Space)*

Line ~~98~~97 – Total Other Invested Assets – Schedules BA & DA *(Detail Eliminated to Conserve Space)*

******Drafting Note – the line references from Line 80 and below have been updated with the adopted Schedule BA proposal (2023-12BWG). The line reference updates will be made in the instructions and not shown in this proposal.******

QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

ASSETS

Information should be reported as of the end of current quarter.

Detail Eliminated To Conserve Space

Line 8 – Other Invested Assets (Schedule BA Assets)

Report admitted investments reported on Schedule BA and not included under another classification.

Include: Loans.

Certain affiliated securities, such as joint ventures, partnerships and limited liability companies (*SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*).

~~Low-Income Housing Tax Credit Property Investments~~All investments in tax credit structures (*SSAP No. 93—~~Low-Income Housing Tax Credit Property~~ Investments in Tax Credit Structures*).

Detail Eliminated To Conserve Space

SCHEDULE BA – PARTS 2 AND 3

OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND DISPOSED OF

Drafting Note – the line references to Schedule BA may be updated after the BA proposal (2023-12BWG) is adopted. The line reference updates will be made in the instructions and not shown in this proposal.

Detail Eliminated To Conserve Space

~~Guaranteed Federal Low Income Housing Tax Credit~~
~~Unaffiliated ..... 3599999~~
~~Affiliated ..... 3699999~~

Yield Guaranteed State ~~Low Income Housing~~ Tax Credit Investments
Unaffiliated 3599999
Affiliated 3699999

~~Non-Guaranteed~~Qualifying Federal ~~Low Income Housing~~ Tax Credit Investments
Unaffiliated 3799999
Affiliated 3899999

~~Yield Guaranteed State Tax Credit Investments~~
~~Unaffiliated ..... 3799999~~
~~Affiliated ..... 3899999~~

~~Non-Guaranteed~~Qualifying State ~~Low Income Housing~~ Tax Credit Investments
Unaffiliated ..... ~~4199999~~3999999
Affiliated ..... ~~4299999~~4099999

All Other ~~Low Income Housing~~ Tax Credit Investments
Unaffiliated ..... ~~4399999~~4199999
Affiliated ..... ~~4499999~~4299999

Working Capital Finance Investment
Unaffiliated ..... ~~4599999~~4399999

Residual Tranches or Interests with Underlying Assets Having Characteristics of:
Fixed Income Instruments
Unaffiliated ..... ~~4699999~~4499999
Affiliated ..... ~~4799999~~4599999
Common Stock
Unaffiliated ..... ~~4899999~~4699999
Affiliated ..... ~~4999999~~4799999
Preferred Stock
Unaffiliated ..... ~~5099999~~4899999
Affiliated ..... ~~5199999~~4999999
Real Estate
Unaffiliated ..... ~~5299999~~5099999
Affiliated ..... ~~5399999~~5199999
Mortgage Loans
Unaffiliated ..... ~~5499999~~5299999
Affiliated ..... ~~5599999~~5399999
Other
Unaffiliated ..... ~~5699999~~5499999
Affiliated ..... ~~5799999~~5599999

© 2024 National Association of Insurance Commissioners

Any Other Class of Assets

Unaffiliated ..... ~~5899999~~5699999
Affiliated ..... ~~5999999~~5799999

Subtotals

Unaffiliated 6099999
Affiliated 6199999

TOTALS 6299999

Detail Eliminated To Conserve Space

~~Low Income Housing~~Investments in Tax Credit Structures

Include: All ~~Low Income Housing~~Investments in Tax Credit Structures (Tax Credit Investments) ~~(LIHTC or affordable housing) that are in the form of a Limited Partnership or a Limited Liability Company~~qualifying under within scope of *SSAP No. 93 – Tax Credit Investments*, including those investments that have the following risk mitigation factors:

A. ~~State~~ Yield Guaranteed State ~~Low Income Housing~~ Tax Credit Investments.

I. There must be an all-inclusive guarantee from a CRP-rated entity that guarantees the yield on the investment. This reporting line is only allowed for tax credit investments which issue state tax credits.

~~a. Tax credit investments which would have previously been reported in the Guaranteed Federal tax credit investment reporting line should now be reported in the Other Tax Credit Investments reporting line. This reporting line was removed as these types of tax credit investment structure were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012.~~

B. Qualifying State and Federal ~~Non-guaranteed Low Income Housing~~ Tax Credit Investments.

Investments reported on these lines must have all of the following risk mitigation factors:

I. A level of leverage below 50%. For a ~~LIHTC Fund~~tax credit investment fund, the level of leverage is measured at the fund level.

II. There is a Tax Credit Guarantee Agreement, or equivalent insurance acquired, at arm's length, by the investor ~~from General Partner or managing member~~. This agreement requires the General Partner ~~or~~, managing member, developer, or insurer to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the duration of the regulatory compliance period of the tax credit program ~~for the life of the partnership.~~ For a ~~LIHTC Fund~~tax credit investment fund, a Tax Credit Guarantee Agreement is required from the

developers of the lower tier ~~LIHTC properties~~projects to the upper tier partnership and all other ~~LIHTC~~ investments.

III. There are sufficient operating reserves, capital replacement reserves and/or operating deficit guarantees present to mitigate foreseeable ~~foreclosure~~ loss risks ~~at the time of the investment~~as of the current reporting period.

C. Other Tax Credit Investments.

I. Any tax credit investment which cannot be reported as either yield guaranteed or qualifying.

a. Federal tax credit investments with all-inclusive yield guarantees which would have previously been reported in the Guaranteed Federal tax credit investment reporting line and are still within the scope of SSAP No. 93 shall be reported in the Other Tax Credit Investments reporting line. The Federal Guaranteed reporting line was removed as these types of tax credit investment structure were substantially eliminated by the Historic Boardwalk Hall, LLC v. Commissioner of Internal Revenue court decision in 2012.

~~Non-qualifying LIHTCs should be reported in the "All Other" category~~

SCHEDULE BA – PART 3

OTHER LONG-TERM INVESTED ASSETS DISPOSED, TRANSFERRED OR REPAID DURING THE CURRENT QUARTER



Column 10 – Current Year's (Depreciation) or (Amortization)/Accretion

This amount represents depreciation expense for the period (where appropriate), amortization of premium and the accrual of discount, and proportional amortization of tax credit investments. The accrual of discount amounts in this column are to be reported as increases to investment income in the Exhibit of Net Investment Income, while the amortization of premium amounts and tax credit investments are to be reported as decreases to investment income. See column 9 for discussion of an unrealized valuation increase (decrease) where the real estate is carried at fair value and (depreciation) and/or (amortization)/accretion has been recorded.



ANNUAL STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

SCHEDULE BA – VERIFICATION BETWEEN YEARS
Other Long-Term Invested Assets

1.	Book/adjusted carrying value, December 31 of prior year		
2.	Cost of acquired:		
	2.1 Actual cost at time of acquisition (Part 2, Column 8)		
	2.2 Additional investment made after acquisition (Part 2, Column 9)		
3.	Capitalized deferred interest and other:		
	3.1 Totals, Part 1, Column 16		
	3.2 Totals, Part 3, Column 12		
4.	Accrual of discount		
5.	Unrealized valuation increase/(decrease):		
	5.1 Totals, Part 1, Column 13		
	5.2 Totals, Part 3, Column 9		
6.	Total gain (loss) on disposals, Part 3, Column 19		
7.	Deduct amounts received on disposals, Part 3, Column 16		
8.	Deduct amortization of premium, ~~and~~ depreciation and proportional amortization		
9.	Total foreign exchange change in book/adjusted carrying value:		
	9.1 Totals, Part 1, Column 17		
	9.2 Totals, Part 3, Column 14		
10.	Deduct current year's other-than-temporary impairment recognized:		
	10.1 Totals, Part 1, Column 15		
	10.2 Totals, Part 3, Column 11		
11.	Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)		
12.	Deduct total nonadmitted amounts		
13.	Statement value at end of current period (Line 11 minus Line 12)		

Detail Eliminated To Conserve Space

ANNUAL STATEMENT BLANK – LIFE/FRATERNAL

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

Line Number	NAIC Desig-nation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution 5 Factor	Basic Contribution 6 Amount (Cols. 4x5)	Reserve Objective 7 Factor	Reserve Objective 8 Amount (Cols. 4x7)	Maximum Reserve 9 Factor	Maximum Reserve 10 Amount (Cols. 4x9)
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF COMMON STOCK										
65		Unaffiliated Public		XXX	XXX		0.0000		0.1580(a)		0.1580(a)	
66		Unaffiliated Private		XXX	XXX		0.0000		0.1945		0.1945	
67		Affiliated Life with AVR		XXX	XXX		0.0000		0.0000		0.0000	
68		Affiliated Certain Other (See SVO Purposes & Procedures Manual)		XXX	XXX		0.0000		0.1580		0.1580	
69		Affiliated Other - All Other		XXX	XXX		0.0000		0.1945		0.1945	
70		Total with Common Stock Characteristics (Sum of Lines 65 through 69)		XXX	XXX		XXX		XXX		XXX	
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF REAL ESTATE										
71		Home Office Property (General Account only)					0.0000		0.0912		0.0912	
72		Investment Properties					0.0000		0.0912		0.0912	
73		Properties Acquired in Satisfaction of Debt					0.0000		0.1337		0.1337	
74		Total with Real Estate Characteristics (Sum of Lines 71 through 73)					XXX		XXX		XXX	
		~~LOW INCOME HOUSING TAX CREDIT~~ INVESTMENTS IN TAX CREDIT STRUCTURES										
~~75~~		~~Guaranteed Federal Low Income Housing Tax Credit~~					~~0.0003~~		~~0.0006~~		~~0.0010~~	
~~7275~~		~~Guaranteed State Low Income Housing~~ Yield Guaranteed State Tax Credit Investments ~~State Guaranteed~~					0.0003		0.0006		0.0010	
~~76~~76		~~Non guaranteed Federal Low Income Housing~~ Qualifying Federal Tax Credit Investments ~~Federal Non-guaranteed~~					0.0063		0.0120		0.0190	
~~77~~		~~Guaranteed State Low Income Housing Tax Credit State Guaranteed~~					~~0.0003~~		~~0.0006~~		~~0.0010~~	
~~7877~~		~~Non guaranteed State Low Income Housing~~ Qualifying State Tax Credit Investments ~~State Non-Guaranteed~~					0.0063		0.0120		0.0190	
~~7978~~		~~All Other Low Income Housing~~ Other Tax Credit Investments ~~Other~~					0.0273		0.0600		0.0975	
~~80~~79		Total ~~LIHTC~~ Tax Credit Investments (Sum of Lines 75 through ~~79~~78)					XXX		XXX		XXX	
		RESIDUAL TRANCHES OR INTERESTS										
~~81~~80		Fixed Income Instruments – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~82~~81		Fixed Income Instruments – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~83~~82		Common Stock – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~84~~83		Common Stock – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~85~~84		Preferred Stock – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~86~~85		Preferred Stock – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~87~~86		Real Estate – Unaffiliated					0.0000		0.1580		0.1580	
~~88~~87		Real Estate – Affiliated					0.0000		0.1580		0.1580	
~~89~~88		Mortgage Loans – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~90~~89		Mortgage Loans – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~91~~90		Other – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~92~~91		Other – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~93~~92		Total Residual Tranches or Interests (Sum of Lines 81 through 92)					XXX		XXX		XXX	
		ALL OTHER INVESTMENTS										
~~94~~93		NAIC 1 Working Capital Finance Investments		XXX			0.0000		0.0042		0.0042	
~~95~~94		NAIC 2 Working Capital Finance Investments		XXX			0.0000		0.0137		0.0137	
~~96~~95		Other Invested Assets - Schedule BA		XXX			0.0000		0.1580		0.1580	
~~97~~96		Other Short-Term Invested Assets - Schedule DA		XXX			0.0000		0.1580		0.1580	
~~98~~97		Total All Other (Sum of Lines 94, 95, 96 and 97)		XXX			XXX		XXX		XXX	
~~99~~98		Total Other Invested Assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 80, 93 and 98)					XXX		XXX		XXX	

Drafting Note – the line references from Line 80 and below have been updated with the adopted Schedule BA proposal (2023-12BWG). The line reference updates will be made in the instructions and not shown in this proposal.

ANNUAL STATEMENT BLANK – SEPARATE ACCOUNTS

ASSET VALUATION RESERVE (Continued)
BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS
EQUITY AND OTHER INVESTED ASSET COMPONENT

Line Number	NAIC Designation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution 5 Factor	Basic Contribution 6 Amount (Cols. 4x5)	Reserve Objective 7 Factor	Reserve Objective 8 Amount (Cols. 4x7)	Maximum Reserve 9 Factor	Maximum Reserve 10 Amount (Cols. 4x9)
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF COMMON STOCK										
65		Unaffiliated Public		XXX	XXX		0.0000		0.1580(a)		0.1580(a)	
66		Unaffiliated Private		XXX	XXX		0.0000		0.1945		0.1945	
67		Affiliated Life with AVR		XXX	XXX		0.0000		0.0000		0.0000	
68		Affiliated Certain Other (See SVO Purposes & Procedures Manual)		XXX	XXX		0.0000		0.1580		0.1580	
69		Affiliated Other - All Other		XXX	XXX		0.0000		0.1945		0.1945	
70		Total with Common Stock Characteristics (Sum of Lines 65 through 69)		XXX	XXX		XXX		XXX		XXX	
		INVESTMENTS WITH THE UNDERLYING CHARACTERISTICS OF REAL ESTATE										
71		Home Office Property (General Account only)					0.0000		0.0912		0.0912	
72		Investment Properties					0.0000		0.0912		0.0912	
73		Properties Acquired in Satisfaction of Debt					0.0000		0.1337		0.1337	
74		Total with Real Estate Characteristics (Sum of Lines 71 through 73)					XXX		XXX		XXX	
~~75~~		~~LOW INCOME HOUSING TAX CREDIT~~ INVESTMENTS IN TAX CREDIT STRUCTURES ~~Guaranteed Federal Low Income Housing Tax Credit~~					~~0.0003~~		~~0.0006~~		~~0.0010~~	
78		Yield Guaranteed State Tax Credit Investments					0.0003		0.0006		0.0010	
76		~~Non guaranteed Federal Low Income Housing~~ Qualifying Federal Tax Credit Investments ~~Federal Non guaranteed~~					0.0063		0.0120		0.0190	
~~77~~		~~Guaranteed State Low Income Housing Tax Credit State Guaranteed~~					~~0.0003~~		~~0.0006~~		~~0.0010~~	
778		~~Non guaranteed State Low Income Housing~~ Qualifying State Tax Credit Investments ~~State Non guaranteed~~					0.0063		0.0120		0.0190	
789		~~All Other Low Income Housing~~ Other Tax Credit Investments ~~Other~~					0.0273		0.0600		0.0975	
~~80~~79		Total ~~LIHTC~~ Tax Credit Investments (Sum of Lines 75 through ~~79~~78)					XXX		XXX		XXX	
		RESIDUAL TRANCHES OR INTERESTS										
~~81~~80		Fixed Income Instruments – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~82~~81		Fixed Income Instruments – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~83~~82		Common Stock – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~84~~83		Common Stock – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~85~~84		Preferred Stock – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~86~~85		Preferred Stock – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~87~~86		Real Estate – Unaffiliated					0.0000		0.1580		0.1580	
~~88~~87		Real Estate – Affiliated					0.0000		0.1580		0.1580	
~~89~~88		Mortgage Loans – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~90~~89		Mortgage Loans – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~91~~90		Other – Unaffiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~92~~91		Other – Affiliated		XXX	XXX		0.0000		0.1580		0.1580	
~~93~~92		Total Residual Tranches or Interests (Sum of Lines 81 through 92)					XXX		XXX		XXX	
		ALL OTHER INVESTMENTS										
~~94~~93		NAIC 1 Working Capital Finance Investments		XXX			0.0000		0.0042		0.0042	
~~95~~94		NAIC 2 Working Capital Finance Investments		XXX			0.0000		0.0137		0.0137	
~~96~~95		Other Invested Assets - Schedule BA		XXX			0.0000		0.1580		0.1580	
~~97~~96		Other Short-Term Invested Assets - Schedule DA		XXX			0.0000		0.1580		0.1580	
~~98~~97		Total All Other (Sum of Lines 94, 95, 96 and 97)		XXX			XXX		XXX		XXX	
~~99~~98		Total Other Invested Assets - Schedules BA & DA (Sum of Lines 29, 37, 64, 70, 74, 80, 93 and 98)					XXX		XXX		XXX	

Drafting Note – the line references from Line 80 and below have been updated with the adopted Schedule BA proposal (2023-12BWG). The line reference updates will be made in the instructions and not shown in this proposal.

QUARTERLY STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

SCHEDULE BA – VERIFICATION

Other Long-Term Invested Assets

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year		
2. Cost of acquired		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Capitalized deferred interest and other		
4. Accrual of discount		
5. Unrealized valuation increase/(decrease)		
6. Total gain (loss) on disposals		
7. Deduct amounts received on disposals		
8. Deduct amortization of premium, ~~and~~ depreciation and proportional amortization		
9. Total foreign exchange change in book/adjusted carrying value		
10. Deduct current year's other-than-temporary impairment recognized		
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10)		
12. Deduct total nonadmitted amounts		
13. Statement value at end of current period (Line 11 minus Line 12)		

W:\QA\BlanksProposals\2024-11BWG_Modified.docx

© 2024 National Association of Insurance Commissioners

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: 04/03/2024	**FOR NAIC USE ONLY**
CONTACT PERSON:	Agenda Item # 2024-12BWG MOD
TELEPHONE:	Year 2025
EMAIL ADDRESS:	Changes to Existing Reporting [X]
ON BEHALF OF:	New Reporting Requirement [ ]
NAME: Dale Bruggeman	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
TITLE: Chair SAPWG	No Impact [X]
AFFILIATION: Ohio Department of Insurance	Modifies Required Disclosure [ ]
ADDRESS: 50W. Town St., 3rd Fl., Ste. 300	Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? [No]
Columbus, OH 43215	***If Yes, complete question below***
	DISPOSITION
	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[ ] Received For Public Comment
	[X] Adopted Date 08/07/2024
	[ ] Rejected Date
	[ ] Deferred Date
	[ ] Other (Specify)

BLANK(S) TO WHICH PROPOSAL APPLIES

[ ] **ANNUAL STATEMENT**	[X] **INSTRUCTIONS**	[x] **CROSSCHECKS**
[X] **QUARTERLY STATEMENT**	[X] **BLANK**	
[X] Life, Accident & Health/Fraternal	[X] Separate Accounts	[X] Title
[X] Property/Casualty	[ ] Protected Cell	[ ] Other
[X] Health	[ ] Health (Life Supplement)	[ ] Life (Health Supplement)

Anticipated Effective Date: January 1, 2025

IDENTIFICATION OF ITEM(S) TO CHANGE

Update the quarterly investment schedules for editorial items to the bond project. (Sch. D Verification, Sch. D Part 1B, Sch. D Part 3 & 4, Sch. DL Part 1 & 2, and Sch. E Part 1 & 2)

Also update the Quarterly Investment Schedule General Instructions for the changes that were adopted in the Annual Investment Schedule General Instructions. *(Reference adopted proposal 2023-06BWG)*

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to show quarterly editorials for the bond project in one proposal instead of the editorial lists over multiple Blanks Working Group calls. Also, the Quarterly Investment Schedule General Instructions were not included in the original proposal and needed to have the instructions updated to match what was adopted in Blanks proposal 2023-06BWG.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:

Other Comments:

** **This section must be completed on all forms.** **Revised 11/17/2022**

© 2024 National Association of Insurance Commissioners

Listing of Items to be Updated in the Quarterly Investment Schedule Instructions/Blanks:

1. Investment Schedule General Instructions – the quarterly general instructions were inadvertently left out of the original proposal (2023-06BWG) and needed the bond project updates.

2. Investment Schedule General Instructions – Categories: Financial ABS – Self-Liquidating and Financial ABS – Not Self-Liquidating – clarify that interest is only captured when "applicable" for self-liquidating.

3. Investment Schedule General Instructions – Category: Agency Commercial Mortgage-Backed Securities – Fully Guaranteed (Exempt from RBC) – add clarifying language to capture ABS structures that are other than MBS that are fully guaranteed.

4. Investment Schedule General Instructions – Category: Agency Commercial Mortgage-Backed Securities – Fully Guaranteed (Exempt from RBC) & Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC) – add clarifying language to regarding the appropriate reporting of ABS issued by the Small Business Administration (SBA) and Small Business Investment Companies (SBIC).

5. Schedule D Verification – The line references in the quarterly verification schedule needs to be updated to the updated columns on Schedule D, Part 3 & 4.

6. Schedule D, Part 1B – Update the Schedule D Part 1A line references

7. Schedule BA, Part 2 & 3
   - Column 1 CUSIP - Update CUSIP Global Services reference

8. Schedule D, Part 3
   - Add total lines 0489999999 & 0499999999 to be consistent with Schedule D, Part 1, Section 1
   - Add total lines 1889999999 & 1899999999 to be consistent with Schedule D, Part 1, Section 2
   - Add clarifying language for SVO ETFs that there can be shares for this category
   - Column 1 CUSIP, Column 13 Issuer, & Column 14 Issue - Update CUSIP Global Services reference
   - Update the bond line reference for NAIC Designation

9. Schedule D, Part 4
   - Add total lines 0489999999 & 0499999999 to be consistent with Schedule D, Part 1, Section 1
   - Add total lines 1889999999 & 1899999999 to be consistent with Schedule D, Part 1, Section 2
   - Updated column 20 – Cont. Maturity Date for perpetual bonds to match the specs – Changed back to 1/1/9999
   - Add clarifying language for common stocks for column 20 – Cont. Maturity Date
   - Add clarifying language for SVO ETFs that there can be shares for this category
   - Column 1 CUSIP, Column 25 Issuer, & Column 26 Issue - Update CUSIP Global Services reference
   - Update the bond line reference for NAIC Designation

10. Schedule DL, Part 1 & 2
   - Add total lines 0489999999 & 0499999999 to be consistent with Schedule D, Part 1, Section 1
   - Add total lines 1889999999 & 1899999999 to be consistent with Schedule D, Part 1, Section 2
   - Update Header for ABS lines to Schedule, Part 1, Section 2
   - Update CUSIP line references and CUSIP Global Services reference

11. Schedule E, Part 1 – update the code column

12. Schedule E, Part 2
   - Remove the SVO-Identified Bond ETF categories because they should not be included on this schedule

© 2024 National Association of Insurance Commissioners

- Add total lines 0489999999 & 0499999999 to be consistent with Schedule D, Part 1, Section 1
- Remove the SVO-Identified Bond ETF categories from the subtotal line 0489999999 calculation
- Make sure that both Certificates of Deposit lines are not on this schedule
- ~~Remove "%" code from Restricted Asset Code Column instructions~~

© 2024 National Association of Insurance Commissioners

QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, HEALTH & TITLE

INVESTMENT SCHEDULES GENERAL INSTRUCTIONS
(Applies to all investment schedules)

Detail Eliminated To Conserve Space

"To Be Announced" securities (commonly referred to as TBAs) are to be reported in Schedule D unless the structure of the security more closely resembles a derivative, as defined within *SSAP No. 86—Derivatives* in which case the security should be reported on Schedule DB. The exact placement of TBAs in the investment schedules depends upon how a company uses TBA. (For example, if a reporting entity was to acquire a TBA with the intent to take possession of a Schedule D, Part 1, Section 2 qualifying mortgage-backed security, the TBA shall be reported on the Schedule D, Part 1, Section 2 at acquisition. If a reporting entity was to acquire a TBA, with the intent to roll the TBA, this acquisition is more characteristic of a forward derivative and shall be captured on Schedule DB.)

Detail Eliminated To Conserve Space

The following is the description of the ~~General and Specific Classifications used for reporting the~~ detailed lines for bonds and stocks.

~~General Classifications Bonds~~Categories for Schedule D, Part 1 Only:

To be eligible for reporting on Schedule D, Part 1, investments shall qualify under the bond definition detailed within *SSAP No. 26R – Bonds* and *SSAP No. 43R – Asset-Backed Securities* or are otherwise named in scope within those statements. ~~Exclude residual tranches or interests captured in scope of *SSAP No. 43R—Loan-Backed and Structured Securities*. See SSAP No. 43R for accounting guidance. These securities should be reported on Schedule BA.~~

Refer to *SSAP No. 26R—Bonds; SSAP No. 43R—~~Loan-backed and Structured Securities~~Asset-Backed;* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities for additional guidance and defined terms*.

Issuer Credit Obligations – Investments that qualify for reporting on Schedule D, Part 1, Section 1 in scope of *SSAP No. 26R – Bonds*:

U.S. Government Obligations (Exempt from RBC):

~~U.S. Government shall be defined as~~ U.S. Government Obligations as defined per the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* includes direct claims (including securities, loans and leases) on, and the portions of claims that are directly and unconditionally issued, guaranteed or insured by the U.S. Government or its agencies. U.S. Government obligations captured within this category include obligations issued by U.S. Government agencies that are fully guaranteed or insured as to the timely payment of principal and interest by the full faith and credit of the U.S. Government.

~~All~~ Other U.S. Government~~s~~ Obligations (Not Exempt from RBC):

Bonds issued by U.S. Government agencies or government-sponsored enterprises that are not backed by the full faith and credit of the U.S. Government.

This category includes bonds issued from agencies that are not backed by the full faith and credit of the U.S. Government but have a filing exemption detailed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* based on analytical judgment.

© 2024 National Association of Insurance Commissioners

Non-U.S. Sovereign Jurisdiction Securities:

This includes bonds ~~investments~~ issued by non-U.S. sovereign governments, including bonds of political subdivisions and special revenue. This also includes bonds issued by utilities owned by non-U.S. governments and bonds fully guaranteed by non-U.S. governments.

~~U.S. States, Territories and Possessions~~Municipal Bonds – General Obligation (Direct and Guaranteed):

Include bonds issued by states, cities, counties and other governmental entities to fund day-to-day obligations and to finance capital projects that are not secured by specific assets, but are backed by the "full faith and credit" (taxing power) of the issuer.~~General obligations of these entities (NAIC members), as well as bonds issued by utility companies owned by these entities. NAIC membership is composed of the 50 states, the District of Columbia, American Samoa, Guam, Northern Marianna Islands, Puerto Rico, and the U.S. Virgin Islands.~~

Municipal Bonds – Special Revenue:

Include bonds issued by states, cities, counties and other governmental entities to finance projects not backed by the taxing power of the issuer, but by revenues from the specific project or source (e.g., highway tolls). Also include other municipal bonds that do not quality as general obligation (e.g., pre-refunded bonds and insured bonds).

Project Finance Bonds Issued by Operating Entities:

Include non-municipal bonds issued by an operating entity as defined in *SSAP No. 26R – Bonds*, that finances a single asset or operation (such as a toll road or power generation facility). For these investments, the asset or operation collateralizes the issuance and the cash flows produced satisfy the debt payments. The use of a bankruptcy remote entity (e.g., Special Purpose Vehicle) does not preclude reporting in this category when the entity is determined to represent an operating entity and the primary purpose of the debt issuance is to finance a specific operating project for the operating entity.

~~U.S. Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed):~~

~~General obligations of cities, counties, townships, etc., as well as bonds issued by utility companies owned by these entities.~~

~~U.S. Special Revenue and Special Assessment Obligations and All Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions:~~

~~Those U.S. government issues not listed as "Securities That Are Considered "Exempt Obligations" For Purposes of Determining The Asset Valuation Reserve And The Risk-Based Capital Calculation" in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, yet included as "Filing Exemptions for Other U.S. Government Obligations" in. This category also includes bonds that are issued by states, territories, possessions and other political subdivisions that are issued for a specific financing project rather than as general obligation bonds. Also include mortgage reference securities that are within the scope of *SSAP No. 43R—Loan-Backed and Structured Securities*.~~

~~Industrial and Miscellaneous (Unaffiliated)~~Corporate Bonds:

Issuer credit obligation issued by a company to raise capital and support company operations. Include convertible bonds, but not mandatory convertible bonds which are included in a separate category.~~This category includes all non-governmental issues that do not qualify for some other category in Schedule D, Part 1, including privatized (non-government ownership) utility companies. Include Public Utilities.~~

Mandatory Convertible Bonds:

A type of convertible bond that has a required conversion or redemption feature. Either on or before a contractual conversion date, the holder must convert the mandatory convertible into underlying common stock.

Single Entity Backed Obligations:

Bonds for which repayment is fully supported by an underlying contractual obligation of a single operating entity. This does not include corporate bonds or project finance structures. Examples of structures that could qualify for reporting within this category, if payment is fully supported by a single operating entity, include but are not limited to, equipment trust certificates, enhanced equipment trust certificates, single-tenant lease-backed securities and funding agreement backed notes. Repayment is considered fully supported by the underlying operating entity if the structure in place at origination provides cash flows to satisfy all interest and at least 95% of the principal of the security. (For example, a 5-year lease-backed security that has all cash flows for interest and principal repayment generated from one existing tenant who is under a matching 5-year lease term on the building qualifies for reporting as a single entity backed obligation.)

SVO Identified Bond Exchange Traded Funds – Fair Value:

~~This category includes all~~Include SVO-Identified Bond Exchange Traded Funds included on the "List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond (the ETF Bond List)" as found on the Securities Valuation Office Web page (*https://www.naic.org/svo.htm*) that do not qualify for, or for which the reporting entity has elected not to report, at systematic value..

SVO-Identified Bond Exchange Traded Funds – Systematic Value:

Include SVO-Identified Bond Exchange Traded Funds included on the "List of Exchange Traded Funds Eligible for Reporting as a Schedule D Bond (the ETF Bond List)" as found on the Securities Valuation Office Web page (*https://www.naic.org/svo.htm)* that qualify for, and that the reporting entity has elected to report, at systematic value. Use of systematic value is an irrevocable election as long as the qualifying investment is held by the reporting entity and qualifies for systematic value within the parameters of SSAP No. 26R.

Bonds Issued From SEC-Registered Business Development Corps, Closed-End Funds & REITs:

Bonds issued by SEC-registered business development corporates, closed-end funds or similar operating entities registered under the 1940 Act.

Bank Loans – Issued:

Fixed-income instruments, representing indebtedness of a borrower, made by a financial institution. Bank loans in this category shall be obligations of operating entities acquired directly at issuance by a reporting entity. ~~See *SSAP No. 26R—Bonds* for guidance.~~

Bank Loans – Acquired:

Fixed-income instruments, representing indebtedness of a borrower, made by a financial institution. Bank loans in this category shall be obligations of operating entities acquired through an assignment, participation or syndication.

Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans:

Mortgage loans, in scope of *SSAP No. 37—Mortgage Loans*, that have been filed with the SVO and included on the SVO-Identified Credit Tenant Loan listing. Investments in the form of security structures shall not be captured on this reporting line. Security structures supported by a credit tenant lease shall be reported as single entity backed obligations (if qualifying) or captured in the appropriate reporting line for Asset-Backed Securities.

Certificates of Deposit:

Certificates of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition.

© 2024 National Association of Insurance Commissioners

Other Issuer Credit Obligations:

Report investment structures that qualify as issuer credit obligations pursuant to *SSAP No. 26R – Bonds* that do not fit within a specific reporting line. (Specific reporting lines shall be utilized when applicable.) Debt instruments in a certified capital company (CAPCO) permitted under SSAP No. 26R shall also be captured within this category.

~~Hybrid Securities:~~

~~Securities whose proceeds are accorded some degree of equity treatment by one or more of the nationally recognized statistical rating organizations and/or which are recognized as regulatory capital by the issuer's primary regulatory authority. Hybrid securities are designed with characteristics of debt and of equity and are intended to provide protection to the issuer's senior note holders. Hybrid securities products are sometimes referred to as capital securities. Examples of hybrid securities include Trust Preferreds, Yankee Tier 1s (with and without coupon step-ups) and debt-equity hybrids (with and without mandatory triggers).~~

~~This specifically excludes surplus notes, which are reported in Schedule BA; subordinated debt issues, which have no coupon deferral features; and "traditional" preferred stocks, which are reported in Schedule D, Part 2, Section 1. With respect to preferred stock, traditional preferred stocks include, but are not limited to a) for U.S. issuers that do not allow tax deductibility for dividends; and b) those issued as preferred stock of the entity or an operating subsidiary, not through a trust or a special purpose vehicle.~~

~~Parent, Subsidiaries and Affiliates~~Affiliated Reporting Lines:

Each reporting category, other than those specific to Government Jurisdictions and SVO-Identified Bond ETFs, shall have affiliated investments separately reported within the affiliate reporting line. The definition of affiliates is pursuant to ~~Defined by~~ *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*

Asset-Backed Securities – Investments that qualify for Schedule D, Part 1, Section 2 pursuant to SSAP No. 43R:

Financial Asset-Backed Securities – Self-Liquidating – A self-liquidating security is a design where the terms of the underlying collateral has contractual principal (and interest, if applicable) that results with a conversion into cash over a period of time (e.g., receivables or other such assets). (For example, a mortgage loan backing a mortgage-backed security, where the loan balance is reduced as payments are made and is ultimately fully paid off by the borrower, or a collateralized loan obligation (CLO) backed by bank loans that is reduced as the loan is paid off.) A financial asset is defined within *SSAP No. 103R – Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* as cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right (a) to receive cash or another financial instrument from a second entity or (b) to exchange other financial instruments on potentially favorable terms with the second entity. As a point of clarity, for the purposes of the bond definition and reporting on Schedule D, Part 1, financial assets do not include assets for which the realization of the benefits conveyed by the above rights depends on the completion of a performance obligation (e.g., leases, mortgage servicing rights, royalty rights, etc.). These assets represent non-financial assets, or a means through which non-financial assets produce cash flows, until the performance obligation has been satisfied.

Agency Residential Mortgage-Backed Securities – Fully Guaranteed (Exempt from RBC):

Include 'agency' residential mortgage-backed securities where the mortgages or bonds are guaranteed (i.e., they are backed by the full faith and credit of the U.S. Government) as to principal and interest by federal and federally sponsored agencies such as the Government National Mortgage Association (GNMA). Also include loans guaranteed by the U.S. Department of Veteran Affairs or the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs. Government Sponsored Mortgage Referenced Securities shall not be captured within this category.

Agency Commercial Mortgage-Backed Securities – Fully Guaranteed (Exempt from RBC):

Include 'agency' commercial mortgage-backed securities where the mortgages or bonds are guaranteed (i.e., they are backed by the full faith and credit of the U.S. Government) as to principal and interest by federal and federally sponsored agencies such as the Government National Mortgage Association (GNMA). Also include loans guaranteed by the U.S. Department of Veteran Affairs or the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs. Government Sponsored Mortgage Referenced Securities shall not be captured within this category. This category shall also include ABS securities that are fully and unconditionally guaranteed or insured as to the timely payment of principal and interest by the full faith and credit of the U.S. government that do not qualify for reporting as RMBS. Only fully and unconditionally guaranteed or insured securities shall be captured in this reporting line. Please refer to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for determination of fully guaranteed securities. This category shall also include ABS structures that are fully guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government that do not quality for reporting as RMBS. Only fully guaranteed structures shall be captured in this reporting line. Please refer to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for determination of fully guaranteed structures.

Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC):

Include residential mortgage-backed securities issued by an agency that is not or partially guaranteed (i.e., they are not backed by the full faith and credit of the U.S. Government) as to principal and interest by federal or federally sponsored agencies such as Federal National Mortgage Association (FNMA) or Federal home Loan Mortgage Corporation (FHLMC). This category shall include mortgage-referenced securities issued by a government-sponsored enterprise (e.g., FNMA or FHLMC) in the form of a credit-risk-transfer in which the security is tied to a pool of residential mortgages. These items reflect instruments in which the payments received are linked to the credit and principal payment risk of the underlying mortgage loan borrowers captured in the referenced pool of mortgages. For these instruments, the holder may not receive a return of their full principal as repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages.

Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC):

Include commercial mortgage-backed securities issued by an agency that is not or partially guaranteed (i.e., they are not backed by the full faith and credit of the U.S. Government) as to principal and interest by federal or federally sponsored agencies such as Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC). This category shall include mortgage-referenced securities issued by a government-sponsored enterprise (e.g., FNMA or FHLMC) in the form of a credit-risk-transfer in which the security is tied to a pool of commercial mortgages. These items reflect instruments in which the payments received are linked to the credit and principal payment risk of the underlying mortgage loan borrowers captured in the referenced pool of mortgages. For these instruments, the holder may not receive a return of their full principal as repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages. This category shall also include ABS securities that are agency-issued and not fully guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government (excluding RMBS). ~~This category shall also include ABS structures t agency-issued and not fully guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government (excluding RMBS).~~

Non-Agency Residential Mortgage-Backed Securities:

Include residential mortgage-backed securities not issued by a government agency.

Non-Agency Commercial Mortgage-Backed Securities:

Include commercial mortgage-backed securities not issued by a government agency.

Non-Agency – CLOs/CBOs/CDOs:

Include self-liquidating collateralized loan obligations (CLO), collateralized bond obligations (CBO) and collateralized debt obligations (CDO). In general, this category includes pools of assets whose cash flows are

divided into 2 or more tranches. This also includes any other significant leverage inside the deal, for example, in the form of off-market swaps or repo. The underlying collateral in this category consists of corporate or structured credit, cash or synthetic. This category does not include single name underlying collateral. Lastly, the repayment of the securities issued by CLOs/CBOs/CDOs depend primarily on the default and recovery of the underlying collateral and not on their market value.

Other Financial Asset-Backed Securities – Self-Liquidating:

Include self-liquidating financial asset-backed securities not issued by a government agency that are not backed by commercial or residential mortgage loans and that are not considered CLOs/CBOs/CDOs.

Financial Asset-Backed Securities – Not Self-Liquidating – Include all financial asset-backed securities where the structure does not represent a design where the terms of the underlying collateral has contractual principal (and interest, if applicable) that results with a conversion into cash over a period of time (e.g., receivables or other such assets)

Equity-Backed Securities:

Include structures where the financial assets backing the structure reflect equity. These securities must overcome the rebuttable presumption that equity-like structures do not inherently possess the characteristics to be reported on Schedule D, Part 1 and have appropriate reporting entity documentation supporting a conclusion that the underlying equity interests lend themselves to the production of predictable cash flows and the underlying equity risks have been sufficiently redistributed through the capital structure of the issuer. This category should include securitized collateralized fund obligations (CFOs) and other such structures, that qualify within Schedule D, Part 1. (Securitized equity-backed structures, including CFO structures, that do not qualify for Schedule D, Part 1 reporting shall be captured on Schedule BA.)

Other Financial Asset-Backed – Not Self-Liquidating:

Include non-self-liquidating financial asset-backed securities that are not backed by equity.

Non-Financial Asset-Backed Securities (Practical Expedient) – A non-financial asset-backed security is defined as a bond backed by assets that are expected to generate a meaningful level of cash flows toward repayment of the bond through use, licensing, leasing, servicing or management fees, or other similar cash flow generation. For the avoidance of doubt, there must be a meaningful level of cash flows to service the debt, other than through the sale or refinancing of the assets. Pursuant to *SSAP No. 43R—Asset-Backed Securities*, a practical expedient may be utilized, which is defined as if less than 50% of the original principal relies on the sale or refinancing of the underlying assets, the meaningful criteria is considered to be met. In applying this practical expedient, only contractual cash flows of the non-financial asset may be considered.

Lease-Backed Transactions (Practical Expedient):

Include structures where the generation of cash flows to use towards repayment of the asset-backed security are predominantly driven from underlying lease transactions.

Other Non-Financial Asset-Backed Securities (Practical Expedient):

Include structures where the generation of cash flows to use towards repayment of the asset-backed security are predominantly driven from underlying cash flow streams that do not predominantly reflect lease arrangements.

Non-Financial Asset-Backed Securities (Full Analysis) – Include non-financial asset-backed securities that qualify for reporting on Schedule D, Part 1 pursuant to *SSAP No. 43R—Asset-Backed Securities*, but that do not qualify within the practical expedient for meaningful cash flows.

Lease-Backed Transactions (Full Analysis):

Include structures where the generation of cash flows to use towards repayment of the asset-backed security are predominantly driven from underlying lease transactions.

Other Non-Financial Asset-Backed Securities (Full Analysis):

Include structures where the generation of cash flows to use towards repayment of the asset-backed security are predominantly driven from underlying cash flow streams that do not predominantly reflect lease arrangements.

Affiliated Reporting Lines:

Each reporting category, other than those specific to government agency issuances, shall have affiliated investments separately reported within the affiliate reporting line. The definition of affiliates is pursuant to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.

Detail Eliminated To Conserve Space

SCHEDULE D – VERIFICATION

BONDS AND STOCKS

Detail Eliminated To Conserve Space

Line 2 – Cost of Bonds and Stocks Acquired

In Column 1, report the actual cost to acquire bonds and stocks on a year-to-date basis, including the cost on bonds and stocks acquired in the current quarter as reported on Schedule D, Part 3, Column ~~7~~6. The cost of acquiring the investment should be consistent with the accounting guidance contained in the *Accounting Practices and Procedures Manual*.

Line 3 – Accrual of Discount

In Column 1, report the total amount of discount accrued on bonds on a year-to-date basis, including the amount on bonds and stocks still owned as of the reporting date and the amount on bonds and stocks disposed in the current quarter and reported on Schedule D, Part 4, Column ~~12~~11. The accrual of discount should be consistent with the accounting guidance contained in the *Accounting Practices and Procedures Manual*.

Line 4 – Unrealized Valuation Increase (Decrease)

Report the total unrealized valuation increase (decrease) for the entire year-to-date, including the amount on bonds and stocks owned as of the reporting date and the amount on bonds and stocks disposed in the current quarter and reported on Schedule D, Part 4, Column ~~11~~10.

Line 5 – Total Gain (Loss) on Disposals

In Column 1, report the gain (loss) on sales of bonds and stocks on a year-to-date basis, including the total gain (loss) of bonds and stocks in the current quarter as reported on Schedule D, Part 4, Column ~~19~~18.

Line 6 – Deduct Consideration for Bonds and Stocks Disposed of During the Year

In Column 1, report the total considerations received on bonds and stocks sold on a year-to-date basis, including the amount received on bonds and stock disposed in the current quarter as reported on Schedule D, Part 4, Column ~~7~~6.

Line 7 – Deduct Amortization of Premium

In Column 1, report the total amount of premium amortized on a year-to-date basis, including the amount on bonds and stocks still owned as of the reporting date and the amount on bonds and stocks disposed in the current quarter and reported on Schedule D, Part 4, Column ~~12~~11. The amortization of premium should be consistent with the accounting guidance contained in the *Accounting Practices and Procedures Manual*.

Line 8 – Total Foreign Exchange Change in Book/Adjusted Carrying Value

In Column 1, report the unrealized foreign exchange gain or loss on a year-to-date basis, including the amount on bonds and stocks still owned as of the reporting date and the amount on bonds and stocks disposed and reported on Schedule D, Part 4, Column ~~15~~14.

Line 9 – Deduct Current Year's Other-Than-Temporary Impairment Recognized

Report the other-than-temporary impairments on a year-to-date basis including the amount on bonds and stock still owned and the amount on bonds and stocks disposed and reported on Schedule D, Part 4, Column ~~13~~12.

Line 10 – Total Investment Income Recognized as a Result of Prepayment Penalties and/or Acceleration Fees

In Column 1, report only the total investment income recognized on a year-to-date basis, using the information recorded in Schedule D, Part 4, Column ~~20~~19, for bonds and stocks that were sold, disposed or otherwise redeemed during the current quarter, as a result of a prepayment penalty and/or acceleration fee.

Line 11 – Book/Adjusted Carrying Value at the end of Current Period

In Column 1, report the book/adjusted carrying value as of the end of the current period. The amount in Line 11 should tie to the Assets Page, Column 1, the sum of the lines for Bonds, Line 1, Preferred Stocks, Line 2.1 and Common Stocks, Line 2.2.

Line 12 – Deduct Total Nonadmitted Amounts

In column 1, report the adjustment for nonadmitted amounts related to bonds and stocks as of the end of the current period.

Include: The amount of the portfolio that is in excess of any investment limitation.

The amount of any goodwill that exceeds the surplus limitation as described in *SSAP No. 68—Business Combinations and Goodwill*.

The amount to be reported here should tie to the Assets Page, Column 2, the sum of the lines for Bonds, Line 1, Preferred Stocks, Line 2.1, Common Stock, Line 2.2.

Line 13 – Statement Value at End of Current Period

In Column 1, report the statement value of bonds and stocks owned as of the end of the current period. This amount should tie to the Assets Page, Column 3, the sum of the lines for Bonds, Line 1, Preferred Stocks, Line 2.1, Common Stock, Line 2.2.

© 2024 National Association of Insurance Commissioners

SCHEDULE D – PART 1B

ACQUISITIONS, DISPOSITIONS AND NON-TRADING ACTIVITY DURING THE CURRENT QUARTER FOR ALL BONDS AND PREFERRED STOCK BY NAIC DESIGNATION

Report the summarized amounts of all bonds and preferred stock by NAIC designation. Include short-term and cash equivalent bonds in the category that most closely resembles their credit risk. Show all the acquisitions, dispositions and non-trading activities of bonds (long-term, short-term and cash equivalents) and preferred stock for each quarter. The Schedule is sorted by NAIC designation and includes Book/Adjusted Carrying Values for each quarter of the year.

Column 1 – Book/Adjusted Carrying Value Beginning of Current Quarter

a. 1st Quarter taken directly from prior year annual statement Schedule D, Part 1A, Section 1, Line ~~51~~52.1 to Line ~~51~~52.6, Column 7 for all bonds.

b. 2nd Quarter will be taken from prior quarter Column 5.

c. 3rd Quarter will be taken from prior quarter Column 6.



Column 8 – Book/Adjusted Carrying Value at December 31 Prior Year

Taken directly from prior year annual statement Schedule D, Part 1A, Section 1, Line ~~51~~52.1 to Line ~~51~~52.6, Column 7 for all bonds.



© 2024 National Association of Insurance Commissioners

SCHEDULE BA – PART 2

OTHER LONG-TERM INVESTED ASSETS ACQUIRED AND ADDITIONS MADE DURING THE CURRENT QUARTER

This schedule should reflect not only those newly acquired long-term invested assets, but also any increases or additions to long-term invested assets acquired in the current and prior periods, including, for example, capital calls from existing limited partnerships.

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by ~~the Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by ~~the Standard & Poor's CUSIP Bureau~~CUSIP Global Services: *www.cusip.com/cusip/index.htm*.

If no CUSIP number exists, the CUSIP field should be zero-filled.

SCHEDULE BA – PART 3

OTHER LONG-TERM INVESTED ASSETS DISPOSED, TRANSFERRED OR REPAID DURING THE CURRENT QUARTER

This schedule should reflect not only disposals of an entire "other invested asset" but should also include partial disposals and amounts received during the year on investments still held, including, for example, return of capital distributions from limited partnerships.

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by CUSIP Global Services~~the Standard & Poor's CUSIP Bureau~~. For foreign securities, use a CINS that is assigned by CUSIP Global Services~~the Standard & Poor's CUSIP Bureau~~: *www.cusip.com/cusip/index.htm*.

If no CUSIP number exists, the CUSIP field should be zero-filled.

SCHEDULE D – PART 3

LONG-TERM BONDS AND STOCKS ACQUIRED DURING THE CURRENT QUARTER

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenues	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999
Subtotal – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, 0249999999, and 0269999999)	0489999999
Subtotal – Issuer Credit Obligations (Affiliated) (Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0259999999, and 0279999999)	0499999999
Subtotals – Issuer Credit Obligations – Part 3	0509999997
Summary item from Part 5 for Issuer Credit Obligations (N/A to Quarterly)	0509999998
Subtotals – Issuer Credit Obligations	0509999999
Asset-Backed Securities:	
Financial Asset-Backed – Self-Liquidating	
Agency Residential Mortgage-Backed Securities – Guaranteed (Exempt from RBC)	1019999999
Agency Commercial Mortgage-Backed Securities – Guaranteed (Exempt from RBC)	1029999999

Agency Residential Mortgage-Backed Securities –
Not/Partially Guaranteed (Not Exempt from RBC) 1039999999
Agency Commercial Mortgage-Backed Securities –
Not/Partially Guaranteed (Not Exempt from RBC) 1049999999
Non-Agency Residential Mortgage-Backed Securities (Unaffiliated) 1059999999
Non-Agency Residential Mortgage-Backed Securities (Affiliated) 1069999999
Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated) 1079999999
Non-Agency Commercial Mortgage-Backed Securities (Affiliated) 1089999999
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated) 1099999999
Non-Agency – CLOs/CBOs/CDOs (Affiliated) 1109999999
Other Financial Asset-Backed Securities – Self-Liquidating (Unaffiliated) 1119999999
Other Financial Asset-Backed Securities – Self-Liquidating (Affiliated) 1129999999
Financial Asset-Backed – Not Self-Liquidating
Equity Backed Securities (Unaffiliated) 1319999999
Equity Backed Securities (Affiliated) 1329999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Unaffiliated) 1339999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Affiliated) 1349999999
Non-Financial Asset-Backed Securities – Practical Expedient
Lease-Backed Securities – Practical Expedient (Unaffiliated) 1519999999
Lease-Backed Securities – Practical Expedient (Affiliated) 1529999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Unaffiliated) 1539999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Affiliated) 1549999999
Non-Financial Asset-Backed Securities – Full Analysis
Lease-Backed Securities – Full Analysis (Unaffiliated) 1719999999
Lease-Backed Securities – Full Analysis (Affiliated) 1729999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Unaffiliated) 1739999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Affiliated) 1749999999

Subtotal – Asset-Backed Securities (Unaffiliated) 1889999999
(Sum of Lines: 1019999999, 1029999999, 1039999999, 1049999999, 1059999999, 1079999999, 1099999999, 1119999999, 1319999999, 1339999999, 1519999999, 1539999999, 1719999999, and 1739999999)
Subtotal – Asset-Backed Securities (Affiliated) 1899999999
(Sum of Lines: 1069999999, 1089999999, 1109999999, 1129999999, 1329999999, 1349999999, 1529999999, 1549999999, 1729999999, and 1749999999)
Subtotals – Asset-Backed Securities – Part 3 1909999997
Summary item from Part 5 for Asset-Backed Securities (N/A to Quarterly) 1909999998
Subtotals – Asset-Backed Securities 1909999999
Subtotals – Issuer Credit Obligations and Asset-Backed Securities 2009999999

Detail Eliminated To Conserve Space

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by CUSIP Global Services~~the Standard & Poor's CUSIP Bureau~~. For foreign securities, use a CINS that is assigned by CUSIP Global Services~~the Standard & Poor's CUSIP Bureau~~:

www.cusip.com/cusip/index.htm

If no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 15.

Detail Eliminated To Conserve Space

© 2024 National Association of Insurance Commissioners

Column 9 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

Provide the appropriate combination of NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol (see below) at the end of the quarter for each security shown. The list of valid SVO Administrative Symbols is shown below.

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC's website for the Securities Valuation Office (*www.naic.org/svo.htm*).

SVO-Identified Bond Exchange Traded Funds should be reported as perpetual securities.

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed schedule but will be three sub-columns in the data table.

On the printed page the sub-columns should be displayed with a "." between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., "1.A YE").
NAIC Designation Modifier:

The NAIC Designation Modifier should only be used for securities reported on the lines below if eligible to receive one, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), otherwise, should not be provided.

- Bonds Lines 0019999999 through ~~1749999999~~1909999999
- Preferred Stocks Lines 4019999999 and 4029999999
- Common Stocks Lines 5319999999, 5519999999 and 5719999999

Detail Eliminated To Conserve Space

Column 13 – Issuer

Issuer Definition:

The name of the legal entity that develops, registers and sells securities for the purpose of financing its operations and may be domestic or foreign governments, corporations or investment trusts. The issuer is legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP
- Name used in either the relevant SEC filing or legal documentation for the transaction. Issuer is the name of the legal entity that can be found on documents such as SEC Form 424B2, Note Agreements, Prospectuses and Indentures, as appropriate. The name used should be as complete and detailed as possible to enable others to differentiate the legal entity issuing the security from another legal entity with a similar name.

Do not report ticker symbols, either internal or otherwise.

Column 14 – Issue

Issue information provides detailed data as to the type of security being reported (e.g., coupon, description of security, etc.). Below are examples of what could be provided, but additional information should be provided as appropriate for the security.

6% Senior 2018
7% Subordinated Debenture 03/15/2022
3% NY Housing Authority Debenture 2035

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP
- Descriptions used in either the relevant SEC filing or legal documentation for the transaction.

Do not report ticker symbols, either internal or otherwise. Include tranche information.

SCHEDULE D – PART 4

LONG-TERM BONDS AND STOCKS SOLD, REDEEMED OR OTHERWISE DISPOSED OF DURING THE CURRENT QUARTER

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenues	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999
Total – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, 0249999999, and 0269999999)	0489999999
Total – Issuer Credit Obligations (Affiliated) (Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0259999999, and 0279999999)	0499999999
Subtotals – Issuer Credit Obligations – Part 3	0509999997
Summary item from Part 5 for Issuer Credit Obligations (N/A to Quarterly)	0509999998
Subtotals – Issuer Credit Obligations	0509999999
Asset-Backed Securities:	
Financial Asset-Backed – Self-Liquidating	
Agency Residential Mortgage-Backed Securities – Guaranteed (Exempt from RBC)	1019999999
Agency Commercial Mortgage-Backed Securities – Guaranteed (Exempt from RBC)	1029999999

Agency Residential Mortgage-Backed Securities –
Not/Partially Guaranteed (Not Exempt from RBC) 1039999999
Agency Commercial Mortgage-Backed Securities –
Not/Partially Guaranteed (Not Exempt from RBC) 1049999999
Non-Agency Residential Mortgage-Backed Securities (Unaffiliated) 1059999999
Non-Agency Residential Mortgage-Backed Securities (Affiliated) 1069999999
Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated) 1079999999
Non-Agency Commercial Mortgage-Backed Securities (Affiliated) 1089999999
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated) 1099999999
Non-Agency – CLOs/CBOs/CDOs (Affiliated) 1109999999
Other Financial Asset-Backed Securities – Self-Liquidating (Unaffiliated) 1119999999
Other Financial Asset-Backed Securities – Self-Liquidating (Affiliated) 1129999999
Financial Asset-Backed – Not Self-Liquidating
Equity Backed Securities (Unaffiliated) 1319999999
Equity Backed Securities (Affiliated) 1329999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Unaffiliated) 1339999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Affiliated) 1349999999
Non-Financial Asset-Backed Securities – Practical Expedient
Lease-Backed Securities – Practical Expedient (Unaffiliated) 1519999999
Lease-Backed Securities – Practical Expedient (Affiliated) 1529999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Unaffiliated) 1539999999
Other Non-Financial Asset-Backed Securities – Practical Expedient (Affiliated) 1549999999
Non-Financial Asset-Backed Securities – Full Analysis
Lease-Backed Securities – Full Analysis (Unaffiliated) 1719999999
Lease-Backed Securities – Full Analysis (Affiliated) 1729999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Unaffiliated) 1739999999
Other Non-Financial Asset-Backed Securities – Full Analysis (Affiliated) 1749999999

Total – Asset-Backed Securities (Unaffiliated) 1889999999
(Sum of Lines: 1019999999, 1029999999, 1039999999, 1049999999, 1059999999, 1079999999, 1099999999, 1119999999, 1319999999, 1339999999, 1519999999, 1539999999, 1719999999, and 1739999999)
Total – Asset-Backed Securities (Affiliated) 1899999999
(Sum of Lines: 1069999999, 1089999999, 1109999999, 1129999999, 1329999999, 1349999999, 1529999999, 1549999999, 1729999999, and 1749999999)
Subtotals – Asset-Backed Securities – Part 3 1909999997
Summary item from Part 5 for Asset-Backed Securities (N/A to Quarterly) 1909999998
Subtotals – Asset-Backed Securities 1909999999
Subtotals – Issuer Credit Obligations and Asset-Backed Securities 2009999999

Detail Eliminated To Conserve Space

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by ~~the Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by CUSIP Global Services~~the Standard & Poor's CUSIP Bureau~~:

www.cusip.com/cusip/index.htm

If no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 27.

Detail Eliminated To Conserve Space

Column 20 – Stated Contractual Maturity Date

For Common Stocks and funds in scope of SSAP No. 30R and SVO-Identified Bond Exchange Traded Funds, leave blank.

For perpetual bonds, enter 01/01/9999~~3000~~.

Column 21 – NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol

Provide the appropriate combination of the NAIC Designation (1 through 6), NAIC Designation Modifier (A through G) and SVO Administrative Symbol (see below) at date of disposal for each security shown. The list of valid SVO Administrative Symbols is shown below.

Where multiple disposal transactions occurred for the same CUSIP, and those transactions are summarized on one line, enter the appropriate combination of NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol for the last disposal using the last available designation.

The listing of valid NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol combinations can be found on the NAIC's website for the Securities Valuation Office (*www.naic.org/svo.htm*).

SVO-Identified Bond Exchange Traded Funds should be reported as perpetual securities.

The NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol will be shown as one column on the printed but will be three sub-columns in the data table.

On the printed page the sub-columns should be displayed with a "." between the NAIC Designation and the NAIC Designation Modifier with a space between the NAIC Designation Modifier and the SVO Administrative Symbol (e.g., "1.A YE").

NAIC Designation Modifier:

The NAIC Designation Modifier should only be used for securities reported on the lines below if eligible to receive one, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), otherwise, should not be provided.

- Bonds — Lines 0019999999 through ~~1749999999~~1909999999
- Preferred Stocks — Lines 4019999999 and 4029999999
- Common Stocks — Lines 5319999999, 5519999999 and 5719999999

Detail Eliminated To Conserve Space

Column 25 – Issuer

Issuer Definition:

The name of the legal entity that develops, registers and sells securities for the purpose of financing its operations and may be domestic or foreign governments, corporations or investment trusts. The issuer is legally responsible for the obligations of the issue and for reporting financial conditions,

material developments and any other operational activities as required by the regulations of their jurisdictions.

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP
- Name used in either the relevant SEC filing or legal documentation for the transaction. Issuer is the name of the legal entity that can be found on documents such as SEC Form 424B2, Note Agreements, Prospectuses and Indentures, as appropriate. The name used should be as complete and detailed as possible to enable others to differentiate the legal entity issuing the security from another legal entity with a similar name.

Do not report ticker symbols, either internal or otherwise.

Column 26 – Issue

Issue information provides detailed data as to the type of security being reported (e.g., coupon, description of security, etc.). Below are examples of what could be provided, but additional information should be provided as appropriate for the security.

6% Senior 2018
7% Subordinated Debenture 03/15/2022
3% NY Housing Authority Debenture 2035

The reporting entity is encouraged to use the following sources:

- Bloomberg
- Interactive Data Corporation (IDC)
- Thomson Reuters
- ~~S&P/~~CUSIP
- Descriptions used in either the relevant SEC filing or legal documentation for the transaction.

Do not report ticker symbols, either internal or otherwise. Include tranche information.

SCHEDULE DL – PART 1

SECURITIES LENDING COLLATERAL ASSETS

Reinvested Collateral Assets Owned Current Statement Date
(Securities lending collateral assets reported in aggregate on Line 10 of the asset page
(Line 9 for Separate Accounts) and not included on Schedules A, B, BA, D, DB and E.)

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations (Schedule D, Part 1, Section 1 type):	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenues	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Unaffiliated)	0279999999
Total – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, 0249999999, and 0269999999)	0489999999
Total – Issuer Credit Obligations (Affiliated) (Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0259999999, and 0279999999)	0499999999
Total Issuer Credit Obligations	0509999999

Asset-Backed Securities (Schedule D, Part 1, Section 2 type):

Financial Asset-Backed Securities – Self-Liquidating

Agency Residential Mortgage-Backed Securities – Guaranteed (Exempt from RBC) 1019999999
Agency Commercial Mortgage-Backed Securities – Guaranteed (Exempt from RBC) 1029999999
Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC) 1039999999
Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC) 1049999999
Non-Agency Residential Mortgage-Backed Securities (Unaffiliated) 1059999999
Non-Agency Residential Mortgage-Backed Securities (Affiliated) 1069999999
Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated) 1079999999
Non-Agency Commercial Mortgage-Backed Securities (Affiliated) 1089999999
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated) 1099999999
Non-Agency – CLOs/CBOs/CDOs (Affiliated) 1109999999
Other Financial Asset-Backed Securities – Self-Liquidating (Unaffiliated) 1119999999
Other Financial Asset-Backed Securities – Self-Liquidating (Affiliated) 1129999999

Financial Asset-Backed Securities – Not Self-Liquidating

Equity Backed Securities (Unaffiliated) 1319999999
Equity Backed Securities (Affiliated) 1329999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Unaffiliated) 1339999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Affiliated) 1349999999

Non-Financial Asset-Backed Securities – Practical Expedient

Lease-Backed Securities - Practical Expedient (Unaffiliated) 1519999999
Lease-Backed Securities - Practical Expedient (Affiliated) 1529999999
Other Financial Asset-Backed Securities – Practical Expedient (Unaffiliated) 1539999999
Other Financial Asset-Backed Securities – Practical Expedient (Affiliated) 1549999999

Non-Financial Asset-Backed Securities – Full Analysis

Lease-Backed Securities - Full Analysis (Unaffiliated) 1719999999
Lease-Backed Securities - Full Analysis (Affiliated) 1729999999
Other Financial Asset-Backed Securities – Full Analysis (Unaffiliated) 1739999999
Other Financial Asset-Backed Securities – Full Analysis (Affiliated) 1749999999

Total – Asset-Backed Securities (Unaffiliated) 1889999999
(Sum of Lines: 1019999999, 1029999999, 1039999999, 1049999999, 1059999999, 1079999999, 1099999999, 1119999999, 1319999999, 1339999999, 1519999999, 1539999999, 1719999999, and 1739999999)
Total – Asset-Backed Securities (Affiliated) 1899999999
(Sum of Lines: 1069999999, 1089999999, 1109999999, 1129999999, 1329999999, 1349999999, 1529999999, 1549999999, 1729999999, 1749999999)

Total – Asset-Backed Securities 1909999999

Total – Issuer Credit Obligations and Asset-Backed Securities 2009999999

Detail Eliminated To Conserve Space

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by ~~the Standard & Poor's CUSIP Bureau~~CUSIP Global Services. For foreign securities, use a CINS that is assigned by CUSIP Global Services~~the Standard & Poor's CUSIP Bureau~~: *www.cusip.com/cusip/index.htm*.

For Lines 0019999999 through ~~2009999999~~1909999999, if no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 11.

The CUSIP reported for this column should be determined in a manner consistent with the instructions of other schedules for the lines shown below:

Lines 0019999999 through 0509999999 ..... Schedule D, Part 1, Section 1, Column 1
Lines 1019999999 through 1909999999 ..... Schedule D, Part 1, Section 2, Column 1
Lines 4019999999 through 4509999999 ..... Schedule D, Part 2, Section 1, Column 1
Lines 5019999999 through 5989999999 ..... Schedule D, Part 2, Section 2, Column 1
Line 9409999999 ..... Schedule BA, Part 1, Column 1
Line 9709999999 ..... Schedule E, Part 2, Column 1

Detail Eliminated To Conserve Space

Attachment Two-C
Accounting Practices and Procedures (E) Task Force
8/14/24

SCHEDULE DL – PART 2

SECURITIES LENDING COLLATERAL ASSETS

Reinvested Collateral Assets Owned Current Statement Date
(Securities lending collateral assets included on Schedules A, B, BA, D, DB and E
(Line 9 for Separate Accounts) and not reported in aggregate on Line 10 of the asset page.)

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations (Schedule D, Part 1, Section 1):	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenues	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
SVO-Identified Bond Exchange Traded Funds – Fair Value	0149999999
SVO-Identified Bond Exchange Traded Funds – Systematic Value	0159999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Certificates of Deposit (Unaffiliated)	0249999999
Certificates of Deposit (Affiliated)	0259999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Unaffiliated)	0279999999
Total – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, 0149999999, 0159999999, 0169999999, 0189999999, 0209999999, 0229999999, 0249999999, and 0269999999)	0489999999
Total – Issuer Credit Obligations (Affiliated) (Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, 0259999999, and 0279999999)	0499999999
Total Issuer Credit Obligations	0509999999

Asset-Backed Securities (Schedule D, Part 1, Section 2):

Financial Asset-Backed Securities – Self-Liquidating

Agency Residential Mortgage-Backed Securities – Guaranteed (Exempt from RBC) 1019999999
Agency Commercial Mortgage-Backed Securities – Guaranteed (Exempt from RBC) 1029999999
Agency Residential Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC) 1039999999
Agency Commercial Mortgage-Backed Securities – Not/Partially Guaranteed (Not Exempt from RBC) 1049999999
Non-Agency Residential Mortgage-Backed Securities (Unaffiliated) 1059999999
Non-Agency Residential Mortgage-Backed Securities (Affiliated) 1069999999
Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated) 1079999999
Non-Agency Commercial Mortgage-Backed Securities (Affiliated) 1089999999
Non-Agency – CLOs/CBOs/CDOs (Unaffiliated) 1099999999
Non-Agency – CLOs/CBOs/CDOs (Affiliated) 1109999999
Other Financial Asset-Backed Securities – Self-Liquidating (Unaffiliated) 1119999999
Other Financial Asset-Backed Securities – Self-Liquidating (Affiliated) 1129999999

Financial Asset-Backed Securities – Not Self-Liquidating

Equity Backed Securities (Unaffiliated) 1319999999
Equity Backed Securities (Affiliated) 1329999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Unaffiliated) 1339999999
Other Financial Asset-Backed Securities – Not Self-Liquidating (Affiliated) 1349999999

Non-Financial Asset-Backed Securities – Practical Expedient

Lease-Backed Securities - Practical Expedient (Unaffiliated) 1519999999
Lease-Backed Securities - Practical Expedient (Affiliated) 1529999999
Other Financial Asset-Backed Securities – Practical Expedient (Unaffiliated) 1539999999
Other Financial Asset-Backed Securities – Practical Expedient (Affiliated) 1549999999

Non-Financial Asset-Backed Securities – Full Analysis

Lease-Backed Securities - Full Analysis (Unaffiliated) 1719999999
Lease-Backed Securities - Full Analysis (Affiliated) 1729999999
Other Financial Asset-Backed Securities – Full Analysis (Unaffiliated) 1739999999
Other Financial Asset-Backed Securities – Full Analysis (Affiliated) 1749999999

Total – Asset-Backed Securities (Unaffiliated) 1889999999
(Sum of Lines: 1019999999, 1029999999, 1039999999, 1049999999, 1059999999, 1079999999, 1099999999, 1119999999, 1319999999, 1339999999, 1519999999, 1539999999, 1719999999, and 1739999999)

Total – Asset-Backed Securities (Affiliated) 1899999999
(Sum of Lines: 1069999999, 1089999999, 1109999999, 1129999999, 1329999999, 1349999999, 1529999999, 1549999999, 1729999999, 1749999999)

Total – Asset-Backed Securities 1909999999

Total – Issuer Credit Obligations and Asset-Backed Securities 2009999999

Detail Eliminated To Conserve Space

Column 1 – CUSIP Identification

CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate. For private placement securities, the NAIC has created a special number called a PPN to be assigned by CUSIP Global Services~~the Standard & Poor's CUSIP Bureau~~. For foreign securities, use a CINS that is assigned by CUSIP Global Services~~the Standard & Poor's CUSIP Bureau~~: *www.cusip.com/cusip/index.htm*.

For Lines 0019999999 through ~~2509999999~~1909999999, if no valid CUSIP, CINS or PPN number exists, then the CUSIP field should be zero-filled and a valid ISIN security number should be reported in Column 11.

The CUSIP reported for this column should be same for the security as reported in other schedules for the lines shown below:

Lines 0019999999 through 0509999999 ..... Schedule D, Part 1, Section 1, Column 1
Lines 1019999999 through 1909999999 ..... Schedule D, Part 1, Section 2, Column 1
Lines 4019999999 through 4509999999 ..... Schedule D, Part 2, Section 1, Column 1
Lines 5019999999 through 5989999999 ..... Schedule D, Part 2, Section 2, Column 1
Line 9409999999 ..... Schedule BA, Part 1, Column 1
Line 9709999999 ..... Schedule E, Part 2, Column 1



SCHEDULE E – PART 2 – CASH EQUIVALENTS
INVESTMENTS OWNED END OF CURRENT QUARTER

Detail Eliminated To Conserve Space

Category	Line Number
Issuer Credit Obligations:	
U.S. Government Obligations (Exempt from RBC)	0019999999
Other U.S. Government Obligations (Not Exempt from RBC)	0029999999
Non-U.S. Sovereign Jurisdiction Securities	0039999999
Municipal Bonds – General Obligations (Direct and Guaranteed)	0049999999
Municipal Bonds – Special Revenue	0059999999
Project Finance Bonds Issued by Operating Entities (Unaffiliated)	0069999999
Project Finance Bonds Issued by Operating Entities (Affiliated)	0079999999
Corporate Bonds (Unaffiliated)	0089999999
Corporate Bonds (Affiliated)	0099999999
Mandatory Convertible Bonds (Unaffiliated)	0109999999
Mandatory Convertible Bonds (Affiliated)	0119999999
Single Entity Backed Obligations (Unaffiliated)	0129999999
Single Entity Backed Obligations (Affiliated)	0139999999
~~SVO-Identified Bond Exchange Traded Funds – Fair Value~~	~~0149999999~~
~~SVO-Identified Bond Exchange Traded Funds – Systematic Value~~	~~0159999999~~
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Unaffiliated)	0169999999
Bonds Issued from SEC-Registered Business Development Corps, Closed End Funds & REITS (Affiliated)	0179999999
Bank Loans – Issued (Unaffiliated)	0189999999
Bank Loans – Issued (Affiliated)	0199999999
Bank Loans – Acquired (Unaffiliated)	0209999999
Bank Loans – Acquired (Affiliated)	0219999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated)	0229999999
Mortgage Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated)	0239999999
Other Issuer Credit Obligations (Unaffiliated)	0269999999
Other Issuer Credit Obligations (Affiliated)	0279999999
Total – Issuer Credit Obligations (Unaffiliated) (Sum of Lines: 0019999999, 0029999999, 0039999999, 0049999999, 0059999999, 0069999999, 0089999999, 0109999999, 0129999999, ~~0149999999, 0159999999,~~ 0169999999, 0189999999, 0209999999, 0229999999, and 0269999999)	0489999999
Total – Issuer Credit Obligations (Affiliated) (Sum of Lines: 0079999999, 0099999999, 0119999999, 0139999999, 0179999999, 0199999999, 0219999999, 0239999999, and 0279999999)	0499999999
Total Issuer Credit Obligations	0509999999

Detail Eliminated To Conserve Space

Column 3 – Restricted Asset Code

Enter "%" in this column for all investments except qualifying cash pooling structures per SSAP No. 2R and money market mutual funds which have been reported on this schedule for more than one consecutive quarter.

If a cash equivalent is not under the exclusive control of the reporting entity, it is to be identified by placing one of the **codes identified in the Investment Schedules General Instructions** in this column.

If the "%" code is used, the "%" code should appear first, immediately followed by the appropriate code for not being under the exclusive control of the company (**identified in the Investment Schedules General Instructions**).

ASSETS

Detail Eliminated To Conserve Space

Line 1 – Bonds

Report all bonds with maturity dates greater than one year from the acquisition date. Bonds are valued and reported in accordance with guidance set forth in *SSAP No. 26R—Bonds*; and *SSAP No. 43R—~~Loan-Backed and Structured~~Asset-Backed Securities.* All asset-backed securities are reported as bonds regardless of if the maturity date is less than one year from acquisition.

CASH FLOW

The Statement of Cash Flow is prepared using the direct method consistent with the Summary of Operations, excluding the effect of current and prior year accruals. All revenue, expenditures, purchases and sale transactions involving cash should be entered gross. Pursuant to *SSAP No. 69—Statement of Cash Flow*, for purposes of the Cash Flow Statement, cash is defined to include cash, cash equivalents and short-term investments. Refer to SSAP No. 69 for accounting guidance regarding the disclosure of non-cash operating, investing and financing transactions.



Cash from Investments Worksheet

The following section provides a reconciliation of investment activity. Although non-cash items are included for reconciliation purposes, the Statement of Cash Flow shall only include transactions involving cash. In addition to excluding the lines that are explicitly non-cash items (e.g., change in admitted assets) from what is reported in the Statement of Cash Flow, adjustments are necessary to remove non-cash acquisitions or disposals. Cash proceeds from investments sold, matured or repaid shall be included in Line 12. Cash remitted for acquired long-term investments is included in Line 13 (exclude cash equivalents and short-term investments).

NOTES TO FINANCIAL STATEMENTS

****** TO CONSERVE SPACE ON THE PROPOSAL, THE FOLLOWING MODIFICATIONS ARE BEING MADE IN THE NOTES TO FINANCIAL STATEMENTS ******

Note 1C(6) Instructions and Illustration
- Reference to loan-backed securities is changed to asset-backed securities

Note 5D Instructions and Illustration
- Note name has been changed to Asset-Backed Securities
- Reference to loan-backed securities is changed to asset-backed securities
- SSAP 43R name has been changed to Asset-Backed Securities

Note 5F, 5G, 5H, 5I, & 5O Illustration
- References to LB & SS will be changed to ABS

Note 5L(4) Illustration
- Reference to Schedule D, Part 1 will be changed to Schedule D, Part 1, Section 1
- Add a row for Schedule D, Part 1, Section 2

Note 5P Illustration
- The Bond rows will be split into two. One for Issuer Credit Obligations and the other for Asset-Backed Securities

Note 20A(1) Illustration
- Bond subcategories need to be updated to reflect new reporting lines. See table:

(1) Fair Value Measurements at Reporting Date

Description for each class of asset or liability	(Level 1)	(Level 2)	(Level 3)	Net Asset Value (NAV)	Total
a. Assets at fair value					
Perpetual Preferred stock					
Industrial and Misc	$ (a)	$	$	$	$
Parent, Subsidiaries and Affiliates					
Total Perpetual Preferred Stocks	$	$	$	$	$
Bonds					
~~U.S. Governments~~Issuer Credit Obligations	$	$	$	$	$
~~Industrial and Misc~~Asset-Backed Securities					
~~Hybrid Securities~~					
~~Parent, Subsidiaries and Affiliates~~					
Total Bonds	$	$	$	$	$
Common Stock					
Industrial and Misc	$	$	$	$	$
Parent, Subsidiaries and Affiliates					
Total Common Stocks	$	$	$	$	$
Derivative assets					
Interest rate contracts	$	$	$	$	$
Foreign exchange contracts					
Credit contracts					
Commodity futures contracts					
Commodity forward contracts					
Total Derivatives	$	$	$	$	$
.....					
.....					
Separate account assets	$	$	$	$	$
Total assets at fair value/NAV	$	$	$	$	$
b. Liabilities at fair value					
Derivative liabilities	$	$	$	$	$
.....					
.....					
Total liabilities at fair value	$	$	$	$	$

Note 20A(2) Illustration
- Reference to loan-backed and structured securities is changed to asset-backed securities

Note 20C & 20D Illustration
- The Bond rows will be split into two. One for Issuer Credit Obligations and the other for Asset-Backed Securities

© 2024 National Association of Insurance Commissioners

QUARTERLY STATEMENT INSTRUCTIONS – LIFE/FRATERNAL, PROPERTY, & HEALTH

SCHEDULE E – PART 1 – CASH

MONTH END DEPOSITORY BALANCES



Column 2 – Restricted Asset Code

If cash is not under the exclusive control of the reporting entity, it is to be identified by placing one of the **symbols identified in the Investment Schedules General Instructions** in this column.

QUARTERLY STATEMENT INSTRUCTIONS – TITLE

SCHEDULE E – PART 1 – CASH

MONTH END DEPOSITORY BALANCES



Column 2 – Restricted Asset Code

If cash is not under the exclusive control of the company, it is to be identified by placing one of the **symbols identified in the Investment Schedules General Instructions** in this column.

QUARTERLY STATEMENT BLANK – LIFE/FRATERNAL, PROPERTY, & HEALTH

SCHEDULE E – PART 1 – CASH

Month End Depository Balances

1		2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
						6	7	8	
Depository		Restricted Asset Code	Rate of Interest	Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	First Month	Second Month	Third Month	*
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
.....		.....	.....	.....	.....	.....	.....	.....	XXX
0199998	Deposits in ___ depositories that do not exceed the allowable limit in any one depository (see Instructions) - Open Depositories	XXX	XXX						XXX
0199999	Total Open Depositories	XXX	XXX						XXX
.....		.....	.....	.....	.....	.....	.....	.....	.....
.....		.....	.....	.....	.....	.....	.....	.....	.....
.....		.....	.....	.....	.....	.....	.....	.....	.....
.....		.....	.....	.....	.....	.....	.....	.....	.....
0299998	Deposits in ___ depositories that do not exceed the allowable limit in any one depository (see Instructions) - Suspended Depositories	XXX	XXX						XXX
0299999	Total Suspended Depositories.....	XXX	XXX						XXX
0399999	Total Cash on Deposit.....	XXX	XXX	.....	.....	.....	.....	.....	XXX
0499999	Cash in Company's Office.....	XXX	XXX	XXX	XXX	.....	.....	.....	XXX
0599999	Total	XXX	XXX						XXX

QUARTERLY STATEMENT BLANK – TITLE

SCHEDULE E – PART 1 – CASH
Month-End Depository Balances

1 Depository	2 Restricted Asset Code	3 Rate of Interest	4 Amount of Interest Received During Current Quarter	5 Amount of Interest Accrued at Current Statement Date	Book Balance at End of Each Month During Current Quarter 6 First Month	 7 Second Month	 8 Third Month	9 *
OPEN DEPOSITORIES								XXX
Section (A)—Segregated Funds Held for Others								XXX
								XXX
								XXX
								XXX
								XXX
								XXX
								XXX
								XXX
0199998 Deposits in _____ depositories which do not exceed the allowable limit in any one depository (see instructions)	XXX	XXX						XXX
0199999 Total Segregated Funds Held for Others	XXX	XXX						XXX
Section (B)—General Funds								XXX
								XXX
								XXX
								XXX
								XXX
								XXX
0299998 Deposits in _____ depositories which do not exceed the allowable limit in any one depository (see instructions)	XXX	XXX						XXX
0299999 Total General Funds	XXX	XXX						XXX
Section (C)—Reinsurance Reserve Funds								XXX
								XXX
								XXX
								XXX
								XXX
								XXX
								XXX
								XXX
								XXX
0399998 Deposits in _____ depositories which do not exceed the allowable limit in any one depository (see instructions)	XXX	XXX						XXX
0399999 Total Reinsurance Reserve Funds	XXX	XXX						XXX
0499999 Total Open Depositories	XXX	XXX						XXX

SUSPENDED DEPOSITORIES								
Section (A)—Segregated Funds Held for Others								
0599998 Deposits in _____ depositories which do not exceed the allowable limit in any one depository (see instructions)	XXX	XXX						XXX
0599999 Total Segregated Funds Held for Others	XXX	XXX						XXX
Section (B)—General Funds								
0699998 Deposits in _____ depositories which do not exceed the allowable limit in any one .....depository (see instructions)	XXX	XXX						XXX
0699999 Total General Funds	XXX	XXX						XXX
Section (C)—Reinsurance Reserve Funds.								
0799998 Deposits in _____ depositories which do not exceed the allowable limit in any one depository (see instructions)	XXX	XXX						XXX
0799999 Total Reinsurance Reserve Funds	XXX	XXX						XXX
0899999 Total Suspended Depositories	XXX	XXX						XXX
0999999 Total Cash on Deposit	XXX	XXX						XXX
1099999 Cash in Company's Office	XXX	XXX	XXX	XXX				XXX
1199999 Total Cash	XXX	XXX						XXX

To: Debbie Doggett, Chair of the Blanks (E) Working Group

From: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group

Re: Collateral Loans Backed by Mortgage Loans

Date: June 18, 2024

The purpose of this memo is to notify the Blanks (E) Working Group of instructional changes to the Asset Valuation Reserve (AVR) to allow collateral loans backed by mortgage loans to flow through AVR as an "Other Invested Asset with Underlying Characteristics of Mortgage Loans." (This would include these specific collateral loans in lines 38-64 of the AVR – Equity and Other Invested Asset Component based on the characteristics of the mortgage loans.) This instruction is an interim step while further consideration occurs on the reporting of collateral loans and how collateral loans should flow through AVR.

This provision is provided as some companies have previously captured collateral loans backed by mortgage loans in the "non-registered private fund" category, and that reporting category is being deleted with the bond project revisions. This interim provision allows companies to receive comparable RBC treatment for these items while the discussion on collateral loans, and the extent of look-through to underlying collateral is considered.

The Life Risk-Based Capital (E) Working Group adopted an editorial change on June 18, 2024, to allow a bifurcation of collateral loans in the RBC formula. In accordance with the edit adopted by the Life RBC (E) Working Group, and this interim instruction directed by the Statutory Accounting Principles (E) Working Group on a May 15, 2024 call, reporting entities shall report all collateral loans on the Schedule BA collateral loan reporting line, and then life reporting entities shall bifurcate collateral loans backed by mortgage loans to flow through AVR into the designated reporting lines (lines 38-64 of the AVR – Equity and Other Invested Asset Component). The remaining collateral loan balance shall flow through to the RBC formula on page LR008, line 50, Schedule BA Collateral Loans. A data-captured note disclosure, effective year-end 2024, that details collateral loans by supporting collateral should agree in total to the total amount reported on Schedule BA for collateral loans, and that total, less collateral loans backed by mortgage loans, shall agree to the LR008, line 50, Schedule BA Collateral Loans.

It is recommended that this memo, detailing interim changes to existing reporting instructions for reporting of collateral loans backed by mortgage loans, be posted to the Blanks (E) Working Group website. Further, if timing allows, it is recommended that this interim guidance be incorporated into the annual statement instructions. As noted, this is an interim step for life reporting entities while the reporting and AVR allocation for collateral loans is further discussed. The Statutory Accounting Principles (E) Working Group will advise when this guidance should be replaced with a long-term solution.

Please contact NAIC staff Julie Gann (jgann@naic.org), Jake Stultz (jstultz@naic.org); Robin Marcotte (rmarcotte@naic.org), Wil Oden (woden@naic.org); or Jason Farr (jfarr@naic.org) if you have any questions.

Cc: Mary Caswell, Jill Youtsey, Julie Gann, Robin Marcotte, Jake Stultz, Wil Oden, Jason Farr

© 2024 National Association of Insurance Commissioners

Blanks (E) Working Group
Editorial Revisions to the Blanks and Instructions
(presented at the August 7, 2024, Meeting)

Statement Type:
H = Health; **L/F** = Life/Fraternal Combined; **P/C** = Property/Casualty; **SA** = Separate Accounts; **T** = Title

Effective	Table Name	Description	Statement Type	Filing Type
2024	Notes to Financial Statements	**CHANGE TO INSTRUCTIONS** **23. Reinsurance** Instruction: A. Unsecured Reinsurance Recoverables If the company has with any individual reinsurers (authorized, reciprocal jurisdiction, unauthorized or certified), an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses, and unearned premium that exceeds 3% of the company's policyholder surplus, list each individual reinsurer and the unsecured aggregate recoverable pertaining to that reinsurer. If the individual reinsurer is part of a group, list the individual reinsurers, each of its related group members having reinsurance with the reporting company, and the total unsecured aggregate recoverables for the entire group. Include: The NAIC group code number, where appropriate, and the Federal Employer Identification Number (FEIN) for each individual company. If a FEIN is not available, use Alien Number, CRIN, or RJIN.	P/C, T	Annual
2024	Notes to Financial Statements	**CHANGE TO INSTRUCTIONS** **23. Reinsurance** Illustration: A. Unsecured Reinsurance Recoverables **NOTE: The tables below will not be data captured**	P/C, T	Annual

© 2024 National Association of Insurance Commissioners

Effective	Table Name	Description	Statement Type	Filing Type
		Individual Reinsurers with Unsecured Reinsurance Recoverables Exceeding 3% of Policyholder Surplus Individual Reinsurers Who Are Not Members of a Group ~~FEIN~~ID Number | Reinsurer Name | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | Individual Reinsurers Who Are Members of a Group Group Code | ~~FEIN~~ID Number | Reinsurer Name | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | All Members of the Groups Shown above with Unsecured Reinsurance Recoverables Group Code | ~~FEIN~~ID Number | Reinsurer Name | U 123 | ..... | ..... | 123 | ..... | ..... | 123 | Total 123 | $ 456 | ..... | ..... | 456 | Total 456 | $ 789 | ..... | ..... | 789 | ..... | ..... | 789 | ..... | ..... | 789 | Total 789 | $		

<table>
<tr><th>Effective</th><th>Table Name</th><th>Description</th><th>Statement Type</th><th>Filing Type</th></tr>
<tr><td>2025</td><td>Notes to Financial Statements</td><td>CHANGE TO INSTRUCTION

Note 5 Investments

T. Aggregate Collateral Loans by Qualifying Investment Collateral

THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

<table>
<tr><th>Collateral Type</th><th>Aggregate Collateral Loan*</th><th>Admit</th></tr>
<tr><td>(1) Cash, Cash Equivalent & ST Investments</td><td></td><td></td></tr>
<tr><td>a. Affiliated</td><td>.....</td><td>.....</td></tr>
<tr><td>b. Unaffiliated</td><td>.....</td><td>.....</td></tr>
<tr><td>(2) ~~Bonds~~Issuer Credit Obligations</td><td></td><td></td></tr>
<tr><td>a. Affiliated</td><td>.....</td><td>.....</td></tr>
<tr><td>b. Unaffiliated</td><td>.....</td><td>.....</td></tr>
<tr><td>(3) ~~Loan-Backed and Structured Securities~~Asset-Backed Securities</td><td></td><td></td></tr>
<tr><td>a. Affiliated</td><td>.....</td><td>.....</td></tr>
<tr><td>b. Unaffiliated</td><td>.....</td><td>.....</td></tr>
</table></td><td>X, L/F, P/C, T</td><td>Annual</td></tr>
<tr><td>2025</td><td>Schedule DA, Verification Between Years</td><td>CHANGE TO BLANK

Update the column number to column “Other Short-term Investment Assets”. To see other changes to this schedule see adopted Proposal 2024-02BWG.

SCHEDULE DA – VERIFICATION BETWEEN YEARS
Short-Term Investments

<table>
<tr><th>1
Total</th><th>2
Bonds</th><th>43
Other Short-term Investment Assets (a)</th></tr>
</table></td><td>H, L/F, P/C, T</td><td>Annual</td></tr>
</table>

Effective	Table Name	Description	Statement Type	Filing Type
2024	Accident and Health Policy Experience Exhibit	**CHANGE TO INSTRUCTION** Update the Life/Fraternal crosscheck for Column 1. The validation was checking for collected premiums instead of written premiums. Column 1 – Direct Premiums Written The grand total reported should equal: Life\Fraternal: Exhibit 1, Part 1, Lines (~~6~~9.1+10.1+~~16~~19.1), Column (6). Health: Underwriting and Investment Exhibit, Part 1, Line 13, Column 1. Property: Exhibit of Premiums and Losses, Column 1 sum of Lines 13 through 15.	H, L/F, P/C	Annual
2024	Earned But Unbilled	**CHANGE TO INSTRUCTION** Update the line reference to "Pet Insurance Plans" on the examples for Underwriting and Investment Exhibit Part 1 & 1A for Line 9.2 to be consistent with the other parts of the Property/Casualty instructions. 1. Fire 2.1 Allied lines 2.2 Multiple peril crop 2.3 Federal flood 2.4 Private crop 2.5 Private flood 3. Farmowners multiple peril 4. Homeowners multiple peril 5. Commercial multiple peril (non-liability portion) 5.2 Commercial multiple peril (liability portion) 6. Mortgage guaranty 8. Ocean marine 9.1 Inland marine 9.2 Pet insurance plans	P/C	Annual

Effective	Table Name	Description	Statement Type	Filing Type
2024	Premiums Attributed to Protected Cells Exhibit	**CHANGE TO BLANK** Update the line reference to Line 9.2 "Pet Insurance Plans" to be consistent with the other parts of the Property/Casualty instructions. 1. Fire 2.1 Allied lines 2.2 Multiple peril crop 2.3 Federal flood 2.4 Private crop 2.5 Private flood 3. Farmowners multiple peril 4. Homeowners multiple peril 5. Commercial multiple peril (non-liability portion) 5.2 Commercial multiple peril (liability portion) 6. Mortgage guaranty 8. Ocean marine 9.1 Inland marine 9.2 Pet insurance plans	P/C	Annual
2024	Schedule T – Premiums and Other Considerations	**CHANGE TO INSTRUCTION** Update the Underwriting and Investment Exhibit, Part 1 line reference. This change to the Schedule T instructions was missed when the Underwriting and Investment Exhibit was updated a few years ago. Line 61 – Total (Direct Business) The sum of Column 2, 3, 4, 5, 6, 7 and 8, Line 61 should equal the Underwriting and Investment Exhibit, Part 1, Column 1, Line ~~12~~16.	H	Annual
2024	Schedule H	**CHANGE TO INSTRUCTION** Remove the references to 2022/2023 reporting. Example: Line 4 – Total Contract Reserves, Prior Year Line 3 from prior year. ~~(For 2022 this only applies to Column 1. For 2023 it applies to all columns.)~~	L/F, P/C	Annual

Effective	Table Name	Description	Statement Type	Filing Type
2024	Notes to Financial Statement	**CHANGE TO INSTRUCTION** **(Modified)** Remove the note for Negative IMR from Note 5 – Investments for Life/Fraternal, Property, Health, & Title instructions because it is only applicable to Life/Fraternal companies. Renumber the note for Aggregate Collateral Loans. *See next editorial list item showing that the note is moving to Note 21 – Other Items for the Life/Fraternal Instructions.* ~~S. Reporting entities admitting net negative (disallowed) IMR are required to complete the following disclosures in the quarterly and annual financial statements. (*Note 5S only applies to Life/Fraternal companies*).~~ ~~(1) Net negative (disallowed) IMR in aggregate and allocated between the general account, insulated separate account and non-insulated account.~~ ~~(2) Amounts of negative IMR admitted in the general account and reported as an asset in the insulated separate account and non-insulated blank. (Note: If a company completes this Note, consideration should be given to updating Note 13I – Reasons for Changes in Balance of Special Surplus Funds from Prior Period.)~~ ~~(3) The calculated adjusted capital and surplus.~~ ~~(4) 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).~~ ~~(5) 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 the gains and losses.~~ ~~T~~S. Aggregate Collateral Loans by Qualifying Investment Collateral	H, L/F, P/C, T	Annual

Effective	Table Name	Description	Statement Type	Filing Type
2024	Notes to Financial Statement	**CHANGE TO INSTRUCTION** Move the note for Negative IMR in the Life/Fraternal statement instructions from Note 5 – Investments to Note 21 – Other Items. After discussions with regulator, software vendors and NAIC staff, it was decided that the Negative IMR note needed to be moved due to potential specification issues. The note has NOT changed, it is just being moved within the Life/Fraternal instructions. ~~**5. Investments**~~**21. Other Items** Instruction: ~~S~~J. Reporting entities admitting net negative (disallowed) IMR are required to complete the following disclosures in the quarterly and annual financial statements. ~~*(Note 5S only applies to Life/Fraternal companies).*~~ (1) Net negative (disallowed) IMR in aggregate and allocated between the general account, insulated separate account and non-insulated account. (2) Amounts of negative IMR admitted in the general account and reported as an asset in the insulated separate account and non-insulated blank. (Note: If a company completes this Note, consideration should be given to updating Note 13I – Reasons for Changes in Balance of Special Surplus Funds from Prior Period.) (3) The calculated adjusted capital and surplus. (4) 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). (5) 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 the gains and losses.	L/F	Annual

Effective	Table Name	Description	Statement Type	Filing Type
		Illustration: **THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.** ~~S~~J. Reporting Net Negative (Disallowed) Interest Maintenance Reserve (IMR) (1)Net negative (disallowed) IMR Total $ .... General Account $..... ..... Insulated Separate Account $..... ..... Non-Insulated Separate Account $ .... (2)Negative (disallowed) IMR admitted Total $ .... General Account $..... ..... Insulated Separate Account $..... ..... Non-Insulated Separate Account $ .... (3)Calculated adjusted capital and surplus Total a. Prior Period General Account Capital & Surplus From Prior Period SAP Financials $ .... b. Net Positive Goodwill (admitted) $ .... c. EDP Equipment & Operating System Software (admitted) $ .... d. Net DTAs (admitted)		

Effective	Table Name	Description	Statement Type	Filing Type
		$ ..... e. Net Negative (disallowed) IMR (admitted) ..... $ ..... f. Adjusted Capital & Surplus (a-(b+c+d+e)) ..... (4)Percentage of adjusted capital and surplus Total Percentage of Total Net Negative (disallowed) IMR admitted in General Account or recognized in Separate Account to adjusted capital and surplus % (5)Allocated gains/losses to IMR from derivatives a. General Account Gains Losses 1. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period $ .... $..... ..... 2. Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period $ .... $..... ..... 3. Fair Value Derivative Gains & Losses Amortized Over Current Period $ .... $..... ..... 4. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total $ .... $..... ..... b. Separate Account - Insulated Gains Losses 1. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period $ .... $.....		

Effective	Table Name	Description			Statement Type	Filing Type
		2. Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period	$	$.....		
		3. Fair Value Derivative Gains & Losses Amortized Over Current Period	$	$.....		
		4. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total	$	$.....		
		c. Separate Account – Non-Insulated	Gains	Losses		
		1. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Prior Period	$	$.....		
		2. Fair Value Derivative Gains & Losses Realized to IMR – Added in Current Period	$	$.....		
		3. Fair Value Derivative Gains & Losses Amortized Over Current Period	$	$.....		
		4. Unamortized Fair Value Derivative Gains & Losses Realized to IMR – Current Period Total	$	$.....		

Attachment Three
Accounting Practices and Procedures (E) Task Force
8/14/24

2025 Proposed Charges - As Tracked Changes to 2024 Charges

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

The mission of the Accounting Practices and Procedures (E) Task Force is to identify, investigate, and develop solutions to accounting problems with the ultimate goal of guiding insurers in properly accounting for various aspects of their operations; modify the *Accounting Practices and Procedures Manual* (AP&P Manual) to reflect changes necessitated by Task Force action; and study innovative insurer accounting practices that affect the ability of state insurance regulators to determine the true financial condition of insurers.

Ongoing Support of NAIC Programs, Products, or Services

1. The **Accounting Practices and Procedures (E) Task Force** will:
   A. Oversee the activities of the Blanks (E) Working Group and the Statutory Accounting Principles (E) Working Group.

2. The **Blanks (E) Working Group** will:
   A. Consider improvements and revisions to the various annual/quarterly statement blanks to:
      i. Conform these blanks to changes made in other areas of the NAIC to promote uniformity in the reporting of financial information by insurers.
      ii. Develop reporting formats for other entities subject to the jurisdiction of state insurance departments.
      iii. Conform the various NAIC blanks and instructions to adopted NAIC policies.
      iv. Oversee the development of additional reporting formats within the existing annual financial statements as needs are identified.
   B. Continue to monitor state filing checklists to maintain current filing requirements.
   C. Continue to monitor and improve the quality of financial data filed by insurance companies by recommending improved or additional language for the *Annual Statement Instructions*.
   D. Continue to monitor and review all proposals necessary for the implementation of statutory accounting guidance to ensure proper implementation of any action taken by the Accounting Practices and Procedures (E) Task Force affecting annual financial statements and/or instructions.
   E. Continue to coordinate with other task forces of the NAIC to ensure proper implementation of reporting and instructions changes as proposed by these task forces.
   F. Coordinate with the applicable task forces and working groups as needed to avoid duplication of reporting within the annual and quarterly statement blanks.
   G. Consider proposals presented that would address duplication in reporting; eliminate data elements, financial schedules, and disclosures that are no longer needed; and coordinate with other NAIC task forces and working groups if applicable to ensure revised reporting still meets the needs of regulators.
   H. Review requests for investment schedule blanks and instructions changes in connection with the work being performed by the Capital Adequacy (E) Task Force and its working groups.
   I. Review changes requested by the Valuation of Securities (E) Task Force relating to its work on other invested assets reporting for technical consistency within the investment reporting schedules and instructions.

© 2024 National Association of Insurance Commissioners

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

3. The **Statutory Accounting Principles (E) Working Group** will:
   A. Maintain codified statutory accounting principles by providing periodic updates to the guidance that address new statutory issues and new U.S. generally accepted accounting principles (GAAP) pronouncements. Provide authoritative responses to questions of application and clarifications for existing statutory accounting principles. Report all actions and provide updates to the Accounting Practices and Procedures (E) Task Force.
   B. At the discretion of the Working Group chair, develop comments on exposed U.S. GAAP and International Financial Reporting Standards (IFRS) pronouncements affecting financial accounting and reporting. Any comments are subject to review and approval by the chairs of the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee.
   C. Coordinate with the Life Actuarial (A) Task Force on changes to the AP&P Manual related to the *Valuation Manual* VM-A, Requirements, and VM-C, Actuarial Guidelines, as well as other *Valuation Manual* requirements. This process will include the receipt of periodic reports on changes to the *Valuation Manual* on items that require coordination.
   D. Obtain, analyze, and review information on permitted practices, prescribed practices, or other accounting treatments suggesting that issues or trends occurring within the industry may compromise the consistency and uniformity of statutory accounting, including, but not limited to, activities conducted by insurers for which there is currently no statutory accounting guidance or where the states have prescribed statutory accounting that differs from the guidance issued by the NAIC. Use this information to consider possible changes to statutory accounting.

NAIC Support Staff: Robin Marcotte

© 2024 National Association of Insurance Commissioners

CAPITAL ADEQUACY (E) TASK FORCE

Capital Adequacy (E) Task Force Aug. 14, 2024, Minutes 9-528
Capital Adequacy (E) Task Force June 28, 2024, Minutes (Attachment One) 9-532
Proposal 2024-09-CA Underwriting Risk Investment Risk Factor (Attachment One-A) 9-537
Proposal 2024-13-CA Receivable for Securities Factors (Attachment One-B) 9-546
Proposal 2024-15-L Collateral Loans (Attachment One-C) 9-551
Proposal 2024-17-L BA Mortgages Omitted Asset Valuation Reserve (AVR) Line (Attachment One-D) 9-558
Proposal 2024-12-H Modified Health Care Receivable Factors (Attachment One-E) 9-560
Proposal 2024-14-P Property/Casualty (P/C) Underwriting Line 1 Factors (Attachment One-F) 9-563
Risk-Based Capital Investment Risk and Evaluation (E) Working Group Meeting Summary (Attachment One-G) 9-566
Proposal 2024-18-CA Residual Factor for P/C and Health (Attachment One-H) 9-568
Capital Adequacy (E) Task Force April 30, 2024, Minutes (Attachment Two) 9-574
Proposal 2024-04-L Total Adjusted Capital (TAC) for Non-Admitted Affiliate (Attachment Two-A) 9-580
Proposal 2024-05-L BA Mortgages Omitted AVR Line (Attachment Two-B) 9-582
Proposal 2024-08-CA Column 12 Affiliated Investment (Attachment Two-C) 9-584
Proposal 2024-10-P PR019 Other Health Line (Attachment Two-D) 9-586
Proposal 2024-11-P 2024 and 2025 Underwriting Risk Lines 4 and 8 Factors (Attachment Two-E) 9-588
Proposal 2024-16-CA Revised Preamble (Attachment Two-F) 9-591
Proposal 2023-17-CR Climate Scenario Analysis (Attachment Two-G) 9-596
Comment Letters Regarding Proposal 2024-02-CA Residual Structure P/C and Health (Attachment Two-H) 9-598
Proposal 2024-02-CA Residual Structure P/C and Health (Attachment Two-I) 9-668
Health Risk-Based Capital (E) Working Group June 24, June 6, and April 16, 2024, Minutes (Attachment Three) 9-674
Comment Letter from America's Health Insurance Plans (AHIP) Regarding Proposal 2024-12-H and Proposal 2024-12-H Modified (Attachment Three-A) 9-683
Pandemic Risk Referral Letter (Attachment Three-B) 9-684
Excessive Growth Charge Projected 20% (Attachment Three-C) 9-685
Presentation from the American Academy of Actuaries (Academy) on the Health Care Receivables (Attachment Three-D) 9-686
Pandemic Risk Referral Letter (Attachment Three-E) 9-704
Excessive Growth Charge (Attachment Three-F) 9-705
Life Risk-Based Capital (E) Working Group Aug. 14, 2024, Minutes (Attachment Four) 9-706
Life Risk-Based Capital (E) Working Group June 18, 2024, Minutes (Attachment Four-A) 9-709
Life Risk-Based Capital (E) Working Group April 19, 2024, Minutes (Attachment Four-B) 9-711
2024 Life Risk-Based Capital (RBC) Newsletter (Attachment Four-C) 9-713
2023 Life RBC Statistics (Attachment Four-D) 9-716
Referral on Investments in Tax Credit Structures (Attachment Four-E) 9-717
Schedule BA Proposal for Non-Bond Debt Securities (Attachment Four-F) 9-719
Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup Aug. 14, 2024, Joint Minutes (Attachment Five) 9-722
Property and Casualty Risk-Based Capital (E) Working Group June 17, 2024, Minutes (Attachment Five-A) 9-726
Property and Casualty Risk-Based Capital (E) Working Group April 25, 2024, Minutes (Attachment Five-B) 9-728

© 2024 National Association of Insurance Commissioners

Catastrophe Risk (E) Subgroup June 10, 2024, Minutes (Attachment Five-C) 9-730
Geographic Concentration Issue Referral (Attachment Five-C1) 9-732
Catastrophe Risk (E) Subgroup April 23, 2024, Minutes (Attachment Five-D) 9-733
Comment Letter from Ralph Blanchard—Retired Actuary Regarding Proposal 2023-17-CR Climate Scenario Analysis (Attachment Five-D1) 9-735
Comment Letter from Joint Trades Regarding Proposal 2023-17-CR Climate Scenario Analysis (Attachment Five-D2) 9-740
2024 P/C RBC Newsletter (Attachment Five-E) 9-743
2023 RBC Statistics (Attachment Five-F) 9-750
Risk-Based Capital Investment Risk and Evaluation (E) Working Group Aug. 14, 2024, Minutes (Attachment Six) 9-753
Risk-Based Capital Investment Risk and Evaluation (E) Working Group June 21, 2024, Minutes (Attachment Six-A) 9-756
Comment Letters Regarding Residual Proposal 2024-19-I (Attachment Six-A1) 9-760
American Council of Life Insurers (ACLI) Survey Data (Attachment Six-A2) 9-803
Risk-Based Capital Investment Risk and Evaluation (E) Working Group May 22, 2024, Minutes (Attachment Six-B) 9-804
Memorandum Regarding Consideration of Additional Information on Interim Factor for Residual Tranches (Attachment Six-B1) 9-807
Comment Letter from ACLI Regarding Allocation of Residual Tranche Holdings by Sector (Attachment Six-B2) 9-809
Comment Letter from Everlake Regarding Consideration of Additional Information on Interim Factor for Residual Tranches (Attachment Six-B3) 9-815
Proposal 2024-19-I Everlake Life Proposal (Attachment Six-B4) 9-823
Risk-Based Capital Investment Risk and Evaluation (E) Working Group April 12, 2024, Minutes (Attachment Six-C) 9-829
Review of Year-End 2023 Data Reported for Residual Tranches (Attachment Six-C1) 9-834
Presentation of the NAIC Structured Securities Group's (SSG) Report (Attachment Six-C2) 9-840
Comment Letters Regarding the Oliver Wyman Report (Attachment Six-C3) 9-845
Working Agenda (Attachment Seven) 9-914
Revised Procedure Document (Attachment Eight) 9-927
2025 Proposed Charges (Attachment Nine) 9-929
Request for a New Working Group Memorandum (Attachment Ten) 9-931

© 2024 National Association of Insurance Commissioners

Draft: 8/19/24

Capital Adequacy (E) Task Force
Chicago, Illinois
August 14, 2024

The Capital Adequacy (E) Task Force met in Chicago, IL, Aug. 14, 2024. The following Task Force members participated: Judith L. French, Chair, represented by Tom Botsko (OH); Doug Ommen, Vice Chair, represented by Mike Yanacheak (IA); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Charles Hale (AL); Ricardo Lara represented by Thomas Reedy (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Michael Yaworsky represented by Carly Wagoner (FL); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Russell Coy (KY); Joy Y. Hatchette represented by Lynn Beckner (MD); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Andrea Johnson and Tadd Wegner (NE); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by David Wolf (NJ); Scott Kipper represented by Hermoliva Abejar (NV); Glen Mulready (OK); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Jamie Walker (TX); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI). Also participating was: Diana Sherman (PA).

1. Adopted its June 28, April 30, and Spring National Meeting Minutes

Botsko said the Task Force met June 28, April 30, and March 17. During its June 28 and April 30 meetings, the Task Force took the following action: 1) adopted proposal 2024-09-CA (Underwriting Risk Investment Risk Factor), proposal 2014-13-CA (Receivable for Securities Factors), proposal 2024-15-L (Collateral Loans), proposal 2024-17-L (BA Mortgages Omitted Asset Valuation Reserve [AVR] Line Factor), proposal 2024-12-H (Modified Health Care Receivable Factors), proposal 2024-14-P (Property/Casualty [P/C] Underwriting Line 1 Factors), a Risk-Based Capital Investment Risk and Evaluation (E) Working Group June 25 meeting summary, proposal 2024-18-CA (Residual Factor for P/C and Health), proposal 2024-04-L (Total Adjusted Capital [TAC] for Non-Admitted Affiliate), proposal 2024-05-L (BA Mortgages Omitted AVR Line), proposal 2024-08-CA (Column 12 Affiliated Investment), proposal 2024-10-P (PR019 Other Health Line), proposal 2024-11-P (2024 and 2025 Underwriting Risk Lines 4 and 8 Factors), and proposal 2023-17-CR (Climate Scenario Analysis). However, the Financial Condition (E) Committee adopted proposal 2024-20-CR to replace the 2023-17-CR during its Aug. 2 meeting; 2) received updates from the Statutory Accounting Principles (E) Working Group on the potential revisions on Schedule BA collateral loans disclosures and reporting lines; 3) discussed proposal 2024-16-CA (Revised Preamble); 4) the possibility of establishing a new working group to evaluate non-investment risk issues; 5) discussed and exposed a referral from the Statutory Accounting Principles (E) Working Group regarding the investment in tax credit structures; 6) forwarded a referral regarding the issue of asset concentration to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group; and 7) referred issues regarding geographic concentration to the Catastrophe Risk (E) Subgroup.

Yanacheak made a motion, seconded by Eft, to adopt the Task Force's June 28 (Attachment One), April 30 (Attachment Two), and March 17 (*see NAIC Proceedings – Spring 2024, Capital Adequacy (E) Task Force*) minutes. The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

2. Adopted the Reports of its Working Groups

A. Health Risk-Based Capital (E) Working Group

Drutz said the Health Risk-Based Capital (E) Working Group met July 25. During this meeting, the Working Group took the following action: 1) adopted its June 24, June 6, and April 16 minutes, which included the following action: a) adopted its Feb. 22 minutes; b) referred proposal 2024-09-CA to the Task Force; c) heard an update from the American Academy of Actuaries (Academy) on the health care receivables and H2 – Underwriting Risk review projects; d) exposed a referral letter on pandemic risk to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group; e) discussed the excessive growth charge; f) exposed proposal 2024-12-H for a 30-day public comment period ending May 16; g) exposed proposal 2024-12-H (MOD) for a 14-day public comment period ending June 20; h) adopted proposal 2024-12-H (MOD) by e-vote June 24; 2) adopted the 2024 health risk-based capital (RBC) newsletter; 3) adopted the 2023 health RBC statistics; 4) received an update from the Academy on the H2 – Underwriting Risk review project; 5) directed NAIC staff to forward a referral letter on pandemic risk to the Risk-Focused Surveillance (E) Working Group; and 6) adopted its 2024 working agenda.

B. Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Botsko said the Risk-Based Capital Investment Risk and Evaluation (E) Working Group met Aug. 14. During this meeting, the Working Group took the following action: 1) adopted its June 21, May 22, and April 12 minutes, which included the following action: a) discussed a review of year-end 2023 data reported for residual tranches; b) heard a presentation from the NAIC's Structured Securities Group; c) discussed comment letters received on Oliver Wyman's Residual Tranche Risk Analysis; d) discussed comment letters received on a memorandum requesting additional feedback from industry stakeholders to substantiate their request for an additional one-year delay in implementing the 45% RBC factor for residual tranches; e) discussed comment letters received on proposal 2024-19-I and other potential alternative proposals; f) discussed the American Council of Life Insurers' (ACLI's) survey data on residual ownerships by life insurers; and g) voted to retain the original adoption of the 45% charge to be applied to all residuals; 2) adopted its Spring National Meeting minutes; 3) received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group; 4) heard an update from the Academy on the Structured Securities RBC project; 5) discussed referrals that are related to funds and considering RBC formula and instruction changes to reflect Securities Valuation Office (SVO)-assigned designations in U.S. Securities and Exchange Commission (SEC)-registered funds, as well as to review and consider convergence with exposure aggregations for funds consistently with the Supplemental Investment Risk Interrogatories (SIRI); 6) adopted its 2024 working agenda.

Botsko also said that the Working Group has asked the Academy for support in creating a RBC framework for asset-backed securities (ABS). During the 2023 Fall National Meeting, the Academy presented a set of six principles that will guide its work, for which the Working Group has expressed support. He stated the Academy is now working to identify a set of comparable attributes that can be used to segregate collateralized loan obligations (CLOs) into risk buckets. The Academy will likely identify different sets of comparable attributes for debt tranches versus residual tranches and plan to present its findings on CLOs in spring 2025. Lastly, he said the remaining steps will be the development of the factors and the extension from CLOs to other ABS.

C. Life Risk-Based Capital (E) Working Group

Botsko said the Life Risk-Based Capital (E) Working Group met Aug. 14. During this meeting, the Working Group took the following action: 1) adopted its June 18, and April 19, minutes, which included the following action: a) adopted proposal 2024-15-L, proposal 2024-17-L, proposal 2024-04-L, and proposal 2024-05-L; and b) discussed covariance, C-3 risk, proposal 2024-03-L, and proposal 2024-07-L; 2) adopted its Spring National Meeting minutes;

© 2024 National Association of Insurance Commissioners

3) received updates from the Generator of Economic Scenarios (GOES) (E/A) Subgroup, Longevity Risk (E/A) Subgroup, and Variable Annuities Capital and Reserve (E/A) Subgroup; 4) adopted the 2024 life risk-based capital (RBC) newsletter; 5) adopted its 2023 life RBC statistics; 6) received a referral from the Statutory Accounting Principles (E) Working Group for investments in tax credit structures; 7) discussed the Schedule BA proposal for non-bond debt securities; and 8) adopted its working agenda.

D. Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup

Botsko said the Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup met Aug. 14 and took the following action: 1) adopted the Working Group's June 17 and April 25 minutes, which included the following action: a) adopted proposal 2023-14-P (Underwriting Risk Line 1 Factors), proposal 2023-17-CR (Climate Scenario Analysis), proposal 2024-10-P (Other Health Line), and proposal 2024-11-P (Underwriting Risk Lines 4 and 8 Factors); 2) adopted the Catastrophe Risk (E) Subgroup's June 10 and April 23 minutes, which took the following action: a) adopted proposal 2023-17-CR (Climate Scenario Analysis); b) exposed a referral from the Capital Adequacy (E) Task Force regarding the geographic concentration issue; c) discussed wildfire peril impact analysis, CoreLogic's wildfire model review, and the possibility of adding flood period to the Rcat component; d) heard an update on severe convective storm peril; 3) adopted their Spring National Meeting minuts; 4) adopted the 2024 P/C RBC newsletter; 5) discussed 2023 P/C RBC statistics, their working agenda, the geographic concentration issue, wildfire peril impact analysis, the CoreLogic Wildfire model review, the possibility of adding flood peril to the Rcat component, and how to handle the flood peril with the Florida Commission on Hurricane Projection Loss Methodology (FCHLPM); and 6) heard updates on the severe convective storm peril and from the Academy on current and future research topics.

Chou made a motion, seconded by Wolf, to adopt the reports of the Health Risk-Based Capital (E) Working Group (Attachment Three), the Life Risk-Based Capital (E) Working Group (Attachment Four), the Property and Casualty Risk-Based Capital (E) Working Group (Attachment Five), and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (Attachment Six). The motion passed unanimously.

3. Adopted its Working Agenda

Botsko summarized the changes to the Task Force's 2024 working agenda, which included the following substantial changes in the Health Risk-Based Capital (E) Working Group section: 1) item X1 was updated to reference the adoption of proposal 2024-09-CA; 2) item X4 was removed, as the Working Group adopted proposal 2024-12-H (MOD); 3) item X6 was removed, as consented by the Working Group at its June 6 meeting; and 4) the remaining agenda items were renumbered as necessary.

Botsko also stated that the following changes are included in the P/C section: 1) update comments on items P1, P4, P8, P9, P10, P11, and P12; 2) provide edits on P6 to clarify R5 ex-cat factors; and 3) add one item for the Subgroup in the "New Item" section. He said changes in the Life Risk-Based Capital (E) Working Group section included the following items: 1) the expected completion date was updated to 2024 or later for items L2 through L6; 2) item L7 was removed; and 3) four items were added to the "New Item" section.

In addition, Botsko said there are a couple of updates in the Risk-Based Capital Investment Risk and Evaluation (E) Working Group section, which included the following: 1) the expected completion date for items IR1 through IR6 and IR 8 was changed to 2024 or later; and 2) one item was added to the "New Item" section. Regarding the Capital Adequacy (E) Task Force, he said the comment column was updated for CA1 through CA6; four items were removed; and three items were added to the Task Force's section.

Kaumann made a motion, seconded by Malm, to adopt the Task Force's revised 2024 working agenda (Attachment Seven). The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

4. Exposed its Revised Procedure Document

Botsko said the revision's purpose is to extend the structure proposal exposure deadline for the Task Force or its Working Groups to March 31. The revision must be adopted by the Task Force no later than May 15 of the effective year of the change. He encouraged interested parties to review the revision and welcomed any comments during the exposure period.

The Task Force agreed to expose its revised procedure document (Attachment Eight) for a 30-day public comment period ending Sept. 13.

5. Exposed its 2025 Proposed Charges

Botsko said the purpose of changing the structure date in the document is to align the changes in the proposed revised procedure document.

The Task Force agreed to expose its proposed charges (Attachment Nine) for a 30-day public comment period ending Sept. 13.

6. Exposed the Request for a New Working Group Memorandum

Botsko said, as indicated during the Task Force's June 28 meeting, the Task Force is considering establishing a subgroup to: 1) review the possibility of removing the TAC and authorized control level (ACL) amounts in the annual statement's five-year historical data page; 2) re-evaluate some of the missing non-investment risks to determine whether the Task Force should now include them in the RBC calculation or if it should appropriately handle those risks utilizing other regulatory methods; and 3) review those non-investment factors and instructions that have not been reviewed since being developed to determine if modifications should be made. He stated that a request for a new working group memorandum had been drafted earlier. He encouraged all interested parties to review it and welcomed any comments during the exposure period.

Tsang said that it is a great idea to create this new group to re-evaluate the current RBC formulas. He expressed his concern about the current life RBC formula about putting too much focus on the C1 component but not enough on C2 and C3 components. He believed that it was the right time to revisit the covariance structure and make the appropriate adjustment to it. In addition, he does not support the idea of eliminating the TAC and ACL amounts in the annual statement five-year historical data page. He stated that these two amounts provide regulators with valuable information to take corrective action ahead of time. Botsko said these two items would be a good starting project for this new group.

The Task Force agreed to expose the request for a new working group memorandum (Attachment Ten) for a 30-day public comment period ending Sept. 13.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2024-1-Summer/August 14 CADTF minutes.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/17/24

Capital Adequacy (E) Task Force
Virtual Meeting
June 28, 2024

The Capital Adequacy (E) Task Force met June 28, 2024. The following Task Force members participated: Judith L. French, Chair, Tom Botsko, Brad Wolfenbarger, Laura Miller, Stewart Trego, Whitney Fitch, Sean Sheridan, Daniel Bradford, and Dale Bruggeman (OH); Doug Ommen, Vice Chair, Mike Yanacheak, Kevin Clark, and Carrie Mears (IA); Mark Fowler represented by Blase Abreo and Charles Hale (AL); Ricardo Lara represented by Thomas Reedy and Kim Hudson (CA); Michael Conway represented by Eric Unger, Mitchell Bronson, and Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou, Philip Barrett, and Jack Broccoli (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Jane Nelson (FL); Ann Gillespie represented by Vincent Tsang (IL); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker and Chut Tee (KS); Sharon P. Clark, Russell Coy, and Vicki Lloyd (KY); Kathleen A. Birrane represented by Greg Ricci and Lynn Beckner (MD); Grace Arnold represented by David Nelson (MN); Chlora Lindley-Myers represented by Debbie Doggett, William Leung, John Rehagen, and Laurie Pleus (MO); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); D.J. Bettencourt represented by Christian Citarella (NH); Justin Zimmerman represented by David Wolf (NJ); Scott Kipper represented by Hermoliva Abejar and Dede Benissan (NV); Glen Mulready represented by Diane Carter (OK); Michael Wise represented by Brian Fomby, Will Davis, and Ryan Basnett (SC); Cassie Brown represented by Rachel Hemphill, Amy Garcia, Brenda Talavera, Mei-Li Pitaktong, Miriam Fisk, and Jamie Walker (TX); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek represented by Adrian Jaramillo, Rebecca Easland, and Michael Erdman (WI).

1. Adopted Proposal 2024-09-CA (Underwriting Risk Investment Risk Factor)

Drutz said the purpose of this proposal is to update the underwriting risk factors for the annual investment income adjustment to the comprehensive medical, Medicare supplement, and dental and vision factors. He stated that the proposed changes will result in a decrease of between 0.4% and 1.2% for those underwriting risk factors, depending on the line of business and the tier of revenue. In addition, he indicated that this proposal was originally exposed by the Health Risk-Based Capital (E) Working Group for a 32-day comment period that ended March 25. No comments were received. Drutz said the Working Group referred this proposal to the Task Force for another 30-day exposure period that ended May 30, as this proposal affects all three lines of business; no comments were received.

Drutz made a motion, seconded by Chou, to adopt proposal 2024-09-CA (Attachment One-A). The motion passed unanimously.

2. Adopted Proposal 2024-13-CA (Receivable for Securities Factors)

Botsko said the intent of proposal 2024-13-CA is to provide a routine three-year update to the receivable for securities for all three lines of business by using a weighted average methodology. He also stated that the proposed factors are consistent with the past factors. During its April 30 meeting, the Task Force exposed this proposal for a 30-day public comment period that ended May 30. No comments were received.

Chou made a motion, seconded by Yanacheak, to adopt proposal 2024-13-CA (Attachment One-B). The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

3. Adopted Proposal 2024-15-L (Collateral Loans)

Barlow said the purpose of proposal 2024-15-L is to update risk-based capital (RBC) mapping to capture certain mortgage-type investments as collateral loans backed by mortgages without changing the capital treatment of Schedule BA mortgage investments. Barlow also said that a comment letter received from the Iowa Insurance Division (IID) on May 1 indicated that Iowa supports this proposal to allow look-through treatment for collateral loans secured by mortgages. This proposal was adopted by the Life Risk-Based Capital (E) Working Group during its June 18 meeting.

Barlow made a motion, seconded by Reedy, to adopt proposal 2024-15-L (Attachment One-C). The motion passed unanimously.

4. Received Updates from the Statutory Accounting Principles (E) Working Group on the Potential Revisions on Schedule BA Collateral Loans Disclosures and Reporting Lines

Bruggeman said the Statutory Accounting Principles (E) Working Group has had several discussions involving collateral loans in the last couple of years. He stated that revisions have been adopted to *Statement of Statutory Accounting Principle (SSAP) No. 21R—Other Admitted Assets* to clarify the collateral requirements for the loan to be admitted and to require a data-captured disclosure for year-end 2024. The Working Group has also directed a memorandum, in line with the Life Risk-Based Capital (E) Working Group action captured in proposal 2024-15-L, to allow certain collateral loans backed by mortgage loans to flow through asset valuation reserve (AVR) as an interim step while further consideration occurs on more granular reporting lines for collateral loans and the extent to which look-through could occur for AVR or RBC purposes. This memorandum has been provided to the Blanks (E) Working Group and will be considered at its next meeting. Bruggeman also indicated that the NAIC staff for the Statutory Accounting Principles (E) Working Group is currently considering expanded reporting of collateral loans for Schedule BA based on the type of collateral asset and the extent to which a look-through to underlying collateral may be warranted. An updated agenda item is anticipated to be exposed at the Summer National Meeting. As these more granular reporting lines may need to result in changes to AVR and/or RBC, the Task Force will be given notice when that item is exposed to allow for consideration and feedback during the exposure period.

5. Adopted Proposal 2024-17-L (BA Mortgages Omitted AVR Line)

Barlow said the intent of this proposal is to add a factor for the line added to LR009 to specifically address Line 44 of the AVR equity component as part of proposal 2024-06-L. This proposal was adopted by the Life Risk-Based Capital (E) Working Group during its June 18 meeting.

Barlow made a motion, seconded by Chou, to adopt proposal 2024-17-L (Attachment One-D). The motion passed unanimously.

6. Discussed Proposal 2024-16-CA (Revised Preamble)

Botsko said the intent of this proposal is to provide edits to the RBC preamble based on the RBC Purposes & Guidelines Ad Hoc Subgroup discussions to clarify and emphasize the purposes and intent of using RBC. He stated that during its April 30 meeting, this proposal was exposed for a 30-day public comment period that ended May 30 and three comments were received. William J. Schwegler (Transamerica) urged the Task Force to defer action on this proposal because: 1) eliminating RBC transparency would introduce uncertainty among investors; and 2) making RBC confidential would make state regulation an outlier and in contravention of international standards. Tim Finnie (American Academy of Actuaries—Academy) shared two comments with the Task Force, including: 1) that removal of the individual companies' RBC level may lead to the development of alternative metrics of

© 2024 National Association of Insurance Commissioners

solvency risk assessment and public reliance on those metrics, which would be detrimental to the public given the effectiveness of RBC; and 2) recommend tempering the language in the revised Section E for the sole emphasis of identifying weakly capitalized companies. Brian Bayerle (American Council of Life Insurers—ACLI) said the ACLI requests a delay in proceeding to allow industry and state insurance regulators more time to craft appropriate updates that both address concerns around the public usage of RBC and harmonize with other ongoing projects at the NAIC. Botsko said he agrees that this issue will require further discussion during upcoming meetings.

7. Adopted Proposal 2024-12-H (Modified Health Care Receivable Factors)

Drutz said the purpose of proposal 2024-12-H is to propose tiered factors recommended by the Academy to apply on health care receivables in XR021. Specifically, this proposal modified the application of tiered factors for non-pharmaceutical health care receivables, applying tiered factors on an aggregated basis. This proposal only impacts the health RBC formula and was adopted by the Health Risk-Based Capital (E) Working Group via e-vote June 24.

Drutz made a motion, seconded by Chou, to adopt proposal 2024-12-H (Attachment One-E). The motion passed unanimously.

8. Adopted Proposal 2024-14-P (PC Underwriting Line 1 Factors)

Botsko said proposal 2024-14-P (Underwriting Risk Line 1 Factors) provided a routine annual update to the Line 1 premium and reserve industry underwriting factors in the property/casualty (P/C) RBC formula. He indicated that for some lines of business with smaller populations, such as the international line of business, both reserve and premium factors are driven by a handful of companies and could fluctuate or be biased by different factors. He also stated that the Academy is in the process of reviewing the Line 1 calculation methodology and will provide recommendations soon. Botsko said that at its April 30 meeting, the Working Group exposed this proposal for a 30-day public comment period that ended May 30. No comments were received.

Drutz made a motion, seconded by Davis, to adopt proposal 2023-14-P (Attachment One-F). The motion passed unanimously.

9. Adopted a Risk-Based Capital Investment Risk and Evaluation (E) Working Group Meeting Summary

Botsko said the Task Force received a meeting summary from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group June 25. Barlow said the Working Group adopted a motion to retain the 45% life RBC factor for all residual tranches for year-end 2024. He said the motion passed with nine affirmative votes and six opposing votes by the members present. The 45% RBC factor for residual tranches was adopted fully through the NAIC committee structure in 2023; therefore, no further action is needed to incorporate this RBC factor. He also stated that the Academy is working diligently to establish a methodology for this item, and information will be shared with the Working Group in upcoming meetings. Director French said she believed that the process should be more expedited; scheduling regular updates with the Academy on the progress of the work may improve the process. Stephen Smith (Academy) said the Academy's goal is to share a substantive set of analyses with the Task Force and Working Group at the Fall National Meeting. He said that in the meantime, the Academy will provide interim updates upon request.

Kevin Clark said he appreciates the work and resources dedicated by the industry to provide data for the Working Group's consideration on this issue. He stated that while there have been varying views on how to interpret that data, there is no question that it has contributed to a significantly better understanding of the asset class than the Task Force had when considering an interim charge last year. As we noted during the Working Group's discussion, the Oliver Wyman report did result in a couple of indisputable observations: 1) risk varies rather widely within the

residual tranche asset class; and 2) comparable attributes exist that have a strong correlation to the level of risk. He also indicated that the previously shared memorandum from the IID analyzed these attributes and several options for how to do this. Kevin Clark said that the Task Force does not have enough time to adequately consider the alternatives for the 2024 reporting year. He said that as the Academy continues to progress with its work to develop permanent factors for structured securities, including residual tranches, starting with collateralized loan obligations (CLOs), he recommended the Task Force should: 1) do everything to support the Academy in moving this work forward as expeditiously as possible; and 2) consider what is learned from this project as it progresses; 3) address those asset-backed securities (ABS) other than CLOs after the CLO is completed, as most of what the Task Force has considered in the development of the interim charge has been in relation to CLO, which is the most significant portion of the population, and also the first asset class being addressed by the Academy's work; and 4) reconsider the appropriate charge for the remaining population once a permanent solution for the CLOs is in place.

Kevin Clark stated that the Statutory Accounting Principles (E) Working Group has adopted a change in the accounting for residual tranches that goes into effect next year. He said the methodology is the most conservative accounting methodology that exists for any asset class, such that the risk of loss to surplus due to poor performance of residual tranches will be significantly reduced going forward. Finally, he urged the Task Force and Working Group members to remain engaged on this topic and commit to working toward a data-driven approach to assigning required capital. Patrick Reeder (Everlake Life) said ensuring the industry is engaged in this project moving forward is important.

Drutz made a motion, seconded by Chou, to adopt the Risk-Based Capital Investment Risk and Evaluation (E) Working Group meeting summary (Attachment One-G). The motion passed unanimously.

10. Adopted Proposal 2024-18-CA (Residual Factor for PC & Health)

Botsko said that during the Task Force's April 30 meeting, the members decided to adopt proposal 2024-02-CA but deferred consideration of the factor until after finalizing the life factor at the Risk-Based Capital Investment Risk and Evaluation (E) Working Group meeting. As indicated in the last item, the Working Group adopted a motion of retaining the 45% life RBC factor for all residual tranches for year-end 2024. He stated that since the Working Group and the Task Force do not have enough time to review the factors for property and health companies, he recommended the Task Force consider retaining the 20% charge for year-end 2024 reporting until further review of this issue. Botsko said he also anticipates that the ultimate factor will be consistent across the RBC formulas, with adjustments for a particular type of insurance.

Chou made a motion, seconded by Walker, to adopt proposal 2024-18-CA (Attachment One-H). The motion passed unanimously.

11. Discussed the Possibility of Establishing a New Working Group to Evaluate the Non-Investment Risk Issues

Botsko said, as indicated during the Task Force's April 30 meeting, that the Risk-Based Capital Risk Evaluation Purposes and Guidelines Ad Hoc Subgroup had a robust discussion before the Ad Hoc Subgroup was disbanded. He said one of the key items identified by the Ad Hoc Subgroup that requires further review is the possibility of removing the total adjusted capital (TAC) and authorized control level (ACL) amounts in the annual statement's five-year historical data page. In addition, Botsko said he thought some RBC formulas, factors, and methodologies have not been reviewed since they were developed. He asked the Task Force to consider establishing a subgroup to: 1) review the possibility of removing the TAC and ACL amounts in the annual statement's five-year historical data page; 2) re-evaluate some of the missing non-investment risks to determine whether the Task Force should now include them in the RBC calculation or if it should appropriately handle those risks utilizing other regulatory

© 2024 National Association of Insurance Commissioners

methods; and 3) review those non-investment factors and instructions that have not been reviewed since being developed to determine if modifications should be made. Yanacheak said he supports establishing this new working group to review different RBC issues across all formulas, such as preamble discussion. Botsko encouraged all the interested parties to provide thoughts on the potential group's charges at the Summer National Meeting.

12. Discussed a Referral from the Statutory Accounting Principles (E) Working Group Regarding the Investment in Tax Credit Structures

Bruggeman said this March 2024 referral communicates that the Statutory Accounting Principles (E) Working Group adopted revisions to *SSAP No. 93* to expand and revise the guidance for investments in tax credits. Pursuant to the revisions, which go into effect Jan. 1, 2025, all investments that predominantly provide tax credits or other tax benefits, regardless of whether in the form of debt or equity, will be in the scope of *SSAP No. 93—Low-Income Housing Tax Credit Property Investments*. This expansion from the prior guidance limited the scope to low-income housing tax credits. With the revisions, modified blanks changes have also been proposed to rename and revise the reporting lines to reflect the tax credit investments. During the Blanks (E) Working Group's May 23 meeting, the reporting revisions were not adopted but were deferred to allow further comment from interested parties. As shown in the attachment, the reporting line revisions will impact the RBC reporting lines, either directly for P/C companies and health companies or through AVR for life companies. In addition to the reporting line revisions, the proposal will eliminate the federal guaranteed reporting line, as federal tax credit investments are not permitted to have the extent of guarantees supporting that classification under current tax law. As the blanks reporting revisions have not yet been adopted, this is just an update to the Task Force on the pending revisions. Further communication will inform the Task Force once the reporting revisions are adopted and indicate whether there are changes from the current exposure that should be considered for RBC purposes.

13. Discussed Other Matters

Botsko said the Capital Adequacy (E) Task Force plans to meet at the Summer National Meeting to continue discussing outstanding issues.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2024-2-Summer/June 28 CADTF minutes.docx

© 2024 National Association of Insurance Commissioners

Capital Adequacy (E) Task Force

RBC Proposal Form

☒ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 2-12-24	**FOR NAIC USE ONLY**
CONTACT PERSON:	Crystal Brown	Agenda Item # 2024-09-CA Year 2024
TELEPHONE:	816-783-8146	**DISPOSITION**
EMAIL ADDRESS:	cbrown@naic.org	**ADOPTED:** ☒ TASK FORCE (TF) 06/28/2024 ☐ WORKING GROUP (WG) _____ ☐ SUBGROUP (SG) _____
ON BEHALF OF:	Health Risk-Based Capital (E) Working Group	
NAME:	Steve Drutz	
TITLE:	Chief Financial Analyst/Chair	**EXPOSED:** ☒ TASK FORCE (TF) 04/30/2024 ☒ WORKING GROUP (WG) 02/22/2024 ☐ SUBGROUP (SG) _____
AFFILIATION:	WA Office of Insurance Commissioner	
ADDRESS:	5000 Capitol Blvd SE Tumwater, WA 98501	**REJECTED:** ☐ TF ☐ WG ☐ SG _____ **OTHER:** ☐ DEFERRED TO _____ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☒ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☒ Health RBC Instructions ☒ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Annual update of the underwriting factors for Comprehensive Medical, Medicare Supplement and Dental & Vision for investment income adjustment.

Update the underwriting factors for Comprehensive Medical, Medicare Supplement and Dental & Vision on pages XR013, LR019, LR020, PR019 and PR020 for the investment income adjustment.

Additional Staff Comments:

2-2-24 mkc – WG exposed for 32-day comment period ending 3/25/2024
3-26-24 mkc – No comment received.
4-30-24 eky – TF exposed for 30-day comment period ending 5/30/2024

** **This section must be completed on all forms.** **Revised 2-2023**

©2024 National Association of Insurance Commissioners

Attachment One-A
Capital Adequacy (E) Task Force
8/14/24

2024 Investment Yield for Investment Income Adjustment
https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield

Date	1 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
01/02/2024	5.55	5.54	5.46	5.41	5.24	4.80	4.33	4.09	3.93	3.95	3.95	4.25	4.08
01/03/2024	5.54	5.54	5.48	5.41	5.25	4.81	4.33	4.07	3.90	3.92	3.91	4.21	4.05
01/04/2024	5.56	5.48	5.48	5.41	5.25	4.85	4.38	4.14	3.97	3.99	3.99	4.30	4.13
01/05/2024	5.54	5.48	5.47	5.41	5.24	4.84	4.40	4.17	4.02	4.04	4.05	4.37	4.21
01/08/2024	5.54	5.48	5.49	5.39	5.24	4.82	4.36	4.11	3.97	3.99	4.01	4.33	4.17
01/09/2024	5.53	5.46	5.47	5.38	5.24	4.82	4.36	4.09	3.97	4.00	4.02	4.33	4.18
01/10/2024	5.53	5.46	5.46	5.39	5.23	4.82	4.37	4.10	3.99	4.01	4.04	4.35	4.20
01/11/2024	5.54	5.47	5.46	5.38	5.22	4.75	4.26	4.02	3.90	3.95	3.98	4.32	4.18
01/12/2024	5.55	5.47	5.45	5.37	5.16	4.65	4.14	3.92	3.84	3.91	3.96	4.32	4.20
01/16/2024	5.54	5.47	5.45	5.37	5.18	4.70	4.22	4.02	3.95	4.01	4.07	4.43	4.30
01/17/2024	5.54	5.47	5.47	5.40	5.20	4.80	4.34	4.12	4.02	4.07	4.10	4.42	4.31
01/18/2024	5.53	5.48	5.45	5.39	5.20	4.80	4.34	4.13	4.04	4.10	4.14	4.48	4.37
01/19/2024	5.54	5.47	5.45	5.39	5.21	4.84	4.39	4.18	4.08	4.12	4.15	4.47	4.36
01/22/2024	5.53	5.47	5.46	5.39	5.22	4.83	4.37	4.14	4.03	4.07	4.11	4.44	4.32
01/23/2024	5.53	5.46	5.45	5.38	5.21	4.81	4.31	4.16	4.06	4.11	4.14	4.48	4.38
01/24/2024	5.52	5.44	5.44	5.40	5.22	4.83	4.34	4.19	4.06	4.14	4.18	4.52	4.41
01/25/2024	5.54	5.48	5.44	5.39	5.19	4.76	4.28	4.12	4.01	4.07	4.14	4.49	4.38
01/26/2024	5.54	5.45	5.44	5.39	5.19	4.78	4.34	4.15	4.04	4.10	4.15	4.49	4.38
01/29/2024	5.53	5.46	5.42	5.37	5.19	4.76	4.29	4.10	3.97	4.02	4.08	4.42	4.31
01/30/2024	5.53	5.47	5.42	5.38	5.19	4.80	4.36	4.14	4.00	4.03	4.06	4.40	4.28
01/31/2024	5.53	5.46	5.42	5.40	5.18	4.73	4.27	4.05	3.91	3.95	3.99	4.34	4.22

© 2024 National Association of Insurance Commissioners

1

AMERICAN ACADEMY of ACTUARIES

February 2, 2023

Steve Drutz
Chair, Health Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Request for Additional Analysis to Incorporate Investment Income into the Underwriting Risk Component of the Health Risk-Based Capital (HRBC) Formula

Dear Mr. Drutz:

On behalf of the American Academy of Actuaries[1] Health Solvency Subcommittee (the subcommittee), I am pleased to provide this response letter to the NAIC's Health Risk-Based Capital (E) Working Group request to provide additional investment return scenarios within the subcommittee's summary of the Investment Income Adjusted Health H2 Experience Fluctuation Risk Factors. These factors are included within the table below.

Investment Income Adjusted Tiered Risk-Based Capital (RBC) Factors

Assumed Investment Return	Comprehensive Medical (CM)	Medicare Supplement	Dental/Vision
	High Tier (i.e., less than $3Million (M) or less than $25M)		
0.0%	15.00%	10.50%	12.00%
3.5%	14.53%	10.01%	11.63%
4.0%	14.47%	9.94%	11.58%
4.5%	14.40%	9.87%	11.53%
5.0%	14.34%	9.80%	11.48%
5.5%	14.27%	9.73%	11.43%
6.0%	14.21%	9.67%	11.38%
	Low Tier		
0.0%	9.00%	6.70%	7.60%
3.5%	8.56%	6.23%	7.25%
4.0%	8.50%	6.16%	7.20%
4.5%	8.44%	6.09%	7.16%
5.0%	8.38%	6.03%	7.11%
5.5%	8.32%	5.96%	7.06%
6.0%	8.25%	5.90%	7.01%

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

© 2024 National Association of Insurance Commissioners

Please note that the subcommittee updated the claims completion pattern assumptions slightly in this analysis. The impact of this change on the RBC factors is approximately 0.01%. Otherwise, the methodology is unchanged.

*****

If you have any questions or would like to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

Sincerely,

Derek Skoog, MAAA, FSA
Chairperson, Health Solvency Subcommittee
American Academy of Actuaries

Cc: Crystal Brown, Senior Health RBC Analyst & Education Coordinator, Financial Regulatory Affairs, NAIC

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

Health Instructions

Page XR013, Line 13

Detail Eliminated to Conserve Space

Line (13) Underwriting Risk Factor**.** A weighted average factor based on the amount reported in Line (6), Underwriting Risk Revenue. The factors for Column (1) through (3) have incorporated an investment income yield of 5.~~0~~5%.

	$0 – $3 Million	$3 – $25 Million	Over $25 Million
Comprehensive (Hospital & Medical) Individual & Group	0.142734	0.142734	0.08328
Medicare Supplement	0.097380	0.0596603	0.0596603
Dental & Vision	0.11438	0.07061~~1~~	0.07061~~1~~
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151
Other Health	0.130	0.130	0.130
Other Non-Health	0.130	0.130	0.130

The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 0.5% income yield that was based on the yield of a 6-month US Treasury Bond. Each year, the Working Group will identify the yield of the 6-month Treasury bond (U.S. Department of the Treasury) on each Monday through the month of January and determine if further modifications to the 5.5~~0~~% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

P/C Instructions

Page PR020, Line 10

Detail Eliminated to Conserve Space

Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue.

	$0 - $3 Million	$3-$25 Million	Over $25 Million
Comprehensive Medical	0.142734	0.142734	0.08328
Medicare Supplement	0.097380	0.0596603	0.0596603
Dental & Vision	0.11438	0.07061~~1~~	0.07061~~1~~
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

© 2024 National Association of Insurance Commissioners

Life Instructions

LR020, Line 10



Detail Eliminated to Conserve Space



Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue. The factors for Column 1-3 have incorporated investment income.

	$0 - $3 Million	$3 - $25 Million	Over $25 Million
Comprehensive Medical	0.142734	0.142734	0.08328
Medicare Supplement	0.097380	0.0596603	0.0596603
Dental	0.11438	0.070611	0.070611
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

© 2024 National Association of Insurance Commissioners

UNDERWRITING RISK

Experience Fluctuation Risk

	Line of Business	(1) Comprehensive (Hospital & Medical) - Individual & Group	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Other Health	(6) Other Non-Health	(7) Total
(1) †	Premium							
(2) †	Title XVIII-Medicare		XXX	XXX	XXX	XXX	XXX	
(3) †	Title XIX-Medicaid		XXX	XXX	XXX	XXX	XXX	
(4) †	Other Health Risk Revenue		XXX				XXX	
(5)	Medicaid Pass-Through Payments Reported as Premiums		XXX	XXX	XXX	XXX	XXX	
(6)	Underwriting Risk Revenue = Lines (1) + (2) + (3) + (4) - (5)							
(7) †	Net Incurred Claims						XXX	
(8)	Medicaid Pass-Through Payments Reported as Claims		XXX	XXX	XXX	XXX	XXX	
(9)	Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims = Lines (7) - (8)						XXX	
(10) †	Fee-For-Service Offset		XXX				XXX	
(11)	Underwriting Risk Incurred Claims = Lines (9) - (10)						XXX	
(12)	Underwriting Risk Claims Ratio = For Column (1) through (5), Line (11)/(6)						1.000	XXX
(13)	Underwriting Risk Factor*					0.130	0.130	XXX
(14)	Base Underwriting Risk RBC = Lines (6) x (12) x (13)							
(15)	Managed Care Discount Factor						XXX	XXX
(16)	RBC After Managed Care Discount = Lines (14) x (15)						XXX	
(17) †	Maximum Per-Individual Risk After Reinsurance						XXX	XXX
(18)	Alternate Risk Charge **						XXX	XXX
(19)	Alternate Risk Adjustment						XXX	XXX
(20)	Net Alternate Risk Charge***						XXX	
(21)	Net Underwriting Risk RBC (MAX{Line (16), Line (20)}) for Columns (1) through (5), Column (6), Line (14)							

TIERED RBC FACTORS*						
	Comprehensive (Hospital & Medical) - Individual & Group	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	Other Health	Other Non-Health
$0 - $3 Million	**0.142~~734~~**	**0.0973~~8~~**	**0.1143~~8~~**	0.251	0.130	0.130
$3 - $25 Million	**0.142~~734~~**	**0.059~~6603~~**	**0.070~~611~~**	0.251	0.130	0.130
Over $25 Million	**0.0832~~8~~**	**0.059~~6603~~**	**0.070~~611~~**	0.151	0.130	0.130

ALTERNATE RISK CHARGE**

** The Line (18) Alternate Risk Charge is calculated as follows:						
LESSER OF:	$1,500,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$150,000 or 6 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	N/A

Denotes items that must be manually entered on filing software.

† The Annual Statement Sources are found on page XR014.

* This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental/Vision managed care discount factor.

*** Limited to the largest of the applicable alternate risk adjustments, prorated if necessary.

© 2024 National Association of Insurance Commissioners

UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AN

(Experience Fluctuation Risk in Life RBC Formula)

		(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) TOTAL
(1.1)	Premium – Individual	0	0	0	0	0
(1.2)	Premium – Group	0	0	0	0	0
(1.3)	Premium – Total = Line (1.1) + Line (1.2)	0	0	0	0	0
(2)	Title XVIII-Medicare†	0	XXX	XXX	XXX	0
(3)	Title XIX-Medicaid†	0	XXX	XXX	XXX	0
(4)	Other Health Risk Revenue†	0	XXX	0	0	0
(5)	Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)	0	0	0	0	0
(6)	Net Incurred Claims	0	0	0	0	0
(7)	Fee-for-Service Offset†	0	XXX	0	0	0
(8)	Underwriting Risk Incurred Claims = Line (6) – Line (7)	0	0	0	0	0
(9)	Underwriting Risk Claims Ratio = Line (8) / Line (5)	0.0000	0.0000	0.0000	0.000	XXX
(10.1)	Underwriting Risk Factor for Initial Amounts Of Premium‡	**0.142~~34~~**	**0.09~~738~~**	**0.11~~438~~**	0.251	XXX
(10.2)	Underwriting Risk Factor for Excess of Initial Amount‡	**0.08~~328~~**	**0.059~~6603~~**	**0.070~~611~~**	0.151	XXX
(10.3)	Composite Underwriting Risk Factor	0.0000	0.0000	0.0000	0.000	XXX
(11)	Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)	0	0	0	0	0
(12)	Managed Care Discount Factor = PR021 Line (12)	0.0000	0.0000	0.0000	0.000	XXX
(13)	Base RBC After Managed Care Discount = Line (11) x Line (12)	0	0	0	0	0
(14)	RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§	0	0	0	0	0
(15)	Maximum Per-Individual Risk After Reinsurance†	0	0	0	0	XXX
(16)	Alternate Risk Charge*	0	0	0	0	0
(17)	Net Alternate Risk Charge£	0	0	0	0	0
(18)	Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))	0	0	0	0	0

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision the Initial Premium Amount is $3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

	(1)	(2)	(3)	(4)	(5)
LESSER OF:	$1,500,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$150,000 or 6 x Maximum Individual Risk	Maximum of Columns (1), (2) (3) and (4)

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

UNDERWRITING RISK

Experience Fluctuation Risk

	Line of Business	(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Total
(1.1)	Premium – Individual					
(1.2)	Premium – Group					
(1.3)	Premium – Total = Line (1.1) + Line (1.2)					
(2)	Title XVIII-Medicare†		XXX			
(3)	Title XIX-Medicaid†		XXX			
(4)	Other Health Risk Revenue†		XXX			
(5)	Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)					
(6)	Net Incurred Claims					
(7)	Fee-for-Service Offset†		XXX			
(8)	Underwriting Risk Incurred Claims = Line (6) – Line (7)					
(9)	Underwriting Risk Claims Ratio = Line (8) / Line (5)					XXX
(10.1)	Underwriting Risk Factor for Initial Amounts Of Premium‡	**0.142~~734~~**	**0.09~~738~~**	**0.11~~438~~**	0.251	XXX
(10.2)	Underwriting Risk Factor for Excess of Initial Amount‡	**0.08~~328~~**	**0.059~~6603~~**	**0.070~~611~~**	0.151	XXX
(10.3)	Composite Underwriting Risk Factor					XXX
(11)	Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)					
(12)	Managed Care Discount Factor = LR022 Line (17)					XXX
(13)	Base RBC After Managed Care Discount = Line (11) x Line (12)					
(14)	RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§					
(15)	Maximum Per-Individual Risk After Reinsurance†					XXX
(16)	Alternate Risk Charge*					
(17)	Net Alternate Risk Charge£					
(18)	Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))					

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical, the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision, the Initial Premium Amount is $3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D, the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	$1,500,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$150,000 or 6 x Maximum Individual Risk	Maximum of Columns (1), (2), (3) and (4)

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

Denotes items that must be manually entered on the filing software.

Attachment One-B
Capital Adequacy (E) Task Force
8/14/24

Capital Adequacy (E) Task Force
RBC Proposal Form

☒ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	4-8-24
CONTACT PERSON:	Eva Yeung
TELEPHONE:	816-783-8407
EMAIL ADDRESS:	eyeung@naic.org
ON BEHALF OF:	Capital Adequacy (E) Task Force
NAME:	Tom Botsko
TITLE:	Chair
AFFILIATION:	Ohio Department of Insurance
ADDRESS:	50 West Town Street, Suite 300 Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-13-CA
Year 2024

DISPOSITION

ADOPTED:
☒ TASK FORCE (TF) 06/28/2024
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☒ TASK FORCE (TF) 04/30/2024
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☒ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Update the RBC factors for Receivables for Securities.
Based on a weighted average calculation of bonds, common, preferred and hybrid stock investments, the receivable for securities factors were adjusted for all RBC forecasting blanks.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

	Proposed 2024	2021	2018	2016	2014
Life	0.016	0.015	0.014	0.014	0.014
Health	0.024	0.024	0.025	0.024	0.024
P/C	0.025	0.020	0.025	0.023	0.024

© 2024 National Association of Insurance Commissioners

Attachment One-B
Capital Adequacy (E) Task Force
8/14/24

Proposed 2024 Life RBC Factor for Receivables for Securities

	(1) Statement Value	(2) Allocation % by Class Type	(3) RBC Factors by Class Type	(4) Weighted Avg RBC Factor by Class type (2)x(3)	(5) Allocation % by Asset type (1)/Total (1)	(6) Weighted Avg RBC by Asset type (4)x(5)	
Bonds and Hybrids							
Exempt Obligations	194,021,789,334	5.24%	0.00000	0.000			
NAIC 1.A	506,148,695,508	13.67%	0.00158	0.000			
NAIC 1.B	90,036,719,503	2.43%	0.00271	0.000			
NAIC 1.C	156,268,586,715	4.22%	0.00419	0.000			
NAIC 1.D	173,081,182,677	4.67%	0.00523	0.000			
NAIC 1.E	204,207,960,748	5.51%	0.00657	0.000			
NAIC 1.F	421,796,587,793	11.39%	0.00816	0.001			
NAIC 1.G	438,737,173,476	11.85%	0.01016	0.001			
NAIC 2.A	442,373,341,861	11.94%	0.01261	0.002			
NAIC 2.B	571,155,764,811	15.42%	0.01523	0.002			
NAIC 2.C	319,838,831,236	8.64%	0.02168	0.002			
NAIC 3.A	40,428,385,027	1.09%	0.03151	0.000			
NAIC 3.B	33,826,609,661	0.91%	0.04537	0.000			
NAIC 3.C	41,859,274,788	1.13%	0.06017	0.001			
NAIC 4.A	17,558,056,343	0.47%	0.07386	0.000			
NAIC 4.B	18,027,424,521	0.49%	0.09535	0.000			
NAIC 4.C	14,980,620,137	0.40%	0.12428	0.001			
NAIC 5.A	4,618,312,997	0.12%	0.16942	0.000			
NAIC 5.B	11,908,785,835	0.32%	0.23798	0.001			
NAIC 5.C	1,008,244,423	0.03%	0.30000	0.000			
NAIC 6	2,087,040,768	0.06%	0.30000	0.000			
Subtotal	**3,703,969,388,162**	**100.00%**		**0.013**	**98.37%**	**0.013**	
Preferred stock							
NAIC 1	3,273,389,198	18.48%	0.0039	0.001			
NAIC 2	10,075,067,030	56.89%	0.0126	0.007			
NAIC 3	2,058,350,579	11.62%	0.0446	0.005			
NAIC 4	980,582,619	5.54%	0.0970	0.005			
NAIC 5	866,090,716	4.89%	0.2231	0.011			
NAIC 6	455,936,493	2.57%	0.3000	0.008			
Subtotal	**17,709,416,635**	**100.00%**		**0.037**	**0.47%**	**0.000**	
Common stock (subtotal)	**43,789,344,739**	**100.00%**	**0.3000**	**0.300**	**1.16%**	**0.003**	
Total	**3,765,468,149,536**				**100.00%**	**0.016**	**RBC Factor Receivables for Securities Life**

© 2024 National Association of Insurance Commissioners

Proposed 2023 P&C RBC Factor for Receivables for Securities

	(1) Statement Value	(2) Allocation % by Class Type	(3) RBC Factors by Class Type	(4) Weighted Avg RBC Factor by Class type (2)x(3)	(5) Allocation % by Asset type (1)/Total (1)	(6) Weighted Avg RBC by Asset type (4)x(5)	
Bonds and Hybrids							
Exempt Obligations	252,990,862,025	20.57%	0.00000	0.000			
NAIC 1.A	293,555,850,261	23.87%	0.00200	0.000			
NAIC 1.B	57,186,968,605	4.65%	0.00400	0.000			
NAIC 1.C	57,461,059,052	4.67%	0.00600	0.000			
NAIC 1.D	50,141,495,694	4.08%	0.00800	0.000			
NAIC 1.E	61,085,788,433	4.97%	0.01000	0.000			
NAIC 1.F	85,436,350,941	6.95%	0.01300	0.001			
NAIC 1.G	86,898,961,945	7.07%	0.01500	0.001			
NAIC 2.A	79,007,157,871	6.43%	0.01800	0.001			
NAIC 2.B	96,122,789,301	7.82%	0.02100	0.002			
NAIC 2.C	54,436,332,403	4.43%	0.02500	0.001			
NAIC 3.A	7,779,786,778	0.63%	0.05500	0.000			
NAIC 3.B	8,926,659,821	0.73%	0.06000	0.000			
NAIC 3.C	10,342,767,727	0.84%	0.06600	0.001			
NAIC 4.A	7,546,890,280	0.61%	0.07100	0.000			
NAIC 4.B	9,061,773,416	0.74%	0.07700	0.001			
NAIC 4.C	6,003,639,607	0.49%	0.08700	0.000			
NAIC 5.A	1,137,504,077	0.09%	0.09800	0.000			
NAIC 5.B	3,454,683,084	0.28%	0.10900	0.000			
NAIC 5.C	244,917,020	0.02%	0.12000	0.000			
NAIC 6	809,283,663	0.07%	0.30000	0.000			
Subtotal	**1,229,631,522,004**	**100.00%**		**0.011**	**89.38%**	**0.010**	
Preferred stock							
NAIC 1	375,682,422	6.59%	0.0030	0.000			
NAIC 2	3,418,704,780	59.95%	0.0100	0.006			
NAIC 3	1,096,732,027	19.23%	0.0200	0.004			
NAIC 4	102,641,767	1.80%	0.0450	0.001			
NAIC 5	451,218,320	7.91%	0.1000	0.008			
NAIC 6	257,641,690	4.52%	0.3000	0.014			
Subtotal	**5,702,621,006**	**100.00%**		**0.032**	**0.41%**	**0.000**	
Common stock (subtotal)	**140,397,670,137**	**100.00%**	**0.1500**	**0.150**	**10.21%**	**0.015**	
Total	**1,375,731,813,147**				**100.00%**	**0.025**	**RBC Factor Receivables for Securities P/C**

Attachment One-B
Capital Adequacy (E) Task Force
8/14/24

Proposed 2023 Health RBC Factor for Receivables for Securities

	(1) Statement Value	(2) Allocation % by Class Type	(3) RBC Factors by Class Type	(4) Weighted Avg RBC Factor by Class type (2)x(3)	(5) Allocation % by Asset type (1)/Total (1)	(6) Weighted Avg RBC by Asset type (4)x(5)	
Bonds and Hybrids							
Exempt Obligations	52,262,379,200	22.62%	0.00000	0.000			
NAIC 1.A	62,144,903,778	26.90%	0.00200	0.001			
NAIC 1.B	7,492,842,706	3.24%	0.00400	0.000			
NAIC 1.C	7,065,813,766	3.06%	0.00600	0.000			
NAIC 1.D	7,721,775,528	3.34%	0.00800	0.000			
NAIC 1.E	12,240,802,320	5.30%	0.01000	0.001			
NAIC 1.F	13,817,276,206	5.98%	0.01300	0.001			
NAIC 1.G	15,890,795,938	6.88%	0.01500	0.001			
NAIC 2.A	15,262,265,442	6.61%	0.01800	0.001			
NAIC 2.B	15,431,587,412	6.68%	0.02100	0.001			
NAIC 2.C	10,763,397,705	4.66%	0.02500	0.001			
NAIC 3.A	1,673,474,938	0.72%	0.05500	0.000			
NAIC 3.B	2,260,008,331	0.98%	0.06000	0.001			
NAIC 3.C	2,557,378,488	1.11%	0.06600	0.001			
NAIC 4.A	1,324,818,598	0.57%	0.07100	0.000			
NAIC 4.B	1,735,799,906	0.75%	0.07700	0.001			
NAIC 4.C	838,977,643	0.36%	0.08700	0.000			
NAIC 5.A	172,416,227	0.07%	0.09800	0.000			
NAIC 5.B	122,085,597	0.05%	0.10900	0.000			
NAIC 5.C	59,483,949	0.03%	0.12000	0.000			
NAIC 6	163,161,494	0.07%	0.30000	0.000			
Subtotal	**231,001,445,172**	**100.00%**		**0.011**	**90.02%**	**0.010**	
Preferred stock							
NAIC 1	91,479,908	13.53%	0.0030	0.000			
NAIC 2	312,656,134	46.23%	0.0100	0.005			
NAIC 3	130,474,575	19.29%	0.0200	0.004			
NAIC 4	25,557,463	3.78%	0.0450	0.002			
NAIC 5	98,310,363	14.54%	0.1000	0.015			
NAIC 6	17,838,817	2.64%	0.3000	0.008			
Subtotal	**676,317,260**	**100.00%**		**0.033**	**0.26%**	**0.000**	
Common stock (subtotal)	**24,939,438,935**	**100.00%**	**0.1500**	**0.150**	**9.72%**	**0.015**	
Total	**256,617,201,367**				**100.00%**	**0.024**	**RBC Factor Receivables for Securities Health**

© 2024 National Association of Insurance Commissioners

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ Investment RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ P/C RBC (E) Working Group ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE: 03/15/2023	
CONTACT PERSON:	Brian Bayerle
TELEPHONE:	(202) 624-2169
EMAIL ADDRESS:	BrianBayerle@acli.com
ON BEHALF OF:	ACLI
NAME:	Brian Bayerle
TITLE:	Chief Life Actuary
AFFILIATION:	ACLI
ADDRESS:	101 Constitution Ave, NW Suite 700
	Washington, DC 20001

FOR NAIC USE ONLY

Agenda Item # 2024-15-L
Year

DISPOSITION

ADOPTED:
☒ TASK FORCE (TF) 06/28/2024
☒ WORKINGGROUP (WG) 6/17/2024
☐ SUBGROUP (SG)

EXPOSED:
☐ TASK FORCE (TF)
☒ WORKING GROUP (WG)
☐ SUBGROUP (SG)

REJECTED:
☐ TF ☐ WG ☐ SG

OTHER:
☐ DEFERRED TO
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Background: In order to support reporting of certain mortgage-type investments as collateral loans backed by mortgages in 2024, without changing capital treatment of BA mortgage investments, in 2024, update RBC mapping capture those investments consistent with existing practice. Note that those investments will map to AVR for Investments with Underlying Characteristics with Mortgages and be captured in that RBC category.

While this change accomplishes a "no change" result for 2024, it is expected that a broader discussion, including structural changes, will occur in 2025.

ACLI Proposal:

Life and Fraternal RBC Blanks LR008:

Update Line "(50) Schedule BA Collateral Loans" Annual Statement Source to be updated as follows:

Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part

The value in Column (1) Book / Adjusted Carrying Value will now be a company records entry and should represent all collateral loans which have not been captured elsewhere in the RBC formula.

© 2024 National Association of Insurance Commissioners

Update to LR008 RBC Instructions:

Line (50)
Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., BA mortgages.

Update to LR009 RBC Instructions:

Column (1) Except for Line (1), (12), and (16), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet (Figure 10) for how the individual mortgage calculations are completed. Line (20) should equal Schedule BA Part 1, Column 12, Lines 1199999,1299999, 2399999 and 2499999, and collateral loans backed by mortgages, as reported in footnote 5T, line 7.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 11-2023**

© 2024 National Association of Insurance Commissioners

Collateral Loan → AVR → RBC mapping proposal - 2024

For Life RBC Working Group

© 2024 National Association of Insurance Commissioners

Overview

In 2024, certain investments will be required to be reported as collateral loans backed by mortgages. The attached proposal comprises a mapping change from BA → AVR → RBC which results in those assets maintaining their historical capital treatment as BA mortgages. This would be appropriate given that they are fixed income instruments which are collateralized by mortgages (generally first lien mortgages) and that they therefore have mortgage-like risk.

1- Overview of Proposal

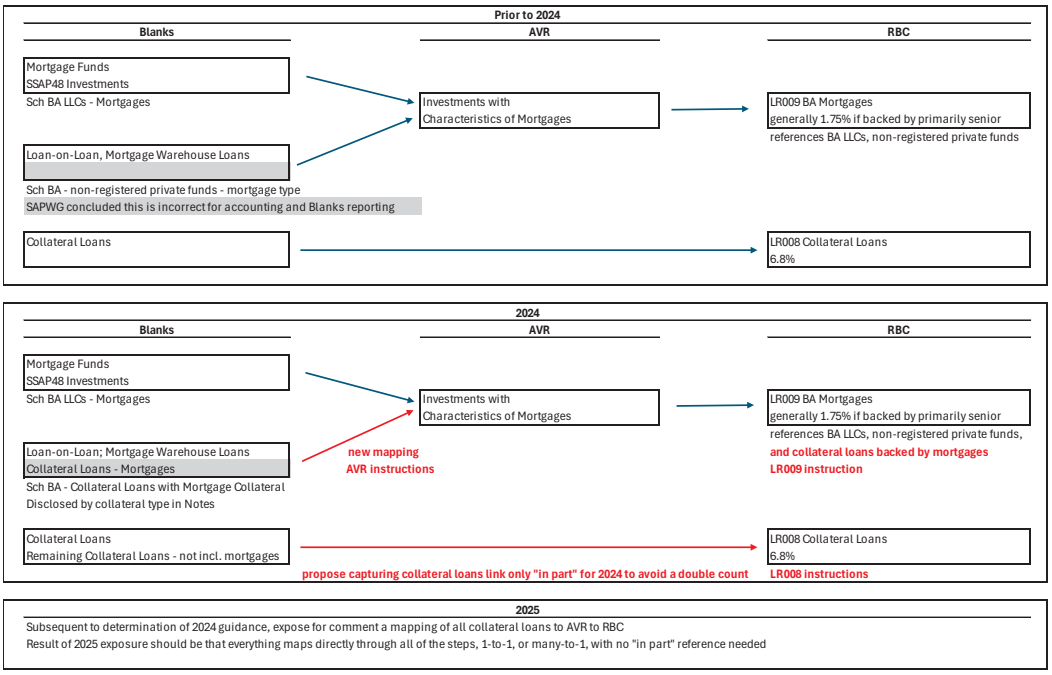
2- Note on AVR mapping proposal supported by SAPWG

3- Review of proposed Life RBC instruction changes

Note that this is designed to solve 2024 reporting and capital with no disruption on the transition year. If a more comprehensive set of changes is adopted in 2025, we would expect those changes would supercede this fix. In other words, the focus of this proposal is to maintain current capital treatment this year, even as accounting changes occur.

© 2024 National Association of Insurance Commissioners

Invested Assets Which are Captured for Capital as BA Mortgages



Blanks Proposal for 2024 Reporting:

Annual Statement Instructions - AVR

Blanks proposal ensures that Collateral Loans backed by Mortgages map the AVR section which categorizes those investments in the appropriate buckets for RBC.

Life RBC Proposal:

To maintain capital treatment of loan-on-loan investments as BA mortgages, in a year when their accounting presentation navigates to Collateral Loans back by Mortgages, the following changes are proposed:

LR008

Line (50)

Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g, BA mortgages.

8	(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)
9	(50)	Schedule BA Collateral Loans	**Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part**
10	(51)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 93

LR009

Reference to tie out should be adjusted to include new category: Line (20) should equal Schedule BA Part 1, Column 12, Lines 1199999,12999999, 23999999 ~~and~~ 24999999 **and collateral loans backed by mortgages (footnote 5T, line 7).**

The minor changes listed above to LR008, and LR009, will be provided in an RBC Proposal Form, and would result in BA mortgages maintaining their capital charge in 2024, even as reporting for those investments changes to Collateral Loans backed by Mortgages.

© 2024 National Association of Insurance Commissioners

OTHER LONG-TERM ASSETS

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Schedule BA - Unaffiliated Common Stock						
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65				X § =	
(43)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66				X 0.3000 =	
(44)	Total Schedule BA Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Line (42) + (43)					
(45)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(46)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(47)	Total Schedule BA Unaffiliated Common Stock (including MODCO/Funds Withheld.)	Lines (44) - (45) + (46)					
	Schedule BA - All Other						
(48.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67					
(48.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68					
(48.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)				X 0.3000 =	
(49.1)	BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69					
(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)				X 0.3000 =	
(50)	Schedule BA Collateral Loans	**Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part**				X 0.0680 =	
(51)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 93				X 0.3000 =	
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 94				X 0.0050 =	
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 95				X 0.0163 =	
(52.3)	Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)					
(53.1)	Other Schedule BA Assets	AVR Equity Component Column 1 Line 96					
(53.2)	Less NAIC 2 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (23) through (27) + Column (1) Lines (33) through (37)					
(53.3)	Net Other Schedule BA Assets	Line (53.1) less (53.2)				X 0.3000 =	
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (48.3) + (50)+ (52.3) + (53.3)					
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)					
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (47) + (49.2) + (51) + (57)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

Attachment One-D
Capital Adequacy (E) Task Force
8/14/24

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**4/25/2024**
CONTACT PERSON:	**Dave Fleming**
TELEPHONE:	**816-783-8121**
EMAIL ADDRESS:	**dfleming@naic.org**
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**
NAME:	**Philip Barlow, Chair**
TITLE:	**Associate Commissioner of Insurance**
AFFILIATION:	**District of Columbia**
ADDRESS:	**1050 First Street, NE Suite 801**
	Washington, DC 20002

FOR NAIC USE ONLY

Agenda Item # 2024-17-L
Year 2024

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) 6/28/2024
☒ WORKING GROUP (WG) 6/18/2024
☐ SUBGROUP (SG)

EXPOSED:
☐ TASK FORCE (TF)
☒ WORKING GROUP (WG) 4/25/2024
☐ SUBGROUP (SG)

REJECTED:
☐ TF ☐ WG ☐ SG

OTHER:
☐ DEFERRED TO
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal adds a factor for the line added to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component as part of proposal 2024-05-L. This AVR line was not included in the LR009 changes made with the mortgage methodology change in 2013.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

SCHEDULE BA MORTGAGES

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Involuntary Reserve Adjustment †	(3) RBC Subtotal	(4) Cumulative Writedowns ‡	(5) Average Factor	(6) RBC Requirement
	In Good Standing							
(1)	Insured or Guaranteed	AVR Equity Component Column 1 Line 43 + Line 45				XXX	X 0.0014 =	
(2)	**Affiliated Mortgages – Residential – All Other**	AVR Equity Component Column 1 Line 44				XXX	X **0.0068** =	
(3)	Unaffiliated Mortgages with Covenants	AVR Equity Component Column 1 Line 57				XXX	X * =	
(4)	Unaffiliated Mortgages - Defeased with Government Securities	AVR Equity Component Column 1 Line 58				XXX	X 0.0090 =	
(5)	Unaffiliated Mortgages - Primarily Senior	AVR Equity Component Column 1 Line 59				XXX	X 0.0175 =	
(6)	Unaffiliated Mortgages - All Other	AVR Equity Component Column 1 Line 60				XXX	X 0.0300 =	
(7)	Affiliated Mortgages - Category CM1	AVR Equity Component Column 1 Line 38				XXX	X 0.0090 =	
(8)	Affiliated Mortgages - Category CM2	AVR Equity Component Column 1 Line 39				XXX	X 0.0175 =	
(9)	Affiliated Mortgages - Category CM3	AVR Equity Component Column 1 Line 40				XXX	X 0.0300 =	
(10)	Affiliated Mortgages - Category CM4	AVR Equity Component Column 1 Line 41				XXX	X 0.0500 =	
(11)	Affiliated Mortgages - Category CM5	AVR Equity Component Column 1 Line 42				XXX	X 0.0750 =	
(12)	Total In Good Standing	Sum of Lines (1) through (11)						
	90 Days Overdue, Not in Process of Foreclosure							
(13)	Insured or Guaranteed 90 Days Overdue	AVR Equity Component Column 1 Line 47 + Line 49				XXX	X 0.0027 =	
(14)	All Other 90 Days Overdue - Unaffiliated	AVR Equity Component Column 1 Line 61				XXX	X 0.1100 =	
(15)	All Other 90 Days Overdue - Affiliated	AVR Equity Component Column 1 Line 48 + Line 50				XXX	X 0.1100 =	
(16)	Total 90 Days Overdue, Not in Process of Foreclosure	Lines (13) + (14) + (15)						
	In Process of Foreclosure							
(17)	Insured or Guaranteed in Process of Foreclosure	AVR Equity Component Column 1 Line 52 + Line 54				XXX	X 0.0054 =	
(18)	All Other in Process of Foreclosure - Unaffiliated	AVR Equity Component Column 1 Line 62				XXX	X 0.1300 =	
(19)	All Other in Process of Foreclosure - Affiliated	AVR Equity Component Column 1 Line 53 + Line 55				XXX	X 0.1300 =	
(20)	Total In Process of Foreclosure	Lines (17) + (18) + (19)						
(21)	Total Schedule BA Mortgages (pre-MODCO/Funds Withheld)	Lines (12) + (16) + (20)						
(22)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)						
(23)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)						
(24)	Total Schedule BA Mortgages (including MODCO/Funds Withheld.)	Lines (21) - (22) + (23)						

† Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
‡ Cumulative writedowns include the total amount of writedowns, non-admissions, and involuntary reserves that have been taken or established with respect to a particular mortgage.
* This will be calculated as Column (6) divided by Column (3).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

Attachment One-E
Capital Adequacy (E) Task Force
8/14/24

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☒ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**6-6-24**
CONTACT PERSON:	**Maggie Chang**
TELEPHONE:	**816-783-8976**
EMAIL ADDRESS:	**mchang@naic.org**
ON BEHALF OF:	**Health Risk-Based Capital (E) Working Group**
NAME:	**Steve Drutz**
TITLE:	**Chief Financial Analyst/Chair**
AFFILIATION:	**WA Office of Insurance Commissioner**
ADDRESS:	**5000 Capitol Blvd SE** **Tumwater, WA 98501**

FOR NAIC USE ONLY

Agenda Item # 2024-12-H-MOD
Year 2024

DISPOSITION

ADOPTED:
☒ TASK FORCE (TF) 6/28/24
☒ WORKING GROUP (WG) 6/24/24
☐ SUBGROUP (SG)

EXPOSED:
☐ TASK FORCE (TF)
☒ WORKINGGROUP(WG) 6/6/24
☐ SUBGROUP (SG)

REJECTED:
☐ TF ☐ WG ☐ SG

OTHER:
☐ DEFERRED TO
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☒ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☒ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☒ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Adjust the health care receivable factors in XR021 to include a tiered adjustment.

Additional Staff Comments:

6/6/24 – Modified from Proposal 2024-12-H, to apply tiered factor on non-pharmaceutical rebate receivables in aggregate (i.e., aggregation of Claim Overpayment Receivables, Loan and Advances to Providers, Capitation Arrangement Receivables, Risk Sharing Receivables and Other Health Care Receivables). The Working Group directed re-expose for 14-day public comment period ending 6/20/24.

6/25/24 – The Working Group conducted an e-vote to adopt this proposal on 6/24/24.

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

Proposal 2024-12-H MOD

Other Receivables – L(25) through L(31)

There is an RBC requirement of 1 percent of the annual statement amount of investment income receivable and an RBC requirement of 5 percent of the annual statement amount for ~~pharmaceutical rebates and~~ amounts due from parents, subsidiaries, and affiliates, and aggregate write-ins for other than invested assets. The RBC requirement for pharmaceutical rebate~~s~~ receivables is 20 percent of the first $5 million and a 3 percent charge will be applied to the amount in excess. ~~and a~~An RBC requirement of ~~19~~ 40 percent ~~of~~is applied to the first $10 million of the aggregated annual statement amount and 5 percent will be applied to the amounts in excess of the $10 million ~~the annual statement amount~~ for all other health care receivables reported in Lines (26.2) through (26.6) in aggregate. Enter the appropriate value in Lines (25) through (31).

Line (26.1). Pharmaceutical rebates are arrangements between pharmaceutical companies and reporting entities in which the reporting entities receive rebates based upon the drug utilization of its subscribers at participating pharmacies. These rebates are sometimes recorded as receivables by reporting entities using estimates based upon historical trends which should be adjusted to reflect significant variables involved in the calculation, such as number of prescriptions written/filled, type of drugs prescribed, use of generic vs. brand-name drugs, etc. In other cases, the reporting entity determines the amount of the rebate due based on the actual use of various prescription drugs during the accumulation period and then bills the pharmaceutical company. Oftentimes, a pharmacy benefits management company may determine the amount of the rebate based on a listing (of prescription drugs filled) prepared for the reporting entity's review. The reporting entity will confirm the listing and the pharmaceutical rebate receivable. Pharmaceutical rebates may relate to insured plans or uninsured plans. Only the receivable amount related to the insured plans should be reported on this line. Amount comes from annual statement Exhibit 3, Column 7, Line 0199999.

Line (26.2). Claim overpayments may occur as a result of several events, including but not limited to claim payments made in error to a provider. Reporting entities often establish receivables for claim overpayments. Amount comes from annual statement Exhibit 3, Column 7, Line 0299999.

Line (26.3). A health entity may make loans or advances to large hospitals or other providers. Such loans or advances are supported by legally enforceable contracts and are generally entered into at the request of the provider. In many cases, loans or advances are paid monthly and are intended to represent one month of fee-for-service claims activity with the respective provider. Amount comes from annual statement Exhibit 3, Column 7, Line 0399999.

Line (26.4). A capitation arrangement is a compensation plan used in connection with some managed care contracts in which a physician or other medical provider is paid a flat amount, usually on a monthly basis, for each subscriber who has elected to use that physician or medical provider. In some instances, advances are made to a provider under a capitation arrangement in anticipation of future services. Amount comes from annual statement Exhibit 3, Column 7, Line 0499999.

Line (26.5). Risk sharing agreements are contracts between reporting entities and providers with a risk sharing element based upon utilization. The compensation payments for risk sharing agreements are typically estimated monthly and settled annually. These agreements can result in receivables due from the providers if annual utilization is different than that used in estimating the monthly compensation. Amount comes from annual statement Exhibit 3, Column 7, Line 0599999.

Line (26.6). Any other health care receivable not reported in Lines (26.1) through (26.5). Amount comes from annual statement Exhibit 3, Column 7, Line 0699999.

Line (27). Only include on this line amounts receivable related to pharmaceutical rebates on uninsured plans that are in excess of the liability estimated by the reporting entity for the portion of such rebates due to the uninsured accident and health plans.

Other Receivables		Annual Statement Source	(1) Amount	Factor	(2) RBC Requirement	
(25)	Investment Income Receivable	Page 2, Column 3, Line 14		0.010	$0	
(26)	Health Care Receivables	Exhibit 3, Column 7, Line 0799999				
(26.1)	Pharmaceutical Rebate Receivables	Exhibit 3, Column 7, Line 0199999		*	$0	=MAX(0,ROUND(IF(F6<=5000000,F6*0.2,(5000000*0.2)+((F6-5000000)*0.03)),0))
(26.2)	Claim Overpayment Receivables	Exhibit 3, Column 7, Line 0299999		**	$0	=MAX(0,ROUND(IF(F7<=10000000,F7*0.4,(10000000*0.4)+((F7-10000000)*0.05)),0))
(26.3)	Loan and Advances to Providers	Exhibit 3, Column 7, Line 0399999		**	$0	=MAX(0,ROUND(IF(F8+F7<=10000000,F8*0.4,(10000000*0.4)+(((F8+F7)-10000000)*0.05)-H7),0))
(26.4)	Capitation Arrangement Receivables	Exhibit 3, Column 7, Line 0499999		**	$0	=MAX(0,ROUND(IF(F9+F8+F7<=10000000,F9*0.4,(10000000*0.4)+(((F9+F8+F7)-10000000)*0.05)-SUM(H7:H8)),0))
(26.5)	Risk Sharing Receivables	Exhibit 3, Column 7, Line 0599999		**	$0	=MAX(0,ROUND(IF(F10+F9+F8+F7<=10000000,F10*0.4,(10000000*0.4)+((F10+F9+F8+F7-10000000)*0.05))-SUM(H7:H9),0))
(26.6)	Other Health Care Receivables	Exhibit 3, Column 7, Line 0699999		**	$0	=MAX(0,ROUND(IF(F11+F10+F9+F8+F7<=10000000,F11*0.4,(10000000*0.4)+((F11+F10+F9+F8+F7-10000000)*0.05)-SUM(H7:H10)),0))
(27)	Amounts Receivable Relating to Uninsured Accident and Health Plans	Included in Page 2, Column 3, Line 17		0.050	$0	
(28)	Amounts Due from Parents, Subs, and Affiliates	Page 2, Column 3, Line 23		0.050	$0	
(29)	Aggregate Write-Ins For Other Than Invested Assets	Page 2, Column 3, Line 25		0.050	$0	
(30)	Total Other Receivables RBC	Line (25) + Sum Lines (26.1) through (29)			$0	
(31)	Total Credit RBC	Lines (17) + (24) + (30)			$0	

*** Line (26.1) Pharmaceutical Rebates - A factor of .200 will be applied to the first $5,000,000 in Column (1), and a factor of .030 will be applied to the remaining amount in excess of $5,000,000.**
****Lines (26.2) - (26.6) Non-Pharmaceutical Rebates - These lines are aggregated first and a factor of .400 will be applied to the first $10,000,000 in Column (1) and a factor of .050 will be applied to the remaining amount in excess of $10,000,000.**

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ Investment RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☒ P/C RBC (E) Working Group ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**4/12/24**
CONTACT PERSON:	**Eva Yeung**
TELEPHONE:	**816-783-8407**
EMAIL ADDRESS:	**eyeung@naic.org**
ON BEHALF OF:	**P/C RBC (E) Working Group**
NAME:	**Tom Botsko**
TITLE:	**Chair**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50 West Town Street, Suite 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-14-P
Year 2024

DISPOSITION

ADOPTED:
☒ TASK FORCE (TF) 06/28/2024
☐ WORKING GROUP (WF) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☒ WORKING GROUP (WG) 04/25/2024
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The proposed change would provide a routine annual update of the industry underwriting factors (premium and reserve) in the PCRBC formula.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

Attachment One-F
Capital Adequacy (E) Task Force
8/14/24

PR017 Line 1 Reserves

Schedule P Line of Business	LOB	Proposed for adoption - 2024 Industry Average Development Ratio	2023 Industry Average Development	2022 Industry Average Development	2021 Industry Average Development	2020 Industry Average Development	2019 Industry Average Development	2018 Industry Average Development	2017 Industry Average Development	2016 Industry Average Development	2015 Industry Average Development
H/F	A	**1.020**	0.999	1.001	0.998	0.993	0.989	0.989	0.984	0.972	0.962
PPA	B	**1.061**	1.047	1.022	1.025	1.035	1.026	1.022	1.012	1.002	1.002
CA	C	**1.115**	1.106	1.082	1.083	1.078	1.087	1.060	1.034	1.015	0.987
WC	D	**0.882**	0.873	0.906	0.912	0.916	0.955	0.952	0.971	0.971	0.961
CMP	E	**1.024**	1.026	1.037	0.999	1.016	0.992	0.967	0.956	0.942	0.938
MM Occurrence	F1	**0.910**	0.906	0.887	0.874	0.861	0.864	0.871	0.868	0.841	0.966
MM Clms Made	F2	**0.996**	0.984	0.983	0.973	0.940	0.907	0.886	0.854	0.822	0.839
SL	G	**0.996**	0.994	0.990	0.976	0.963	0.938	0.933	0.926	0.919	0.975
OL	H	**0.993**	0.969	0.995	0.964	0.968	0.971	0.966	0.952	0.929	0.923
Fidelity / Surety	K	**0.875**	0.852	0.842	0.915	0.907	0.995	0.996	1.016	1.035	1.016
Special Property**/Pet Insurance Plan**	**I/U**	**0.989**	0.983	0.993	0.978	0.977	0.972	0.971	0.982	0.973	0.991
Auto Physical Damage	J	**0.999**	1.016	1.011	0.989	0.993	0.996	1.000	1.001	0.995	0.995
Other (Credut, A&H)	L	**0.942**	0.946	0.955	0.965	0.971	0.973	0.976	0.981	0.986	1.041
Financial / Mortgage Guaranty	S	**0.493**	0.674	0.694	0.723	0.682	0.788	0.870	0.820	0.853	1.185
Intl	M	**2.168**	2.414	3.041	1.104	1.162	1.037	0.851	0.855	0.897	1.350
Rein. Property & Financial Lines	NP	**0.930**	0.924	0.917	0.893	0.886	0.872	0.834	0.814	0.814	1.002
Rein. Liability	O	**1.054**	1.024	1.008	0.989	0.985	0.955	0.945	0.914	0.896	0.938
PL	R	**0.882**	0.874	0.867	0.879	0.900	0.913	0.921	0.935	0.937	1.072
Warranty	T	**0.991**	0.995	0.998	1.007	1.013	1.017	1.015	0.989	0.977	0.994

© 2024 National Association of Insurance Commissioners

PR018 Line 1 Premiums

Schedule P Line of Business	LOB	Proposed 2024 Industry Average Loss & Expense Ratio	2023 Industry Average Loss & Expense Ratio	2022 Industry Average Loss & Expense Ratio	2021 Industry Average Loss & Expense Ratio	2020 Industry Average Loss & Expense Ratio	2019 Industry Average Loss & Expense Ratio	2018 Industry Average Loss & Expense Ratio	2017 Industry Average Loss & Expense Ratio	2016 Industry Average Loss & Expense Ratio	2015 Industry Average Loss & Expense Ratio
H/F	A	**0.695**	0.679	0.665	0.681	0.678	0.681	0.687	0.688	0.701	0.701
PPA	B	**0.799**	0.791	0.793	0.795	0.810	0.810	0.806	0.800	0.792	0.786
CA	C	**0.787**	0.777	0.761	0.761	0.759	0.737	0.724	0.706	0.689	0.684
WC	D	**0.646**	0.651	0.664	0.682	0.705	0.726	0.744	0.751	0.752	0.751
CMP	E	**0.684**	0.671	0.661	0.673	0.672	0.666	0.664	0.647	0.648	0.655
MM Occurrence	F1	**0.752**	0.767	0.750	0.731	0.726	0.730	0.780	0.777	0.767	0.880
MM Clms Made	F2	**0.828**	0.815	0.829	0.821	0.797	0.768	0.747	0.722	0.691	0.697
SL	G	**0.583**	0.578	0.585	0.593	0.603	0.593	0.569	0.567	0.572	0.630
OL	H	**0.649**	0.641	0.637	0.635	0.639	0.638	0.633	0.629	0.618	0.616
Fidelity / Surety	K	**0.375**	0.363	0.366	0.394	0.384	0.399	0.417	0.430	0.464	0.462
Special Property/**Pet Insurance Plan**	I/**U**	**0.559**	0.550	0.547	0.559	0.553	0.554	0.563	0.555	0.559	0.571
Auto Physical Damage	J	**0.733**	0.727	0.718	0.726	0.732	0.730	0.732	0.727	0.711	0.703
Other (Credit, A&H)	L	**0.711**	0.702	0.698	0.693	0.684	0.682	0.709	0.712	0.699	0.706
Financial / Mortgage Guaranty	S	**0.158**	0.209	0.203	0.252	0.513	0.811	1.099	1.175	1.293	1.096
Intl	M	**1.153**	1.136	1.166	0.769	0.758	0.795	0.584	0.565	0.607	1.150
Rein. Property & Financial Lines	NP	**0.587**	0.578	0.566	0.558	0.534	0.522	0.486	0.459	0.512	0.723
Rein. Liability	O	**0.760**	0.743	0.725	0.713	0.708	0.679	0.666	0.609	0.600	0.749
PL	R	**0.594**	0.597	0.601	0.617	0.645	0.656	0.671	0.670	0.684	0.715
Warranty	T	**0.641**	0.652	0.665	0.681	0.691	0.695	0.732	0.645	0.611	0.799

© 2024 National Association of Insurance Commissioners

Attachment One-G
Capital Adequacy (E) Task Force
8/14/24

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

RISK-BASED CAPITAL INVESTMENT RISK AND EVALUATION (E) WORKING GROUP

Meeting Summary Report for the Capital Adequacy (E) Task Force
June 28, 2024

1. The Risk-Based Capital Investment Risk and Evaluation (E) Working Group met June 21, May 22, and April 12 to discuss residual tranches and the 45% risk-based capital (RBC) factor in place for year-end 2024. After consideration of comments, as well as a review of alternative proposals to bifurcate residual tranches between 30% and 45% RBC categories, the Working Group adopted a motion to retain the 45% RBC factor for all residual tranches for year-end 2024. This motion passed with nine affirmative votes and six opposing votes by the members present. The 45% RBC factor for residual tranches was adopted fully through the NAIC committee structure in 2023. Therefore, no further action is needed to incorporate this RBC factor. Key comments in support of the motion include:

   A. The creation of a second category with a lower 30% RBC charge based on overall underlying investment classification (type of residual) would rely on reporting entities to classify residuals based on ill-defined classification types and does not factor any risk attributes other than collateral type, which may not be a reliable predictor of risk.
   B. The creation of a second category with a lower 30% RBC charge based on the next most junior tranche rating could create an incentive to combine residual tranches with the next lowest tranche to allow for a higher-level tranche to be used as the metric in determining residual RBC category. Furthermore, it was noted that it would increase reliance on ratings and could result in rating shopping for residual classification.
   C. Middle market collateralized loan obligations (CLOs) are the largest category of residual interests held by life-reporting entities as surveyed by the American Council of Life Insurers (ACLI). As the assessed risk is similar to broadly syndicated loans (BSLs) when characteristics are comparable (residual thickness and next most junior tranche rating), these residuals should be classified for a 45% RBC factor, similar to BSL residuals, during the interim.
   D. State insurance regulators noted that the 2023 adoption of the 45% RBC factor was delayed for implementation until 2024 to allow industry to present a rationale supporting a lower risk factor, and without such data justifying a lower charge, there should be no more delay in implementation.

2. The alternative proposals the Working Group contemplated June 21 included:

   A. The exposed proposal 2024-19-I with modifications to: 1) classify all middle market CLOs into the 45% RBC category; and 2) eliminate the ability for state insurance regulators to direct certain residual interests to the 30% category. (This state discretion was inconsistent with the RBC preamble that precludes deviations from the adopted RBC formula.)
   B. A new proposal presented by the Iowa Insurance Division to classify residual tranches between 30% and 45% RBC categories based on the rating of the next most junior tranche.

3. The discussion of the RBC factor for residual tranches has been subject to much discussion, including those taking place on the following dates in 2024:

© 2024 National Association of Insurance Commissioners

A. Spring National Meeting: Discussion and exposure of an Oliver Wyman residual tranche report and analysis.
B. April 12: Consideration of comments on the exposures and a motion to incorporate an additional one-year implementation delay to move the interim 45% charge on residuals from 2024 to 2025. This motion did not pass, with 11 members opposing, four supporting, and one abstaining.
C. April 16: Exposure of a memorandum requesting additional feedback by industry stakeholders to substantiate their request for an additional one-year delay in implementing the 45% residual tranche factor.
D. May 22: Discussion of comment letters received on the exposed memorandum and exposure of a proposal to bifurcate residual tranches between 30% and 45% based on the classification of the underlying collateral of the residual.
E. June 21: Discussion of comments on the exposed proposal and alternatives to classify residual tranches between 30% and 45% reporting categories. This consideration resulted in the action to retain the 45% factor for all residual tranches for year-end 2024. This motion passed with nine affirmative votes and six opposing votes by the members present.

© 2024 National Association of Insurance Commissioners

Attachment One-H
Capital Adequacy (E) Task Force
8/14/24

Capital Adequacy (E) Task Force
RBC Proposal Form

☒ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ Investment RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ P/C RBC (E) Working Group ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**1/27/24**
CONTACT PERSON:	**Eva Yeung**
TELEPHONE:	**816-783-8407**
EMAIL ADDRESS:	**eyeung@naic.org**
ON BEHALF OF:	**P/C RBC (E) Working Group**
NAME:	**Tom Botsko**
TITLE:	**Chair**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50 West Town Street, Suite 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-18-CA
Year 2024

DISPOSITION

ADOPTED:
☒ TASK FORCE (TF) 06/28/2024
☐ WORKING GROUP (WF) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK Force(TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☒ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☒ Health RBC Instructions ☒ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _ _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal adds a 20% charge for the Total Residual Tranches or Interests in PR008 for P/C and XR008 for Health.

Additional S(taff Comments:

06-13-24 eky The Task Force adopted the proposal 2024-02-CA Residual Tranches "Structure" in April 30.

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

Fixed Income Assets
XR007 and XR008

The RBC requirement for fixed income assets is largely driven by the default risk on those assets. There are two major subcategories: Bonds and Miscellaneous. Bonds include items that meet the definition of a bond, regardless if the bond is long-term (reported on Schedule D-1), short-term (reported on Schedule DA), or a cash equivalent (reported on Schedule E-2). Miscellaneous fixed income assets include non-bond items reported on the cash equivalent and short-term schedules, derivatives, mortgage loans, collateral loans, and other items reported on Schedule BA: Other Long-Term Invested Assets.

Bonds (XR007)

The bond factors for investment grade bonds (NAIC Designation (1.A-2.C) are based on cash flow modeling. Each bond of a portfolio was annually tested for default (based on a "roll of the dice") where the default probability varies by NAIC Designation Category and that year's economic environment. The default probabilities were based on historical data intended to reflect a complete business cycle of favorable or unfavorable credit environments. The risk of default was measured over a five-year time horizon, based on the duration of assets held for health companies.

The factors for NAIC Designation Category 3.A to 6 recognize that these non-investment grade bonds are reported at the lower of amortized cost or fair value. These bond risk factors are based on the market value fluctuation for each of the NAIC Designation Category compared to the market value fluctuation of stocks during the 2008-2009 financial crisis.

While the life and property/casualty formulas have a separate calculation for the bond size factor (based on the number of issuers in the RBC filer's portfolio), the health formula does not include a separate calculation, instead a bond size component was incorporated into the bond factors. A representative portfolio of 382 issuers was used in calculating the bond risk factors.

There is no RBC requirement for bonds guaranteed by the full faith and credit of the United States, Other U.S. Government Obligations, and securities on the NAIC U.S. Government Money Market Fund List because it is assumed that there is no default risk associated with U.S. Government issued securities.

The book/adjusted carrying value of all bonds should be reported in Columns (1), (2) or (3). The bonds are split into twenty-one different risk classifications. These risk classifications are based on the NAIC Designation Category as defined and permitted in the *Purposes and Procedures Manual of the Investment Analysis Office*. The subtotal of Columns (1), (2), and (3) will be calculated in Column (4). The RBC requirement will be automatically calculated in Column (5).

Miscellaneous Fixed Income Assets (XR008)

The factor for cash is 0.3 percent. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. This factor was based on the original unaffiliated NAIC 01 bond risk factor prior to the increased granularity of the NAIC Designation Categories in 2021 and reflects the short-term nature of this risk. The required risk-based capital for cash will not be less than zero, even if the company's cash position is negative.

The Short-Term Investments to be included in this section are those short-term investments not reflected elsewhere in the formula. The 0.3 percent factor is equal to the factor for cash. The amount reported in Line (8) reflects the total from Schedule DA: Short-Term Investments (Line (6)), less the short-term bonds (Line (7)). (The short-term bonds reported in Line (7) should equal Schedule DA, Part 1, Column 7, Line 2509999999.)

© 2024 National Association of Insurance Commissioners

Mortgage loans (reported on Schedule B) and Derivatives (reported on Schedule DB) receive a factor of 5 percent, consistent with other risk-based capital formulas studied by the Working Group.

The following investment types are captured on Schedule BA: Other Long-Term Invested Assets. Specific factors have been established for certain Schedule BA assets based on the nature of the investment. Those Schedule BA assets not specifically identified below receive a 20 percent factor (Line (16) and Line (22)).

- Collateral Loans reported on Line (13) receive a factor of 5 percent, consistent with other risk-based capital formulas studied by the Working Group.
- Working Capital Finance Investments: The book adjusted carrying value of NAIC 01 and 02 Working Capital Finance Investments, Lines (14) and (15), should equal the Notes to Financial Statement, Lines 5M(01a) and 5M(01b), Column 3 of the annual statement.
- Low-income housing tax credit investment are reported on Column (1) in accordance with *SSAP No. 93—Low Income Housing Tax Credit Property Investments*.
    - Federal Guaranteed Low-Income Housing Tax Credit (LIHTC) investments are to be included in Line (17). There must be an all-inclusive guarantee from an ARO-rated entity that guarantees the yield on the investment.
    - Federal Non-Guaranteed LIHTC investments with the following risk mitigation factors are to be included in Line (18):
        a) A level of leverage below 50 percent. For a LIHTC Fund, the level of leverage is measured at the fund level.
        b) There is a tax credit guarantee agreement from general partner or managing member. This agreement requires the general partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For an LIHTC fund, a tax credit guarantee is required from the developers of the lower-tier LIHTC properties to the upper-tier partnership.
    - State Guaranteed LIHTC investments that at a minimum meet the federal requirements for guaranteed LIHTC investments are to be included in Line (19).
    - State Non-Guaranteed LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments are to be included on Line (20).
    - All Other LIHTC investments, state and federal LIHTC investments that do not meet the requirements of Lines (17) through (20) would be reported on Line (21).

PR008 – Other Long–Term Assets



Schedule BA Assets (Other Invested Assets – excluding collateral loans, low income housing tax credits and Working Capital Finance Investments)

Other Invested Assets are those that are listed in Schedule BA and are somewhat more speculative and risky than most other investments. The factor for Schedule BA assets excluding collateral loans, low income housing tax credits, and working capital finance investments is 20%.

The book/adjusted carrying value of total Schedule BA assets (including collateral loans, low income housing tax credits and Working Capital Finance Investments) should equal Page 2, Line 8, Column 3 of the annual statement.

Low Income Housing Tax Credits

Report Column (1) in accordance with *SSAP No. 93—Low Income Housing Tax Credit Property Investments*.

Federal Guaranteed low-income housing tax credit (LIHTC) investments are to be included in Line (13). There must be an all-inclusive guarantee from an ARO-rated entity that guarantees the yield on the investment.

Federal Non-guaranteed LIHTC investments with the following risk mitigation factors are to be included in Line (14):

a) A level of leverage below 50 percent. For a LIHTC Fund, the level of leverage is measured at the fund level.
b) There is a tax credit guarantee agreement from general partner or managing member. This agreement requires the general partner or managing member to reimburse investors for any shortfalls in tax credits due to errors of compliance, for the life of the partnership. For an LIHTC fund, a tax credit guarantee is required from the developers of the lower-tier LIHTC properties to the upper-tier partnership.

State LIHTC investments that at a minimum meet the federal requirements for guaranteed LIHTC investments are to be included in Line (15).

State LIHTC investments that at a minimum meet the federal requirements for non-guaranteed LIHTC investments are to be included in Line (16).

State and federal LIHTC investments that do not meet the requirements of lines (13) through (16) would be reported on Line (17).

Working Capital Finance Investments

The book/adjusted carrying value of NAIC 01 and 02 Working Capital Finance Investments should equal Note to the Financial Statement, Lines 5M(01a) and 5M(01b), Column 3 of the annual statement.

FIXED INCOME ASSETS - MISCELLANEOUS

		Annual Statement Source	(1) Bk/Adj Carrying Value	Factor	(2) RBC Requirement
(1)	Cash	Page 2, Line 5, inside amount 1		0.0030	
(2)	Cash Equivalents	Page 2, Line 5, inside amount 2			
(3)	Less: Cash Equivalents, Total Bonds	Schedule E, Part 2, Column 7, Line 2509999999			
(4)	Less: Exempt Money Market Mutual Funds as Identified by SVO	Schedule E, Part 2, Column 7, Line 8209999999			
(5)	Net Cash Equivalents	Lines (2) - (3) - (4)		0.0030	
(6)	Short-Term Investments	Page 2, Line 5, inside amount 3			
(7)	Short-Term Bonds	Schedule DA, Part 1, Column 7, Line 2509999999			
(8)	Total Other Short-Term Investments	Lines (6) - (7)		0.0030	
(9)	Mortgage Loans - First Liens	Page 2, Column 3, Line 3.1		0.0500	
(10)	Mortgage Loans - Other Than First Liens	Page 2, Column 3, Line 3.2		0.0500	
(11)	Receivable for Securities	Page 2, Column 3, Line 9		0.0240	
(12)	Aggregate Write-Ins for Invested Assets	Page 2, Column 3, Line 11		0.0500	
(13)	Collateral Loans	Included in Page 2, Column 3, Line 8		0.0500	
(14)	NAIC 01 Working Capital Finance Investments	Notes to Financial Statement 5M(01a), Column 3		0.0038	
(15)	NAIC 02 Working Capital Finance Investments	Notes to Financial Statement 5M(01b), Column 3		0.0125	
(16)	Other Long-Term Invested Assets Excluding Collateral Loans, **Residual Tranches or Interests** and Working Capital Finance Investments	Included in Page 2, Column 3, Line 8		0.2000	
(17)	Federal Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3599999 + 3699999		0.0014	
(18)	Federal Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3799999 + 3899999		0.0260	
(19)	State Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3999999 + 4099999		0.0014	
(20)	State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4199999 + 4299999		0.0260	
(21)	All Other Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4399999 + 4499999		0.1500	
(22)	**Total Residual Tranches or Interests**	**Schedule BA, Part 1, Column 12 Lines 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 + 5699999 + 5799999**		**0.2000**	
(23)	Total Other Long-Term Invested Assets (Page 2, Column 3, Line 8)	Lines (13) + (14) + (15) + (16) + (17) + (18) + (19) + (20) + (21) **+ (22)**			
(24)	Derivatives	Page 2, Column 3, Line 7		0.0500	
(25)	Total Miscellaneous Fixed Income Assets RBC	Lines (1) + (5) + (8) + (9) + (10) + (11) + (12) + **(23)** + **(24)**			

Denotes items that must be manually entered on filing software.

OTHER LONG-TERM ASSETS PR008

		Annual Statement Source	(1) Book/Adjusted Carrying Value	Factor	(2) RBC Requirement
(1)	Company Occupied Real Estate	P2 L4.1 C3	0	0.100	0
(2)	Encumbrances	P2 L4.1, inside item	0	0.100	0
(3)	Property Held For the Production of Income	P2 L4.2 C3	0	0.100	0
(4)	Property Held For Sale	P2 L4.3 C3	0	0.100	0
(5)	Encumbrances (Property Held For the Production of Income)	P2 L4.2, inside item	0	0.100	0
(6)	Encumbrances (Property Held For Sale)	P2 L4.3, inside item	0	0.100	0
(7)	Total Real Estate	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)	0		0
(8)	Mortgage Loans - First Liens	P2 L3.1 C3	0	0.050	0
(9)	Mortgage Loans - Other Than First Liens	P2 L3.2 C3	0	0.050	0
(10)	Total Mortgage Loans	L(8) + L(9)	0		0
(11)	Schedule BA Assets - Total	P2 L8 C3	0		
(12)	Less: Collateral Loans	PR009 L(13)	0		
(13)	Federal Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3599999 +L3699999	0	0.0014	0
(14)	Federal Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3799999 +L3899999	0	0.0260	0
(15)	State Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3999999 +L4099999	0	0.0014	0
(16)	State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4199999 +L4299999	0	0.0260	0
(17)	All Other Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4399999 +L4499999	0	0.1500	0
(18)	Working Capital Finance Investments	L**(21)**+L**(22)**	0		
(19)	**Total Residual Tranches or Interests**	**Schedule BA, Part 1, Column 12 Lines 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 + 5699999 + 5799999**		**0.2000**	
(20)	Schedule BA Assets Excluding Collateral Loans, LIHTC, **&** WCFI**, & Residual Tranches or Interests**	L(11)-L(12)-L(13)-L(14)-L(15) -L(16)-L(17)-L(18)**-L(19)**	0	0.2000	0
(21)	NAIC 01 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01a) C3	0	0.0038	0
(22)	NAIC 02 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01b) C3	0	0.0125	0
(23)	Total Other Long-Term Assets	L(7)+L(10)+L(13)+L(14)+L(15) +L(16)+L(17)**+L(19)+L(20)+L(21)+L(22)**	0		0

PR008

Attachment Two
Capital Adequacy (E) Task Force
8/14/24

Draft: 5/29/24

Capital Adequacy (E) Task Force
Virtual Meeting
April 30, 2024

The Capital Adequacy (E) Task Force met April 30, 2024. The following Task Force members participated: Judith L. French, Chair, Tom Botsko, Matt Peters, Dwight Radel, Whitney Fitch, Tim Biler, Daniel Bradford, and Dale Bruggeman (OH); Doug Ommen, Vice Chair, represented by Mike Yanacheak, Carrie Mears, Kevin Clark, and Kim Cross (IA); Lori K. Wing-Heier represented by David Phifer and Kevin Richard (AK); Mark Fowler represented by Charles Hale and Kristina Jones (AL); Ricardo Lara represented by Mike Peterson, Rabab Charafeddine, and Kim Hudson (CA); Michael Conway represented by Mitchell Bronson, Eric Unger, and Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou and Sarah Mu (CT); Karima M. Woods represented by Howard Liebers (DC); Michael Yaworsky represented by Jane Nelson, Virginia Christy, and Ainsley Hurley (FL); Ann Gillespie represented by Vincent Tsang and Beth Sill (IL); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker and Sarah Smith (KS); Sharon P. Clark represented by Russell Coy (KY); Kathleen A. Birrane represented by Greg Ricci (MD); Chlora Lindley-Myers, Debbie Goeller, John Rehagen, Laurie Pleus, Julie Lederer, and Danielle K. Smith (MO); Mike Causey represented by Jessica Price and Teresa Browning (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Michael Muldoon and Lindsay Crawford (NE); D.J. Bettencourt represented by Jennifer Li and Sandra Barlow (NH); Justin Zimmerman represented by David Wolf (NJ); Scott Kipper represented by Jordan Lumpkin, Steve Ross, Nick Stosic, and Dede Benissan (NV); Glen Mulready represented by Andrew Schallhorn (OK); Michael Wise represented by Will Davis and Ryan Basnett (SC); Cassie Brown represented by Miriam Fisk (TX); Mike Kreidler represented by Steve Drutz and Jay Bruns (WA); and Nathan Houdek, Amy Malm, and Michael Erdman (WI).

1. Adopted Proposal 2024-04-L (TAC for Non-Admitted Affiliate)

Botsko said proposal 2024-04-L adds a line to LR033, Calculation of Total Adjusted Capital (TAC), to address the treatment of non-admitted insurance affiliates. This treatment was adopted as part of proposal 2022-09-CA, the revised treatment of affiliated investments. This line was omitted from the life structure change but was done for 2023 by including it in an existing line. This proposal does not change the treatment but makes the life formula consistent with the other risk-based capital (RBC) formulas. The Life Risk-Based Capital (E) Working Group agreed to expose the proposal for a 30-day public comment period during its Jan. 25 meeting. No comments were received.

Chou made a motion, seconded by Yanacheak, to adopt proposal 2024-04-L (Attachment Two-A). The motion passed unanimously.

2. Adopted Proposal 2024-05-L (BA Mortgages Omitted AVR Line)

Botsko said proposal 2024-05-L adds a line to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component. This AVR line was not included in the LR009 changes made with the mortgage methodology change in 2013. This proposal does not include a factor but facilitates the application of one specific to this category if appropriate. The Life Risk-Based Capital (E) Working Group agreed to expose the proposal for a 30-day public comment period during its Jan. 25 meeting. One comment was received. Botsko also indicated that a new proposal, 2024-17-L, which adds a factor for this new line, is currently exposed for a 30-day public comment period ending May 28.

© 2024 National Association of Insurance Commissioners

Chou made a motion, seconded by Yanacheak, to adopt proposal 2024-05-L (Attachment Two-B). The motion passed unanimously.

3. Adopted Proposal 2024-08-CA (Column 12 Affiliated Investment)

Botsko said the purpose of proposal 2024-08-CA is to remove the reference to "H0 Component" and "R0 Component" from the Column 12 heading on pages XR002 and PR003, respectively. He stated that the "H0" and "R0" references are misleading because only affiliate types 1, 2, 5, and 6 flow into H0 and R0, while all other affiliate types flow into H1 and R2. He stated that the Task Force exposed this proposal for a 30-day public comment period at the Spring National Meeting. No comments were received.

Chou made a motion, seconded by Kaumann, to adopt proposal 2024-08-CA (Attachment Two-C). The motion passed unanimously.

4. Exposed Proposal 2024-09-CA (Underwriting Risk Investment Risk Factor)

Drutz said the purpose of this proposal is to update the underwriting risk factors for the annual investment income adjustment to the comprehensive medical, Medicare supplement, and dental and vision factors. This proposal was originally exposed by the Health Risk-Based Capital (E) Working Group for a 32-day comment period ending March 25. No comments were received. Drutz also stated that the Working Group referred the proposal to the Task Force as the proposal affects all three lines of business. He also indicated that the proposed changes will result in a decrease of between 0.4% and 1.2% for comprehensive medical, Medicare supplement, and dental and vision underwriting risk factors, depending on the line of business and the tier of revenue.

The Task Force agreed to expose proposal 2024-09-CA for a 30-day public comment period ending May 30.

5. Adopted Proposal 2024-10-P (PR019 Other Health Line)

Botsko said proposal 2024-10-P would address the current double-counting issue for companies with stop-loss premium, as the stop-loss premium is expected to be entered on line 9 of PR019. He also stated that the Property and Casualty Risk-Based Capital (E) Working Group exposed this proposal for a 30-day public comment period at the Spring National Meeting. No comments were received.

Chou made a motion, seconded by Eft, to adopt proposal 2024-10-P (Attachment Two-D). The motion passed unanimously.

6. Adopted Proposal 2024-11-P (2024 and 2025 Underwriting Risk Lines 4 and 8 Factors)

Botsko said that at the Spring National Meeting, the Property and Casualty Risk-Based Capital (E) Working Group agreed to expose the: 1) 50% indicated change with capped international and product liability lines in 2024, and 100% indicated change with capped international and product liability lines in 2025 for reserve factors; and 2) 50% indicated change with capped financial mortgage guaranty line in 2024, and 100% indicated change with capped financial mortgage guaranty line in 2025 for premium factors for a 30-day public comment period. No comments were received.

Malm made a motion, seconded by Chou, to adopt Proposal 2024-11-P (Attachment Two-E). The motion passed unanimously.

7. Exposed Proposal 2024-13-CA (Receivable for Securities Factors)

© 2024 National Association of Insurance Commissioners

Botsko said the intent of proposal 2024-13-CA is to provide a routine three-year update to the receivable for securities for all three lines of business by using a weighted average methodology. He also stated that the proposed factors are consistent with the past factors.

The Task Force agreed to expose proposal 2024-13-CA for a 30-day public comment period ending May 30.

8. Exposed Proposal 2024-16-CA (Revised Preamble)

Botsko said the Risk-Based Capital Risk Evaluation Purposes and Guidelines Ad Hoc Subgroup met several times between September 2023 and January 2024 to have a robust discussion on the preamble revisions among stakeholders. He stated that the intent of this proposal is to provide edits to the RBC preamble based on the Ad Hoc Subgroup's discussions to clarify and emphasize the purposes and intent of using RBC. Hemphill also indicated that it clarifies the *Risk-Based Capital for Insurers Model Act* (#312) and the *Risk-Based Capital for Health Organizations Model Act* (#315) around the purpose of RBC and what it is and is not designed to do.

The Task Force agreed to expose proposal 2024-16-CA (Attachment Two-F) for a 30-day public comment period ending May 30.

9. Forwarded a Referral Regarding the Issue of Asset Concentration to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Botsko said that during the Spring National Meeting, the Task Force agreed to disband the Risk-Based Capital Risk Evaluation Asset Concentration Ad Hoc Subgroup and refer its outstanding issues to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group. He also stated that the Task Force recommends the Working Group consider: 1) further investigating any potential asset concentration issues; 2) possibly modifying the structure and instructions for all lines of business; and 3) providing updates on this project at each national meeting until its completion.

The Task Force agreed to forward the referral to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group.

10. Referred Issues Regarding Geographic Concentration to the Catastrophe Risk (E) Subgroup

Botsko said that during the Spring National Meeting, the Task Force agreed to disband the Risk-Based Capital Geographic Concentration Ad Hoc Subgroup and refer its outstanding issues to the Catastrophe Risk (E) Subgroup. He also stated that the Task Force recommends the Subgroup consider: 1) further investigating all outstanding issues; 2) possibly modifying the property and casualty (P/C) RBC formula; and 3) providing updates on this project at each national meeting until its completion.

The Task Force agreed to forward the referral to the Catastrophe Risk (E) Subgroup.

11. Exposed a Referral from the Statutory Accounting Principles (E) Working Group Regarding the Investment in Tax Credit Structures

Botsko said the Task Force received a referral from the Statutory Accounting Principles (E) Working Group March 27 regarding the blank changes on investments in tax credit structures. These changes may include: 1) the re-naming of the existing low-income housing tax credit investment lines in the RBC formulas to allow the expansion of including any type of state or federal tax credit program, assuming the investment meets the criteria described

in paragraph two of *Statement of Statutory Accounting Principle (SSAP) No. 93R*; and 2) the need for a review to update factors and/or reporting lines. He encouraged all interested parties to review it. The Task Force will discuss it during its June meeting.

The Task Force agreed to expose this referral for a 30-day public comment period ending May 30.

12. Discussed the Possibility of Establishing a New Subgroup to Evaluate the Non-Investment Risk Issues

Botsko said, as indicated earlier, that the Risk-Based Capital Risk Evaluation Purposes and Guidelines Ad Hoc Subgroup had a robust discussion before the Ad Hoc Subgroup was disbanded. He said one of the key items identified by the Ad Hoc Subgroup that requires further review is the possibility of removing the TAC and authorized control level (ACL) amounts in the annual statement's five-year historical data page. In addition, Botsko said he thought that some of the RBC formulas, factors, and methodologies have not been reviewed since they were developed. He asked the Task Force to consider establishing a subgroup to: 1) review the possibility of removing the TAC and ACL amounts in the annual statement's five-year historical data page; 2) re-evaluate some of the missing non-investment risks to determine whether the Task Force should now include them in the RBC calculation or if it should appropriately handle those risks utilizing other regulatory methods; and 3) review those non-investment factors and instructions that have not been reviewed since being developed to determine if modifications should be made. Botsko encouraged all the Task Force members to consider the possibility of establishing a new subgroup to handle these items and provide feedback in the upcoming meetings.

13. Adopted Proposal 2023-17-CR (Climate Scenario Analysis)

Chou said the Catastrophe Risk (E) Subgroup and the Property and Casualty Risk-Based Capital (E) Working Group met April 25 and April 23, respectively, to adopt this proposal. He stated that the Subgroup appreciates all the valuable comments submitted by different industry parties during the exposure period. After reviewing industry comments, the Solvency Workstream of the Climate and Resiliency (EX) Task Force and the Subgroup made the following revisions to the proposal: 1) implementing a three-year sunset clause in the instructions; and 2) updating the line 7 question in PR027BI, PR027BII, PR027CI, and PR027CII. Hale said Commissioner Fowler suggested delaying the adoption for a few months to allow better enhancement to the proposal. Chou said a delay of a few months may not necessarily remove any uncertainty on top of the assumption. Rather, gathering the information will enable the state insurance regulators to further enhance the proposal. Eli Russo (NAIC) said the NAIC had already made changes to the Financial Analysis Handbook to allow state insurance regulators to start asking questions to dive deep into the catastrophe exposures. Russo also stated that the regulatory framework had been created to utilize this information.

Steve Broadie (American Property Casualty Insurance Association—APCIA) said the APCIA, the National Association of Mutual Insurance Companies (NAMIC), and the Reinsurance Association of America (RAA) (collectively, "the Associations") appreciated the modification of including a three-year sunset clause in the proposal. He stated that among the issues is that climate is not the primary driver of exposure to increasing hurricane loss costs; rather, it's inflation. Increased population and exposed areas are the key factors for the climate issue. He also indicated that projecting losses to the years 2040 and 2050 has little relevance to companies' current portfolio of exposures. Also, the scientific difference in risk between those time periods is minimal and poorly constrained. Broadie also said the Associations believed that the data from this proposal would not be comparable across companies and could not be meaningfully aggregated. In addition, the cost of the proposal will be significant in terms of both money and limited staff resources. He stated that the Associations came up with an alternative proposal, which they believe will be less expensive in providing state insurance regulators with information to hold discussions with insurers that may have a greater degree of indicated risk levels for hurricane and wildfire perils. Lastly, Broadie said that given the short time period, the associations urge the Task Force either

© 2024 National Association of Insurance Commissioners

to adopt the industry alternative or to defer this item to the 2025 RBC reporting to give the industry additional time to collectively work together to identify a mutually agreeable scenario that will produce useful results. Kelly Hereid (Liberty Mutual Insurance) said the alternative comes from the most comprehensive review produced by scientific communities to date. Chou said the Subgroup plans to consider the revised proposal at this time. He reiterated that the intent of this proposal is to collect some useful information for state insurance regulators holding conversations with insurers that may have a greater degree of risk of these perils. The Subgroup and the Solvency Workstream of the Climate and Resiliency (EX) Task Force have no desire to require reporting companies to hold capital up to specific levels based on this provided information. He also indicated that the Subgroup plans to re-evaluate the information in the future to determine whether further enhancement should be made on these pages.

Chou made a motion, seconded by Kaumann, to adopt proposal 2023-17-CR (Attachment Two-G). The motion passed.

14. Discussed Proposal 2024-02-CA (Residual Structure PC & Health)

Botsko said there has been a significant amount of discussion on this topic, especially during the prior two months in the Risk-Based Capital Investment Risk and Evaluation (E) Working Group. He stated that the Task Force and the Working Group received different requests from interested parties for the delay in implementing the 45% charge for 2024 reporting. Botsko also indicated that the American Academy of Actuaries (Academy) is planning to provide updates on its research on this topic at the Summer National Meeting. He also stated that based on the currently available information, the impact on the P/C and health lines of business are minimal as the percentage of the residual tranches reported investment dollars are less than 0.5% of surplus, while on the life side, it is just under 2.0% of the surplus. Botsko asked all interested parties to consider the following options: 1) delaying implementation until the life residual tranche project is completed; 2) adopting the structure today, and deciding the charge during the Task Force meeting June 28; 3) adopting the structure today with the current charge of 20%; 4) adopting the structure today with the life charge of 45%; and 5) considering other options not listed above.

Botsko said the Task Force received eight comment letters (Attachment Two-H) during the exposure period, mainly requesting the NAIC delay the implementation of the 45% RBC charge. While it is important to have consistency warranted in the RBC formulas, it is fine to have differences or even delays in implementing changes. He thought the first option was worth consideration until the Task Force obtained more information to make a better decision. He stated that as a reminder, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group has requested additional feedback regarding a one-year delay of the 45% charge for the residual tranches in the life RBC formula.

Joe Engelhard (Alternative Credit Council—ACC) said three basic points that the ACC wanted to make are: 1) that the RBC investment charges should use historical track record and proper analysis; 2) there are only two internal studies on equity and residual tranches; and 3) it is unclear what is the insurance exposure for the asset-backed securities (ABS) residuals. Broadie said the APCIA supports Connecticut's comment that the current factor should not be changed at this time. Bryan Bashur (Americans for Tax Reform—ATR) said it would not be prudent to move forward with this proposal when the Investment Risk and Evaluation (E) Working Group continues to deliberate on this issue. Mariana Gomez (American Council of Life Insurers—ACLI) said the ACLI endorsed a delay and the comments made by APCIA. Chou said Connecticut recommended delaying the implementation as this proposal is not for informational purposes only. He stated that accuracy, consistency, and materiality are the key factors that the Task Force should consider for this issue. Walker said Texas supports adopting the structural changes but defers consideration of the factor until after the Risk-Based Capital Investment Risk and Evaluation (E) Working Group meeting May 22.

© 2024 National Association of Insurance Commissioners

Walker made a motion, seconded by Schallhorn, to adopt the proposal 2024-02-CA (Attachment Two-I) structural change, leave the risk charge blank for now, and defer consideration of the risk charge until after the Risk-Based Capital Investment Risk and Evaluation (E) Working Group's May 22 meeting. The motion passed.

15. Discussed Other Matters

To provide sufficient time to study the meeting materials, Botsko urged all interested parties to submit their comment letters on or before the comment deadline. He also asked that interested parties email NAIC staff to request an extension and clearly indicate the submission date in the email.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2024-2-Summer/April 30 CADTF minutes.docx

© 2024 National Association of Insurance Commissioners

Attachment Two-A
Capital Adequacy (E) Task Force
8/14/24

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**1/18/2024**
CONTACT PERSON:	**Dave Fleming**
TELEPHONE:	**816-783-8121**
EMAIL ADDRESS:	**dfleming@naic.org**
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**
NAME:	**Philip Barlow, Chair**
TITLE:	**Associate Commissioner of Insurance**
AFFILIATION:	**District of Columbia**
ADDRESS:	**1050 First Street, NE Suite 801**
	Washington, DC 20002

FOR NAIC USE ONLY

Agenda Item # 2024-04-L
Year 2024

DISPOSITION

ADOPTED:
☒ TASK FORCE (TF) 04/30/2024
☒ WORKING GROUP (WG) 04/19/2024
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☒ WORKING GROUP (WG) 01/25/2024
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal adds a line to LR033, Calculation of Total Adjusted Capital, to address the treatment of non-admitted insurance affiliates. This treatment was adopted as part of proposal 2022-09-CA, the revised treatment of affiliated investments. This line was omitted from the life structure change but was done for 2023 by including it in an existing line. This proposal makes no change in the treatment but makes the life formula consistent with the other RBC formulas.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

CALCULATION OF TOTAL ADJUSTED CAPITAL
(Including Total Adjusted Capital Tax Sensitivity Test)

			(1) Statement Value		Factor		(2) Adjusted Capital
	Company Amounts						
(1)	Capital and Surplus	Page 3 Column 1 Line 38		X	1.000	=	
(2)	Asset Valuation Reserve	Page 3 Column 1 Line 24.01 §		X	1.000	=	
(3)	Dividends Apportioned for Payment	Page 3 Column 1 Line 6.1, in part		X	0.500	=	
(4)	Dividends Not Yet Apportioned	Page 3 Column 1 Line 6.2, in part		X	0.500	=	
(5)	Hedging Fair Value Adjustment	Company Records		X	-1.000	=	
	Life Subsidiary Company Amounts†						
(6)	Asset Valuation Reserve ~~/ Carrying Value of Non-Admitted Insurance Affiliates~~	Subsidiaries' Annual Statement Page 3 Column 1 Line 24.01‡ § ~~/ Included in LR044 Columns 5 and 7~~		X	1.000	=	
(7)	Dividend Liability	Subsidiaries' Annual Statement Page 3 Column 1 Line 6.1 + Line 6.2‡		X	0.500	=	
(8)	**Carrying Value of Non-Admitted Insurance Affiliates**	**Included in LR044 Columns (5) and (7)**		**X**	**1.000**	=	
	Property and Casualty and Other Non-U.S. Affiliated Amounts						
(9)	Non-Tabular discount and/or Alien Insurance Subsidiaries: Other	Included in Subsidiaries' Annual Statement Page 3 Column 1 Line 1 + 3‡ and/or Schedule D Part 6, Section 1 Column 8 Line 0599999 and Line 1499999, in part		X	1.000	=	
(10)	Total Adjusted Capital Before Capital Notes	Sum of Lines (1) through (**8**) less Line (**9**)					
	Credit for Capital Notes						
(11.1)	Surplus Notes	Page 3 Column 1 Line 32					
(11.2)	Limitation on Capital Notes	0.5 x [Line (**10**) - Line (**11.1**)] - Line (**11.1**), but not less than 0					
(11.3)	Capital Notes Before Limitation	LR032 Capital Notes Before Limitation Column (4) Line (18)					
(11.4)	Credit for Capital Notes	Lesser of Column (1) Line (**11.2**) or Line (**11.3**)					
(12)	XXX/AXXX Reinsurance RBC Shortfall	LR037 XXX/AXXX Captive Reinsurance Consolidated Exhibit Column (10) Line (10)					
(13)	Total Adjusted Capital	Line (**10**) + Line (**11.4**) - Line (**12**)					
	Tax Sensitivity Test						
	Company Amounts						
(14)	Deferred Tax Asset (DTA) Value	Page 2 Column 3 Line 18.2		X	-1.000	=	
(15)	Deferred Tax Liability (DTL) Value	Page 3 Column 1 Line 15.2		X	1.000	=	
	Subsidiary Amounts						
(16)	Deferred Tax Asset (DTA) Value	Company Records		X	-1.000	=	
(17)	Deferred Tax Liability (DTL) Value	Company Records		X	1.000	=	
(18)	Tax Sensitivity Test: Total Adjusted Capital	Line **(13)+(14)+(15)+**(16)+(17)					
	Ex DTA ACL RBC Ratio Sensitivity Test						
(19)	Deferred Tax Asset-Company Amounts	Page 2 Column 3 Line 18.2		X	1.000	=	
(20)	Total Adjusted Capital Less Deferred Tax Asset Amounts	Line (**13**) less Line (**19**)					
(21)	Authorized Control Level RBC	LR034 Risk-Based Capital Level of Action Line (4)		X	1.000	=	
(22)	Ex DTA ACL RBC Ratio	Line (**20**) / Line (**21**)					0.000%

† Including subsidiaries owned by holding companies.
‡ Multiply statement value by percent of ownership.
§ The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves. ~~The amount on line (6) will also include the carrying value of non-admitted insurance affiliates.~~

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

Attachment Two-B
Capital Adequacy (E) Task Force
8/14/24

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force
☐ Catastrophe Risk (E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup
☐ Health RBC (E) Working Group
☐ P/C RBC (E) Working Group
☐ Economic Scenarios (E/A) Subgroup
☒ Life RBC (E) Working Group
☐ Longevity Risk (A/E) Subgroup
☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**1/18/2024**
CONTACT PERSON:	**Dave Fleming**
TELEPHONE:	**816-783-8121**
EMAIL ADDRESS:	**dfleming@naic.org**
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**
NAME:	**Philip Barlow, Chair**
TITLE:	**Associate Commissioner of Insurance**
AFFILIATION:	**District of Columbia**
ADDRESS:	**1050 First Street, NE Suite 801**
	Washington, DC 20002

FOR NAIC USE ONLY

Agenda Item # 2024-05-L
Year 2024

DISPOSITION

ADOPTED:
☒ TSK FORCE (TF) 04/30/2024
☒ WORKING GROUP (WG) 04/19/2024
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☒ WORKING GROUP (WG) 01/25/2024
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks
☐ Health RBC Instructions
☐ Health RBC Formula
☐ Property/Casualty RBC Blanks
☐ Property/Casualty RBC Instructions
☐ Property/Casualty RBC Formula
☒ Life and Fraternal RBC Blanks
☐ Life and Fraternal RBC Instructions
☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal adds a line to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component. This AVR line was not included in the LR009 changes made with the mortgage methodology change in 2013. This proposal does not include a factor but facilitates the application of one specific to this category if appropriate.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

SCHEDULE BA MORTGAGES

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Involuntary Reserve Adjustment †	(3) RBC Subtotal	(4) Cumulative Writedowns ‡		(5) Average Factor		(6) RBC Requirement
	In Good Standing									
(1)	Insured or Guaranteed	AVR Equity Component Column 1 Line 43 + Line 45				XXX	X	0.0014	=	
(2)	**Residential - All Other**	**AVR Equity Component Column 1 Line 44**				**XXX**	**X**	**TBD**	=	
(3)	Unaffiliated Mortgages with Covenants	AVR Equity Component Column 1 Line 57				XXX	X	*	=	
(4)	Unaffiliated Mortgages - Defeased with Government Securities	AVR Equity Component Column 1 Line 58				XXX	X	0.0090	=	
(5)	Unaffiliated Mortgages - Primarily Senior	AVR Equity Component Column 1 Line 59				XXX	X	0.0175	=	
(6)	Unaffiliated Mortgages - All Other	AVR Equity Component Column 1 Line 60				XXX	X	0.0300	=	
(7)	Affiliated Mortgages - Category CM1	AVR Equity Component Column 1 Line 38				XXX	X	0.0090	=	
(8)	Affiliated Mortgages - Category CM2	AVR Equity Component Column 1 Line 39				XXX	X	0.0175	=	
(9)	Affiliated Mortgages - Category CM3	AVR Equity Component Column 1 Line 40				XXX	X	0.0300	=	
(10)	Affiliated Mortgages - Category CM4	AVR Equity Component Column 1 Line 41				XXX	X	0.0500	=	
(11)	Affiliated Mortgages - Category CM5	AVR Equity Component Column 1 Line 42				XXX	X	0.0750	=	
(12)	Total In Good Standing	Sum of Lines (1) through (11)								
	90 Days Overdue, Not in Process of Foreclosure									
(13)	Insured or Guaranteed 90 Days Overdue	AVR Equity Component Column 1 Line 47 + Line 49				XXX	X	0.0027	=	
(14)	All Other 90 Days Overdue - Unaffiliated	AVR Equity Component Column 1 Line 61				XXX	X	0.1100	=	
(15)	All Other 90 Days Overdue - Affiliated	AVR Equity Component Column 1 Line 48 + Line 50				XXX	X	0.1100	=	
(16)	Total 90 Days Overdue, Not in Process of Foreclosure	Lines (13) + (14) + (15)								
	In Process of Foreclosure									
(17)	Insured or Guaranteed in Process of Foreclosure	AVR Equity Component Column 1 Line 52 + Line 54				XXX	X	0.0054	=	
(18)	All Other in Process of Foreclosure - Unaffiliated	AVR Equity Component Column 1 Line 62				XXX	X	0.1300	=	
(19)	All Other in Process of Foreclosure - Affiliated	AVR Equity Component Column 1 Line 53 + Line 55				XXX	X	0.1300	=	
(20)	Total In Process of Foreclosure	Lines (17) + (18) + (19)								
(21)	Total Schedule BA Mortgages (pre-MODCO/Funds Withheld)	Lines (12) + (16) + (20)								
(22)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)								
(23)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)								
(24)	Total Schedule BA Mortgages (including MODCO/Funds Withheld.)	Lines (21) - (22) + (23)								

† Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
‡ Cumulative writedowns include the total amount of writedowns, non-admissions, and involuntary reserves that have been taken or established with respect to a particular mortgage.
* This will be calculated as Column (6) divided by Column (3).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

Attachment Two-C
Capital Adequacy (E) Task Force
8/14/24

Capital Adequacy (E) Task Force

RBC Proposal Form

☒ Capital Adequacy (E) Task Force
☐ Catastrophe Risk (E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup
☐ Health RBC (E) Working Group
☐ Investment RBC (E) Working Group
☐ P/C RBC (E) Working Group
☐ Life RBC (E) Working Group
☐ Longevity Risk (A/E) Subgroup
☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**2/8/2024**
CONTACT PERSON:	**Eva Yeung**
TELEPHONE:	**816-783-8407**
EMAIL ADDRESS:	**eyeung@naic.org**
ON BEHALF OF:	**Capital Adequacy (E) Task Force**
NAME:	**Tom Botsko**
TITLE:	**Chair**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50 West Town Street, Suite 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-08-CA
Year 2024

DISPOSITION

ADOPTED:
☒ TASK FORCE (TF) 4/30/2024
☐ WORKING GROUP (WF) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☒ TASK FORCE (TF) 3/17/2024
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☒ Health RBC Blanks
☐ Health RBC Instructions
☐ Health RBC Formula
☒ Property/Casualty RBC Blanks
☐ Property/Casualty RBC Instructions
☐ Property/Casualty RBC Formula
☐ Life and Fraternal RBC Blanks
☐ Life and Fraternal RBC Instructions
☐ Life and Fraternal RBC Formula
☐ OTHER _ _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal removes the reference of "H0 Component" and "R0 Component" from the Column 12 heading on pages XR002 and PR003, respectively. The "H0" and "R0" references are misleading in that only affiliate types 1, 2, 5 and 6 flow into H0 and R0, while affiliate types 3, 7-9 flow into H1 and R2.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

XR002

DETAILS FOR AFFILIATED STOCKS

	(1) Name of Affiliate	(2) Affil Type	(3) NAIC Company Code or Alien ID Number	(4) Affiliate's RBC after Covariance Before Basic Operational Risk XR025 Line (41) PR032 Line (60) LR031 Line (69) + (73)	(5) Book/Adjusted Carrying Value (Statement Value) of Affiliate's Common Stock	(6) Valuation Basis of Col (5) M - Market Value after any "discount" A - All Other	(7) Total Value of Affiliate's Outstanding Common Stock	(8) Statutory Surplus of Affiliate Subject to RBC (Adjusted for % Owned)	(9) Book/Adjusted Carrying Value (Statement Value) of Affiliate's Preferred Stock	(10) Total Value of Affiliate's Outstanding Preferred Stock	(11) Percent Owned *	(12) RBC Required ~~(H0 Component)~~	(13) Market Value Excess Component Affiliated Common Stock RBC Required (H1 Component)
(01)											100.000%	0	0
(02)											100.000%	0	0
(03)											100.000%	0	0
(04)											100.000%	0	0
(05)											100.000%	0	0
(06)											100.000%	0	0
(07)											100.000%	0	0
(08)											100.000%	0	0
(09)											100.000%	0	0
(10)											100.000%	0	0

PR003

DETAILS FOR AFFILIATED STOCKS PR003

	(1) Name of Affiliate	(2) Affil Type	(3) NAIC Company Code or Alien ID Number	(4) Affiliate's RBC After Covariance before Basic Operational Risk LR031 L69 + L73 PR032 L60 XR025 L41	(5) Book/Adjusted Carrying Value (statement value) of Affiliate's Common Stock	(6) Valuation Basis of Column (5) M - Market Value after any "discount" A - All Other	(7) Total Value of Affiliate's Outstanding Common Stock	(8) Statutory Surplus of Affiliate Subject to RBC (Adjusted for % Owned)	(9) Book/Adjusted Carrying Value (statement value) of Affiliate's Preferred Stock	(10) Total Value of Affiliate's Outstanding Preferred Stock	(11) Percent Owned*	(12) RBC Required ~~(R0 Component)~~	(13) Market Value Excess Component Affiliate Common Stock RBC Required (R2 Component)
0000001											**100.000%**	**0**	**0**
0000002											**100.000%**	**0**	**0**
0000003											**100.000%**	**0**	**0**
0000004											**100.000%**	**0**	**0**
0000005											**100.000%**	**0**	**0**
0000006											**100.000%**	**0**	**0**
0000007											**100.000%**	**0**	**0**
0000008											**100.000%**	**0**	**0**
0000009											**100.000%**	**0**	**0**
0000010											**100.000%**	**0**	**0**

© 2024 National Association of Insurance Commissioners

Attachment Two-D
Capital Adequacy (E) Task Force
8/14/24

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force
☐ Catastrophe Risk (E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup
☐ Health RBC (E) Working Group
☐ Investment RBC (E) Working Group
☒ P/C RBC (E) Working Group
☐ Life RBC (E) Working Group
☐ Longevity Risk (A/E) Subgroup
☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**1/10/24**
CONTACT PERSON:	**Eva Yeung**
TELEPHONE:	**816-783-8407**
EMAIL ADDRESS:	**eyeung@naic.org**
ON BEHALF OF:	**P/C RBC (E) Working Group**
NAME:	**Tom Botsko**
TITLE:	**Chair**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50 West Town Street, Suite 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-10-P
Year 2024

DISPOSITION

ADOPTED:
☒ TASK FORCE (TF) 04/30/2024
☒ WORKING GROUP (WF) 04/24/2024
☐ SUBGROUP (SG)

EXPOSED:
☐ TASK FORCE (TF)
☒ WORKING GROUP (WG) 03/17/24
☐ SUBGROUP (SG)

REJECTED:
☐ TF ☐ WG ☐ SG

OTHER:
☐ DEFERRED TO
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks
☐ Health RBC Instructions
☐ Health RBC Formula
☒ Property/Casualty RBC Blanks
☐ Property/Casualty RBC Instructions
☐ Property/Casualty RBC Formula
☐ Life and Fraternal RBC Blanks
☐ Life and Fraternal RBC Instructions
☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal included the following changes:

1) Add “in part” to the Line 25 Annual Statement Source.
2) Update Column 1, Line 25 to “Company Record”.

The reason for the change is to eliminate the double-counting issue for those companies that have stop-loss premium as the stop loss premium is expected to be entered on Line 9 of PR019.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

HEALTH PREMIUMS PR019

			(1)			(2) RBC
	Medical Insurance Premium - Individual	Annual Statement Source	Statement Value	Factor		Requirement
(1)	Comprehensive (Medical and Hospital)	Earned Premium (Schedule H Part 1 Column 3 Line 2)	0	†		XXX
(2)	Medicare Supplement	Earned Premium (Schedule H Part 1 Column 7 Line 2 in part)	0	†		XXX
(3)	Dental & Vision	Earned Premium (Schedule H Part 1 Columns 9 + 11 Line 2 in part)	0	†		XXX
(3.1)	Stand-Alone Medicare Part D Coverage	Earned Premium (Schedule H Part 1 Line 2 in part)	0	†		XXX
(3.2)	Supplemental Benefits within Stand-Alone Part D Coverage (Claims Incurred)	Company Records	0	0.500		0
(3.3)	Medicaid Pass-Through Payments Reported as Premium	Company Records	0	0.020		0
(4)	Hospital Indemnity and Specified Disease	Earned Premium (Schedule H Part 1 Line 2 in part)	0	0.035	*	0
(5)	AD&D (Maximum Retained Risk Per Life 0)	Earned Premium (Schedule H Part 1 Line 2 in part)	0	‡		0
(6)	Other Accident	Earned Premium (Schedule H Part 1 Line 2 in part)	0	0.050		0
	Medical Insurance Premium - Group and Credit					
(7)	Comprehensive (Medical and Hospital)	Earned Premium (Schedule H Part 1 Column 5 Line 2)	0	†		XXX
(8)	Dental & Vision	Earned Premium (Schedule H Part 1 Columns 9 + 11 Line 2 in part)	0	†		XXX
(9)	Stop Loss and Minimum Premium	Earned Premium (Schedule H Part 1 Line 2 in part)	0	¥		0
(10)	Medicare Supplement	Earned Premium (Schedule H Part 1 Column 7 Line 2 in part)	0	†		XXX
(10.1)	Stand-Alone Medicare Part D Coverage (see instructions for limits)	Earned Premium (Schedule H Part 1 Line 2 in part)	0	†		XXX
(10.2)	Supplemental benefits within Stand-Alone Part D Coverage (Claims Incurred)	Company Records	0	0.500		0
(10.3)	Medicaid Pass-Through Payments Reported as Premium	Company Records	0	0.020		0
(11)	Hospital Indemnity and Specified Disease	Earned Premium (Schedule H Part 1 Line 2 in part)	0	0.035	*	0
(12)	AD&D (Maximum Retained Risk Per Life 0)	Earned Premium (Schedule H Part 1 Line 2 in part)	0	‡		0
(13)	Other Accident	Earned Premium (Schedule H Part 1 Line 2 in part)	0	0.050		0
(14)	Federal Employee Health Benefit Plan	Earned Premium (Schedule H Part 1 Column 13, Line 2)	0	0.000		0
	Disability Income Premium					
(15)	Noncancellable Disability Income - Individual Morbidity	Earned Premium (Schedule H Part 1 Column 21 Line 2 in part)	0	‡		0
(16)	Other Disability Income - Individual Morbidity	Earned Premium (Schedule H Part 1 Column 21 Line 2 in part)	0	‡		0
(17)	Disability Income - Credit Monthly Balance Plans	Earned Premium (Schedule H Part 1 Column 21 Line 2 in part)	0	‡		
(18)	Disability Income - Group Long-Term	Earned Premium (Schedule H Part 1 Column 21 Line 2 in part)	0	‡		0
(19)	Disability Income - Credit Single Premium with Additional Reserve	Earned Premium (Schedule H Part 1 Column 21 Line 2 in part)	0	‡		0
(20)	Disability Income - Credit Single Premium without Additional Reserve	Earned Premium (Schedule H Part 1 Column 21 Line 2 in part)	0	‡		0
(21)	Disability Income - Group Short-Term	Earned Premium (Schedule H Part 1 Column 21 Line 2 in part)	0	‡		0
	Long-Term Care					
(22)	Noncancellable Long-Term Care Premium - Rate Risk**	Earned Premium (Schedule H Part 1 Column 23 Line 2 in part)	0	0.100		0
(23)	Other Long-Term Care Premium ‡ ‡	Earned Premium (Schedule H Part 1 Column 23 Line 2 in part)	0	0.000		0 ‡ ‡
	Health Premium with Limited Underwriting Risk					
(24)	ASC Business with Premium Revenue	Earned Premium (Schedule H Part 1 Line 2 in part)	0	0.000		0
	Other Health					
(25)	Other Health	Earned Premium (Schedule H Part 1 Column 25 Line 2 **in part**)	0	0.120		0
(26)	Total Earned Premiums	Sum of Lines (1) through (25)	0			0
	C(1), L(26) should equal Schedule H Part 1 Column 1 Line 2					
(27)	Additional Reserves for Credit Disability Plans	Company records	0	§		
(28)	Additional Reserves for Credit Disability Plans, prior year	Company records	0	§		

† The premium amounts in these lines are transferred to PR020 Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement, Dental & Vision and Stand-Alone Medicare Part D Coverage Lines (1.1) and (1.2) for the calculation of risk-based capital. The premium amounts are included here to assist in the balancing of total health premium. If managed care arrangements have been entered into, the company may also complete PR021 Underwriting Risk – Managed Care Credit. In which case, the company will also need to complete PR012 Health Credit Risk in the formula. If there are amounts in any of lines (1), (2), (3), (7), (8) or (10) on page PR019 Health Premiums, the company will also be directed to complete the Health Administrative Expense portion of PR023.

‡ The two tiered calculation is illustrated in the risk-based capital instructions for PR019 Health Premiums.

‡ ‡ The balance of the RBC requirement for Long Term Care - Morbidity Risk is calculated on Page PR023. The premium is shown to allow totals to check to Schedule H.

* If there is premium included on either or both of these lines, the RBC value in Column (2) will include 3.5% of such premium and $50,000 (included in the line with the larger premium).

** The factor applies to all Noncancellable premium.

§ These amounts are used to adjust the premium base for single premium credit disability plans that carry additional tabular reserves.

¥ A factor of .350 will be applied to the first $25,000,000 in Column (1), Line (9) and a factor of .250 will be applied to the remaining premium in excess of $25,000,000.

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

Attachment Two-E
Capital Adequacy (E) Task Force
8/14/24

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ Investment RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☒ P/C RBC (E) Working Group ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE: 1/10/24

CONTACT PERSON: Eva Yeung
TELEPHONE: 816-783-8407
EMAIL ADDRESS: eyeung@naic.org
ON BEHALF OF: P/C RBC (E) Working Group
NAME: Tom Botsko
TITLE: Chair
AFFILIATION: Ohio Department of Insurance
ADDRESS: 50 West Town Street, Suite 300
Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-11-P
Year 2024 & 2025

DISPOSITION

ADOPTED:
☒ TASK FORCE (TF) 04/30/2024
☒ WORKING GROUP (WF) 04/25/2024
☐ SUBGROUP (SG) _____
EXPOSED:
☐ TASK FORCE (TF) _____
☒ WORKING GROUP (WG) 3/17/24
☐ SUBGROUP (SG) _____
REJECTED:
☐ TF ☐ WG ☐ SG _____
OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The Factors are developed based on the 2023 American Academy of Actuaries (Academy) Report for "*Update to Property and Casualty Risk-Based Capital Underwriting Factors and Investment Income Adjustment Factors*" At the 2024 Spring National Meeting, the Working Group agreed to expose the following for a 30-day public comment period ending April 16:

1) Reserve Factors: 2024 Reporting - 50% indicated change with capped international and product liability lines for 2024.
2025 Reporting – 100% indicated change with capped international and product liability lines for 2025.
2) Premium Factors: 2024 Reporting - 50% indicated change with capped Financial Mortgage Guaranty line for 2024.
2025 Reporting – 100% indicated change with capped Financial Mortgage Guaranty line for 2025.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

50% Indicated Change with Capped International and Product Liability in 2024
100% Indicated Change with Capped International and Product Liability in 2025

PR017 Underwriting Risk – Reserves Proposed Line (4), Industry Loss & Expense RBC Factors			
Col.	Line of Business	2024 Factor	2025 Factor
(1)	H/F	0.220	0.226
(2)	PPA	0.192	0.205
(3)	CA	0.318	0.360
(4)	WC	0.363	0.382
(5)	CMP	0.485	0.475
(6)	MPL Occurrence	0.327	0.271
(7)	MPL Claims Made	0.224	0.172
(8)	SL	0.353	0.401
(9)	OL	0.514	0.496
(10)	Fidelity/Surety	0.479	0.586
(11)	Special Property	0.259	0.272
(12)	Auto Physical Damage	0.146	0.137
(13)	Other (Credit A&H)	0.223	0.225
(14)	Financial/Mortgage Guaranty	0.163	0.146
(15)	INTL	0.514	0.669
(16)	REIN. P&F Lines	0.367	0.319
(17)	REIN. Liability	0.626	0.596
(18)	PL	1.014	1.226
(19)	Warranty	0.363	0.355
(20)	Pet Insurance	0.259	0.272

PR017 Underwriting Risk – Reserves Proposed Line (8), Adjustment for Investment Income			
Col.	Line of Business	2024 Factor	2025 Factor
(1)	H/F	0.945	0.951
(2)	PPA	0.933	0.937
(3)	CA	0.919	0.926
(4)	WC	0.807	0.783
(5)	CMP	0.887	0.898
(6)	MPL Occurrence	0.863	0.861
(7)	MPL Claims Made	0.890	0.896
(8)	SL	0.887	0.884
(9)	OL	0.858	0.864
(10)	Fidelity/Surety	0.924	0.908
(11)	Special Property	0.960	0.954
(12)	Auto Physical Damage	0.977	0.978
(13)	Other (Credit A&H)	0.952	0.936
(14)	Financial/Mortgage Guaranty	0.921	0.916
(15)	INTL	0.878	0.881
(16)	REIN. P&F Lines	0.907	0.913
(17)	REIN. Liability	0.816	0.793
(18)	PL	0.843	0.844
(19)	Warranty	0.951	0.961
(20)	Pet Insurance	0.960	0.954

© 2024 National Association of Insurance Commissioners

Attachment Two-E
Capital Adequacy (E) Task Force
8/14/24

50% Indicated Change with Capped Financial Mortgage Guaranty in 2024
100% Indicated Change with Capped Financial Mortgage Guaranty in 2025

PR018 Underwriting Risk – Premiums Proposed Line (4), Industry Losses & Loss Adjustment Expense Ratio			
Col.	Line of Business	2024 Factor	2025 Factor
(1)*	H/F	0.933	0.930
(2)	PPA	0.970	0.970
(3)	CA	1.012	1.014
(4)	WC	1.041	1.037
(5)*	CMP	0.878	0.873
(6)	MPL Occurrence	1.531	1.394
(7)	MPL Claims Made	1.138	1.146
(8)*	SL	0.908	0.894
(9)	OL	1.003	0.993
(10)	Fidelity/Surety	0.756	0.657
(11)*	Special Property	0.829	0.795
(12)	Auto Physical Damage	0.836	0.835
(13)	Other (Credit A&H)	0.931	0.926
(14)	Financial/Mortgage Guaranty	1.805	2.012
(15)*	INTL	1.355	1.476
(16)*	REIN. P&F Lines	1.072	0.973
(17)*	REIN. Liability	1.253	1.183
(18)	PL	1.229	1.194
(19)	Warranty	0.920	0.985
(20)*	Pet Insurance	0.829	0.795

PR018 Underwriting Risk – Premiums Proposed Line (7), Adjustment for Investment Income			
Col.	Line of Business	2024 Factor	2025 Factor
(1)*	H/F	0.960	0.966
(2)	PPA	0.931	0.937
(3)	CA	0.897	0.903
(4)	WC	0.836	0.833
(5)*	CMP	0.909	0.921
(6)	MPL Occurrence	0.781	0.795
(7)	MPL Claims Made	0.845	0.863
(8)*	SL	0.911	0.924
(9)	OL	0.827	0.837
(10)	Fidelity/Surety	0.913	0.922
(11)*	Special Property	0.953	0.957
(12)	Auto Physical Damage	0.975	0.979
(13)	Other (Credit A&H)	0.953	0.958
(14)	Financial/Mortgage Guaranty	0.888	0.891
(15)*	INTL	0.915	0.925
(16)*	REIN. P&F Lines	0.906	0.919
(17)*	REIN. Liability	0.794	0.811
(18)	PL	0.788	0.801
(19)	Warranty	0.938	0.972
(20)*	Pet Insurance	0.953	0.957

*Cat Lines

© 2024 National Association of Insurance Commissioners

Capital Adequacy (E) Task Force

RBC Proposal Form

☒ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**4-24-24**
CONTACT PERSON:	**Eva Yeung**
TELEPHONE:	**816-783-8407**
EMAIL ADDRESS:	**eyeung@naic.org**
ON BEHALF OF:	**Capital Adequacy (E) Task Force**
NAME:	**Tom Botsko**
TITLE:	**Chair**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50 West Town Street, Suite 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-16-CA
Year 2024

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☒ TASK FORCE (TF) 04/30/2024
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☒ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The purpose of this proposal is to provide edits to the RBC Preamble to clarify and emphasize the purposes and the intent of using RBC.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

Attachment Two-F
Capital Adequacy (E) Task Force
8/14/24

Risk-Based Capital
Preamble

History of Risk-Based Capital by the NAIC

A. Background

1. The NAIC, through its committees and working groups, facilitated many projects of importance to state insurance regulators, the industry, and users of statutory financial information in the early 1990s. That was evidenced by the original mission statement and charges given to the Capital Adequacy (E) Task Force (CADTF) of the Financial Condition (E) Committee.

2. From the inception of insurance regulation in the mid-1800s, the limitation of insurance company insolvency risk has been a major goal of the regulatory process. The requirement of adequate capital has been a major tool in limiting insolvency costs throughout the history of insurance regulation. Initially, the states enacted statutes requiring a specified minimum amount of capital and surplus for an insurance company to enter the business or to remain in business.

3. Fixed minimum capital requirements were largely based on the judgment of the drafters of the statutes and varied widely among the states. Those fixed minimum capital and surplus requirements have served to protect the public reasonably well for more than a century. However, they fail to recognize variations in risk between broad categories of key elements of insurance, nor do they recognize differences in the amount of capital appropriate for the size of various insurers.

4. In 1992, the NAIC adopted the life risk-based capital (RBC) formula with an implementation date of year-end 1993. The formula was developed for specific regulatory needs. Four major categories were identified for the life formula: asset risk; insurance risk; interest rate risk; and all other business risk. The property/casualty and health formulas were implemented in 1994 and 1998, respectively. The focus of these two formulas is: asset risk; underwriting risk; credit risk; and business risk (health).

5. The total RBC needed by an insurer to avoid being taken into conservatorship is the Authorized Control Level RBC, which is 50% of the sum of the RBC for the categories, adjusted for covariance. The covariance adjustment is meant to take into account that problems in all risk categories are not likely to occur at the same time.

6. The mission of the CADTF was to determine the amount of capital an insurer should be required to hold to avoid triggering various specific regulatory actions. The RBC formula largely consists of a series of risk factors that are applied to selected assets, liabilities, or other specific company financial data to establish the threshold levels generally needed to bear the risk arising from that item.

7. To carry out its mission, the CADTF was charged with carrying out the following initiatives:
   - Evaluate emerging “risk” issues for referral to the RBC working groups/subgroups for certain issues involving more than one RBC formula.
   - Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.
   - Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).
   - Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the *Accounting Practices and Procedures Manual* and the *Valuation Manual* to ensure that model laws, publications, formulas, analysis tools, etc., supported by the CADTF continue to meet regulatory objectives.

© 2024 National Association of Insurance Commissioners

8. The RBC forecasting, and instructions were developed and are now maintained in accordance with the mission of the CADTF as a method of measuring the threshold amount of capital appropriate for an insurance company to avoid capital specific regulatory requirements based on its size and risk profile.

B. Purpose of Risk-Based Capital

9. The purpose of RBC is to identify potentially weakly capitalized companies in order to facilitate regulatory actions designed to, in most cases, ensure policyholders will receive the benefits promised without relying on a guaranty association or taxpayer funds. Consequently, the RBC formula calculates capital level trigger points that enable regulatory intervention in the operation of such companies.

10. ~~RBC instructions,~~ RBC reports and adjusted report(s) are intended solely for use by the commissioner/state in monitoring the solvency of insurers and the need for possible corrective action with respect to insurers and are considered confidential. All domestic insurers are required to file an RBC report unless exempt by the commissioner. There are no state permitted practices to modify the RBC formula and all insurers are required to abide by the RBC instructions.

11. Comparison of an insurer's TAC to any RBC level is a regulatory tool that may indicate the need for **possible** corrective action with respect to the insurer and is **not intended or appropriate as a means to rank insurers generally**. Therefore—except as otherwise required under the provisions of *Risk-Based Capital (RBC) for Insurers Model Act* (#312) or the *Risk-Based Capital (RBC) for Health Organizations Model Act* (#315)—the making, publishing, disseminating, circulation or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated or place before the public, in a newspaper, magazine or other publication, or in a form of a notice, or in any other way, an advertisement, announcement or statement (including but not limited to press releases, earnings releases, webcast materials, or any other earnings presentations or webcasts) containing an assertion, representation or statement with regard to the RBC levels of any insurer or of any component derived in the calculation by any insurer is prohibited.

C. Objectives of Risk-Based Capital Reports

12. The primary responsibility of each state insurance department is to regulate insurance companies in accordance with state laws, with an emphasis on solvency for the protection of policyholders. The ultimate objective of solvency regulation is to ensure that policyholder, contract holder and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute.

    To support this role, the RBC reports identify potentially weakly capitalized companies in that each insurer must report situations where the actual TAC is below a threshold amount for any of the several RBC levels. This is known as an "RBC event" and reporting is mandatory. The state regulatory response is likely to be unique to each insurer, as each insurer's risk profile will have some differences from the average risk profile used to develop the RBC formula factors and calculations.

    There are several RBC levels with different levels of anticipated additional regulatory oversight following the reporting of an RBC event. Company Action Level (CAL) has the least amount of additional regulatory oversight, as it envisions the company providing to its regulator a plan of action to increase capital or reduce risk or otherwise satisfy the regulator of the adequacy of its capital. Regulatory Action Level (RAL) is the next higher level, where the regulator is more directly involved in the development of the plan of action. Authorized Control Level (ACL) anticipates an even higher amount of regulatory action in implementing the plan of action. Mandatory Control Level (MCL) requires the insurance commissioner to place the reporting entity under regulatory control.

D. Critical Concepts of Risk-Based Capital

13. Over the years, various financial models have been developed to try to measure the "right" amount of capital that an insurance company should hold.[1] "No single formula or ratio can give a complete picture of a company's

[1] Report of the Industry Advisory Committee to the Life Risk-Based Capital (E) Working Group, p. 6; Nov. 17, 1991.

© 2024 National Association of Insurance Commissioners

operations, let alone the operation of an entire industry. However, a properly designed formula will help in the early identification of companies with inadequate capital levels and allow corrective action to begin sooner. This should ultimately lower the number of company failures and reduce the cost of any failures that may occur."

14. Because the NAIC formula develops threshold levels of capitalization rather than a target level, it is neither useful nor appropriate to use the RBC formula to compare the RBC ratio developed by one insurance company to the RBC ratio developed by another. Comparisons of amounts that exceed the threshold standards do not provide a reliable assessment of their relative financial strength. For example, a company with an RBC ratio of 600% is not necessarily financially stronger than a company with an RBC ratio of 400%. For this reason, Model #312 and Model #315 prohibit insurance companies, their agents and others involved in the business of insurance using the company's RBC results to compare competitors.

15. The principal focus of solvency measurement is the determination of financial condition through an analysis of the financial statements and RBC. However, protection of the policyholders can only be maintained through continued monitoring of the financial condition of the insurance enterprise. Operating performance is another indicator of an enterprise's ability to maintain itself as a going concern.

16. The CADTF and its RBC working groups are charged with evaluating refinements to the existing NAIC RBC formula and considering improvements and revisions to the various RBC blanks to 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity (when it is determined to be necessary); and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified.

17. The CADTF and its RBC working groups will monitor and evaluate changes to the annual financial statement blanks and the *Purposes and Procedure Manual of the NAIC Investment Analysis Office* to determine if assets or, specifically, investments evaluated by the NAIC Securities Valuation Office are relevant to the RBC formula in determining the threshold capital and surplus for all insurance companies or whether reporting available to the regulator is a more appropriate means to addressing the risk. The CADTF will consider different methods of determining whether a particular risk should be added as a new risk to be studied and selected for a change to the applicable RBC formula, but due consideration will be given to the materiality of the risk to the industry, as well as the very specific purpose of the RBC formulas to develop regulatory threshold capital levels.

E. Limited use of Risk-Based Capital

18. Use of RBC is limited to identifying potentially weakly capitalized companies to facilitate regulatory action and oversight. Any other application of RBC would be inappropriate to the detriment of policyholders, companies, and investors. While RBC may be used in other components of the regulatory framework, such uses should be in the context of identifying potentially weakly capitalized companies. For example, statutory accounting may leverage RBC in determining the admissibility of certain types of assets, when the benefits of those assets may not be readily available to the policyholders of a troubled company.

19. RBC does not provide a complete, clear, or meaningful ranking of insurers. For example, an insurer voluntarily strengthening assumptions used for reserving would generally reduce an insurer's RBC ratio but does not indicate a weaker position than a similarly situated insurer who did not elect to strengthen assumptions used for reserving. Regulators are able to consider a complete picture of the insurer's financial situation to appropriately follow up on RBC action levels. Using RBC beyond its intended purpose could create perverse incentives for companies that are not at risk of triggering an action level.

20. RBC requirements for particular risk categories were developed based on specific regulatory guidelines and following agreed upon procedures and methodologies. The RBC requirements were developed with regulatory needs in mind. They were not developed or intended for any other use. As such, except where prescribed, RBC requirements would not be appropriate to rely on in other contexts such as reserve setting or risk management or evaluating the risk of investments. While the development of RBC requirements often rely on historical data points, the data used extends over a substantial period of years and the actuarial modeling extends out over a long time horizon. They do not reflect risk at any one point in time. Moreover, the granularity of an analysis for

© 2024 National Association of Insurance Commissioners

Preamble

RBC purposes likely differs from the granularity appropriate for other applications. Therefore, RBC requirements are not appropriate to evaluate the relative or absolute level of risk outside of the context of a regulatory framework for identifying potentially weakly capitalized companies.

21. Because RBC is a broad tool to facilitate regulatory oversight, an insurer's RBC can fluctuate without indicating a corresponding change in the insurer's financial strength.

© 2024 National Association of Insurance Commissioners

Attachment Two-F
Capital Adequacy (E) Task Force
8/14/24

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**4/25/2024**
CONTACT PERSON:	**Dave Fleming**
TELEPHONE:	**816-783-8121**
EMAIL ADDRESS:	**dfleming@naic.org**
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**
NAME:	**Philip Barlow, Chair**
TITLE:	**Associate Commissioner of Insurance**
AFFILIATION:	**District of Columbia**
ADDRESS:	**1050 First Street, NE Suite 801**
	Washington, DC 20002

FOR NAIC USE ONLY

Agenda Item # 2024-17-L
Year 2024

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) 6/28/2024
☒ WORKING GROUP (WG) 6/18/2024
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☒ WORKING GROUP (WG) 4/25/2024
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal adds a factor for the line added to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component as part of proposal 2024-05-L. This AVR line was not included in the LR009 changes made with the mortgage methodology change in 2013.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

SCHEDULE BA MORTGAGES

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Involuntary Reserve Adjustment †	(3) RBC Subtotal	(4) Cumulative Writedowns ‡		(5) Average Factor		(6) RBC Requirement
	In Good Standing									
(1)	Insured or Guaranteed	AVR Equity Component Column 1 Line 43 + Line 45				XXX	X	0.0014	=	
(2)	**Affiliated Mortgages – Residential – All Other**	AVR Equity Component Column 1 Line 44				XXX	X	**0.0068**	=	
(3)	Unaffiliated Mortgages with Covenants	AVR Equity Component Column 1 Line 57				XXX	X	*	=	
(4)	Unaffiliated Mortgages - Defeased with Government Securities	AVR Equity Component Column 1 Line 58				XXX	X	0.0090	=	
(5)	Unaffiliated Mortgages - Primarily Senior	AVR Equity Component Column 1 Line 59				XXX	X	0.0175	=	
(6)	Unaffiliated Mortgages - All Other	AVR Equity Component Column 1 Line 60				XXX	X	0.0300	=	
(7)	Affiliated Mortgages - Category CM1	AVR Equity Component Column 1 Line 38				XXX	X	0.0090	=	
(8)	Affiliated Mortgages - Category CM2	AVR Equity Component Column 1 Line 39				XXX	X	0.0175	=	
(9)	Affiliated Mortgages - Category CM3	AVR Equity Component Column 1 Line 40				XXX	X	0.0300	=	
(10)	Affiliated Mortgages - Category CM4	AVR Equity Component Column 1 Line 41				XXX	X	0.0500	=	
(11)	Affiliated Mortgages - Category CM5	AVR Equity Component Column 1 Line 42				XXX	X	0.0750	=	
(12)	Total In Good Standing	Sum of Lines (1) through (11)								
	90 Days Overdue, Not in Process of Foreclosure									
(13)	Insured or Guaranteed 90 Days Overdue	AVR Equity Component Column 1 Line 47 + Line 49				XXX	X	0.0027	=	
(14)	All Other 90 Days Overdue - Unaffiliated	AVR Equity Component Column 1 Line 61				XXX	X	0.1100	=	
(15)	All Other 90 Days Overdue - Affiliated	AVR Equity Component Column 1 Line 48 + Line 50				XXX	X	0.1100	=	
(16)	Total 90 Days Overdue, Not in Process of Foreclosure	Lines (13) + (14) + (15)								
	In Process of Foreclosure									
(17)	Insured or Guaranteed in Process of Foreclosure	AVR Equity Component Column 1 Line 52 + Line 54				XXX	X	0.0054	=	
(18)	All Other in Process of Foreclosure - Unaffiliated	AVR Equity Component Column 1 Line 62				XXX	X	0.1300	=	
(19)	All Other in Process of Foreclosure - Affiliated	AVR Equity Component Column 1 Line 53 + Line 55				XXX	X	0.1300	=	
(20)	Total In Process of Foreclosure	Lines (17) + (18) + (19)								
(21)	Total Schedule BA Mortgages (pre-MODCO/Funds Withheld)	Lines (12) + (16) + (20)								
(22)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)								
(23)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)								
(24)	Total Schedule BA Mortgages (including MODCO/Funds Withheld.)	Lines (21) - (22) + (23)								

† Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
‡ Cumulative writedowns include the total amount of writedowns, non-admissions, and involuntary reserves that have been taken or established with respect to a particular mortgage.
* This will be calculated as Column (6) divided by Column (3).

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

Attachment Two-H
Capital Adequacy (E) Task Force
8/14/24

167 Fleet Street, London EC4A 2EA, UK
+44 (0)20 7822 8380
info@aima.org
acc.aima.org

Mr. Tom Botsko
Chair, Capital Adequacy Task Force ("CATF")
National Association of Insurance Commissioners ("NAIC")
via email to Eva Yeung (eyeung@naic.org)

April 16, 2024

Dear Chair Botsko:

Re: Proposal 2024-02-CA (Residual Structure PC & Health)

The Alternative Credit Council ("ACC")[1], the private credit affiliate of the Alternative Investment Management Association Ltd ("AIMA"), appreciates the opportunity to comment on CATF's proposal to increase the capital charge for the residual tranches of asset-backed securities ("ABS") contained in Proposal 2024-02-CA. For CATF members that are not members of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBC-IRE"), on February 26, the ACC submitted an independent study conducted by Oliver Wyman ("OW") that compared the 45% ABS residual charge to similar investments that have already received an NAIC capital charge.[2]

The study concludes that, on a portfolio basis, ABS residuals perform better than common equity under all modeled stress scenarios. Further, common stock losses are 30 percent higher than ABS residuals in the Deep-Tail stress scenario and 35-50 percent

1 The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over $1trn of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

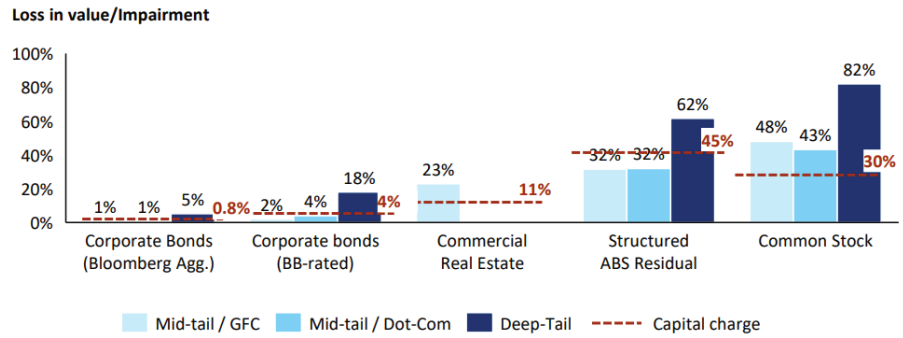
2 A copy of the February 26, 2024, ACC letter to the RBC-IRE can be found on pages 11-13 of the RBC-IRE March 17, 2024 meeting materials and the OW report can be found on pages 14-65 at rbcire-materials-20240317.pdf (naic.org)

The ACC is the private credit affiliate of the Alternative Investment Management Association Limited (AIMA)
AIMA is registered in England as a Company Limited by Guarantee, No. 4437037. VAT Registration no. 577 5913 90. Registered Office as above.

© 2024 National Association of Insurance Commissioners

higher than ABS residuals in the Mid-Tail stress scenarios. This conclusion is shown in Figure 22 on page 30 of the Oliver Wyman research paper (copied below).

Figure 22: Capital charges compared to modeled scenario losses for selected asset classes[30]



The OW analysis indicates that a 45% charge would not be consistent with the capital charge imposed on similar equity investments such as commercial real estate equity and common stock. In addition to this OW study, in this letter we provide additional data analyses that demonstrate the relative safety and outperformance of CLO equity tranches compared to common stock.

Claims of 100% cliff losses versus historical track record

One concern raised by regulators is whether ABS residual tail losses during periods of market stress could be 100% in absolute terms and much greater in comparison to public equities. However, Larry Cordell, an economist at the Federal Reserve Bank of Philadelphia, along with Professor Michael Roberts of the Wharton School at the University of Pennsylvania, performed a detailed analysis of CLO residuals from 1997-2021. The results of their analysis were published in the Journal of Finance and found that CLO equity outperformed the S&P 500 during that time period.[3] Their study also found that on a risk-adjusted basis, CLO equity outperformed equity "against a variety of public benchmarks."[4] A key finding of this study was the relative stability of CLO equity during two periods of significant market instability, namely the 2001 dot-com bubble and the 2008 Great Financial Crisis. The authors noted that CLOs' "equity performance highlights the resilience of CLOs to market volatility."[5] The authors attributed the outperformance of CLO equity to several of the structural features of CLOs, including "their closed-end structure, long-term funding, and embedded options to reinvest principal proceeds."[6]

3 Cordell, R, and Schwert, M, CLO Performance, Journal of Finance, 2023. https://doi.org/10.1111/jofi.13224
4 *Id.* at 2. "Our central finding is that CLO equity tranches provide statistically and economically significant abnormal returns, or "alpha," against a variety of public benchmarks…"
5 *Id.* at 20.
6 *Id.* at 1. *See also* Jeff Helsing, Can CLO Equity Outperform if the Economy Tips into Recession?, September 26, 2022, Can CLO Equity Outperform If the Economy Tips Into Recession? | Western Asset

© 2024 National Association of Insurance Commissioners

The Cordell study provides a clear historical track record that CLO residuals do not suffer complete losses during periods of financial stress. In addition to the reasons cited above, residuals are priced well below par (unlike corporate bonds), reflecting both the high discount rates and an expectation of some credit losses. As a result, the interest payments are a meaningful contributor to the overall value--again, unlike corporate bonds. Even in a severe stress, both the Cordell and OW studies demonstrate that CLO equity investors can still expect to receive cash flows.

CTE 90 vs VAR 95-99 percentile

Some RBC-IRE members have asked about the difference between contingent tail exposure ("CTE") 90 and Value at Risk ("VaR") at the 95th or 99th percentile. While CTE represents the average probability-weighted loss above a certain probability level, VaR represents the loss at a specific probability level. The American Academy of Actuaries is using a CTE approach, so if the CTE 90 level is what becomes adopted, that would calculate the average of losses above the 90th percentile. The OW study examined losses at both the 95th and 99th percentiles. Those are both specific percentile points of the loss distribution but are at the higher end of the CTE 90 average range. This difference can also be explained by the fact that the OW study used stress tests during three different periods of financial stress, which is not compatible with the kind of Monte Carlo simulation used to calculate CTE. Also, the purpose of the OW study was to compare the interim capital charge for ABS residuals to that of established NAIC capital charges for similar assets, and the NAIC has historically used a 94-96th percentile VaR to establish capital charges.

BSL residuals vs. the other ABS residuals in the OW study

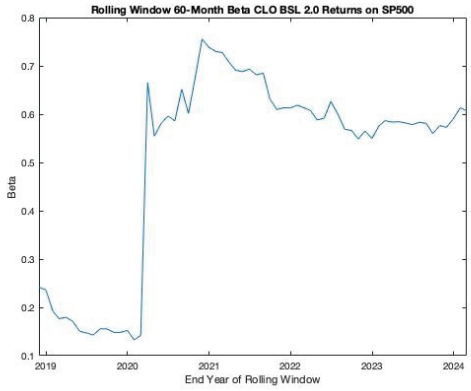
The OW study clearly demonstrates that all three analyzed types of ABS equity outperformed common stock during periods of market stress, including the 2001 dot-com bubble, the 2008 Great Financial Crisis, and the 1930s Great Depression. However, given that the equity of one sub-type of collateralized loans ("CLOs"), namely broadly syndicated loans ("BSLs"), performed better overall than common stock but similar in the two medium-tail stresses, we asked finance Professor Daniel Svogun to perform a beta analysis to determine whether or not BSL equity has lower volatility than common stock.[7]

Professor Svogun was able to use time series data from Bank of America on CLO BSLs monthly median equity prices to calculate BSL equity beta using the NAIC's formula for measuring monthly volatility over a 60-month rolling window. The results of Professor Svogun's analysis (see chart below) demonstrate that the 60-month rolling beta of BSL

7 Professor Daniel Svogun is a professor of finance at the Busch School of Business, Catholic University of America, whose research specializes in the "time value of money, ratio analysis, [and] the valuation of stock and bonds." https://business.catholic.edu/faculty-and-research/faculty-profiles/svogun-daniel/index.html

© 2024 National Association of Insurance Commissioners

equity is well below 1 (any beta result lower than 1 indicates less volatility relative to the S&P 500). This beta analysis compared the monthly CLO equity price change to the S&P 500 index performance each month. The beta of the full period studied (Dec. 2013 – Feb. 2024) with over 750 BSL CLOs included is .4989, which is well below the NAIC's .75 beta threshold for the lowest charge of 20%. The chart shows the 60-month rolling average beta following the NAIC's formula. During that time period, the beta of BSL equity remains below the .75 threshold in all but one month, where it reaches .7564. Note the time indicated in the x-axis is the ending period of the 60-month rolling beta. As a result, to be consistent with the principle of equal capital for equal risk, it would be more appropriate for the NAIC RBC charge for BSL equity to be adjusted to 20% using the NAIC's formula to adjust the equity capital charge according to its level of volatility compared to the S&P 500.



Bank of America CLO data; calculations from finance professor Daniel Svogun, Ph.D., Busch School of Business, CUA

This finding that BSL equity is less volatile than the S&P 500 should not be a surprise because it is consistent with the results of both the OW study and the Cordell CLO equity research paper. Furthermore, it provides additional evidence of the relative outperformance of BSL CLO equity compared to common stock.

The overly conservative nature of a single 45% ABS residual charge

In response to regulators' requests, we were able to anecdotally confirm that insurers invest in CLOs, investment-grade auto loan and student loan ABS residuals. However, several of our insurance and investment members noted that they invest in other types of ABS as well and expressed concerns about the inequity of a single residual C-1 charge of 45% for all ABS regardless of the type or quality of the underlying collateral.

One specific example where a 45% residual C-1 factor would be unwarranted is for

© 2024 National Association of Insurance Commissioners

Commercial Property Assessed Clean Energy (C-PACE) ABS[8]. C-PACE ABS are backed by loans to U.S. commercial property owners that finance energy efficiency, water conservation and renewable energy projects. C-PACE loans are high-quality, super senior to a mortgage loan on a property, given that the loans are repaid as a benefit assessment on the property tax bill. However, it is uneconomic and unfeasible to rate or invest in individual C-PACE loans at scale due to the relatively small average ticket size.

As a result, C-PACE loans are aggregated in a securitization or structured product so that insurers can invest in the C-PACE asset class. However, the 45% C-1 charge on the residual tranche, even if it is a small part of the structure, can negatively impact the capital-adjusted risk-return profile of a C-PACE ABS. Insurance investors in C-PACE ABS are already subject to higher capital charges compared to investing directly in the underlying, so the interim 45% residual charge makes it even harder to justify the relative risk-reward analysis for an insurance investment. Investors are aware that the 45% residual charge is meant to be an interim one, but the reality is that it may be in place for many years, particularly for smaller ABS asset classes. This would, in effect, significantly disincentivize insurers from investing in high-quality and sustainable C-PACE assets.

Conclusion

At a high level, the OW analysis and findings demonstrate that expected losses in stress scenarios can vary depending on the underlying collateral and structure, which makes a single 45% residual charge inappropriate. As more information is gained on insurers' residual exposure, there are likely other types of ABS besides student loan ABS, auto loan ABS and C-PACE ABS for which a 45% charge would not be appropriate based on their specific level of risk. As a result, we respectfully request the NAIC to reconsider imposing the highest capital charge level in its history until the impact of this charge on all ABS residuals is better understood and determined to be appropriate.

We welcome the opportunity to discuss these supplementary comments and additional data analyses. From our perspective, there are now only two data-driven analyses available to you, both of which demonstrate that a single 45% charge on ABS residuals would not correspond to the actual levels of risk.

If you have any questions about the OW study, the Cordell paper or any other points made in this letter, please contact me or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at 202-304-0311 or jengelhard@aima.org. The ACC has

8 C-PACE loans are used by commercial property owners to finance climate and environment-related projects, including climate resiliency, renewable energy, and water and energy efficiency improvements. *See generally*, "Credit FAQ: ABS Frontiers: The C-PACE Space Explained", (2024) at https://www.spglobal.com/ratings/en/research/articles/231213-credit-faq-abs-frontiers-the-c-pace-space-explained-12943764.

© 2024 National Association of Insurance Commissioners

provided two similar comment letters to the RBC-IRE regarding the Oliver Wyman study (copy attached). All of the points in those two comment letters are summarized in this updated version.

Respectfully,



Jiří Król
Global Head of Alternative Credit Council

© 2024 National Association of Insurance Commissioners

OliverWyman

RESIDUAL TRANCHE RISK ANALYSIS

February 26, 2024

A business of Marsh McLennan

© 2024 National Association of Insurance Commissioners

Confidentiality

Our clients' industries are extremely competitive, and the maintenance of confidentiality with respect to our clients' plans and data is critical. Oliver Wyman rigorously applies internal confidentiality practices to protect the confidentiality of all client information.

Similarly, our industry is very competitive. We view our approaches and insights as proprietary and therefore look to our clients to protect our interests in our proposals, presentations, methodologies, and analytical techniques. Under no circumstances should this material be shared with any third party without the prior written consent of Oliver Wyman.

© Oliver Wyman

Contents

1. Executive Summary 1

2. Introduction 2
2.1. Context 2
2.2. Objective of report 3
2.3. Guiding Principles 3
2.4. Precedents 3

3. Methodology 5
3.1. Asset Scope & Selection 6
3.2. Modeling Approach 8
3.3. Scenario Calibration 10
3.4. Output Metrics 21

4. Results 23
4.1. Introduction 23
4.2. Summary 23
4.3. Results by asset class 23

5. Conclusion 30

Appendix A. 32
A.1. Results 32
A.2. Data Sources 34
A.3. Sensitivity Analysis 36
A.4. Deals Modeled 38

© Oliver Wyman

1. Executive Summary

This report presents a quantitative analysis of the relative risk of residual tranches of Asset-Backed Securities (ABS). We analyzed the potential losses under historically-calibrated stress scenarios, considering both "mid-tail" (~95th percentile) and "deep-tail" stress scenarios, on a portfolios of residual tranche deals. This analysis then enables us to compare the decline in valuation of these assets to the losses experienced by other asset classes in the corresponding stress periods.

In Section 1, we observe the growing significance of structured products to insurer balance sheets. We then outline the primary objectives of this report: to conduct a fact-based assessment of ABS residual tranches that enables objective comparisons to other common assets and provides data to help inform the calibration of the capital charge of residual tranches. We then outline the guiding principles on which we based our analytical approach, including aligning our approach with the approaches taken by the NAIC in its calibration of the capital charges for other investment assets.

In Section 2, we describe our methodological approach to assessing the risk associated with residual tranches ABS deals. We begin by describing the process by which we determine the scope of assets for our analysis, namely CLOs, auto loans, and student loans, and the selection of the specific deals in our analysis. Next, we present our modeling approach, a scenario-based approach that considered the cash flows available to these tranches. We then describe, for each asset type, the method used to calibrate our base scenario, mid-tail (95th percentile), and deep-tail stress scenarios, including the choice of historical data. We conclude this section with a discussion of the balance sheet treatment of residual tranches and the output metrics examined.

In Section 3, we discuss the results of our analysis. Our analysis focused on the decline in fair-value, measures as the net present value of the cash flows available to the residual tranche under each scenario. We find that these losses vary, among other factors, based on the underlying collateral and residual thickness. For the asset types examined, losses at a portfolio-level ranged from -42% for broadly syndicated CLOs to -6% for prime auto loans under mid-tail scenario.

In Section 4, we compare the observed losses, on both an aggregate basis and for each asset type, with those of other common assets, specifically common stock, commercial real estate, and corporate bond. We find that ABS residual tranches realize lower losses on a portfolio-level than does common stock under corresponding levels of macroeconomic stress, though ABS residual tranches realize greater losses than do commercial real estate and low-rated corporate bonds.

The subsequent report is intended to provide a data-driven and objective analysis to bring fact-based insight into an under-researched topic within the insurance industry.

© Oliver Wyman

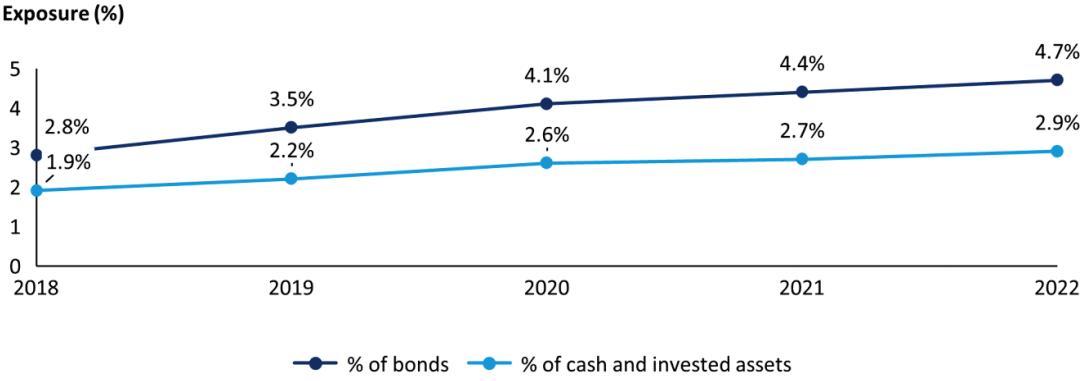
© 2024 National Association of Insurance Commissioners

2. Introduction

2.1. Context

In recent years, insurance companies have increased their allocation assets to structured products – including Asset-Backed Securities (ABS) – in efforts to build an attractive investment portfolio to support policy obligations. These insurers strategically allocate a portion of their assets to these securities, typically with the dual goals of enhancing their investment returns and diversifying their portfolio by accessing a broader spectrum of investment opportunities. Figure 1[1] illustrates this growth in CLO exposure across insurers as a percentage of bonds and of cash and invested assets. The complexity of structured ABS, particularly the residual tranches, have raised concerns about the value of these assets during stress periods.

Figure 1: US insurer CLO exposure, % (annual 2018-2022)



Structured products are financial instruments crafted to offer investors exposure to a wide range of underlying collateral including, but not limited to, corporate loans, auto loans, and student loans. The specific mechanics of these products have evolved over time and vary by sector. However, the products most often have different tranches, ranging from most-senior (often AAA-rated) to most junior (residual equity), to meet the risk appetite and return requirements of different types of investors. The relative risk of the tranches is largely determined by the order of the cash flows paid from the underlying collateral; that is, senior tranches receive cash flows first, and subsequent payments cascade down the deal's "waterfall" until they reach the equity tranche, which is paid last. This payment hierarchy ensures that investors in different tranches are treated fairly and receive their payments according to the predetermined order.

The complexity of structured ABS, particularly the residual tranches, combined with their increased prevalence, has raised concerns about the potential losses on these assets during stress periods and resulted in an increase in scrutiny from regulators and other industry stakeholders. The NAIC recently begun to undertake a broader review in 2023 of its capital approach for structured products, including ongoing efforts around CLOs. However, as an intermediate measure, it has proposed applying a 45% capital charge for residual

[1] U.S. insurer CLO exposure to bonds and cash & invested assets from 2018 - 2022 (%): *NAIC, "Continued Double-Digit Increase in U.S. Insurers' Collateralized Loan Obligation Exposure in 2022" (2022)*

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

tranches. The NAIC has indicated an interest in receiving quantitative analysis of the risk profile of residual tranches from industry participants to inform its calibration of the factor applied to these assets.

2.2. Objective of report

In this report, we focus on the residual equity tranche of asset-backed securities (ABS), which generally have the lowest-priority entitlement to cash flows within the broader deal waterfall. Limited rigorous quantitative analysis has been performed to evaluate the risk associated with these assets and support a calibration of a capital charge for use within the NAIC's Risk-Based Capital framework. This report seeks to remedy this gap by:

- Applying a fact-based assessment to evaluate the risk profile of residual tranches of ABS
- Enabling an objective comparison of the risk profile of residual tranches to other commonly held assets, such as equities, real estate, or corporate bonds
- Providing data to help inform the calibration of the capital charge of residual equity tranches

2.3. Guiding Principles

We designed our analytical approach based on three guiding principles:

- First, our modeling approach was, to the extent possible, based on the NAIC's own methodology to calibrate RBC charges for other investment assets
- Second, our approach aimed to capture the substantial variation in the underlying collateral as well as structuring between asset classes.
- Third, we designed our approach to be based on projected cash flows isolating losses due to credit risk, as opposed to other risks such as interest rate or liquidity risk

2.4. Precedents

Historically, the NAIC has used a range of similar methodologies to calibrate the capital charge of different asset classes. To inform the analysis undertaken in this paper, we surveyed these approaches to identify the methodologies and approaches applied. **Table 1** shows the approach the NAIC has taken in determining the RBC charges for corporate bonds, equities, and real estate.

Table 1: Select RBC charge calibration approaches

Asset		RBC charge	Timing	Severity	Calibration approach
Corporate bonds	NAIC 1	0.16%-1%	10-year loss horizon	96th percentile (for the entire bond portfolio)	Simulation (cumulative defaults under 2,000 stochastic trials)
	NAIC 2	1%-2%			
	NAIC 3	3%-6%			
	NAIC 4	7%-12%			
	NAIC 5	16%-30%			

© 2024 National Association of Insurance Commissioners

	NAIC 6	30%			
Equities		30%[2]	2-year loss horizon	94th percentile	Historical data (S&P 500 from 1960-1991)
Real Estate		11%-13%	2-year loss horizon (to capture economic cycle)	96.8th percentile confidence level	Historical data (national database of real property and mortgage securities data from 1978-2020)

Based on this survey, we identified five components of the prior calibration efforts that informed our methodological approach:

- Capital charges were calibrated at a 94-96th percentile
- Calibration was based on historical data (period and length vary by asset class)
- Calibration considered a multi-year window to capture full length of an adverse event
- Losses were measured on an aggregated basis for the relevant asset class, by examining performance of an index or diversified portfolio
- Metrics used to measure losses, while varying, reflect the balance sheet treatment for asset type

Our methodology is consistent with these observations by:

- Evaluating losses at the 95th percentile event or "mid-tail" (vs. Deep-tail)
- Using historical experience for underlying collateral to calibrate potential losses
- Calibrating losses over the full credit cycle
- Considering aggregate performance of a representative portfolio of assets
- Defining risk metrics consistent with balance sheet treatment

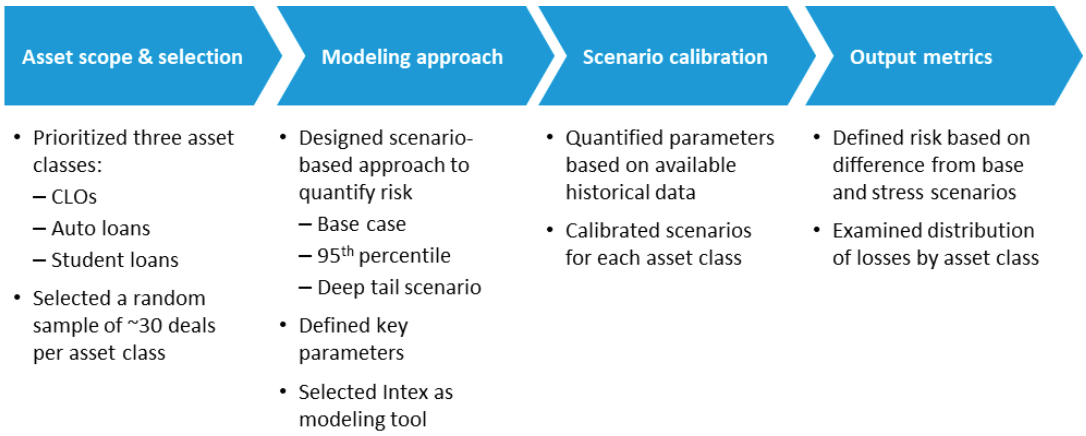
[2] For $\beta = 1$

© 2024 National Association of Insurance Commissioners

3. Methodology

We structured our methodological approach into four primary steps. First, we determined the asset scope and selection of deals for modeling. Second, we determined our modeling approach, which utilized a scenario-based methodology to quantify the relative risk of these assets. Third, we calibrated specific stress scenarios to simulate against these deals. Fourth, we defined the output metrics to measure the impact of these stress scenarios on the portfolio of in-scope deals. **Figure 2** provides an overview of this approach.

Figure 2: Overview of approach



The following sections provide additional information on the asset scope & selection, modeling approach, scenario calibration, and chosen metrics.

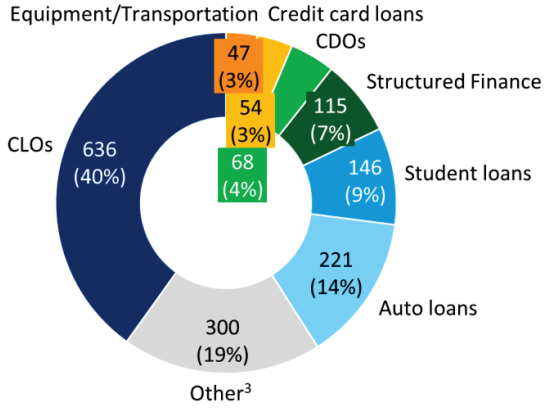
© 2024 National Association of Insurance Commissioners

3.1. Asset Scope & Selection

3.1.1. Asset Scope:

We selected three classes of ABS on which to focus our analysis: CLOs, auto loans, and student loans. These classes were chosen as they compose the largest share of outstanding ABS volume. We further segmented CLOs into Middle-Market (MM) and Broadly Syndicated Loan (BSL) CLOs and auto loan ABS into prime and subprime auto loan ABS. **Figure 3** illustrates the total ABS outstanding volume by asset class.

Figure 3: ABS total outstanding volume by asset class, $B (%) (2021)[3]



The figure shows that CLOs represent the plurality of the total US ABS market (40%), while auto and student loan ABS represent the next largest shares among individual asset classes (14% and 9%, respectively). Asset classes such as Collateralized Debt Obligations (CDO), credit card loans, and equipment/transportation represent a small share of the ABS market (4%, 3%, and 3%, respectively).

We examined the two largest segments of the CLO market: Middle-Market (MM) and Broadly Syndicated Loan (BSL) CLOs (which make up roughly 90% of the CLO market). Similarly, we examined the two largest segments of the auto loan ABS market: prime and subprime (which make up roughly 75% of the Auto ABS market).

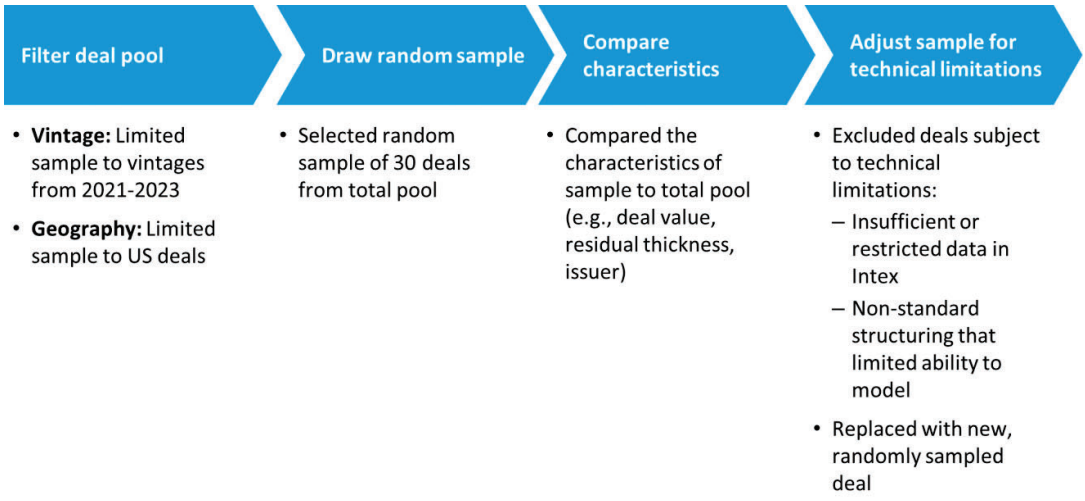
[3] ABS total outstanding volume by asset class in 2021 (%): *SIFMA US ABS Securities*

© 2024 National Association of Insurance Commissioners

3.1.2. Selection Process:

For each subclass of ABS, we followed the steps below in **Figure 4** to select an appropriate set of securities to model.

Figure 4: Overview of asset selection process



We selected a random sample of deals to model within each subclass: CLOs (both MM and BSL), auto loans (both prime and subprime), and student loans. The selection process was consistent across all the asset classes in scope. This process, although random, controlled for two factors: vintage and geography. First, we limited our sample to vintages originated between 2021 and 2023. This approach was taken to reflect current deal structures and because these deals comprise a greater portion of the outstanding issuance – and will thus be most relevant to future implementations of proposed capital rules. Additionally, we only included US deals, as these are the most relevant for US-based life insurers. After applying the two filters to the broader deal universe of each respective asset class, we selected a random sample of thirty deals from the total pool of deals modeled in Intex[4]. This sample size was chosen to achieve sufficient statistical breadth while maintaining a manageable volume of deals. We assumed that the process of random sampling would yield a statistically representative sample. After selecting a random sample of deals, we compared summary statistics of our sample with the full universe of US deals originated between 2021 and 2023, which can be seen in Section A.4 of the Appendix, and in all cases observe similar distributions across the examined characteristics. Finally, we adjusted the sample as needed on a case-by-case basis, due to either technical constraints (e.g., insufficient or restricted data on the deal in Intex) or individual deal characteristics (e.g., nonstandard structuring). **Table 35** provides a list of all deals excluded from our analysis.

[4] See Section A.4 of appendix for summary statistics of sample compared to total deal universe

© 2024 National Association of Insurance Commissioners

3.2. Modeling Approach

We utilized a scenario-based approach to measure the relative risk of ABS residuals across simulated base and stress cases in Intex. We chose to use Intex due to the breadth of ABS deals accessible within the platform, the thorough coverage of the specific legal terms of our in-scope ABS, and Intex's capability to generate resulting cash flows of deals based on assumptions about the underlying collateral behavior.

Several decisions guided our modeling approach:

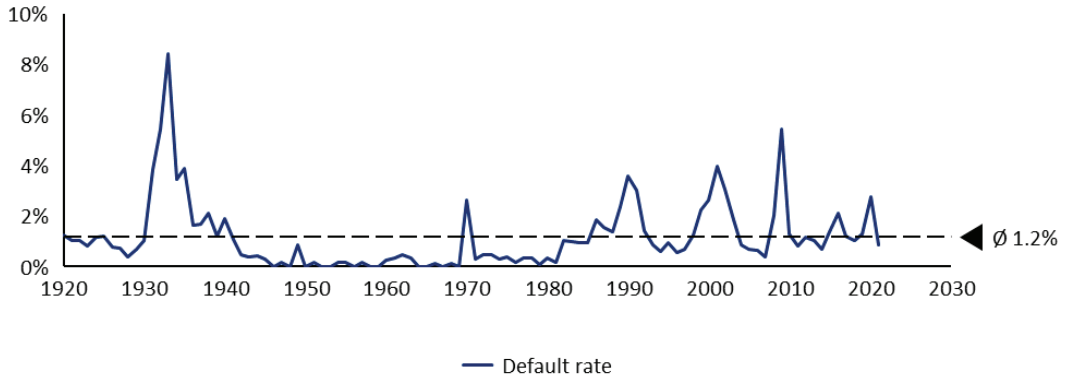
- We evaluated multiple historical, stress scenarios which was consistent with NAIC's methodology of calibrating the RBC charges of other asset classes based on observed historical experience (e.g., equities and real estate). We did not use a stochastic methodology to estimate the impact of stress on the value of residuals because of a lack of historical data of the underlying investment sufficient to make such a complex statistical models robust.
- We designed three stress scenarios to simulate the impact of a range of severities in adverse economic conditions on the in-scope asset classes.
- We applied stress to the underlying collateral of the assets rather than the bonds comprising the ABS. This is because the value of equity tranches is derived from the value of the underlying assets, for which there is more robust available data.
- We determined the severity of our scenarios based on several factors. To maintain consistency with how the NAIC has calibrated capital charges historically, we created two stress scenarios of approximately 95th percentile severity[5], considering relative historical and economic significance events with different default timing profiles. In addition, to understand the potential for losses in a deep-tail event, we also considered a "Deep-tail" scenario, modeled after the Great Depression, and intended to reflect approximately a 99th percentile severity. We did not have sufficient data to conduct a robust statistical analysis to directly model the severity for this scenario. Rather, we used default rates of Corporate Bonds from Moody's Investors Service as a proxy for increase in credit losses under the Deep-tail scenario. **Figure 5** illustrates annual corporate bond default rates from 1920-2021. During this approximately 100-year period, we observed four large spikes in default rates: the Great Depression (1931-1940), Savings & Loan Crisis (1986-1992), the Dot-Com Crisis (1998-2003), and the Global Financial Crisis (2008-2010). This experience suggests that the spikes observed in these events are approximately 1-in-20 events in terms of excess defaults. The Great Depression, by contrast, is closer to a 1-in-100 event in terms of excess defaults.

[5] This approach differs from the methodology that the American Academy of Actuaries is applying in its work on CLOs, which uses CTE90 as the risk metric. For a normal distribution, CTE90 is equivalent to approximately the 95th percentile. The choice of CTE90 reflected in part concerns around the performance of residual tranche ABS in more severe, or "Deep-tail" scenarios. The analysis in this report also considers the performance of these assets in a deep-tail scenario.

© 2024 National Association of Insurance Commissioners

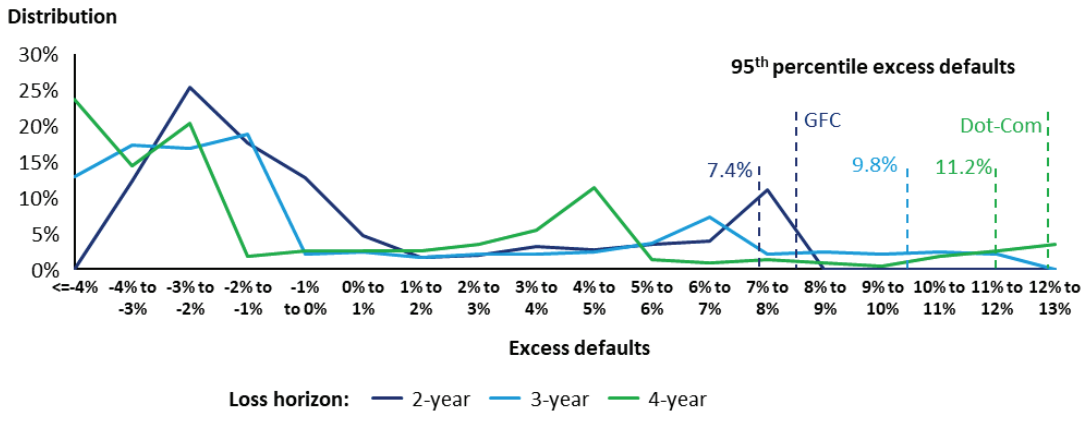
Methodology

Figure 5: **US corporate bond default rates, % (annual 1920-2021)**[6]



- Additionally, we observed that excess default losses (i.e., principal in default above the long-term average) for the US LSTA 100 were both higher than 95th percentile excess default losses for the relevant loss horizons (2 years for GFC and 4 years for Dot-Com bubble), as depicted in **Figure 6**. This analysis applies a similar approach to that used by the NAIC in its calibration of the capital charges for common stock and real estate, namely determining the percentile losses based on a rolling window, and the approach was chosen to reflect our guiding principle of consistency. While this analysis is based on a 24-year time series, it supports use of the GFC and Dot-Com stresses as suitable 95th percentile stress scenarios.

Figure 6: US LSTA 100 95th percentile excess defaults by loss horizon, % (1999-2022)[7]



[6] Annual U.S. corporate bond default rates from 1920 - 2021 (%): *Moody's Investors Service, "Corporate Default and Recovery Rates" (2021)*

[7] Excess defaults are defined as the defaults in excess of the long-term average (1999 – 2022). The 95th percentile excess defaults are calculated for each loss horizon from 1999-2022 (%): *S&P, U.S. LSTA*

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

- Our selection of parameters was determined based on relevance to the underlying assets being stressed. We used available historical data to derive parameters which we used as inputs in Intex. We used these parameters to build stress scenarios and applied those scenarios to a portfolio of randomly selected deals within each in-scope asset class. The subsequent section provides more detail on specific parameters used for each segment.

3.3. Scenario Calibration

This section discusses the methodology used to calibrate scenario-level modeling parameters, including default rates, recovery rates, prepayment rates, recovery lags, delinquency rates (for auto loans), and reinvestment period assumptions. In the calibration of the scenarios, the intention was to reflect both the severity and duration of a Mid-tail (~95 percentile) and Deep-tail event. As such, we consider the level of excess defaults over the credit cycle. A limitation of this approach is that no historical time series on the relevant underlying collateral included a Deep-tail event (that is, an event of similar severity to the Great Depression). As a result, we relied on the experience of corporate bonds during this period to serve as a proxy for the potential performance of the underlying collateral and applied a similar increase in default rates and/or level of excess defaults.

3.3.1. CLOs

Table 2 shows the calibration of scenario-specific modeling parameters. With the exception of the default rate, which was calibrated separately to account for difference in the credit quality of the underlying loans, common parameters were used for the BSL and MM segments.

Table 2: Scenario-level parameters for CLOs

	Base	**Mid-tail (~95th percentile)**		
Parameter		**Dot-Com**	**GFC**	**Deep-tail**
Peak default rate *(BSL)*	2.6%	2.7x multiplier *(peak)*	3.9x multiplier *(peak)*	5.9x multiplier *(peak)*
Peak default rate *(MM)*	4.1%			
Excess defaults *(BSL)*	N/A	11.9%	7.6%	33.7%
Excess defaults *(MM)*	N/A	18.4%	11.8%	52.2%
Recovery rate	66.4%	61.1%	58.0%	55.9%
Prepayment rates	24.8%	18.4%	14.0%	10.0%
Recovery lag	18 months	18 months	18 months	18 months
Reinvestment	None	None	None	None

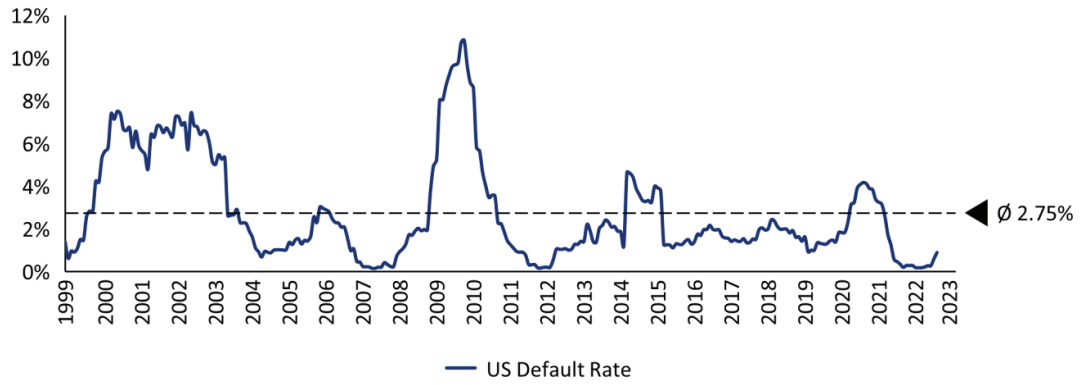
© Oliver Wyman

© 2024 National Association of Insurance Commissioners

3.3.1.1. Baseline scenario

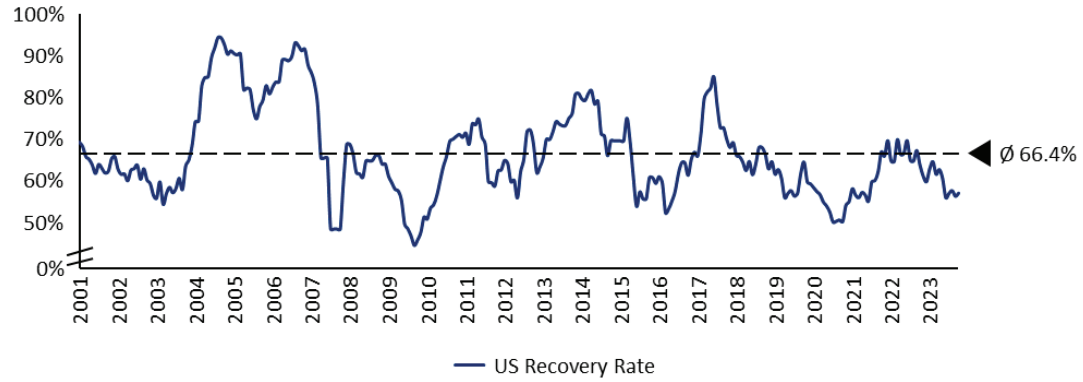
We constructed a baseline scenario for CLOs by calculating long-term averages of the applicable parameters based on available historical data. For default rates, we primarily relied on historical data from the S&P Loan Syndications and Trading Association (LSTA) 100 index series from 1999-2022, which is shown in **Figure 7** below. Additional adjustments were made to account for differences in the underlying collateral quality of BSL and MM and discussed later.

Figure 7: Default rates, % of principal (monthly 1999-2022)[8]



For recovery rates, we set a baseline recovery rate of 66.4%, which is the long-term average rate of the LSTA series from 2001 to 2023),[9] as shown in **Figure 8**.

Figure 8: Recovery rates (1st lien loans), % of principal, (monthly 2001-2023)[10]



[8] Bank loan default rates from 1999 - 2022 (% of principal): *S&P, U.S. LSTA*
[9] Monthly 1st lien loan recovery rates from 2001 - 2023 (% of principal): *BofA Global Research, LCD, Moody's*
[10] Monthly 1st lien loan recovery rates from 2001 - 2023 (% of principal): *BofA Global Research, LCD, Moody's*

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

Although our assumptions for MM and BSL CLOs were similar for most parameters, they varied with regard to the assumed baseline default rate, which was derived as a weighted average based on the credit rating distribution of the two CLO types. We assume that rating-adjusted corporate bond default rates are approximately equal to rating-adjusted bank loan default rates. The ratings, which were sourced from S&P Global, can be seen in **Figure 9**, while the market shares can be seen in **Figure 10.**

Figure 9: Ratings distribution of CLO obligors, % (2023)[11]

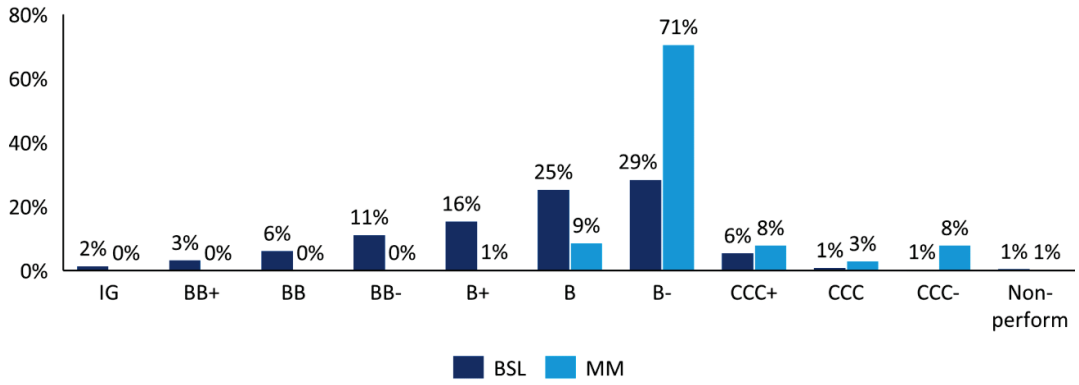
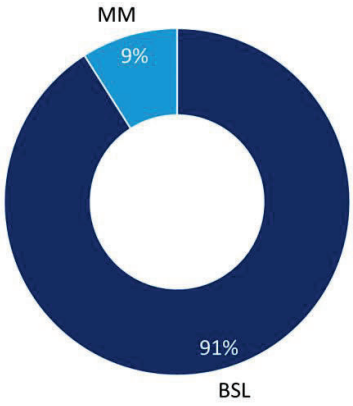


Figure 10: CLO market shares by type, % (2023)[12]



[11] Ratings distribution of CLO obligors in 2023 (%): *S&P Global Ratings, "Middle-Market CLO and Private Credit Quarterly (Q4 2023)"*
[12] MM CLO and BSL market share in 2023 (%): *S&P Global Ratings, "Middle-Market CLO and Private Credit Quarterly (Q4 2023)"*

© 2024 National Association of Insurance Commissioners

Ultimately, this approach yielded a baseline default rate of 4.1% for MM CLOs and 2.6% for BSL CLOs. As a check on this methodology, we compared our aggregated weighted average default rate (2.80%) with that of the average default rate of the S&P LSTA index (2.75%) based on the available time series data (1999-2021). The remaining parameters were consistent across both MM and BSL CLOs.

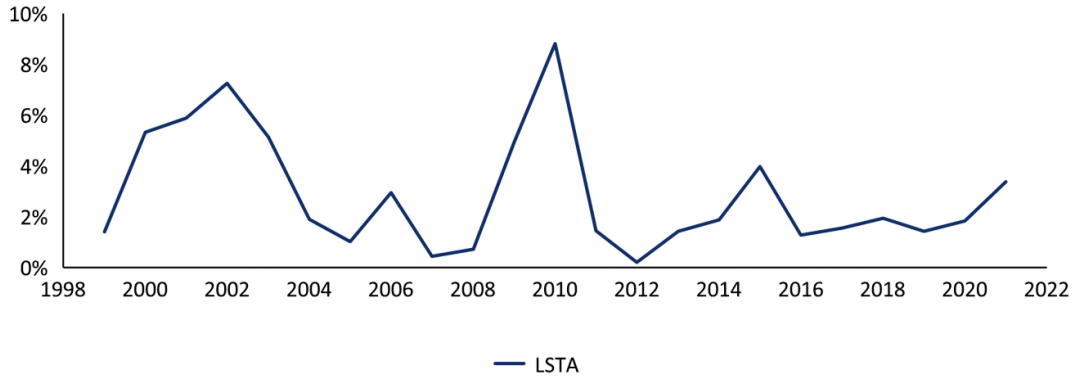
Our prepayment rate of 24.8% was derived from the average 1m annualized CPR based on the accessible historical data from BofA Global Research (2002-2023)[13]. We assumed an 18-month recovery lag across the base scenario based on an industry standard assumption; for example, Moody's[14] assumes an 18-month recovery lag in their CLO modeling. We assumed no reinvestment in all scenario; this approach is more conservative than typical market practice that assumes reinvestment at market rates. Additionally, sensitivity testing was conducted on these assumptions and is discussed later.

3.3.1.2. Mid-tail (~95th percentile) scenarios

To calibrate the default rates under the "Mid-tail" scenarios, we examined the level of defaults under two adverse credit cycles, the GFC and Dot-Com Crisis, for the S&P LSTA. While both credit events had similar levels of "excess defaults", that is the volume of defaults that occurred over the adverse portion of the credit cycle compared with the long-term average, the shape of these events differed significantly. The GFC represented a shorter, but deeper credit shock (22 months of excess defaults); the Dot-Com Crisis was a longer event (45 months of excess defaults). For both events, we applied the ratio of the default rate to the long-term average from the start of the adverse credit period (that is, when the default rate above the long-term average) until it returned to the long-term average. This path was then applied as a multiplier to the Base default rates for both BSL and MM to match the shape and scale of the two stress scenarios. This approach also allowed us to assess the sensitivity of our results to the shape of shock (short and deep vs. long and shallower).

Figure 11 below shows the historical default rate for the LSTA.

Figure 11: Bank loan default rates, % (monthly 1999-2021)[15]



[13] 1m Annualized CPR from 2002 - 2023: *BofA Global Research, LCD, Moody's*

[14] *Moody's Investors Service, "Moody's Global Approach to Rating Collateralized Loan Obligations" (2021)*

[15] Monthly bank loan default rates from 1999 - 2021 (%): *S&P, U.S. LSTA*

© 2024 National Association of Insurance Commissioners

We calibrated recovery rates by using the average recovery rate throughout the stress cycle that followed the Dot-Com Crisis (61.1%) and GFC (58.0%), respectively, then reverting to the long-term average value (66.4%) in the periods that followed the stress. To calibrate prepayment rates, we calculated the average 1m annualized CPR for the duration of the stress (defined as periods in which the prepayment rate was less than the long-term average) for the Dot-Com Crisis and GFC, respectively. This approach yielded a prepayment rate of 18.4% for Dot-Com and 14.0% for GFC. We applied those prepayment rates for the duration of the stress, then reverted the rates back to the long-term average (24.8%) in the post-stress periods. Similar to the baseline scenario, we assumed an 18-month recovery lag based on the industry standard assumption and, for conservatism, no reinvestment.

3.3.1.3. Deep-tail scenario

As direct historical information is more limited for the "Deep-tail" scenario, we utilized historical performance data of corporate bonds during the Great Depression as a proxy for the relative losses accumulated during the modeled stress period.

To calibrate our default rates, we examined the experience for corporate bonds during the Great Depression and quantified the increase in default rates relative to the long-term average default rates. This default rate path (defined as percentage increase over the long-term average) was then applied to the baseline defaults for CLOs.

We determined stress recovery rates (55.9%) based on the lowest two-year average recovery rates within the available data range (which corresponds to June 2019 – June 2021[16]) and applied this value for a ten-year period (to match the duration of the Great Depression default curve) before reverting to the long-term average.

To calibrate our prepayment rates, we used the lowest two-year average CLO 1m Annualized CPR rate data (which corresponds to September 2007 – September 2009[17]) and applied this value (10.0%) for the ten-year stress period before reverting to the long-term average (24.8%). Similar to the baseline assumption, we assumed an 18-month recovery lag based on the industry standard assumption and, to be conservative, no reinvestment.

[16] Recovery rates from June 2019 - June 2021: *BofA Global Research, LCD, Moody's*

[17] CLO 1m annualized CPR rate from September 2007 - September 2009: *BofA Global Research, LCD, Moody's*

© 2024 National Association of Insurance Commissioners

Figure 12: Broadly syndicated CLO annualized CDR curves, %

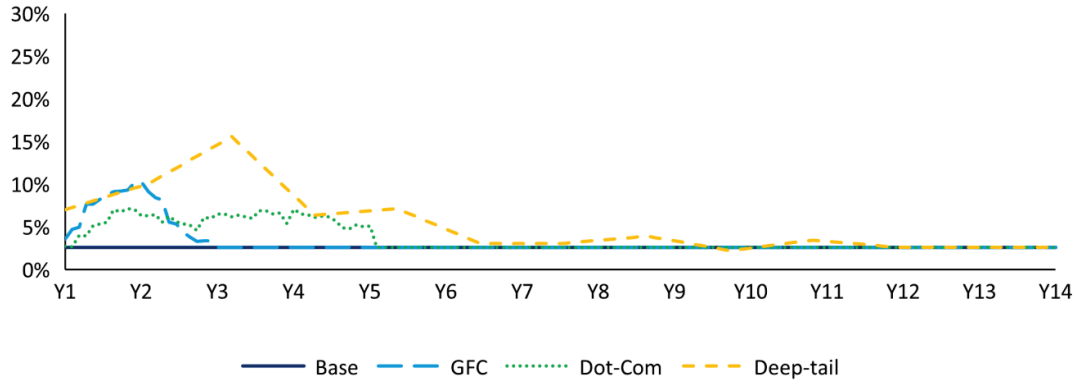
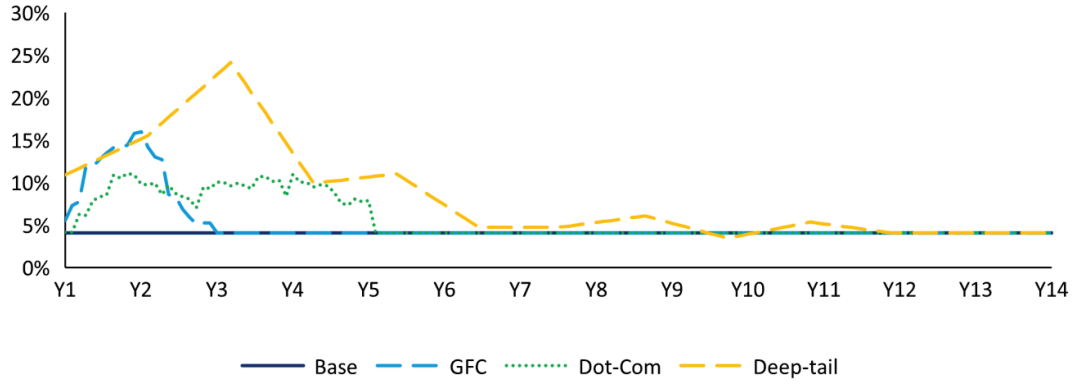


Figure 13: Middle-market CLO annualized CDR curves, %



© Oliver Wyman

© 2024 National Association of Insurance Commissioners

3.3.2. Prime and subprime auto loan ABS

To calibrate scenario-level parameters for auto loan ABS, we followed a similar methodology as was followed for CLOs. Parameters were calibrated separately for prime and subprime auto loan ABS. We relied primarily on historical data on prime and subprime auto loan performance from Fitch Ratings; selected as it provided the longest time series from a reputable source.

Table 3: Prime auto loan ABS scenario parameters

Parameter	Base	Mid-tail	GFC	Deep-tail
Peak default rate	1.6%	3.2%	4.4%	6.8%
Excess defaults	N/A	7%	5%	30%
Severity	41%	52%	52%	54%
Delinquency rate	0.4%	0.6%	0.6%	0.6%
Prepayment rate	1.5%	1.5%	1.5%	1.5%
Recovery lag	6 months	6 months	6 months	6 months

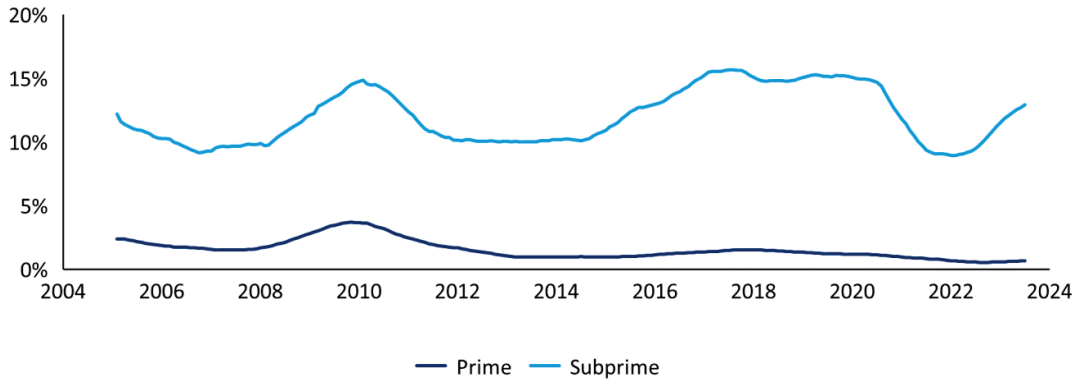
Table 4: Subprime auto ABS scenario parameters

Parameter	Base	Mid-tail	GFC	Deep-tail
Peak default rate	12%	16%	19%	41%
Excess defaults	N/A	14%	4%	27%
Severity	55%	61%	61%	62%
Prepayment rate	1%	1%	1%	1%
Recovery lag	6 months	6 months	6 months	6 months

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

Figure 14: Auto loan TTM annualized default rate, % (2005-2023)[18]



3.3.2.1. Base scenario

Our base scenario was constructed using the long-term average default rate and severity for prime and subprime for data from Fitch Ratings. Base prime delinquency rates were also determined by taking the average prime delinquency rate across the entire time series (from 2004 - 2023). Base prepayment rates were assumed based on deal-level data[19] and held constant across scenarios. Recovery lag was assumed based on rating agency auto loan ABS stress testing methodology[20] and held constant across scenarios.

3.3.2.2. Mid-tail (~95th percentile) scenarios

To calibrate the default rates under the "Mid-tail" scenarios, we examined three events (i) the GFC, during which both prime (2007-2011) and subprime (2008-2010) auto experienced above-average default rates, (ii) for subprime, heightened losses in 2015 - 2020, and (iii) as prime loans did not experience elevated losses during that period, a hypothetical event calibrated to the Dot-Com bubble, using scaled corporate bond default rates during that period (1998-2003) as a proxy to estimate prime auto loan default rates.[21]

For the GFC scenario, behavior of the modeling parameters for both prime and subprime auto loans were based on observed, historical experience during the GFC. The default rate curves for prime and subprime auto loans, as well as the severity curves for prime and subprime auto were used in Intex to simulate the GFC stress. For prime auto loan ABS, stressed delinquency rates were assumed to be the average delinquency rate during the GFC. Delinquency rates were not used as a parameter for subprime auto loan ABS due to limitations in Intex.

[18] Derived based on ANL and Recovery Rate data from Fitch Ratings
[19] Auto loan ABS benchmarking: *S&P Research*
[20] Auto loan ABS benchmarking: *S&P Research*
[21] Annual U.S. corporate bond default rates from 1920-2021 (%): *Moody's Investors Service, "Corporate Default and Recovery Rates" (2021)*

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

Reliable historical data on auto loan performance was not available for the Dot-Com period as it was for CLO collateral. It was still desirable to measure the impact of a more attenuated, but longer, macroeconomic stress event. We designed a longer stress event for auto but the parameters for this event had to be estimated differently than for CLOs. For prime auto loan ABS, corporate bond default rates were scaled based on the ratio of default rates between two series during the GFC, a period during which both series had default rate data. This scaled default rate data was then used to estimate auto loan default rates during the Dot-Com bubble. Subprime auto, however, suffered a second stress period in addition between 2015 and 2020. We determined it preferable to use the actual historical data in this instance. Thus, the default rates from 2015-2020 were used as the default rates for the subprime auto loan ABS Mid-tail stress scenario. We term this scenario the "Mid-tail" scenario to avoid confusion with the historical Dot-Com scenario used for CLOs. Severity, prepayment, prime delinquency, and recovery lag each remained identical to their GFC calibrations, outlined above.

Note the because the average subprime auto loan default rate is relatively high (12%), the historical data shows that the GFC and 2015-2020 stress did not cause as extreme a spike in default rates relative to the historical average, as depicted in **Figure 16**, as is observed for prime auto loans. For comprehensiveness, the deep-tail scenario is more severe in terms of peak default rate and excess defaults than the two historical mid-tail scenarios.

3.3.2.3. Deep-tail scenario

Calibration of default rate curves for the Deep-tail stress followed a similar approach to that for CLOs. Corporate bond default rates during the Great Depression (1931-1940) were used as a proxy for the default rates of auto loans during a Great Depression-like economic event. As before, these default rates were scaled based on the ratio between the corporate bond and auto loan default rates during the shared GFC period. Deep-tail severity was estimated using the worst two-year average severity during the time series. Prime delinquency, prepayment, and recovery lag remained identical to their GFC calibrations.

Figure 15: Prime auto loan ABS annualized CDR curves, %

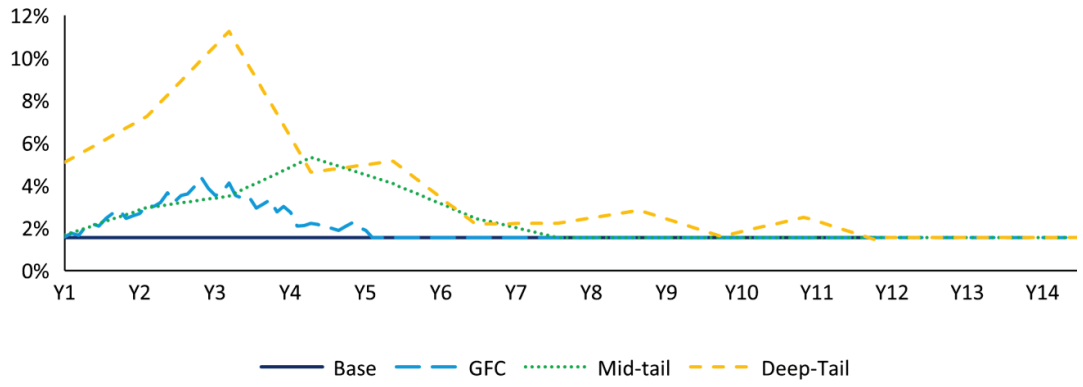
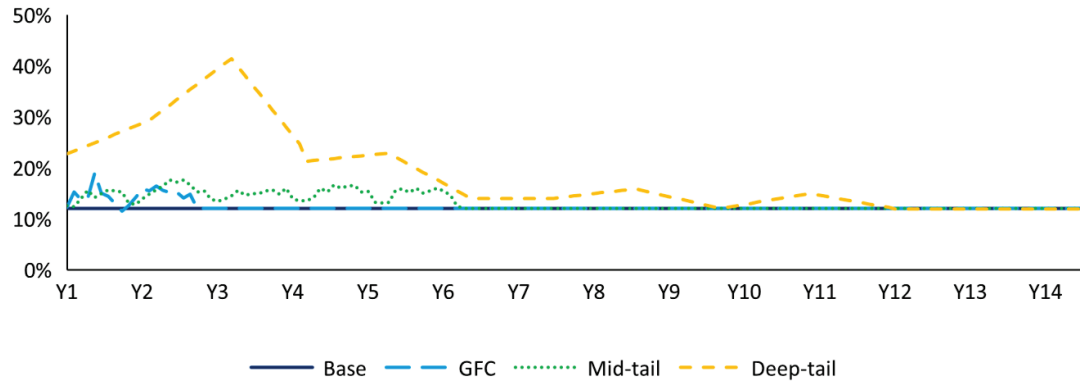


Figure 16: Subprime auto loan ABS annualized CDR curves, %



3.3.3. Student loan ABS

Table 5 shows the calibration of scenario-specific modeling parameters for private student loans. For student loans, we evaluated only a single "mid-tail" scenarios, that was calibrated based on the GFC.

Table 5: Student loan ABS scenario parameters

Parameter	Base	Mid-tail	Deep-tail
Default rate	10%	22%	22%
Excess defaults	N/A	10%	30%
Severity	69%	78%	78%
Deferment	5.8%	7.7%	7.7%
Forbearance	2.8%	4.5%	12.6%
Recovery lag	12 months	12 months	12 months

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

3.3.3.1. Base scenario

Analysis of student loan ABS presented challenges from a data adequacy perspective. We reviewed multiple potential sources of historical default rate data including, but not limited to, Intex, Fitch Ratings, and the National Center for Education Statistics (NCES), a federal agency. Each source captured a different universe of loans and definition of default rate that results in differences in the historical average default rates. Table 6 provides an overview of each potential source and its implied average default rates.

Table 6: Annualized student loan default rates by source

Source	Scope	Time span	Average annualized default rate
Intex	Private student loans	2008-2023	9.6%
Fitch	Private student loans	2015-2023	8.5%
NCES	Federal student loans	2011-2018	4.4%[22]

Ultimately, we chose to anchor our analysis on a base annualized default rate of 10%, but tested the robustness of our analysis to a base default rate of 8% or 12%. Base severity, deferment, and forbearance were assumed to be the long-term averages of each respective parameter, using the historical data available in Intex since 2008 . Recovery lag was assumed to be 12 months, with sensitivity analysis for a longer recovery lag period.

3.3.3.2. ~95th percentile scenario

The limited historical data availability for private student loans also affects the construction of the 95th percentile scenario. Ultimately, we took the approach of isolating the impact of the GFC on default rates by observing that the onset of the GFC resulted in a 47-month spike in default rates observed in the Intex data. We then applied the resultant excess defaults to our base default rate scenario. Severity, deferment, and forbearance were estimated by taking the averages of these parameters during the GFC; for each parameter, the stress period was defined as that period for which it exceeded its long-term average. Recovery lag was, as in the base scenario, assumed to be 12 months.

3.3.3.3. Deep-tail scenario

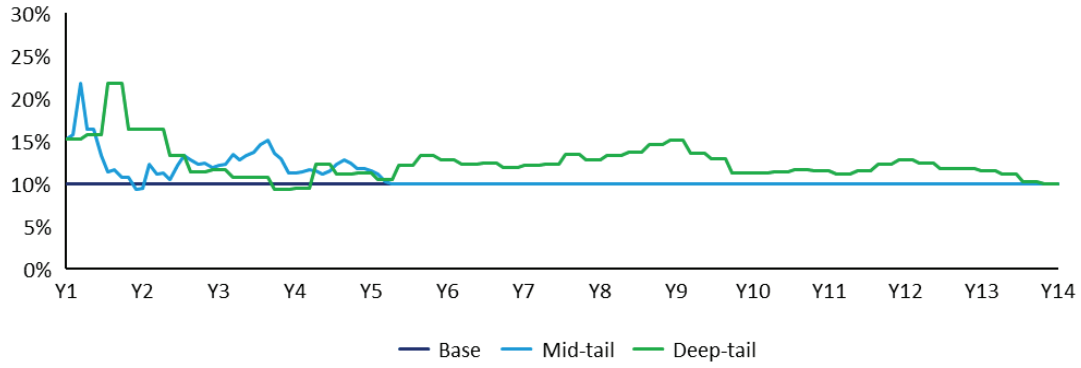
The Deep-tail scenario did not follow a similar approach to CLOs and auto loans, as corporate bonds were determined to be an insufficient analog to the performance of student loans. Student loan default and loss trajectories are not expected to follow corporate bonds, as the exposure is to narrow portions of the employment rate, interest rates, and college costs, all of which have weak correlation to corporate strains, making the latter a poor proxy. Instead, we assumed the same default rate curve as was used in our ~95th percentile stress scenario extended in duration by a factor of three, resulting in a 141-month long period of elevated defaults. Severity and deferment remained the same between the ~95th percentile scenario and the

[22] NCES measures 3-year default rates by dividing borrowers in default over a three-year period by total population of a given three-year cohort. Annualized default rate estimated by dividing NCES figure by 2.5. Sample only includes federal student loans, while Intex and Fitch series include only private student loans.

Deep-tail scenario. Forbearance was assumed to be 12.6% for the full 141-month period, the value achieved during the 2020 COVID-19 period, and the highest value recorded in our historical data series.

Figure 17 shows annualized default rate curves for 10% base default rate scenarios.

Figure 17: Student loan 10% base default rate annualized CDR curves, % default



3.4. Output Metrics

Our analysis seeks to examine the potential for losses on residual tranches in adverse scenarios. As identified as part of our guiding principles, we seek to measure losses in a manner consistent with the treatment of these assets on an insurer's statutory balance sheet.

This point itself has been in flux and is subject to different interpretations within the industry: historically, residual tranches had been held at the lower of cost of fair value[23]; more recently, this treatment has shifted to the lower of amortized cost or fair value[24]; in addition, current proposals recommend the lesser of book-adjusted carrying value or fair value. Under each of these methods, the reported value of an asset will reflect not only its fair value at the time, but the market conditions at its acquisition.

For the purposes of this analysis, we focus on the decline in fair value of an asset under the stress scenario. In an adverse stress scenario, the fair value is expected to decline below other metrics, which are less responsive to market conditions, and be the binding constraint ("lower of"). Considering only the decline in fair value, rather than attempting to fully align with the accounting treatment, is conservative as it may overstate the potential for losses under certain conditions:

- If fair value is lower than amortized cost prior to applying a stress, then considering the decline in fair value will accurately capture the loss on an insurer's balance sheet
- If fair value is greater than amortized cost prior to applying a stress, then considering the decline in fair value will overstate the potential loss on an insurer's balance sheet (by an amount equal to the starting difference between fair value and amortized cost).

[23] SSAP No. 43R 2021-15
[24] SSAP No. 21R 12-1-23

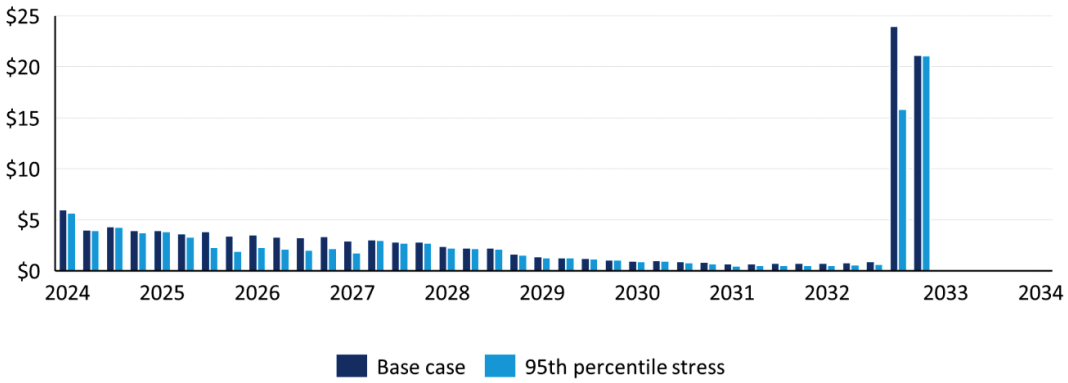
© Oliver Wyman

© 2024 National Association of Insurance Commissioners

We define 'fair value' as the net present value of the cash flows to the residual tranche at a 12% discount rate. This definition is consistent with the industry approach to valuing these types of assets (discounted cash flows) and represents a typical target return for equity-like assets. The robustness of our results relative to this parameter is evaluated in the sensitivity testing in Appendix A.3. A constant discount rate is applied in both the base and stress scenarios to isolate the impact of credit default risk from interest rate or liquidity risk.

The initial output of our modelling is a cash flow profile for each asset by scenario. **Figure 18** provides an illustrative example this output.

Figure 18: Illustrative deal level cash flow forecast, $M



4. Results

4.1. Introduction

To understand the underlying risk in residual equity tranches, **Table 8** - **Table 15** illustrate the decline in NPV using a constant discount rate of 12% across all modeled assets across our scenarios. We consider two approaches to aggregate the losses across the modeled set of assets:

- **Simple average losses:** this metric provides the simple average of losses (measured as the decline in NPV at a constant discount rate relative to the base scenario) across all modeled assets. This metric places equal weight on all assets.
- **Portfolio average losses:** this metric considers the aggregate losses on the set of modeled assets on a NPV basis; effectively, it weighs assets based on their initial fair value and illustrates the losses that an insurer would have faced if it owned that portfolio of assets.

4.2. Summary

Table 7 provides the portfolio average losses in each of the stress scenarios:

Table 7: Portfolio average losses for all modeled assets across stress scenarios

Scenario Severity	Scenario	CLOs (BSL)	CLOs (MM)	Student loans	Subprime auto loans	Prime auto loans
95th percentile	Dot-Com	-45%	-27%	-	-	-
	GFC	-42%	-25%	-	-17%	-13%
	Mid-tail	-	-	-16%	-	-
	Long Mid-tail	-	-	-	-22%	-14%
99th percentile	Deep-tail	-72%	-55%	-20%	-74%	-26%

These results indicate:

- Residual tranches for MM CLOs consistently perform better than BSL ones across our scenarios.
- Residual tranches for prime auto loans ABS consistently perform better than those backed by subprime auto loans across our scenarios.

4.3. Results by asset class

The following sections provide additional information on the results for each type of residual tranche: CLOs, auto loans, and student loans.

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

4.3.1. CLOs

Table 8 provides the average losses for residual tranches of CLO in each of the stress scenarios:

Table 8: CLO summary statistics

Scenario Severity	Scenario	CLO type	Simple average losses	Portfolio average losses
95th percentile	Dot-Com	BSL	-48%	-45%
		MM	-34%	-27%
	GFC[25]	BSL	-46%	-42%
		MM	-32%	-25%
99th percentile	Deep-tail	BSL	-74%	-72%
		MM	-64%	-55%

In addition, we considered the losses at the deal-level to understand the characteristics that affect the potential losses on residuals tranches. **Figure 19** illustrates losses by residual thickness in our GFC scenario. These results indicate:

- Residual tranches for MM CLOs consistently perform better than BSLs ones across our scenarios.
- CLO equity tranches with thicker residuals perform better than those with thinner residuals.
- Higher next-most junior rated CLO tranches are correlated with thicker residuals and perform better than lower rated tranches.

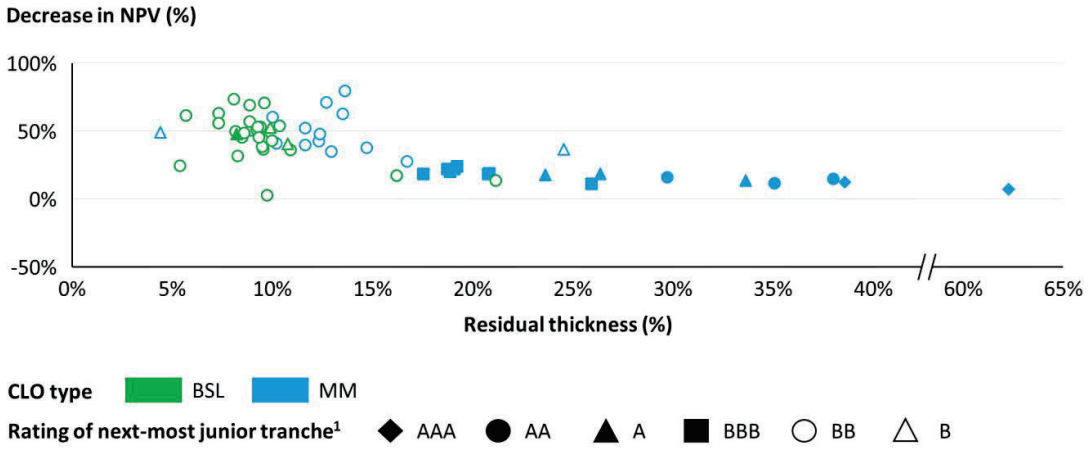
As shown below in **Figure 19**, residual thickness is a significant driver of stress scenario impact. CLO residual equity tranches with thicker residuals perform noticeably better than thinner residual tranches (average decrease in NPV of 49.1% when residual thickness is less than 15% vs. 18.3% when residual thickness is greater or equal to 15%). This result is consistent across our Dot-Com and Deep-tail stress scenarios as shown in **Figure** 24 and **Figure 25** in the Appendix.

[25] While credit experience was calibrated to GFC, the modeled losses differ from observed performance of CLO residual tranches during the GFC. These differences reflect several, offsetting factors, including changes to the structures of CLOs since the GFC (CLO 1.0 vs. 2.0 vs. 3.0) and the modeled assumption of no reinvestment (vs. market practices), and differences in the funding structure.

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

Figure 19: Losses by CLO residual thickness – Mid-tail (GFC) scenario, %



To test the robustness of our assumptions, we conducted select sensitivity testing of key parameters and assumptions such as the discount rate, recovery lag, and the prepayment rate. Details of our sensitivity testing can be seen in the Appendix. In addition, we evaluated the effect of employing the same parameters and assumptions adopted by the NAIC in its ongoing efforts around CLOs, which can be seen in **Table 9** below. Use of the NAIC assumptions had minimal impact on the simple average losses and NPV within our GFC scenario (producing a simple average loss of -45.1% vs. -45.9% for BSL and -32.9% vs. -31.6% for MM). The NAIC assumptions were applied to both the base and stress scenarios and the minimal impact reflects an offset between that reinvestment and prepayment assumptions and the faster recovery period.

Table 9: NAIC CLO assumptions

Asset Class	Assumption	NAIC assumption
CLOs (MM and BSLs)	Prepayment rates	0.0%
	Recovery lag	6 months
	Reinvestment period	No post-reinvestment period reinvestment Reinvestment collateral is purchased at par

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

Although it differs from how these assets are held on the balance sheet, some stakeholders may look at a cash flow coverage metric. This metric compares the total, undiscounted cash flows in a scenario to the base scenario fair value and is shown for BSL CLOs and MM CLOs in **Table 10** – **Table 11**, respectively, below.

Table 10: BSL CLO total coverage of cash flows relative to initial fair value[26]

	Mid-tail (~95th percentile)			
	Base	Dot-Com	GFC	Deep-tail
Deal-level average	1.7x	0.8x	0.9x	0.3x
Portfolio average	1.7x	0.9x	1.0x	0.3x

Table 11: MM CLO total coverage of cash flows relative to initial fair value[26]

	Mid-tail (~95th percentile)			
	Base	Dot-Com	GFC	Deep-tail
Deal-level average	1.7x	1.1x	1.2x	0.5x
Portfolio average	1.6x	1.2x	1.2x	0.7x

4.3.2. Auto loans

Table 12 provides the average loss for residual tranches of auto loans in each of the stress scenarios:

Table 12: Auto loan summary statistics

Scenario Severity	Scenario	Auto loan type	Simple average losses	Portfolio average losses
95th percentile	GFC	Prime	-13%	-13%
		Subprime	-18%	-17%
	Long Mid-tail	Prime	-14%	-14%
		Subprime	-22%	-22%
99th percentile	Deep-tail	Prime	-27%	-26%
		Subprime	-67%	-74%

[26] Calculated by dividing total cash flow for each scenario by the base scenario fair value (base scenario cash flows discounted using a 12% discount rate)

© Oliver Wyman

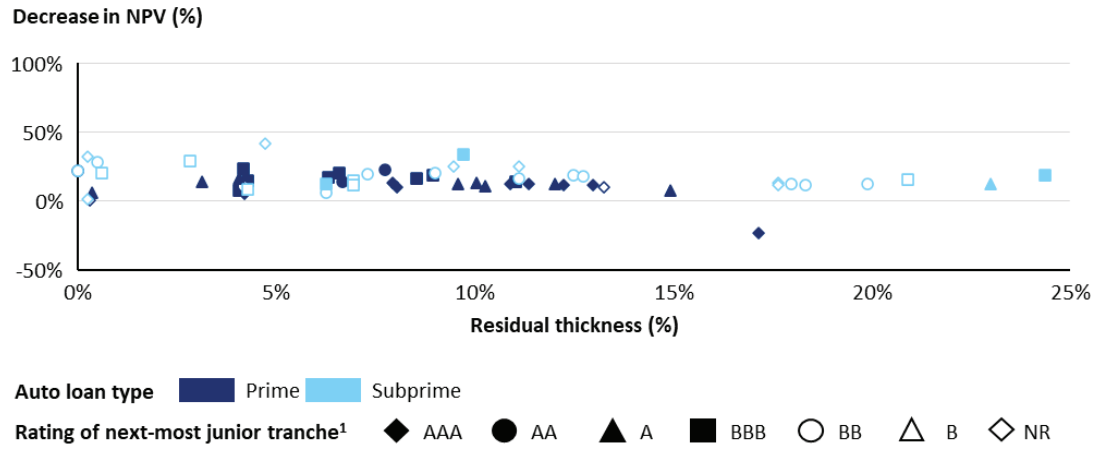
© 2024 National Association of Insurance Commissioners

In addition, we considered the losses at the deal-level to understand the characteristics that affect the potential losses on residual tranches. **Figure 20** illustrates losses by residual thickness in our GFC scenario. These results indicate:

- Residual tranches for prime auto loans ABS consistently perform better than those backed by subprime across our scenarios.
- Residual thickness is not as significant of a driver of stress scenario impact for auto loans as it is for CLOs.
- Higher next-most junior rated auto loan tranches perform on par with lower rated tranches.

As shown below in **Figure 20**, auto loan equity tranches with thicker residuals perform on par with those with thinner residuals in our GFC stress scenario. This result is consistent in our long Mid-tail stress scenario as shown in **Figure 26** in the Appendix. However, in our Deep-tail stress scenario, subprime auto loans with thicker residuals perform worse while prime auto loans with thicker residuals perform better as shown in **Figure 27** in the Appendix.

Figure 20: Losses by auto loan residual thickness – Mid-tail (GFC) scenario, %[27]



Although it differs from how these assets are held on the balance sheet, some stakeholders may look at a cash flow coverage metric. This metric compares the total, undiscounted cash flows in a scenario to the base scenario fair value[28] and is shown for prime and subprime auto loan in **Table 13** – **Table 14**, respectively.

[27] As shown in Figure 20, one deal experienced better performance during stress scenarios due to unique structural considerations. This deal was removed from the aggregate metrics due to outsized impacts to the portfolio and simple averages. Inclusion of this deal in portfolio aggregation would reduce losses to 6% (from 13%) under the GFC scenario and to 22% (from 26%) under the Deep-tail scenario.

[28] Calculated by dividing total cash flow for each scenario by the base scenario fair value (base scenario cash flows discounted using a 12% discount rate)

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

Table 13: Prime auto loan total coverage of cash flows relative to initial fair value

	Mid-tail (~95th percentile)			
	Base	Long Mid-tail	GFC	Deep-tail
Deal-level average	1.3x	1.1x	1.1x	0.9x
Portfolio average	1.3x	1.1x	1.1x	1.0x

Table 14: Subprime auto loan total coverage of cash flows relative to initial fair value

	Mid-tail (~95th percentile)			
	Base	Long Mid-tail	GFC	Deep-tail
Deal-level average	1.2x	0.9x	1.0x	0.3x
Portfolio average	1.2x	1.0x	1.0x	0.3x

To test the robustness of our assumptions, we conducted sensitivity testing of key parameters and assumptions such as the discount rate, recovery lag, base default rate, and interest rate levels. Details of our sensitivity testing can be seen in the Appendix. The results of these tests are that sensitivities had minimal impact on the simple average losses and NPV within our GFC scenario.

4.3.3. Student loans

Table 15 provides the average losses for residual tranches of student loans in each of the stress scenarios under the 10% base default rate assumption. Corresponding results for the 8% and 12% base default rate assumptions are located in the appendix.

Table 15: Student loan summary statistics

Scenario Severity	Scenario	Simple average losses	Portfolio average losses
95th percentile	Mid-tail	-31%	-16%
99th percentile	Deep-tail	-35%	-20%

In addition, we considered the losses at the deal-level to understand the characteristics that affect the potential losses on residual tranches. Figure 21 illustrates losses by residual thickness in our Mid-tail scenario. These results indicate:

- Student loan equity tranches with thinner residuals perform better than those with thicker residuals as they rely less on the principal and instead have a more consistent set of interest-based cashflows in all scenarios.
- Next-most junior rating of student loan tranches is not correlated with tranche performance.

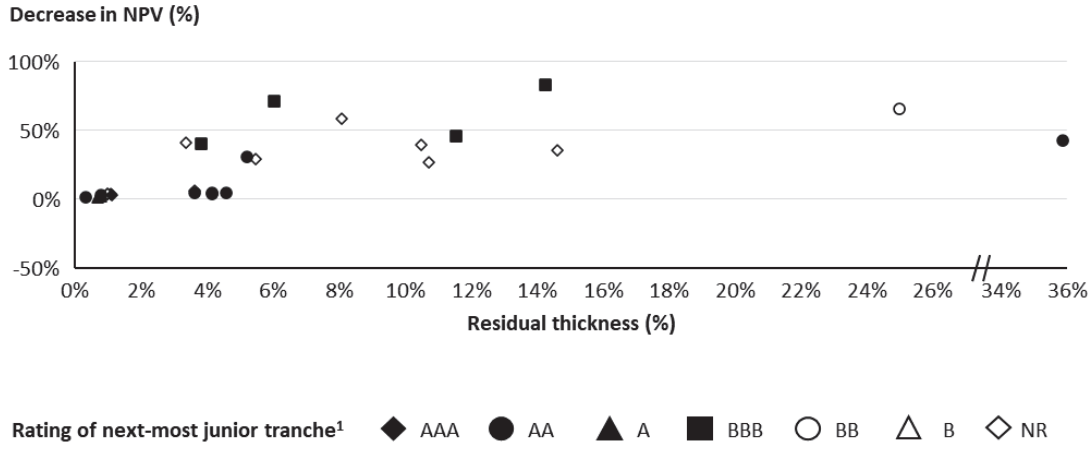
As shown below in **Figure 21**, student loan equity tranches with thinner residuals perform better than those with thicker residuals in our Mid-tail stress scenario. This result is consistent in our Deep-tail scenario as shown in **Figure 28** in the Appendix.

Although it differs from how these assets are held on the balance sheet, some stakeholders may look at a cash flow coverage metric. This metric compares the total, undiscounted cash flows in a scenario to the base scenario fair value[29] and is shown in **Table 16**.

Table 16: Student loan total coverage of cash flows relative to initial fair value

	Base	Mid-tail	Deep-tail
Deal-level average	1.6x	1.0x	1.0x
Portfolio average	1.6x	1.2x	1.2x

Figure 21: Losses by student loan residual thickness – Mid-tail scenario, %



To test the robustness of our assumptions, we chose to conduct select sensitivity testing of key parameters and assumptions such as the discount rate, recovery lag, severity, deferment rate, CRR, and forbearance. Details of our sensitivity testing can be seen in the Appendix. The results of these tests are that sensitivities had minimal impact on the simple average losses within our Mid-tail scenario.

[29] Calculated by dividing total cash flow for each scenario by the base scenario fair value (base scenario cash flows discounted using a 12% discount rate)

© 2024 National Association of Insurance Commissioners

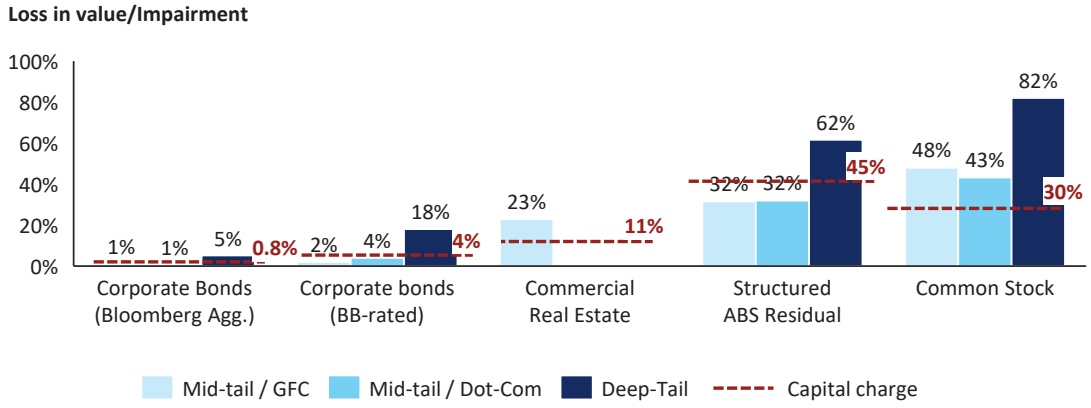
5. Conclusion

Our analysis sought to evaluate the potential for losses in the residual tranches of commonly-held types of structured assets and assess how this compares with the historical losses for other asset classes. We constructed our analysis to standardize (to the extent possible) the level of stress applied to each asset class such that an apples-to-apples, risk-based comparison could be made. We focused on two standardized points in the distribution: (i) the 95th percentile loss, as historically the NAIC has calibrated capital charges roughly to this severity and (ii) a Deep-tail event, to understand the potential for further losses in an extreme scenario.

We gauged the impact of the stress applied by measuring the decline in the Net Present Value (NPV) of the selected deals and compared them to the losses in the market value of common stock (S&P 500), due to credit impairment losses for corporate bonds (Bloomberg Aggregate Corporate Bond Index credit losses, BB rated bonds), and in the valuation of Real Estate (NCREIF index) during corresponding periods of stress.

Figure 22 below compares losses by asset class under each stress scenario. On a portfolio basis, the losses for the modeled residual tranches of structured products are lower than equities (S&P 500) under the corresponding scenarios, but higher than CRE and low-rated corporate bonds. Notably, structured ABS residuals performed better across all scenarios, when measured on a portfolio basis, than did common stock.

Figure 22: Capital charges compared to modeled scenario losses for selected asset classes[30]



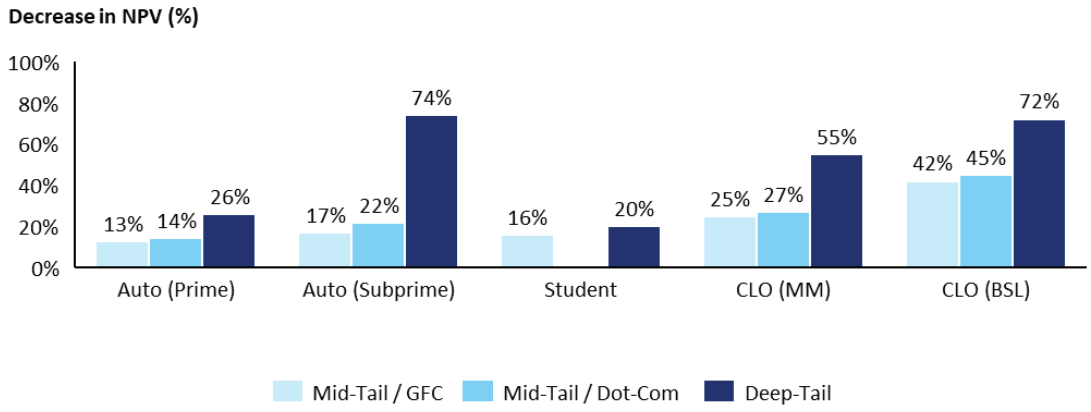
[30] For common stock, losses are measured as the largest 2-year decline in market value for the S&P 500 during Dot-Com bubble (2000-2002) and GFC (2007-2009). For commercial real estate, losses are measured as the largest 2-year decline valuations, as measured by the NCREIF Index. For both asset classes, a 2-year window was selected to align with the calibration window for the existing NAIC capital charges. For corporate bonds, losses net of recoveries based on historical default and recovery rate data from Moody's, are shown for the full length the credit cycle including during Great Depression (1931-1940), Dot Com (1998-2003), and GFC (2008-2010). For structured ABS residuals, losses reflect the full credit cycle and the modeling approach outlined in this document; losses for modeled asset types were weighted based on the total outstanding volumes for those asset types (as-of 2021, SIFMA) and the relative volumes in the modeled sub-sectors. For student loan ABS, where only a single mid-tail scenario was evaluated, this scenario was used for aggregation purposes in both the GFC and Dot-Com scenarios. For auto loan ABS, the "long mid-tail" scenario was used for aggregation purposes in the Dot-Com scenario; this scenario was intended to capture a similar macroeconomic stress event to the Dot-Com scenario.

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

In addition, we consider the individual sectors and sub-sectors that were in-scope for this analysis. While significant variation is observed across sectors, reflecting differences in both the underlying collateral and the mechanics of the structures, the losses for the worse performing sector (broadly syndicated CLOs) are comparable to public equities.

Figure 23: ABS residual losses by asset class (%, decrease in NPV)[31]



[31] For student loans, only a single mid-tail scenario was evaluated.

© 2024 National Association of Insurance Commissioners

Appendix A.

A.1. Results

Figure 24: Losses by CLO residual thickness – Mid-tail (Dot-Com) scenario, %

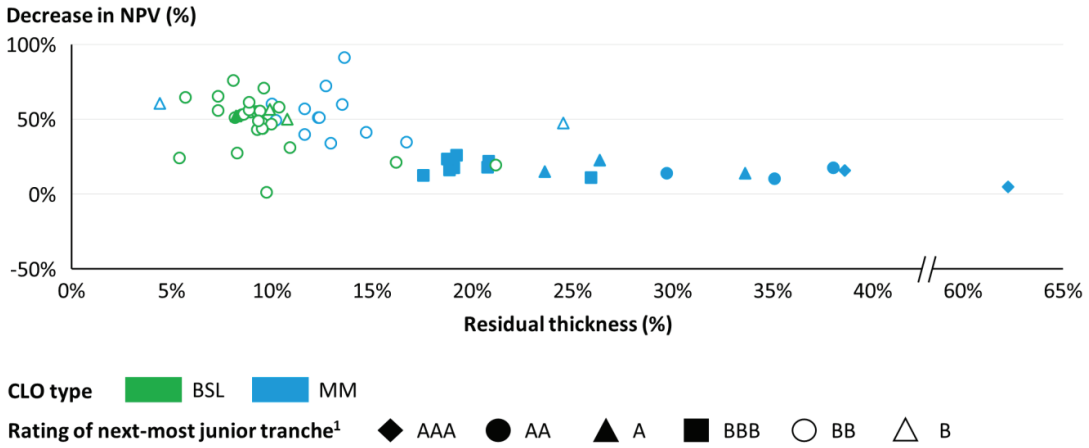
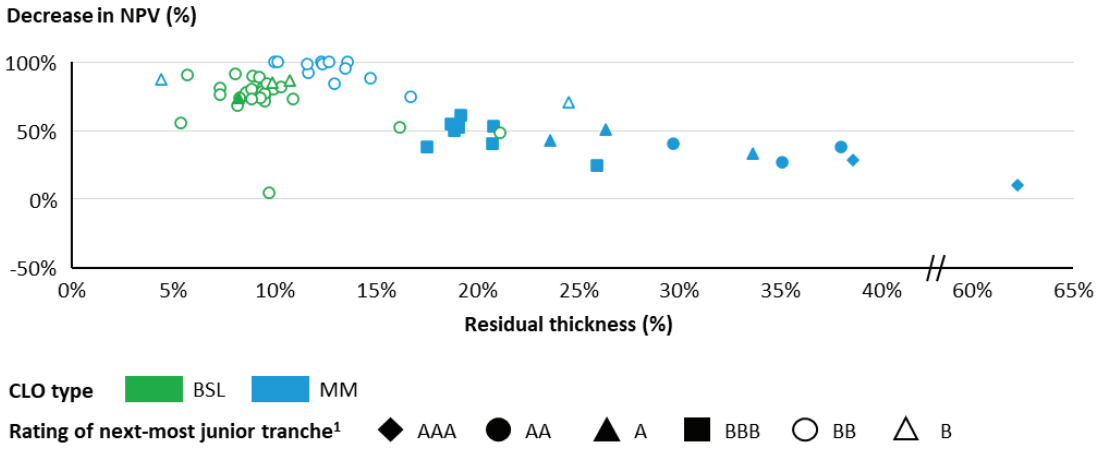


Figure 25: Losses by CLO residual thickness – Deep-tail scenario, %



© Oliver Wyman

Figure 26: Losses by auto loan residual thickness – Mid-tail (Long Mid-tail) scenario, %

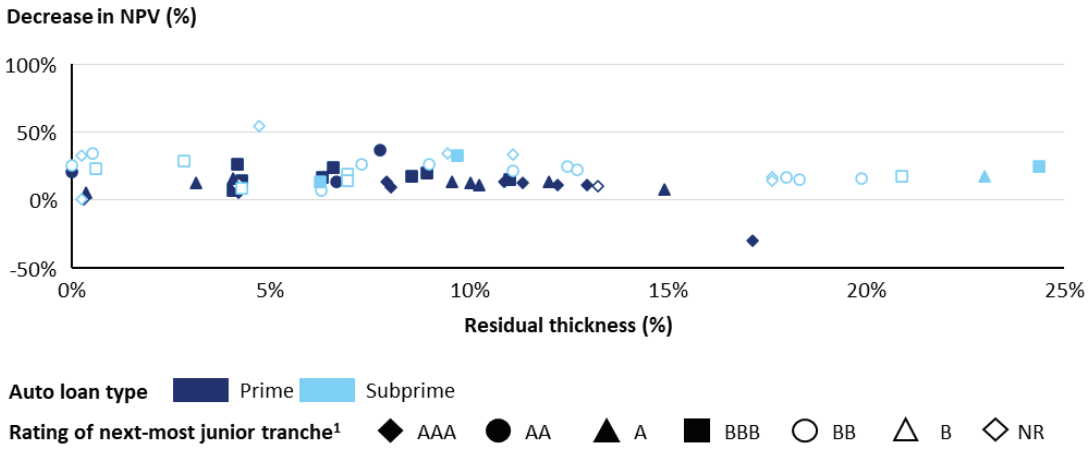
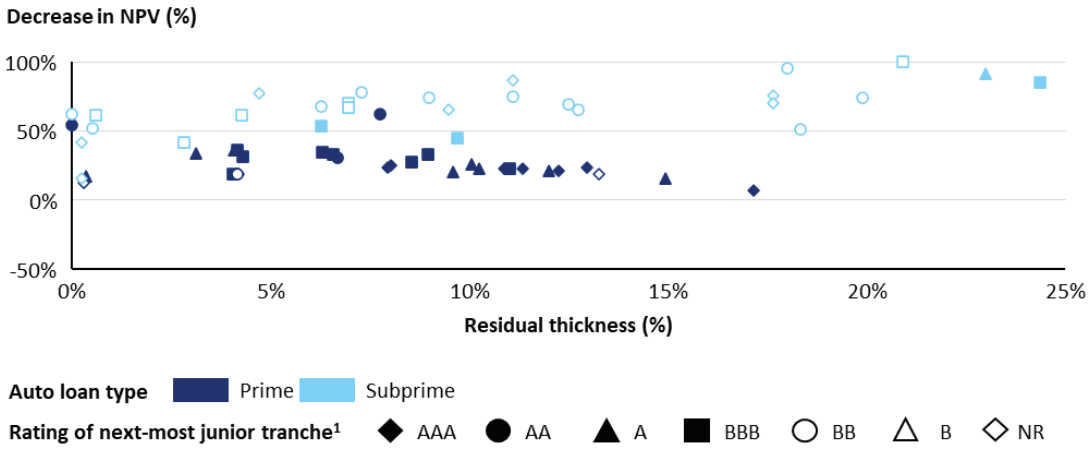
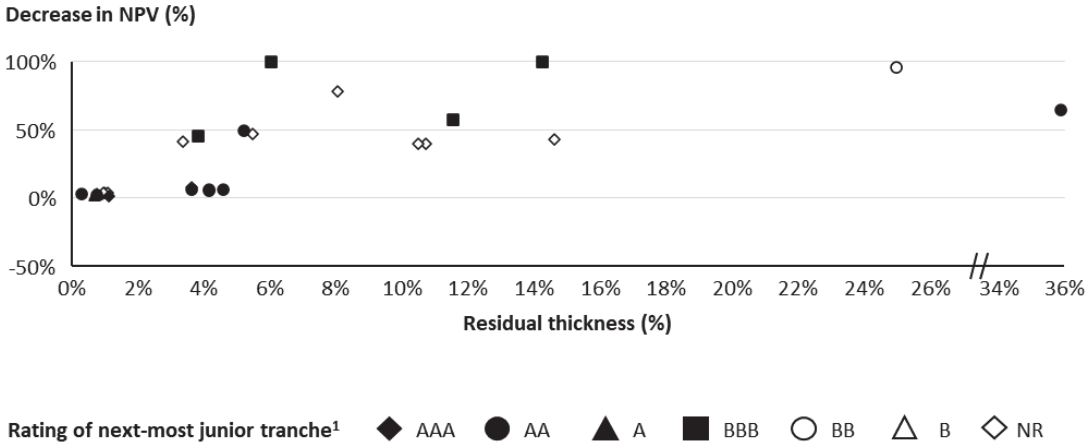


Figure 27: Losses by auto loan residual thickness – Deep-tail scenario, %



© Oliver Wyman

Figure 28: Losses by student loan residual thickness – Deep-tail scenario, %



A.2. Data Sources

Asset class	Sample (if known) / representative	Fields used	Time span	Provider(s)	Rationale for selection
CLOs	US LSTA 100 index leveraged loans	Default rate	1999 - 2022	S&P	Index well-used by industry, provides adequate sample of US leveraged loan market
	US first lien loans	Recovery rate	2001 – 2023	Moody's LCD Bank of America Global Research	Most comprehensive data available, compiled by BofA Global Research based on data from Moody's and LCD
Auto loans	US auto loans	Prime recovery rate Subprime recovery rate Prime ANL rate Subprime ANL rate	2004 – 2023	Fitch Ratings	Most comprehensive data available from reputable source

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

A.2 Data Sources

Asset class	Sample (if known) / representative	Fields used	Time span	Provider(s)	Rationale for selection
Student loans	US private student loans	Default rate	2008 – 2023	Intex	Most comprehensive data available FRBNY Household Debt and Credit report omitted due to use of delinquency rate over default rate NCES public student loan cohort default rates taken into consideration, but not used to calibrate scenarios Fitch Ratings private student loan default index taken into consideration, but not used to calibrate scenarios
Common stock	S&P 500 index	Share price Annual return	1928 – 2023	S&P	Used by NAIC for equity RBC framework for equities Russell 3000 omitted due to similarities of parameters to S&P 500 and shorter time span
Corporate bonds	Corporate bonds (aggregated all)	Default rate	1920-2021	Moody's	Most comprehensive data available from reputable source, well-used by industry
		Recovery rate	1982-2021	Moody's	
	Bloomberg US Corporate Bond Agg Total Return	Corporate bond price	1973-2023	Bloomberg	
Commercial Real Estate	NCREIF Property Index	Total Index Value	1978-2022	NCREIF	Used by NAIC for calibration of RBC framework for CRE FRED US Commercial Real Estate price index omitted due to greater sensitivity to market price rather than valuation, as well as due to the NAIC's use of NCREIF data for their RBC framework

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

A.3. Sensitivity Analysis

Details of CLO sensitivity testing in our GFC scenario can be found below:

- **Discount rate:**
  - For BSLs, a discount rate of 12% resulted in a simple average loss relative to the base scenario of -45.9% compared to -45.7% and -46.1% for discount rates of 9% and 15%, respectively.
  - For MMs, a discount rate of 12% resulted in a simple average loss relative to the base scenario of -31.6% compared to -31.1% and -32.1% for discount rates of 9% and 15%, respectively.
- **Recovery lag:**
  - For BSLs, a 6-month recovery lag resulted in a NPV 5.4% higher on average than our base 12-month assumption while a 12-month recovery lag resulted in a NPV 0.7% higher on average.
  - For MMs, a 6-month recovery lag resulted in a NPV 0.3% higher on average than our base 12-month assumption while a 12-month recovery lag resulted in a NPV 0.8% lower on average.
- **Prepayment rate:**
  - For BSLs, a consistent prepayment rate across base and GFC scenario resulted in a NPV 6.2% lower on average than when we apply scenario-specific prepayment assumptions.
  - For MMs, a consistent prepayment rate across base and GFC scenario resulted in a NPV 3.4% lower on average than when we apply scenario-specific prepayment assumptions.

Details of auto loan sensitivity testing in our GFC scenario can be found below:

- **Discount rate:**
  - For prime auto loans, a discount rate of 12% resulted in a simple average loss relative to the base scenario of -13.0% compared to -12.9% and -13.0% for discount rates of 9% and 15%, respectively.
  - For subprime auto loans, a discount rate of 12% resulted in a simple average loss relative to the base scenario of -18.2% compared to -18.5% and -17.9% for discount rates of 9% and 15%, respectively.
- **Recovery lag:**
  - For prime auto loans, a 3-month recovery lag resulted in a NPV 1.7% lower on average than our base 6-month assumption while a 9-month recovery lag resulted in a NPV 1.5% higher on average.
  - For subprime auto loans, a 3-month recovery lag resulted in a NPV 3.3% lower on average than our base 6-month assumption while a 9-month recovery lag resulted in a NPV 5.5% higher on average.
- **Base default rate:**
  - For prime auto loans, a 0.5% increase in our base default rate resulted in a NPV 0.0% lower on average while a 0.5% decrease in our base default rate resulted in a NPV 0.0% higher on average.
  - For subprime auto loans, a 1.0% increase in our base default rate resulted in a NPV 1.9% lower on average while a 1.0% decrease in our base default rate resulted in a NPV 2.0% higher on average.
- **Rate shock:**
  - For prime auto loans, applying a 50bps rate shock to forward curves resulted in a NPV 0.2% lower on average.

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

  - For subprime auto loans, applying a 50bps rate shock to forward curves resulted in a NPV 1.6% lower on average.

Details of student loan sensitivity testing in our Mid-tail scenario can be found below:

- **Discount rate:**
  - A discount rate of 12% resulted in a simple average loss relative to the base scenario of -31.4% compared to -31.4% and -31.5% for discount rates of 9% and 15%, respectively.
- **Recovery lag:**
  - An 18-month recovery lag resulted in a simple average loss relative to the base scenario of -25.0% compared to a simple average loss of -31.4% with our base 12-month assumption.
- **Severity:**
  - 85% severity resulted in a simple average loss relative to the base scenario of -28.5% compared to a simple average loss of -31.4% with our base 77% severity assumption.
- **Deferment rate:**
  - A 10% deferment rate resulted in a simple average loss relative to the base scenario of -29.9% compared to a simple average loss of -31.4 % with our base 8% assumption while a 12% deferment rate resulted in a simple average loss of -30.1%.
- **CRR:**
  - 15% CRR resulted in a simple average loss relative to the base scenario of -28.5% compared to a simple average loss of -31.4% with our base CRR assumptions while 25% CRR resulted in a simple average loss of -27.5%.
- **Forbearance:**
  - 10% forbearance resulted in a simple average loss relative to the base scenario of -28.6% compared to a simple average loss of -31.4% with our base forbearance assumptions while 15% forbearance resulted in a simple average loss of -25.7%.
- **Default rate:**
  - An 8% default rate resulted in a simple average loss relative to the base scenario of -25.2% compared to a simple average loss of -31.4% with our base default rate assumptions while a 12% default rate resulted in a simple average loss of -31.4%.

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

A.4. Deals Modeled

Table 17: Listing of MM CLO deals in random modeling sample

Deal	Vintage
Audax Senior Debt CLO 6	2021
Owl Rock CLO VII	2022
Guggenheim MM CLO 2021-4	2021
Lake Shore MM CLO V	2022
Maranon Loan Funding 2023-1	2023
Owl Rock CLO VI	2021
Woodmont 2023-12 Trust	2023
Owl Rock CLO X	2023
BCC Middle Market CLO 2023-2	2023
Fortress Credit Opportunities XXI CLO	2023
BlackRock DLF IX 2021-2 CLO	2021
MFIC Bethesda CLO 1	2023
Twin Brook CLO 2023-1	2023
Deerpath Capital CLO 2022-1	2022
Barings Middle Market CLO 2023-I	2023
Blackrock Mt Adams CLO IX	2021
Guggenheim MM CLO 2021-3	2021
Barings Private Credit Corporation CLO 2023-1	2023
Golub Capital Partners ABS Funding 2023-1	2023
ABPCI Direct Lending Fund CLO XIV	2023
Blackrock Rainier CLO VI	2021
Owl Rock CLO VIII	2022
ABPCI Direct Lending Fund CLO XVI	2023
Churchill MMSLF CLO-I	2021
Lake Shore MM CLO IV	2021
Golub Capital Partners CLO 56(M)	2021
BlackRock DLF X 2022-1 CLO	2022
Golub Capital Partners CLO 57(M)	2021
Antares CLO 2021-1	2021

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

Table 18: Comparison of characteristics random sample to full pool of deals: MM CLO

Statistic	Random sample	Full sample
Average deal balance	$534M	$489M
10th – 90th percentile	$350M - 902M	$304M - $735M
Average residual thickness	20%	24%
10th – 90th percentile	10%-35%	12%-35%
2021 vintage	40%	33%
2022 vintage	20%	24%
2023 vintage	40%	43%

Table 19: Listing of BSL CLO deals in random modeling sample

Deal	Vintage
Venture 48 CLO	2023
Rockford Tower CLO 2021-1	2021
Palmer Square CLO 2023-3	2023
MidOcean Credit CLO XI	2022
Octagon Investment Partners 54	2021
Wellfleet CLO 2021-1	2021
Bain Capital Credit CLO 2023-1	2023
Sculptor CLO XXV	2021
Wellington Management CLO 1	2023
Fortress Credit BSL XX	2023
Rockford Tower Credit Funding I	2022
Milford Park CLO	2022
Dryden 90 CLO	2021
Carlyle U.S. CLO 2023-2	2023
KKR Static CLO I	2022
Sound Point CLO XXX	2021
Octagon 70 Alto	2023
Madison Park Funding LII	2021
OHA Credit Funding 12	2022
RRX 6	2021
AIMCO CLO 12	2021
Mountain View CLO XVI	2022
AGL CLO 10	2021
Ares LXVIII CLO	2023

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

A.4 Deals Modeled

Deal	Vintage
Carlyle U.S. CLO 2021-9	2021
Sculptor CLO XXVIII	2021
BCRED BSL CLO 2021-2	2021
Octagon 61	2023
Atlantic Avenue 2023-1	2023
Octagon Investment Partners 49	2021

Table 20:Comparison of characteristics random sample to full pool of deals: BSL CLO

Statistic	Random sample	Full sample
Average deal balance	$443M	$460M
10th – 90th percentile	$366M – $515M	$383M – $576M
Average residual thickness	10%	9%
10th – 90th percentile	7% - 11%	7% - 10%
2021 vintage	47%	44%
2022 vintage	20%	30%
2023 vintage	33%	26%

Table 21: Listing of Prime Auto ABS deals in random modeling sample

Deal	Vintage
Toyota Auto Receivables 2022-D Owner Trust	2022
Toyota Auto Receivables 2022-B Owner Trust	2022
Capital One Prime Auto Receivables Trust 2022-1	2022
World Omni Auto Receivables Trust 2022-B	2022
OCCU Auto Receivables Trust 2022-1	2022
SCCU Auto Receivables Trust 2023-1 (Space Coast Credit Union)	2023
Toyota Auto Receivables 2021-B Owner Trust	2021
SFS Auto Receivables Securitization Trust 2023-1	2023
Porsche Financial Auto Securitization Trust 2023-1	2023
World Omni Auto Receivables Trust 2022-D	2022
Lendbuzz Securitization Trust 2023-2	2023
OCCU Auto Receivables Trust 2023-1	2023
World Omni Auto Receivables Trust 2022-A	2022
World Omni Auto Receivables Trust 2021-D	2021
World Omni Auto Receivables Trust 2023-D	2023

© Oliver Wyman

A.4 Deals Modeled

Deal	Vintage
BVABS 2023-CAR2 aka BOF URSA VII Funding Trust I	2023
CarMax Auto Owner Trust 2021-1	2021
Hyundai Auto Receivables Trust 2022-C	2022
Ent Auto Receivables Trust 2023-1	2023
Toyota Auto Loan Extended Note Trust 2023-1	2023
Capital One Prime Auto Receivables Trust 2023-2	2023
Toyota Auto Receivables 2023-B Owner Trust	2023
Toyota Auto Receivables 2023-C Owner Trust	2023
Ally Auto Receivables Trust 2022-2	2022
Chase Auto Owner Trust 2022-A	2022
GM Financial Revolving Receivables Trust 2023-2	2023
Capital One Prime Auto Receivables Trust 2021-1	2021
Toyota Auto Receivables 2023-D Owner Trust	2023
Westlake Automobile Receivables Trust, Series 2023-P1	2023
GM Financial Consumer Automobile Receivables Trust 2022-4	2022

Table 22: Comparison of characteristics random sample to full pool of deals: Prime auto loan

Statistic	Random sample	Full sample
Average deal balance	$1.1B	$1.3B
10th – 90th percentile	$256M – $1.6B	$419M – $1.9B
Average residual thickness	8%	6%
10th – 90th percentile	3%-13%	0%-13%
2021 vintage	13%	26%
2022 vintage	37%	28%
2023 vintage	50%	46%

Table 23: Listing of Subprime Auto ABS deals in random modeling sample

Deal	Vintage
Santander Drive Auto Receivables Trust 2023-4	2023
United Auto Credit Securitization Trust 2023-1	2023
Flagship Credit Auto Trust 2021-3	2021
Research-Driven Pagaya Motor Asset Trust VI	2022
CPS Auto Receivables Trust 2023-B	2023
American Credit Acceptance Receivables Trust 2022-4	2022

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

A.4 Deals Modeled

Deal	Vintage
Research-Driven Pagaya Motor Asset Trust VII	2022
United Auto Credit Securitization Trust 2021-1	2021
First Investors Auto Owner Trust 2021-1	2021
AmeriCredit Automobile Receivables Trust 2021-1	2021
Tricolor Auto Securitization Trust 2022-1	2022
Lobel Automobile Receivables Trust 2023-2	2023
Westlake Automobile Receivables Trust 2023-3	2023
LAD Auto Receivables Trust 2023-2	2023
Foursight Capital Automobile Receivables Trust 2022-1	2022
Foursight Capital Automobile Receivables Trust 2021-2	2021
CPS Auto Receivables Trust 2021-A	2021
American Credit Acceptance Receivables Trust 2021-3	2021
Lendbuzz Securitization Trust 2023-1	2023
Strike Acceptance Auto Funding Trust 2023-2	2023
Flagship Credit Auto Trust 2022-4	2022
Westlake Automobile Receivables Trust 2023-2	2023
American Credit Acceptance Receivables Trust 2022-2	2022
Research-Driven Pagaya Motor Asset Trust IV	2021
GLS Auto Receivables Issuer Trust 2023-1	2023
Westlake Automobile Receivables Trust 2022-2	2022
Research-Driven Pagaya Motor Asset Trust III	2021
Arivo Acceptance Auto Loan Receivables Trust 2021-1	2021

Table 24: Comparison of characteristics random sample to full pool of deals: Subprime auto loan

Statistic	Random sample	Full sample
Average deal balance	$506M	$607M
10th – 90th percentile	$44M – $836M	$183M – $1.5B
Average residual thickness	10%	11%
10th – 90th percentile	1%-20%	1%-25%
2021 vintage	36%	33%
2022 vintage	29%	30%
2023 vintage	36%	36%

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

A.4 Deals Modeled

Table 25: Listing of Student Loan ABS deals in random modeling sample

Deal	Vintage
Nelnet Student Loan Trust 2023-A	2023
SMB Private Education Loan Trust 2021-A	2021
College Ave Student Loans 2021-A	2021
Nelnet Student Loan Trust 2023-PL1	2023
Commonbond Student Loan Trust 2021-A-GS	2021
College Ave Student Loans Trust 2021-5	2021
Navient Private Education Refi Loan Trust 2021-E	2021
College Ave Student Loans 2023-A	2023
Navient Private Education Refi Loan Trust 2022-B	2022
Commonbond Student Loan Trust 2021-B-GS	2021
College Ave Student Loans 2021-C	2021
Navient Private Education Refi Loan Trust 2021-F	2021
College Ave Student Loans 2021-B	2021
Nelnet Student Loan Trust 2021-A	2021
ELFI Graduate Loan Program 2021-A	2021
Navient Private Education Refi Loan Trust 2021-B	2021
College Ave Student Loans Trust 2021-3	2021
Nelnet Student Loan Trust 2021-C	2021
Navient Private Education Refi Loan Trust 2021-A	2021
Navient Private Education Loan Trust 2023-B	2023
College Ave Student Loans 2023-B	2023
Prodigy Finance CM2021-1	2021
Nelnet Student Loan Trust 2021-D	2021
Navient Private Education Refi Loan Trust 2021-G	2021
College Avenue Student Loans 2022-CLUB	2022
EDvestinU Private Education Loan Issue No. 4 Series 2022-A	2022
SMB Private Education Loan Trust 2023-A	2023
College Ave Student Loans Trust 2021-4	2021
SMB Private Education Loan Trust 2021-E	2021
Navient Private Education Refi Loan Trust 2022-A	2022

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

A.4 Deals Modeled

Table 26: Comparison of characteristics random sample to full pool of deals: Student loan

Statistic	Random sample	Full sample
Average deal balance	$506M	$484M
10th – 90th percentile	$81M – $1.0B	$82M – $999M
Average residual thickness	9%	-
10th – 90th percentile	1%-18%	-
2021 vintage	67%	71%
2022 vintage	13%	13%
2023 vintage	20%	16%

Table 27: Excluded deals[32]

Class	Name
MM CLO	Churchill MMSLF CLO-II
Prime auto loan ABS	Bank of America Auto Trust 2023-2
	Carvana Auto Receivables Trust 2023-P1
	Carvana Auto Receivables Trust 2023-P4
	Westlake Automobile Receivables Trust, Series 2023-P1
	Carvana Auto Receivables Trust 2023-P2
	Honda Auto Receivables 2022-1 Owner Trust
	Honda Auto Receivables 2023-4 Owner Trust
Subprime auto loan ABS	Carvana Auto Receivables Trust 2021-N4
	Juniper Receivables 2022-1
	Credit Acceptance Auto Loan Trust 2023-3
	Credit Acceptance Auto Loan Trust 2023-5
	Flagship Credit Auto Grantor Trust 2023-R
	Carvana Auto Receivables Trust 2022-N1
Student loan ABS	SMB Private Education Loan Trust 2022-A
	Brazos Education Loan Authority Series 2021-1
	SMB Private Education Loan Trust 2022-B
	Kentucky Higher Education Student Loan Corporation, Series 2021-1
	Navient Student Loan Trust 2021-3
	Higher Education Loan Authority of the State of Missouri Series 2021-2
	Higher Education Loan Authority of the State of Missouri Series 2021-3
	SoFi Professional Loan Program 2021-A

[32] No BLS CLO deals were excluded

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

A.4 Deals Modeled

New Mexico Educational Assistance Foundation, Series 2021-1
Towd Point Asset Trust 2021-SL1

© Oliver Wyman

© 2024 National Association of Insurance Commissioners

Qualifications, assumptions, and limiting conditions

This report was commissioned by the Alternative Credit Council and its membership. Oliver Wyman maintained full control of the modeling methodology and assumptions. This report is not intended for general circulation or publication, nor is it to be reproduced, quoted, or distributed for any purpose without the prior written permission of Oliver Wyman. There are no third-party beneficiaries with respect to this report, and Oliver Wyman does not accept any liability to any third party.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information. The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. Oliver Wyman accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events, or conditions, which occur subsequent to the date hereof.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client. This report does not represent investment advice nor does it provide an opinion regarding the fairness of any transaction to any and all parties. In addition, this report does not represent legal, medical, accounting, safety, or other specialized advice. For any such advice, Oliver Wyman recommends seeking and obtaining advice from a qualified professional.

Oliver Wyman, LLC (DE)



April 8, 2024

Mr. Tom Botsko
Chair, NAIC Capital Adequacy (E) Task Force
Via email: Eva Yeung (eyeung@naic.org)

Mr. Philip Barlow
Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBC IRE WG)
Via email: Dave Fleming (dfleming@naic.org)

Re: Proposal 2024-02-CA (Residual Structure PC & Health)
Oliver Wyman Residual Tranche Report

Dear Mr. Botsko and Mr. Barlow,

The American Property Casualty Insurance Association[1] (APCIA) appreciates the opportunity to express our views on the Oliver Wyman study of the performance of residuals relative to other asset classes, exposed by the RBC IRE WG. We are also responding to the Capital Adequacy (E) Task Force's (CATF) proposal to impose a 45 percent interim risk-based capital (RBC) charge on residual tranche of asset-backed securities (residuals) held by property casualty insurers. We do not believe a sufficient basis has been demonstrated for this increase and agree with the American Council of Life Insurers (ACLI) that the NAIC should delay the implementation of an increased RBC charge on residuals by an additional year for all insurance lines.

Last year, the NAIC appropriately delayed imposition of a 45 percent charge on residuals on life insurers and sought industry data to conduct additional study. While we believe that any significant change in RBC charges, whether "interim" or not, should be underpinned by careful analysis conducted by the NAIC, regulators now have access to a thoughtful and credible study prepared by Oliver Wyman. In our opinion, the study does not justify a 45 percent charge on residuals. It does support the need for additional analysis in establishing an interim capital charge that is reflective of risk.

Moving forward with the 45 percent charge would be inappropriate in light of the new data. Oliver Wyman is a highly credible firm that the NAIC has appropriately relied on over the years to analyze important aspects of solvency regulation. The study constitutes compelling evidence that regulators should take additional time and analysis before making major changes to RBC. The NAIC has required substantially more rigor in the analysis underpinning every prior increase in RBC. We are concerned that failure to do so here would be inappropriate, especially insofar as applying this interim charge to property casualty and health insurers was only proposed at the March 2024 NAIC meeting.

[1] APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

555 12th Street, NW, Suite 550, Washington, DC 20004 | 202-828-7100
8700 W. Bryn Mawr Avenue, Suite 1200S, Chicago, IL 60631-3512 | 847-297-7800

© 2024 National Association of Insurance Commissioners

We are also concerned that this charge appears to be designed to align with the "Basel III Endgame" banking capital rules proposed by the Federal Reserve Board. For many years, the insurance industry and insurance regulators have rightly pointed out that banking capital rules cannot and should not be applied to insurance companies. The two business models are quite different, as property casualty insurers do not hold demand deposits and the terms of our liabilities do not subject insurers to a run on the bank, i.e., are not runnable. The Basel III Endgame proposal, whether it is appropriate or inappropriate for structured securities held by banks, should not translate to state insurance regulation. The charge of state regulators is to set insurance-specific rules that protect policyholders, not to adopt global banking rules that do not reflect the best available data.

Finally, we would like to point out that, unlike the life RBC formula, there is no current mechanism for assigning property casualty Schedule BA asset RBC charges by investment type. Assigning a different charge to one particular investment type currently within Schedule BA is a significant change and should be supported by a more holistic review of the treatment of property casualty Schedule BA investments in general. This consideration further supports ACLI's call for a one-year extension of the implementation date.

Thank you for the opportunity to convey our views and your continued commitment to ensuring that RBC changes reflect analysis and consistent standards of review by regulators. We hope that you will seriously consider our request to delay the implementation of this charge by an additional year to ensure that an appropriate charge is developed and adopted.

Sincerely,



Stephen W. Broadie
Vice President, Financial & Counsel

© 2024 National Association of Insurance Commissioners

AMERICANS for TAX REFORM
722 12th Street, N.W. • 4th Floor • Washington, D.C. 20005

April 17, 2024

Mr. Tom Botsko
Chair, Capital Adequacy (E) Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Oliver Wyman Report: *Residual Tranche Risk Analysis*

Dear Chair Botsko:

Americans for Tax Reform (ATR)[1] appreciates the opportunity to comment on the National Association of Insurance Commissioners' (NAIC) proposed increase to the risk-based capital (RBC) charge for residual tranches and interests of asset-backed securities (ABS). ATR also appreciates the opportunity to comment on Oliver Wyman's (OW) report analyzing the risk of losses to the residual tranches and interests of ABS under certain stress scenarios.[2] **ATR requests that the NAIC delay the implementation of the 45 percent RBC charge by at least one year. If the NAIC fails to delay the implementation of the 45 percent capital charge, then the NAIC should vote to establish the interim charge for residuals at 30 percent.**

The NAIC is arbitrarily increasing regulations on life insurance companies that invest in residual tranches and interests of ABS.[3] It appears that the NAIC's goal is to push life insurance companies out of residual tranches without any quantitative analysis to justify this change. The implementation of the proposed regulations will disincentivize life insurance companies from investing in residual ABS tranches, which could increase the cost of Americans' life insurance and annuities. **ATR is deeply concerned the NAIC will deter financial companies from keeping life insurance and annuity products affordable for Americans.**

Third-party data and analysis provide evidence that NAIC's proposed regulations go too far. The OW report finds that common stock losses are higher than losses on residual ABS tranches on a portfolio level. The NAIC's proposed equity capital increase from 30 percent to 45 percent for residual ABS tranches is not commensurate with the residual tranche risk observed within the OW report. Meanwhile, the common stock charge is 30 percent. The OW report offers support for a 30 percent capital charge, not a 45 percent charge.

[1] ATR is a nonprofit, 501(c)(4) taxpayer advocacy organization that opposes all tax increases and supports limited government, free market policies. In support of these goals, ATR opposes heavy regulation and taxation of financial services. ATR was founded in 1985 at the request of President Ronald Reagan.
[2] https://content.naic.org/sites/default/files/inline-files/Oliver%20Wyman%20Residual%20Tranche%20Report.pdf.
[3] https://content.naic.org/about.

Notably, another paper analyzing collateralized loan obligations (CLOs) found that "CLO equity exhibits a great deal of resilience to market volatility."[4]

ABS residuals offer significant returns to life insurance and annuities. Residuals are a "great return enhancer and fundamental diversifier."[5] These tranches and interests can also "play an effective role in generating return while keeping portfolio risk constant."[6] Increasing the RBC charge to 45 percent would limit life insurance companies' exposure to residuals, hamper returns, and increase costs for annuities that rely on those enhanced returns. Ultimately, American workers and retirees will bear the brunt of the increased RBC charge.

The NAIC's proposed regulations should be delayed by at least one year. If the NAIC fails to delay the implementation of the 45 percent RBC charge, then the charge should remain at 30 percent. This is more than reasonable considering the NAIC has not conducted a comprehensive cost-benefit analysis for increasing the RBC charge to 45 percent. Moreover, the OW report clearly shows the NAIC's proposed regulations are gratuitous. To date, no substantive quantitative analysis has been conducted to justify the NAIC's proposed 45 percent RBC charge for residuals.

Additionally, NAIC's proposed RBC charge should not be implemented simply to create parity with federal regulators' implementation of the Basel III Endgame bank capital requirements.[7] These bank regulations were originally formed by unelected bureaucrats in Basel, Switzerland. The NAIC should not implement rules for life insurance companies that will align with heavy-handed European-based regulations.

The proposed bank capital requirements arbitrarily punish securitizations by doubling the p-factor.[8] The increase in the p-factor fails to take into consideration the varying riskiness of different types of underlying collateral. So, the p-factor treats credit card debt and commercial paper as equally risky. Adding the NAIC's arbitrary RBC charge to residuals would unnecessarily, and without empirical evidence, label ABS as too risky for life insurance. The higher capital charges from the NAIC and the bank regulators will disincentivize banks and life insurance companies from adding exposure to securitizations. Life insurance companies will be forced to increase the cost of annuities, making them less attractive to American workers and retirees. Businesses "tend to pass on cost increases far more quickly than cost reductions."[9] Government-mandated capital controls will likely force life insurance companies to pass down these costs through annuities. It is widely observed that "[o]utput prices tend to respond faster to input increases than to decreases" in the producer and consumer goods markets.[10] Similarly, the cost of annuities will increase more quickly if the RBC charge for residuals increases to 45 percent.

[4] https://w4.stern.nyu.edu/finance/docs/pdfs/Seminars/CLO-Performance.pdf.
[5] https://www.thornburg.com/article/think-abs-residuals-to-improve-your-risk-reward-trade-off/.
[6] Id.
[7] https://docs.house.gov/meetings/BA/BA20/20240131/116775/HHRG-118-BA20-Wstate-BashurB-20240131.pdf.
[8] https://www.federalregister.gov/d/2023-19200/p-564.
[9] https://www.cuna.org/content/dam/cuna/advocacy/priorities/documents/True-Impact-of-Interchange-Regulation-CornerstoneAdvisors-June-2023.pdf.
[10] https://www.jstor.org/stable/10.1086/262126.

AMERICANS for TAX REFORM

NAIC's proposed regulations will force annuity providers to hold significantly more cash on hand. **Essentially, this will raise costs for consumers—acting as a *de facto* tax increase.** This is especially harmful to Americans considering the guaranteed lifetime income that annuities provide.[11]

The NAIC should not arbitrarily and capriciously increase the RBC charge for residual ABS tranches without a proper quantitative analysis. Since insurance is primarily regulated at the state level, state regulators wield significant power over the insurance industry. Although the NAIC is not subject to the *Administrative Procedure Act* (APA),[12] as a matter of proper due process, the NAIC should consider abiding by the APA's principles and allow for a structured notice-and-comment process that considers and analyzes hard data. Today, the NAIC possesses no hard evidence to suggest that raising the capital charge for residuals to 45 percent would provide any material benefits to life insurance companies or their clients.

One key element of ABS special purpose vehicles (SPVs)[13] is that they benefit from bankruptcy remoteness. Bankruptcy remoteness possesses advantages such as:

> *(i) the ability to segregate the assets to be financed such that they are held solely for the benefit of specific creditors and (ii) avoiding bankruptcy risks, costs, and delays including cram-down risk, the suspension of payments to creditors, and the limitations on enforcement actions against the [SPV] for nonpayment due to the automatic stay taking effect upon the filing of a bankruptcy case.*[14]

Legally isolating the securitized assets acquired by a SPV also gives ABS an advantage over corporate bonds and other non-securitized instruments. The "true sale" of assets creates a legal isolation between the SPV and the entity that originated the assets.[15] This structure "allows creditors financing the assets to focus on the credit quality of the assets rather than the credit quality of the originator, resulting in better financing terms for the issuer/borrower."[16] The "economic benefits" of bankruptcy remoteness "can significantly lower borrowing costs."[17] Increasing the RBC charge for residuals to 45 percent is more likely to worsen financing terms for annuities, not improve them.

The level of riskiness observed in ABS is further delineated by the NAIC itself. The NAIC has previously stated that "[a]sset-backed securities have proven over the years to be stable investments."[18]

The NAIC should avoid hindering American families from maximizing their nest eggs. Increasing the RBC charge for residuals to 45 percent would increase costs on annuities—effectively increasing costs on retirement options for American workers and retirees. Currently, there is no quantitative evidence to substantiate this RBC charge increase. **Consequently, ATR requests the 45 percent RBC charge on ABS residuals be delayed and remain at 30 percent.**

---

[11] https://www.actuary.org/sites/default/files/2022-08/IB.SECUREact.8.22.pdf.
[12] https://www.justice.gov/sites/default/files/jmd/legacy/2014/05/01/act-pl79-404.pdf.
[13] https://am.credit-suisse.com/content/dam/csam/docs/articles/2022/cig-white-paper-collateralized-loan-obligations.pdf.
[14] https://www.choate.com/images/content/1/0/v2/104168/Bankruptcy-Remoteness-A-Summary-Analysis.pdf.
[15] Id.
[16] Id.
[17] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4178280.
[18] https://content.naic.org/cipr-topics/asset-backed-securities.

* * * *

ATR appreciates the opportunity to comment on the OW report and the proposed 45 percent RBC charge. If you have any questions or need any additional information, please contact Bryan Bashur at bbashur@atr.org.

Sincerely,

Americans for Tax Reform

cc: Ms. Eva Yeung
Senior Property/Casualty RBC Specialist & Technical Lead
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Submitted via electronic mail

Mr. Tom Botsko
Chair, Capital Adequacy (E) Task Force (CATF)
Via email: Eva Yeung (eyeung@naic.org)

Philip Barlow
Chair, Life Risk-Based Capital (E) Working Group (RBC IRE WG)
Via email: Dave Fleming (dfleming@naic.org)

Dear Mr. Barlow and Mr. Botsko:

As the President and CEO of the Florida State Hispanic Chamber of Commerce, I have always supported economic growth and free market principles to ensure success for all residents in our state. The strength of Florida's economy can be attributed to its free market practices. Following the recent National Association of Insurance Commissioners (NAIC) meeting, it seems the organization is seeking to stamp out competition that allows the free market to thrive. I find the precedent being set by the Risk-Based Capital Investment Risk and Evaluation Working Group (RBC IRE WG) and the Capital Adequacy (E) Task Force (CATF) troublesome. Both the RBC IRE WG's and CATF's decision to disregard objective, third-party data that they requested is concerning, and the findings should mandate a reexamination of the proposed 45% capital charge on residual tranches.

We've recently learned that many of the initiatives pushed by the NAIC are done so behind closed doors and not open to public input. However, this aggressive attempt at suppressing competition in the insurance market is open to public comment, and we'd like our voice to be heard. In the past, the NAIC has valued research and used data to drive its decisions, but now it seems like a lack of oversight has allowed the organization to run astray and be influenced by individual priorities and politics. The recent independent study conducted by Oliver Wyman provides validated data that demonstrates that asset-backed security (ABS) residuals don't have a higher risk, making the 45% charge in question unnecessary.

If the NAIC continues pursuing this charge, it would confirm that its real goal is to drive competition out of insurance markets, including life insurance and annuity markets. A frivolous 45% charge would clearly have an adverse effect on the market. The life insurance and annuity industry is critical to Florida's retirees, a community that primarily operates on a fixed income and would not be able to handle the impact of this proposed charge, which could reduce the number of affordable policies.

Further, this charge is also being proposed for property and casualty insurance companies, which would further increase costs in that market. As you know, Florida is experiencing an unprecedented crisis in the availability and affordability of homeowners insurance. Floridians are already leaving the state in droves because of skyrocketing insurance costs.[1] This is the

[1] https://www.newsweek.com/florida-faces-exodus-insurance-costs-cause-residents-leave-state-1838206

© 2024 National Association of Insurance Commissioners

absolute worst time for regulators to arbitrarily raise costs. The effect of such increased costs will hit Hispanic communities particularly hard given that Hispanics are already substantially less likely to have homeowners insurance than the general population.[2] When insurers are prevented from investing in high-returning assets, they will be forced to minimize their offerings, which will lead to higher costs.

Unfortunately, the NAIC's recent actions are seemingly guided by political agendas rather than sound policymaking. The NAIC should be forging new ways to lower costs and provide more options for consumers, especially in states like Florida, not working to suppress the free market. I ask the NAIC to act in favor of data and in favor of consumers and vote in support of the one-year delay.

Sincerely,
Julio Fuentes
President and CEO of the Florida State Hispanic Chamber of Commerce

[2] https://consumerfed.org/wp-content/uploads/2024/03/Exposed-UninsuredHomes-1.pdf

NAMIC
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

317.875.5250 | F 317.879.8408
3601 Vincennes Road, Indianapolis, Indiana 46268

202.628.1558 | F 202.628.1601
20 F Street N.W., Suite 510 | Washington, D.C. 20001

April 8, 2024

Mr. Philip Barlow, Chair
Chair, Risk-Based Capital Investment and Evaluation (E) Working Group
National Association of Insurance Commissioners
c/o Dave Fleming
Via Email: dfleming@naic.org

Mr. Tom Botsko
Chair, Capital Adequacy (E) Task Force
National Association of Insurance Commissioners
c/o Eva Yueng
Via Email: eyeung@naic.org

RE: Oliver Wyman Residual Tranche Risk Analysis and Proposal 2024-02-CA

Dear Mr. Barlow and Mr. Bostko,

Thank you for the opportunity to comment on the Oliver Wyman Residual Tranche Risk Analysis and Proposal 2024-02-CA. The following is submitted on behalf of the member companies of the National Association of Mutual Insurance Companies (NAMIC).

NAMIC has more than 1,500-member companies representing 40 percent of the total U.S. property/casualty insurance market. NAMIC member companies serve more than 170 million policyholders and write more than $323 billion in annual premiums. Our members' direct written premiums account for 67 percent of homeowners' insurance and 55 percent of automobile insurance. Through NAMIC advocacy programs it promotes public policy solutions that benefit NAMIC member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

NAMIC is writing to express our support for an additional one-year implementation delay of the increased 45% capital charge on asset-backed security (ABS) residual tranches and interests.

© 2024 National Association of Insurance Commissioners



As noted by the American Council of Life Insurers (ACLI) at the March National NAIC meeting, the insurance industry is aligned that regulators and stakeholders must thoroughly assess new data and discuss and evaluate all residual tranche charges to ensure that they align with the actual risk. Aligning risk with capital is also consistent with a foundational principle of the recently proposed Holistic Framework – equal capital for equal risk.

We believe that providing an additional year will allow additional analysis, including by the Academy of Actuaries, to help the regulatory community arrive at an informed decision and produce specific recommendations that are based on fact, and specific to individual types of assets. This additional year can provide an opportunity for understanding the impact to property and casualty companies, as opposed to assuming the risk is the same as the life industry. Unlike the life risk-based capital calculation, there is no current mechanism for assigning a property/casualty Schedule BA asset charge by investment type. Such a change in charge is significant and should be supported by a holistic review of the treatment of property/casualty Schedule BA investment types in general, rather done in isolation for one specific investment type, such as residual tranches. This concern also supports the need for additional analysis.

Thank you for your consideration of our views and your support for a process that provides consistent rigor and standards when evaluating insurance company investments for purposes of changing RBC.

Sincerely,

Colleen W. Scheele, Public Policy Counsel and Director of Financial and Tax Policy
National Association of Mutual Insurance Companies

From: Karen Melchert <KarenMelchert@acli.com>
Sent: Thursday, April 4, 2024 12:03 PM
To: French, Judith <Judith.French@insurance.ohio.gov>; Botsko, Thomas <Thomas.Botsko@insurance.ohio.gov>; Bruggeman, Dale <Dale.Bruggeman@insurance.ohio.gov>
Subject: Oliver Wyman Residual Tranche Report - ACLI Response

Dear Director French, Mr. Bruggeman and Mr. Botsko,

On behalf of the ACLI we wanted to thank you for the opportunity to comment at the RBC Capital Investment Risk and Evaluation Working Group Committee meeting on March 17th at the NAIC Spring meeting in Phoenix. As you may recall, ACLI spoke at the meeting and requested that regulators delay the implementation of the 45% charge for residuals for one year. We wanted to briefly follow up with you before we submit our comment letter on the Oliver Wyman Residual Tranche Report on April 8th.

ACLI respectfully requests the NAIC postpone implementation of the 45% charge for one additional year. During this additional year, regulators and stakeholders can thoroughly assess new data and discuss and evaluate all residual tranche charges to ensure that they align with the actual risk.

Given the complexities associated with ABS and the potential long-term consequences of changing capital charges, we believe more time is required to finalize the approach. Factors, especially those that are likely long-term, should be data driven. Aligning risk with capital is consistent with a foundational principle of the Holistic Framework – equal capital for equal risk. The factor(s) for residual tranches should align with the principles adopted by the RBC IRE group in December 2023, which emphasized the need for the capital charge to align with the tranche's risk, to the extent possible.

ACLI supports further study on the potential drivers of risk within the residual tranches to determine appropriate interim RBC factors and we believe that a one-year implementation delay will allow further study to better understand and take into account emerging data and research by the Academy.

ACLI will share a copy of our April 8th comment letter with you as soon as it is ready, and we are happy to organize a call to discuss our request. Please let me know if you have any questions or if you are available for a call.

Thank you,

Karen Melchert

© 2024 National Association of Insurance Commissioners

From: Chou, Wanchin <Wanchin.Chou@ct.gov>
Sent: Tuesday, April 16, 2024 10:53 AM
To: Botsko, Thomas <thomas.botsko@insurance.ohio.gov>; Yeung, Eva <EYeung@naic.org>
Cc: Chang, Maggie <mchang@naic.org>
Subject: Proposal 2024-02-CA (Residual Structure PC & Health)

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Hi Tom,

I can follow up with more formal and detailed comment letter if needed. My major comments are as follows:

1. There are many moving pieces for the residual tranches currently discussed at the RBC IRE. It is not effective to adopt this specific proposal and revise it later when the final proposal in managing the residual tranches is to be approved. 45% is only an interim alternative and the split votes (4/11/1) last Friday showed significant concerns among RBC IRE members. Future better structure could be significant different from Proposal 2024-02-CA exposed. AAA has preliminary estimate to complete the study in 2 years if not longer.
2. Historically, the Bond and other investment asset RBC charges in Life RBC, P&C, and Health are different due to different considerations and impacts of their investment assets, LOB, operations, strategy, and ALM, etc. Without a study, I would not recommend changing current 0.20 factor to 0.45 as a voting member.

My recommendation is to hold and wait or withdraw current proposal. We should discuss again later this year when RBC IRE has better guidance and strategic plans. The impacts to the P&C and Health RBC reporting are very limited and a delay in changing current RBC reporting is prudent. Please do not change the current factor (0.20) if a structure change is a must.

Best Regards,

Wanchin W. Chou, FCAS, MAAA, CPCU, CSPA, CCRMP
Chief Insurance Actuary and Asst. Deputy Commissioner
State of Connecticut Insurance Department
Office Phone: 860-297-3943
Cell Phone: 860-488-4408

The American Consumer Institute
Center for Citizen Research

April 8, 2024

Tom Botsko
Chair, Capital Adequacy Task Force
National Association of Insurance Commissioners

Re: Oliver Wyman Study on Residual Tranches and Interests

Dear Mr. Botsko:

The American Consumer Institute is honored to present the National Association of Insurance Commissioners (NAIC) with comments on its proposal to raise the risk-based capital (RBC) charge for residual tranches and interests of asset-backed securities (ABS) from 30 percent to 45 percent for life insurance companies. The effects of limiting financial options on life insurance policyholders are of great concern to us, particularly because the proposal will limit the availability and affordability of such a vital resource.

Life insurance provides financial solace for those who hold these policies and can be integral in supporting families after the passing of a household's primary breadwinner. The difference in feelings of financial security between those with and without life insurance is stark.[1] While nearly 70 percent of those with life insurance feel financially secure, less than half of those without insurance can say the same.

Furthermore, after just six months, nearly half of Americans say they feel the financial burden of losing their household's primary wage earner. Life insurance helps to provide families with the cushion they need to stave off the inevitable financial burdens of a loss. Even if a policy is never used, the peace of mind that it grants is still immeasurable to working families.

There is little debate that life insurance policies are beneficial. However, rules that limit investment opportunities for life insurance policyholders threaten to limit availability and affordability. Similar to the proposal from the Federal Reserve to impose "Basel Endgame"[2] requirements on banks, this sharp increase in RBC charges would

[1] Michael Jones, "Life Insurance Statistics and Industry Trends to Know in 2023," Annuity, January 24, 2024, https://www.annuity.org/life-insurance/statistics/#:~:text=About%252050%2525%2520of%2520Americans%2520do,compared%2520to%252046%2525%2520of%2520women.
[2] "Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity," Federal Register, September 18, 2023,

4350 North Fairfax Drive, Arlington, VA, Suite 725, 22203

© 2024 National Association of Insurance Commissioners

functionally limit the investments into residual tranches and ultimately hinder ABS.[3] These investments are high-performing and can offer life insurance holders greater access to financial markets. High RBC charges amount to cash-on-hand requirements, limiting investment capital which earns interest, and helping life insurers cover customers.

The report by Oliver Wyman on the risk of losses to residual tranches and interest of ABS under various stress tests does not lend support for a 45 percent RBC charge.[4] Instead, the Wyman report indicates that a 30 percent RBC charge would best satisfy risk, making the proposed 45 percent charge unsubstantiated by testing. For the NAIC to continue implementing the current proposal would essentially create an arbitrary RBC charge that would unnecessarily limit life insurance policyholders' access to financial options.

The NAIC should not implement this rule change. At a minimum, the NAIC should hold off on rule implementation for at least a year and conduct further risk-based testing to substantiate the increase in RBC charges to 45 percent, or the charge should be set at 30 percent as the Wyman report concludes. Anything else would endanger Americans' access to valuable financial tools which could be the difference between having or not having access to health insurance.

Based on our analysis of the proposal, we conclude that consumers would be harmed in two major ways. First, the increase in RBC charges would drive the costs of life insurance and annuities up because the charge would artificially reduce insurer investment returns. As a result, insurers would have to pass this cost on to consumers. This is happening at the very time that more Americans are facing retirement insecurity and need to protect their families.

Second, the increase in RBC charges would hinder the origination of lending to consumers, because many originators of consumer loans require securitization to finance such lending. Thus, making these securitization structures/investments less attractive by jacking up the risk charge would significantly reduce demand and make consumer loans more expensive.

Considering life insurance provides benefits both in peace of mind and financial ease following losses, it is incumbent upon policymakers to not unnecessarily limit its

---

https://www.federalregister.gov/documents/2023/09/18/2023-19200/regulatory-capital-rule-large-banking-organizations-and-banking-organizations-with-significant.

[3] Bill Hulse, "How New Banking Rules Might Harm Your Business," U.S. Chamber of Commerce, November 6, 2023, https://www.uschamber.com/finance/how-new-banking-rules-might-harm-your-business#:~:text=As%20a%20whole%2C%20increasing%20capital,by%20more%20than%2020%20percent.

[4] "Oliver Wyman Residual Tranche Report," Alternative Credit Council, February 26, 2024, https://content.naic.org/sites/default/files/inline-files/Oliver%20Wyman%20Residual%20Tranche%20Report.pdf.

availability through the implementation of RBC charges that are higher than what is supported through stress testing.

If you have any questions, we can be reached on 703-282-9400.

Respectfully submitted,

Steve Pociask
President/CEO
American Consumer Institute
Steve@TheAmericanConsumer.Org

Isaac Schick
Policy Analyst
American Consumer Institute
Isaac@TheAmericanConsumer.Org

Attachment Two-I
Capital Adequacy (E) Task Force
8/14/24

Capital Adequacy (E) Task Force
RBC Proposal Form

☒ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ Investment RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ P/C RBC (E) Working Group ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**1/27/24**
CONTACT PERSON:	**Eva Yeung**
TELEPHONE:	**816-783-8407**
EMAIL ADDRESS:	**eyeung@naic.org**
ON BEHALF OF:	**P/C RBC (E) Working Group**
NAME:	**Tom Botsko**
TITLE:	**Chair**
AFFILIATION:	**Ohio Department of Insurance**
ADDRESS:	**50 West Town Street, Suite 300**
	Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2024-02-CA
Year 2024

DISPOSITION

ADOPTED:
☒ TASK FORCE (TF) 04/30/2024
☐ WORKING GROUP (WF) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☒TASK Force(TF) 1/31/24, 3/17/24
☐WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☒ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _ _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal adds a line in the Blanks; and updates the instruction on XR008 and PR008 to include the total of residual tranches. During the Spring National Meeting, the Task Force agreed to re-expose this proposal with a 45% charge for a 30-day public comment period.

Additional Staff Comments:

04-30-24 eky The Task Force adopted the Residual Tranches "Structure" only.

** **This section must be completed on all forms.** **Revised 2-2023**

© 2024 National Association of Insurance Commissioners

FIXED INCOME ASSETS - MISCELLANEOUS

		Annual Statement Source	(1) Bk/Adj Carrying Value	Factor	(2) RBC Requirement
(1)	Cash	Page 2, Line 5, inside amount 1		0.0030	
(2)	Cash Equivalents	Page 2, Line 5, inside amount 2			
(3)	Less: Cash Equivalents, Total Bonds	Schedule E, Part 2, Column 7, Line 2509999999			
(4)	Less: Exempt Money Market Mutual Funds as Identified by SVO	Schedule E, Part 2, Column 7, Line 8209999999			
(5)	Net Cash Equivalents	Lines (2) - (3) - (4)		0.0030	
(6)	Short-Term Investments	Page 2, Line 5, inside amount 3			
(7)	Short-Term Bonds	Schedule DA, Part 1, Column 7, Line 2509999999			
(8)	Total Other Short-Term Investments	Lines (6) - (7)		0.0030	
(9)	Mortgage Loans - First Liens	Page 2, Column 3, Line 3.1		0.0500	
(10)	Mortgage Loans - Other Than First Liens	Page 2, Column 3, Line 3.2		0.0500	
(11)	Receivable for Securities	Page 2, Column 3, Line 9		0.0240	
(12)	Aggregate Write-Ins for Invested Assets	Page 2, Column 3, Line 11		0.0500	
(13)	Collateral Loans	Included in Page 2, Column 3, Line 8		0.0500	
(14)	NAIC 01 Working Capital Finance Investments	Notes to Financial Statement 5M(01a), Column 3		0.0038	
(15)	NAIC 02 Working Capital Finance Investments	Notes to Financial Statement 5M(01b), Column 3		0.0125	
(16)	Other Long-Term Invested Assets Excluding Collateral Loans, **Residual Tranches or Interests** and Working Capital Finance Investments	Included in Page 2, Column 3, Line 8		0.2000	
(17)	Federal Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3599999 + 3699999		0.0014	
(18)	Federal Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3799999 + 3899999		0.0260	
(19)	State Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 3999999 + 4099999		0.0014	
(20)	State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4199999 + 4299999		0.0260	
(21)	All Other Low Income Housing Tax Credits	Schedule BA Part 1, Column 12 Lines 4399999 + 4499999		0.1500	
(22)	**Total Residual Tranches or Interests**	**Schedule BA, Part 1, Column 12 Lines 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 + 5699999 + 5799999**		**TBD**	
(23)	Total Other Long-Term Invested Assets (Page 2, Column 3, Line 8)	Lines (13) + (14) + (15) + (16) + (17) + (18) + (19) + (20) + (21) **+ (22)**			
(24)	Derivatives	Page 2, Column 3, Line 7		0.0500	
(25)	Total Miscellaneous Fixed Income Assets RBC	Lines (1) + (5) + (8) + (9) + (10) + (11) + (12) + **(23)** + **(24)**			

Denotes items that must be manually entered on filing software.

© 2024 National Association of Insurance Commissioners

Attachment Two-I
Capital Adequacy (E) Task Force
8/14/24

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

			(1) RBC Amount
H0 - INSURANCE AFFILIATES AND MISC. OTHER AMOUNTS			
(1)	Off-Balance Sheet Items	XR005, Off-Balance Sheet Page, Line (21)	
(2)	Directly Owned Health Insurance Companies or Health Entities	XR003, Affiliates Page, Column (2), Line (1)	
(3)	Directly Owned Property and Casualty Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (2)	
(4)	Directly Owned Life Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (3)	
(5)	Indirectly Owned Health Insurance Companies or Health Entities	XR003, Affiliates Page, Column (2), Line (4)	
(6)	Indirectly Owned Property and Casualty Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (5)	
(7)	Indirectly Owned Life Insurance Affiliates	XR003, Affiliates Page, Column (2), Line (6)	
(8)	Affiliated Alien Insurers - Directly Owned	XR003, Affiliates Page, Column (2), Line (9) + (10) + (11)	
(9)	Affiliated Alien Insurers - Indirectly Owned	XR003, Affiliates Page, Column (2), Line (12) + (13) + (14)	
(10)	Total H0	Sum Lines (1) through (9)	
H1 - ASSET RISK - OTHER			
(11)	Holding Company in Excess of Indirect Subs	XR003, Affiliates Page, Column (2), Line (7)	
(12)	Investment Subsidiary	XR003, Affiliates Page, Column (2), Line (8)	
(13)	Investment in Upstream Affiliate (Parent)	XR003, Affiliates Page, Column (2), Line (15)	
(14)	Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	XR003, Affiliates Page, Column (2), Line (16)	
(15)	Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	XR003, Affiliates Page, Column (2), Line (17)	
(16)	Directly Owned Life Insurance Companies Not Subject to RBC	XR003, Affiliates Page, Column (2), Line (18)	
(17)	Affiliated Non-Insurer	XR003, Affiliates Page, Column (2), Line (19) + (20) + (21)	
(18)	Fixed Income Assets	XR006, Off-Balance Sheet Collateral, Lines (27) + (37) + (38) + (39) + XR007, Fixed Income Assets - Bonds, Line (27) + **XR008, Fixed Income Assets - Miscellaneous, Line (25)**	
(19)	Replication & Mandatory Convertible Securities	XR009, Replication/MCS Page, Line (9999999)	
(20)	Unaffiliated Preferred Stock	XR006, Off-Balance Sheet Collateral, Line (34) + XR010, Equity Assets Page, Line (7)	
(21)	Unaffiliated Common Stock	XR006, Off-Balance Sheet Collateral, Line (35) + XR010, Equity Assets Page, Line (13)	
(22)	Property & Equipment	XR006, Off-Balance Sheet Collateral, Line (36) + XR011, Prop/Equip Assets Page, Line (9)	
(23)	Asset Concentration	XR012, Grand Total Asset Concentration Page, Line (27)	
(24)	Total H1	Sum Lines (11) through (23)	
H2 - UNDERWRITING RISK			
(25)	Net Underwriting Risk	XR013, Underwriting Risk Page, Line (21)	
(26)	Other Underwriting Risk	XR015, Underwriting Risk Page, Line (25.3)	
(27)	Disability Income	XR015, Underwriting Risk Page, Lines (26.3) + (27.3) + (28.3) + (29.3) + (30.6) + (31.3) + (32.3)	
(28)	Long-Term Care	XR016, Underwriting Risk Page, Line (41)	
(29)	Limited Benefit Plans	XR017, Underwriting Risk Page, Lines (42.2) + (43.6) + (44)	
(30)	Premium Stabilization Reserve	XR017, Underwriting Risk Page, Line (45)	
(31)	Total H2	Sum Lines (25) through (30)	

Denotes items that must be manually entered on filing software.

© 2024 National Association of Insurance Commissioners

CALCULATION OF TOTAL RISK-BASED CAPITAL AFTER COVARIANCE

			(1) RBC Amount
H3 - CREDIT RISK			
(32)	Total Reinsurance RBC	XR020, Credit Risk Page, Line (17)	
(33)	Intermediaries Credit Risk RBC	XR020, Credit Risk Page, Line (24)	
(34)	Total Other Receivables RBC	XR021, Credit Risk Page, Line (30)	
(35)	Total H3	Sum Lines (32) through (34)	
H4 - BUSINESS RISK			
(36)	Administrative Expense RBC	XR022, Business Risk Page, Line (7)	
(37)	Non-Underwritten and Limited Risk Business RBC	XR022, Business Risk Page, Line (11)	
(38)	Premiums Subject to Guaranty Fund Assessments	XR022, Business Risk Page, Line (12)	
(39)	Excessive Growth RBC	XR022, Business Risk Page, Line (19)	
(40)	Total H4	Sum Lines (36) through (39)	
(41)	RBC after Covariance Before Basic Operational Risk	H0 + Square Root of ($H1^2 + H2^2 + H3^2 + H4^2$)	
(42)	Basic Operational Risk	0.030 x Line (41)	
(43)	C-4a of U.S. Life Insurance Subsidiaries	Company Records	
(44)	Net Basic Operational Risk	Line (42) - (43) (not less than zero)	
(45)	RBC After Covariance Including Basic Operational Risk	Lines (41) + (44)	
(46)	Authorized Control Level RBC	.50 x Line (45)	

Denotes items that must be manually entered on filing software.

© 2024 National Association of Insurance Commissioners

OTHER LONG-TERM ASSETS PR008

		Annual Statement Source	(1) Book/Adjusted Carrying Value	Factor	(2) RBC Requirement
(1)	Company Occupied Real Estate	P2 L4.1 C3	0	0.100	0
(2)	Encumbrances	P2 L4.1, inside item	0	0.100	0
(3)	Property Held For the Production of Income	P2 L4.2 C3	0	0.100	0
(4)	Property Held For Sale	P2 L4.3 C3	0	0.100	0
(5)	Encumbrances (Property Held For the Production of Income)	P2 L4.2, inside item	0	0.100	0
(6)	Encumbrances (Property Held For Sale)	P2 L4.3, inside item	0	0.100	0
(7)	Total Real Estate	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)	0		0
(8)	Mortgage Loans - First Liens	P2 L3.1 C3	0	0.050	0
(9)	Mortgage Loans - Other Than First Liens	P2 L3.2 C3	0	0.050	0
(10)	Total Mortgage Loans	L(8) + L(9)	0		0
(11)	Schedule BA Assets - Total	P2 L8 C3	0		
(12)	Less: Collateral Loans	PR009 L(13)	0		
(13)	Federal Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3599999 +L3699999	0	0.0014	0
(14)	Federal Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3799999 +L3899999	0	0.0260	0
(15)	State Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L3999999 +L4099999	0	0.0014	0
(16)	State Non-Guaranteed Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4199999 +L4299999	0	0.0260	0
(17)	All Other Low Income Housing Tax Credits	Schedule BA Part 1, C12 L4399999 +L4499999	0	0.1500	0
(18)	Working Capital Finance Investments	L**(21)**+L**(22)**	0		
(19)	**Total Residual Tranches or Interests**	**Schedule BA, Part 1, Column 12 Lines 4699999 + 4799999 + 4899999 + 4999999 + 5099999 + 5199999 + 5299999 + 5399999 + 5499999 + 5599999 + 5699999 + 5799999**		**TBD**	
(20)	Schedule BA Assets Excluding Collateral Loans, LIHTC, ~~&~~ WCFI**, & Residual Tranches or Interests**	L(11)-L(12)-L(13)-L(14)-L(15) -L(16)-L(17)-L(18)**-L(19)**	0	0.2000	0
(21)	NAIC 01 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01a) C3	0	0.0038	0
(22)	NAIC 02 Working Capital Finance Investments	Notes to Financial Statement Item L5M(01b) C3	0	0.0125	0
(23)	Total Other Long-Term Assets	L(7)+L(10)+L(13)+L(14)+L(15) +L(16)+L(17)**+L(19)+L(20)+L(21)+L(22)**	0		0

PR008

Calculation of Total Risk-Based Capital After Covariance PR030 R0-R1

			(1)
R0 - Subsidiary Insurance Companies and Misc. Other Amounts		**PRBC O&I Reference**	**RBC Amount**
(1)	Directly Owned Property and Casualty Insurance Affiliates	PR004 L(2)C(2)	0
(2)	Indirectly Owned Property and Casualty Insurance Affiliates	PR004 L(5)C(2)	0
(3)	Directly Owned Life Insurance Affiliates	PR004 L(3)C(2)	0
(4)	Indirectly Owned Life Insurance Affiliates	PR004 L(6)C(2)	0
(5)	Directly Owned Health Insurance Companies or Health Entities	PR004 L(1)C(2)	0
(6)	Indirectly Owned Health Insurance Companies or Health Entities	PR004 L(4)C(2)	0
(7)	Directly Owned Alien Insurance Companies or Health Entities	PR004 L(9)+L(10)+L(11)C(2)	0
(8)	Indirectly Owned Alien Insurance Companies or Health Entities	PR004 L(12)+L(13)+L(14)C(2)	0
(9)	Misc Off-Balance Sheet - Non-controlled Assets	PR014 L(15) C(3)	0
(10)	Misc Off-Balance Sheet - Guarantees for Affiliates	PR014 L(16) C(3)	0
(11)	Misc Off-Balance Sheet - Contingent Liabilities	PR014 L(17) C(3)	0
(12)	Misc Off-Balance Sheet - SSAP No.101 Par. 11A DTA	PR014 L(19) C(3)	0
(13)	Misc Off-Balance Sheet - SSAP No.101 Par. 11B DTA	PR014 L(20) C(3)	0
(14)	Total R0	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)+L(7)+L(8)+L(9)+L(10)+L(11)+L(12)+L(13)	0
R1 - Asset Risk - Fixed Income			
(15)	Bonds Subject to Size Factor	PR006 L(27)C(5)	0
(16)	Bond Size Factor RBC	PR006 L(30)C(5)	0
(17)	Off-balance Sheet Collateral & Sch DL, PT1 - Total Bonds	PR015 L(27)C(4)	0
(18)	Off-balance Sheet Collateral & Sch DL, PT1 - Cash, & Short-Term Investments and Mort Loans on Real Est.	PR015 L(38)+(39)C(4)	0
(19)	Other Long-Term Assets - Mortgage Loans, LIHTC, ~~&~~ WCFI**, & Residual Tranches or Interests**	PR008 L(10)+L(13)+L(14)+L(15)+L(16)+L(17)+**L(19)**+L(**21**)+L(**22**)C(2)	0
(20)	Misc Assets - Collateral Loans	PR009 L(13)C(2)	0
(21)	Misc Assets - Cash	PR009 L(3)C(2)	0
(22)	Misc Assets - Cash Equivalents	PR009 L(7)C(2)	0
(23)	Misc Assets - Other Short-Term Investments	PR009 L(10)C(2)	0
(24)	Replication - Synthetic Asset: One Half	PR010 L(9999999)C(7)	0
(25)	Asset Concentration RBC - Fixed Income	PR011 L(21)C(3) Grand Total Page	0
(26)	Total R1	L(15)+L(16)+L(17)+L(18)+L(19)+L(20)+L(21)+L(22)+L(23)+L(24)+L(25)	0

PR030

© 2024 National Association of Insurance Commissioners

Attachment Three
Capital Adequacy (E) Task Force
8/14/24

Draft: 6/27/2024

Health Risk-Based Capital (E) Working Group
E-Vote
June 24, 2024

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force conducted an e-vote that concluded June 24, 2024. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair (TX); Wanchin Chou (CT); Kyle Colins (FL); Tish Becker (KS); Danielle Smith and Debbie Doggett (MO); Margaret Garrison (NE), Michel Laverdiere (NY); and Diana Sherman (PA).

1. Adopted Proposal 2024-12-H Modified

The Working Group conducted an e-vote to consider adoption of proposal 2024-12-H modified. A majority of the members voted in favor of adopting the proposal (Attachment One-E). The motion passed.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2024-2-Summer/HRBCWG/HRBC Proposal 2024-12-H Evote minutesTPR'd.docx

© 2024 National Association of Insurance Commissioners

Draft: 6/17/2024

Health Risk-Based Capital (E) Working Group
Virtual Meeting
June 6, 2024

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 6, 2024. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair (TX); Sarah Mu (CT); Casey Koon (FL); Tish Becker (KS); Danielle Smith and Debbie Doggett (MO); and Margaret Garrison (NE). Also participating was: Tom Botsko (OH).

1. Discussed Proposal 2024-12-H and Exposed Proposal 2024-12-H Modified

Drutz said the first item to consider was the adoption of proposal 2024-12-H (Attachment One-E). This proposal was developed to adjust the health care receivable factors in XR021 to include a tiered factor mechanism. The proposal was exposed for a 30-day public comment period that ended May 16, during which the Working Group received one comment letter from America's Health Insurance Plans (AHIP) (Attachment Three-A). Ray Nelson (AHIP) spoke on the comment letter, which focused on aggregating non-pharmaceutical health care receivables. Nelson said the current factor for the non-pharmaceutical health care receivables was developed by aggregating the data to achieve a sufficient volume of data. To remain consistent with the aggregation methodology, AHIP suggested applying tiered factors toward the $10 million tier at the aggregate level. Nelson said the American Academy of Actuaries (Academy) presented during an April meeting on the use of aggregation methodology, noting no significant change from the results of the original proposal. Nelson said he was under the impression that the reason the original proposal did not use the aggregation method was to avoid a structural change to the blanks. He said there should be a way to implement the aggregation methodology with or without structural change.

Drutz asked whether AHIP has a specific idea of how the aggregation methodology should be applied in practice. Drutz said the modified proposal used a waterfall approach but acknowledged there could be alternative approaches, such as allocating aggregated charges based on the weighted significance of the respective non-pharmaceutical health care receivable amounts. Nelson said he was indifferent between the two approaches mentioned. Drutz asked if there was any concern that the modified proposal compromised the transparency of the calculation, as the aggregation and allocation are all embedded in the formula. Nelson said he did not believe so and that the instruction is clear enough about what the formula is trying to accomplish.

Kevin Russell (Academy) said the Academy's initial attempt to develop the tiers was to apply the tiered factors (40% on the first $10 million and 5% on anything in excess) separately to each of the five types of non-pharmaceutical health care receivables. Next, the Academy applied the tiered factors developed to the five types of non-pharmaceutical health care receivables in aggregate and noted no appreciable difference. As such, Russell said he had no preference between the two approaches (standalone versus aggregate application). Russell said he also had no preference between the waterfall approach and the proportional allocation approach, as discussed by Nelson, based on the fact that both approaches ultimately yield the same total charges. Drutz described a scenario where a company has none of the non-pharmaceutical health care receivable types that exceed the $10 million threshold individually but, in the aggregate, well exceed $10 million. He asked Russell whether that company would benefit from the aggregate methodology so much that the range of reasonable outcomes the Academy targeted can no longer be achieved. Russell acknowledged the potential benefit but reassured the Working Group that the difference would be insignificant.

© 2024 National Association of Insurance Commissioners

Drutz agreed and stated that the NAIC staff ran a query across 2018–2022 and noted that less than 10% of the health insurance companies filing health risk-based capital (RBC) blanks had non-pharmaceutical health care receivables aggregated to more than $10 million. For 2022 alone, should the companies apply the modified proposed methodology, the risk charge on non-pharmaceutical health care receivables would be reduced by $119 million compared to the original proposal.

Doggett said she is in favor of not making structural changes and that she is fine with the waterfall approach in the modified proposal. Garrison concurred. Doggett added that the door is still open for future structural change should the Working Group desire. Garrison thought the waterfall approach was clearer than the structural change approach.

Drutz said that in order to have a year-end 2024 effective date, the modified proposal needs to go through a shorter public comment period. He recommended a 14-day public comment period ending June 20. He said the Working Group may consider adoption via e-vote should there be no significant comments or discussions. There was no objection.

The Working Group agreed to re-expose proposal 2024-12-H (modified) for a 14-day public comment period ending June 20.

2. Forwarded a Referral Letter on Pandemic Risk to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group

Drutz said that during its Feb. 22 meeting, the Working Group directed NAIC staff to draft a referral to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group to inquire about whether pandemic risk should be addressed in the financial analysis and/or financial examination process, if it has not already been adequately addressed. The Working Group met April 16 and directed NAIC staff to expose the draft referral letter (Attachment Three-B) for a 30-day public comment period ending May 16. No comments were received.

Hearing no further questions or objections, the Working Group directed NAIC staff to forward the referral letter to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group.

3. Discussed the Excessive Growth Charge

Drutz said the Working Group met April 16 and received a report on the work performed by the Health Risk-Based Capital Excessive Growth Charge Ad Hoc Group. The report stated that the Ad Hoc Group reached a consensus after extensively exploring various alternatives, including member-month (MM) growth greater than 10%, disaggregation by lines of business, and Operational Risk Subgroup methodology. No specific alternative obviously outperformed the current excessive growth charge methodology. During that meeting, an interested party requested that the Working Group consider refining the methodology or removing large companies (companies with over 1 million MM) from the test. The Working Group directed NAIC staff to work with industry representatives to determine if there are other nuances to be introduced to the test to improve its predictive power for large companies. After meeting with UnitedHealth Group (UHG) April 26, an alternative was proposed to implement a safe harbor threshold of 20% (instead of 10% in the current methodology) for large companies only.

Analysis was performed using the 20% safe harbor for the period of 2013–2021 (Attachment Three-C). Drutz said the number of large companies that triggered the excessive growth charge and had a subsequent underwriting

© 2024 National Association of Insurance Commissioners

loss declined under the proposed methodology. For example, in 2021, only three large companies (instead of 10) triggered the excessive growth charge and had an underwriting loss subsequently. However, the proposed methodology does not consistently outperform the existing methodology. For insurance, during the period of 2013–2015, underperformance was recorded, and there were also years when the improvement was marginal or close to none, such as in 2016 and 2018.

Drutz said the current excessive growth charge accounts for no more than one-half of 1% of total RBC before covariance. Neither of the possible refinements explored in the past years suggests there is a better alternative to the current methodology. Raising the safe harbor threshold to 20% has mixed results and decreases the number of companies triggering the charge. During the April meeting, at least one Working Group member voiced hesitancy about completely eliminating the charge for large companies. Given all these observations, Drutz asked the Working Group for ideas on how to move the project forward.

Doggett said that without any conclusive results, she would recommend keeping the current excessive growth charge methodology as is. Drutz said he appreciated the recommendation and suggested removing the excessive growth charge topic (X6) from the Working Group's working agenda.

Hearing no further questions or objections, the Working Group consented to removing X6 from its working agenda.

4. Discussed Other Matters

Drutz said the Working Group plans to meet virtually in lieu of the Summer National Meeting, likely sometime in July.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2024-2-Summer/HRBCWG/6-6-2024 minutesTPR'd.docx

© 2024 National Association of Insurance Commissioners

Draft: 4/22/2024

Health Risk-Based Capital (E) Working Group
Virtual Meeting
April 16, 2024

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 16, 2024. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair, and Aaron Hodges (TX); Wanchin Chou and Sarah Mu (CT); Kyle Collins and Casey Koon (FL); Tish Becker (KS); Danielle Smith and Debbie Doggett (MO); Margaret Garrison (NE); and Diana Sherman (PA). Also participating was: Tom Botsko (OH).

1. Adopted its Feb. 22 Minutes

Drutz said the Working Group met Feb. 22. During this meeting, the Working Group took the following action: 1) adopted its Nov. 8, 2023, minutes; 2) exposed proposal 2024-09-CA for the Underwriting Risk Factors—Investment Income Adjustment for a 32-day public comment period ending March 25; 3) discussed comments received from UnitedHealth Group (UHG) on the American Academy of Actuaries' (Academy's) health care receivables presentation; 4) discussed pandemic risk and agreed to send a referral to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group; 5) adopted its 2024 working agenda; and 6) heard an update from the Academy on the H2 – Underwriting Review project.

Sherman made a motion, seconded by Chou, to adopt the Working Group's Feb. 22 *(see NAIC Proceedings – Spring 2024, Capital Adequacy (E) Task Force, Attachment Two)* minutes. The motion passed unanimously.

2. Referred Proposal 2024-09-CA to the Capital Adequacy (E) Task Force

Drutz said the purpose of proposal 2024-09-CA (UW Risk Factors – Investment Income Adjustment) is to update the underwriting risk factors for the annual investment income adjustment to the comprehensive medical, Medicare supplement, and dental and vision lines of business. The proposal was originally exposed for a 32-day public comment period that ended March 25, and no comments were received.

Drutz said the proposal will affect all three lines of business and will need to be referred to the Capital Adequacy (E) Task Force for exposure. Botsko requested to obtain via email the impact of the factor changes for the three lines of business from NAIC staff.

Hearing no further question or objection, the Working Group referred proposal 2024-09-CA to the Capital Adequacy (E) Task Force for exposure during its late April call.

3. Heard an Update from the Academy on the Health Care Receivables presentation.

David Quinn (Academy) gave a presentation titled "Health Care Receivables Current and Proposed H3 Factors (Alternate)" (Attachment Three-D) to the Working Group. He said several changes were made in this presentation compared to the original presentation given in November 2023. Key modifications were detailed in slide three. One modification was removing life blank data in the updated presentation (Modification 1). Quinn said overall, the distribution of health care receivable types (pharmacy rebates vs. non-pharmacy rebates) by dollar does not change much with or without life blank data. Removal of life blank data only impacts 2022 company counts, as 2022 was the first year Exhibit 3a was in effect for life companies. Very little movement in the average collection

© 2024 National Association of Insurance Commissioners

ratio is noted due to similar collection ratios observed among life companies and health companies. Another modification made in the updated presentation is the aggregation of the five non-pharmacy rebates receivables to apply to the tiered factors, with a tier cutoff point of $10 million, as originally proposed (Modification 2). Quinn said that the reason a very minimal difference is observed with or without aggregation is because only very few companies have over $10 million of aggregated non-pharmacy rebates receivables. Quinn said that after incorporating Modifications 1 and 2, the originally proposed factors and the tier cutoff still appear effective in achieving the goal summarized on slide 18. Quinn called out one number (-15%) in slide 24. He said he believed there was a miskey in the prior presentation that caused this -15% difference. He also cautioned the users that the dollar amount difference identified on slides 26 and 28 is not too meaningful because the change could be attributable to Modification 1, Modification 2, or both, and it is not easy to delineate which modifications contribute to what amount of dollar differences. Quinn concluded that the impact of adopting Modifications 1 and 2 is inconsequential. Drutz inquired whether it is reasonable to believe that only a small number of companies have non-pharmacy rebates receivables aggregated potentially over $10 million. Quinn agreed. Jim Braue (UHG) asked how to interpret the $137 million difference on slide 28. Quinn reiterated that the -$137 million difference is attributable to Modifications 1 and 2, but he cannot quantify the impact made by each modification.

Quinn said the Academy received public feedback to deliberate the need to calibrate the health care receivable factors based on the relative weight of the health care receivable. Such a recommendation is grounded on the hypothesis that companies with health care receivables representing a higher percentage of capital and surplus should be more motivated to collect, thereby increasing the collection ratio (Hypothesis). The Academy used health care receivables as a percentage of claims as a proxy since claims data was more readily available. Quinn said that after performing the weighting analysis on slide 32, the Academy proposed not to calibrate factors by weight of health care receivable, as the analysis did not support the Hypothesis. Braue inquired whether it would be worthwhile to investigate the Hypothesis again just for companies with large ratios (health care receivables/claims or capital and surplus). Quinn deferred to the Working Group but agreed with Braue that there is no significant benefit to doing so, at least for the short term.

Drutz asked whether Working Group members have concerns about using tiered factors for health care receivables. There were no objections or discussion. Drutz said the next decision point is regarding whether the tiered factor should be applied to each health care receivable line (Option 1) or pharmacy and non-pharmacy rebates receivables in aggregate (Option 2). Drutz said Option 1 does not require structure change and can be implemented for 2024 reporting if adopted. Option 2 requires structure change and, therefore, cannot be implemented until 2025. The NAIC has drafted proposal 2024-12-H for Option 1. Without hearing any discussion or preference, Drutz directed exposure of proposal 2024-12-H for Option 1 for a 30-day comment period ending May 16.

4. Heard an Update from the Academy on the H-2 – Underwriting Risk Review

Matthew Williams (Academy) said the tiered risk-based capital (RBC) factor development (Track 2) work group continues to meet on a regular basis (typically weekly) to discuss various modeling and factor development considerations. Outside of the regular meetings, project teams are meeting to refine analysis and weigh the merits and constraints of current/proposed features of factor development. At the moment, the Academy is finalizing data exploration and analysis and continues to share additional questions with NAIC staff.

Williams said the Academy is in the process of generating a revised timeline but expects to have a draft finding available for review in the second half of 2024.

© 2024 National Association of Insurance Commissioners

5. Exposed a Referral Letter to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group on Pandemic Risk

Drutz said during its Feb. 22 meeting, the Working Group directed NAIC staff to draft a referral to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group to inquire about whether the pandemic risk should be addressed in the financial analysis and/or financial examination process, if it has not already been addressed (Attachment Three-E). There was no further discussion.

There was no objection from the Working Group to expose the referral for a 30-day public comment period ending May 16.

6. Discussed the Excessive Growth Charge

Drutz said the Health RBC Excessive Growth Charge Ad Hoc Group met March 27 to discuss another methodology for assessing the excessive growth charge as recommended by the Operation Risk (E) Subgroup in 2019 ("Operational Risk SG methodology"). The suggested methodology reversed the variables used in the application of the growth safe harbor such that the excessive growth charge is triggered when the underwriting risk revenue is increasing faster than the growth rate of net underwriting risk RBC plus 10%. After reviewing the results of applying the Operational Risk SG methodology to a nine-year period (2013–2021), the ad hoc group concluded that the methodology did not perform better than the existing methodology in predicting an underwriting loss in the subsequent year.

To provide historical background, Drutz said that the analysis of the excessive growth risk charge was first taken up by the Operational Risk (E) Subgroup a number of years ago. Different analyses were considered at that time, but the subgroup was unable to find a reasonable alternative to the current methodology. That led to the referral to the Working Group to consider whether the existing methodology was working as intended. It included a request to determine if reversing the variables used in the formula yielded better results. It also included requests to determine whether the 10% threshold is still reasonable, whether the charge should apply to start-up companies, and whether the methodology should be adopted into the life RBC formula for companies that write a material amount of health business based on a specified percentage of premiums.

The issue related to the charge applying to start-up companies was addressed by adding a footnote to the RBC formula to base the charge on projected premiums. Analyses using different variables (including total revenue, total liabilities, total hospital and medical, and member months [MM]) were all considered, with growth in MM having the best correlation to when a company would be more likely to have an underwriting loss in the following year. While MM growth had the best overall correlation with underwriting losses in the following year, the correlation did not appear significantly better than the percentage of the general population of companies with an underwriting loss (the baseline). In addition, using higher MM growth rates as the trigger for a charge did not yield a significantly higher percentage of companies that would trigger the charge as compared to the baseline.

Drutz said that the ad hoc group reached a consensus that after an extensive exploration of various alternatives (e.g., MM growth greater than 10%, disaggregation by lines of business, Operational Risk SG methodology, etc.), there was no specific alternative that obviously outperformed the current excessive growth charge methodology. As such, the ad hoc group looked to the Working Group to determine the path forward. Drutz said his opinion was that the current methodology works reasonably well and better than the alternative calculations considered. He said, therefore, that the Working Group can either determine to keep the current excessive growth risk charge as

it currently stands or direct the ad hoc group to pursue alternatives if any Working Group members have ideas or suggestions. There were no questions, comments, or discussion from the Working Group.

Braue said that the "Disaggregated Results Based on Size of Company" (Attachment Three-F) graphically displayed that the current test, as well as the alternative test, did not perform well in terms of predicting subsequent years' underwriting loss for large companies (defined as companies having over 1 million MM). He asked if the Working Group should pursue exempting large companies from the test in order to improve the test's performance. Doggett said she is hesitant to remove large companies from the test. She suggested the Working Group work with industry members to determine if there are other nuances to be introduced to the test to improve its predictive power for large companies.

Drutz suggested disbanding the Excessive Growth Charge Ad Hoc Group and deferring future discussions to the Working Group. He said the excessive growth charge topic should not be removed from the working agenda until the observation on large companies raised by UHG is addressed. There was no objection from the Working Group.

Drutz asked if a Working Group member would direct NAIC staff to make a referral to the Life Risk-Based Capital (E) Working Group to deliberate on the need for the excessive growth charge. No Working Group member sponsored that referral; therefore, the referral was tabled for future consideration.

7. Discussed Other Matters

Drutz suggested discussing potential revisions to the working agenda based on the development of pandemic risk and excessive growth charge during the next Working Group meeting.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/CADTF/2024-2-Summer/HRBCWG/4-16-2024 minutesTPR'd.docx

© 2024 National Association of Insurance Commissioners



May 16, 2024

Steve Drutz, Chair
Health Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

By Email to Maggie Chang at mchang@NAIC.org and Steve Drutz at steve.drutz@oic.wa.gov

Re: Exposure of Proposal 2024-12-H

Dear Mr. Drutz:

On behalf of the members of America's Health Insurance Plans (AHIP), we appreciate the opportunity to provide comments on Proposal 2024-12-H regarding adjustments to Health Care Receivable factors in XR021 that was exposed during the Working Group's meeting held on April 16, 2024.

AHIP is also appreciative of the work done by the American Academy of Actuaries Health Care Receivables Factors Work Group and their presentations dated November 8, 2023 and April 16, 2024.

AHIP would like to request the Working Group's reconsideration of one item in regard to the non-pharmacy Health Care Receivable (HCR) factors. As was noted in previous Working Group discussions, the current H3 factors for non-pharmacy HCRs were developed by aggregating the data of the non-pharmacy HCRs together in order to achieve a sufficient volume of data and result in one factor that is applied to all of the non-pharmacy HCRs. The Academy studied this aggregation of non-pharmacy data in their revised April 16, 2024 presentation. Ultimately the Working Group's proposal for revised factors varying by volume tiers chose to apply the non-pharmacy tier of $10 million to each individual non-pharmacy HCR rather than have the tier apply to all non-pharmacy HCRs combined. We believe this was done in part to avoid structural changes to XR021.

In the interest of remaining consistent with the aggregation methodology used to originally develop the H3 factors for non-pharmacy HCRs, AHIP would suggest that the $10 million tier for the non-pharmacy HCR calculations be applied at the aggregate level. While it might be cleaner to apply such a change with a structural change to XR021, we do believe that the existing instructions and formula could be altered to account for this change.

© 2024 National Association of Insurance Commissioners

Thank you for the opportunity to provide these comments. AHIP is looking forward to seeing how the revised factors and tiered approach impact the Health Care Receivable collection ratios. We look forward to continuing to work with the Health Risk-Based Capital (E) Working Group in the future.

Sincerely,

Bob Ridgeway
Bridgeway@ahip.org
501-333-2621

Ray Nelson – Consultant to AHIP
raymond.nelson@us.davies-group.com
224-217-9036

Attachment Three-B
Capital Adequacy (E) Task Force
8/14/24

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Greg Chew, Chair of Financial Analysis Solvency Tools (E) Working Group
Eli Snowbarger and John Litweiler, Co-Chairs of Financial Examiners Handbook (E) Technical Group

FROM: Steve Drutz, Chair of Health Risk-Based Capital (E) Working Group

DATE: March 22, 2024

RE: Referral for Pandemic Risk

In 2020, in light of the Covid-19 pandemic, the Health Risk-Based Capital (E) Working Group added into its working agenda an item to consider impact of COVID-19 and pandemic risks in the Health Risk-Based Capital (RBC) formula. During subsequent meetings held in 2023 and 2024, the Working Group evaluated whether RBC is the appropriate tool to capture pandemic risk. Some of the actions include:

- Looked into 2014 Health RBC interrogatories to analyze how companies allocated surplus or model for pandemic and biological risks.
- Received presentation by Texas Department of Insurance on "Pandemic Risk and Insurer Solvency – A Review of Personal Consumption Expenditures (PCE) on Healthcare Before, During, and After the COVID-19 Pandemic".
- Reviewed RBC trends for an extended period (2015-2021).
- Considered capital requirements for pandemic risk in other jurisdictions (e.g., Solvency II).

One specific trend noted from the Texas Department of Insurance presentation was the decrease in healthcare expenditures during the pandemic, and the return to historical norms that occurred as the pandemic subsided. This appeared to increase the difficulty in adequately pricing policies post pandemic. Based on the work and findings above, the Working Group concluded that changes, resulting from pandemic risks, to the Health RBC formula are not warranted for the time being. The Working Group would like to ask the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group to evaluate whether the pandemic risk is being sufficiently addressed from their perspective, and if not, the need for enhancement in the financial analysis and/or financial examination process.

If you have any questions, or would like to further discuss, please contact the Health Risk-Based Capital (E) Working Group chair or vice chair (Steve Drutz, Matthew Richard), or NAIC staff Maggie Chang (mchang@naic.org).

Cc: Julie Gann, Maggie Chang, Eva Yeung, Rodney Good, Bill Rivers, Ralph Villegas, Bailey Henning

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990
Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
www.naic.org

© 2024 National Association of Insurance Commissioners

Growth Test Results of Queries - Based on Triggering Benchmark with an Underwriting Loss in the Following Year

	Baseline	
Year	# of Total Companies w/ an U/W Loss	% of Total Companies w/ an U/W Loss
2021	432	40%
2020	460	44%
2019	318	32%
2018	366	39%
2017	326	36%
2016	329	37%
2015	366	42%
2014	377	44%
2013	362	44%

	Disaggregated Baseline for companies > 1M MM	
	# of Total Companies w/ an U/W Loss	% of Total Companies w/ an U/W Loss
	80	20%
	100	27%
	43	12%
	100	27%
	78	21%
	80	21%
	109	29%
	110	31%
	105	31%

	Triggering Benchmark = Current Test			Triggering Benchmark = Based on 10% MM Growth			Triggering Benchmark = Based on Reversing 10% Threshold		
Year	# Cos Triggering	% of Companies Triggering	Difference from Baseline	# Cos Triggering	% of Companies Triggering	Difference from Baseline	# Cos Triggering	% of Companies Triggering	Difference from Baseline
2021	73	45%	5%	151	37%	-3%	67	52%	12%
2020	50	70%	26%	148	46%	2%	98	40%	-4%
2019	33	37%	5%	73	34%	2%	34	35%	3%
2018	22	49%	10%	92	41%	2%	52	43%	4%
2017	28	44%	8%	86	38%	2%	51	41%	5%
2016	53	60%	23%	122	43%	6%	43	41%	4%
2015	53	59%	17%	147	47%	5%	60	48%	6%
2014	62	60%	16%	139	44%	0%	40	35%	-9%
2013	36	53%	9%	89	43%	-1%	36	40%	-4%

Disaggregated Results Based on Size of Company (Size band by Member Months (MM))

	Based on Current Test (Difference in Total is Due to 0 MM Companies)			Based on 10% MM Growth		
Year	# Cos Triggering AND have U/W loss subsequent year (0-20K, 20K-100K, 100K-1M, >1M)	% of Companies Triggering AND have U/W loss subsequent year	Difference from Baseline	# Cos Triggering (0-20K, 20K-100K, 100K-1M, >1M)	% of Companies Triggering AND have U/W loss subsequent year	Difference from Baseline
2021	20, 11, 27, 10	71%, 52%, 56%, 17%	31%, 12%, 16%, -23%	56, 30, 37, 28	65%, 53%, 33%, 19%	25%, 13%, -7%, -21%
2020	23, 11, 7, 5	85%, 65%, 47%, 63%	41%, 21%, 3%, 19%	50, 36, 41, 21	68%, 67%, 39% 23%	24%, 23%, -5%, -21%
2019	12, 10, 5, 4	60%, 67%, 20%, 17%	28%, 35%, -12%, -15%	26, 20, 21, 6	54%, 56%, 29%, 11%	22%, 24%, -3%, -21%
2018	10, 4, 4, 4	63%, 50%, 44%, 40%	24%, 11%, 5%, 1%	29, 16, 22, 25	71%, 47%, 29%, 34%	32%, 8%, -10%, -5%
2017	11, 3, 10, 2	79%, 43%, 43%, 14%	43%, 7%, 7%, -22%	27, 15, 29, 15	71%, 58%, 39%, 17%	35%, 22%, 3%, -22%
2016	13, 8, 16, 12	81%, 67%, 62%, 41%	44%, 30%, 25%, 4%	23, 18, 49, 32	70%, 47%, 48%, 29%	33%, 10%, 11%, -8%
2015	15, 8, 17, 12	79%, 80%, 63%, 39%	37%, 38%, 21%, -3%	17, 22, 56, 52	57%, 58%, 56%, 35%	15%, 16%, 14%, -7%
2014	12, 19, 17, 11	67%, 70%, 59%, 46%	25%, 26%, 19%, 2%	22, 29, 46, 42	69%, 66%, 46%, 31%	25%, 22%, 2%, -13%
2013	10, 7, 7, 9	59%, 70%, 54%, 41%	15%, 26%, 10%, -3%	16, 13, 35, 25	55%, 50%, 51%, 30%	11%, 6%, 7%, -14%

For companies over 1M Member Months (MM), use 20% as excessive growth safe harhour

	Triggering Benchmark = safe harbour 20% for companies over 1M MM				20% Safe Harbour
Year	# Cos Triggering AND have U/W Loss subsequent year	% of Companies Triggering AND have U/W loss subsequent year	Difference from overall Baseline	Improvement (underperformance) from current test	Difference from Disaggregated Baseline
2021	3	21%	-19%	4%	1%
2020	1	100%	56%	37%	73%
2019	2	33%	1%	16%	21%
2018	2	40%	1%	0%	13%
2017	2	40%	4%	26%	19%
2016	5	42%	5%	1%	21%
2015	3	33%	-9%	-6%	4%
2014	3	38%	-7%	-9%	7%
2013	0	0%	-44%	-41%	-31%

RBC Statistics

Year	Industry Aggregated Excessive Growth Charge	Total RBC Before Covariance	% of Total RBC Before Covariance
2021	221,810,536	86,088,680,244	0.26%
2020	152,344,797	73,985,158,328	0.21%
2019	98,665,133	68,762,077,526	0.14%
2018	43,685,938	63,525,815,586	0.07%
2017	96,339,347	60,318,297,216	0.16%
2016	218,535,115	58,717,892,148	0.37%
2015	158,655,196	54,145,297,113	0.29%
2014	205,395,550	49,008,627,972	0.42%
2013	143,808,800	44,214,480,776	0.33%

© 2024 National Association of Insurance Commissioners

Health Care Receivables
Current and Proposed H3 Factors (Alternate)

David A. Quinn, MAAA, FSA
Member, Health Care Receivables Factors Work Group
American Academy of Actuaries

Presentation to the National Association of Insurance Commissioners (NAIC)
Health Risk-Based Capital (E) Working Group
April 16, 2024

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

About the Academy

American Academy of Actuaries

- The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues.
- The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For more information, please visit:

www.actuary.org

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Alternate

- This deck is a modified copy of the publicly available November 8, 2023, presentation
- The results contained within this presentation are a work in progress and should not be relied upon in draft form.
- It has two principal differences from the November 8, 2023, version
  (1) Data from Life, Accident & Health, and Fraternal (Blue Blank) companies are omitted—Only Orange Blank data now
  (2) Non-Rx HCR are aggregated and treated as one type of HCR instead of five separate HCRs
- An alternative weighting—based on the size of the HCR relative to the company's capital and surplus—was considered
- New slides are inserted to show the difference from the November 8 numbers and use a pink font color

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Setting the Context

Authorized Control Level
- NAIC Risk-Based Capital Formula

Health Care Receivables (HCR)
- Part of the H3 Credit Risk
- Factors applied to all HCR assets are a part of the H3 result

Credit Risk

$$\$Authorized\ Control\ Level = 1.03 \times \frac{H0 + \sqrt{(H1^2 + H2^2 + H3^2 + H4^2)}}{2}$$

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Applying HCR Factors

HCR Factors

- Vary by Pharmaceutical Rebates or Non-Pharmaceutical Rebates

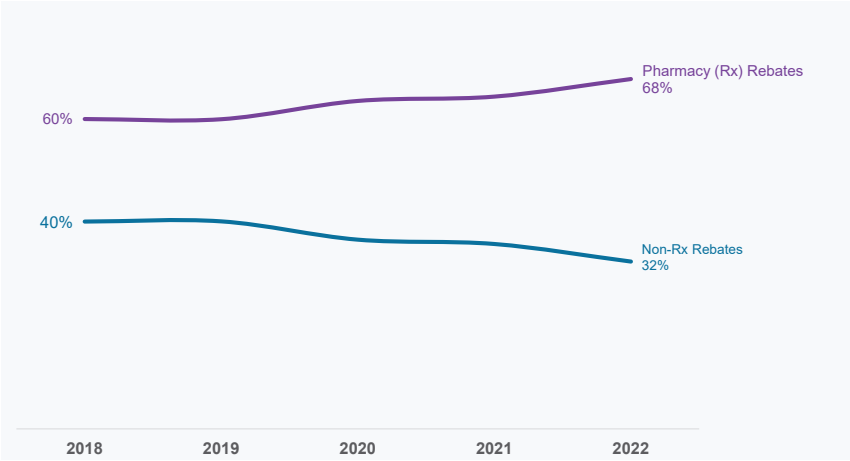
HCR Type	Factor (Current)
Pharmaceutical (Rx) Rebate Receivables	0.05
Claim Overpayment Receivables	0.19
Loans and Advances to Providers	0.19
Capitation Arrangement Receivables	0.19
Risk Sharing Receivables	0.19
Other Health Care Receivables	0.19

Non-Pharmaceutical Rebates Receivables

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

HCR Dollar Distributions (Only Orange Blanks)



Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Collecting HCRs

$$Collection\ Ratio = \frac{Surplus\ Component_{t-1} + Collections_t}{Admitted\ HCR\ Assets_{t-1}}$$

- *Surplus Component*, prior year: Factors multiplied by admitted assets
- *Collections*, current year: Exhibit 3A Column 5 "Health Care Receivables in Prior Years (Columns 1 + 3)"
  - To clarify: includes collections made against non-admitted assets, as it did in the November 8 version
- *Admitted HCR Assets*, prior year: Exhibit 3 Column 7 "Admitted"
- *Collection Ratio*: Goal is for a company to collect ≥100%
- See Appendix A for exhibit layouts and column names

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Collecting HCRs (Year)

Year (Rx Rebates HCR)	Company Count	Collection Ratio ≥100%
2019	519	87%
2020	559	83%
2021	621	86%
2022	655	84%
Year (Non-Rx Rebates HCR)	**Company Count**	**Collection Ratio ≥100%**
2019	366	85%
2020	402	79%
2021	411	81%
2022	440	79%

Data: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables
2018 is prior year input for 2019 results, so the table begins with 2019

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Collecting HCRs (Year)

Year (Rx Rebates HCR)	Company Count	Collection Ratio ≥100%
2019	0	0%
2020	0	0%
2021	0	0%
2022	−19	1%
Year (Non-Rx Rebates HCR)	**Company Count**	**Collection Ratio ≥100%**
2019	0	0%
2020	0	0%
2021	0	0%
2022	−17	0%

Difference from prior version (November 8, 2023)

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Collecting HCRs (Size)

- Each company has an HCR size by year for this analysis
- HCR size "Small" if total HCR <$1 million, "Large" if ≥$10 million, "Medium" otherwise
- HCR <$0 were then excluded (rare) and HCR =$0 were excluded (common)

Size (Rx Rebates HCR)	Company Count Four-year Avg.	Collection Ratio ≥100%
Small	111	79%
Medium	214	84%
Large	257	89%

Size (Non-Rx Rebates HCR)	Company Count Four-year Avg.	Collection Ratio ≥100%
Small	57	81%
Medium	136	79%
Large	205	84%

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Collecting HCRs (Size)

Size (Rx Rebates HCR)	Company Count Four-year Avg.	Collection Ratio ≥100%
Small	−1	0%
Medium	−2	0%
Large	−2	0%

Size (Non-Rx Rebates HCR)	Company Count Four-year Avg.	Collection Ratio ≥100%
Small	−2	1%
Medium	−1	0%
Large	−1	0%

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

Difference from prior version (November 8, 2023)

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Tiering HCR Factors

Proposed tiered HCR factors

- Smaller HCR-sized companies hold more surplus component
- Give larger HCR-sized companies credit for observed stability (higher counts of Collection Ratios ≥100%)

HCR Type	Current Factor	Tier 1 Factor	Tier Cutoff	Tier 2 Factor
Rx Rebate Receivables	0.05	0.20	$5 Million	0.03
All Non-Rx Rebate Receivables	0.19	0.40	$10 Million	0.05

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Collecting HCRs (Year Revisited)

Improved Collection Ratio (CR) by year

Year (Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
2019	87%	91% (+4%)
2020	83%	87% (+4%)
2021	86%	89% (+3%)
2022	84%	88% (+4%)

Year (Non-Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
2019	85%	87% (+2%)
2020	79%	81% (+2%)
2021	81%	84% (+3%)
2022	79%	82% (+3%)

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Collecting HCRs (Year Revisited)

Difference from prior version (November 8, 2023)

Year (Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
2019	0%	0% (+0%)
2020	0%	0% (+0%)
2021	0%	0% (+0%)
2022	1%	0% (−1%)

Year (Non-Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
2019	0%	0% (+0%)
2020	0%	0% (+0%)
2021	0%	0% (+0%)
2022	0%	0% (+0%)

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Collecting HCRs (Size Revisited)

Improved collection by HCR size

Size (Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
Small	79%	85% (+6%)
Medium	84%	90% (+6%)
Large	89%	90% (+1%)

Size (Non-Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
Small	81%	82% (+1%)
Medium	79%	82% (+3%)
Large	84%	85% (+1%)

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Collecting HCRs (Size Revisited)

Difference from prior version (November 8, 2023)

Size (Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
Small	0%	0% (+0%)
Medium	0%	0% (+0%)
Large	0%	0% (+0%)

Size (Non-Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
Small	1%	1% (+0%)
Medium	0%	−1% (−1%)
Large	0%	−1% (−1%)

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

First Proposed Tier Factors

- Which combinations of factors and tier cutoffs work?
- Monte Carlo simulation

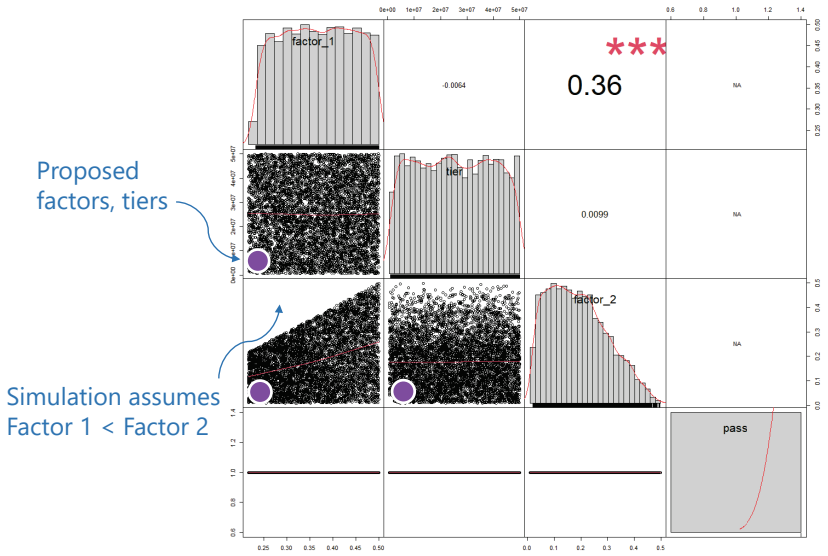
© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

First Proposed Tier Factors

- Goal of percent of companies meeting Collection Ratios ≥100%
  - 90%–100% for Rx HCR
  - 90%–100% for Non-Rx HCR
    - For 10 or more of the 15 size and line combinations (3x sizes by 5x Non-Rx HCR types)
    - Acknowledge variance in reporting accuracy (more on this later)
- Many combinations of factors and tier cutoffs work
  - There's flexibility in the final factors and tier cutoff
  - Each black dot on the next charts is a possible solution

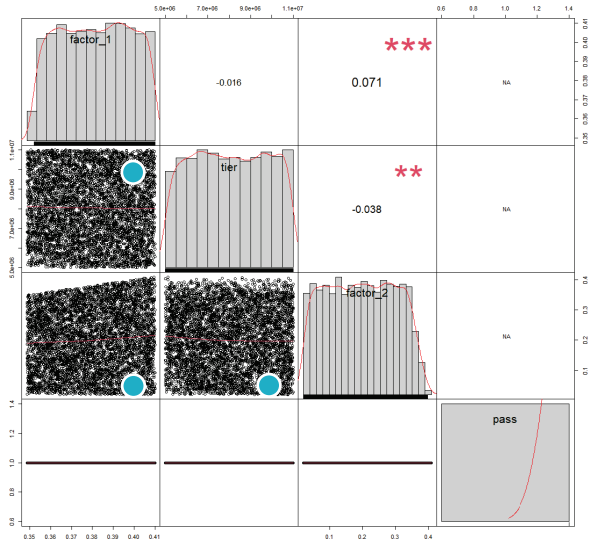
© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Proposed Factors and Tiers (Rx Rebate HCR)



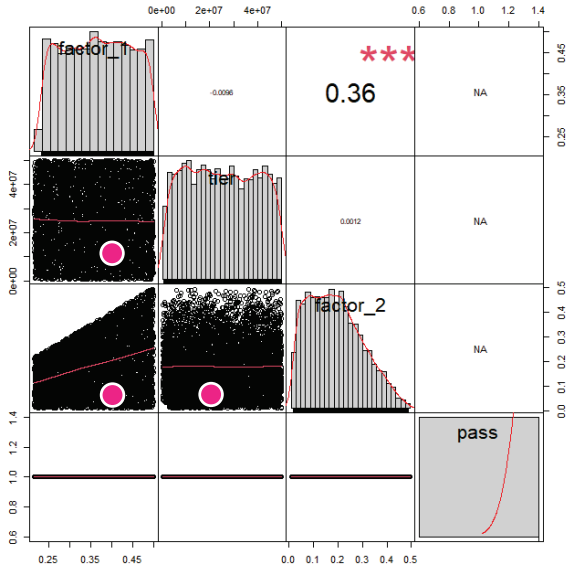
© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Proposed Factors and Tiers (Non-Rx Rebates HCR)



© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Proposed Factors and Tiers (Non-Rx Rebates HCR)



© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Limitations and Considerations

- Recommendation subject to approval and comment
- Reporting Accuracy
  - Parity between prior year Exhibit 3 and current year Exhibit 3A
    - A company may establish a prior HCR but collect on it in a way not reported in Exhibit 3A
- HCR Size
  - Many combinations of tiers and tier cutoffs
    - Smaller tier threshold, higher factor
  - Proposed factors will have variable impacts on companies

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Surplus Component Change in H3 (Proposal)

2022 Data

HCR Type	Co. with an *Increased* H3 (+)	Co. with a *Decreased* H3 (-)	Avg. Relative Change in H3 (+)	Avg. Relative Change in H3 (-)	Largest Magnitude Relative Change (+)	Largest Magnitude Relative Change (-)
Rx Rebate HCR	89%	11%	+241%	−19%	+300%	−38%
Non-Rx Rebates HCR	88%	12%	+106%	−29%	+111%	−70%

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Surplus Component Change in H3 (Proposal)

Difference from November 8, 2023

HCR Type	Co. with an *Increased* H3 (+)	Co. with a *Decreased* H3 (−)	Avg. Relative Change in H3 (+)	Avg. Relative Change in H3 (−)	Largest Magnitude Relative Change (+)	Largest Magnitude Relative Change (−)
Rx Rebate HCR	0%	0%	+1%	+1%	0%	+1%
Non-Rx Rebates HCR	−3%	+3%	+1%	−15%	0%	−1%

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Surplus Component Change in H3

Rx Rebate HCR (2022)

Rx Rebate HCR ($ Millions)	H3 Surplus *Before* Proposal	H3 Surplus *After* Proposal	Difference
If an Increase (+)	$167	$350	$183
If a Decrease (–)	$484	$351	–$133
Total	$651	$701	$50

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Surplus Component Change in H3

Difference from prior version (November 8, 2023)

Rx Rebate HCR ($ Millions)	H3 Surplus *Before* Proposal	H3 Surplus *After* Proposal	Difference
If an Increase (+)	–$21	–$35	–$14
If a Decrease (–)	–$296	–$184	+$112
Total	–$317	–$219	+$98

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Surplus Component Change in H3

Non-Rx Rebate HCR (2022)

Non-Rx Rebate HCR ($ Millions)	H3 Surplus *Before* Proposal	H3 Surplus *After* Proposal	Difference
If an Increase (+)	$203	$371	$168
If a Decrease (–)	$750	$369	–$381
Total	$953	$740	–$213

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Surplus Component Change in H3

Difference from prior version (November 8, 2023)

Non-Rx Rebate HCR ($ Millions)	H3 Surplus *Before* Proposal	H3 Surplus *After* Proposal	Difference
If an Increase (+)	–$123	–$180	–$57
If a Decrease (–)	+$120	+$40	–$80
Total	–$3	–$140	–$137

American Academy of Actuaries

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Weighting Companies

Idea from public comments to use the HCR as a percent of capital and surplus as a weight (POCS)

- Hypothesis: Companies with higher POCS are more motivated to collect

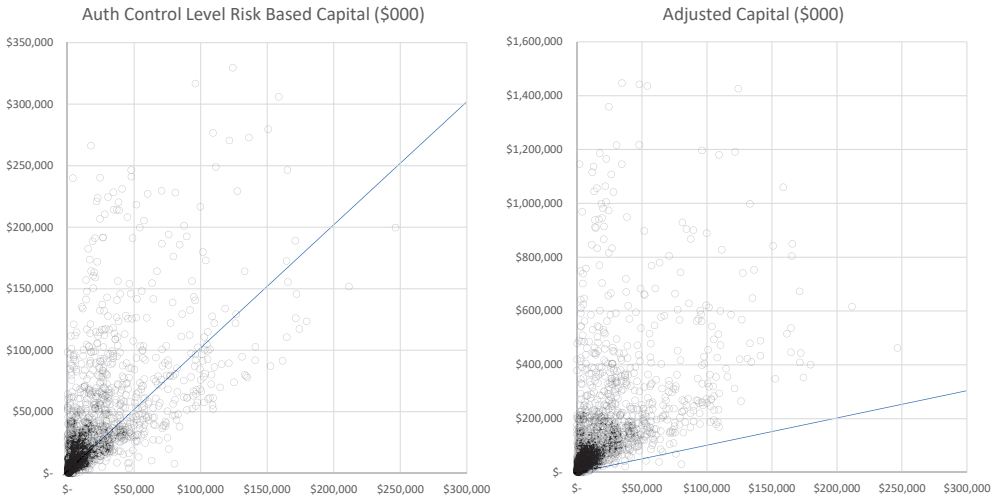
Exhibit 3, Exhibit 3A, and Underwriting and Investment (U&I) Exhibit Part 2B do not show the capital and surplus amounts

- However, U&I Part 2B has claims (row 9) and HCR amounts (row 10)
  - Use HCR as a percentage of claims as a proxy for POCS
  - Estimated Claims Reserve and Claims Liability December 31 of Prior Year (column 6)

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Weighting Companies

2022 SOA Medicaid Underwriting Margin Model

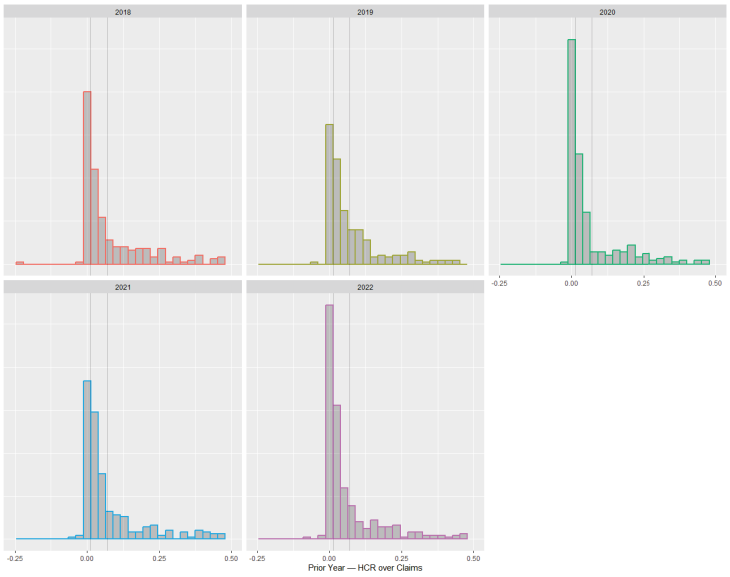


Medicaid NAIC data 2013–2020
(x-axis: medical loss in thousands)

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Weighting Companies

- Only Orange Blank
- **HCR dollars as percent of Claims by year**
  - x-axis
  - Net of reinsurance
- Consistent distribution by year
  - Small: 0%–1.25%
  - Medium: 1.25%–7.00%
  - Large: >7.00%

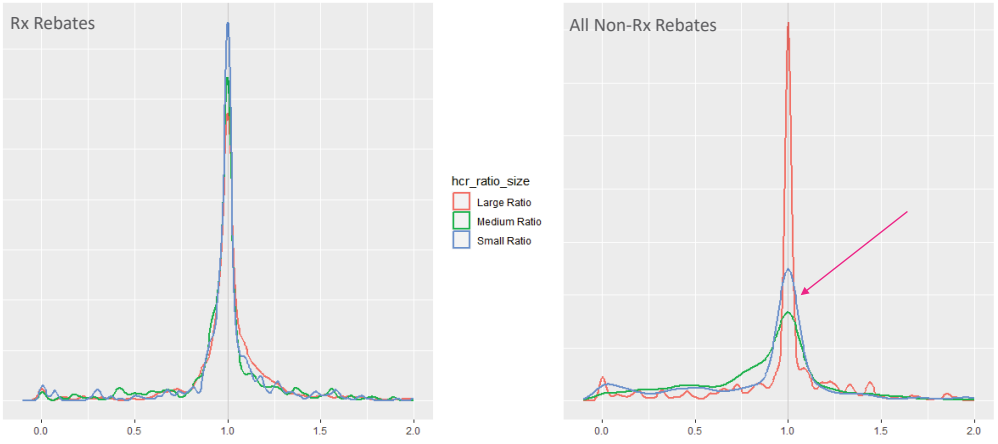


Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Weighting Companies

- Lacks increasing collection results as HCR as a percent of claims (a POCS proxy) increases
  - Propose *not* weighting by HCR as a POCS



Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Appendix A: Exhibit 3, Exhibit 3A Examples

EXHIBIT 3 – HEALTH CARE RECEIVABLES — **ANNUAL STATEMENT FOR THE YEAR 2013**

1 Name of Debtor	2 1 – 30 Days	3 31 – 60 Days	4 61 – 90 Days	5 Over 90 Days	6 Non-admitted	7 Admitted
Pharmaceutical rebate receivables						
Claim overpayment receivables						
Loans and advances to providers						
Capitation arrangement receivables						
Risk sharing receivables						
Other receivables						
Gross health care receivables					R6	R7

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED

Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5	6
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year	Health Care Receivables in Prior Years (Columns 1 + 3)	Estimated Health Care Receivables Accrued as of December 31 of Prior Year
1. Pharmaceutical rebate receivables						
2. Claim overpayment receivables						
3. Loans and advances to providers						
4. Capitation arrangement receivables						
5. Risk sharing receivables						
6. Other health care receivables						
7. Totals (Lines 1 through 6)			A3 = B1 + B3	A4 = B2 + B4		A6 = Prior Yr(R6+R7)

American Academy of Actuaries
© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Appendix B: U&I Part 2B

UNDERWRITING AND INVESTMENT EXHIBIT — **ANNUAL STATEMENT FOR THE YEAR 2013**

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5	6
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical)						
2. Medicare Supplement						
3. Dental						
4. Vision						
5. Federal Employees Health Benefits Plan						
6. Title XVIII - Medicare						
7. Title XIX - Medicaid						
8. Other health						
9. Health subtotal (Lines 1 to 8)						
10. Health care receivables (a)	B1	B2	B3	B4		B6 = Prior Yr(R6+R7)
11. Other non-health						
12. Medical incentive pools and bonus amounts						
13. Totals (Lines 9−10+11+12)						

(a) excludes _____ loans or advances to providers not yet expensed

B1 + B2 + B3 + B4 = R6 + R7 [assumes no amounts in the 10(a) footnote]

American Academy of Actuaries
© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Questions?

© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Thank You

For more information, please contact
Matthew J. Williams, JD, MA
Senior Policy Analyst, Health
American Academy of Actuaries
williams@actuary.org

American Academy of Actuaries
© 2024 American Academy of Actuaries. All rights reserved.
May not be reproduced without express permission.

Attachment Three-E
Capital Adequacy (E) Task Force
8/14/24

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Greg Chew, Chair of Financial Analysis Solvency Tools (E) Working Group
Eli Snowbarger and John Litweiler, Co-Chairs of Financial Examiners Handbook (E) Technical Group

FROM: Steve Drutz, Chair of Health Risk-Based Capital (E) Working Group

DATE: March 22, 2024

RE: Referral for Pandemic Risk

In 2020, in light of the Covid-19 pandemic, the Health Risk-Based Capital (E) Working Group added into its working agenda an item to consider impact of COVID-19 and pandemic risks in the Health Risk-Based Capital (RBC) formula. During subsequent meetings held in 2023 and 2024, the Working Group evaluated whether RBC is the appropriate tool to capture pandemic risk. Some of the actions include:

- Looked into 2014 Health RBC interrogatories to analyze how companies allocated surplus or model for pandemic and biological risks.
- Received presentation by Texas Department of Insurance on "Pandemic Risk and Insurer Solvency – A Review of Personal Consumption Expenditures (PCE) on Healthcare Before, During, and After the COVID-19 Pandemic".
- Reviewed RBC trends for an extended period (2015-2021).
- Considered capital requirements for pandemic risk in other jurisdictions (e.g., Solvency II).

One specific trend noted from the Texas Department of Insurance presentation was the decrease in healthcare expenditures during the pandemic, and the return to historical norms that occurred as the pandemic subsided. This appeared to increase the difficulty in adequately pricing policies post pandemic. Based on the work and findings above, the Working Group concluded that changes, resulting from pandemic risks, to the Health RBC formula are not warranted for the time being. The Working Group would like to ask the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group to evaluate whether the pandemic risk is being sufficiently addressed from their perspective, and if not, the need for enhancement in the financial analysis and/or financial examination process.

If you have any questions, or would like to further discuss, please contact the Health Risk-Based Capital (E) Working Group chair or vice chair (Steve Drutz, Matthew Richard), or NAIC staff Maggie Chang (mchang@naic.org).

Cc: Julie Gann, Maggie Chang, Eva Yeung, Rodney Good, Bill Rivers, Ralph Villegas, Bailey Henning

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990
Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
www.naic.org

DRAFT

Growth Test Results of Queries - Based on Triggering Benchmark with an Underwriting Loss in the Following Year

	Baseline	
Year	# of Total Companies w/ an U/W Loss	% of Total Companies w/ an U/W Loss
2022	432	40%
2021	460	44%
2020	318	32%
2019	366	39%
2018	326	36%
2017	329	37%
2016	366	42%
2015	377	44%
2014	362	44%

	Triggering Benchmark = Current Test			Triggering Benchmark = Based on 10% MM Growth			Triggering Benchmark = Based on Reversing 10% Threshold		
Year	# Cos Triggering	% of Companies Triggering	Difference from Baseline	# Cos Triggering	% of Companies Triggering	Difference from Baseline	# Cos Triggering	% of Companies Triggering	Difference from Baseline
2022	73	45%	5%	151	37%	-3%	67	52%	12%
2021	50	70%	26%	148	46%	2%	98	40%	-4%
2020	33	37%	5%	73	34%	2%	34	35%	3%
2019	22	49%	10%	92	41%	2%	52	43%	4%
2018	28	44%	8%	86	38%	2%	51	41%	5%
2017	53	60%	23%	122	43%	6%	43	41%	4%
2016	53	59%	17%	147	47%	5%	60	48%	6%
2015	62	60%	16%	139	44%	0%	40	35%	-9%
2014	36	53%	9%	89	43%	-1%	36	40%	-4%

Disaggregated Results Based on Size of Company (Size band by Member Months (MM))

	Based on Current Test (Difference in Total is Due to 0 MM Companies)			Based on 10% MM Growth		
Year	# Cos Triggering (0-20K, 20K-100K, 100K-1M, >1M)	% of Companies Triggering	Difference from Baseline	# Cos Triggering (0-20K, 20K-100K, 100K-1M, >1M)	% of Companies Triggering	Difference from Baseline
2022	20, 11, 27, 10	71%, 52%, 56%, 17%	31%, 12%, 16%, -23%	56, 30, 37, 28	65%, 53%, 33%, 19%	25%, 13%, -7%, -21%
2021	23, 11, 7, 5	85%, 65%, 47%, 63%	41%, 21%, 3%, 19%	50, 36, 41, 21	68%, 67%, 39% 23%	24%, 23%, -5%, -21%
2020	12, 10, 5, 4	60%, 67%, 20%, 17%	28%, 35%, -12%, -15%	26, 20, 21, 6	54%, 56%, 29%, 11%	22%, 24%, -3%, -21%
2019	10, 4, 4, 4	63%, 50%, 44%, 40%	24%, 11%, 5%, 1%	29, 16, 22, 25	71%, 47%, 29%, 34%	32%, 8%, -10%, -5%
2018	11, 3, 10, 2	79%, 43%, 43%, 14%	43%, 7%, 7%, -22%	27, 15, 29, 15	71%, 58%, 39%, 17%	35%, 22%, 3%, -22%
2017	13, 8, 16, 12	81%, 67%, 62%, 41%	44%, 30%, 25%, 4%	23, 18, 49, 32	70%, 47%, 48%, 29%	33%, 10%, 11%, -8%
2016	15, 8, 17, 12	79%, 80%, 63%, 39%	37%, 38%, 21%, -3%	17, 22, 56, 52	57%, 58%, 56%, 35%	15%, 16%, 14%, -7%
2015	12, 19, 17, 11	67%, 70%, 59%, 46%	25%, 26%, 19%, 2%	22, 29, 46, 42	69%, 66%, 46%, 31%	25%, 22%, 2%, -13%
2014	10, 7, 7, 9	59%, 70%, 54%, 41%	15%, 26%, 10%, -3%	16, 13, 35, 25	55%, 50%, 51%, 30%	11%, 6%, 7%, -14%

© 2024 National Association of Insurance Commissioners

Attachment Four
Capital Adequacy (E) Task Force
8/14/24

Draft: 8/21/24

Life Risk-Based Capital (E) Working Group
Chicago, Illinois
August 14, 2024

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met in Chicago, IL, Aug. 14, 2024. The following Working Group members participated: Thomas Reedy, Acting Chair (CA); Ben Slutsker, Vice Chair (MN); Sheila Travis and Sanjeev Chaudhuri (AL); Wanchin Chou (CT); Vincent Tsang (IL); Mike Yanacheak and Kevin Clark (IA); William Leung and John Rehagen (MO); Margaret Garrison (NE); Jennifer Li (NH); Seong-min Eom (NJ); Bill Carmello (NY); Rachel Hemphill (TX); and Tomasz Serbinowski (UT). Also participating were: Kevin Dyke (MI); Fred Andersen (MN); Tom Botsko and Peter Weber (OH); and Diana Sherman (PA).

1. Adopted its June 18, April 19, and Spring National Meeting Minutes

The Working Group met June 18 and April 19. During these meetings, the Working Group took the following action: 1) adopted proposal 2024-15-L to address collateral loans; 2) adopted proposal 2024-17-L to add a factor for omitted Schedule BA mortgages; 3) adopted proposal 2024-04-L to add a line for total adjusted capital (TAC) adjustment for non-admitted affiliates; 4) adopted proposal 2024-05-L to add a line to Schedule BA mortgages for omitted asset valuation reserve (AVR); 5) discussed covariance; 6) discussed C-3 risk; 7) discussed proposal 2024-03-L (repurchase agreements); and 8) discussed proposal 2024-07-L (other long-term assets).

Chou made a motion, seconded by Yanacheak, to adopt the Working Group's June 18 (Attachment Four-A), April 19 (Attachment Four-B), and March 17 (*see NAIC Proceedings – Spring 2024, Capital Adequacy (E) Task Force, Attachment Three*) minutes. The motion passed unanimously.

2. Received Updates from its Subgroups

A. Generator of Economic Scenarios (GOES) (E/A) Subgroup

Yanacheak said the Subgroup conducted a field test of a revised calibration of the GOES from April to July. He added that the Subgroup is holding meetings in regulator-to-regulator session to discuss field test results with participants and that variable annuity (VA) and life insurance model office testing have been performed alongside the field testing. He said the next steps before the Subgroup are to:

- Finish the remaining participant-to-regulator discussions and summarize the field test's key insights in the GOES (E/A) Subgroup's public meetings.
- Request the model office testing and/or analysis be evaluated against other key deliverables for the GOES project.
- Schedule a series of GOES (E/A) Subgroup calls to continue working toward implementation. Subgroup meetings will focus on building out a GOES model governance framework, improving documentation, finalizing the stochastic exclusion ratio test (SERT) scenarios, and making any adjustments to the GOES calibration after reviewing feedback from the field test.
- Make a series of recommendations to the Life Actuarial (A) Task Force and the Life Risk-Based Capital (E) Working Group for deliberation and adoption. Given where the Subgroup is in the timeline, adoption is not expected to occur and be effective sooner than 2026. However, Yanacheak made it clear that the GOES (E/A) Subgroup intends to push as hard as the Subgroup can to implement the GOES for 2026.

© 2024 National Association of Insurance Commissioners

B. Longevity Risk (E/A) Subgroup

Eom reported that the Subgroup is currently waiting for more progress on the draft of Valuation Manual (VM)-22, Statutory Maximum Valuation Interest Rates for Income Annuities. She stated that VM-22 has been exposed and is currently being discussed. Eom stated that the Subgroup is also waiting for a field-testing follow-up of the current goals field test of VM-20, Requirements for Principle-Based Reserves for Life Products and VM-21,: Requirements for Principle-Based Reserves for Variable Annuities.

C. Variable Annuities Capital and Reserve (E/A) Subgroup

Weber said the Subgroup has met twice since the Spring National Meeting, and that was the culmination of work to update the assumptions in a portion of the VM-21 reserve calculation.

3. Adopted the 2024 Life RBC Newsletter

Chou made a motion, seconded by Yanacheak, to adopt the 2024 life risk-based capital (RBC) newsletter (Attachment Four-C). The motion passed unanimously.

4. Adopted the 2023 Life RBC Statistics

Yanacheak made a motion, seconded by Andersen, to adopt the 2023 life RBC statistics (Attachment Four-D). The motion passed unanimously.

The Working Group noted Tsang's observations regarding high RBC weights on C-1 asset default risk, while fewer weights are given to C-2 insurance risk and C-3 interest rate risk as an issue that should be discussed further.

5. Discussed a Referral on Investments in Tax Credit Structures

The Working Group received a referral from the Statutory Accounting Principles (E) Working Group regarding investments in tax credit structures (Attachment Four-E) and noted the following: 1) the Statutory Accounting Principles (E) Working Group adopted changes to accounting guidance for tax credit investments; 2) the Blanks (E) Working Group adopted proposal 2024-11-BWG, which removed the federal guaranteed tax credit investments category; and 3) NAIC staff are working on an RBC proposal to accommodate the adopted blanks changes.

6. Discussed the Schedule BA Proposal for Non-Bond Debt Securities

The Working Group discussed the following updates to the Schedule BA proposal for non-bond debt securities (Attachment Four-F): 1) there are new reporting lines for non-bond debt securities; and 2) existing Schedule BA concepts where an entity can file securities that do not qualify as a bond with the Securities Valuation Office (SVO) have been incorporated, and if they receive an SVO-assigned designation, for life companies, it would then flow through the asset valuation reserve (AVR) and receive life RBC bond factors. This is expected to go into effect Jan. 1, 2025.

© 2024 National Association of Insurance Commissioners

7. Adopted its Working Agenda

Chou made a motion, seconded by Yanacheak, to adopt the Working Group's working agenda (Attachment Seven). The motion passed, subject to edits suggested by Clark and Chou to the item regarding the Schedule BA proposal for non-bond debt securities and the item on the RBC statistics, along with the addition to the working agenda of the proposal for the separation of Schedule D into Schedules D, Part 1, Section 1 and Schedule D, Part 1, Section 2.

Having no further business, the Life Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2024-2-Summer/Life RBC 08-14-24 Minutes.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/5/24

Life Risk-Based Capital (E) Working Group
Virtual Meeting
June 18, 2024

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 18, 2024. The following Working Group members participated: Philip Barlow, Chair (DC); Ben Slutsker, Vice Chair (MN); Sanjeev Chaudhuri (AL); Thomas Reedy (CA); Lei Rao-Knight (CT); Carolyn Morgan (FL); Mike Yanacheak (IA); Vincent Tsang and Bruce Sartain (IL); William Leung (MO); Michael Muldoon (NE); Seong-min Eom (NJ); Bill Carmello (NY); Andrew Schallhorn (OK); Aaron Hodges (TX); and Tomasz Serbinowski (UT). Also participating was: Tom Botsko (OH).

1. Adopted Proposal 2024-15-L Collateral Loans

The Working Group considered proposal 2024-15-L to add collateral loan instructional changes and add a line reference.

Leung made a motion, seconded by Reedy, to adopt proposal 2024-15-L (Attachment One-C). The motion passed unanimously.

2. Adopted Proposal 2024-17-L BA Mortgage

The Working Group considered proposal 2024-17-L to add a factor for the line added to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component as part of proposal 2024-05-L.

Slutsker made a motion, seconded by Reedy, to adopt proposal 2024-17-L (Attachment One-D). The motion passed unanimously.

3. Discussed Covariance

Paul Navratil (American Academy of Actuaries—Academy) presented an update on the Academy's work on correlation. He provided background and the justification for the presentation and discussed the correlation between C-risks as well as the correlation within individual C-risks (such as within C-1o). He said the Academy is in the process of gathering data from publicly available sources and other regulatory frameworks to calibrate the top three elements (credit, interest rate, and equity markets) and would come back to the Working Group later in the year with specific recommendations. He said this is a good time to review the formula and correlation because these have not been reviewed in a while.

Tsang said risk-based capital (RBC) is not an individual company's instrument but an instrument for the entire industry. He urged regulators to keep in mind that covariance would not affect every company the same way, and therefore, they should not expect the new matrix presented to solve the problem.

Navratil responded by saying the purpose of applying RBC as a tool for individual companies is to help regulators identify companies that may be weakly capitalized, but the impact of correlation would be different across companies. However, he said his goal is to establish a guiding principle that aligns with each company's risk profile in a way that helps regulators distinguish between companies with concentrated risk exposure and little benefit from diversification of risks from companies that are well-capitalized due to diversified risks.

© 2024 National Association of Insurance Commissioners

Barlow asked if other regulatory frameworks could be pulled together and compared side by side. Navratil said it is possible and that the Academy would provide an overview of what is done in other regulatory frameworks. This would give insights and an understanding of why and how they arrived at the correlations that they chose. Barlow said the Working Group is looking forward to additional work by the Academy, and it will assist the Academy as needed.

4. Discussed C-3 Risk

Link Richardson (Academy) presented C-3 methodology considerations and suggestions and highlighted nine key differences between C-3 Phase 1 and Phase 2 frameworks. Slutsker asked if the proposed instructions would be included in the field test for Valuation Manual (VM)-22 and asked if it would make sense to have the Academy bring the instructions to the Working Group as part of a formal process or just make them part of the field test. Richardson said that it would make sense to bring the instructions back to the Working Group for consideration.

Having no further business, the Life Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Committee Folders/E CMTE/CADTF/2024_Summer/LRBCWG/Life RBC 6-18-24 Minutes (tpr).docx

© 2024 National Association of Insurance Commissioners

Draft: 6/3/24

Life Risk-Based Capital (E) Working Group
Virtual Meeting
April 19, 2024

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 19, 2024. The following Working Group members participated: Philip Barlow, Chair (DC); Ben Slutsker, Vice Chair (MN); Thomas Reedy (CA); Wanchin Chou (CT); Hannah Howard (FL); Mike Yanacheak (IA); Vincent Tsang (IL); William Leung (MO); Lindsay Crawford (NE); Jennifer Li (NH); Seong-min Eom (NJ); Bill Carmello (NY); Andrew Schallhorn (OK); and Rachel Hemphill (TX).

1. Adopted Proposal 2024-04-L to Add a Line to TAC Adjustment for Non-Admitted Affiliates

The Working Group considered proposal 2024-04-L to add a line to "Total Adjusted Capital (TAC) Adjustment for Non-Admitted Affiliates."

Leung made a motion, seconded by Slutsker, to adopt proposal 2024-04-L (Attachment Two-A). The motion passed.

2. Adopted Proposal 2024-05-L to Add a Line to the Schedule BA Mortgages for Omitted AVR Line

The Working Group next considered proposal 2024-05-L to add a line to the "Schedule BA Mortgages for Omitted Asset Valuation Reserve (AVR) Line," a structural change that would be implemented in 2024.

Reedy made a motion, seconded by Schallhorn, to adopt proposal 2024-05-L (Attachment Two-B). The motion passed.

3. Exposed the ACLI's Collateral Loan Proposal for Instructional and Line Reference Changes

The Working Group next considered the American Council of Life Insurers' (ACLI's) collateral loan proposal and exposed the following items for a 30-day public comment period.: 1) the ACLI's collateral loan changes proposal; 2) a proposal for instructional change; and 3) a proposal to add a line reference change.

4. Discussed the ACLI's Repurchase Agreement Proposal

The Working Group took the following action regarding the ACLI's repurchase agreement proposal: 1) suspended further re-exposure of the proposal (however, the Working Group is still open to receiving any comments from the other interested groups); and 2) deferred the adoption of the proposal until 2025.

5. Discussed the Other Long-Term Assets Proposal

The Working Group took the following action regarding the other long-term assets proposal: 1) deferred proposal consideration until 2025 due to other changes being made to the statutory accounting principle (SAP); 2) agreed to monitor other work or changes regarding the proposal and whether they necessitate that the proposal be considered as a standalone proposal or that it incorporate the changes in its present form for a bigger holistic review of the proposal.

© 2024 National Association of Insurance Commissioners

6. Discussed Other Matters

The Working Group was informed of upcoming updates from the American Academy of Actuaries (Academy) regarding matters being handled on behalf of the Working Group, which will be scheduled for a later date. The Working Group will discuss covariance during another meeting that has yet to be scheduled.

Having no further business, the Life Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Committee Folders/E CMTE/CADTF/2024_Summer/LRBCWG/Life RBC 4-19-24 Minutes (tpr).docx

© 2024 National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Newsletter Items for Adoption for 2024 for Life and Fraternal RBC

Date: August 2024
Volume: 30

Page 1: Intro Section:

What Risk-Based Capital Pages Should Be Submitted?

For year-end 2024 life and fraternal risk-based capital (RBC), submit hard copies of pages LR001 through LR049 to any state that requests a hard copy in addition to the electronic filing. Starting with year-end 2007 RBC, a hard copy was not required to be submitted to the NAIC. However, a PDF file representing the hard copy filing is part of the electronic filing.

If any actuarial certifications are required per the RBC instructions, those should be included as part of the hard copy filing. Starting with year-end 2008 RBC, the actuarial certifications were also part of the electronic RBC filing as PDF files, similar to the financial annual statement actuarial opinion.

Other pages, such as the mortgage and real estate worksheets, do not need to be submitted. However, they still need to be retained by the company as documentation.

Page 1+: Items Adopted for 2024:

Addition of Line to Total Adjusted Capital

The Capital Adequacy (E) Task Force adopted proposal 2024-04-L during its April 30 meeting. This proposal adds a line to LR033, Calculation of Total Adjusted Capital, to address the treatment of non-admitted insurance affiliates. This treatment was adopted as part of proposal 2022-09-CA, the revised treatment of affiliated investments. This line was omitted from the life structure change but was done for 2023 by including it in an existing line. This proposal does not change the treatment but makes the life formula consistent with the other RBC formulas.

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
Kansas City 1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
New York One New York Plaza, Suite 4210, New York, NY 20004 p | 212 398 9000 f | 212 382 4207
www.naic.org

© 2024 National Association of Insurance Commissioners

Addition of Line to Address Omitted Asset Valuation Reserve Item for Schedule BA Mortgages

The Capital Adequacy (E) Task Force adopted proposal 2024-05-L during its April 30 meeting. This proposal adds a line to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component. This AVR line was not included in the LR009 changes made with the mortgage methodology change in 2013. The Task Force adopted proposal 2024-17-L during its June 28 meeting. This proposal applies a factor of 0.0068.

Collateral Loans

The Capital Adequacy (E) Task Force adopted proposal 2024-15-L during its June 28 meeting. This proposal addresses reporting changes of certain mortgage-type investments as collateral loans backed by mortgages in 2024.

Residual Tranches or Interests

The Capital Adequacy (E) Task Force adopted the Risk-Based Capital Investment Risk and Evaluation (E) Working Group's summary report during its June 28 meeting. The Working Group met April 12, May 22, and June 21 to discuss residual tranches or interests and the 45% RBC factor in place for year-end 2024. After considering comments and a review of alternative proposals to bifurcate residual tranches or interests between 30% and 45% RBC categories, the Working Group adopted a motion to retain the 45% RBC base factor for all residual tranches or interests for year-end 2024 with the sensitivity test factor of zero.

Receivable for Securities Factor

The Capital Adequacy (E) Task Force adopted proposal 2024-13-CA during its June 28 meeting. This changes the factor for the Receivables for Securities (Line [5], Page LR012) to 0.016.

Underwriting Risk Factors – Investment Income Adjustment

The Capital Adequacy (E) Task Force adopted proposal 2024-09-CA during its June 28 meeting. This proposal updated the comprehensive medical, Medicare supplement, and dental and vision factors to include a 5.5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental & Vision
$0–$3 Million	0.1427	0.0973	0.1143
$3–$25 Million	0.1427	0.0596	0.0706
Over $25 Million	0.0832	0.0596	0.0706

© 2024 National Association of Insurance Commissioners

Last Page: RBC Forecasting & Warning:

Risk-Based Capital Forecasting and Instructions

The Life and Fraternal RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2024 Life and Fraternal Risk-Based Capital Forecasting & Instructions for Companies* (Forecasting & Instructions), and it is available to download from the NAIC Account Manager. The publication is also available for purchase in electronic format through the NAIC Publications Department. This publication is available on or about Nov. 1 each year. The User Guide is no longer included in the Forecasting & Instructions.

Warning: The RBC forecasting spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not have been filed.

Last Page: 2024 National Association of Insurance Commissioners:

2024 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Life Risk-Based Capital Newsletter, Volume 30. Published annually or whenever needed by the NAIC for insurance regulators, professionals, and consumers.

Direct correspondence to: Kazeem Okosun, RBC Newsletters, NAIC, 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197. Phone: 816-783-8121. Email: kokosun@naic.org.

© 2024 National Association of Insurance Commissioners

Attachment Four-D
Capital Adequacy (E) Task Force
8/14/24

AGGREGATED LIFE RBC AND ANNUAL STATEMENT DATA
2023 Data as of 6/27/2024

		Year-End 2023	Year-End 2022	Year-End 2021	Year-End 2020	Year-End 2019	Year-End 2018
# of Companies Filed RBC		735	742	750	760	772	703
# of Companies Filed Annual Statement		749	755	766	774	786	722
% of RBC Companies		98%	98%	98%	98%	98%	97%
Company Action Level - Trend Test at 300%		1	6	8	5	7	6
Company Action Level - Trend Test at 250%			1	1	1	3	4
Company Action Level	1	2	2	3	2	4	2
Regulatory Action Level	2	1	0	1	0	0	2
Authorized Control Level	3	0	0	0	0	1	1
Mandatory Control Level	4	3	3	3	4	3	3
Total		7	12	16	12	18	18
		0.95%	1.62%	2.13%	1.58%	2.33%	2.56%
# of Companies with RBC Ratio > 10,000%		44	45	55	52	50	47
# of Companies with RBC Ratio >1000 & < 10,000%		312	298	292	306	312	275
# of Companies with RBC Ratio >500 & <1,000%		302	313	315	317	332	311
# of Companies with RBC Ratio >300 & <500%		62	69	73			
# of Companies with RBC Ratio >250 & <300%		9	9	9			
# of Companies with RBC Ratio >250 & < 500%					78	68	58
# of Companies with RBC Ratio > 200 & < 250%		1	3	2	2	4	4
# of Companies with RBC Ratio < 200% & <> 0%		5	5	4	5	6	8
# of Companies with RBC Ratio of Zero		0	0	0	0	0	0
Total		735	742	750	760	772	703
Total Adjusted Capital		733,910,634,456	696,198,240,900	710,746,904,192	635,213,337,716	606,901,270,691	540,392,904,821
Authorized Control Level RBC		84,136,361,997	81,640,007,079	80,264,014,541	74,177,610,650	70,095,026,244	64,286,923,366
Aggregate RBC %		872%	853%	886%	856%	866%	841%
Median RBC %		978%	931%	965%	972%	964%	945%
Total C-0 Asset Risk - Affilates		34,300,788,830	33,786,700,697	32,282,896,095	27,669,014,696	25,328,213,376	23,856,057,914
Total C-1cs Asset Risk - Common Stock		57,768,527,572	54,900,737,718	55,182,980,709	45,635,935,886	42,580,467,817	36,644,436,197
Total C-1o Asset Risk - All Other		66,301,518,772	64,146,694,016	62,725,689,661	60,109,306,053	55,635,242,506	50,712,357,646
Total C-2 Insurance Risk		32,011,834,354	31,195,104,008	37,296,986,893	29,241,196,797	29,733,905,846	28,086,687,917
Total C-3a Interest Rate Risk		16,061,418,244	17,190,092,747	16,066,024,280	16,792,371,276	15,883,584,969	15,698,296,624
Total C-3b Health Credit Risk		19,114,152	18,337,840	111,552,562	104,729,771	92,196,729	88,414,538
Total C-3c Market Risk		2,342,014,491	3,529,226,438	4,295,739,257	6,181,583,664	5,209,040,590	4,036,702,207
Total C-4a Business Risk		11,797,283,285	10,224,912,322	9,240,542,060	8,816,493,013	8,678,807,068	8,042,986,598
Total C-4b Business Risk Admin. Expenses		585,932,801	583,359,049	620,386,794	680,883,943	652,941,471	679,693,954
		221,188,432,501	215,575,164,835	217,822,798,311	195,231,515,099	183,794,400,372	167,845,633,595
Net Basic Operational Risk		**518,790,603**					
Total C-0 Asset Risk - Affilates		15.51%	15.67%	14.82%	14.17%	13.78%	14.21%
Total C-1cs Asset Risk - Common Stock		26.12%	25.47%	25.33%	23.38%	23.17%	21.83%
Total C-1o Asset Risk - All Other		29.98%	29.76%	28.80%	30.79%	30.27%	30.21%
Total C-2 Insurance Risk		14.47%	14.47%	17.12%	14.98%	16.18%	16.73%
Total C-3a Interest Rate Risk		7.26%	7.97%	7.38%	8.60%	8.64%	9.35%
Total C-3b Health Credit Risk		0.01%	0.01%	0.05%	0.05%	0.05%	0.05%
Total C-3c Market Risk		1.06%	1.64%	1.97%	3.17%	2.83%	2.41%
Total C-4a Business Risk		5.33%	4.74%	4.24%	4.52%	4.72%	4.79%
Total C-4b Business Risk Admin. Expenses		0.26%	0.27%	0.28%	0.35%	0.36%	0.40%
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total Assets		8,915,394,823,594	8,439,367,712,664	8,832,312,765,460	8,297,856,845,231	7,697,670,761,108	6,932,444,757,225
Total Invested Assets		5,470,188,985,349	5,312,077,013,619	5,159,452,752,770	4,907,504,359,175	4,582,985,123,381	4,209,696,503,206
Reserves (Liabilities Line 1 + 2)		3,619,051,443,815	3,580,757,824,976	3,468,243,938,821	3,394,241,406,583	3,285,116,770,876	3,075,849,385,426
Surplus (Liabilities Line 37)		617,441,214,536	589,231,822,136	599,394,009,357	543,174,466,456	521,516,943,871	475,856,634,572
Premiums Earned (Page 4 Line 1)		687,761,484,264	714,406,215,905	649,749,402,737	635,918,317,202	691,912,622,389	603,752,144,878
Claims Incurred (Page 4 Lines 10 Through 13)		346,809,474,331	327,099,260,850	345,503,167,520	319,751,913,923	308,204,032,091	290,149,583,149

Source: NAIC Financial Data Repository

© 2024 National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Tom Botsko, representing Judith L. French, Chair of the Capital Adequacy (E) Task Force
Mike Yanacheak, representing Doub Ommen, Vice-Chair of the Capital Adequacy (E) Task Force
Philip Barlow, Chair of the Life Risk-Based Capital (E) Working Group
Ben Slutsker, Vice-Chair of the Life Risk-Based Capital (E) Working Group

FROM: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice-Chair of the Statutory Accounting Principles (E) Working Group

DATE: March 27, 2024

RE: SAPWG Referral for Investments in Tax Credit Structures

During the 2024 Spring National Meeting, the Statutory Accounting Principles (E) Working Group (SAPWG) adopted agenda item *2022-14: New Market Tax Credits*, a new SAP concept to replace *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* with *SSAP No. 93R—Investments in Tax Credit Structures* which expands the scope of statutory guidance to include all qualifying tax credit investments regardless of structure or the underlying state/federal tax credit program. The new guidance will be effective on Jan. 1, 2025.

With this adoption, the Working Group directed NAIC staff to send a referral to both the Capital Adequacy (E) Task Force and Life Risk-Based Capital (E) Working Group to inform them of the impending changes to reporting lines. Per the Blanks (E) Working Group proposal (Ref #2024-11BWG), the reporting line, for federal guaranteed programs is proposed to be deleted because these types of tax credit investment structures were substantially eliminated by the Historic Boardwalk Hall, LLC v. Comm of Internal Revenue court decision in 2012. The remaining existing Low-Income Housing Tax Credit (LIHTC) Investment Asset Valuation Reserve (AVR) reporting lines are proposed to be renamed and would continue to include LIHTC investments but would also be expanded to include any type of state or federal tax credit program assuming the investment meets the criteria described in paragraph 2 of SSAP No. 93R.

As the current RBC factors were specifically developed for investments in LIHTC programs, this change may indicate the need for a review to update new RBC factors and/or reporting lines which would include new tax credit programs which are not real estate based. Attachment A summarizes both the original LIHTC investment AVR reporting lines and the proposed AVR reporting lines for tax credit investments for your reference. (see Note 1)

© 2024 National Association of Insurance Commissioners

© 2024 National Association of Insurance Commissioners

The Working Group appreciates your time and consideration of this referral. If you have any questions, please contact Dale Bruggeman, or Kevin Clark, SAPWG Chair and Vice Chair, with any questions.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Eva Yeung, Dave Fleming, Maggie Chang, Kazeem Okosun

Note 1: Attachment A summarizes proposed changes to AVR reporting lines. Note that P/C and Health RBC formulas do not use AVR reporting lines. Yet, the proposed reporting lines for Schedule BA (Ref #2024-11BWG) use the same structure as proposed AVR reporting lines. For brevity, the proposed changes to Schedule BA are omitted herein.

AVR reporting lines under SSAP No. 93—Low-Income Housing Tax Credit Property Investments

Line Number	NAIC Desig-nation	Description	1 Book/ Adjusted Carrying Value	2 Reclassify Related Party Encumbrances	3 Add Third Party Encumbrances	4 Balance for AVR Reserve Calculations (Cols. 1+2+3)	Basic Contribution 5 Factor	Basic Contribution 6 Amount (Cols. 4x5)	Reserve Objective 7 Factor	Reserve Objective 8 Amount (Cols. 4x7)	Maximum Reserve 9 Factor	Maximum Reserve 10 Amount (Cols. 4x9)
		LOW INCOME HOUSING TAX CREDIT INVESTMENTS										
75		Guaranteed Federal Low-Income Housing Tax Credit					0.0003		0.0006		0.0010	
76		Non-guaranteed Federal Low-Income Housing Tax Credit					0.0063		0.0120		0.0190	
77		Guaranteed State Low Income Housing Tax Credit					0.0003		0.0006		0.0010	
78		Non-guaranteed State Low Income Housing Tax Credit					0.0063		0.0120		0.0190	
79		All Other Low-Income Housing Tax Credit					0.0273		0.0600		0.0975	
80		Total LIHTC (Sum of Lines 75 through 79)					XXX		XXX		XXX	

Proposed AVR reporting lines under SSAP No. 93R— Investments in Tax Credit Structures

		INVESTMENTS IN TAX CREDIT STRUCTURES										
76		Yield Guaranteed State Tax Credit Investments					0.0003		0.0006		0.0010	
75		Qualifying Federal Tax Credit Investments					0.0063		0.0120		0.0190	
77		Qualifying State Tax Credit Investments					0.0063		0.0120		0.0190	
78		Other Tax Credit Investments					0.0273		0.0600		0.0975	
79		Total Tax Credit Investments (Sum of Lines 75 through 78)					XXX		XXX		XXX	

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg_Statutory_Referrals/2024/SAPWG to CATF and LRBCWG - 3-26-24.docx

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Carrie Mears, Chair Representative, Valuation of Securities (E) Task Force
Tom Botsko, Chair Representative, Capital Adequacy (E) Task Force

FROM: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice-Chair of the Statutory Accounting Principles (E) Working Group

DATE: August 28, 2023

RE: SAPWG Schedule BA Proposal for Non-Bond Debt Securities

The purpose of this referral is to notify the Valuation of Securities (E) Task Force and Capital Adequacy (E) Task Force of the Statutory Accounting Principles (E) Working Group's (SAPWG) proposal to report debt securities that do not qualify as bonds on Schedule BA. A key component of this notice is to highlight that the proposal uses existing Schedule BA reporting provisions for SVO-Assigned NAIC designations in determining RBC.

As preliminary information, as part of the bond project (Ref #2019-21) the SAPWG has been working on a revised bond definition to determine the structures that qualify for bond reporting, either as an issuer credit obligation on a new Schedule D-1-1 or as an asset-backed security on Schedule D-1-2. The new definition and the resulting statutory accounting guidance in *SSAP No. 26R—Bonds* and *SSAP No. 43R—Asset-Backed Securities* was adopted during the 2023 NAIC Summer National Meeting with an effective date of January 1, 2025. Revised bond reporting schedules are currently exposed by the Blanks (E) Working Group and those are anticipated to be considered for adoption by the end of the year. Also, during the 2023 Summer National Meeting, the SAPWG exposed accounting and reporting guidance for debt securities that do not qualify as bonds in *SSAP No. 21R—Other Admitted Assets* and received direction to sponsor a blanks proposal to capture these securities in new reporting lines on Schedule BA - Other Long Term Invested Assets.

The key aspect of this referral is to highlight that the blanks proposal for the new reporting lines intends to divide the debt securities that do not qualify as bonds into separate reporting lines based on whether they have NAIC designations assigned by the SVO from those securities with NAIC designations not assigned by the SVO or that do not have designations. The intent of this reporting is to permit debt securities that do not qualify as bonds, for which the SVO has assigned an NAIC designation, to receive the RBC factor that would have been received if the security had been reported on the bond schedule with an equivalent designation. Although the debt security does not qualify for reporting as a bond due to structure, if the SVO has assessed credit quality with the issuance of an NAIC designation, then the proposed reporting allows for a fixed income RBC factor.

To illustrate an example where a debt security may not meet the bond definition but may warrant a fixed income RBC factor, one of the key principles is that, for debt securities that rely on underlying collateral for repayment,

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990
Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
www.naic.org

© 2024 National Association of Insurance Commissioners

underlying collateral must produce meaningful cash flows to service the debt to qualify as a bond. If the debt security relies on the underlying collateral retaining its **value** to repay the debt (e.g. through sale of collateral or refinancing), then it does not qualify to be reported as a bond. For example, a debt security could be secured by non-cashflow-producing real estate at a 50% loan-to-value. While it would not qualify to be reported as a bond, its characteristics are consistent with that of a mortgage loan, and may warrant a fixed income RBC charge.

This proposal does not intend to hinder the Capital Adequacy (E) Task Force's ability to assess these debt securities and determine the appropriate RBC factor, it simply intends to allow an avenue for certain assets to receive a fixed income factor until the Capital Adequacy (E) Task Force decides if a separate project is needed to review and assess RBC factors for these debt securities. As noted, it is only proposed to be provided for the securities that have an SVO-assigned designation, which is consistent with other Schedule BA lines for which designations influence RBC. Note also that prior to the effective date of the bond definition, these securities are reported as bonds on Schedule D and receive bond RBC factors based on NAIC designation (whether from a credit rating provider for filing exempt securities, or an SVO assigned designation). After adoption, non-qualifying debt securities with NAIC designations that are not assigned by the SVO or that do not have designations are proposed to receive the RBC factor for "other" Schedule BA assets. This is also consistent with the Schedule BA lines that have these separate reporting determinants. Since only reporting entities that file using the life blank can receive RBC reductions for reporting SVO-assigned NAIC designations on Schedule BA, this provision is intended to only apply to those entities until / unless the Capital Adequacy (E) Task Force, and related RBC Working Groups, incorporate changes to provide those capabilities to non-life entities.

The intent of this referral is to inform the Task Forces of the current reporting proposal and request the Valuation of Securities (E) Task Force to assess whether additional guidance is needed within the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* to permit or govern the assignment of SVO-Assigned NAIC Designations for debt securities that do not qualify as bonds.

The following illustrates the proposed Schedule BA reporting lines for these debt securities. A blanks proposal will be developed and exposed by the Blanks (E) Working Group to incorporate these revisions, as well as changes to the AVR with instructions that specifies the mapping from Schedule BA to the AVR for life RBC purposes.

Debt Securities That Do Not Qualify as Bonds

Debt Securities That Do Not Reflect a Creditor Relationship in Substance

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated
Affiliated

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated
Affiliated

Debt Securities That Lack Substantive Credit Enhancement

NAIC Designation Assigned by the Securities Valuation Office (SVO)

Unaffiliated
Affiliated

NAIC Designation Not Assigned by the Securities Valuation Office (SVO)

Unaffiliated
Affiliated

© 2024 National Association of Insurance Commissioners

Debt Securities That Do Not Qualify as Bonds Solely to a Lack Of Meaningful Cash Flows
NAIC Designation Assigned by the Securities Valuation Office (SVO)
Unaffiliated
Affiliated
NAIC Designation Not Assigned by the Securities Valuation Office (SVO)
Unaffiliated
Affiliated

The Working Group appreciates your time and looks forward to your response. If you have any questions, please contact Dale Bruggeman, or Kevin Clark, SAPWG Chair and Vice Chair, with any questions.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Charles Therriault, Marc Pearlman, Eva Yeung, Dave Fleming, Crystal Brown, Maggie Chang

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg_Statutory_Referrals/2023/SAPWG to VOSTF & CAPTF - Schedule BA.docx

© 2024 National Association of Insurance Commissioners

Attachment Five
Capital Adequacy (E) Task Force
8/14/24

Draft: 8/19/24

Property and Casualty Risk-Based Capital (E) Working Group
and the Catastrophe Risk (E) Subgroup
Chicago, Illinois
August 14, 2024

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met in Chicago, IL, Aug. 14, 2024, in joint session with the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force. The following Working Group members participated: Tom Botsko, Chair (OH); Wanchin Chou, Vice Chair (CT); Charles Hale (AL); Rolf Kaumann and Eric Unger (CO); Virginia Christy and Bradley Trim (FL); Sandra Darby (ME); Melissa Robertson (NM); and Miriam Fisk (TX). The following Subgroup members participated: Wanchin Chou, Chair (CT); Virginia Christy, Vice Chair, and Bradley Trim (FL); Rolf Kaumann (CO); Travis Grassel and Mike Yanacheak (IA); Sandra Darby (ME); Melissa Robertson (NM); Tom Botsko (OH); and Miriam Fisk (TX). Also participating were: Kevin Dyke (MI); John Rehagen and Debbie Doggett (MO); Christian Citarella (NH); and Steve Drutz (WA).

1. Adopted the Working Group and Subgroup's June 17; June 10; April 25; April 23; and Spring National Meeting Minutes

Botsko said the Working Group met June 17 and April 25. During these meetings, the Working Group took the following action: 1) adopted proposal 2023-14-P (Underwriting Risk Line 1 Factors), which it had exposed for a 30-day public comment period that ended May 25; 2) adopted proposal 2023-17-CR (Climate Scenario Analysis), which it had re-exposed for a 22-day public comment period that ended April 8 (however, the Financial Condition (E) Committee adopted proposal 2024-20-CR to replace the 2023-17-CR during its Aug. 2 meeting); 3) adopted proposal 2024-10-P (Other Health Line), which it had exposed for a 30-day public comment period that ended April 16; 4) adopted proposal 2024-11-P (Underwriting Risk Lines 4 & 8 Factors), which it had exposed for a 30-day public comment period that ended April 16; 5) discussed potential modifications in the risk-based capital (RBC) statistics; 6) discussed the study of flood risk in the Catastrophe Risk (E) Subgroup; and 7) heard updates from the American Academy of Actuaries (Academy) on its current underwriting risk projects.

Botsko said the Subgroup met June 10 and April 23. During these meetings, the Subgroup took the following action: 1) adopted proposal 2023-17-CR (Climate Scenario Analysis), which it had re-exposed for a 22-day public comment period that ended April 8; 2) exposed a referral from the Capital Adequacy (E) Task Force regarding the geographic concentration issue; 3) discussed wildfire peril impact analysis; 4) discussed CoreLogic's wildfire model review; 5) discussed the possibility of adding flood period to the Rcat component; and 6) heard an update regarding severe convective storm peril.

Darby made a motion, seconded by Grassel, to adopt the Working Group's June 17 (Attachment Five-A) and April 25 (Attachment Five-B) minutes; the Subgroup's June 10 (Attachment Five-C) and April 23 minutes (Attachment Five-D); and the Working Group and Subgroup's joint March 17 minutes (*see NAIC Proceedings – Spring 2024, Capital Adequacy (E) Task Force, Attachment Four*). The motion passed unanimously.

2. Adopted the 2024 P/C RBC Newsletter

Botsko said the 2024 property/casualty (P/C) RBC newsletter reflects all proposals the Working Group adopted for year-end 2024. He said that since last year, the purpose of this adoption is to consider the newsletter's content,

© 2024 National Association of Insurance Commissioners

and the format will be revised. The final version of the newsletter will be posted to the Working Group's web page in September.

Chou made a motion, seconded by Darby, to adopt the Working Group's 2024 P/C RBC newsletter (Attachment Five-E). The motion passed unanimously.

3. Discussed 2023 RBC Statistics

Botsko said the 2023 P/C RBC statistics (Attachment Five-F) were run June 27. He said 2,546 P/C RBC filings were loaded into the NAIC database, up from 2,522 in 2022. He stated that 51 companies triggered an action level in 2023: 1) 17 were in company action level; 2) 14 were in regulatory action level; 3) four were in an authorized control level (ACL); and 4) 16 were in a mandatory control level. Also, 23 companies triggered the trend test. However, the aggregate RBC percentage decreased slightly from 586% in 2022 to 578% in 2023. Botsko also stated that last year, the interested parties suggested that adding the operational risk component would provide a complete picture of the RBC formula. The Working Group added the operational risk amount to the Year 2023 column in the RBC statistics this year. Lastly, he indicated that the statistics will only show six years of information beginning this year. Botsko said that anyone who needs historical information can contact NAIC staff.

4. Discussed its Working Agenda

Botsko summarized the following substantial changes to the Working Group's 2024 working agenda: 1) updating comments on items P1, P4, P8, P9, P10, P11, and P12; 2) providing edits to P6 to clarify R5 ex-CAT factors; and 3) adding one item for the Subgroup in the "New Item" section.

5. Discussed the Geographic Concentration Issue

Chou said, as mentioned during the June 10 meeting, the Capital Adequacy (E) Task Force asked the Subgroup to further investigate the geographic concentration issue and report findings at the national meeting. He also stated that Subgroup members had several conversations with Florida and Louisiana state insurance regulators and rating agency representatives to learn their reinsurance monitoring process. Chou said the next step would be determining whether this issue could be handled using the RBC formula or if alternative solutions must be discussed with the Reinsurance (E) Task Force. He urged all interested parties to provide feedback to the Subgroup at its next meeting.

6. Heard Updates on the Severe Convective Storm Peril

Chou said, as mentioned during the Subgroup's June 10 meeting, the Severe Convective Storm Review Ad Hoc Group planned to do the following after the completion of the severe convective storm impact analysis: 1) have another in-depth review based on the 2024 data; and 2) work with vendor modelers to re-run the impact analysis.

7. Discussed the Wildfire Peril Impact Analysis

Chou reiterated that the Subgroup will invite the modelers to conduct another in-depth analysis of wildfire peril after the CoreLogic wildfire model review is completed. Then, the modelers will share model results with the states that have signed nondisclosure agreements (NDAs). He also stated that he and NAIC staff will follow up with the previous Ad Hoc Group members to discuss the impact analysis review plan. Lastly, Chou said he anticipates that updates will be provided at the Fall National Meeting.

© 2024 National Association of Insurance Commissioners

8. Discussed the CoreLogic Wildfire Model Review

Christy said the Wildfire Model Review Ad Hoc Group is picking up the review of the wildfire models by reviewing the final submission from CoreLogic. CoreLogic will be reviewed utilizing the same six-phase approach done for the other commercial modelers in 2022. She also stated that CoreLogic provided its initial presentation in July, and the technical presentation is currently being scheduled. Lastly, she anticipated that the review would be completed by November and updates would be shared during the Fall National Meeting.

9. Discussed the Possibility of Adding Flood Peril to the Rcat Component

Chou said that on March 15, 2021, a referral letter from the Climate and Resiliency (EX) Task Force was received to recommend the Subgroup consider expanding the current catastrophe framework to include other perils, such as wildfire, flood, and/or severe convective storms that may experience a greater tail risk under projected climate-related trends. He stated that the Subgroup responded to the Task Force that it plans to review those perils one at a time. As of today, the wildfire and severe convective storm perils are included in the Rcat component for informational purposes. The next peril the Subgroup will focus on is flood. Chou indicated that during the June 10 meeting, Botsko expressed his concerns about the flood peril in private industry being extremely small, and while monitoring its growth is important, the Subgroup still needs to analyze whether it should move forward with including this peril in the Rcat component. He said he understood Botsko's concerns and agreed that the Working Group and Subgroup should gather more information to determine whether it should be included in the Rcat component. His preliminary plan for the information-gathering process is to encourage industry and vendor modelers to provide feedback to the Subgroup before the upcoming meetings.

10. Discussed How to Handle Flood Peril with the FCHLPM

Chou said that to gain more information to develop a better review process on flood, he invited Donna Sirmons (Florida Commission on Hurricane Loss Projection Methodology—FCHLPM) to discuss how it handles flood peril. Sirmon said FCHLPM flood standards include seven categories: 1) general standards; 2) meteorological standards; 3) hydrological and hydraulic standards; 4) statistical standards; 5) vulnerability standards; 6) actuarial standards; and 7) computer/information standards. She also stated that a model must pass all standards to be determined acceptable, and Karen Clark & Company is the only modeler approved by the FCHLPM. Sirmons also indicated that there are challenges in modeling the peril of flood, validating the modeled results, and in the FCHLPM's review of the flood models. Chou said this valuable information will give the Subgroup some basic ideas for developing the flood reviewing process. Several technical questions were raised regarding reviewing the vendor models during the meeting. As some of the questions were related to confidentiality concerns, Chou invited all interested parties to join the Ad Hoc Group to discuss this issue in depth.

11. Heard an Update from the Academy P/C RBC Committee on Current and Future Research Topics

Botsko said that during the first half of 2024, the Academy supported the Working Group in implementing the updated premium and reserve risk charges. The updated charges generally moved toward being consistent with those indicated in the P/C RBC Committee's *Update to P&C RBC Underwriting Factors and Investment Income Adjustment Factors*, published in August 2023. He also indicated that the work on diversification by line of business for premium risk and reserve risk continues and anticipates that the report will be published in 2025. Currently, the Academy is working on project planning for the rest of 2024 and 2025. Lastly, Botsko said the Academy will share a more detailed update on the project plan with the Working Group in the upcoming months.

© 2024 National Association of Insurance Commissioners

Botsko said the Working Group and Subgroup plan to meet in the fall to continue the discussion.

Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/ Member Meetings/E Cmte/CADTF/2024-Summer/PCRBCWG

© 2024 National Association of Insurance Commissioners

Draft: 7/16/24

Property and Casualty Risk-Based Capital (E) Working Group
Virtual Meeting
June 17, 2024

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 17, 2024. The following Working Group members participated: Tom Botsko, Chair, Brad Wolfenbarger, and Stewart Trego (OH); Wanchin Chou, Vice Chair, and Amy Waldhauer (CT); Eric Unger and Rolf Kaumann (CO); Virginia Christy and Trim Bradley (FL); Sandra Darby (ME); Melissa Robertson (NM); HauMichael Ying and Ni Qin (NY); Will Davis (SC); Miriam Fisk, Monica Avila, and Rebecca Armon (TX); and Adrian Jaramillo and Michael Erdman (WI). Also participating were: Adrienne Lupo (DE); Jennifer Niles (IL); Tish Becker (KS); Julie Lederer (MO); Liz Ammerman (RI); Hui Wattanaskolpant (TN); and Steven Drutz (WA).

1. Adopted Proposal 2024-14-P

Botsko said proposal 2024-14-P (Underwriting Risk Line 1 Factors) provides a routine annual update to the Line 1 premium and reserve industry underwriting factors in the property/casualty (P/C) risk-based capital (RBC) formula. He indicated that for some lines of business with smaller populations, such as the international line of business, both reserve and premium factors are driven by a handful of companies and could fluctuate or be biased by different factors. He also stated that the American Academy of Actuaries (Academy) is in the process of reviewing the Line 1 calculation methodology; recommendations will be provided soon. In addition, Botsko said the Working Group exposed this proposal for a 30-day public comment period ending May 25 during its April 30 meeting. No comments were received.

Chou made a motion, seconded by Kaumann, to adopt proposal 2023-14-P (Attachment One-F). The motion passed unanimously.

2. Discussed Potential Modification in the RBC Statistics

Botsko said that during the 2023 Summer National Meeting, the Capital Adequacy (E) Task Force mentioned some interested parties suggested that adding the operational risk component would provide a complete picture of the RBC formula. The Task Force agreed to include the operational risk amount in the 2023 RBC statistics for all lines of business. He encouraged all interested parties to submit comments to the Working Group before the Summer National Meeting if there is any additional aggregate RBC information they want to be included in the RBC statistics. Botsko said the 2023 RBC statistics will be provided at the Summer National Meeting. Chou asked whether the Working Group has a plan to review the operational risk item in the near future. Botsko said the Capital Adequacy (E) Task Force was asked to consider establishing a new working group to review different non-investment risk items, and operational risk is one of the items that will be further reviewed by either the new working group or the Task Force in the future.

3. Discussed the Study of Flood Risk in the Catastrophe Risk (E) Subgroup

Chou said that due to recent climate change, some interested parties started asking about the availability and affordability of flood insurance. He said flood peril is currently handled by the National Flood Insurance Program (NFIP) for the flood zones; however, more companies are beginning to offer their own private flood insurance, which typically includes additional coverage, lower cost, and higher limits of protection. Chou said that in order to provide a better understanding of the private flood market, he planned to invite industry members and the major flood modelers to further discuss this issue during the Catastrophe Risk (E) Subgroup's upcoming meeting.

© 2024 National Association of Insurance Commissioners

Chou also indicated that the flood reviewing process will follow the other perils process, which will based *on Actuarial Standard of Practice (ASOP) 38: Using Models Outside the Actuary's Area of Expertise* and *ASOP 39: Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*. He anticipated that the reviewing process would begin in the fall. Botsko said this is a great synopsis of the plan to approach this peril. However, he also recommended the Working Group consider: 1) continuing to monitor the exposure of flood risk to the industry, primarily through the supplemental data from the annual statement; 2) continuing to listen to comments from industry members about this issue; 3) performing different analyses; and 4) hearing from different vendors about their flood models.

4. Heard Updates from the Academy on its Current Underwriting Risk Projects

Ron Wilkins (Academy) said the Academy is currently working on the following projects: 1) diversification of line of business; 2) considering inclusion of the wildfire, severe convective storm, and flood perils in Rcat, and corresponding adjustments to R5 to avoid double counting that peril; 3) updating the calibration of premium and reserve risk charges to reflect more recent experience; and 4) considering ways to improve the efficiency of the risk charge calibration computations and the industry average computations. He also stated that the Academy plans to: 1) monitor the extent of the relationship between risk factors and interest rates; and 2) assess the growth charge. Wilkins said the Academy will provide more detailed updates on its project during the Summer National Meeting. Regarding the growth charge, Drutz said the Health Risk-Based Capital (E) Working Group looked at the risk in several different ways, and, ultimately, the Working Group found that the current formula is working reasonably well. Wilkins said the Academy will review the works from the Health Risk-Based Capital (E) Working Group before proceeding on this project. Ralph Blanchard (Retired Actuary) said he was concerned that the year 2020 data does not reflect the distortion from the COVID-19 pandemic. Wilkins agreed and said this would be a key topic for the Academy to consider.

5. Discussed Other Matters

Botsko said the Working Group plans to meet at the Summer National Meeting to continue discussing outstanding items.

Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/Summer 2024 National Meeting/Task Forces/CapAdequacy/PCRBC WG/06-17propertyrbcwg.docx

© 2024 National Association of Insurance Commissioners

Draft: 5/22/24

Property and Casualty Risk-Based Capital (E) Working Group
Virtual Meeting
April 25, 2024

The Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 25, 2024. The following Working Group members participated: Tom Botsko, Chair, and Dale Bruggeman (OH); Wanchin Chou, Vice Chair, and Susan Gozzo Andrews (CT); Eric Unger and Mitchell Bronson (CO); Virginia Christy and Nicole Crockett (FL); Sandra Darby (ME); Michael Ying, Ni Qin, Rajesh Bhandula, Harriette Resnick, and Christopher Estebar (NY); Miriam Fisk and Rebecca Armon (TX); and Adrian Jaramillo (WI). Also participating were: Rabab Charafeddine (CA); Adrienne Lupo (DE); Danny Chan (HI); Jennifer Niles and Tish Becker (KS); Greg Ricci (MD); Kari Leonard (MT); Julie Lederer and Danielle Smith (MO); Lindsay Crawford (NE); Liz Ammerman (RI); Trey Hancock (TN); and Jay Bruns (WA).

1. Adopted Proposal 2023-17-CR

Chou said the Catastrophe Risk (E) Subgroup met April 23 to adopt proposal 2023-12-CR (Climate Scenario Analysis). He stated that the Subgroup appreciates all the valuable comments submitted by different industry parties during the exposure period. After reviewing industry comments, the Solvency Workstream of the Climate and Resiliency (EX) Task Force and the Subgroup made the following revisions to the proposal: 1) implementing a three-year sunset clause in the instructions; and 2) updating the Line 7 question in PR027BI, PR027BII, PR027CI, and PR027CII. Chou reiterated that the intent of this proposal is to collect some useful information for state insurance regulators holding conversations with insurers that may have a greater degree of risk of these perils. He said the Subgroup and the Solvency Workstream have no desire to require reporting companies to hold capital up to specific levels based on this provided information. He also indicated that the Subgroup will re-evaluate the information in the future to determine whether further enhancement should be made to these pages.

Steve Broadie (American Property Casualty Insurance Association—APCIA) said the APCIA, the National Association of Mutual Insurance Companies (NAMIC), and the Reinsurance Association of America (RAA) (collectively, "the Associations") appreciated the modification of including the three-year sunset clause in the proposal. He stated that the Associations came up with an alternative proposal, which they believe will be less expensive to provide state insurance regulators with information to hold discussions with insurers that may have a greater degree of indicated risk levels for hurricane and wildfire perils. Kelly Hereid (Liberty Mutual Insurance) said the alternative required insurers to calculate the Rcat charge and perform catastrophe model runs on their current books of business with: 1) a 50% increase in the frequency of major hurricanes (Category 3 and higher, and for wind only); and 2) a 50% increase in all wildfire events. Darby agreed with the latest revisions the Subgroup provided and said this toll will continue to be evaluated based on the company reporting.

Chou made a motion, seconded by Darby, to adopt proposal 2023-17-CR (Attachment Two-G). The motion passed unanimously.

2. Adopted Proposal 2024-10-P

Botsko said proposal 2024-10-P (Other Health Line) would address the current double-counting issue for companies with stop-loss premium, as the stop-loss premium is expected to be entered on Line 9 of PR019. He also stated that the Working Group exposed this proposal for a 30-day public comment period during the Spring National Meeting. No comments were received.

© 2024 National Association of Insurance Commissioners

Darby made a motion, seconded by Unger, to adopt proposal 2024-10-P (Attachment Two-D). The motion passed unanimously.

3. Adopted Proposal 2024-11-P

Botsko said that at the Spring National Meeting, the Working Group agreed to expose proposal 2024-11-P (Underwriting Risk Lines 4 & 8 Factors) with the: 1) 50% indicated change with capped international and product liability lines in 2024, and 100% indicated change with capped international and product liability lines in 2025 for reserve factors; and 2) 50% indicated change with capped financial mortgage guaranty line in 2024, and 100% indicated change with capped financial mortgage guaranty line in 2025 for premium factors for a 30-day public comment period. No comments were received.

Chou made a motion, seconded by Christy, to adopt proposal 2024-11-P (Attachment Two-E). The motion passed unanimously.

4. Exposed Proposal 2024-14-P

Botsko said proposal 2024-14-P (Underwriting Risk Line 1 Factors) provided a routine annual update to the Line 1 premium and reserve industry underwriting factors in the property/casualty (P/C) risk-based capital (RBC) formula. He indicated that for some lines of business with smaller populations, such as the international line of business, both reserve and premium factors are driven by a handful of companies and could fluctuate or be biased by different factors. He also stated that the American Academy of Actuaries (Academy) is in the process of reviewing the Line 1 calculation methodology; recommendations will be provided soon.

The Working Group agreed to expose proposal 2023-14-P for a 30-day public comment period ending May 25.

5. Discussed Other Matters

Botsko said the Academy's Property and Casualty Risk-Based Capital Committee is currently working on: 1) researching diversification by line of business for premium and reserve risk; 2) analyzing the potential inclusion of the wildfire peril in the Rcat component and corresponding adjustments to premium risk charges to avoid double counting that peril; and 3) updating the calibration of premium and reserve risk charges to reflect more recent experience. He said he anticipates the Academy will provide another update on its projects during the Summer National Meeting.

Having no further business, the Property and Casualty Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/Summer 2024 National Meeting/Task Forces/CapAdequacy/PCRBC WG/04-25propertyrbcwg.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/16/24

Catastrophe Risk (E) Subgroup
Virtual Meeting
June 10, 2024

The Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met June 10, 2024. The following Subgroup members participated: Wanchin Chou, Chair (CT); Virgina Christy, Vice Chair, Richie Frederick, and Nicole Crockett (FL); Eric Unger (CO); Travis Grassel, Mike Yanacheak, and Kim Cross (IA); Elouisa Macias and Tim Vigil (NM); Tom Botsko (OH); Cuc Nguyen (OK); and J'ne Byckovski, Nicole Elliott, and Marianne Baker (TX). Also participating were: Chad Bennett (AK); Travis Taylor (AL); Lori Munn (AZ); Giovanni Muzzarelli, Mitra Sanadajifar, Laura Clements, and Lucy Jabourian (CA); NuDasha Fludd (DC); Jessica Luff (DE); Paula Shamburger (GA); Jennifer Niles and Julie Rachford (IL); Julie Holmes (KS); Chris Cerniauskas (LA); Jackie Horigan and Matthew Mancini (MA); Greg Ricci (MD); Paige Dickerson, Christopher Slovinski, Renee Campbell, and Chris Arth (MI); Jeana Thomas (MO); Jackie Obusek (NC); Gennady Stolyarov (NV); Shannen Logue (PA); Zachary Crandall, Vickie Trice, Devon Suttles, and Matt Mickelson (TN); Steve Drutz and David Forte (WA); and Allan L. McVey (WV).

1. Exposed a Referral from the Capital Adequacy (E) Task Force Regarding Geographic Concentration Issue

Chou said the Capital Adequacy (E) Task Force agreed to disband the Risk-Based Capital Geographic Concentration Ad Hoc Subgroup and refer its outstanding issues to the Subgroup. He also stated that the Task Force recommends the Subgroup consider: 1) further investigating all outstanding issues; 2) possibly modifying the property and casualty (P/C) risk-based capital (RBC) formula; and 3) providing updates on this project at each national meeting until its completion. Chou also indicated that the Ad Hoc Subgroup had several conference calls with Florida and Louisiana state insurance regulators and rating agency representatives to gain a better understanding of how they monitor and handle the potential geographic concentration risk exposures. He urged all interested parties to review the referral to gain a better understanding of this issue and provide feedback to the Subgroup at its next meeting.

The Subgroup agreed to expose this referral (Attachment Five-C1) for a 30-day public comment period ending July 10.

2. Heard an Update Regarding the Severe Convective Storm Peril

Chou said the Severe Convective Storm Review Ad Hoc Group was established in late 2022 to conduct a more in-depth review of various severe convective storm catastrophe vendor model assumptions, limitations, and impact analyses, following a similar process to reviewing the wildfire peril. Since late 2022, the Ad Hoc Group has met with different vendor modelers to gain a better understanding of each vendor model and ensure that the model results are within a reasonable range. He also stated that the Ad Hoc Group follows *Actuarial Standard of Practice (ASOP) No. 38—Catastrophe Modeling (for All Practice Areas)* as its guiding principles to ensure the appropriateness of the catastrophe models for the intended purposes. Chou said the vendor modelers collaborated to create a synthetic industry exposure database to perform the impact analysis in late 2023. The Ad Hoc Group identified no meaningful concerns or issues after vetting the methodology and assumptions for the impact analysis. He also stated that the severe convective storm Rcat structure was added to the RBC formula for informational purposes only during the Spring National Meeting. On April 16, the Ad Hoc Group met to conclude that there were no specific concerns related to the vendor models at that point. Chou indicated that the Ad Hoc Group planned to: 1) have another in-depth review based on the 2024 data; and 2) work with vendor modelers to re-run the impact analysis.

© 2024 National Association of Insurance Commissioners

3. Discussed the Wildfire Peril Impact Analysis

Chou said, as mentioned during the April meeting, the Subgroup decided to invite the modelers to conduct another in-depth analysis of wildfire peril and share model results with the states that have signed nondisclosure agreements (NDAs) immediately following the Summer National Meeting. He also stated that his initial thought was to follow the previous review process, but he said he will share a more detailed review plan at the Summer National Meeting after discussing it with the vice chair.

4. Discussed CoreLogic's Wildfire Model Review

Chou said that CoreLogic was not ready for wildfire model review at the time when the Ad Hoc Group performed the reviewing process with other commercial vendors. Thus, the Subgroup decided to go through a similar process, conducting an in-depth analysis with CoreLogic soon so it can be included in the NAIC-approved third-party commercial vendor catastrophe model list. He also stated that Christy will take the lead on this process. Christy said the Model Review Ad Hoc Group will ask CoreLogic for a presentation and develop questions based on that presentation. She said that since the impact analysis for wildfire peril was only reviewed by a few state insurance regulators last year, those who signed the NDAs will be asked to help develop questions for CoreLogic in order to review and update its impact analysis by the 2025 Spring National Meeting.

5. Discussed the Possibility of Adding Flood Peril to the Rcat Component

Chou said that as the wildfire and severe convective storm perils are included in the Rcat component for informational purposes, the next peril the Subgroup will be focused on is flood. He said the flood peril will follow a similar reviewing process as the wildfire and severe convective storm perils, which will follow ASOP No. 38 as its guiding principle. Chou also stated that the Karen Clark & Company (KCC) flood model is currently the only one approved by the Florida Hurricane Commission; other commercial vendor flood models, such as Moody's Risk Management Solutions (RMS), AIR, and CoreLogic, are still under evaluation by the Florida Commission. Chou said he also planned to invite a the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM) representative to discuss the flood model review process during the Summer National Meeting. Botsko commented that the flood peril in private industry is extremely small, and while monitoring its growth is important, the Subgroup still needs to analyze whether it should move forward with including this peril in the Rcat component.

Having no further business, the Catastrophe Risk (E) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/Summer 2024 National Meeting/Task Forces/CapAdequacy/Cat Risk SG/06-10propertycatsg.docx

© 2024 National Association of Insurance Commissioners

Attachment Five-C1
Capital Adequacy (E) Task Force
8/14/24

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Wanchin Chou, Chair of the Catastrophe Risk (E) Subgroup

FROM: Tom Botsko, Chair of the Capital Adequacy (E) Task Force

DATE: April 16, 2024

RE: Risk-Based Capital Geographic Concentration Issue

Executive Summary and Recommendation

During the Spring National Meeting, the Capital Adequacy (E) Task Force agreed to: 1) disband the Geographic Concentration Ad Hoc Subgroup; and 2) refer the geographic concentration issue to the Catastrophe Risk (E) Subgroup. The Geographic Concentration Ad Hoc Subgroup heard several presentations from different rating agencies, as well as the Florida and Louisiana Departments of Insurance (DOIs), on how they measured the geographic concentration issue when hurricanes hit heavily populated regions in the past few months. Based on the findings, the Task Force believed that the Catastrophe Risk (E) Subgroup would be the appropriate group to address this issue. From the discussion at the Spring National Meeting, the Task Force agreed to forward this issue to the Catastrophe Risk (E) Subgroup and recommends that the Subgroup consider the following:

1. Further investigating all outstanding issues and possibly changing the property and casualty (P/C) risk-based capital (RBC) formula to address the risk.

We recommend that the Catastrophe Risk (E) Subgroup provides updates on this project at each national meeting until its completion. The Task Force appreciates your time and consideration of this referral. If you have any questions, please contact Tom Botsko.

Cc: Eva Yeung

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
Kansas City 1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
New York One New York Plaza, Suite 4210, New York, NY 20004 p | 212 398 9000 f | 212 382 4207
www.naic.org

© 2024 National Association of Insurance Commissioners

Draft: 6/10/24

Catastrophe Risk (E) Subgroup
Virtual Meeting
April 23, 2024

The Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met April 23, 2024. The following Subgroup members participated: Wanchin Chou, Chair, Susan Gozzo Andrews, and Qing He (CT); Virginia Christy, Vice Chair (FL); Mitchell Bronson, Eric Unger, and Rolf Kaumann (CO); Travis Grassel and Kevin Clark (IA); Sandra Darby and Brock Bubar (ME); Harriette Resnick, Alexander Vajda, Rajesh Bhandula, Christopher Estebar, and HauMichael Ying (NY); Tom Botsko (OH); Will Davis (SC); and Miriam Fisk (TX). Also participating were: Giovanni Muzzarelli, Laura Clements, Mike Peterson, and Rabab Charafeddine (CA); Danny Chan (HI); Jennifer Niles (IL); Greg Ricci (MD); Danielle Smith, Cynthia Amann, and Julie Lederer (MO); Glorimar Santiago (PR); Dan Bumpus (VA); and Steve Drutz (WA).

1. Adopted Proposal 2023-17-CR (Climate Scenario Analysis)

Chou said the Working Group met April 1 and April 11 in regulator-to-regulator session and April 16 in joint regulator-to-regulator session with the Solvency Workstream of the Climate and Resiliency (EX) Task Force, pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss proposal 2023-17-CR (Climate Scenario Analysis).

Chou said that after reviewing industry comments, the Subgroup and the Solvency Workstream of the Climate and Resiliency (EX) Task Force made the following revisions to the proposal: 1) implementing a three-year sunset clause in the instructions; and 2) updating the line 7 question in PR027BI, PR027BII, PR027CI, and PR027CII. Chou reiterated that the intent of this proposal is to collect useful information for state insurance regulators holding conversations with insurers that may have a greater degree of risk of these perils. The Subgroup and the Solvency Workstream have no desire to require reporting companies to hold capital up to specific levels based on this provided information. He also stated that the Subgroup will re-evaluate the information in the future to determine whether further enhancement should be made to these pages.

Ralph Blanchard (Retired Actuary) said there are three areas indicated in the comment letter (Attachment Five-D1) where the proposal should be modified if the data capture would remain in the current suggested format: 1) treatment of reinsurance; 2) identification of the geographic location of the risk concentration; and 3) impact of residual markets. Another modification that Blanchard suggested was removing the impact of ceded reinsurance from the current proposal for 2040 and 2050 projections, as ceded reinsurance programs are designed to fit the gross exposure and capital level existing for the period of the gross exposure. Chou said state insurance regulators decided to keep the current format during the regulator-to-regulator sessions. However, he said that Blanchard's comments deserve further review and should be considered in future enhancements.

Steve Broadie (American Property Casualty Insurance Association—APCIA) said the APCIA, the National Association of Mutual Insurance Companies (NAMIC), and the Reinsurance Association of America (RAA) (collectively, "the Associations") appreciated the modification of including a three-year sunset clause in the proposal. He stated that the comment letter (Attachment Five-D2) indicated that the Associations came up with an alternative proposal, which they believe will be less expensive to provide state insurance regulators with information to hold discussions with insurers that may have a greater degree of indicated risk levels for hurricane and wildfire perils.

© 2024 National Association of Insurance Commissioners

Kelly Hereid (Liberty Mutual Insurance) said the alternative proposal requires insurers to use the catastrophe model they currently use to calculate the RCAT charge for hurricane and wildfire perils, using the following assumptions: 1) a 50% increase in the frequency of major hurricanes (Category 2 and higher, and for wind only); and 2) a 50% increase in all wildfire events. Eli Russo (NAIC) and Shaveta Gupta (NAIC) stated that the state insurance regulators were not in favor of performing big stress scenarios; rather, they would like to use what companies believe in the climate scenarios. Chou said there are many uncertainties on top of the assumptions. He reiterated that the intent of this proposal is to develop a tool to generate conversations between companies and state insurance regulators, and this tool will continue to be evaluated based on company reporting.

Darby made a motion, seconded by Botsko, to adopt proposal 2023-17-CR (Attachment Two-G). The motion passed unanimously.

2. Discussed Severe Convective Storm Peril Impact Analysis

Chou said that the vendor modelers ran the industry exposure database through their respective models to obtain the average annual loss (AAL) and exceedance probability (EP) curve loss output by the sub-perils such as hail, tornado, and straight-line wind. This analysis included several key geographies across the U.S. He also stated that the Model Review Ad Hoc Group met April 16 to discuss its modeling results. Chou said he received no specific concerns from its members. He said the structure of adding severe convective storms as one of the catastrophe perils for informational purposes only in the Rcat component was adopted at the Spring National Meeting. Chou also said he planned to accomplish the following tasks next year: 1) have another in-depth review based on the received data; and 2) work with vendor modelers to review and update their impact analyses.

3. Discussed Wildfire Peril Impact Analysis

Chou said, as mentioned during the Spring National Meeting, the Subgroup decided to invite the modelers to conduct another in-depth analysis of wildfire and share model results with the states that have signed nondisclosure agreements (NDAs). He also stated that he will share the review plan at the next meeting after discussing it with the vice chair.

Having no further business, the Catastrophe Risk (E) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/Summer 2024 National Meeting/Task Forces/CapAdequacy/Cat Risk SG/04-23propertycatsg.docx

© 2024 National Association of Insurance Commissioners

From: Ralph Blanchard <rsblanchardiii@gmail.com>
Sent: Monday, April 15, 2024 5:29 PM
To: Yeung, Eva <EYeung@naic.org>
Subject: Re: 03_Revised Blank - Ralph Blanchard.xlsm

CAUTION: This email originated from outside of the organization. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Thanks Eva,

Those are the two columns that would be deleted. The reason for the proposal would be: "*This is a proposed modification to the current proposal, removing the impact of ceded reinsurance from the current proposal for 2040 and 2050 projections, as ceded reinsurance programs are designed to fit the gross exposure and capital level existing for the period of the gross exposure. As such, the reinsurance program in place for 2024 would likely be very different from the one in place for 2040 or 2050. Assuming no change in the reinsurance program would produce data that would be misleading (and as such should not be used).*"

Ralph

DISCLOSURE OF CLIMATE CONDITIONED CAT EXPOSURE FOR HURRICANE PR027BI
(For Informational Purposes Only)

Hurricane	Reference	Climate Conditioned Modeled Losses for 2040 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate risk used

(6) If a Climate Conditioned Catalog developed by a commercial CAT model vendor is used, provide name and version of the catalog

(7) If it is internally developed by the company, provide a brief description of assumptions/adjustments made

Lines (1)-(5): Modeled losses to be entered on these lines are to be calculated using the same commercial vendor-catastrophe model, or combination of models used to calculate the CAT Risk Charge.

~~† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).~~

Denotes items that must be manually entered on the filing software.

PR027BI

DISCLOSURE OF CLIMATE CONDITIONED CAT EXPOSURE FOR HURRICANE PR027BII
(For Informational Purposes Only)

Hurricane	Reference	Climate Conditioned Modeled Losses for 2050 (1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate risk used

(6) If a Climate Conditioned Catalog developed by a commercial CAT model vendor is used, provide name and version of the catalog

(7) If it is internally developed by the company, provide a brief description of assumptions/adjustments made

Lines (1)-(5): Modeled losses to be entered on these lines are to be calculated using the same commercial vendor-catastrophe model, or combination of models used to calculate the CAT Risk Charge.

~~† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).~~

Denotes items that must be manually entered on the filing software.

PR027BII

DISCLOSURE OF CLIMATE CONDITIONED CAT EXPOSURE FOR WILDFIRE PR027CI
(For Informational Purposes Only)

Wildfire	Reference	Climate Conditioned Modeled Losses for 2040 (1) Direct and Assumed	(2) Net	3‡ Ceded Amounts Recoverable
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate risk used

(6) If a Climate Conditioned Catalog developed by a commercial CAT model vendor is used, provide name and version of the catalog

(7) If it is internally developed by the company, provide a brief description of assumptions/adjustments made

Lines (1)-(5): Modeled losses to be entered on these lines are to be calculated using the same commercial vendor catastrophe model, or combination of models used to calculate the CAT Risk Charge.

~~‡ Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).~~

Denotes items that must be manually entered on the filing software.

© 2024 National Association of Insurance Commissioners

DISCLOSURE OF CLIMATE CONDITIONED CAT EXPOSURE FOR WILDFIRE PR027CII
(For Informational Purposes Only)

Wildfire	Reference	Climate Conditioned Modeled Losses for 2050 (1) Direct and Assumed	~~(2)~~ Net	~~3‡~~ ~~Ceded Amounts Recoverable~~
(1) Worst Year in 50	Company Records			
(2) Worst Year in 100	Company Records			
(3) Worst Year in 250	Company Records			
(4) Worst Year in 500	Company Records			
(5) Worst Year in 1000	Company Records			

View of climate risk used

(6) If a Climate Conditioned Catalog developed by a commercial CAT model vendor is used, provide name and version of the catalog

(7) If it is internally developed by the company, provide a brief description of assumptions/adjustments made

Lines (1)-(5): Modeled losses to be entered on these lines are to be calculated using the same commercial vendor catastrophe model, or combination of models used to calculate the CAT Risk Charge.

~~‡ Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).~~

Denotes items that must be manually entered on the filing software.

PR027CII







April 8, 2024

Ms. Eva Yeung
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Proposal 2023-17-CR (Climate Scenario Analysis)

Dear Ms. Yeung:

The American Property Casualty Insurance Association (APCIA)[1], the National Association of Mutual Insurance Companies (NAMIC)[2], and the Reinsurance Association of America (RAA)[3] (collectively, "the Associations"), appreciate the opportunity to comment on the exposed proposal to require property casualty insurers to perform scenario analysis of their hurricane and wildfire exposure through a catastrophe model's "Climate Conditioned Catalog".

The exposed proposal is subject to almost all of the flaws that we addressed in a joint January 18 comment letter to the Solvency Workstream of the Climate and Resiliency (EX) Task Force. That letter is attached to our comments here, and we will not reiterate them except to say that, based upon discussions with our members and two of the catastrophe modelers that offer climate conditioned catalogs, the data produced by the proposal will be of little or no benefit to regulators in assessing an insurer's current or likely future financial condition, at great cost to the companies that would be required to use those catalogs.

The Associations propose a different approach, which is detailed in the attached draft RBC proposal form. Under our approach, as part of their annual RBC filing, companies would be required to use the catastrophe model they currently use to calculate the RCAT charge for hurricane and wildfire perils, using the following assumptions:

- A 50% increase in the frequency of major hurricanes (Category 3 and higher, and for wind only), and
- A 50% increase in all wildfire events.

---

[1] APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members include companies of all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

[2] NAMIC has more than 1,500-member companies representing 40 percent of the total U.S. property/casualty insurance market. NAMIC member companies serve more than 170 million policyholders and write more than $323 billion in annual premiums. Our members' direct written premiums account for 67 percent of homeowners' insurance and 55 percent of automobile insurance. Through NAMIC advocacy programs it promotes public policy solutions that benefit NAMIC member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies

[3] The RAA is a national trade association representing reinsurance companies doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. The RAA also has life reinsurance affiliates and insurance-linked securities (ILS) fund managers and market participants that are engaged in the assumption of property/casualty risks. The RAA represents its members before state, federal and international bodies.

555 12th Street, NW, Suite 550, Washington, DC 20004 | 202-828-7100
8700 W. Bryn Mawr Avenue, Suite 1200S, Chicago, IL 60631-3512 | 847-297-7800

© 2024 National Association of Insurance Commissioners

Under our proposal, companies would report the same PMLs (probable maximum losses) that are required in the current RCAT instructions (1/50-year, 1/100-year, 1/250-year, and 1/500-year).

Regulators have expressed their concerns about being able to assess insurers' risk concentrations for hurricanes and wildfires, and NAIC staff have expressed their need for data that is comparable with the current RBC PMLs, and that is comparable across companies. Our proposal accomplishes the goals that the exposure is seeking to meet but in a manner that is significantly less resource-intensive for companies. Our proposal also provides the following benefits:

- Major hurricanes cause 80%+ of historical economic losses (likely a greater percentage of insured losses), and scientific evidence for their increase is the strongest, making a targeted frequency adjustment scientifically valid that prioritizes their impact.
- Similarly, wildfires have seen an accelerating increase due to changes in temperature driving increased evaporation, making a large single scenario plausible and capturing the direction of risk changes.
- Explicitly selecting a tail scenario that causes portfolios to break, and examining how that happens, provides insight into potential financial impacts on insurers and is most protective of solvency – small percentage changes may just lead to dismissal of risk.
- A single, defined scenario maximizes comparability and aggregation across insurers.
- A single flat frequency change is highly accessible for small insurers and can also be rapidly implemented by vendor models.
- This approach excludes water impacts of hurricanes given the limitations of available tools to model impact and for the purpose simplifying assumptions for smaller insurers. However, hurricane water risk is less likely to be a solvency risk than wind, given that such risk is excluded from most policies and is instead covered by the National Flood Insurance Program.

We also suggest that, after two or three years, the Subgroup assess the data this proposal produces and determine whether modifications are necessary or whether such data provides useful insight into the potential solvency impacts from climate scenarios. This reevaluation should be included in the RBC instructions to ensure that the regulators' goals are enshrined so that the benefits to regulators and insurers can be measured and adjusted as necessary.

The Associations look forward to discussing our proposal with the Subgroup. Please do not hesitate to contact us if you have any questions or would like more information.

© 2024 National Association of Insurance Commissioners

Sincerely,



Stephen W. Broadie
Vice President, Financial & Counsel
American Property Casualty Insurance Association



Colleen W. Scheele
Public Policy Counsel and Director of Financial and Tax Policy
National Association of Mutual Insurance Companies



Dennis C. Burke
Vice President, State Relations
Reinsurance Association of America

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Newsletter Items for Adoption for 2024 for Property and Casualty RBC:

Date: August 2024
Volume: 28.2

Page 1: Intro Section:

What Risk-Based Capital Pages Should Be Submitted?

For year-end 2024 property/casualty (P/C) risk-based capital (RBC), hard copies of pages PR001–PR035, as well as pages PR038 and PR039, should be submitted to any state that requests a hard copy. Beginning with year-end 2011 RBC, a hard copy was not required to be submitted to the NAIC, but a portable document format (PDF) file representing the hard copy filing is part of the electronic filing with the NAIC.

Page 1+: Items Adopted for 2024:

Underwriting Risk

Pet Insurance

The Capital Adequacy (E) Task Force adopted proposal 2023-14-P during its March 17 meeting. This proposal removed pet insurance from the inland marine line of business and added a separate new line for pet insurance. This change is consistent with the change in the annual statement. However, the RBC charges calculation for pet insurance will still be included in the inland marine line of business.

Schedule P Short Tail Lines

During its March 17 meeting, the Capital Adequacy (E) Task Force adopted proposal 2024-01-P, which: 1) changed all the company record data to vendor link data for all RBC Schedule P short-tailed exhibits as the result of the adoption of the annual statement blanks proposal 2023-16BWG

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
Kansas City 1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
New York One New York Plaza, Suite 4210, New York, NY 20004 p | 212 398 9000 f | 212 382 4207
www.naic.org

© 2024 National Association of Insurance Commissioners

MOD; and 2) removed PR301 through PR306.

Underwriting Risk Factors Lines 4 and 8

As a result of the adoption of proposal 2024-11-P by the Capital Adequacy (E) Task Force during its April 30 meeting, Lines 4 and 8 factors were based on the 2023 American Academy of Actuaries' (Academy's) *Update to Property and Casualty Risk-Based Capital Underwriting Factors and Investment Income Adjustment Factors* report. During the Property and Casualty Risk-Based Capital (E) Working Group's April 25 meeting, the Working Group decided to use 50% indicated change with capped international and product liability lines for reserves and 50% indicated change with capped financial mortgage guaranty line for premium for 2024 reporting.

PR017 Underwriting Risk – Reserves Proposed Line (4), Industry Loss & Expense RBC Factors			
Col.	Line of Business	2024 Factor	2023 Factor
(1)	H/F	0.220	**0.213**
(2)	PPA	0.192	**0.179**
(3)	CA	0.318	**0.276**
(4)	WC	0.363	**0.344**
(5)	CMP	0.485	**0.494**
(6)	MPL Occurrence	0.327	**0.383**
(7)	MPL Claims Made	0.224	**0.276**
(8)	SL	0.353	**0.304**
(9)	OL	0.514	**0.531**
(10)	Fidelity/Surety	0.479	**0.371**
(11)	Special Property / Pet Insurance Plan	0.259	**0.246**
(12)	Auto Physical Damage	0.146	**0.155**
(13)	Other (Credit A&H)	0.223	**0.220**
(14)	Financial/Mortgage Guaranty	0.163	**0.179**
(15)	INTL	0.514	**0.359**
(16)	REIN. P&F Lines	0.367	**0.415**
(17)	REIN. Liability	0.626	**0.656**
(18)	PL	1.014	**0.802**
(19)	Warranty	0.363	**0.371**

PR017 Underwriting Risk – Reserves Proposed Line (8), Adjustment for Investment Income			
Col.	Line of Business	2024 Factor	2023 Factor
(1)	H/F	0.945	**0.938**
(2)	PPA	0.933	**0.928**
(3)	CA	0.919	**0.911**
(4)	WC	0.807	**0.830**
(5)	CMP	0.887	**0.876**
(6)	MPL Occurrence	0.863	**0.865**
(7)	MPL Claims Made	0.890	**0.883**
(8)	SL	0.887	**0.890**
(9)	OL	0.858	**0.852**
(10)	Fidelity/Surety	0.924	**0.940**
(11)	Special Property / Pet Insurance Plan	0.960	**0.966**
(12)	Auto Physical Damage	0.977	**0.976**
(13)	Other (Credit A&H)	0.952	**0.967**
(14)	Financial/Mortgage Guaranty	0.921	0.926
(15)	INTL	0.878	**0.874**
(16)	REIN. P&F Lines	0.907	**0.901**
(17)	REIN. Liability	0.816	**0.838**
(18)	PL	0.843	**0.841**
(19)	Warranty	0.951	**0.940**

© 2024 National Association of Insurance Commissioners

PR018 Underwriting Risk – Premiums Proposed Line (4), Industry Losses & Loss Adjustment Expense Ratio			
Col.	Line of Business	2024 Factor	2023 Factor
(1)*	H/F	0.933	0.936
(2)	PPA	0.970	0.969
(3)	CA	1.012	1.010
(4)	WC	1.041	1.044
(5)*	CMP	0.878	0.883
(6)	MPL Occurrence	1.531	1.668
(7)	MPL Claims Made	1.138	1.130
(8)*	SL	0.908	0.922
(9)	OL	1.003	1.013
(10)	Fidelity/Surety	0.756	0.854
(11)*	Special Property/Pet Insurance	0.829	0.863
(12)	Auto Physical Damage	0.836	0.836
(13)	Other (Credit A&H)	0.931	0.935
(14)	Financial/Mortgage Guaranty	1.805	1.598
(15)*	INTL	1.355	1.234
(16)*	REIN. P&F Lines	1.072	1.170
(17)*	REIN. Liability	1.253	1.322
(18)	PL	1.229	1.263
(19)	Warranty	0.920	0.854

PR018 Underwriting Risk – Premiums Proposed Line (7), Adjustment for Investment Income			
Col.	Line of Business	2024 Factor	2023 Factor
(1)*	H/F	0.960	0.954
(2)	PPA	0.931	0.925
(3)	CA	0.897	0.890
(4)	WC	0.836	0.839
(5)*	CMP	0.909	0.896
(6)	MPL Occurrence	0.781	0.767
(7)	MPL Claims Made	0.845	0.827
(8)*	SL	0.911	0.898
(9)	OL	0.827	0.816
(10)	Fidelity/Surety	0.913	0.904
(11)*	Special Property/Pet Insurance	0.953	0.949
(12)	Auto Physical Damage	0.975	0.971
(13)	Other (Credit A&H)	0.953	0.947
(14)	Financial/Mortgage Guaranty	0.888	0.884
(15)*	INTL	0.915	0.905
(16)*	REIN. P&F Lines	0.906	0.893
(17)*	REIN. Liability	0.794	0.777
(18)	PL	0.788	0.774
(19)	Warranty	0.938	0.904

© 2024 National Association of Insurance Commissioners

New Industry Average Risk Factors – Annual Update

During its June 28 meeting, the Capital Adequacy (E) Task Force adopted the annual update of industry average development factors:

PR017 Underwriting Risk – Reserves			
Line (1), Industry Development Factors			
Col.	Line of Business	2024 Factor	2023 Factor
(1)	H/F	1.020	0.999
(2)	PPA	1.061	1.047
(3)	CA	1.115	1.106
(4)	WC	0.882	0.873
(5)	CMP	1.024	1.026
(6)	MPL Occurrence	0.910	0.906
(7)	MPL Claims Made	0.996	0.984
(8)	SL	0.996	0.994
(9)	OL	0.993	0.969
(10)	Fidelity/Surety	0.875	0.852
(11)	Special Property / Pet Insurance	0.989	0.983
(12)	Auto Physical Damage	0.999	1.016
(13)	Other (Credit A&H)	0.942	0.946
(14)	Financial/Mortgage Guaranty	0.493	0.674
(15)	INTL	2.168	2.414
(16)	REIN. P&F Lines	0.930	0.924
(17)	REIN. Liability	1.054	1.024
(18)	PL	0.882	0.874
(19)	Warranty	0.991	0.995

PR018 Underwriting Risk – Net Written Premiums			
Line (1), Industry Average Loss and Expense Ratios			
Col.	Line of Business	2024 Factor	2023 Factor
(1)*	H/F	0.695	0.679
(2)	PPA	0.799	0.791
(3)	CA	0.787	0.777
(4)	WC	0.646	0.651
(5)*	CMP	0.684	0.671
(6)	MPL Occurrence	0.752	0.767
(7)	MPL Claims Made	0.828	0.815
(8)*	SL	0.583	0.578
(9)	OL	0.649	0.641
(10)	Fidelity/Surety	0.375	0.363
(11)*	Special Property / Pet Insurance	0.559	0.550
(12)	Auto Physical Damage	0.733	0.727
(13)	Other (Credit A&H)	0.711	0.702
(14)	Financial/Mortgage Guaranty	0.158	0.209
(15)*	INTL	1.153	1.136
(16)*	REIN. P&F Lines	0.587	0.578
(17)*	REIN. Liability	0.760	0.743
(18)	PL	0.594	0.597
(19)	Warranty	0.641	0.652

* Cat Lines

© 2024 National Association of Insurance Commissioners

Catastrophe Risk

Interrogatory on Catastrophe Risk Reinsurance Program (PR027INTA)

Given the recent catastrophe-related insolvencies and increasing cost of catastrophe reinsurance coverage, 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. As such information could be viewed as confidential and proprietary and is closely related to the existing PR027 Rcat charge, the collection of additional information on an insurer's catastrophe reinsurance program is being proposed through a series of questions added to the PR027 Catastrophe Risk Interrogatories. The Capital Adequacy (E) Task Force adopted proposal 2023-13-CR during its March 17 meeting, which added page PR027INTA to the P/C RBC blanks.

Convective Storm Structure in Rcat for Informational Purposes Only (PR027D)

The Capital Adequacy (E) Task Force adopted proposal 2023-15-CR during its March 17 meeting to add severe convective storm as one of the catastrophe perils for informational purposes only in the Rcat component. While the Catastrophe Risk (E) Subgroup reviewed the possibility of expanding the current catastrophe framework to include other perils that may experience a greater tail risk under projected climate-related trends, the severe convective storm has been identified as a catastrophe peril in the Rcat component.

Climate Scenario Analysis (PR027D)

As a result of the adoption of proposal 2023-17-CR MOD during the Financial Condition (E) Committee's August 2 meeting, the disclosure of climate-conditioned catastrophe exposure for hurricane and wildfire, which reflect adjusted frequency and severity for years 2040 and 2050, was added to the P/C RBC blanks. This information is intended to be useful for domestic regulators holding conversations with insurers who may have a greater degree of risk for these perils.

Affiliated Investments

Modification to the Affiliated Investment Blanks (PR003)

The Capital Adequacy (E) Task Force adopted proposal 2024-08-CA during its April 30 meeting to remove the "R0 Component" reference from the Column 12 heading on page PR003. The "R0"

© 2024 National Association of Insurance Commissioners

references are misleading because only affiliate types 1, 2, 5, and 6 flow into R0, while affiliate types 3, 4, 7, 8, and 9 flow into R2.

In addition, the Task Force adopted proposal 2023-12-CA during its Dec. 2, 2023, meeting to adopt an editorial change made to remove the word "Common" in the heading of Column (13) of PR003 Details for Affiliated Stocks. A corresponding change was made to PR007 Unaffiliated Preferred and Common Stock and PR031 (Calculation of Total Risk-Based Capital After Covariance) by removing the word "Common" in line "Market Value in Excess Affiliated Stocks." This line includes the affiliated amounts for both preferred and common stock.

Accident and Health Business

Underwriting Risk Factors (PR020)

The Capital Adequacy (E) Task Force adopted proposal 2024-09-CA during its June 28 meeting. This proposal updated the comprehensive medical, Medicare supplement, and dental and vision factors to include a 5.5% investment yield adjustment. The revised factors are:

	Comprehensive Medical	Medicare Supplement	Dental & Vision
$0–$3 Million	0.1427	0.0973	0.1143
$3–$25 Million	0.1427	0.0596	0.0706
Over $25 Million	0.0832	0.0596	0.0706

Other Health Line (PR019)

During its April 30 meeting, the Capital Adequacy (E) Task Force adopted proposal 2024-10-P, which: 1) added "in part" to the Line 25 annual statement source; and 2) updated Column 1, Line 25 to "Company Record." These changes eliminated the double-counting issue for those companies that have stop-loss premium.

Receivable for Securities Factor

The Capital Adequacy (E) Task Force adopted proposal 2024-13-CA during its June 28 meeting, which updated the factor for the Receivables for Securities (Line (1), Page PR009) from 0.020 to 0.025.

Modification of Other Long-Term Assets (PR008) Structure for Residual Tranches or Interests

The Capital Adequacy (E) Task Force adopted proposal 2024-02-CA during its April 30 meeting to add a line in PR008 to include the total of residual tranches or interests on a stand-alone line with no factor proposed and, hence, deemed as structural change only.

© 2024 National Association of Insurance Commissioners

Residual Tranches or Interests Factor

The Capital Adequacy (E) Task Force adopted proposal 2024-18-CA during its June 28 meeting to adopt a 20% factor for residual tranches or interests in PR008.

Last Page: RBC Forecasting and Warning:

Risk-Based Capital Forecasting and Instructions

The P/C RBC forecasting spreadsheet calculates RBC using the same formula presented in the *2024 NAIC Property & Casualty Risk-Based Capital Report Including Overview & Instructions for Companies*. The entire RBC publication, including the forecasting spreadsheet, can be downloaded from the NAIC Account Manager through the NAIC Publications Department. This publication is available for purchase on or about Nov. 1 each year. The User Guide is no longer included in the RBC publications.

WARNING: The RBC forecasting spreadsheet CANNOT be used to meet the year-end RBC electronic filing requirement. RBC filing software from an annual financial statement software vendor should be used to create the electronic filing. If the forecasting worksheet is sent instead of an electronic filing, it will not be accepted, and the RBC will not have been filed.

Last Page: 2023 National Association of Insurance Commissioners:

2024 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Property and Casualty Risk-Based Capital Newsletter Volume 28.2. Published annually or whenever needed by the NAIC for state insurance regulators, professionals, and consumers.

Direct correspondence to: Eva Yeung, RBC Newsletters, NAIC, 1100 Walnut Street, Suite 1000, Kansas City, MO 64106-2197. Phone: 816-783-8407. Email: eyeung@naic.org.

Address corrections requested. Please mail the old address label with the correction to: NAIC Publications Department, 1100 Walnut St., Suite 1500, Kansas City, MO 64106-2197. Phone: 816-783-8300. Email: prodserv@naic.org.

© 2024 National Association of Insurance Commissioners

Attachment Five-F
Capital Adequacy (E) Task Force
8/14/24

Summary: Aggregate P/C RBC Results By Year

AGGREGATED P&C RBC DATA
2023 Data as of June 27, 2024

		YR2023	YR2022	YR2021	YR2020	YR2019	YR2018
# OF COMPANIES FILED RBC		2,546	2,522	2,511	2,477	2,490	2,465
# OF COMPANIES FILED AST		2,634	2,626	2,626	2,599	2,593	2,607
% OF RBC COMPANIES		97%	96%	96%	95%	96%	95%
GRAND TOTAL OF CO'S AT AN ACTION LEVEL	LEVEL						
TREND TEST	1	23	19	17	24	17	17
COMPANY ACTION LEVEL	1	17	27	8	15	9	14
REGULATORY ACTION LEVEL	2	14	7	3	4	8	11
AUTHORIZED CONTROL LEVEL	3	4	3	6	3	2	1
MANDATORY CONTROL LEVEL	4	16	17	18	20	19	22
TOTAL		51	54	35	42	38	48
% OF ACTION LEVEL COMPANIES		2.00%	2.14%	1.39%	1.70%	1.53%	1.95%
RRG'S AT AN ACTION LEVEL	LEVEL						
RRG'S TREND TEST	1	5	5	8	8	9	4
RRG'S AT COMPANY ACTION LEVEL	1	9	11	4	5	4	6
RRG'S AT REGULATORY ACTION LEVEL	2	6	4	2	2	3	6
RRG'S AT AUTHORIZED CONTROL LEVEL	3	0	1	1	2	0	1
RRG'S AT MANDATORY CONTROL LEVEL	4	4	7	5	6	4	5
TOTAL RRG'S AT AN ACTION LEVEL		19	23	12	15	11	18
TOTAL RRG'S		248	249	225	225	225	224
% OF RRG'S AT AN ACTION LEVEL		7.66%	9.24%	5.33%	6.67%	4.89%	8.04%
TOTAL CO'S AT A LEVEL EXCLUDING RRG'S	LEVEL						
TREND TEST	1	18	14	9	16	8	13
COMPANY ACTION LEVEL	1	8	16	4	10	5	8
REGULATORY ACTION LEVEL	2	8	3	1	2	5	5
AUTHORIZED CONTROL LEVEL	3	4	2	5	1	2	0
MANDATORY CONTROL LEVEL	4	12	10	13	14	15	17
TOTAL CO'S AT AN ACTION LEVEL EXLC. RRG's		32	31	23	27	27	30
TOTAL CO'S EXLCLUDING RRG's		2298	2273	2286	2252	2265	2241
% OF ACTION LEVEL COMPANIES		1.39%	1.36%	1.01%	1.20%	1.19%	1.34%
# OF COMPANIES WITH RBC RATIO > 10000%		395	378	364	542	540	525
# OF COMPANIES WITH RBC RATIO > 1,000 & < 10,000%		949	1,007	1,037	832	836	836
# OF COMPANIES WITH RBC RATIO > 500 & < 1,000%		628	611	634	620	627	682
# OF COMPANIES WITH RBC RATIO > 300 & < 500%		423	380	359			
# OF COMPANIES WITH RBC RATIO > 250 & < 300%		55	55	46			
# OF COMPANIES WITH RBC RATIO < 500% >250%					418	420	409
# OF COMPANIES WITH RBC RATIO > 200 & < 250%		45	37	36	23	29	35
# OF COMPANIES WITH RBC RATIO < 200 & <> 0%		51	54	35			
# OF COMPANIES WITH RBC RATIO OF ZERO		0	0	0			
TOTAL		2,546	2,522	2,511			
TOTAL ADJUSTED CAPITAL		1,305,188,051,389	1,211,723,945,518	1,295,396,441,237	1,147,914,269,354	1,073,407,595,862	931,224,541,048
AUTHORIZED CONTROL LEVEL RBC		225,770,759,221	206,730,000,454	209,812,119,487	186,945,420,616	171,329,036,103	151,112,834,048
AGGREGATE RBC %		578%	586%	617%			
MEDIAN RBC %		1097%	1145%	1167%			
Total R0 (R0 - asset risk-subsidiary insurance companies)		92,893,237,492	82,520,919,036	84,025,196,294	76,046,027,452	68,455,409,790	58,785,678,885
Total R0A (R0A - asset risk-subsidiary insurance companies)		N/A	N/A	N/A	N/A	N/A	N/A
Total R1 (R1 - asset risk-fixed income)		19,763,201,704	19,282,260,346	19,509,016,149	9,673,549,747	8,753,606,104	8,046,031,430
Total R1A (R1A - asset risk-fixed income)		N/A	N/A	N/A	N/A	N/A	N/A
Total R2 (R2 - asset risk-equity)		186,251,584,606	174,361,118,092	192,082,618,520	161,553,769,065	144,697,616,270	119,069,344,182
Total R2A (R2A - asset risk-equity)		N/A	N/A	N/A	N/A	N/A	N/A
Total R3 (R3- asset risk-credit)		8,800,279,481	8,287,161,773	11,388,107,162	10,387,430,318	9,357,397,726	9,301,202,060
Total R3A (R3A - asset risk-credit)		N/A	N/A	N/A	N/A	N/A	N/A
Total R4 (R4 - underwriting risk - reserves)		169,235,693,704	154,267,900,707	145,492,505,595	130,302,138,858	123,165,959,122	114,979,409,018
Total R4A (R4A - underwriting risk - reserves)		N/A	N/A	N/A	N/A	N/A	N/A
Total R5 (R5 - underwriting risk - net written premium)		95,802,981,865	88,254,096,856	81,117,342,335	78,327,294,222	74,813,906,575	75,532,307,468
Total R5A (R5A - Unerwriting Risk - net written premium)		N/A	N/A	N/A	N/A	N/A	N/A
Total R6 (R6 - Catastrophe Risk for Earthquake)		N/A	N/A	N/A	N/A	N/A	N/A
Total R7 (R7 - Catastrophe Risk for Hurricane)		N/A	N/A	N/A	N/A	N/A	N/A
Total Rcat		64,358,508,354	56,443,376,138	54,458,108,356	55,405,268,158	53,740,016,069	52,510,292,783
Net Basic Operational Risk		**13,033,528,133**					

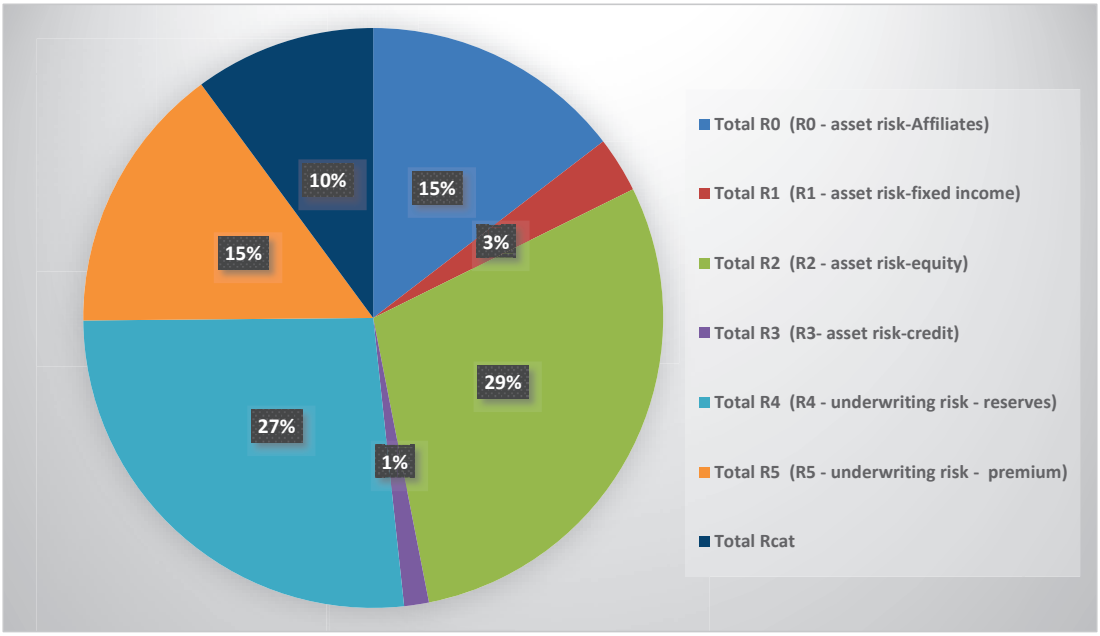
Source: NAIC Financial Database

Att03_SUM2023_062724.xlsx 1

© 2024 National Association of Insurance Commissioners

Total R0 (R0 - asset risk-Affiliates)	92,893,237,492
Total R1 (R1 - asset risk-fixed income)	19,763,201,704
Total R2 (R2 - asset risk-equity)	186,251,584,606
Total R3 (R3- asset risk-credit)	8,800,279,481
Total R4 (R4 - underwriting risk - reserves)	169,235,693,704
Total R5 (R5 - underwriting risk - premium)	95,802,981,865
Total Rcat	64,358,508,354

© 2024 National Association of Insurance Commissioners


15%
3%
29%
1%
27%
15%
10%
Total R0 (R0 - asset risk-Affiliates)
Total R1 (R1 - asset risk-fixed income)
Total R2 (R2 - asset risk-equity)
Total R3 (R3- asset risk-credit)
Total R4 (R4 - underwriting risk - reserves)
Total R5 (R5 - underwriting risk - premium)
Total Rcat

Draft: 8/20/24

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Chicago, Illinois
August 14, 2024

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met in Chicago, IL, Aug. 14, 2024. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy, Vice Chair (CA); Wanchin Chou (CT); Carolyn Morgan and Nicole Crockett (FL); Carrie Mears and Kevin Clark (IA); Vincent Tsang (IL); Roy Eft (IN); Fred Andersen (MN); Debbie Doggett (MO); Tadd Wegner (NE); Jennifer Li (NH); Bob Kasinow and Bill Carmello (NY); Dale Bruggeman and Tom Botsko (OH); Jamie Walker and Rachel Hemphill (TX); Doug Stolte (VA); Steve Drutz and Katy Bardsley (WA); and Amy Malm (WI).

1. Adopted its June 21, May 22, April 12, and Spring National Meeting Minutes

The Working Group met June 21, May 22, and April 12. During these meetings, the Working Group took the following action: 1) discussed a review of year-end 2023 data reported for residual tranches; 2) heard a presentation from the Structured Securities Group (SSG); 3) discussed comment letters received on Oliver Wyman's residual tranche risk analysis; 4) discussed comment letters received on a memorandum requesting additional feedback from industry stakeholders to substantiate their request for an additional one-year delay in implementing the 45% risk-based capital (RBC) factor for residual tranches; 5) discussed comment letters received on proposal 2024-19-I and other potential alternative proposals; 6) discussed the American Council of Life Insurers' (ACLI's) survey data on residual ownerships by life insurers; and 7) voted to retain the original adoption of the 45% charge to be applied to all residuals.

Chou made a motion, seconded by Drutz, to adopt the Working Group's June 21 (Attachment Six-A), May 22 (Attachment Six-B), April 12 (Attachment Six-C), and March 17 (*see NAIC Proceedings – Spring 2024, Capital Adequacy (E) Task Force, Attachment Five*) minutes. The motion passed unanimously.

2. Received Updates from the Valuation of Securities (E) Task Force and Statutory Accounting Principles (E) Working Group

Mears said the Valuation of Securities (E) Task Force met Aug. 13 and adopted an updated definition of an NAIC designation. The significant changes included: 1) the addition of "Regulatory Objective;" and 2) broadening the scope from credit risk-oriented to investment risk assessment to allow a broader application (e.g., designations for funds, certain types of non-filing-exempt [FE] assets, and bonds that no longer meet the definition of a bond and get moved to Schedule BA). The Task Force also adopted a process to permit its discretion over NAIC designations assigned through the FE process. Lastly, Mears provided an update on the collateralized loan obligation (CLO) modeling project led by the SSG.

Bruggeman said the Statutory Accounting Principles (E) Working Group adopted the principle-based bond definition to become effective Jan. 1, 2025. A corresponding adoption by the Blanks (E) Working Group may impact the Working Group as the Schedule D, Part 1 Bond Schedule will be broken into two schedules, one for issuer credit obligations and one for asset-backed securities (ABS). Bruggeman highlighted revisions adopted for Schedule BA that allow non-bond debt securities held by life insurers to receive bond factors if the investments have a designation assigned by the Securities Valuation Office (SVO). Non-bond debt securities without an SVO-

© 2024 National Association of Insurance Commissioners

assigned designation or those held by property and casualty (P/C) or health insurers are not afforded bond factors. Bruggeman said no further RBC proposal is anticipated to effect the changes described, but the Capital Adequacy (E) Task Force and its working groups have full purview over RBC and can further assess the RBC framework for non-bond debt securities.

Bruggeman said another project adopted by the Statutory Accounting Principles (E) Working Group with an effective date of Jan. 1, 2025, is the revision to state and federal tax credit and tax credit investment guidance in *Statement of Statutory Accounting Principle* (*SSAP*) *No. 93—Low-Income Housing Tax Credit Property Investments* and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits*. Broadly, the accounting guidance was revised to remove the specific guidance for low-income housing tax credits (LIHTCs) and instead establish guidance for all qualifying investments in state and federal tax credits, regardless of tax credit program or if they are in the form of debt or equity. Related blanks changes were also adopted. One key reporting change was the removal of the guaranteed federal tax credit reporting line. It was removed, as the concept of a yield-guaranteed federal tax credit investment is no longer permitted under the Internal Revenue Service's (IRS's) tax credit rules. Bruggeman said the following feedback received from the comment process may impact RBC working groups: 1) industry commented that if the investments do not meet the criteria for reporting under the qualifying tax credit investment reporting lines, the current RBC factors may be too high and not commensurate with risk; and 2) with the broadening of the scope of SSAP No. 93 and No. 94 to encompass all types of tax credit investments, the current RBC factors may not be appropriate, as they were developed using real estate historical data.

Bruggeman said the Statutory Accounting Principles (E) Working Group exposed a proposal to affect changes to the reinsurance schedules such that more details are disclosed for assets involved in funds withheld and modified coinsurance (modco) arrangements. Such revisions, if adopted, facilitate the direct pull of data from the annual statement and will enhance transparency.

Finally, Bruggeman said that the Statutory Accounting Principles (E) Working Group exposed a proposal to have more granular reporting of collateral loans based on the underlying collaterals, with an anticipated effective date of Jan. 1, 2026. The Capital Adequacy (E) Task Force and its working groups have been encouraged to look into any potential instruction and/or factor changes resulting from this revision.

3. Heard an Update from the Academy on a CLO Risk Bucketing Proposal

Steve Smith (American Academy of Actuaries—Academy) said the timeline for a proposal developed for identifying which comparable attributes would be used for CLO risk bucketing needs to be revised from the upcoming Fall National Meeting into early 2025. The Academy is working through some issues in accessing the data needed. Smith said there was great collaboration with the SSG; therefore, the Academy should be able to use the NAIC's software license to perform runs once all the permissions and legal formalities are ironed out.

Botsko asked if the Academy plans to provide a status update during the Fall National Meeting. Smith responded that a status update will be provided, including information such as the nature of the data received and the work performed by the Academy up to that point.

4. Discussed Referrals Related to Funds

Barlow said several items on the Working Group's working agenda related to funds and he would like to tackle them holistically. He said NAIC staff developed and shared a memorandum with Working Group members prior

to the meeting. NAIC staff will continue to refine the document until it is ready for broader circulation and can be used to guide the Working Group's discussions. Barlow then asked if any interested parties were willing to work with NAIC staff to compile a comprehensive list of all funds that should be subjected to the Working Group's review. Brian Bayerle (ACLI) volunteered to work with NAIC staff on this project.

Chou asked where the Working Group stands regarding investments in exchange-traded funds (ETFs) that are not captured in the SVO listing. He said ETFs are different from common stocks and may warrant further deliberation. Barlow responded that this topic could be a candidate for the funds review project discussed earlier.

5. Adopted its 2024 Working Agenda

Barlow said that apart from several updates on dates, the main update to the working agenda is the addition of IR9: Develop a structure and factors proposal to reflect the split of the Annual Statement Schedule D, Part 1 into two schedules for all lines of business.

Botsko asked about the status of the asset concentration referral from the Capital Adequacy (E) Task Force to the Working Group. Barlow responded that the topic would be added to the Working Group's working agenda during its next meeting.

Botsko made a motion, seconded by Chou, to adopt its 2024 working agenda (Attachment Seven). The motion passed unanimously.

Having no further business, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2024-2-Summer/RBC Investment Risk 08-14-24 Minutes TPR'd.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/9/24

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Virtual Meeting
June 21, 2024

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met June 21, 2024. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy, Vice Chair (CA); Wanchin Chou (CT); Carrie Mears and Kevin Clark (IA); Vincent Tsang (IL); Roy Eft (IN); Fred Andersen (MN); William Leung and Debbie Doggett (MO); Lindsay Crawford (NE); Jennifer Li (NH); Bob Kasinow and Bill Carmello (NY); Tom Botsko (OH); Rachel Hemphill (TX); Doug Stolte (VA); Steve Drutz (WA); and Amy Malm (WI).

1. Discussed Comment Letters (Attachment Six-A1) Received on Residual Proposal 2024-19-I

Barlow said the 45% charge for residuals was adopted last year, so there is no absolute necessity to adopt proposal 2024-19-I. He said that should there be adoption, the vendors had suggested a few tweaks to the instructions. He said only the simple majority is needed for adoption at the working group level, whereas supermajority is needed at the task force level, given the timing of the exposure. Barlow emphasized that the proposal cannot be adopted "as is" and that the purpose of the meeting was to discuss the potential changes.

Joe Engelhard (Alternative Credit Council—ACC) presented a comment letter. He said the ACC expressed support of the proposal for the most part, except that it recommended the addition of residuals backed by real estate (e.g., commercial real estate [CRE] collateralized loan obligations [CLOs] and commercial mortgage-backed securities [CMBS]) to the 45% bucket, as suggested by the Structured Securities Group (SSG). The ACC disagreed with the SSG in that middle-market CLOs performed similarly to broadly syndicated loan (BSL) CLOs. Engelhard said the ACC believes the former is safer based on the historical default data of the Standard & Poor's 500 index (S&P 500). He said the ACC also agreed with some commenters that not all residuals are equal in terms of risk. He stated that the ACC said Oliver Wyman's report demonstrated a correlation between certain attributes (e.g., the thickness of the residual tranche and ratings of the next most junior tranche) and level of losses for CLOs only, not other types of asset-back securities (ABS) residuals. Engelhard said that given the American Academy of Actuaries (Academy) is conducting a holistic review of comparable attributes across a wide variety of ABS assets, the ACC recommended against, for interim solution purposes, applying selective rigor(s) in determining charges.

Clark disagreed with the ACC's comment that there is no observed correlation between risks and ratings for auto and student loan ABS. Clark observed that in Oliver Wyman's report, the samples taken for prime auto loans were primarily investment grade, and the samples for subprime auto loans were primarily below investment grade. He said that Oliver Wyman's report pointed out a difference in risk between the two categories.

Steve Smith (Academy) presented a comment letter. He pointed out that one issue with the proposal is the use of a single attribute (i.e., collateral type) as the determinant of charges. He said the proposal to give a lower charge to middle-market CLOs compared to BSL CLOs is caused by confusing correlation for causation. He said the Academy expects that, given that all else is equal for the structure, a middle-market CLO would have more risk than a BSL CLO. Smith said the Academy concurred with the ACC's recommendation to avoid the application of selective rigor(s) for the interim solution.

Bryan Bashur (Americans for Tax Reform—ATR) presented a comment letter. He said ATR is supportive of the proposal but concerned that the blanket application of a 45% charge on residuals would raise the cost of life and annuities products. Bashur said ATR also expressed concern that the 45% charge will significantly reduce the

© 2024 National Association of Insurance Commissioners

availability of middle-market CLOs, student and credit card loans, and other financial products that are typically securitized.

Mike Consedine (Athene) presented a comment letter. He said Athene believed the application of 45% across all ABS residuals is overly conservative and, therefore, is in support of a two-bucket approach as in the proposal. Athene's comment letter laid out factors to consider when middle-market CLOs should or should not be exempted. Finally, Consedine said Athene commended the alternative proposal the Iowa Insurance Division (IID) put forth as a simple, balanced, and thoughtful approach.

Consedine noted that Athene suggested the possibility of allowing stakeholders to submit a more detailed analysis in 2025 to further refine the proposal. Barlow welcomed the idea.

Patrick Reeder (Everlake) presented a comment letter. Reeder said Everlake continues to stand by the use of collateral type as the sole determinant of residual charges. Chou inquired if Everlake would make a compromise to the original proposal by removing the middle-market CLOs from the "Exempted" list. Reeder said Everlake consented.

Jeff Johnson (Global Atlantic Financial Group—Global Atlantic) presented a comment letter. He said Global Atlantic supported a bifurcated approach to assessing capital charges. Johnson said the proposal needs to be further refined to include residual tranche thickness in determining whether residuals qualify for "exemption." According to Global Atlantic, the following residuals are qualified for a 30% capital charge: middle-market CLOs and BSL CLOs with residual thickness greater than or equal to 15%, prime loans ABS with residual thickness greater than or equal to 5%, and ABS backed by hard assets with residual thickness greater than or equal to 10%. Tsang asked how the 15% is being selected as the threshold and whether 15% should be measured at origination or as of reporting date. Johnson responded that 15% is based on Figure 19 of Oliver Wyman's report and that the percentage should be determined at origination. Tsang asked whether the CLO should continue to be qualified for "exemption" if the securitization performs poorly after origination and the residual thickness declines below 15%. Johnson said Global Atlantic believes this issue should be dealt with using a long-term solution. Clark said Tsang's concern illustrated the advantage of using the rating of the next lowest tranche as rigor because any defaults/credit deterioration of the underlying collaterals will likely trigger a downgrade of the next most junior tranche, causing a factor reconsideration event.

Sarah Williams (Guardian Life) presented a joint comment letter. Williams said the letter proposed using residual thickness as the sole rigor for interim purposes. Specifically, 20% of residual thickness is chosen. Williams said that although this rigor has proven more relevant for CLOs, CLO is a representative asset class among the residuals, attaining 75% coverage per the American Council of Life Insurers (ACLI) survey. Besides ease of application, Williams said she believed this rigor will avoid the unintended consequences of incentivizing increased leverage in the securitization structure. It was noted that 20% is a bit more conservative than what is supportable by the Oliver Wyman report.

Francisco Paez (MetLife) presented a joint comment letter. The signors of the joint letter continued to support the adoption of a 45% charge for all residuals without delay. Paez reacted to other proposals that centered around the use of residual thickness or rating of the next most junior tranche as a sole determinant of capital charge. He said restructuring mechanisms (collapsing residual tranche with the next junior most tranche) could easily be used to circumvent the spirit of the rule, giving reprieve in charges without an actual reduction in risk. In addition, Paez cautioned against conclusions that rely solely on specific loss estimates in the Oliver Wyman report, as gaps are observed. Finally, Paez said none of the proposals thus far are based on analysis credibly aligned with insurers' actual holdings and conditional tail expectation risk measure approach.

© 2024 National Association of Insurance Commissioners

Barlow called upon Doug Farren (National Center for the Middle Market—NCMM) to present a comment letter. No representative spoke on the comment letter.

Gordan Gray (Pinpoint Policy Institute) presented a comment letter. He said Pinpoint supported proposal 2024-19-I. Gray expressed concern, however, that the broad application of a 45% charge would reduce access to capital, specifically for the middle-market sector.

Barlow called upon Paul Stephen (Resolution Life) and Karen Kerrigan (Small Business & Entrepreneurship Council) to present comment letters. No representative spoke on the comment letters.

2. Discussed the ACLI Survey Data

Mariana Gomez-Vock (ACLI) said the ACLI was appreciative of the opportunity to provide additional insight to the Working Group (Attachment Six-A2). She and her colleague stood ready for questions. No further questions were posted.

3. Discussed Proposal 2024-19-I

Barlow asked if any Working Group members felt strongly about whether middle-market CLO residuals should be afforded 30% versus 45% capital charge. Andersen responded that the 45% appeared appropriate as middle-market CLOs are not less risky than BSL CLOs. Stolte concurred. He thought 45% was supportable per the Oliver Wyman report. Clark stated that even though the Oliver Wyman report appears to demonstrate lower risk for middle-market CLOs, he thought the sample of middle-market CLOs selected by Oliver Wyman was meaningfully different than those reported as held by life insurers in the ACLI's survey in terms of credit quality of the next most junior tranche. As such, Clark said he is inclined to put middle-market CLO residuals in the 45% bucket. That said, Clark advocated for a bifurcated approach and said he believed certain other residuals qualify for lower than a 45% charge. Chou agreed with Clark.

Barlow invited Clark to present the memorandum and recommendations put together by the IID. Clark said Iowa's memorandum weighed the pros and cons of the proposals presented thus far. The use of the credit rating provider (CRP) rating of the next most junior tranche has been Iowa's most favored approach. Clark clarified, however, that Iowa would likely also support other proposals, including Everlake's, if middle-market CLOs are moved to the 45% bucket. Stolte said the issue with the use of CRP rating as rigor is the created dependency on CRP ratings. He said he can foresee "rating shopping." He was also concerned about the incentives created for insurers to structure securitizations to circumvent the spirit of the rule. Stolte also had an issue with Everlake's proposal, which incorporated an element of "permitted practice" by the domiciliary state, which is not meant to be allowable under model law. Clark agreed and suggested removal from the proposal if it were to be considered for adoption.

Stolte made a motion, seconded by Kasinow, to uphold the original adoption of the 45% charge broadly applied to all residuals.

Chou, Walker, and Clark disagreed with the broad application of the 45% charge and volunteered to make a motion for a "modified" version of Everlake's proposal, which Clark said he would second if the opportunity was presented.

Andersen said the use of two buckets incentivized the restructuring of securitization structures and reshuffling of assets, rendering bifurcation based on structures and collateral type meaningless. As such, he said he would support Stolte's motion. Reedy concurred. Mears clarified that the modified Everlake proposal was purely based on collateral type for bifurcation and, therefore, the circumvention concern raised by Andersen and Reedy likely

© 2024 National Association of Insurance Commissioners

could not be played out. Walker clarified that Texas is more supportive of Iowa's proposal than the modified Everlake proposal, as the former is more risk-based. Tsang thought that there should not be significant differences given the composition of insurers' holdings, regardless of which proposal is finally adopted.

Kay Noonan (NAIC) clarified a procedural question Barlow had raised. The Working Group was asked to vote on Stolte's motion as it came first and was seconded by Kasinow.

A roll call vote was taken. The motion passed, with nine members voting "yes" and six voting "no." The 45% charge will be applied broadly across the residuals, effective 2024, as an interim solution.

4. Discussed Other Matters

Mears inquired about the next agenda item the Working Group would consider. Specifically, she asked whether the comprehensive fund proposal will be discussed next. Barlow said it would, but he did not have a chance to review the topic. He said he planned to discuss this with NAIC staff and come up with a plan for future meetings.

Having no further business, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Committee Folders/E CMTE/CADTF/2024_Summer/RBCIRE/RBC Investment Risk 6-21-24 Minutes.docx

© 2024 National Association of Insurance Commissioners



167 Fleet Street, London EC4A 2EA, UK
+44 (0)20 7822 8380

acc.aima.org

Philip Barlow
Chair Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBC-IRE")
National Association of Insurance Commissioners

Via Electronic Submission

June 13, 2024

Dear Chairman Barlow:

Re: Structured Securities – Interim RBC Factor for Residual Tranches, Proposal 2024-19-I

The Alternative Credit Council ("ACC")[1], the private credit affiliate of the Alternative Investment Management Association Ltd ("AIMA"), appreciates the opportunity to provide comments on Proposal 2024-19-I[2] and the presentation by the NAIC's Structured Securities Group ("SSG")[3]. Given the focus on middle-market collateralized loan obligations ("MM CLOs"), we suggest a definition to distinguish between MM CLOs and broadly syndicated CLOs ("BSL CLOs") and present additional data analysis that demonstrates the relative safety and outperformance of MM CLOs compared to BSL CLOs.

---

1 The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over $1trn of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

2 RBC-IRE Proposal 2024-19-I ("the ABS Residual Proposal"), which updates the Risk-Based Capital ("RBC") instructions for "other long-term assets, Form LR008 (5/17/2024) at https://content.naic.org/sites/default/files/inline-files/2024-19-I%20ResidualCombined_Updated.pdf

3 SSG Presentation, which lists five concerns about the ABS Residual Proposal (5/17/2024) at https://content.naic.org/sites/default/files/inline-files/IRE%20RBC%20Note.pdf

The ACC is the private credit affiliate of the Alternative Investment Management Association Limited (AIMA)
AIMA is registered in England as a Company Limited by Guarantee, No. 4437037. VAT Registration no. 577 5913 90. Registered Office as above.



Executive Summary

The ACC generally supports the ABS Residual Proposal, which is based on the data-driven analysis in the Oliver Wyman ABS Residual Study and assigns a 30% capital charge for the residual tranches of MM CLOs, CMBS, RMBS and the other ABS listed in the proposal. The ABS Residual Proposal assigns a 45% charge for all other ABS residuals, including BSL CLOs and CFOs. However, the ACC also supports the concerns expressed in point 4 of the SSG Presentation regarding CRE CLOs and CMBS. As a result, we recommend adding those two types of assets to the 45% capital charge bucket.

We disagree with the assertion in Point 2 of the SSG presentation that the OW study indicates that the risk of MM CLOs is similar enough to BSL CLOs to deserve a 45% charge. The SSG presentation provides no data to support its hypothesis regarding what MM CLOs insurers actually invest in compared to the representative sample of MM CLOs in the Oliver Wyman study. The American Academy of Actuaries is in the middle of a process to determine the comparable attributes of the ABS structure, and its underlying collateral should determine the appropriate capital charge. The interim charge should not presuppose the outcome of their analysis.

More importantly, the OW study was designed to provide a relative comparison of the level of risk of ABS residuals to similar assets with an established NAIC capital charge to ensure the same tail risk gets the same capital charge. As detailed in the Appendix, the OW study results indicated that, to be consistent with the principle of "the same capital charge for the same tail risk," even if BSL CLOs are given a 45% charge, MM CLOs should receive a 30% charge. Furthermore, as detailed in the appendix, there is a vast amount of historical data that demonstrates that MM CLOs have outperformed BSL CLOs.

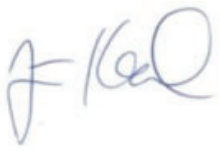
Finally, we agree with Point 5 of the SSG Presentation regarding the need for classification of the transactions. In response to this point, we recommend a definition of a MM CLO based on how MM CLOs are originated and managed over time in a very different way than BSL CLOs, which helps explain why MM CLOs are less likely to default. We also support Everlake's proposed refinements to the categorization of ABS residuals to generally correspond to the relevant reporting lines in an insurer's annual statement. This approach results in ABS where the underlying has debt-like characteristics in the 30% capital charge bucket (with the exception of BSL CLOs), and those with equity-like characteristics such as CFOs, in the 45% bucket.

We welcome the opportunity to provide supplementary comments and additional data analysis. From our perspective, there are now only two data-driven analyses available to the NAIC, both of which demonstrate that a single 45% charge on ABS residuals would not correspond to the actual levels of risk. If you have any questions about this new

© 2024 National Association of Insurance Commissioners

information, please reach out to me or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at 202-304-0311 or jengelhard@aima.org.

Respectfully,



Jiří Król
Global Head of Alternative Credit Council

Appendix

Distinguishing MM CLOs from BSL CLOs

BSLs are typically negotiated by banks using documents similar to the standardized loan documentation forms of the Loan Syndications and Trading Association. The bank then broadly offers it to a wide variety of potential investors who have a very limited period of time, usually just a few days, to sign onto that syndicated loan. Furthermore, banks provide liquidity by supporting secondary market trading in BSLs. These loans typically have a very large number of investors, hence the term "broadly syndicated."

Middle-market loans are originated in a quite different way that offers much greater protection for the lender. MM loans are typically directly negotiated by a long-term lender or, in club deals, a small group of lenders who each do their own deep due diligence and directly interact with the borrower. This results in a customized loan agreement that better aligns the risk appetite of the lender with the needs of the corporate borrower. MM loans are structured to allow the lender to take early preventative action to avoid a default, which is not possible under the terms of BSL deals with standardized terms and many creditors. Middle-market lenders remain directly engaged with the borrower throughout the loan term, which allows for greater management control and flexibility. Further, from a structural perspective, MM CLOs typically have more par subordination and rating cushion at a given tranche level relative to BSL CLOs.

Definition of a MM CLO

A middle-market CLO can be defined as one where the underlying collateral consists of a loan where the key lenders directly negotiate the loan without the intermediation of a bank and develop a bespoke loan contract that forms the basis of a long-term

© 2024 National Association of Insurance Commissioners

relationship with the borrower and that allows for greater management control during the course of the loan.

Historical Data Shows MM CLOs Default Less Than BSL CLOs

S&P began rating CLOs in the mid-1990s and has now rated over 18,000 CLOs. This 25-year rating history includes three separate periods of significant market stress: the dot.com bust in 2001, the 2008 financial crisis, and the COVID-19 market crash. During the entire period of S&P's coverage of CLOs, only 60 U.S. CLOs defaulted, and 40 of those were CLO 1.0 structures that were originated prior to 2009. Of the CLO 2.0 tranches issued since 2009, only 20 have defaulted, and all of those are BSL CLOs.[4] This means that since 2009, no MM CLOs in the S&P coverage universe have defaulted.

S&P periodically runs hypothetical stress scenarios on its rated MM and BSL CLOs to generate a quantitative analysis using its CLO rating models—the CDO Evaluator and S&P Cash Flow Evaluator. In its most recently published results, S&P applied four separate stress scenarios on a sample of 137 MM CLOs and the results confirmed its previous published stress scenarios of CLO ratings that "middle-market CLOs can withstand comparable defaults with less rating impact than BSL CLOs."[5]

A January Voya paper on middle-market lending notes that since 2007, middle-market loans, unlike broadly syndicated loans, have generally maintained robust structural protections: "'Cov-lite' loans as a percentage of total middle market loan issuance has generally been below 10% since 2007. In contrast, Cov-lite loans as a percentage of the S&P/LSTA Leveraged Loan Index are significantly higher, reaching 79% in 2018."[6]

The Oliver Wyman ABS Study

Table 8 of the Oliver Wyman study summarizes the results of the three stress scenarios for MM and BSL CLOs, concluding that "residual tranches for MM CLOs consistently perform better than BSL ones across our scenarios." (See Table 8 below for detailed results.)

---

4 S&P Private Credit and Middle-Market Quarterly, Q2 2024 Update, April 24, 2024, at https://www.spglobal.com/ratings/en/research/pdf-articles/240424-private-credit-and-middle-market-clo-quarterly-not-a-sunset-just-an-eclipse-q2-2024-101596636

5 Stephen Anderberg, Scenario Analysis: How Resilient Are Middle Market CLO Ratings (2023 Update), October 16, 2023, at https://www.spglobal.com/ratings/en/research/articles/231016-scenario-analysis-how-resilient-are-middle-market-clo-ratings-2023-update-12884065

6 Avi Tolani, Voya Financial, Middle Market Lending, January 2024 at https://institutional.voya.com/system/files/system/files/article/file/middle-market-lending-benefits-diversified-approach.pdf

© 2024 National Association of Insurance Commissioners

Table 8 provides the average losses for residual tranches of CLO in each of the stress scenarios:

Table 8: CLO summary statistics

Scenario Severity	Scenario	CLO type	Simple average losses	Portfolio average losses
95th percentile	Dot-Com	BSL	-48%	-45%
		MM	-34%	-27%
	GFC[25]	BSL	-46%	-42%
		MM	-32%	-25%
99th percentile	Deep-tail	BSL	-74%	-72%
		MM	-64%	-55%

In addition, we considered the losses at the deal-level to understand the characteristics that affect the potential losses on residuals tranches. **Figure 19** illustrates losses by residual thickness in our GFC scenario. These results indicate:

- Residual tranches for MM CLOs consistently perform better than BSLs ones across our scenarios.

Some have argued that the Oliver Wyman study justifies a 45% capital charge for BSL CLO residuals (despite BSL CLOs overall outperforming common stock with a 30% charge). However, using the 45% charge as the reference, the average BSL CLO losses under all three scenarios would need to be scaled by .85 to result in a 45% charge. In other words, the 45% charge is 85% of the average of portfolio losses in the three stress scenarios.

In all three stress scenarios, the average loss for MM CLOs is 35.66%. If the same .85 scalar for BSLs is applied, the capital charge would be 30.32% for MM CLOs. Put simply, applying the same ratio of losses to the resulting 45% capital charge for BSL CLOs would result in a 30% capital charge for middle-market CLOs.

The SSG review claims that MM CLOs have similar losses to BSL CLOs, but—as noted above—that is not what the results of the three stress tests in the Oliver Wyman study demonstrate. The SSG Presentation makes no reference to the number of CLO ABS tranches held by insurers, nor does it provide evidence of what MM CLOs insurers actually hold. Instead, it simply asserts that insurers only hold MM CLOs of a certain thickness. This claim cannot be substantiated with data, as even the ACLI survey only covers a certain percentage of actual holdings. Anecdotally, our members have told us that insurers hold MM CLOs with both thick and thin residuals. What we do know is that the OW study was representative of the MM CLOs that are available for insurers to participate in—and they either have done so already or may do so in the future.

© 2024 National Association of Insurance Commissioners



June 13, 2024

Mr. Philip Barlow
Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBCIRE WG")
National Association of Insurance Commissioners ("NAIC")

Re: Exposure 2024-19-I—Interim Residual Tranche C1 Factors

Dear Mr. Barlow,

On behalf of the American Academy of Actuaries[1] C1 Subcommittee, I am providing comments on the exposed interim residual tranche proposal by Everlake Life Insurance Company.

The subcommittee is focused on developing a proposal for a long-term asset-backed securities C1 framework, including for residual tranches. Consistent with the Everlake proposal, our comparable attributes approach is likely to result in multiple C-1 factors across different categories of residual tranche. However, it is unlikely that these categories will be determined by collateral type alone, as is proposed by Everlake.

The Oliver Wyman study that was presented to RBCIRE at the Spring National Meeting concluded that middle-market ("MM") collateralized loan obligation ("CLO") residual tranches experience a lower reduction to net present value ("NPV") in tail scenarios vs. broadly syndicated loan ("BSL") CLOs. But this study also showed that MM CLOs tend to have thicker residual tranches and more highly rated debt tranches sitting directly above the residual tranche. The specific MM CLOs that had similar residual thickness and similarly rated debt tranches compared to BSL CLOs did not exhibit a lower reduction to NPV in tail scenarios vs. BSL CLOs. This suggests that MM CLO residual tranches do not inherently have less risk than BSL CLO residual tranches. Within the Oliver Wyman study, MM loan collateral is shown to be correlated with lower risk but is unlikely to cause lower risk. In fact, causation is likely the opposite—all else equal, MM collateral may be riskier than BSL. Common rating agency models assign higher risk to loans made by smaller companies with less access to capital. The structural enhancements observed in MM CLOs relative to BSL CLOs may have been created to mitigate higher risk in MM collateral.

Collateral type (MM vs. BSL), residual tranche thickness, and rating of associated debt tranches are among the candidates that we are considering as potential comparable attributes. We understand that a careful consideration of multiple comparable attributes may not be practical as an interim solution, and we seek to avoid applying selective rigor to this specific proposal. We appreciate the opportunity to use this example to highlight the importance of identifying comparable attributes that represent drivers of risk, not only correlates of risk.

*****

1. The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

© 2024 National Association of Insurance Commissioners

If you have any questions or would like to discuss further, please contact Amanda Barry-Moilanen, the Academy's life policy analyst, at barrymoilanen@actuary.org.

Sincerely,

Stephen Smith
Chairperson, C1 Subcommittee
American Academy of Actuaries

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

AMERICANS for TAX REFORM
722 12th Street, N.W. • 4th Floor • Washington, D.C. 20005

June 13, 2024

Mr. Philip Barlow
Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Dear Chair Barlow:

Americans for Tax Reform (ATR)[1] appreciates the opportunity to comment again on the National Association of Insurance Commissioners' (NAIC) proposed increase to the risk-based capital (RBC) charge for residual tranches and interests of asset-backed securities (ABS). ATR also appreciates the opportunity to comment on Proposal 2024-19-I, which would narrow the scope of the 45 percent RBC charge. **Based on the data provided by the Oliver Wyman (OW) report, ATR requests that the NAIC vote to impose a 30 percent RBC charge on all residual tranches and interests unless the NAIC produces an independent and credible third-party justification for an increase.[2] Alternatively, ATR requests that the NAIC vote to adopt Proposal 2024-19-I to narrow the scope of the RBC charge increase.**

This request is more than reasonable considering the NAIC has not conducted a comprehensive cost-benefit analysis for increasing the RBC charge to 45 percent. Moreover, the OW report clearly shows the NAIC's proposed increase is gratuitous. To date, no substantive quantitative analysis has been conducted to justify the NAIC's proposed 45 percent RBC charge for all residuals.

ATR remains concerned that the NAIC is committed to arbitrarily increasing the RBC charge on life insurance companies and annuity policyholders. The NAIC appears to want to deter insurance companies from investing in ABS residuals without any data to justify an increase of the RBC charge. **ATR is deeply concerned that proceeding with the 45 percent RBC charge will reduce the affordability and availability of life insurance and annuities for all Americans.**

Securitizations facilitate lending to creditworthy businesses and consumers across the economy. Examples of assets that facilitate the cash flows of securitizations and act as underlying collateral include, credit card receivables, auto loans, business loans, mortgages, student loans, aircraft leases, and cell tower leases. When insurers invest in ABS residuals, it allows them to keep life insurance and annuity costs down for consumers while simultaneously allowing businesses and individuals to receive loans at affordable interest rates. Proceeding with an overly broad RBC charge would impose

[1] ATR is a nonprofit, 501(c)(4) taxpayer advocacy organization that opposes all tax increases and supports limited government, free market policies. In support of these goals, ATR opposes heavy regulation and taxation of financial services. ATR was founded in 1985 at the request of President Ronald Reagan.
[2] https://content.naic.org/sites/default/files/inline-files/Oliver%20Wyman%20Residual%20Tranche%20Report.pdf.

© 2024 National Association of Insurance Commissioners

an arbitrary *de facto* tax on annuity policyholders and borrowers who benefit from securitized financial products.

ATR remains concerned that the NAIC's RBC charge increase is a result of pressure from intergovernmental organizations[3] and foreign banking regulators.[4] The proposed bank capital requirements arbitrarily punish securitizations by doubling the p-factor.[5] The increase in the p-factor fails to take into consideration the varying riskiness of different types of underlying collateral—just like the NAIC's proposal to increase the RBC charge to 45 percent.

The RBC IRE working group discussed applying the RBC charge to residuals of specific structured securities, such as middle market (MM) collateralized loan obligations (CLOs). It is worth noting that "CLO equity exhibits a great deal of resilience to market volatility."[6] In fact, "CLOs in general, and MM CLOs specifically, have continued to perform very well through various economic cycles and market shocks."[7] Heavy regulation of banks has forced certain MM companies to turn to other avenues of financing. MM CLOs provide the necessary secondary market liquidity that is needed to successfully finance MM companies. The foundation of these CLOs is the residual tranche. If the RBC charge for residuals is increased, investors will be less willing to buy into residuals, which will either significantly increase borrowing costs for MM companies, or in some cases, eliminate lending to MM companies altogether.

Contrary to the NAIC staff's structured securities presentation, broadly syndicated loan (BSL) CLOs tend to underperform compared to MM CLOs. According to S&P Global, "middle-market CLOs can withstand comparable defaults with less rating impact than BSL CLOs. The study also notes that middle-market CLOs have performed better than BSL CLOs during the amortization phase, with less deterioration in credit metrics." Additionally, the OW report demonstrates with concrete evidence that across all risk scenarios, "MM CLOs consistently perform better than" BSL CLOs.[8] If the NAIC does not choose to retain a 30 percent RBC charge for all residuals, then this shows Proposal 2024-19-I is a reasonable alternative.

Applying a 45 percent RBC charge to residuals of MM CLOs would increase borrowing costs for the 200,000 MM companies that are the backbone of the U.S. economy. MM companies employ about 48 million people, which constitutes about 30 percent of all private employment in the U.S.[9] Additionally, MM companies create $12.9 trillion of revenue annually,[10] or 33 percent of revenue generated by businesses in the U.S.[11] At a time when interest rates remain high, increasing the RBC

---

[3] https://www.imf.org/en/Blogs/Articles/2024/04/08/fast-growing-USD2-trillion-private-credit-market-warrants-closer-watch.
[4] https://docs.house.gov/meetings/BA/BA20/20240131/116775/HHRG-118-BA20-Wstate-BashurB-20240131.pdf.
[5] https://www.federalregister.gov/d/2023-19200/p-564.
[6] https://w4.stern.nyu.edu/finance/docs/pdfs/Seminars/CLO-Performance.pdf.
[7] https://www.valuationresearch.com/insights/middle-market-clos-proven-stable-performance-in-volatile-credit-markets/.
[8] https://content.naic.org/sites/default/files/inline-files/Oliver%20Wyman%20Residual%20Tranche%20Report.pdf.
[9] https://www.middlemarketcenter.org/Media/Documents/MiddleMarketIndicators/2023-Q4/FullReport/NCMM_MMI_YEAR-END_2023_012524.pdf.
[10] https://www.jpmorgan.com/content/dam/jpmorgan/documents/cb/insights/banking/commercial-banking/next-street-the-middle-matters-report.pdf.
[11] https://www.middlemarketcenter.org/Media/Documents/MiddleMarketIndicators/2023-Q4/FullReport/NCMM_MMI_YEAR-END_2023_012524.pdf.

charge for MM CLO residuals would be disastrous for the U.S. economy, and could even exacerbate a recessionary trend in the macroeconomy.

The NAIC should not arbitrarily and capriciously increase the RBC charge for residual ABS tranches without a proper quantitative and cost-benefit analysis. State regulators and NAIC staff wield significant power over the insurance industry. All decisions made by these individuals need to be data-driven. Although the NAIC is not subject to the *Administrative Procedure Act* (APA),[12] as a matter of proper due process, the NAIC should consider abiding by the APA's principles and allow for a structured notice-and-comment process that considers and analyzes hard data. The NAIC possesses no hard evidence to suggest that raising the RBC charge for all residuals to 45 percent is necessary to mitigate risk. Data-driven regulation and due process protections are especially important when, such as in this case, the NAIC is contemplating action that is controversial, significant, and economically detrimental.

The NAIC should avoid making life insurance and annuities more expensive for American families. Increasing the RBC charge for residuals would increase costs of annuities for American workers and increase borrowing costs for securitized consumer financial products. Currently, there is no quantitative evidence to substantiate this RBC charge increase. **Consequently, ATR requests the 45 percent RBC charge on ABS residuals remain at 30 percent, or that the NAIC adopt Proposal 2024-19-I.**

* * * *

ATR appreciates the opportunity to comment on the 45 percent RBC charge on residuals. If you have any questions or need any additional information, please contact Bryan Bashur at bbashur@atr.org.

Sincerely,

Americans for Tax Reform

cc: Mr. Dave Fleming
Senior Life Risk-Based Capital Analyst
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Submitted via electronic mail

[12] https://www.justice.gov/sites/default/files/jmd/legacy/2014/05/01/act-pl79-404.pdf.



June 13, 2024

Mr. Philip Barlow
Chair, RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

Re: Proposal 2024-19-1 and Structured Securities Group Presentation

Dear Mr. Barlow:

Thank you for the opportunity to comment on the RBC Proposal 2024-19-1 submitted by Everlake Life Insurance Company (the Proposal) and on the accompanying comments from the Structured Securities Group (SSG). We appreciate the Working Group's willingness to consider a more data-driven approach to interim charge(s) for residuals of asset backed securities (ABS).

We understand the Working Group's decision to impose a 45% charge was intended to be a compromise and only a temporary solution. As we have previously commented we believe this process should be aligned with the holistic Framework for Regulation of Insurer Investments (Framework), which provides the basis for a principles-based, deliberative approach to regulatory capital decision making. The goal of the Framework is to establish "a long-term strategic direction for investment regulation and ensure current and future initiatives are thoughtfully coordinated and supportive of this holistic direction." Under the Framework, changes to RBC factors would need to first take into account solvency impacts but should also consider consistency across asset classes and market impacts.

The Proposal recommends including residuals that can be demonstrated to exhibit superior performance in an "Exempted Residual Tranches or Interests" line. We are supportive of adding this line as this differentiation aligns with the Framework principles, particularly making data-informed decisions. See *Appendix* for our own data-driven observations and recommendations on middle market (MM) CLOs, which were discussed on the last Working Group call.

During the last Working Group call, there was significant debate regarding which assets should be classified as "Exempted Residual Tranches or Interests." The Working Group could adopt the "Exempted Residual Tranches or Interests" line and spend the rest of the year gathering detailed analysis from stakeholders about which asset classes should be

© 2024 National Association of Insurance Commissioners

included. This would enable implementation by the end of 2024 and provide a more Framework-consistent approach to reaching interim decisions. Alternatively, the Working Group could decide on the list of asset classes now but allow stakeholders to submit more detailed analysis throughout the next year on which asset classes to include in the "Exempted Residual Tranches or Interests" line for year-end 2025.

We propose that regardless of the interim solution adopted, the Working Group should commit to revisiting the approach within two to three years if the Academy and NAIC have not finished work on determining the appropriate long-term charges to replace the interim solution for ABS residuals. This review would allow for additional data collection on asset classes.

Finally, we offer some observations on the exposed SSG presentation on the Proposal. We strongly support the Framework's vision of the SVO and SSG as key advisors to NAIC members on solvency and capital-markets related matters and believe that NAIC members should have the benefit of this advice to make informed decisions. However, in this case, as well as in the case of Oliver Wyman's Residual Tranche Analysis, the SSG commentary appears to be based on tools and methods that are being designed to assess CLO designations and which we do not believe are appropriate in the context of estimating portfolio capital, which should consider correlation and concentration effects and nuances related to statutory accounting. Moreover, the CLO modeling methodology is still in draft form. It has not been finalized within the CLO Modeling ad hoc group or reviewed or sanctioned by regulators and may be significantly revised by SSG and ultimately by NAIC members. We are concerned that any inferences related to the analysis will result in unreliable conclusions.

We therefore recommend that the NAIC and this Working Group establish clear and consistent procedures aligned with the Framework to govern how NAIC staff, particularly those involved in technical aspects of the RBC framework such as VOSTF designations, should address issues potentially beyond their current remit. This would ensure that all advice provided to NAIC members is both informed and appropriately scoped.

Sincerely,

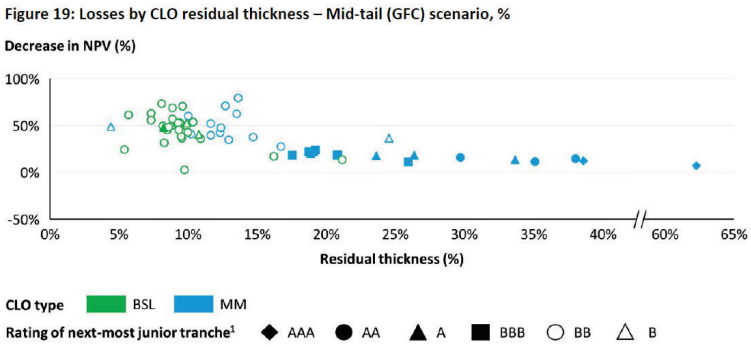


Michael Consedine
Executive Vice President
Head of US Government Relations & Regulatory Affairs

© 2024 National Association of Insurance Commissioners

Appendix

We provide the following observations and suggestions on (MM) CLOs. We would not dispute that MM CLOs may be similar to BSL CLOs when they both have similar structures with AAA, AA, A, BBB, BB, B, and equity tranches. For BSL CLOs, the lowest rated tranche is typically below investment grade with "BB" or "B" ratings. In contrast, most MM CLOs have greater equity tranche thickness and some MM CLOs do not issue any below investment grade tranches that are more likely to experience downgrades than more senior, investment grade tranches. Indeed, this is supported by Oliver Wyman's study. See chart below.



Regardless, MM CLOs have consistently performed better than BSL CLOs. The lower loss/default for rated tranches means lower loss to equity as well. See the table below[1].

U.S. BSL and middle-market CLO 1.0 and 2.0 default summary by original rating

	CLO 1.0 Transactions (2009 and prior)				CLO 2.0 Transactions (2010 and later)			
	Original rating(i)	BSL CLO Defaults(ii)	MM CLO Defaults(ii)	Currently rated(ii)	Original rating(i)	BSL CLO Defaults(ii)	MM CLO Defaults(ii)	Currently rated(ii)
AAA (sf)	1,540	0	0	0	3,639	0	0	1,626
AA (sf)	616	1	0	0	2,964	0	0	1,398
A (sf)	790	4	1	0	2,449	0	0	1,198
BBB (sf)	783	7	2	0	2,230	0	0	1,184
BB (sf)	565	19	3	0	1,818	8	0	975
B (sf)	28	3	0	0	389	11	0	187
Total	4,322	34	6	0	13,489	19	0	6,568

(i)Original rating counts as of June 30, 2023. (ii)CLO tranche default counts as of August 1st, 2023. Source: S&P Global Ratings.

[1] S&P Private Credit And Middle-Market CLO Quarterly: Shelter From The Storm Q1 2024 (p. 33): https://www.spglobal.com/ratings/en/research/pdf-articles/240126-slides-private-credit-and-middle-market-clo-quarterly-shelter-from-the-storm-q1-2024-101592415

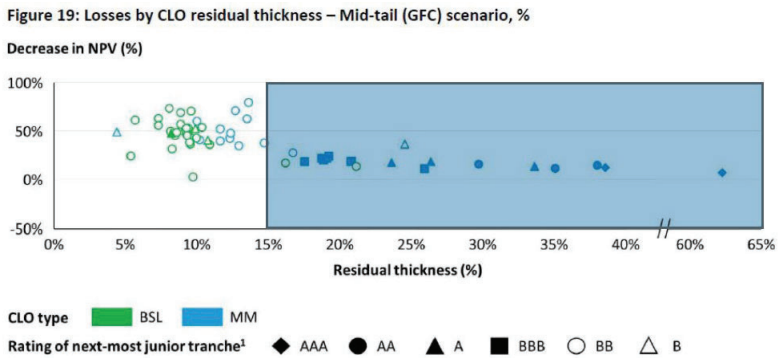
© 2024 National Association of Insurance Commissioners

Moreover, the application of a 45% capital factor to the equity tranche regardless of the thickness of the equity or the rating of the next rated tranche, may change current practices and result in the creation of thinner equity tranches for MM CLOs.

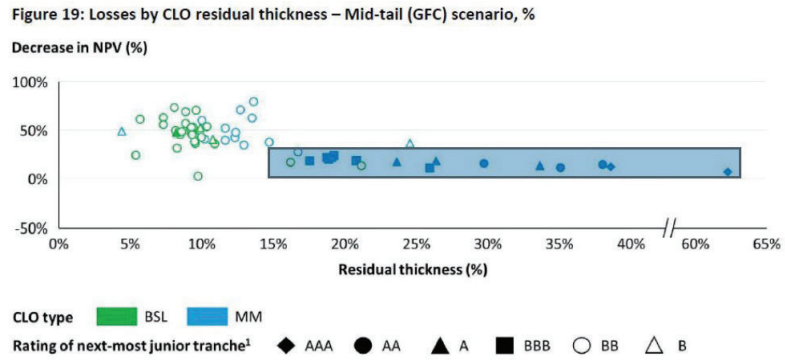
For MM CLOs, we believe that both Oliver Wyman's study and historical data support a conclusion for purposes of an interim charge, that MM CLOs are less risky than BSL CLOs. We think it would be reasonable to include MM CLOs in the "Exempted Residual Tranches or Interests" line for purposes of an interim solution while the Academy and NAIC work towards developing more sensitive, data-driven charges for all ABS tranches.

Alternatively, either of the following two more conservative comparable attributes approaches would be reasonable for a more data driven interim solution as indicated by the blue shaded areas in Oliver Wyman's Figure 19 below.

- Narrower screen test: Make the regulatory capital for equity sensitive to the risk, requiring at least 15% tranche thickness to support 30% equity capital. The Working Group could build in excess conservatism (e.g., 18% or 20%) if preferred.



- Narrowest screen test: Make regulatory capital for equity more sensitive to the risk and require both 15% or greater tranche thickness *and* the next closest tranche to be rated higher than BB (i.e., NAIC 2 or higher).



© 2024 National Association of Insurance Commissioners

EVERLAKE®

June 13, 2024

VIA E-mail

Philip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group and Associate Commissioner for Insurance, District of Columbia Department of Insurance, Securities and Banking
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Everlake Life Insurance Company
3100 Sanders Road, Suite 303
Northbrook, IL 60062
847.665.9930

everlakelife.com

RE: Consideration of Additional Information on Interim Factor for Residual Tranches

RE: Consideration of Additional Information on Interim Factor for Residual Tranches
Proposal 2024-19-I

Dear Mr. Barlow:

Thank you for the work that you and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("Working Group") have done and continue to do on this important matter. We considered the discussion during the Working Group's May 21, 2024 meeting, and we continued engagement with various members of the regulatory community and expert stakeholders. Please accept this letter as response to the captioned exposure that followed the May 21, 2024 meeting.

Executive Summary

This comment letter is responding to the request for more specific information regarding our initial proposal. As you know, under our proposal, the NAIC would apply a 45% interim RBC charge to residual tranches of all structured securities as a default; however, certain residual tranches would be subject to a 30% charge.

Following feedback given by regulators at the previous RBC IRE meeting, we removed several items from the original list of residual tranche types that would be subject

© 2024 National Association of Insurance Commissioners

EVERLAKE

to a 30% charge; we do retain Middle Market ("MM") Collateralized Loan Obligations ("CLOs") as being subject to a 30% charge.

In Appendix 1A, we show the proposed changes to Proposal 2024-19-I, with the changes marked, in ~~red~~, against the original. In Appendix 1B, we show which types of residual tranches would be subject to a 45% charge, and which would be subject to a 30% charge, using the data reported to the Working Group by the ACLI as a reference. In Appendix 2, we provide an analytical framework to be used, by asset type, and using Schedule BA as a reference.

I. Middle Market CLOs – Who Do They Serve and What Is the Risk Profile

Middle Market CLOs Provide Important Financing to Mid-Size Businesses Nationally

In 2023, there was more than $28B in lending to middle market companies through middle market CLOs.[1] There are 200,000 mid-size businesses across the country,[2] that provide about 61 million jobs to US workers.[3]

These businesses often have a more difficult time getting BSL bank loans, and increasingly rely on private lending to finance their operations and growth.[4] Middle-market CLOs are a "segment of the U.S. CLO market backed by senior secured loans to smaller companies."[5]

Middle market companies rely on private loans for a significant portion of their capital needs. For example, companies between $10 and $50 million rely on private debt

[1] "US CLO Market Review", Fitch Ratings (15 Feb 2024),
[2] Lawrence Carrel, "Middle Market Companies See Revenue Growth, Hiring Challenges", March 1, 2024.
[3] U.S. Chamber of Commerce, "Small Business Data Center", May 20, 2024.
[4] "The Middle Matters: Exploring the Diverse Middle Market Business Landscape", Next Street & J.P.Morgan Chase, November 2023, 18. "[Midsized businesses] have encountered a shrinking pool of available bank financing due to a wave of consolidations, regulation-driven strategy changes, the end of low-cost capital, and tightening credit standards."
[5] "Scenario Analysis: How Resilient Are Middle-Market CLO Ratings (2023 Update)?" S&P Global, 16 October 2024 (https://www.spglobal.com/ratings/en/research/articles/231016-scenario-analysis-how-resilient-are-middle-market-clo-ratings-2023-update-12884065). See also, Mark Adelson, The Journal of Structured Finance, Fall 2022.

© 2024 National Association of Insurance Commissioners

EVERLAKE

for 26% of their funding needs and companies between $50 and $100 million rely on private debt for 40% of their funding needs.

Access to capital for MM lenders via securitization is important because it provides financing for such lenders and helps them originate more loans to MM companies. Putting a high capital charge in excess of risk on MM CLOs residuals could hinder lending to businesses important to economic development.[6]

Middle Market CLOs – Strong Performance and Structural Protections

The MM CLO performance data does not suggest performance issues with the debt tranches or the residual equity. In fact, in May of this year, Moody's noted that rated notes of MM CLOs "exhibit strong performance".[7] Further, Fitch put out a report in March 2024 that demonstrated MM CLO performance metrics remained stable despite continued market downgrade activity and upticks in distressed assets in portfolios broadly.[8]

MM loans also feature strong structural protections, because they are bilaterally negotiated between borrowers and lenders who often have a long-term relationship.[9] This results in a customized loan agreement that better aligns the risk appetite of the lender with the needs of the corporate borrower.[10] MM loans are structured to prevent liquidity mismatches and typically contain at least two covenants that allow the lender to take early

[6] See, generally regarding CLO structures, Shohini Kundu, "The anatomy of corporate securitizations and contract design," Journal of Corporate Finance, Volume 81 (2023).
[7] Moody's Private Credit Conference, May 14, 2024 (https://events.moodys.com/2024-05-miu22814-private-credit-conference/resources).
[8] "U.S. BSL & MM CLO Spotlight – February 2024", March 15, 2024, Fitch Ratings, Inc.
[9] As a comparison, most business lending originated by banks that ends up in BSL CLOs through syndication.
[10] All CLOs, by their nature, generally have strong structural protections. "[. . . The] fundamentals of the CLO structure protecting the noteholders, especially for the senior CLO tranches, and shows that middle-market CLOs can withstand comparable defaults with less rating impact than BSL CLOs. "Scenario Analysis: How Resilient Are Middle-Market CLO Ratings (2023 Update)?" S&P Global, 16 October 2024 (https://www.spglobal.com/ratings/en/research/articles/231016-scenario-analysis-how-resilient-are-middle-market-clo-ratings-2023-update-12884065)

© 2024 National Association of Insurance Commissioners

EVERLAKE

preventative action to avoid default that are not possible under the terms of other structures, such as BSLs that have standardized terms and many creditors.[11]

MM CLOs typically have more par subordination and rating cushion at a given tranche level relative to BSL CLOs.

OW Study and Middle Market CLOs

In the Oliver Wyman February 26, 2024 Residual Tranche Risk Analysis study, (the "OW Study"), MM CLO residuals recouped MORE than the original investment other than in the deep-tail where approximately 70% of the original investment was recovered. That is, even in the deep-tail scenario, majority of the investment is still recovered.

The OW Study Loss Analysis is Not Equivalent to RBC Charges

Some attention has been paid to "Figure 22" in the OW Study and some have said that the losses observed in the deep-tail stress scenario should roughly equal the interim capital charge, but only for certain assets. In fact, the OW Study specifically states that it provides data to help inform the calibration of the capital charge for structured security residual tranches – not a capital charge in and of itself.[12] Nothing in the OW study supports inconsistency in calibration of a capital charge across assets.

Under the OW Study – BB-rated corporate bonds have a ratio of capital charge to stress losses of 4/8 (i.e. a 4 % capital charge relative to 8 % average defaults across all three stress scenarios).[13] In other words, the capital charge is about 50 % of the average defaults across the three stress scenarios. Applying that same "equal capital for equal tail risk" ratio (capital charge relative to expected losses), based on the capital charge for bonds, MM CLO residuals should have a capital charge of about 17.8 percent based on the expected losses across all three stress scenarios. Per the OW results, applying a 45%

[11] See, e.g. S&P Global Ratings, "Private Credit And Middle-Market CLO Quarterly: Shelter From The Storm Q1 2024, Jan 26, 2024, Slide 21. (https://www.spglobal.com/_assets/documents/ratings/research/101592415.pdf)
[12] Oliver Wyman, 1.
[13] Oliver Wyman, 30, Fig 22.



© 2024 National Association of Insurance Commissioners

EVERLAKE

capital charge on MM CLOs means insurers would have to hold 79% of expected losses. No other asset in RBC has anywhere close to this level of capital required against expected losses under any stress scenario.

This does not reflect the strong historical performance of these assets. The RBC system has been calibrated appropriately and has been successful since its inception, as demonstrated by the extremely low numbers of insurance company insolvencies through multiple economic downturns.

II. SSG Presentation - MM CLO Residual Thickness

The SSG Materials and some of the Working Group conversation discuss the "thickness" of MM CLO residual tranches. While the OW Study did provide observations on residual thickness, it specifically did not take into account the characteristics of the underlying collateral in drawing conclusions about performance relating to residual thickness.

The available data suggests that residual thickness is worthy of further study, but does not suggest it is appropriate to use as the sole determination of an interim capital charge. For example, residual performance in MM CLOs is driven by a variety of factors, including credit quality of the underlying loans (i.e. whether they are first lien senior secured v. second lien or preferred equity), diversification of the underlying loans by borrower, industry and geography, and the amount of excess spread in a given transaction. Each of these underlying collateral characteristics will impact how thick or thin a MM CLO residual tranche needs to be to absorb losses before the debt tranches are impacted. Determining a capital charge based on an arbitrary residual thickness would punish MM CLOs with high credit quality collateral (and thinner residuals) and reward MM CLOs with lower or weak credit quality collateral (and thicker residuals).

Conclusion

Everlake Life is submitting these revisions in an effort to directly address regulator concerns regarding CLO residual tranches. We are making every effort to be responsive and utilize the best and most up to date data with a solution that will allow regulators to



© 2024 National Association of Insurance Commissioners

EVERLAKE

implement their interim solution for year end 2024 and focus on data-driven analysis as part of a permanent solution moving forward.

We appreciate your efforts and consideration of this request.

Very truly yours,

/s/ *Patrick C Reeder*

Patrick C Reeder
Chief Government Affairs Officer

/s/ Theresa M. Resnick

Theresa M. Resnick
Senior Vice President and Actuary

cc: Dave Fleming, Senior Life RBC Analyst, NAIC



© 2024 National Association of Insurance Commissioners

EVERLAKE

Appendix 1A

Suggested Changes to Proposal 2024-19-I

"Exempted Residual Tranches and Interests" are:

- Middle market ~~and commercial real estate~~ CLO residuals whether in feeder fund format or CLO;
- ~~CMBS and RMBS residuals~~;
- Residuals secured by:
  - Consumer assets including but not limited to consumer loans, credit card receivables, student loans, auto loans and leases, solar loans and leases, home improvement loans and other prime consumer assets;
  - Cashflows from leases secured by, but not limited, to data centers, fiber and wireless infrastructure, renewable energy projects backed by power purchase agreements, and loans and leases secured by physical assets, solar and other energy related projects backed by power purchase agreements, transportation assets such as railcars, containers and aircraft and engines, equipment, commercial and residential real estate;
  - Other loans and fixed income like cashflows including but not limited to residential and commercial PACE assets, insurance policy payments, commercial & industrial solar contracts, whole business securitizations, timeshares, royalties, intellectual property, tax liens, small business loans inventory finance, supply chain finance and accounts receivable finance; and
- any other category of residual tranche or interest or specific residual investment identified by a domiciliary regulator as appropriately receiving a 30 percent charge under the RBC calculations of insurers domiciled in that state. Such review will be based on the characteristics specific to the asset or analysis of the asset class under any methodology deemed appropriate by the domiciliary regulator.



© 2024 National Association of Insurance Commissioners

EVERLAKE

Appendix 1B

Impact of Proposal 2024-19-I on Residuals Reported via ACLI Survey

Type	BACV ($M)	Percentage Reported	RBC Charge Under Proposal
MM CLO	2,294	36.1%	30*
Feeder Funds	1,014	16.0%	45 for underlying equity collateral / 30 for underlying debt collateral*
CFOs	823	13.0%	45
BSL CLOs	694	10.9%	45
Other ABS	554	8.7%	45 for underlying equity collateral / 30 for underlying debt collateral*
Unsecured Consumer Loans ABS	480	7.6%	30
Aircraft Leases	175	2.8%	30
Equipment Lending / Leases	152	2.4%	30
Student Loans	102	1.6%	30
CRE CLO	43	0.7%	45
RMBS	14	0.2%	45
Credit Card	5	0.1%	30
Prime Auto	1	0.0%	30
NAV Loans	0	0.0%	45
Total	6,351	100.0%	
Total at 30	3,208	51%	
Total at 45	1,574	25%	
Total Split 30/ 45	1,568	25%	
Total	6,351	100%	

© 2024 National Association of Insurance Commissioners

EVERLAKE

Appendix 2

Analytical Support for Appendix 1B

The following is an analysis of types of ABS residuals and recommended RBC charge category for 2024 reporting.[14]

Broadly Syndicated Loan CLO Residuals

Receives a 45% charge based on the analysis in the OW Study.

Middle Market Loan CLO Residuals

The OW Study concludes that the public market appropriate charge is 30% and the data and detail put forth in our comment letter is further support of a 30 % charge.

Consumer Loan Residuals

The OW Study specifically studies student loans, subprime auto and prime auto loans. These 3 categories present an analysis of consumer behavior that can reasonably be extrapolated to other consumer loans such as credit cards, home improvement, residential solar loans/ leases and manufactured housing loans. A 30% charge is thus appropriate for all consumer loan backed residuals. If, however, a company has evidence that consumer loan backed residual portfolio experience differs from the results in the OW Study, 45% must be applied.

Aircraft and Equipment Loan/Lease Residuals

High performing asset classes with debt-like characteristics should not be automatically scoped out of 30 % simply because they were not included in the OW Study. These types of assets include loans and leases backed by data centers, digital infrastructure, rail, aircraft and other physical assets. These transactions not only have extensive strong performance history, but also have a tangible asset that can be used to repay debt (whether on a release or loan basis or due to a sale). A 30% charge is appropriate for these types of operating loans and leases.

[14] The applicability of the charge is based primarily on the results presented in the OW Study.

© 2024 National Association of Insurance Commissioners

EVERLAKE

Feeder Funds, CFOs or Other ABS Residuals

The RBC charge for Residual interests of Feeder Funds or Other ABS not contemplated above or in the OW Study should be bifurcated as 30 % or 45 % depending on whether the underlying collateral has debt v. equity characteristics. Other ABS with debt-like characteristics would more closely align with results in the OW Study and should be analogous enough to receive a 30 % capital charge. Feeder Funds that are ultimately backed by debt instruments have fixed-income like cash flows that are passed through the structure to the noteholders. The bond definition issuer paper notes that these types of structures produce "substantially the same risk profile to the debt holders as a CLO". Given the majority of feeder funds backed by debt instruments are middle market or private credit loans, they can be best analogized to MM CLOs, which we have said should receive a 30% capital charge. Feeder Funds ultimately backed by equity interests in companies, Other ABS backed by equity-like collateral and CFOs were not analyzed in the OW Study. A charge greater than 30% is appropriate as 30% is the data-supported charge for the totality of the underlying assets of the structure.

CRE CLOs and RMBS Residuals

Given the SSG and Working Group's stated concerns from last month's meeting, and given the OW Study did not include a review of any residuals backed by real estate (commercial or residential), a charge of greater than 30 % may be appropriate.



© 2024 National Association of Insurance Commissioners

Global Atlantic
FINANCIAL GROUP

June 13, 2024

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBCIRE)
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

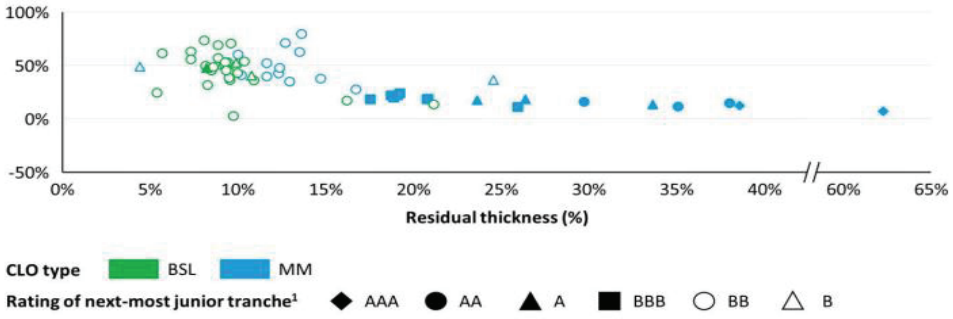
Re: Exempted Residual Tranches and Interests (RBC IRE Working Group Proposal 2024-19-I)

Dear Mr. Barlow:

Global Atlantic[1] appreciates the opportunity to comment on Proposal 2024-19-I which proposes to set the Risk Based Capital ("RBC") charge at 45% for all residual tranches except those specifically identified as exempted.

The purpose of this letter is to express support for a bifurcated interim solution in which certain residuals receive a RBC charge of 30% and all others 45%. This bifurcation gives due consideration to well structured transactions that are backed by fixed income like cashflows driving toward a more data driven approach. Global Atlantic recognizes that residual thickness and lowest rated tranche are factors in the potential loss experience of residuals, but they are not the only drivers of performance. The Oliver Wyman report shows significant variation in residual performance across asset classes. The report also shows that residual thickness, structure, and tranche rating results in varying performance within deals in the asset class (see Figure 19 Losses by CLO Residual Thickness - MML CLO results in OW report below).

Figure 19: Losses by CLO residual thickness – Mid-tail (GFC) scenario, %



[1] Global Atlantic Financial Group is a leading insurance company meeting the retirement and life insurance needs of individuals and institutions. With a strong financial foundation and risk and investment management expertise, the company delivers tailored solutions to create more secure financial futures. The company's performance has been driven by its culture and core values focused on integrity, teamwork, and the importance of building long-term client relationships. Through its relationship, the company leverages KKR's investment capabilities, scale, and access to capital markets to enhance the value it offers clients. KKR's parent company is KKR & Co. Inc. (NYSE: KKR).

© 2024 National Association of Insurance Commissioners

Recommendation

Global Atlantic recommends that identification of residuals exempted from the 45% charge be based on both the underlying asset collateral as well as the leverage inherent in the structure (i.e. residual thickness). The historical performance of different asset classes drives the rating agency stresses that results in market accepted structures and required levels of credit enhancement. Using residual thickness as a method to assess risk is reasonable to do, on a relative basis, but needs to be done across similar asset classes. We propose the criteria below as a starting point to identify residuals which would receive a 30% capital charge. This criterion seeks to differentiate by asset class and residual thickness within an asset class.

Propose that the following residual tranches receive a 30% capital charge:

- Middle Market Loans (MML) and BSL CLOs where the size of the residuals is greater than, or equal to, 15% of the structure's collateral pool
- Transactions backed by loans or leases to prime consumers where the size of the residuals are greater than, or equal to, 5% of the structure's collateral pool
- Transactions secured by hard assets (including equipment, transportation, real estate assets, other hard assets) where the size of the residuals are greater than, or equal to, 10% of the structure's collateral pool

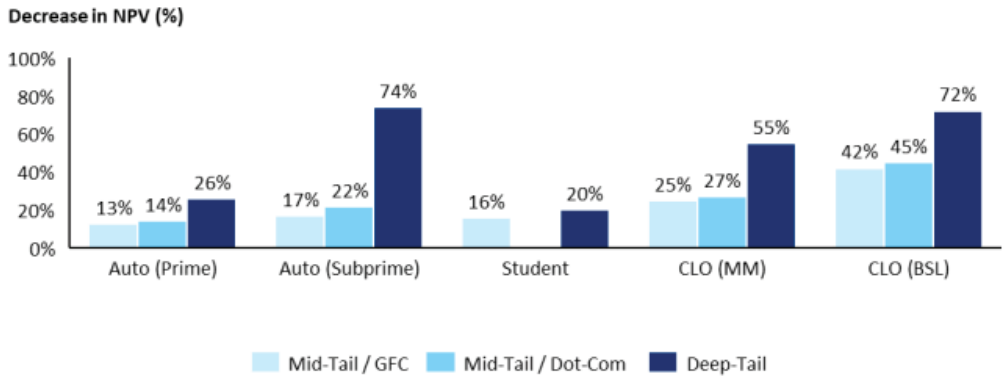
For the purposes of the calculation above, residual thickness is measured as of the initial rating date and is defined as the collateral value of the underlying collateral, or in the case of hard assets the initial appraised value (in either case as defined in the relevant deal documentation), minus the value of the rated notes or bonds (i.e., "initial overcollateralization").

Additional Rational

We recognize that many factors can impact the ultimate leverage in a deal including interest rates, market demand and an issuers other sources of funding and that residual size can vary significantly even across deals in the same asset class. Figure 19 in the OW report (shown on the previous page) shows a noticeable stability in CLO residual value declines (both BSL and MML) for residual thickness greater than or equal to 15%. That is further evidenced by the report stating that "CLO residual equity tranches with thicker residuals perform noticeably better than thinner residual tranches (average decrease in NPV of 49.1% when residual thickness is less than 15% vs. 18.3% when residual thickness is greater or equal to 15%)." Additionally, Figure 23 in the OW report (see below) shows better residual performance in Prime Auto loans and student loans in all three tail scenarios when compared to CLOs.

© 2024 National Association of Insurance Commissioners

Figure 23: ABS residual losses by asset class (%, decrease in NPV)[31]



When we evaluate Figure 20 (see below) we note that a majority of the prime auto loan deals analyzed in the report have residuals greater than or equal to 5% (compared to 15% for MML CLOs) with tighter disparity in NPV outcomes. The conclusion drawn is that residuals of deals backed by prime borrowers have better performance despite having smaller residuals.

Thank you very much for your consideration and we look forward to participating on the NAIC's June 21st RBCIRE call and working on this important issue going forward.

Sincerely,

Lauren Scott

Lauren Scott
Global Atlantic Financial Group
Managing Director and Head of Regulatory & Government Affairs

© 2024 National Association of Insurance Commissioners

June 13, 2024

Mr. Philip Barlow
Chair, RBC Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via e-mail: dfleming@naic.org

Re: Exempted Residual Tranches and Interests (RBC IRE Working Group Proposal 2024-19-I)

Dear Mr. Barlow:

We, the undersigned companies, appreciate the opportunity to provide comments on the NAIC's May 17, 2024, RBC IRE Working Group's Proposal 2024-19-I. We support the concept of identifying certain residual tranches and interests to continue to receive a 30% capital factor. Such classification should be based on the risk of loss to the residual tranche, which can vary greatly among structures.

Accordingly, we suggest the best approach for an interim solution would be to create exemptions from a default 45% capital factor based on the "thickness" of the residual (i.e., how much leverage has been built into the structure) which highly correlates to the risk of loss to the residual tranche.

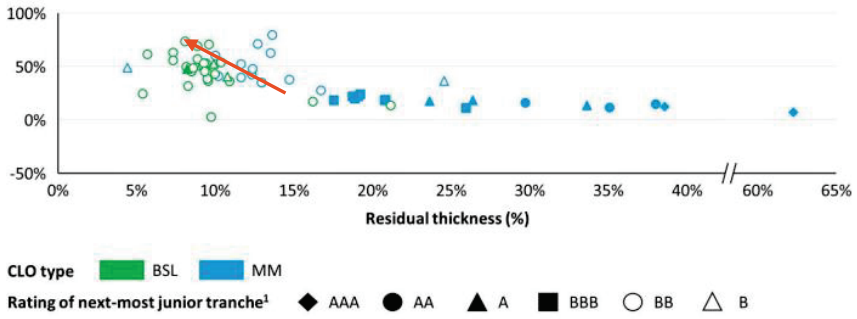
While no methodology is perfect, we believe utilizing residual thickness versus a collateral type (e.g., middle market loans, commercial mortgage loans, consumer assets, etc.) approach offers several benefits including:

- Easily observable input avoiding need for controversial assumptions
- Directionally increases capital for most aggressive structures benefiting from capital arbitrage
- Dissuades unintended consequences of further increasing leverage in structures
- Provides a risk-based approach to capture the potential severity of loss to the residual tranche
- Objectively determinable method to distinguish exemptions
- Ease of adoption and implementation

© 2024 National Association of Insurance Commissioners

Risk of Loss Strongly Correlated with Leverage in the Structure
As shown by the February 26, 2024, Oliver Wyman Residual Tranche Risk Analysis (OW Report), risk of loss is largely driven by the amount of leverage in the structure, or the "thickness" of the residual tranche. The OW Report provides a data-driven analysis of the performance of Middle Market and Broadly Syndicated residual tranches, among others, under various stresses. Quoting that report, "As shown below in Figure 19, residual thickness is a significant driver of stress scenario impact. CLO residual equity tranches with thicker residuals perform noticeably better than thinner residual tranches (**average decrease in NPV of 49.1% when residual thickness is less than 15% vs. 18.3% when residual thickness is greater or equal to 15%**)." We believe this analysis reflects that all structures are not created equal and illustrates that the leverage within a structure is a critically important factor to consider when establishing a risk-based capital charge.

Figure 19: Losses by CLO residual thickness – Mid-tail (GFC) scenario, %



Exemption Based on a Conservative Level of Residual Thickness
Informed by the OW Report, we propose two criteria that must both be satisfied to determine eligibility for an exemption:

1) Residual Tranches or Interests with underlying assets having characteristics of Fixed Income Instruments (Investments with underlying collateral which, if held individually, would be reported on *Schedule D- Part 1 – Long-Term Bonds)*; and

2) The residual is 20% or more of the structure's collateral pool, at par value at origination.

We are proposing applying a cutoff at 20% residual thickness to qualify for the exemption based on the following reasons:

- A 20% level is greater than the level of "excess defaults" (volume of defaults that occurred over the adverse portion of the credit cycle) for both BSL and MM CLOs in both the Dot-Com and GFC mid-tail (~95th percentile) scenarios in Table 2 of the OW Report (copied below), *before* considering recoveries or loss given default.

© 2024 National Association of Insurance Commissioners

- The 20% level applies excess conservatism relative to the 15% level referenced in the OW Report, intended to give regulators additional comfort in applying an exemption to the interim charge.

This approach provides a simplified approach in the interim that is supported by data and reflects a conservative level of relative risk across structures.

Table 2: Scenario-level parameters for CLOs

	Base	Mid-tail (~95th percentile)		
Parameter		**Dot-Com**	**GFC**	**Deep-tail**
Peak default rate *(BSL)*	2.6%	2.7x multiplier *(peak)*	3.9x multiplier *(peak)*	5.9x multiplier *(peak)*
Peak default rate *(MM)*	4.1%			
Excess defaults *(BSL)*	N/A	11.9%	7.6%	33.7%
Excess defaults *(MM)*	N/A	18.4%	11.8%	52.2%
Recovery rate	66.4%	61.1%	58.0%	55.9%
Prepayment rates	24.8%	18.4%	14.0%	10.0%
Recovery lag	18 months	18 months	18 months	18 months
Reinvestment	None	None	None	None

Alignment with NAIC Guidance

We believe that our proposal aligns with the NAIC memorandum regarding Consideration of Additional Information on Interim Factor for Residual Tranches, dated April 16, 2024. Specifically:

1) The proposal is credibly aligned with actual holdings of residuals by insurers, with middle-market loans and broadly syndicated loans being the most prevalent underlying collateral in ACLI members' ABS residual holdings. (See ACLI letter dated May 15, 2024, Table 2.0 copied below); and
2) The OW Report GFC and Dot-Com stress scenarios are of approximately 95th percentile severity, which is approximately equivalent to the CTE90 that the American Academy of Actuaries is applying in its work on CLOs.

© 2024 National Association of Insurance Commissioners

Table 2.0 Allocation by Dollar Amount, Sector, Percentages – survey responses

SECTOR	BACV	PERCENTAGE
MM CLOS	$ 2,294,231,501	36.1%
FEEDER FUNDS†	$ 1,014,183,088	16%
CFOS‡	$ 822,598,092	13%
BSL CLOS	$ 694,225,569	10.9%
OTHER ABS*	$ 554,251,226	8.7%
UNSECURED CONSUMER LOANS	$ 480,105,560	7.6%
AIRCRAFT LEASES	$ 175,105,871	2.8%
EQUIPMENT LENDING/LEASES	$ 151,683,102	2.4%
STUDENT LOANS	$ 101,539,282	1.6%
CRE CLOS	$ 43,187,227	0.7%
RMBS	$ 14,015,686	0.2%
CREDIT CARD	$ 4,930,996	0.1%
PRIME AUTO	$ 897,163	0%
NAV LOANS	$ 189,521	0%
CMBS - -		
SUBPRIME AUTO ABS - -		
TOTAL	$ 6,351,143,883	100%

†Feeder Funds (underlying collateral): commercial real estate credit; equity investments, including LP stakes in PE funds; middle market credit; other leveraged credit; other loans and fixed income like assets; real estate equity.

‡CFOs (underlying collateral): equity investments, including LP stakes in PE funds; middle market credit.

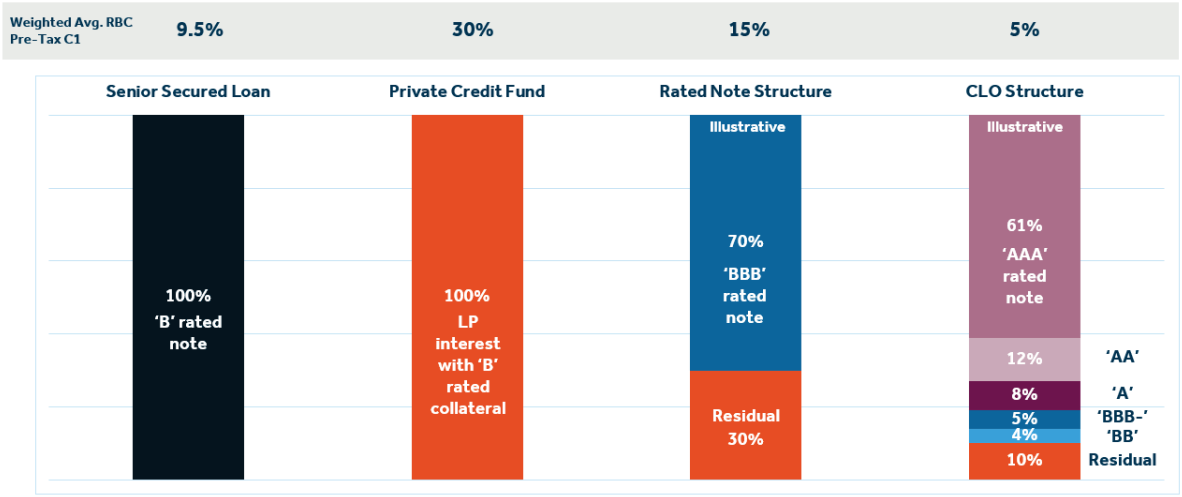
* Other ABS* = ACLI requested data on 14 different sectors. Companies could also enter sectors into an other category if the sector was not one of the 14 sectors ACLI asked about. In this category, members reported: Aircraft Loan ABS; Commercial Loans; Equity – other, Infrastructure Debt, Powerplant, Prime Borrower Unsecured Consumer; Prime Home Improvement Loans; Solar, Utility Scale Solar.

Risk of Residuals Varies Widely Across Structures

The chart below compares four ways an insurance company can hold loans on their balance sheet, all with the same underlying exposure to 'B' senior secured loans, which receive a 9.5% capital charge if held directly (first column). Some insurers may not be able to source these loans directly, and therefore can partner with an asset manager to gain the exposure, generally through a fund. The second column depicts a limited partner interest in a private credit fund with underlying 'B' collateral, which receives an uneconomic 30% capital charge because the investment is in the form of a limited partnership interest. Because investing as a limited partner in a fund is capital inefficient, insurers often use a rated notes structure (column 3) to sit on top of the fund. As shown by the 15% weighted average RBC charge, a 45% charge on the residual results in anti-arbitrage for the structure. As a result, insurers could be incented to add further leverage to reduce the size of the residual. A typical CLO structure is shown in column 4. These structures can have a significant amount of leverage, leading to highly sensitive and exposed residuals. As shown in this exhibit, and supported by the OW Report, the thickness of the residual can vary across structures and represents different levels of risk and the ability to absorb losses.

Under our proposal, the residual tranche of the more conservative rated notes would be exempted and continue to receive a 30% interim capital charge (still reflecting the riskiness of the position, but also its ability to absorb some level of loss); meanwhile the residual tranche of the more highly levered CLO structure with 10% thickness would receive the 45% interim capital charge. Absent our proposed exemption, we believe an unintended consequence of the 45% interim capital charge across all structures could be a migration to more highly levered CLO structures, in an effort to minimize the size of residual tranches subject to the 45% interim capital charge.

© 2024 National Association of Insurance Commissioners



Practical to Implement
Importantly, we believe our proposal can be readily implemented, with Exempted Residual Tranches or Interests being reported as proposed by RBC IRE Working Group Proposal 2024-19-I. We expect the reported carrying values to be lower of amortized cost or fair value, consistent with statutory accounting principles. The calculation of "thickness" used to determine eligibility for exemption, can be simply calculated as:

Thickness = (Par Value of Collateral Pool – Par Value of Debt Outstanding)/ Par Value of Collateral Pool

We believe par value inputs for the thickness calculation are readily available from public sources, such as Bloomberg, or investor reporting in the case of non-public structures.

In conclusion, we the undersigned collectively support a risk-based approach to exempting residual tranches and interests eligible for a 30% capital factor. The data show that residual thickness is a key determinant of risk, and we believe that our proposal is both conservative, as appropriate for an interim solution, and can be readily implemented. We are supportive of the NAIC's efforts to further model and understand the complexities of structured securities and ensure that life insurers are holding the appropriate levels of capital to support the risk on their books.

© 2024 National Association of Insurance Commissioners

We look forward to the opportunity to discuss our proposed solution and answer any questions you may have.

Sincerely,

Sarah Williams
Chief Risk Officer
The Guardian Life Insurance Company

Wen-Fu Wu
Managing Director, Asset Class Head,
Fixed Income & Deputy CIO
TIAA

© 2024 National Association of Insurance Commissioners

June 13, 2024

Via email

Philip Barlow
Chair
Risk Based Capital Investment Risk and Evaluation Working Group
Washington, DC Department of Insurance, Securities and Banking
1050 First Street, NE, 801
Washington DC 20002

Re: Proposal to exempt certain residual tranches and interests from the adopted interim factor

Dear Mr. Barlow:

This letter is submitted on behalf of the undersigned life insurance companies (the "Companies"). We appreciate the opportunity to comment on the proposal to exempt certain residual tranches and interests from the adopted interim 45 percent RBC factor (the "Exemption Proposal") exposed for comment at the May 22 meeting of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (the "Working Group").

In its May 15 letter to the Working Group, the American Council of Life Insurers (the "ACLI") shared the results of a survey of residual holdings from its member companies. The results, which reflect the holdings of 19 out of 27 companies willing to disclose these details, show that well over 75 percent of these residuals are backed by higher risk collateral, including: middle market leveraged loans, various types of equity, transitional commercial mortgage loans, broadly syndicated leveraged loans, and unsecured subprime consumer loans, among others.

While a significant portion of the Oliver Wyman report on residual tranche risk analysis (the "OW Report") presented by the Alternative Credit Council in its February 26 letter to the Working Group focused on residuals minimally held by insurers (i.e. Subprime Auto ABS, Prime Auto ABS, and Student Loan ABS,) it did offer helpful insights on the impact that higher risk collateral can have on residual tranche losses in adverse scenarios. The OW Report shows that when residual tranche thickness is low and the underlying collateral for that residual is of higher risk (like the middle market and broadly syndicated leveraged loans considered in the OW Report,) the residual tranche losses

© 2024 National Association of Insurance Commissioners

can be high under adverse scenarios and an RBC factor of 45 percent or higher is therefore appropriate. The OW Report shows that this relative thinness of residual tranches can be easily identified by looking at the rating of the next junior-most tranche above the residual in a securitization. Residuals that are followed by a relatively low rated subordinate tranche tend to be thin (i.e., they represent less than 25 percent of a securitization's capital structure.)

The ACLI's survey of residual holdings collected valuable data highlighting the thickness of residuals held by the disclosing companies. It showed that for over 70 percent of reported residuals, the next junior-most tranche was rated BB or lower (including unrated tranches). These findings suggest that the residual tranches held by the companies willing to disclose their holdings are predominantly thin and, consequently, high-risk.

The Structured Securities Group (the "SSG") presented independent findings regarding Middle Market CLO residual holdings during the Working Group's May 22 meeting. The SSG's findings show that for the residual tranches of Middle Market CLOs they analyzed, the next junior-most tranche was rated BB or lower. The OW Report analysis, the relevant portion of which was also considered in the SSG's presentation, shows that those residuals would have a thickness of well under 25 percent – i.e., these are all thin residuals collateralized by risky assets, and therefore subject to losses in adverse scenarios consistent with a 45 percent or higher RBC factor.

Based on the fact set laid out in the prior paragraphs, the Companies continue to believe that the 45 percent interim RBC factor adopted in 2023 with delayed implementation to 2024 is an appropriate step in the direction of improving the alignment of capital and risk in the industry. The higher residual factor will help ensure that the significant growth in risk taking in structured securities seen in recent years will also be accompanied by the commensurate capitalization necessary to protect the continued solvency of our industry.

If the Working Group wishes to create a differentiated treatment for residuals, as suggested by the Exemption Proposal, we strongly recommend that it be based on collateral risk and tranche thickness rather than on current market nomenclature or labels that can be subject to change or manipulation. Residuals of securitizations where a significant portion of the collateral represents any type of equity position should in no circumstance be exempted. Residuals of securitizations with debt or other forms of collateral should only be exempted if the residual's size, defined as the difference between the par value of the securitization assets minus the par value of the securitization's rated tranches, represents at least 25 percent of the securitization's capital structure, and the next junior-most tranche in the securitization after the residual is currently investment grade rated.

Importantly, we advise against having such an exemption framework be open to state regulator override as suggested by the Exemption Proposal. Such flexibility would

© 2024 National Association of Insurance Commissioners

amount to an embedded “permitted practice” for RBC that may lead to an uneven competitive playing field based on state of domicile.

Finally, given the likely complexities of implementing such an exemption, we recommend that this framework be considered in connection with the permanent solution for residual tranches rather than as an amendment to the adopted and already delayed interim solution of a single 45 percent factor for residual tranches. In the interest of simplicity, consistency, and certainty, and considering the fulsome process that established the need for an extended empirical approach for any amendment, we continue to support a 45 percent interim factor for residuals. Any further implementation delay risks continued substantial growth in risk taking without a proportionate, prudent adjustment of capital. It also diverts the focus away from the much larger issue of better aligning capital and risk for rated subordinated tranches of CLOs and other structured products. If any “compromise” is to be considered, however, debt-based residuals would be more appropriate for exemption from a 45 percent capital charge if, at a minimum, they represent at least 25 percent of the securitization’s capital structure, **and** if the next junior-most tranche in the securitization after the residual is currently investment grade rated.

We appreciate the NAIC’s diligence in keeping pace with innovation and evolution in life insurer investment strategies. Prudent and calibrated approaches to the regulation of insurer investments that align with developments of capital markets support both consumer choice and policyholder protection. As the U.S. insurance standard setting body, decisive action by the NAIC on emergent risks such as those embodied in insurer securitization subordinate holdings, including residuals, is especially important in the context of concerns raised by authorities charged with systemic risk surveillance.

Respectfully Submitted,

Equitable
MetLife
Pacific Life
Western & Southern

© 2024 National Association of Insurance Commissioners

June 13, 2024

Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

RE: Consideration of Additional Information on Interim Factor for Residual Tranches (Proposal 2024-19-I)

Dear Mr. Barlow:

I write regarding the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBC IRE WG) request for comment on the Consideration of Additional Information on Interim Factor for Residual Tranches (Proposal 2024-19-I). We appreciate the opportunity to comment on the proposal and the potential effect of the proposal on middle market companies nationally.

The proposal under discussion would limit the interim risk charge on residual tranches and interests to specific assets. Given the significant discussion regarding middle market collateralized loan obligations (middle market CLOs) at your last meeting, and our organization's focus on middle market companies, we wanted to share our expertise on the middle market and research to assist you in your decision-making.

The National Center for the Middle Market (NCMM) is located at The Ohio State University Fisher College of Business and was launched in 2011 with one mission – supporting middle market companies in the United States. Defined as organizations with annual revenues between $10 million and $1 billion, there are approximately 200,000 companies representing one-third of private sector GDP and employment. Through our research, we know that over 90% of these companies are privately held and have been in business approximately 40 years on average. During 2023, topline revenue in the middle market grew at 12.4%, far outpacing small and large businesses and further demonstrating the stability, resilience, and importance of this segment. Thus, one may question whether a 45% risk charge overstates the riskiness of middle market firms and suggests a need for research.

Middle market companies have consistently demonstrated strong growth and economic performance since the NCMM started tracking performance and sentiment in 2012. The center uses a semi-annual survey called the Middle Market Indicator to track a number of performance metrics including growth rates, economic confidence, key challenges, and capital investment planning. This and other data regarding middle market company performance is important to inform changes in risk charges. We also see variation in these performance metrics across middle market companies, which indicates a need for more research on corresponding variation in risk charges.

In the last several years, access to capital has become a more challenging hurdle. In our year-end 2023 survey, 28% of companies stated they had insufficient investment capital to support growth plans. These vital businesses need access to all different types of capital, both private and public. Over the past 13 years, with a leading role taken by the National Center for the Middle Market, significant research has been conducted to understand the very unique needs and challenges of middle market companies. They operate between small businesses and start-ups yet face problems of larger companies without the same resources and access to capital. Regulatory concerns have often been a challenge facing middle market companies in their operations and growth plans. In short, more research needs to be conducted to understand the full implications to U.S. middle market companies

The NCMM stands ready to engage with regulators, lenders, company borrowers, and academics to further study the capital needs and challenges for middle market companies. Data-driven insights and research are scarce and as the only center of its kind in the U.S., the NCMM is ideally positioned to provide the necessary insights for decision-making and policy guidance.

Sincerely,
Doug Farren
Managing Director
National Center for the Middle Market, The Ohio State University Fisher College of Business

Cc: Capital Adequacy Task Force
Financial Condition (E) Committee

© 2024 National Association of Insurance Commissioners

Pinpoint
POLICY INSTITUTE

June 11, 2024

Mr. Philip Barlow
Chairman
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners (NAIC)

Dear Mr. Barlow:

I write to voice my support for Proposal 2024-19-I ("the Proposal") being considered by the Risk-Based Capital Investment Risk and Evaluation (RBC IRE) Working Group. This proposal takes the correct approach to addressing regulator concerns in a data-driven way. The Proposal would also help avoid unintended consequences by protecting lending to creditworthy individuals and businesses nationally.

The Proposal would apply a higher capital charge to certain assets based on credible third-party data and historical performance – which should always be the basis for changes to risk charges. To date, the conversation at the NAIC has focused on regulator questions and broad statements regarding asset structure and alleged performance. In fact, the NAIC has never documented a single performance problem associated with losses or defaults of any of these assets. Instead, it is focused on imposing an arbitrary increase in the charge based on a recommendation from a handful of companies that do not originate or hold the assets.

This approach is not only arbitrary, but it assumes that millions of American consumers and businesses are not creditworthy and that a very high percentage of these borrowers are likely to default on their loans. The original 45% residual charge on all structured investments also assumes that insurers are lending to these families and businesses without understanding the risk. Further, the 45% charge assumes that regulators are better informed to make investment and risk decisions than internal insurance company investment professionals.

We do not support these assumptions – and no data supports them, either. The higher charge would apply to student loans, auto loans, equipment leases, lending to businesses, credit card lending, and many, many other assets with no documented problems. This move is unprecedented in financial regulation in the United States. When regulators have moved quickly, it has always been in the face of an urgent, system-wide crisis with failing assets, which regulators have admitted we do not have in this case. Regulators have stated that the assets

subject to the onerous capital charge are not material to insurer solvency and there is no negative performance history even through several business cycles.

The assumption that millions of American families and businesses take out loans likely to default doesn't reflect the careful analysis undertaken by insurance company lenders and the ability of American families and businesses to make responsible borrowing decisions. These families and companies are also insurance policyholders and a critically important insurance customer base. In the case of middle market company borrowing, which was a large focus of the last working group meeting, regulators seem to be acting on the basis of a misunderstanding about this market and the lender protections in the underlying loans. The data in the Oliver Wyman study does not support a double standard for assets simply based on which insurance companies hold them.

The NAIC's actions continue to defy market realities and do not adequately consider the impact they will have on the broader economy, businesses, and consumers. The group has continued to arrogate authority to itself as an unelected standard-setting body that's difficult, if not impossible, to hold accountable. I urge commissioners to do their duty and consider the broader economic harm of assigning a high capital charge that doesn't align with risk.

Sincerely,

Gordon Gray
Executive Director
Pinpoint Policy Institute

Resolution Life

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

June 6, 2024

Re: Proposal 2014-19-I

Dear Mr. Barlow:

We appreciate the important work done to date by the Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("the Working Group"), regarding the evaluation of proper RBC charges for residual tranche investments, and we are fully supportive of the Working Group's efforts to take action on this issue. However, our organization has concerns that the use of a "blanket" 45% RBC charge across all types of residual interests represents a rushed solution that is not fully supported by facts and thorough analysis.

We believe that the above referenced proposal provides a reasonable interim solution which would allow for substantially more time to evaluate appropriate RBC charges in a data-driven, thoughtful manner. The proposal will allow for those investments that have been the subject of significant regulatory concerns in recent years (equity-backed debt and collateralized fund obligations) to immediately receive the higher 45% RBC charge, without penalizing other investments that may not carry the same degree of risk. We strongly support the Working Group adopting this interim solution and hope it will continue to work with industry in developing rational, carefully considered RBC charges for residual interests on a permanent basis.

We appreciate your consideration of this letter and your efforts on this important issue.

Sincerely,

Paul Stephen

Paul Stephen
Chief Accounting Officer
Resolution Life U.S.

© 2024 National Association of Insurance Commissioners



June 13, 2024

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
via electronic mail

Dear Mr. Barlow:

In the current environment, businesses continue to navigate unprecedented challenges driven by rising costs, labor shortages, economic uncertainty, burdensome regulations and tax system uncertainty, and difficulty securing the capital they need to grow and thrive. Small- and medium-sized businesses often seek various resources to operate, invest and scale, and they need access to a variety of types of capital to do so. Middle-market (MM) lending through securitization vehicles fills a critical gap, opening the door to much-needed capital for the more than 200,000 MM companies that make up a third of the U.S. economy.

For this reason, the Small Business & Entrepreneurship Council (SBE Council) writes to urge the Risk-Based Capital Investment Risk and Evaluation (RBC IRE) Working Group to establish the interim risk charge for residuals at 30 percent or to adopt Proposal 2014-19-I. Either option would appropriately reflect the low level of risk associated with MM collateralized loan obligations (CLOs) relative to other assets, as demonstrated by research and real-world performance. Assessing capital charges commensurate with the performance of these securities ensures that MM lending remains a valuable and viable option for the many creditworthy businesses that depend on it. This approach also adheres to the principles of due process by evaluating the data and acting accordingly.

Absent the NAIC taking this action, a 45% charge for equity in MM CLOs would go into effect at the end of this year. Such an increase assumes that a vast swath of the American economy is mid-size companies that are likely to default on loans under stress. This simply does not correspond to the stability and performance of these businesses or any available data. The study conducted by respected management consultant Oliver Wyman and made available to the NAIC compared the losses of the most common types of asset-backed securities under various stress scenarios to determine whether capital charges are commensurate with risk. This study found that a 45% charge wildly overestimated risk and, in fact, a capital charge of less than 20% would be commensurate with the treatment of other assets under the risk-based capital system.

In addition to this strong performance under a forward-looking model in the Oliver Wyman study, middle market companies themselves have proven to be remarkably resilient and continue to experience growth. Middle market companies of all sizes and across nearly all industry

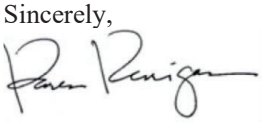
segments reported strong growth over the last year, and these businesses outperformed through the last financial crisis, adding 2.2 million jobs.[1] The rate of year-over-year revenue growth for middle market businesses reached a new all-time high in 2023 with 55% of companies experiencing double-digit growth compared to 2022.[2]

The controversial nature of this proposed change makes it critical that the NAIC and individual commissioners voting on the policy carefully consider available data and the economic impact of these actions. The failure to consider the data is a failure of due process, made all the more troubling by the fact that the NAIC is a not-for-profit association and not a regulator. We are concerned that a small group of vocal regulators and unelected NAIC staff appear to be able to drive regulatory outcomes in all 50 states. This creates serious concerns regarding non-delegation of regulatory authority and is a deeply flawed and possibly unconstitutional way to set state insurance regulatory policy.

As representatives of small- and medium-sized businesses, we urge the RBC IRE WG and the NAIC at large to alleviate due process concerns by making complete and accurate assessments of assets like MM CLOs and the creditworthiness of borrowers in such vehicles before adopting regulations that vastly overstate their risk. The planned increase in risk charge would have a direct effect on middle-market lending and create uncertainty for businesses that represent a major segment of the U.S. economy – and a major policyholder base of insurance companies of all types.

We urge RBC IRE WG to support Proposal 2014-19-I because it appropriately assesses MM CLOs and protects the lending that American businesses need.

Sincerely,



Karen Kerrigan
President & CEO

[1] National Center for the Middle Market: Year-End 2023 Middle Market Indicator
[2] National Center for the Middle Market: Year-End 2023 Middle Market Indicator

800 Connecticut Ave. NW ● Suite 300
Washington, D.C. 20006
(703)-242-5840
www.sbecouncil.org

Protecting Small Business, Promoting Entrepreneurship

Table 1 (6-4-2024 Update)

Aggregate Totals for Residual Tranches Survey Responses

SECTOR	Book/Adjusted Carrying Value	percent distribution of BACV	% BACV of Residuals Where Rating Category of Next Junior-Most Tranche is: Rating AAA	Rating AA	Rating A	Rating BBB	Rating BB	Rating B or Lower	Not Rated
MM CLOs	$2,294,231,501	36.1	0%	0%	10%	10%	64%	15%	1%
Feeder Funds	1,014,183,088	16.0	0%	1%	2%	63%	9%	0%	24%
CFOs	822,598,092	13.0	0%	0%	0%	6%	41%	0%	52%
BSL CLOs	694,225,569	10.9	0%	0%	0%	6%	68%	20%	6%
Other ABS[1]	554,251,226	8.7	0%	1%	2%	27%	44%	26%	0%
Unsecured Consumer Loans ABS	480,105,560	7.6	0%	0%	0%	32%	0%	67%	0%
Aircraft Leases ABS	175,105,871	2.8	0%	0%	92%	8%	0%	0%	0%
Equipment Lending/Leases ABS	151,683,102	2.4	0%	0%	0%	0%	0%	100%	0%
Student Loans ABS	101,539,282	1.6	0%	0%	3%	77%	17%	3%	0%
CRE CLOs	43,187,227	0.7	0%	0%	0%	100%	0%	0%	0%
RMBS	14,015,686	0.2	0%	0%	0%	0%	9%	91%	0%
Credit Card ABS	4,930,996	0.1	0%	0%	0%	0%	0%	0%	100%
Prime Auto ABS	897,163	0.0	0%	0%	0%	0%	0%	100%	0%
NAV Loans	189,521	0.0	0%	0%	100%	0%	0%	0%	0%
CMBS	-	-	0%	0%	0%	0%	0%	0%	0%
Subprime Auto ABS	-	-	0%	0%	0%	0%	0%	0%	0%
TOTAL	6,351,143,883	100.0							

[1] Includes: Aircraft Loan ABS, Commercial Loans, Equity - other, Infrastructure Debt, Powerplant, Prime Borrower Unsecured Consumer, Prime Home Improvement Loans, Solar, Utility Scale Solar.

Source: ACLI tabulations of Residual Tranches survey of 2023 year-end data.

© 2024 National Association of Insurance Commissioners

Draft: 6/4/24

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Virtual Meeting
May 22, 2024

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met May 22, 2024. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy, Vice Chair (CA); Wanchin Chou (CT); Ray Spudeck (FL); Doug Ommen, Carrie Mears, and Kevin Clark (IA); Vincent Tsang (IL); Roy Eft (IN); Fred Andersen (MN); William Leung and Debbie Doggett (MO); Lindsay Crawford (NE); Jennifer Li (NH); Bob Kasinow and Bill Carmello (NY); Judith L. French, Tom Botsko, and Dale Bruggeman (OH); Cassie Brown and Rachel Hemphill (TX); Doug Stolte and Dan Bumpus (VA); Steve Drutz (WA); and Amy Malm (WI).

1. Discussed Comment Letters Received on the Memorandum

Barlow said that even though a couple of comment letters were received, they did not directly respond to the memorandum that was exposed (Attachment Six-B1). This might suggest that the analysis effort was exhausted, at least in the short term.

Mariana Gomez-Vock (American Council of Life Insurers—ACLI) presented a comment letter (Attachment Six-B2). Gomez-Vock said ACLI sought to be responsive to questions raised on the last call, specifically, "What exactly life insurers were holding with respect to residuals?" ACLI surveyed its members and summarized the findings in the comment letter. Gomez-Vock said 19 members responded to the survey, and these members owned about $6.3 billion in residuals (compared to an industry total of about $11 billion). She called out a couple of prevalent residual types, such as middle market (MM) collateralized loan obligations (CLOs) and broadly syndicated loan (BSL) CLOs, which accounted for 36% and 11% of the surveyed assets, respectively.

Barlow asked if ACLI could share the identity of the life insurers that responded to the survey. Gomez-Vock said she needs to obtain consent from the respondents and will follow up with an answer. Barlow compared ACLI's survey results with Oliver Wyman's report. He noted out of the five residual types in Oliver Wyman's report, three of them (specifically prime auto asset-backed securities [ABS], subprime auto ABS, and student loan ABS) accounted for less than 2% of overall holdings per ACLI's survey result. He questioned why they were chosen in Oliver Wyman's study. Gomez-Vock responded that Oliver Wyman's selection was based on the largest sectors of ABS deals in the United States by volume. The selection was neither insurer-specific nor residual-specific, and this may cause the difference observed by Barlow.

Barlow asked whether the holdings of the life insurers that did not respond to ACLI's survey could vary significantly from ACLI's findings. Gomez-Vock declined to answer due to a lack of information but offered to follow up after the meeting. Clark asked if ACLI collected further information about the collateral types of the feeder fund sector, and Gomez-Vock responded that ACLI did collect information about the underlying collateral being commercial real estate credit; equity investments, including limited partnership (LP) stakes in private equity (PE) funds; MM credits; other leveraged credit; and other loans and fixed-income-like assets, such as real estate equity. ACLI also obtained similar information for collateralized fund obligations (CFOs). However, ACLI did not summarize the values and percentages of ownership by underlying collateral types due to time constraints and, therefore, was not able to show which collateral type is the most prominent.

Patrick Reeder and Theresa Resnick (Everlake Life) presented a comment letter and proposal (Attachments Six-B3 and Six-B4). Reeder said Everlake Life's proposal is an alternative interim solution that is both responsive to regulators' concerns and is supported by data. Reeder also said the proposal, though viewed as an interim solution,

© 2024 National Association of Insurance Commissioners

did not specify a sunset provision. Resnick said the foundational concept when deliberating charges for emerging investments is to have robust calibration and internal consistency with existing C-1 charges. Though historical loss data is lacking for residuals, data of the underlying collaterals is available, and through modeling techniques, one can still arrive at the right answer. Resnick believed Oliver Wyman's report is informative and supports Everlake Life's proposal, which is that the null hypothesis at 45% is the right interim charge, with an alternative hypothesis that 45% is too high and not consistent with existing C-1 charges for certain residual types. Resnick concluded with her preference to see the exposure of Everlake Life's proposal, which would allow more time to reflect on the reasonableness and consistency of the proposed factors. She also believed Everlake Life's proposal helps avoid the cliff or volatility (e.g., when the interim charge is too high and is adjusted to a lower permanent charge).

Reeder said the gist of Everlake Life's proposal is that the collateral type in the securitization or feeder fund structure drives the factors: equity collaterals receive 45% while debt, and physical asset-backed debt collaterals receive 30%. Barlow said the proposal appeared to be more than an instructional change. It entailed a change from a direct pull of annual statements to company self-reporting. He invited comments on the feasibility of implementing such a change during the exposure period.

Barlow asked Eric Kolchinsky (NAIC) to comment on the proposed subset of residuals that are exempted from 45%. Kolchinsky interpreted the proposal as assigning a 45% charge to BSL CLO only, and a 30% charge to everything else. He thought that was counterproductive. Reeder clarified that Everlake Life's original intent was to have residuals of CFOs, BSL CLOs, and equity-backed feeder funds assigned a 45% charge. Upon Kolchinsky's request, Reeder clarified that MM CLO residuals fall into the 30% bucket in the proposal. Barlow argued that per Oliver Wyman's report, MM CLOs do not appear to be low risk. Kolchinsky agreed. He explained that MM CLO losses appear comparatively low in Oliver Wyman's report due to the thickness of the MM CLO residual tranches as well as the comparatively higher-rated, next most junior tranches within the structures, e.g., BBB, A, and sometimes even AA or AAA. Kolchinsky said, however, MM CLO residuals held by the insurers do not have that kind of thickness and/or that high of a rating for the next most junior tranches. He made use of Schedule BA disclosures in the annual statements and concluded that the next most junior tranches of the MM CLO residuals owned by the insures are mostly BB-. He said going back to Oliver Wyman's report, the loss rate modeled for these insurer-owned MM CLOs is very comparable, if not higher, than the loss rate of BSL CLOs. Kolchinsky also pointed out that MM CLOs have lower S&P Index ratings.

Gomez-Vock said ACLI also collected data on tranche thickness but did not have time to sanitize it for public presentation. Kolchinsky commented that it is counterintuitive to have lower charges for MM CLOs and feeder fund structures. They are less transparent as to underlying collaterals and have much greater liquidity risk. Given the current downturn for commercial real estate (CRE) properties, Kolchinsky said it is not a great time to benefit from CRE CLOs and commercial mortgage-backed securities (CMBS) by assigning them a lower charge. Lastly, Kolchinsky pointed out that there are no set definitions for MM CLOs and BSL CLOs, which is likely causing enforcement issues (e.g., one may put 5-10% MM loans into the securitization to qualify for MM CLOs charge, if lower). He said the Structured Securities Group (SSG) can help, upon a regulator's request, to categorize residuals by referring to the prospectus and/or help define categories by working with the industry.

Kolchinsky also presented a slide that surveyed the credit structured finance investment outstanding as of 2021, sourced from the Securities Industry and Financial Markets Association (SIFMA). CMBS and residential mortgage-backed securities (RBMS) made up about half of the market, while collateralized debt obligations (CDOs) and CLOs accounted for a quarter. BSL CLOs are the most prevalent type within the CDOs/CLOs sector, accounting for 80-90%. The consumer sector is primarily made up of auto loans and credit card loan securitizations. Kolchinsky said the other sector is up for discussion as a lot can go into it.

© 2024 National Association of Insurance Commissioners

Upon Clark's request, Kolchinsky clarified that the SIFMA survey is sourced from market issuance and is not necessarily representative of insurers' holdings.

Stolte said Virgina supports retaining the adopted 45% interim solution for ABS residuals. He said the Working Group already delayed implementation for a year. The industry failed to rebut the 45% interim charge, and the Working Group voted against an additional year of delay. A memorandum was exposed to solicit commitment to perform additional analysis. Everlake Life's proposal reacted to the solicitation but failed to satisfy the specific requirements laid out in the memorandum. Stolte said that if the Working Group wishes to consider the proposal, he would have significant concerns with it. The first concern is that pages 10 through 15 of Oliver Wyman's report did not support a lower risk charge for MM CLOs, which have higher peak default rates across stress scenarios. The obligors of the MM loans have lower credit ratings, and the projected losses are in excess of 45%, much comparable with BSL CLO losses. In addition, ACLI's survey presented in the meeting shows that 36% of the surveyed residuals are MM CLOs, when compared to 11% in BSL CLOs. Based on this information, Stolte said the Working Group should not carve out MM CLOs from the 45% charge.

Andersen agreed with Kolchinsky and Stolte. He said carving out MM CLOs and CRE-related assets will likely incentivize investment in risky assets. He also said that he believes all the analysis performed so far appears to solidify the 45% charge.

Chou supported the exposure and anticipated further investigations needed (e.g., feasibility studies to implement the change, potentially more work by the industry, and the SSG to follow up on the discussions, etc.).

Clark also supported the exposure. He said the 45% charge was originally developed based on assumptions that the BSL CLO residuals were the most prevalent among insurers. With new information presented in the meeting, he said the Working Group would need time to reevaluate and digest it. Clark suggested exposing the SSG's presentation along with Everlake Life's proposal.

Malm agreed with Virginia and Minnesota about MM CLOs. She appreciated more time given through the exposure process.

Tsang said Everlake Life has a steep curve to climb to justify the charges for MM CLO residuals, especially in a short period of time.

Brown made a motion, seconded by Eft, to expose Everlake Life's proposal and the SSG's presentation, for a 21-day public comment period, ending on June 13, 2024. A roll call vote was taken with 10 members voting "Yes" to the motion and six members voting "No." The motion passed.

Barlow said the Working Group will seek comments on what should be included/excluded in the residual buckets, preferably with some analytical support.

Barlow said that because the timing of the exposure is outside of the standard procedures, it would require a supermajority two-thirds vote for adoption by the Capital Adequacy (E) Task Force. Likewise, the timing of the exposure might present challenges to vendors, and he said those need to be addressed as well.

Having no further business, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group adjourned.

© 2024 National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Members, Interested Regulators and Interested Parties of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

FROM: Philip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

DATE: April 16, 2024

RE: Consideration of Additional Information on Interim Factor for Residual Tranches

---

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group will meet May 22, 2024, to consider additional feedback to be provided by those industry stakeholders requesting a 1-year delay. In order to be considered by the Working Group, this feedback needs to include and shall be limited to, a detailed plan describing:

(1) Who is accepting responsibility for conducting the additional analysis. Note that this cannot require the dedication of American Academy of Actuaries' (Academy) resources which are already dedicated to long-term projects commissioned by the Working Group. If the responsible party also needs the cooperation of other sources, please confirm the willingness and ability of those parties to provide the necessary data/analysis in the timeframe identified.

(2) A specific timeline of when deliverables will be provided, in order to allow adequate time for the Working Group to conduct its review. This should include touchpoints with the Chair of the Working Group regarding progress, with a final proposal to be provided no later than January 31, 2025.

(3) Any analysis provided must be credibly aligned with the actual holdings of residuals by insurers and should be based on a Conditional Tail Expectation (CTE) risk measure approach.

(4) While the Working Group presumes that a long-term factor will be based on attributes of holdings, likely resulting in multiple factors, an interim factor is anticipated to be singular in nature. If industry anticipates it will request multiple factors be used for an interim step, the structure and design of the interim proposal must be received by November 30, 2024, to ensure an adequate time to review before a structure change. Note that any proposal involving multiple factors must be supported by additional CTE-based risk measure analysis. As evidenced by the vote taken during the April 12, 2024, meeting, a majority of the working group does not believe a 1-year delay for the sole purpose of allowing multiple interim factors is warranted.

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990

Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600

New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000

www.naic.org

© 2024 National Association of Insurance Commissioners

(5) Acknowledgement that the Working Group will not reassess the interim factor if information is received after the agreed timelines. Any information provided after those dates may be considered in the context of ongoing work as a long-term factor.

© 2024 National Association of Insurance Commissioners

Mariana Gomez-Vock
Senior Vice President, Prudential Policy & International
American Council of Life Insurers
Marianagomez-vock@acli.com

May 15, 2024

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

[Via email: dfleming@naic.org]

Re: Allocation of residual tranche holdings, by sector

Dear Mr. Barlow:

ACLI appreciates the opportunity to follow up on a request that emerged from discussions about the recent Oliver Wyman (OW) study. On the last Working Group call, several regulators discussed the study's findings on Bank Syndicated Loan (BSL) CLOs. Regulators noted that the current statutory reporting for residuals does not include sector-specific disclosure for Asset Backed Securities (ABS) residuals and asked ACLI to collect this data for YE 2023. ACLI developed a voluntary survey to gather information from our members on Asset Backed Securities (ABS) residual holdings.

Executive Summary of Findings:

- Our survey indicates that approximately 10.9% are BSL CLOs.
- ACLI identified the top 32 holders of residuals who collectively held 95% of the aggregate amount of residuals ABS in the life industry. Of the 32 group holders, 27 were ACLI members. ACLI did not survey non-members.
- ACLI received data from 19 life insurance groups out of the 27 surveyed, which represented 54% or $6.4 billion of the total aggregated residuals in YE 2023.

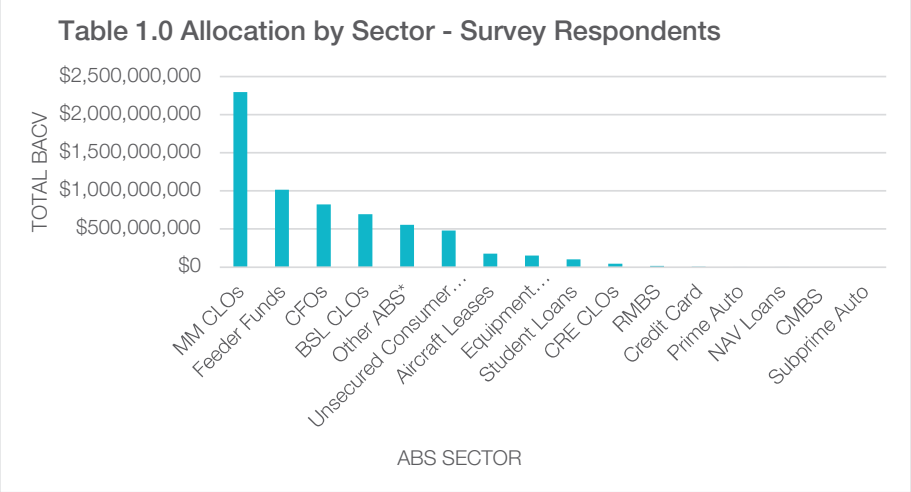
Additional information about the survey, its participants and findings are below.

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

acli.com

About the survey

- Survey asked about allocations for 15 specific sectors / collateral type, there was also space to identify and report other categories of ABS. Respondents were asked to identify the "other" ABS sector.
- Respondents also submitted the definitions their company used for each sector, ACLI reviewed the definitions to ensure that each sector was homogeneous.
- Respondents were also asked to identify the underlying collateral for "feeder funds" and "CFOs."
- ACLI calculated the percentage of asset allocation for the 19 groups reporting. Thus, the survey represents the percentages, based on book adjusted carrying value (BACV) for each sector, for the 19 groups.
- Each survey participant provided ACLI with a signed attestation regarding the completeness and accuracy of the data submitted.



Other ABS* = ACLI requested data on 14 different sectors. Companies could also enter sectors into an other category if the sector was not one of the 14 sectors ACLI asked about. In this category, members reported: Aircraft Loan ABS; Commercial Loans; Equity – other, Infrastructure Debt, Powerplant, Prime Borrower Unsecured Consumer; Prime Home Improvement Loans; Solar, Utility Scale Solar.

Sample Representativeness

- ACLI first identified the top 32 holders of residual tranches. These 32 life insurance groups held 95% of the total residual tranches reported in YE 2023 ($11.5 billion).
- ACLI excluded non-members and surveyed the remaining 27 insurance groups.
- ACLI received data from 19 life insurance groups.
- The 19 responses represents 54% or $6.4 billion of the total aggregated residuals reported in YE 2023.

© 2024 National Association of Insurance Commissioners

Table 2.0 Allocation by Dollar Amount, Sector, Percentages – survey responses

SECTOR	BACV	PERCENTAGE
MM CLOS	$ 2,294,231,501	36.1%
FEEDER FUNDS†	$ 1,014,183,088	16%
CFOS‡	$ 822,598,092	13%
BSL CLOS	$ 694,225,569	10.9%
OTHER ABS*	$ 554,251,226	8.7%
UNSECURED CONSUMER LOANS	$ 480,105,560	7.6%
AIRCRAFT LEASES	$ 175,105,871	2.8%
EQUIPMENT LENDING/LEASES	$ 151,683,102	2.4%
STUDENT LOANS	$ 101,539,282	1.6%
CRE CLOS	$ 43,187,227	0.7%
RMBS	$ 14,015,686	0.2%
CREDIT CARD	$ 4,930,996	0.1%
PRIME AUTO	$ 897,163	0%
NAV LOANS	$ 189,521	0%
CMBS - -		
SUBPRIME AUTO ABS - -		
TOTAL	$ 6,351,143,883	100%

†Feeder Funds (underlying collateral): commercial real estate credit; equity investments, including LP stakes in PE funds; middle market credit; other leveraged credit; other loans and fixed income like assets; real estate equity.

‡CFOs (underlying collateral): equity investments, including LP stakes in PE funds; middle market credit.

* Other ABS* = ACLI requested data on 14 different sectors. Companies could also enter sectors into an other category if the sector was not one of the 14 sectors ACLI asked about. In this category, members reported: Aircraft Loan ABS; Commercial Loans; Equity – other, Infrastructure Debt, Powerplant, Prime Borrower Unsecured Consumer; Prime Home Improvement Loans; Solar, Utility Scale Solar.

Summary of ACLI Survey Findings

Top Five ABS sectors reported to ACLI

- MM CLOs - 36.1% ($2.3 billion)
- Feeder Funds - 16% ($1 billion)
- CFOs – 13% ($822 million)
- BSL CLOs - 10.9% ($694 million)
- Other ABS[1] – 8.7% ($554 million)

[1] ACLI requested data on 14 different sectors. Companies could also enter sectors into an "Other" category if the sector was not listed. In this category, members reported: Aircraft Loan ABS; Commercial Loans; Equity – other, Infrastructure Debt; Powerplant; Prime Borrower Unsecured Borrower; Prime Home Improvement Loans; Solar; Utility Scale Solar.[3] The Oliver Wyman reported discussed BSL CLOs, MM CLOs, Prime Auto and Subprime Auto, Student Loan ABS.

© 2024 National Association of Insurance Commissioners

Comparing actual holdings with the sectors analyzed in the OW Report[2]

- Subprime Auto – **0%** ($0)
- Prime Auto – **0.00014%** ($897,163)
- Student Loan ABS – **1.6%** ($101.5 million)
- BSL CLOs – **10.9%** ($694 million)
- MM CLOs – **36.1%** ($2.3 billion)

Note about the asset classes/sectors selected by OW to review:

- OW's selected its subclasses based on the four largest sectors of outstanding ABS deals in the U.S., by volume.
- The data was not specific to insurers or life insurers, who have different investment needs than other institutional investors.
- ACLI's data demonstrates that insurers' holdings of residuals do not align with the total market share of all outstanding ABS deals in the U.S.

Thank you for the opportunity to provide this data. We hope that it is useful as the Working Group continues its work on RBC factors for structured securities.

Sincerely,



Mariana Gomez-Vock
Senior Vice President, Prudential Issues & International

© 2024 National Association of Insurance Commissioners

Appendix

Table 1 (5-15-2024 Update)

Aggregate Totals for Residual Tranches Survey Responses

SECTOR	Book/Adjusted Carrying Value	percent distribution of BACV
MM CLOs	$2,294,231,501	36.1
Feeder Funds	1,014,183,088	16.0
CFOs	822,598,092	13.0
BSL CLOs	694,225,569	10.9
Other ABS[1]	554,251,226	8.7
Unsecured Consumer Loans ABS	480,105,560	7.6
Aircraft Leases ABS	175,105,871	2.8
Equipment Lending/Leases ABS	151,683,102	2.4
Student Loans ABS	101,539,282	1.6
CRE CLOs	43,187,227	0.7
RMBS	14,015,686	0.2
Credit Card ABS	4,930,996	0.1
Prime Auto ABS	897,163	0.0
NAV Loans	189,521	0.0
CMBS	-	-
Subprime Auto ABS	-	-
TOTAL	6,351,143,883	100.0

[1] Includes: Aircraft Loan ABS, Commercial Loans, Equity - other, Infrastructure Debt, Powerplant, Prime Borrower Unsecured Consumer, Prime Home Improvement Loans, Solar, Utility Scale Solar.

Source: ACLI tabulations of Residual Tranches survey of 2023 year-end data.

ACLI Comment Letter
5/15/2024

© 2024 National Association of Insurance Commissioners

Appendix, cont.

Table 2 (5-15-2024 Update)

Percent Distribution of Responses for Book/Adjusted Carrying Value Holdings, By Sector

Groups with Residual Holdings of $230 million and Above (9 Groups)	Percent distribution of BACV	Groups with Residual Holdings Below $230 million (10 Groups)	Percent distribution of BACV
SECTOR		**SECTOR**	
MM CLOs	41.6	Feeder Funds	38.2
CFOs	14.9	BSL CLOs	33.4
Feeder Funds	10.9	MM CLOs	12.1
Other ABS[1]	9.5	Other ABS[1]	5.2
Unsecured Consumer Loans ABS	8.7	CFOs	4.3
BSL CLOs	5.8	Aircraft Leases ABS	3.0
Equipment Lending/Leases ABS	2.9	Unsecured Consumer Loans ABS	2.8
Aircraft Leases ABS	2.7	RMBS	0.9
Student Loans ABS	2.0	CRE CLOs	-
CRE CLOs	0.8	NAV Loans	-
Credit Card ABS	0.1	CMBS	-
RMBS	0.1	Credit Card ABS	-
Prime Auto ABS	0.0	Prime Auto ABS	-
NAV Loans	0.0	Subprime Auto ABS	-
CMBS	-	Student Loans ABS	-
Subprime Auto ABS	-	Equipment Lending/Leases ABS	-
TOTAL	100.0	TOTAL	100.0

[1] Includes: Aircraft Loan ABS, Commercial Loans, Equity - other, Infrastructure Debt, Powerplant, Prime Borrower Unsecured Consumer, Prime Home Improvement Loans, Solar, Utility Scale Solar.

Source: ACLI tabulations of Residual Tranches survey of 2023 year-end data.

ACLI Comment Letter
5/15/2024

© 2024 National Association of Insurance Commissioners

EVERLAKE®

May 15, 2024

VIA E-mail

Philip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group and Associate Commissioner for Insurance, District of Columbia Department of Insurance, Securities and Banking
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Everlake Life Insurance Company
3100 Sanders Road, Suite 303
Northbrook, IL 60062
847.665.9930

everlakelife.com

RE: Consideration of Additional Information on Interim Factor for Residual Tranches

Dear Mr. Barlow:

Thank you for the work that you and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("Working Group") have done on this important matter. This letter is in response to your memo dated April 16, 2024. That memo was issued in response to the April 12, 2024 meeting of the Working Group, during which a one-year delay in implementation of the interim RBC factor for all residual tranches was considered. Upon further consideration of the matter, including the stated concerns of the regulatory community to take swift action to address the concerns about the residual tranches of collateralized loan obligations ("CLOs"), and taking into account the available data, we suggest an alternative path forward.

Executive Summary

We propose that the Working Group apply a 45% interim RBC charge to residual tranches of all structured securities EXCEPT those listed below that are (1) demonstrated as high-performing based on data and analysis, and (2) supported by data that demonstrates the performance in a tail scenario warrants a 30% charge ("Exempted Residual Tranches and Interests"). Exempted Residual Tranches and Interests would be subject to a 30% RBC charge during this interim period until the long-term ABS RBC project is completed. This proposal could be implemented on an interim basis, starting at the end of 2024 and would involve a change to the RBC instructions and not the RBC blank.

© 2024 National Association of Insurance Commissioners

EVERLAKE

To implement this proposal, the Working Group could change the RBC instructions clarifying that residual tranches of structured securities (other than Exempted Residual Tranches and Interests) would be reported on line 51 while Exempted Residual Tranches and Interests would be reported on line 49.2.

We have suggested specific language that could be included in the NAIC RBC Proposal Form in Appendix 1.

Background

Concerns About Performance of Residual Tranches

The interim 45% charge originated in 2021 due to concerns raised by the SVO and NAIC staff regarding residual tranches and the potential for regulatory capital arbitrage. The issue was discussed in the Valuation of Securities (E) Task Force before being referred to the Working Group.[1] Specific concerns about tail risk and other issues have been raised by the Working Group[2] and stakeholders regarding certain types of residuals, most notably Broadly Syndicated Loan ("BSL") CLO equity as well as other fund structures such as feeder funds backed by equity linked instruments and collateralized fund obligations ("CFO").[3]

Data Is Being Collected and Shared with the Regulatory Community

We understand that the Working Group will receive data from the ACLI showing the residual tranche holdings, broken down by sector or type of collateral by a number of life insurance companies. Everlake Life participated in this survey.

This data collected by the ACLI will be helpful to demonstrate to the Working Group that the majority of the residuals owned by respondents to the ACLI survey are not BSL CLO equity or CFOs / feeder funds backed by equity linked instruments. Instead, they are largely backed by structures that are more resilient due to higher levels of enhancement and / or collateral that is more fixed income like in nature such as loans and leased cashflow streams.

[1] VOSTF adopted an amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office to remove residual tranches from receiving an NAIC Designation. VOSTF December 12, 2021, meeting minutes

[2] Working Group Meeting Minutes (February 28, 2022) (9-454 NAIC Proceedings – Spring 2022), at 2. In discussing the background of residual project for Working Group Members, Ms. Mears (IA) recognized the complexity of the issue, noting that initial risk assessment "may also be easier for residuals of collateralized loan obligation (CLO), which have underlying collateral that is rated and may be more difficult for other structures that have underlying collateral that is not rated or does not fit within the existing RBC framework."

[3] Joint Working Group and Financial Condition (E) Committee Meeting Minutes (January 12, 2022). Commissioner White supported a request "to solicit if members of the industry, and perhaps consultants that follow the NAIC work, have views on possible methodologies that could achieve the objective of capturing the tail risk on CLOs." See also, regulator comments on March 4, 2024, Working Group meeting suggesting that the Oliver Wyman Study supports a 45% for BSL CLOs. See also recent observations from interested parties in written comments for April 12, 2024, Working Group meeting suggesting that BSL CLOs make up approximately 80% of insurance holdings of ABS.



© 2024 National Association of Insurance Commissioners

EVERLAKE

Changes to RBC Must Be Data Driven

The Working Group began this project with the goal of focusing "on setting RBC charges that correlate with the risk insurers are undertaking and ensure that the risk the RBC is addressing is commonly understood."[4] As this Working Group has acknowledged, the increased charge was introduced based on limited data.[5] The most substantive data presented to the Working Group to date regarding ABS residuals was the March 2024 Oliver Wyman study.[6] That study provided detailed data modeling performance of residuals under significant historical stress scenarios – the dotcom bubble and the Great Financial Crisis. The importance of modeling those two events in assessing asset risk was acknowledged by the SVO, which initial report noted "historical performance of CLOs has been excellent weathering three economic downturns - dotcom bubble, GFC and COVID."[7]

To date the Oliver Wyman study is the most and only comprehensive data that has been produced by any party on this issue.

The Oliver Wyman study utilized a methodology that will be vital in addressing the open RBC factor the Working Group is addressing. The foundation of this methodology is described in Appendix 2 (the "Residual Performance Assessment Methodology"). We respectfully request that the Working Group adopt the Residual Performance Assessment Methodology to evaluate assets other than those listed below for inclusion as an Exempted Residual Tranche or Interest during this interim evaluation period. The process we outline would facilitate such additions during the period between now and a final charge being adopted via the Academy workstream.

The Oliver Wyman study demonstrated far superior performance of prime auto ABS, subprime auto ABS, middle-market CLOs and student loan ABS, as compared, for example, to common stock equity and BSL CLO equity.[8] These types of structured securities along with similar ABS form the basis for defining the population of Exempted Residual Tranches and Interests.

In light of the above, we propose the RBC instruction changes, as described below, to address regulator concerns through an interim capital charge based on this initial analysis for certain residual tranches, with an understanding that these charges will be adjusted through the RBC IRE WG project led by the Academy, informed by the Oliver Wyman Study and the Residual Performance Assessment Methodology. For the interim period, we recommend the Working Group deem the following ABS investments as "Exempted Residual Tranches and Interests".

[4] Working Group Meeting Minutes (February 28, 2022) (9-454 NAIC Proceedings – Spring 2022), at 2.
[5] Draft: 8/9/23 Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group Virtual Meeting June 14, 2023
[6] https://content.naic.org/sites/default/files/inline-files/Oliver%20Wyman%20Residual%20Tranche%20Report.pdf
[7] https://content.naic.org/sites/default/files/national_meeting/VOSTF%20Materials%208.11.2022%20v7.pdf (page 155).
[8] The types of ABS chosen in the Oliver Wyman study represent nearly 50% of the ABS market.

© 2024 National Association of Insurance Commissioners

EVERLAKE

"Exempted Residual Tranches and Interests" are:

- Middle market and commercial real estate CLO residuals whether in feeder fund format or CLO;[9]
- CMBS and RMBS residuals;
- Residuals secured by:
  - Consumer assets including but not limited to consumer loans, credit card receivables, student loans, auto loans and leases, solar loans and leases, home improvement loans and other prime consumer assets;
  - Cashflows from leases secured by, but not limited, to data centers, fiber and wireless infrastructure, renewable energy projects backed by power purchase agreements, and loans and leases secured by physical assets, solar and other energy related projects backed by power purchase agreements, transportation assets such as railcars, containers and aircraft and engines, equipment, commercial and residential real estate;
  - Other loans and fixed income like cashflows including but not limited to residential and commercial PACE assets, insurance policy payments, commercial & industrial solar contracts, whole business securitizations, timeshares, royalties, intellectual property, tax liens, small business loans inventory finance, supply chain finance and accounts receivable finance; and
- any other category of residual tranche or interest or specific residual investment identified by a domiciliary regulator as appropriately receiving a 30 percent charge under the RBC calculations of insurers domiciled in that state. Such review will be based on the characteristics specific to the asset or analysis of the asset class under any methodology deemed appropriate by the domiciliary regulator.

Collaborative Process Moving Forward

We understand the regulatory community's need for data-driven, consumer-protective decision making and are prepared to collaborate with the regulatory community broadly and our domestic regulators specifically as well as our industry colleagues. Everlake Life is willing to continue to engage to move this project forward in a data-driven, consumer-protective manner.

Working Group Procedural Matters

We request this proposal be adopted by the Working Group no later than June 30 of this year, and adoption by the Capital Adequacy Task Force (CATF) by July 30 of this year, per existing NAIC procedures, or through a one-time amendment to the Capital Adequacy Task Force's Procedures for Proposed Amendments to the Risk-Based Capital Blanks and Instructions timing requirements for an instruction change, which would allow the proposal to be effective for year-end 2024.

[9] Private credit backed feeder fund residuals may be included based on the nature of collateral which would be determined based on full look through to the final collateral.

© 2024 National Association of Insurance Commissioners

EVERLAKE

Everlake Life is submitting this proposal in an effort to directly address regulator concerns regarding CLO residual tranches. We are making every effort to be responsive and utilize the best and most up to date data with a solution that will allow regulators to implement their interim solution for year end 2024 and focus on data-driven analysis as part of a permanent solution moving forward.

We appreciate your efforts and consideration of this request.

Very truly yours,

/s/ *Patrick C Reeder*

Patrick C Reeder
Chief Government Affairs Officer

cc: Dave Fleming, Senior Life RBC Analyst, NAIC



© 2024 National Association of Insurance Commissioners

EVERLAKE

Appendix 1 – Language for RBC Proposal Form

Description/Justification for Changes

The proposed change would add instructions for lines 51 and 49.2 in the life RBC formula clarifying that for reporting year 2024, residual tranches of structured securities (other than Exempted Residual Tranches and Interests) should be reported under line 51 while the residual tranches for Exempted Residual Tranches and Interests should be reported under line 49.2. The proposal includes a footnote to line 51 stating 'Include residual tranches of structured securities (other than Exempted Residual Tranches and Interests) per the instructions,' and a footnote to line 49.2 stating 'Include residual tranches for Exempted Residual Tranches and Interests per the instructions.'

Under this proposal, Line 51 has a 45% charge that would apply to the residual tranches of structured securities (other than Exempted Residual Tranches and Interests to be listed on that line. AVR Equity Component, for Exempted Residual Tranches and Interests, would be reported on existing line (49.2). Line 49.2 was added new lines for year-end 2022 reporting to Schedule BA and the AVR Equity Component to capture amounts related to residual tranches or interest. For year-end 2022 life RBC reporting, AVR Equity Component, Column 1, Line 93 was included in Line (49.2).

Amendment Language

Amendment to "Other Long-Term Assets" (page 25 of Instructions)
Specific instruction for Line (51): Parties should report the residual tranches of structured securities (other than Exempted Residual Tranches and Interests) on Line 51. Parties should add a footnote to indicate if their overall RBC changes by 10 percent or more from their 2023 RBC based on this reporting change. Exempted Residual Tranches and Interests" are:

- Middle market and commercial real estate CLO residuals whether in feeder fund format or CLO;
- CMBS and RMBS residuals;
- Residuals backed by:
  - Consumer Assets including but not limited to consumer loans, credit card receivables, student loans, auto loans and leases, solar loans and leases, home improvement loans and other prime consumer assets;
  - Cashflows from leases secured by, but not limited, to data centers, fiber and wireless infrastructure, renewable energy projects backed by power purchase agreements, and loans and leases secured by physical assets, solar and other energy related projects backed by power purchase agreements, transportation assets such as railcars, containers and aircraft and engines, equipment, commercial and residential real estate;



© 2024 National Association of Insurance Commissioners

EVERLAKE

- Other loans and fixed income like cashflows including but not limited to residential and commercial PACE assets, insurance policy payments, commercial & industrial solar contracts, whole business securitizations, timeshares, royalties, intellectual property, tax liens, small business loans inventory finance, supply chain finance, and accounts receivable finance; and
- and any other category of residual tranche or interest or specific residual investment identified by a domiciliary regulator as appropriately receiving a 30 percent charge demonstrated using a methodology acceptable to the domiciliary regulator.

Amendment to “Other Long-Term Assets” (page 25 of Instructions)
Line (49.2) For year end 2024 Life RBC reporting, AVR Equity Component, Column 1, line 93 will be included in line (49.2), except for broadly syndicated loan collateralized loan obligation residual tranche investments which are to be captured in line (51).



© 2024 National Association of Insurance Commissioners

EVERLAKE

APPENDIX 2

Residual Performance Assessment Methodology
[Fundamental Steps / High Level Concepts]

1. A random sampling of US deals large enough to represent a statistically representative sample of the asset class at issue (the "Target Asset") would be selected.

2. Analyst would conduct a comparison of the sample in #1 above to average characteristics and deals, editing the sample with new random selection of deals where initial selection produces outliers that would inappropriately skew the sample set.

3. The relative risk of the sample of ABS residuals would be measured utilizing a scenario-based approach, utilizing a simulated base and three stress scenarios (a base scenario and two "mid-tail" stress scenarios based on the 2008 Financial Crisis and the "Dot Com" bubble of 1995-2000) (collectively, the "Stress Scenarios") as well as a "deep-tail" scenario. The analyst would apply the Stress Scenarios to the underlying collateral of the assets with calculation of potential default and underperformance rates. The analyst would also consider a "deep tail" scenario modeled after a 1-in-100 excess defaults event, i.e., the Great Depression, and intended to reflect a roughly 99 percentile severity.

4. The analyst would utilize assumptions regarding each asset class that reflect the characteristics of that asset class as observed in available historical periods (e.g., active management of loans, prepayment and discount purchases as have occurred historically in downturns).

5. Any insurer seeking to apply the Performance Assessment Methodology to any Target Asset would be required to have the analysis certified by [A Date Certain].



© 2024 National Association of Insurance Commissioners

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☒ RBC Investment Risk & Evaluation (E) Working Group

	DATE: 5/17/24	**FOR NAIC USE ONLY**
CONTACT PERSON:		Agenda Item # 2024-19-I Year 2024
TELEPHONE:		**DISPOSITION**
EMAIL ADDRESS:		**ADOPTED:** ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
ON BEHALF OF:		**EXPOSED:** ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
NAME:	Patrick Reeder	**REJECTED:** ☐ TF ☐ WG ☐ SG ____
TITLE:	Chief Governmental Affairs Officer	**OTHER:** ☐ DEFERRED TO ____ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ____
AFFILIATION:	EverLake Life Insurance Comany	
ADDRESS:		

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☒ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal provides for the inclusion of residual tranches or interests reported on Schedule BA to be included in LR008 Other Long-Term Assets on two lines. It applies a 45% factor to all residual tranches and interests except those specifically identified as Exempted.

Additional Staff Comments:

© 2024 National Association of Insurance Commissioners

** **This section must be completed on all forms.** **Revised 2-2023**

OTHER LONG-TERM ASSETS
LR008

Basis of Factors

Recognizing the diverse nature of Schedule BA assets, the RBC is calculated by assigning different risk factors according to the different type of assets. Assets with underlying characteristics of bonds and preferred stocks designated by the NAIC Capital Markets and Investment Analysis Office have different factors according to the NAIC assigned classification. Unrated fixed-income securities will be treated the same as Other Schedule BA Assets and assessed a 30 percent pre-tax charge. Rated surplus and capital notes have the same factors applied as Schedule BA assets with the characteristics of preferred stock. Where it is not possible to determine the RBC classification of an asset, a 30 percent pre-tax factor is applied.

Specific Instructions for Application of the Formula

Line (49.1)
Schedule BA affiliated common stock – all others should be included in C-1cs. Specifically this means that all subs with an affiliate code 13 in the current life-based framework and "holding company in excess of indirect subsidiaries" or subsidiaries with affiliate code 7 are to be included in C-1cs.

Line (49.2)
New lines were added for yearend 2022 reporting to Schedule BA and the AVR Equity Component to capture amounts related to residual tranches or interest. For yearend 2022 life RBC reporting, AVR Equity Component, Column 1, Line 93 will be included in Line (49.2). For year end 2024, Life RBC reporting, AVR Equity Component, Column 1, line 93 will be included in line (49.2) for only Exempted Residuals Tranches and Interests as described below. All other residuals tranches and interests will be captured in line (51).

Line (51)
For year end 2024 Life RBC reporting, reporting entities should report residual tranches (other than Exempted Residual Tranches and Interests) on Line 51. Reporting entities should add a footnote to indicate if their overall RBC changes by 10 percent or more from their 2023 RBC based on this reporting change.

Exempted Residual Tranches and Interests" are:

- Middle market and commercial real estate CLO residuals whether in feeder fund format or CLO;
- CMBS and RMBS residuals;
- Residuals backed by:
  - Consumer Assets including but not limited to consumer loans, credit card receivables, student loans, auto loans and leases, solar loans and leases, home improvement loans and other prime consumer assets;
  - Cashflows from leases secured by, but not limited, to data centers, fiber and wireless infrastructure, renewable energy projects backed by power purchase agreements, and loans and leases secured by physical assets, solar and other energy related projects backed by power purchase agreements, transportation assets such as railcars, containers and aircraft and engines, equipment, commercial and residential real estate;
  - Other loans and fixed income like cashflows including but not limited to residential and commercial PACE assets, insurance policy payments, commercial & industrial solar contracts, whole business securitizations, timeshares, royalties, intellectual property, tax liens, small business loans inventory finance, supply chain finance and accounts receivable finance; and
- and any other category of residual tranche or interest or specific residual investment identified by a domiciliary regulator as appropriately receiving a 30 percent charge demonstrated using a methodology acceptable to the domiciliary regulator.

Line (57)
Total Schedule BA assets [LR008 Other Long-Term Assets Column (1) Line (57) plus LR007 Real Estate Column (1) Line (14) plus Lines (17) through Line (21) plus LR009 Schedule BA Mortgages Column (1) Line (21)] should equal the total Schedule BA assets reported in the Annual Statement Page 2, Column 3, Line 8.

© 2024 National Association of Insurance Commissioners

NAIC Company Code

Company Name | Confidential when Completed

OTHER LONG-TERM ASSETS (CONTINUED)

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	(5) RBC Requirement
	Schedule BA - All Other						
(48.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67					
(48.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68					
(48.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)				X 0.3000 =	
(49.1)	BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69					
(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs **and Exempted Residual Tranches or Interests as described in the instructions.**	Line (49.1) + **AVR Equity Component Column 1 Line 93, in part**				X 0.3000 =	
(50)	Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999				X 0.0680 =	
(51)	~~Total~~ Residual Tranches or Interests **- Other**	AVR Equity Component Column 1 Line 93, **in part**				X **0.4500** =	
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 94				X 0.0050 =	
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 95				X 0.0163 =	
(52.3)	Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)					
(53.1)	Other Schedule BA Assets	AVR Equity Component Column 1 Line 96					
(53.2)	Less NAIC 2 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (23) through (27) + Column (1) Lines (33) through (37)					
(53.3)	Net Other Schedule BA Assets	Line (53.1) less (53.2)				X 0.3000 =	
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (48.3) + (50)+ (52.3) + (53.3)					
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)					
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (47) + (49.2) + (51) + (57)					

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

 # Did the reporting entity experience a 10% or more change from their 2023 ACL RBC based on the 2024 RBC changes. **Yes [ ] No [ ]**

Denotes items that must be manually entered on the filing software.

LR008

NAIC Company Code

Company Name

Confidential when Completed

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

		Source	(1) RBC Requirement
	Insurance Affiliates and Misc. Other Amounts (C-0)		
(1)	Directly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (1)	
(2)	Directly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (2)	
(3)	Directly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (3)	
(4)	Indirectly Owned Health Insurance Companies or Health Entities	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (4)	
(5)	Indirectly Owned Property and Casualty Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (5)	
(6)	Indirectly Owned Life Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (6)	
(7)	Affiliated Alien Insurers - Directly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (9) + (10) + (11)	
(8)	Affiliated Alien Insurers - Indirectly Owned	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (12) + (13) + (14)	
(9)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (34)	
(10)	Total (C-0) - Pre-Tax	Sum of Lines (1) through (9)	
(11)	(C-0) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (122)	
(12)	Net (C-0) - Post-Tax	Line (10) - Line (11)	
	Asset Risk – Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)		
(13)	Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	
(14)	Schedule BA Unaffiliated Common Stock	LR008 Other Long-Term Assets Column (5) line (47)	
(15)	Schedule BA Affiliated Common Stock - C-1cs **and Residual Tranches or Interests**	LR008 Other Long-Term Assets Column (5) lines (49.2) + (51)	
(16)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	
(17)	Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (7)	
(18)	Affiliated Non-Insurers	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Lines (19) + (20) + (21)	
(19)	Total (C-1cs) - Pre-Tax	Sum of Lines (13) through (18)	
(20)	(C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (134)	
(21)	Net (C-1cs) - Post-Tax	Line (19) - Line (20)	
	Asset Risk - All Other (C-1o)		
(22)	Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	
(23)	Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	
(24)	Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	
(25)	Investment Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (8)	
(26)	Investment in Upstream Affiliate (Parent)	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (15)	
(27)	Directly Owned Health Insurance Companies or Health Entities Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (16)	
(28)	Directly Owned Property and Casualty Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (17)	
(29)	Directly Owned Life Insurance Companies Not Subject to RBC	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (18)	
(30)	Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated/Subsidiary Stocks Column (4) Line (22)	
(31)	Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	

Denotes items that must be manually entered on the filing software.

LR031

NAIC Company Code

Company Name | Confidential when Completed

SENSITIVITY TESTS - AUTHORIZED CONTROL LEVEL

Sensitivity Tests Affecting Authorized Control Level Risk-Based Capital	Source	(1) Statement Value	Additional Sensitivity Factor	(2) Additional RBC	(3) Authorized Control Level Before Test	(4) Authorized Control Level After Test
(1.1) Other Affiliates: Company	LR042 Summary for Affiliated Investments Column (1) Lines (19), (20) and (21)		0.700			
(1.2) Other Affiliates: Subsidiaries	LR038 Additional Information Required Column (1) Line (1.2)		0.700			
(1.99) Total Other Affiliates			0.700			
(2.1) Noncontrolled Assets - Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (15)		0.020			
(2.2) Noncontrolled Assets - Subsidiaries	LR038 Additional Information Required Column (1) Line (2.2)		0.020			
(2.99) Total Noncontrolled Assets			0.020			
(3.1) Guarantees for Affiliates: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (24)		0.020			
(3.2) Guarantees for Affiliates: Subsidiaries	LR038 Additional Information Required Column (1) Line (3.2)		0.020			
(3.99) Total Guarantees for Affiliates			0.020			
(4.1) Contingent Liabilities: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (25)		0.020			
(4.2) Contingent Liabilities: Subsidiaries	LR038 Additional Information Required Column (1) Line (4.2)		0.020			
(4.99) Total Contingent Liabilities			0.020			
(5.1) Long-Term Leases: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (26)		0.030			
(5.2) Long-Term Leases: Subsidiaries	LR038 Additional Information Required Column (1) Line (5.2)		0.030			
(5.99) Total Long-Term Leases			0.030			
(7.1) Affiliated Investments†: Company	LR038 Additional Information Required Column (1) Line (7.14)		0.100			
(7.2) Affiliated Investments†: Subsidiaries	LR038 Additional Information Required Column (1) Line (7.2)		0.100			
(7.99) Total Affiliated Investments			0.100			
(8.1) ~~Total~~ Residual Tranches or Interests **Receiving a 30% Base Factor**	**LR008 Other Long-Term Assets Column (1) Line (49.2), in part**		**0.150**			

† Excluding affiliated preferred and common stock

Denotes items that must be manually entered on the filing software.

#REF!

LR039

Draft: 5/21/24

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
Virtual Meeting
April 12, 2024

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met April 12, 2024. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy, Vice Chair (CA); Wanchin Chou (CT); Ray Spudeck (FL); Doug Ommen, Carrie Mears, and Kevin Clark (IA); Vincent Tsang (IL); Roy Eft (IN); Fred Andersen (MN); Debbie Doggett (MO); Lindsay Crawford (NE); Jennifer Li (NH); Bob Kasinow and Bill Carmello (NY); Judith L. French and Dale Bruggeman (OH); Rachel Hemphill (TX); Doug Stolte and Dan Bumpus (VA); Steve Drutz (WA); and Amy Malm (WI).

1. Discussed a Review of Year-End 2023 Data Reported for Residual Tranches

Julie Gann (NAIC) presented an NAIC staff review of the 2023 data reported for residual tranches (Attachment Six-C1). She said staff completed a review of the residual reporting on schedule BA and noted that the count of the residuals included in the memorandum includes any reported residual, regardless of whether they had a zero book adjusting carrying value (BACV). She stated that the increase in residual shown from 2022 to 2023 may not be from 2023 acquisitions but could be from a move to the residual line. Gann noted key elements of the data review shown on page one of the report. She highlighted the reporting by type of residual based on the underlying collateral for each line of business shown on pages two and three of the report, followed by a chart showing residuals by acquisition date. She noted additional information included in the report providing detail on the movement in 2023 reporting to residual lines. She highlighted the last chart shown on page six and the impact of the 45% risk-based capital (RBC) factor across the reporting entities with residuals. She stated that the result of each individual company calculation was done by removing the impacts of the 30% factor on the risk component totals going into the covariance adjustment and replacing them with the results of a 45% factor. She stated the results show that only five companies would have a percentage change of 5% with the application of a 45% RBC factor. She noted that there are 19 companies that would fall between 1% and 5% overall RBC decline and then the rest would have less than a 1% change to RBC. None of the companies reviewed would have triggered any additional regulatory oversight as a result of the change. Drutz asked if the results of the recalculation were crosschecked with the sensitivity test. Gann said that some companies did not flow through the residual amount that was reported on schedule BA through either the LR008 line or the sensitivity test. As such, NAIC staff did not rely on either of those reporting metrics in recalculating the RBC but instead used the schedule BA information that was reported for residuals and used the information to recalculate at the 45% factor.

2. Heard a Presentation from the NAIC's SSG

Eric Kolchinsky (NAIC) presented the Structured Securities Group's (SSG) report (Attachment Six-C2). He said the SSG was tasked to replicate some of the results in an Oliver Wyman report titled, "Residual Tranche Risk Analysis." Acknowledging there were two critical pieces of information missing in the analysis (slide 2), Kolchinsky walked through how the SSG overcame the limitations by: 1) reconstructing the cumulative default rates (slides 3–4); and 2) using common benchmarks to understand the loss to the investment. Kolchinsky commented that Oliver Wyman's default rate is too high, and discount rates are too low. He gathered from market participants that a constant default rate of 2%, a discount rate between 14%–18%, and a 20% constant prepayment rate (CPR) are more reasonable baselines for the analysis (slides 5–6). With these replication efforts, SSG was able to replicate losses for six proxy deals that SSG is currently modeling (slides 7–8). SSG's observations from this benchmarking exercise were summarized in slide 9.

© 2024 National Association of Insurance Commissioners

Upon Clark's request, Kolchinsky summarized his presentation into two key takeaways: 1) the stress scenarios, namely the global financial crisis (GFC) and the dot-com bubble, were not extreme enough to represent severe tail-risk events; and 2) the Oliver Wyman analysis understated the potential risk/loss to broadly syndicated loan (BSL) collateralized loan obligations (CLOs).

Upon Tsang's request, Kolchinsky went deeper into the results (slide 8), which summarize the losses under two stress scenarios: historic + one standard deviation and historic + two standard deviations. Barlow clarified that for RBC purposes, the latter scenario is more relevant. Looking at the results, Tsang wondered if the 45% charge was too generous. Kolchinsky said he needed more parameters to answer that question. Barlow clarified that the SSG's work presented is only for residual tranches of CLOs. That said, CLO residuals are the most commonly owned residuals among the insurers according to information reported in annual statements, per the SSG. Tsang asked whether the CLO deals that the SSG selected were representative of the asset class. Kolchinsky said the selection was arbitrary with a deliberate effort to have varied credit performance and vintages. Apart from that, Kolchinsky said he could not comment on how representative the samples were. While SSG did not solicit public comment in the selection process, the selected CLO deals are subject to public discussion during the modeling phase, and no objection was received. Tsang inquired if the results in this presentation were vetted in the SSG's ad hoc group, and Kolchinsky confirmed that they were not. He said the ad hoc group's focus is not on CLO equity, but he is at the regulators' disposal. Mears reiterated that the ad hoc group is focused on modeling for designations of CLOs and, therefore, only rated tranches of CLOs are in scope. Kolchinsky reported that the ad hoc group is going to model the entire universe of CLOs, and therefore, a broader dataset will be available in the future.

Tom Sullivan (Sullivan Strategy and Advisory Services LLC) suggested the Working Group give Oliver Wyman the opportunity to respond and/or expose the SSG's report for public comment. Barlow reminded the Working Group that the purpose of the meeting was to receive feedback on the Oliver Wyman report and deemed no further action as necessary.

3. Discussed Comment Letters (Attachment Six-C3) Received on the Oliver Wyman Report

Bryan Bashur (Americans for Tax Reform—ATR) presented a comment letter. He said ATR is in favor of the 30% RBC charge for residuals and, therefore, would like to delay the 45% capital charge by at least one year. ATR is concerned that the blanket application of a 45% charge on residuals would raise the cost of life and annuities products. ATR also expressed concern that the proposed 45% charge appears to stem from pressure to align the insurance industry's capital requirement with federal banking regulations and/or international capital requirements, neither of which is justifiable given the U.S. state-based insurance regulation framework.

Barlow called upon Julio Fuentes (Florida State Hispanic Chamber of Commerce), Doug Dean (former Colorado Insurance Commissioner), Max Carter (Nevada State Assembly), Cesar Aguilar (Arizona House of Representatives), Rea S. Hederman (The Buckeye Institute), and Tom Swatzell (South Carolinians for Responsible Government) to present their comment letters. No representatives spoke on these comment letters.

Isaac Schick (American Consumer Institute—ACI) presented a comment letter. ACI expressed concern about the affordability of insurance policies resulting from the proposal's adoption. It also believed the Oliver Wyman report supports a 30% charge, not a 45% charge.

Colleen Scheele (National Association of Mutual Insurance Companies—NAMIC) presented a comment letter. NAMIC is supportive of a one-year delay in the implementation of the 45% charge to allow for a more thorough assessment of the data (e.g., data in the Oliver Wyman report, the SSG's presentation, and the American Academy of Actuaries' [Academy's] work). Scheele pointed out that the analysis could look different for property/casualty (P/C) insurance companies than for life companies. Chou reminded the Working Group that a year was already

© 2024 National Association of Insurance Commissioners

given to the industry to evaluate the proposal. Chou asked NAMIC whether it can guarantee needed progress if another year is granted. No guarantee was made by NAMIC.

Barlow asked Rebekah Goshorn Jurata (American Investment Council—AIC) to present a comment letter. No representative spoke on the comment letter.

Amnon Levy (Bridgeway Analytics) presented a comment letter. He said by submitting a comment letter, Bridgeway would like to advocate for a thoughtful, long-term solution for asset-backed securities (ABS) and its residuals. The comment letter details Bridgeway's assessment of the Oliver Wyman report, and Levy highlighted two key observations. The first observation is that Oliver Wyman's methodology departed from that used to estimate C1 charges for bonds, equities, and other asset classes by not considering portfolio concentration/diversification effects. Bridgeway believes that Oliver Wyman failed to recognize the diversification benefit in CLOs. The second observation was that back-testing was omitted in the report. Rather than a negative 45% potential loss, residuals performed exceptionally well through the GFC, with double-digit annualized returns recorded over the life of CLOs. Levy would like to see the Academy leverage Bridgeway's detailed empirical assessment of the Oliver Wyman report, particularly assessing the "comparable attributes" that would allow the identification of differentiated risks and, thereby, align capital charges to the risks/economics of different residual types.

Francisco Paez (MetLife) presented a comment letter. MetLife interpreted the Oliver Wyman report as supportive of a 45% or higher interim RBC charge. MetLife also offered recommendations to strengthen Oliver Wyman's analysis, each of which is anticipated to result in materially higher losses than presented in the Oliver Wyman report. The recommendations are: (i) include residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) deals in order to result in selections that are representative of insurers' holdings; (ii) include only residuals that are truly available for investment by insurance companies; (iii) fine-tune modeling assumptions, as the current assumptions for extreme tail-risk scenarios are overly optimistic; and (iv) apply a modeling technique that fully evaluates the spectrum of tail-risk scenarios and captures the binary loss nature of residuals. Upon Clark's request, Paez clarified that upward of 90% of holdings studied by Oliver Wyman are BSL CLOs, both debt and residual tranches. Clark pointed out that regulators do not currently have information on what types of residuals (BSL, middle market loans, or other) insurers owned and that information is more relevant for the discussion. Paez said he did not have specific data to shed light on that but inferred that insurers' residual holdings resembled overall holdings, based on the availability of residuals for purchase. (BSL CLO residuals are readily available for purchase in the market.)

Mike Consedine (Athene) presented a comment letter. Athene refrained from commenting on specific details and findings in the Oliver Wyman report or the appropriateness of the factor proposed. Athene recommended that the Working Group delay implementation of the 45% factor until an informed decision, backed by data-driven expert analysis, can be made under the holistic framework for the regulation of insurer investments, as adopted by the Financial Condition (E) Committee.

Richard Goldberger (Equitable) presented a comment letter. Equitable interpreted Oliver Wyman's report as a justification for at least a 45% capital charge for residuals. As a result, any further delay in adopting the 45% charge as an interim solution is not justifiable.

Steve Broadie (American Property Casualty Insurance Association—APCIA) presented a comment letter. APCIA echoed NAMIC's and the American Council of Life Insurers' (ACLI's) recommendation to support a one-year delay in implementing a 45% charge. APCIA interpreted the Oliver Wyman report as 45% being not supportable. APCIA believes that further study is needed to deliberate an increase in residuals' charges for P/C and health insurers.

© 2024 National Association of Insurance Commissioners

Barlow clarified that the deliberation for the P/C and health sectors is being analyzed by the Capital Adequacy (E) Task Force and, therefore, was not a focus for the meeting.

Kevin Howard (Western & Southern Financial Group) presented the comment letter. Western & Southern believe the Oliver Wyman report supports a 45% capital charge for residual.

Barlow called upon Briscoe Cain (Texas House Committee on Insurance) and Robert Harms (The Harms Group) to present a comment letter. No representative spoke on the comment letters.

Joe Engelhard (Alternative Credit Council—ACC) presented a comment letter. ACC noted a heightened interest in BSL CLO residuals, and it echoed Bridgeway's recommendation to encourage back testing. Engelhard pointed out that syndicated loans had a great track record of performance per a Federal Reserve study that covers a period from 1997 to 2021. He attributed the great record to various features of CLOs (e.g., reinvestment options, closed-end structure, liquidity management tools, etc.). He asked the Working Group to consider this historical track record. Separately, ACC noted that a 45% charge is too punitive for certain non-BSL CLO residuals (e.g., residuals of commercial property assessed clean energy [C-PACE] loan ABS). Barlow stated that the RBC process is designed to assist regulators in identifying potentially weakly capitalized companies and is by no means meant to be "punitive." He discouraged the use of the word "punitive" when describing RBC charges. Barlow also reiterated that RBC is a blunt regulatory tool that is not intended to be granular. Further fine-tuning of the RBC charges for different types of residuals may not be warranted. Mears heard that the residuals owned by insurers are predominantly BSL CLOs but acknowledged there was a struggle to verify this information. She asked if ACC could confirm this information. ACC could not opine on it but said, through industry outreach, it realized a great variety of ABS are owned by insurers. ACC volunteered to assist with the due diligence. Mears then questioned whether the Oliver Wyman report factored in the historical track record of CLOs, as recommended by the ACC. Engelhard said the Oliver Wyman report was conservative in many regards and did not factor in certain competitive advantages of CLOs, such as active management by CLOs managers.

Mariana Gomez-Vock (ACLI) said the ACLI was aware that non-industry stakeholders have made claims to media that are untrue, unfair, and/or malicious. The ACLI condemned these activities. Gomez-Vock presented a comment letter, which requests a one-year delay in implementing the 45% charge, which would allow additional time for regulators and stakeholders to evaluate the charge in the context of: 1) work by the Academy; and 2) actual and potential accounting and reporting changes (e.g., the new principle-based bond definition and resulting changes to accounting and measurement of carrying value of residuals). Clark clarified that all definitional changes for residuals have been adopted as of the date of the meeting, and no further deliberations are anticipated. Commissioner Ommen commented that the Academy is at capacity and questioned if the ACLI can be specific on its expectation of the Academy's involvement. Gomez-Vock clarified that her remark referred to the Academy's work on comparable attributes, and the ACLI did not mean to suggest the Academy take on additional work. Upon Clark's request, Gomez-Vock clarified that the ACLI did not mean to suggest scraping the interim solution altogether and waiting until the Academy completed its study. Barlow stated that should the Academy's comparable attributes study be leveraged, the resulting proposal could be more complicated than a single factor for all residuals. Gomez agreed and said it would not preclude the possibility that a more complicated proposal is the right solution.

Steve Smith (Academy) presented a comment letter. The Academy completed a high-level review of the Oliver Wyman report, focusing on determining if Oliver Wyman's analysis is consistent with the ABS RBC principles that the Working Group endorsed at the 2023 Fall National Meeting. The overall observation is that the Oliver Wyman report is not fully consistent with all the principles. Specifically, the Oliver Wyman report heavily relied on the comparison of risks of residuals versus the risk of common stocks, and that comparison is not supported by the principles. The Academy disagreed that risks of residuals are comparable with risks of common stocks and stated

that the shape of loss distributions between the two are very different. Smith reported that the Academy's work on comparable attributes is still underway, and the goal is to present an update during the Summer National Meeting. Clark inquired if the planned report is relevant for deliberation of residual factors capital requirement. Smith said he believed so and expects the study to address both residual and debt tranches of ABS. However, he cannot commit to a timeline for finalization and endorsement of the comparable attributes. Even if finalized, further time is needed to use the attributes to deliberate factors, and therefore, a lengthy process is expected.

Barlow called upon Sen. Paul Bailey (TN-R) to present a comment letter. No representative spoke on the comment letter.

Barlow thanked the presenters and stated that some of the comment letters received were responsive to the Working Group's request to provide constructive feedback. Barlow expressed his opinion, based on all the information and presentations received, that a 45% RBC charge for residuals is appropriate. Carmello agreed and said that a higher-than-45% charge is perhaps warranted. He also questioned why residuals are admitted assets, as they are more akin to speculative derivatives, which are non-admitted under statutory accounting guidance. Chou also advocated for a 45% charge now until any analyses would suggest otherwise. Andersen said timely regulation is warranted, and there is no reason to further delay the 45% charge. He noted exponential growth in residuals ownership and believed the current charge is understated. He interpreted the Oliver Wyman report as supportive of a 45% charge and does not believe the report accurately reflects the risks of residuals. Tsang also supported a 45% charge but is willing to leave the door open for future adjustments based on future findings or analyses. Bumpus said Virginia is in support of a 45% charge without delay. Bumpus said the reading of the Oliver Wyman report supports a 45% charge.

Director French was in favor for an additional one-year implementation delay. Commissioner Brown echoed and supported Director French's position. Director French made a motion, seconded by Eft, to move the interim 45% charge on ABS residuals from 2024 to 2025.

A roll call vote was taken with 11 members voting "No," four members voting "Yes," and one member abstaining. The motion did not pass.

Commissioner Ommen said he was concerned that there was a lack of specific deliverables, and he believed more work and considerations are needed on the Oliver Wyman report. He would like to give all parties another 30 days for this work.

In light of Commissioner Ommen's concern and the desire to have additional discussions, Barlow directed NAIC staff to work with Iowa state insurance regulators to draft a solicitation of comments, which is going to be exposed for a 30-day public comment period. A public call will be scheduled later in May after the conclusion of the comment period.

Having no further business, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Committee Folders/E CMTE/CADTF/2024_Summer/RBCIRE/RBC Investment Risk 4-12-24 Minutes.docx

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Members of the RBC Investment Risk and Evaluation (E) Working Group
Members of the Statutory Accounting Principles (E) Working Group

FROM: NAIC Staff

DATE: April 1, 2024

RE: Aggregated Residual Data – Year-End 2023

This memo has been developed to provide information on the reporting of residuals by life, P/C & health companies on Schedule BA for year-end 2023. Summaries of information are provided for the following aspects:

- Residual by Reporting Line
- Residual Acquisition Date
- 2023 Movement to Residual Reporting – Life Entities
- Residuals with NAIC Designations Reported
- Residual Investments Involving Related Parties
- Impact of 45% RBC Factor – Refreshed for 2023 Riling Results.

Residuals By Reporting Line:

Total Residuals	2023 Count	Reported BACV	% of Total	2022 Count	Reported BACV	% of Total
Life Entities	1,248	11,630,554,475	86.13%	874	5,742,324,464	81.86%
P/C Entities – 2022 Revised	419	1,551,970,807	11.49%	355	1,049,516,959*	14.96%
Health Entities	99	317,688,548	2.35%	80	220,517,642	3.14%
Title Entities	2	2,637,903	0.02%	2	2,799,992	0.04%
Total Residuals	**1,768**	**13,502,851,733**		**1,314**	**7,015,159,057**	

Notes: 1) The counts include any instance in which an investment is reported, regardless of if it had a BACV.

2) The increase in residuals may not be from 2023 acquisitions but could be a move to the residual reporting line. See the chart on page 4 for residual movement detail for life companies.

** In 2022 it was noted that $4.5B of this was likely misreported as residuals. This company did not include that amount in the 2023 residual reporting. The amount has been removed for comparison purposes.*

Key Elements:

- Life entities make up the significant majority (86%) of residual interests across the entire industry. Residuals reported on Schedule BA for life entities has doubled in BACV from 2022, from $5.7B to $11.6B.
- Residuals are predominantly classified as either fixed income or other. This is consistent with 2022.
- 48% of all residuals held by life entities involve a related party in some form. A much lower percentage of related party involvement exists for P/C and Health Entities.
- 25 life entities hold residuals that reflect 83% of the life industry BACV total. (8 companies represent 47% and 10 companies represent 55%.)
- Per the detail of largest residuals held, several are reported at an amount greater than cost. This will not be permitted for residuals acquired after Jan. 1, 2025, per the new measurement guidance in SSAP No. 21R.

© 2024 National Association of Insurance Commissioners

Life Entities: Residuals reported on Schedule BA has doubled in BACV from 2022, from $5.7B to $11.6B. The number of residuals has increased in all categories, except for "Other-Affiliated," which reported an approx. count decrease of 100 and 51% decline in BACV. Although the count of residuals is significantly greater with unaffiliated investments, the BACV is evenly split between unaffiliated and affiliated.

Life Reporting Entities					
Unaffiliated	**2023 Count**	**Reported BACV 2023**	**2022 Count**	**Reported BACV 2022**	**% Change in BACV '22 to '23**
Fixed Income – Unaffiliated	651	3,829,582,270	428	1,717,933,527	122.92%
Common Stock - Unaffiliated	31	459,991,247	20	151,745,564	203.13%
Preferred Stock – Unaffiliated	9	15,559,571	6	4,999,986	211.19%
Real Estate - Unaffiliated	3	12,321,798	0	0	100%
Mortgage Loans - Unaffiliated	30	69,675,196	9	2,757,688	2426.58%
Other – Unaffiliated	163	1,423,560,678	147	682,127,139	108.69%
Total Unaffiliated	**887**	**5,810,690,760**	**610**	**2,559,563,904**	**127.02%**
Percent of Life Residual Total	71%	50%	70%	45%	
Affiliated					
Fixed Income - Affiliated	217	3,200,982,913	94	1,438,200,802	122.57%
Common Stock – Affiliated	85	1,503,564,184	30	110,512,247	1260.54%
Preferred Stock – Affiliated	1	0	0	0	100%
Real Estate - Affiliated	5	276,320,282	0	0	100%
Mortgage Loans – Affiliated	5	45,959,496	0	0	100%
Other – Affiliated	48	793,036,840	140	1,634,047,511	-51.47%
Total Affiliated	**361**	**5,819,863,715**	**264**	**3,182,760,560**	**82.86%**
Percent of Life Residual Total	29%	50%	30%	55%	
Life Residual Total	**1,248**	**11,630,554,475**	**874**	**5,742,324,464**	**102.54%**

P/C Entities: Residuals reported on Schedule BA has increased about 50% from 2022. Although it appears that the affiliated residuals have decreased significantly, four investments totaling $4.5B were misreported by one company as residuals in 2022. As those investments were not misreported in 2023, those investments represent the bulk of the decrease in affiliated. For P/C entities, a significant majority are unaffiliated investments.

Property / Casualty Reporting Entities					
Unaffiliated	**2023 Count**	**Reported BACV 2023**	**2022 Count**	**Reported BACV 2022**	**% Change in BACV '22 to '23**
Fixed Income – Unaffiliated	280	880,698,427	237	631,189,758	39.53%
Common Stock - Unaffiliated	83	293,210,673	69	132,695,423	120.97%
Preferred Stock – Unaffiliated	3	15	1	65,550	-99.98%
Real Estate - Unaffiliated	2	4,608,460	0	0	100%
Other – Unaffiliated	16	70,461,810	24	65,938,165	6.86%
Total Unaffiliated	**384**	**1,248,979,385**	**331**	**829,888,896**	50.50%
Percent of P/C Residual Total	92%	80%	92%	15%	
Affiliated					
Fixed Income - Affiliated	31	292,249,580	26	4,756,630,624	-93.86%
Common Stock – Affiliated	1	0	0	0	0
Other – Affiliated	3	10,741,842	1	15,239,928	-29.52%
Total Affiliated	**35**	**302,991,422**	**27**	**4,771,870,552**	-93.65%
Percent of P/C Residual Total	8%	20%	8%	85%	
P/C Residual Total	**419**	**1,551,970,807**	**358**	**5,601,759,448**	**-72.29%**

© 2024 National Association of Insurance Commissioners

Health Entities: The increase in residuals reported on Schedule BA is for health is 44%, which is similar to the increase in P/C entities. Also similar to P/C entities, a significant majority are unaffiliated investments.

Health Reporting Entities					
Unaffiliated	**2023 Count**	**Reported BACV 2023**	**2022 Count**	**Reported BACV 2022**	**% Change in BACV '22 to '23**
Fixed Income – Unaffiliated	93	$300,528,301	64	$198,916,262	51.08%
Preferred Stock – Unaffiliated	1	2,323,187	0	0	100%
Other – Unaffiliated	2	705,038	12	3,584,975	-80.33%
Total Unaffiliated	**96**	**303,556,526**	**76**	**202,501,237**	49.90%
Percent of Health Residual Total	97%	96%	95%	92%	51.08%
Affiliated					
Fixed Income - Affiliated	2	$14,132,022	4	$18,016,405	-21.56%
Other – Affiliated	1	0	0	0	0
Total Affiliated	**3**	**14,132,022**	**4**	**18,016,405**	**-21.56%**
Percent of Health Residual Total	3%	4%	5%	8%	
Health Residual Total	**99**	**317,688,548**	**80**	**220,517,642**	**44.06%**

Title Entity – There is one title company that holds two residuals for a BACV of $2.6M in 2023. These investments were held in 2022 with a $2.8M BACV.

Residual Acquisition Dates

A vast majority of life entities (76% in 2023 vs. 83% in 2022) reported that their residuals (in BACV) were acquired in the most recent three years. Similar observations are noted for P/C and Health, with 78.2% and 80.7% of residuals BACV acquired in the most recent three years respectively. *(The count includes all reported investments, including those with 0 BACV.)*

	Life			P/C			Health		
Year Acquired	**Count**	**Reported BACV**	**%of BACV**	**Count**	**Reported BACV**	**% of BACV**	**Count**	**Reported BACV**	**% of BACV**
2023	247	2,810,468,654	24.2%	70	255,611,788	16.5%	26	86,522,773	27.2%
2022	345	3,591,694,216	30.9%	111	508,120,920	32.7%	51	163,729,104	51.6%
2021	246	2,467,916,903	21.2%	123	448,965,412	29.0%	13	6,214,651	2.0%
2020	89	1,048,139,934	9.0%	33	123,193,438	7.9%	-	-	-
2019	51	569,343,237	4.9%	30	72,359,962	4.7%	-	-	-
2018	52	127,519,073	1.1%	10	19,082,086	1.2%	1	14,033,114	4.4%
2017	49	60,369,061	0.5%	9	1,988,026	0.1%	-	-	-
2016	33	122,340,118	1.1%	7	20,667,734	1.3%	-	-	-
2015	6	7,323,326	0.1%	1	0	0.0%	1	694,655	0.2%
2014	93	323,179,676	2.8%	1	41,773	0.0%	-	-	-
2013	3	665,006	0.0%	5	1,208,799	0.1%	1	98,908	0.0%
2012	1	0	0.0%	3	99,561,943	6.4%	1	118,711	0.0%
2011	1	70,044	0.0%	1	809,408	0.1%	-	-	-
2010 or earlier	7	(1)	0.0%	6	242,224	0.0%	3	41,081,461	13.0%
No Date	25	501,525,228	4.2%	9	117,294	0.0%	2	5,195,171	1.6%
Total	**1,248**	**11,630,554,475**	**100%**	**419**	**1,551,970,807**	**100%**	**99**	**317,688,548**	**100%**

© 2024 National Association of Insurance Commissioners

2023 Movement to Residual Reporting – Life Entities:

In 2022 it was known that residuals were under-reported as residual investments in LLCs were often retained within the LLC Schedule BA reporting line and not moved to the residual reporting line until explicitly directed. The detail below illustrates that residuals (in all categories except for "Other") were held in 2022 but not reported on the Schedule BA residual reporting line. This information is in aggregate count only. It would require a comparison of each insurance company's Schedule BA for 2023 and 2022 to identify the specific residuals and BACV that were held in 2022 and reported elsewhere. *(This review was completed for life companies only.)*

Life Entities	Total Count 2023	Acquired 2023	Acquired 2022 or earlier per 2023 Data	Total Count 2022	Difference in 2022 #'s
Fixed Income – Unaffiliated	651	131	520	428	**92**
Fixed Income Affiliated	217	37	180	94	**86**
Common Stock – Unaffiliated	31	14	29	20	**9**
Common Stock - Affiliated	85	14	71	30	**41**
Preferred Stock – Unaffiliated	9	2	7	6	**1**
Preferred Stock – Affiliated	1	0	1	0	**1**
Real Estate - Unaffiliated	3	1	2	0	**2**
Real Estate - Affiliated	5	2	3	0	**3**
Mortgage Loans - Unaffiliated	30	3	27	9	**18**
Mortgage Loans – Affiliated	5	3	2	0	**2**
Other – Unaffiliated	163	47	116	147	**(31)**
Other – Affiliated	48	5	43	140	**(97)**
Total Counts	**1248**	**334**	**1001**	**874**	

Note – Items that were not reported with an acquisition date were assumed to be acquired prior to 2023.

Residuals with NAIC Designations Reported

Life Entities: Residuals most commonly do not have designations, either SVO assigned or from CRPs. The information reported for year-end 2023 had 195 investments reported with an NAIC designations (as compared with 76 in 2022). The vast majority (in count and percentage of BACV) are not reported with a designation, or if reported, reflected an NAIC 6. Although designations can be reported for residuals, they have no impact on RBC. The reporting for P/C and Health companies is in line with the expectation that residuals would not have designations.

	Life			P/C			Health		
Designation	Count	Reported BACV	% BACV	Count	Reported BACV	% BACV	Count	Reported BACV	% BACV
NAIC 1	5	715,013,572	6.2%	-	-	-	-	-	-
NAIC 2	9	2,961,703	0.0%	-	-	-	-	-	-
NAIC 3	-	-	-	1	2,630,803	0.2%	-	-	-
NAIC 4	-	-	-	-	-	-	-	-	-
NAIC 5	18	110,531,073	1.0%	-	-	-	3*	9,762,289	3.1%
NAIC 6	163	968,700,137	8.3%	174	372,616,456	24.0%	3	60,615,371	19.1%
0 or None	1,053	9,833,347,990	84.5%	244	1,176,723,548	75.8%	93	247,310,888	77.8%
Total	**1,248**	**11,630,554,475**	**100%**	**419**	**1,551,970,807**	**100%**	**99**	**317,688,548**	**100%**

Note: For the life entities, all the NAIC 1s for life entities are reported as FE. For the NAIC 5, 8 of them are reported as 5GI with aggregate BACV of $1.2M

© 2024 National Association of Insurance Commissioners

Residual Investments Involving Related Parties:

As shown, close to half (48% vs. 62% in 2022) of residuals owned by life entities involved related parties in some form (related party code 1 to 4). Most of these are from securitizations (or similar structures) with less than 50% of the underlying collateral in direct credit exposure (code 3).

Life				
Related Party Code		**Count**	**Reported BACV**	**% of BACV**
1	Direct credit exposure.	8	138,580,178	1.2%
2	Securitization with related party with 50% or more of the underlying collateral in direct credit exposure.	34	1,723,845,683	14.8%
3	Securitization with related party with less than 50% of the underlying collateral in direct credit exposure.	330	3,688,578,763	31.7%
4	Securitization where structure reflects an in-substance related party transaction, but does not involve a related party as sponsor, originator, manager, servicer, etc.	5	13,070,500	0.1%
5	Investment is identified as related party, but the role is a different arrangement from the prior options.	2	44,082,179	0.4%
6	Investment does not involve a related party.	855	6,022,397,172	51.8%
No Entry		14	0	0.0%
	Total	**1,248**	**11,630,554,475**	**100%**

Unlike life entities, the majority of residuals held by P/C (86%) and Health (94%) do not involve a related party.

P/C				
Related Party Code		**Count**	**Reported BACV**	**% of BACV**
1	Direct credit exposure.	7	15,584,624	1.0%
3	Securitization with related party with less than 50% of the underlying collateral in direct credit exposure.	17	111,499,671	7.2%
4	Securitization where structure reflects an in-substance related party transaction, but does not involve a related party as sponsor, originator, manager, servicer, etc.	1	7,096,432	0.5%
5	Investment is identified as related party, but the role is a different arrangement from the prior options.	3	83,133,797	5.4%
6	Investment does not involve a related party.	384	1,334,656,283	85.9%
No Entry		7	-	-
	Total	**419**	**1,551,970,807**	**100%**

Health				
Related Party Code		**Count**	**Reported BACV**	**% of BACV**
1	Direct credit exposure.	5	20,388,739	6.4%
5	Investment is identified as related party, but the role is a different arrangement from the prior options.	1	98,908	0.0%
6	Investment does not involve a related party.	92	297,200,901	93.6%
No Entry		1	-	-
	Total	**99**	**317,688,548**	**100%**

Note: Codes with zero entries were excluded from the P/C and Health Schedules above.

© 2024 National Association of Insurance Commissioners

Impact of 45% RBC Factor – Refreshed for 2023 Riling Results.

Although company specific information cannot be shared publicly, estimated (@) individual company calculations of ACL RBC ratio, after removing the impacts of the 30% factor on the risk component totals going into the covariance adjustment and replacing them with the results of a 45% factor, was noted to have the following impact:

Percentage Change, in absolute term*	Number of Companies
> 5.0%	5
1.0% ≤ Percentage change <5.0%	19
0.5% ≤ Percentage change <1.0%	14
0.2% ≤ Percentage change <0.5%	19
0.1% ≤ Percentage change <0.2%	16
<0.1%	37
Total	**110**

@ The estimate does not take into consideration the effect of MODCO Reinsurance Adjustments, potential concentration factor/consideration and non-admittance of residual investments (if any).

* "Percentage Change in absolute term" is calculated by determining the percentage change in 2023 reported and estimated (@) ACL RBC ratios. For example, if a company reported an 860% ACL RBC Ratio and the application of the 45% factor within the estimation decreased ACL RBC to 859%, this would represent a 0.12% percentage change, in absolute terms | (859%-860%)/860%|. This exercise was completed for 110 of the life entities that reported ownership of residuals in Schedule BA as of March 13, 2024.

NAIC Staff also noted that none of the 110 companies analyzed above would trigger additional regulatory oversight prescribed for action levels such as Company Action Level, Regulatory Action Level, Authorized Control Level or Mandatory Control Level RBC, as a result of implementation of 45% factors. Coupled with the fact that over 95% of the companies experienced a less than 5% change in ACL RBC Ratio (as seen in analysis above), it was concluded that the 45% factor has inconsequential impact to the insurers' 2023 RBC.

© 2024 National Association of Insurance Commissioners

Benchmarking BSL CLO Equity

Eric Kolchinsky

April 8, 2024

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

STRUCTURED SECURITIES

Executive Summary

- This report attempts to benchmark the results presented in the Oliver Wyman (OW) Residual Tranche Risk Analysis date February 24, 2024.
- We focused on the results related to BSL CLOs as this constitutes our core expertise. In addition, it is not clear what is the total insurance company exposure to the other sectors.
- We sought to re-create the OW analysis using our 6 proxy CLO deals. The OW report was missing two critical pieces of information:
  - The total defaults (Cumulative Default Rates) for the portfolio in each of their scenarios. We attempt to reconstruct these.
  - The "Reference case" cash flows for the CLO Equity. This is the assumed carrying value of Equity on the insurance company balance sheet.

© 2024 National Association of Insurance Commissioners

STRUCTURED SECURITIES

Overview

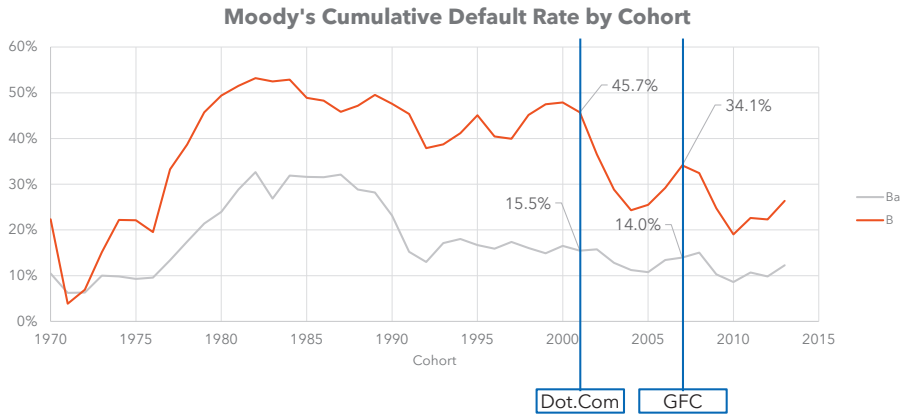
Below is a simplified procedure we employed to place the two scenarios (Dot.Com and GFC) within the context of our 10 scenarios:

1. Used Exhibit 47 of the 2023 Moody's Corporate Default Study: the 1/1/01 cohort for the Dot-Com bubble; and the 1/1/07 cohort for the GFC.
2. Cohort data is combined into rating categories by weights stated in the OW Paper.
3. Applied the portfolio weights to NAIC Default scenarios
4. Compared the two values at the 10-year level. The GFC scenario is analogous to the historical base case and the Dot.Com is analogous to the NAIC + 1σ.

Scenario	CDR
GFC Cohort	31.4%
NAIC Hist	31.6%
Dot.Com Cohort	40.2%
NAIC+1σ	40.4%
NAIC+2σ	49.3%

STRUCTURED SECURITIES

Historical Moody's Cohort Cumulative Default



Source: Moody's Global Annual default study 2023; Exhibit 47

© 2024 National Association of Insurance Commissioners

STRUCTURED SECURITIES

Reference Comparison

- Next step is to understand the loss to the investment. CLO Equity does not have a par value and does not promise the return of principal. Equity has a notional par, but that it is unrelated to any cash flows.
- To measure the risk of loss to the holder, a reference level for BACV needs to be assumed. In their analysis, OW calculates a value based on a constant default rate of 2.6% (approx. 23% over 10-yrs) and a discount of 12%. The actual assumed BACV is not provided.
  - NAIC staff believes that the base default rate used is too high and the discount rate is too low as market benchmarks. Nevertheless, it is difficult to understand the full impact of the decision without seeing the underlying cashflows.
- To overcome this limitation, we used a few common benchmarks to understand the losses.

STRUCTURED SECURITIES

Reference Benchmarks

- We used four benchmarks for the carrying value.
  - Two are less severe, NAIC default scenarios (Base and Hist -1).
  - We also used the simple rubric of Assets less Liabilities which marks the Equity "to book".
  - Lastly, we looked at the historical reporting for tranches identified as CLO Equity when they were reported on Schedule D. We used the ratio of BACV to Par Value for YE 21 to calculate an average 58 dollar price.

Scenario	Description
Hist. -1	NAIC historical default rates less 1 sd
Base	NAIC historical default rates
A-L	Assets minus liabilities
Schedule D	Historical reporting calculated as BACV over Par.

© 2024 National Association of Insurance Commissioners

STRUCTURED SECURITIES

Results

- We used the previously generated cash flows from our 6 proxy deals available on our CLO website. (https://content.naic.org/sites/default/files/industry-ssg-clo-cashflow-20231208.xlsb)
- We compared the total Equity cash flows in the two stress scenarios (Historical plus +1σ and +2σ) against the various carrying value benchmarks.
  - Historical recoveries are used in these scenarios.
- Lastly, we take the minimum of the losses for each scenario.
- The Dot.Com cohort closely resembles the Hist +1σ scenario. As discussed before, the GFC corporate defaults were not significantly different from the base case. The Hist +2σ scenario is further provided as a reference.

STRUCTURED SECURITIES

Results

Hist+1σ

	ANCHC17	ARES LII	Carlyle	MAGN27	OHA3	Strata II
Sched D	80%	84%	70%	73%	80%	77%
A-L	83%	88%	80%	81%	76%	84%
Hist-1	88%	91%	78%	83%	82%	87%
Base Scen	60%	84%	45%	53%	58%	76%
Min Loss	**60%**	**84%**	**45%**	**53%**	**58%**	**76%**

Hist+2σ

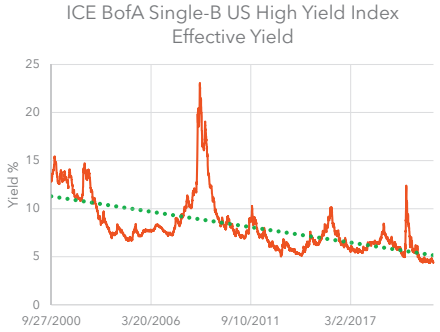
	ANCHC17	ARES LII	Carlyle	MAGN27	OHA3	Strata II
Sched D	90%	89%	81%	84%	92%	89%
A-L	91%	92%	87%	89%	90%	92%
Hist-1	93%	94%	86%	90%	92%	94%
Base Scen	79%	89%	66%	72%	83%	89%
Min Loss	**79%**	**89%**	**66%**	**72%**	**83%**	**89%**

© 2024 National Association of Insurance Commissioners

STRUCTURED SECURITIES

Discussion

- Based on our benchmarks, the OW paper understates the potential risks to BSL CLO Equity.
- The Dot.Com did see a spike in defaults in speculative grade issuers. However, CLOs were able to avoid a direct impact partially because the Federal Reserve lowered rates in response to the 9/11 attacks.
  - This helped floating rate issuers by reducing the cost of funds.
  - However, CBOs – backed by fixed rate bonds – imploded.
- The GFC did not materially impact the speculative default rate.



Note that the trendline above underestimates the cost of capital since very few issuers, issue at the spread peak.

Source: ICE BofA via FRED

© 2024 National Association of Insurance Commissioners

AMERICANS for TAX REFORM
722 12th Street, N.W. • 4th Floor • Washington, D.C. 20005

April 4, 2024

Mr. Philip Barlow
Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Oliver Wyman Report: *Residual Tranche Risk Analysis*

Dear Mr. Barlow:

Americans for Tax Reform (ATR)[1] appreciates the opportunity to comment on the National Association of Insurance Commissioners' (NAIC) proposed increase to the risk-based capital (RBC) charge for residual tranches and interests of asset-backed securities (ABS). ATR also appreciates the opportunity to comment on Oliver Wyman's (OW) report analyzing the risk of losses to the residual tranches and interests of ABS under certain stress scenarios.[2] **ATR requests that the NAIC delay the implementation of the 45 percent RBC charge by at least one year. If the NAIC fails to delay the implementation of the 45 percent capital charge, then the NAIC should vote to establish the interim charge for residuals at 30 percent.**

The NAIC is arbitrarily increasing regulations on life insurance companies that invest in residual tranches and interests of ABS.[3] It appears that the NAIC's goal is to push life insurance companies out of residual tranches without any quantitative analysis to justify this change. The implementation of the proposed regulations will disincentivize life insurance companies from investing in residual ABS tranches, which could increase the cost of Americans' life insurance and annuities. **ATR is deeply concerned the NAIC will deter financial companies from keeping life insurance and annuity products affordable for Americans.**

Third-party data and analysis provide evidence that NAIC's proposed regulations go too far. The OW report finds that common stock losses are higher than losses on residual ABS tranches on a portfolio level. The NAIC's proposed equity capital increase from 30 percent to 45 percent for residual ABS tranches is not commensurate with the residual tranche risk observed within the OW report. Meanwhile, the common stock charge is 30 percent. The OW report offers support for a 30 percent capital charge, not a 45 percent charge.

[1] ATR is a nonprofit, 501(c)(4) taxpayer advocacy organization that opposes all tax increases and supports limited government, free market policies. In support of these goals, ATR opposes heavy regulation and taxation of financial services. ATR was founded in 1985 at the request of President Ronald Reagan.
[2] https://content.naic.org/sites/default/files/inline-files/Oliver%20Wyman%20Residual%20Tranche%20Report.pdf.
[3] https://content.naic.org/about.

© 2024 National Association of Insurance Commissioners

Notably, another paper analyzing collateralized loan obligations (CLOs) found that "CLO equity exhibits a great deal of resilience to market volatility."[4]

ABS residuals offer significant returns to life insurance and annuities. Residuals are a "great return enhancer and fundamental diversifier."[5] These tranches and interests can also "play an effective role in generating return while keeping portfolio risk constant."[6] Increasing the RBC charge to 45 percent would limit life insurance companies' exposure to residuals, hamper returns, and increase costs for annuities that rely on those enhanced returns. Ultimately, American workers and retirees will bear the brunt of the increased RBC charge.

The NAIC's proposed regulations should be delayed by at least one year. If the NAIC fails to delay the implementation of the 45 percent RBC charge, then the charge should remain at 30 percent. This is more than reasonable considering the NAIC has not conducted a comprehensive cost-benefit analysis for increasing the RBC charge to 45 percent. Moreover, the OW report clearly shows the NAIC's proposed regulations are gratuitous. To date, no substantive quantitative analysis has been conducted to justify the NAIC's proposed 45 percent RBC charge for residuals.

Additionally, NAIC's proposed RBC charge should not be implemented simply to create parity with federal regulators' implementation of the Basel III Endgame bank capital requirements.[7] These bank regulations were originally formed by unelected bureaucrats in Basel, Switzerland. The NAIC should not implement rules for life insurance companies that will align with heavy-handed European-based regulations.

The proposed bank capital requirements arbitrarily punish securitizations by doubling the p-factor.[8] The increase in the p-factor fails to take into consideration the varying riskiness of different types of underlying collateral. So, the p-factor treats credit card debt and commercial paper as equally risky. Adding the NAIC's arbitrary RBC charge to residuals would unnecessarily, and without empirical evidence, label ABS as too risky for life insurance. The higher capital charges from the NAIC and the bank regulators will disincentivize banks and life insurance companies from adding exposure to securitizations. Life insurance companies will be forced to increase the cost of annuities, making them less attractive to American workers and retirees. Businesses "tend to pass on cost increases far more quickly than cost reductions."[9] Government-mandated capital controls will likely force life insurance companies to pass down these costs through annuities. It is widely observed that "[o]utput prices tend to respond faster to input increases than to decreases" in the producer and consumer goods markets.[10] Similarly, the cost of annuities will increase more quickly if the RBC charge for residuals increases to 45 percent.

[4] https://w4.stern.nyu.edu/finance/docs/pdfs/Seminars/CLO-Performance.pdf.
[5] https://www.thornburg.com/article/think-abs-residuals-to-improve-your-risk-reward-trade-off/.
[6] Id.
[7] https://docs.house.gov/meetings/BA/BA20/20240131/116775/HHRG-118-BA20-Wstate-BashurB-20240131.pdf.
[8] https://www.federalregister.gov/d/2023-19200/p-564.
[9] https://www.cuna.org/content/dam/cuna/advocacy/priorities/documents/True-Impact-of-Interchange-Regulation-CornerstoneAdvisors-June-2023.pdf.
[10] https://www.jstor.org/stable/10.1086/262126.

NAIC's proposed regulations will force annuity providers to hold significantly more cash on hand. **Essentially, this will raise costs for consumers—acting as a *de facto* tax increase.** This is especially harmful to Americans considering the guaranteed lifetime income that annuities provide.[11]

The NAIC should not arbitrarily and capriciously increase the RBC charge for residual ABS tranches without a proper quantitative analysis. Since insurance is primarily regulated at the state level, state regulators wield significant power over the insurance industry. Although the NAIC is not subject to the *Administrative Procedure Act* (APA),[12] as a matter of proper due process, the NAIC should consider abiding by the APA's principles and allow for a structured notice-and-comment process that considers and analyzes hard data. Today, the NAIC possesses no hard evidence to suggest that raising the capital charge for residuals to 45 percent would provide any material benefits to life insurance companies or their clients.

One key element of ABS special purpose vehicles (SPVs)[13] is that they benefit from bankruptcy remoteness. Bankruptcy remoteness possesses advantages such as:

> *(i) the ability to segregate the assets to be financed such that they are held solely for the benefit of specific creditors and (ii) avoiding bankruptcy risks, costs, and delays including cram-down risk, the suspension of payments to creditors, and the limitations on enforcement actions against the [SPV] for nonpayment due to the automatic stay taking effect upon the filing of a bankruptcy case.*[14]

Legally isolating the securitized assets acquired by a SPV also gives ABS an advantage over corporate bonds and other non-securitized instruments. The "true sale" of assets creates a legal isolation between the SPV and the entity that originated the assets.[15] This structure "allows creditors financing the assets to focus on the credit quality of the assets rather than the credit quality of the originator, resulting in better financing terms for the issuer/borrower."[16] The "economic benefits" of bankruptcy remoteness "can significantly lower borrowing costs."[17] Increasing the RBC charge for residuals to 45 percent is more likely to worsen financing terms for annuities, not improve them.

The level of riskiness observed in ABS is further delineated by the NAIC itself. The NAIC has previously stated that "[a]sset-backed securities have proven over the years to be stable investments."[18]

The NAIC should avoid hindering American families from maximizing their nest eggs. Increasing the RBC charge for residuals to 45 percent would increase costs on annuities—effectively increasing costs on retirement options for American workers and retirees. Currently, there is no quantitative evidence to substantiate this RBC charge increase. **Consequently, ATR requests the 45 percent RBC charge on ABS residuals be delayed and remain at 30 percent.**

---

[11] https://www.actuary.org/sites/default/files/2022-08/IB.SECUREact.8.22.pdf.
[12] https://www.justice.gov/sites/default/files/jmd/legacy/2014/05/01/act-pl79-404.pdf.
[13] https://am.credit-suisse.com/content/dam/csam/docs/articles/2022/cig-white-paper-collateralized-loan-obligations.pdf.
[14] https://www.choate.com/images/content/1/0/v2/104168/Bankruptcy-Remoteness-A-Summary-Analysis.pdf.
[15] Id.
[16] Id.
[17] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4178280.
[18] https://content.naic.org/cipr-topics/asset-backed-securities.

* * * *

ATR appreciates the opportunity to comment on the OW report and the proposed 45 percent RBC charge. If you have any questions or need any additional information, please contact Bryan Bashur at bbashur@atr.org.

Sincerely,

Americans for Tax Reform

cc: Mr. Dave Fleming
Senior Life Risk-Based Capital Analyst
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Submitted via electronic mail

Mr. Tom Botsko
Chair, Capital Adequacy (E) Task Force (CATF)
Via email: Eva Yeung (eyeung@naic.org)

Philip Barlow
Chair, Life Risk-Based Capital (E) Working Group (RBC IRE WG)
Via email: Dave Fleming (dfleming@naic.org)

Dear Mr. Barlow and Mr. Botsko:

As the President and CEO of the Florida State Hispanic Chamber of Commerce, I have always supported economic growth and free market principles to ensure success for all residents in our state. The strength of Florida's economy can be attributed to its free market practices. Following the recent National Association of Insurance Commissioners (NAIC) meeting, it seems the organization is seeking to stamp out competition that allows the free market to thrive. I find the precedent being set by the Risk-Based Capital Investment Risk and Evaluation Working Group (RBC IRE WG) and the Capital Adequacy (E) Task Force (CATF) troublesome. Both the RBC IRE WG's and CATF's decision to disregard objective, third-party data that they requested is concerning, and the findings should mandate a reexamination of the proposed 45% capital charge on residual tranches.

We've recently learned that many of the initiatives pushed by the NAIC are done so behind closed doors and not open to public input. However, this aggressive attempt at suppressing competition in the insurance market is open to public comment, and we'd like our voice to be heard. In the past, the NAIC has valued research and used data to drive its decisions, but now it seems like a lack of oversight has allowed the organization to run astray and be influenced by individual priorities and politics. The recent independent study conducted by Oliver Wyman provides validated data that demonstrates that asset-backed security (ABS) residuals don't have a higher risk, making the 45% charge in question unnecessary.

If the NAIC continues pursuing this charge, it would confirm that its real goal is to drive competition out of insurance markets, including life insurance and annuity markets. A frivolous 45% charge would clearly have an adverse effect on the market. The life insurance and annuity industry is critical to Florida's retirees, a community that primarily operates on a fixed income and would not be able to handle the impact of this proposed charge, which could reduce the number of affordable policies.

Further, this charge is also being proposed for property and casualty insurance companies, which would further increase costs in that market. As you know, Florida is experiencing an unprecedented crisis in the availability and affordability of homeowners insurance. Floridians are already leaving the state in droves because of skyrocketing insurance costs.[1] This is the

[1] https://www.newsweek.com/florida-faces-exodus-insurance-costs-cause-residents-leave-state-1838206

© 2024 National Association of Insurance Commissioners

absolute worst time for regulators to arbitrarily raise costs. The effect of such increased costs will hit Hispanic communities particularly hard given that Hispanics are already substantially less likely to have homeowners insurance than the general population.[2] When insurers are prevented from investing in high-returning assets, they will be forced to minimize their offerings, which will lead to higher costs.

Unfortunately, the NAIC's recent actions are seemingly guided by political agendas rather than sound policymaking. The NAIC should be forging new ways to lower costs and provide more options for consumers, especially in states like Florida, not working to suppress the free market. I ask the NAIC to act in favor of data and in favor of consumers and vote in support of the one-year delay.

Sincerely,
Julio Fuentes
President and CEO of the Florida State Hispanic Chamber of Commerce

[2] https://consumerfed.org/wp-content/uploads/2024/03/Exposed-UninsuredHomes-1.pdf

Mr. Philip Barlow

Chair, Life Risk-Based Capital and Investment Risk and Evaluation Working Group

Dear Mr. Barlow:

As a former insurance commissioner who was active in leadership positions at the NAIC, as well as a former state legislator who served as Colorado House Majority leader and Speaker of the House, I have followed recent NAIC activity on structured securities very closely. Specifically, I write to support a one-year delay or a lowering of the risk charge to 30% until the data and full implications and potential unintended consequences of the "interim" 45% charge on residuals are better understood.

I have always sought to support substantive, innovative, and equitable policies that help maintain the health of the insurance market as governed by the states and state constitutions and support a diverse choice of insurance options for consumers. I am greatly concerned about the precedent being set by the Risk-Based Capital Investment Risk and Evaluation Working Group (RBC IRE WG). Recently published, objective, third-party data necessitates a delay and reconsideration of the implementation of the 45% capital charge on residual tranches.

The NAIC has historically maintained an approach that's underpinned by data as it works to drive agreement on policy that impacts all 50 states. A data-driven approach is especially important in areas of significant controversy around risk-based capital (RBC) charges – the nature of the accreditation system means that many state legislatures do not directly vote on policy changes that affect their state's policyholders.

In this case, rather than funding and conducting its own independent research, the NAIC asked for industry to fund and produce data regarding the proposed capital charge for residual tranches to inform a path forward. The recent study conducted by Oliver Wyman is the best response to this request the NAIC could have hoped for – the study provides a comprehensive third-party analysis demonstrating that asset-backed security (ABS) residuals don't represent a higher risk than other assets with a lower charge, which indicates that a 45% charge is too high. Should the NAIC forge ahead despite this analysis, the body would set a poor precedent for disruptive and frequent changes to the currently stable, long-term capital framework unsupported by data. I am concerned that such a move directly undermines the credibility of the NAIC and should in no way serve as a template for any future capital charge.

Given that the charge is likely to be permanent or long-term, it's vital to ensure that policy is decided carefully. It's not hard to imagine the cascading implications a 45% charge will have for stakeholders in the market. If insurers are blocked or dissuaded from investing in high-return and performing assets, insurers will likely have to shrink their offerings of affordable life insurance and retirement options to consumers.

This process has been accelerated due to ballooning fears of outsized risks that aren't substantiated. For example, the American Academy of Actuaries has stated that CLOs do not

present a material solvency risk to the insurance industry.[1] In light of the Oliver Wyman study, I support the request by the American Council of Life Insurers (ACLI) that the NAIC postpone the implementation of the 45% charge for at least one additional year. During this time, regulators and stakeholders can carefully assess data in the Oliver Wyman study and any alternative proposals that account for the complexity of the asset in question.

Regulators should be accountable to consumers. It's unfortunate that the NAIC's recent actions seem to be guided by personal agendas and outside political pressure rather than sound policymaking. I implore the NAIC to do the right thing, maintain its credibility, and vote for a one-year delay so a data-driven result can be achieved.

Sincerely,

Doug Dean

Former Colorado Insurance Commissioner

[1] American Academy of Actuaries C1 Work Group's (C1WG) December 14, 2022 presentation to the NAIC's RBC IRE. Slide 12: "In the C1WG's view, CLOs do not present a material risk to the aggregate solvency of the life insurance industry currently."

MAX CARTER II
ASSEMBLYMAN
District No. 12

COMMITTEES:
Member
Commerce and Labor
Government Affairs
Growth and Infrastructure

State of Nevada
Assembly
Eighty-Second Session

DISTRICT OFFICE:
181 Clayton Street
Las Vegas, Nevada 89110-5101

LEGISLATIVE BUILDING:
401 South Carson Street
Carson City, Nevada 89701-4747
Office: (775) 684-8819
Fax No.: (775) 684-8533
Email: Max.Carter@asm.state.nv.us
www.leg.state.nv.us

Mr. Philip Barlow
Chair, Life Risk-Based Capital and Investment Risk and Evaluation Working Group

Mr. Barlow:
I find the RBC IRE Working Group's recent work on structured securities very troubling. As a member of the Nevada State Assembly, I understand the importance of deliberative, transparent, and informed policymaking. From what I've seen, the working group's actions are not indicative of the kind of rulemaking process my constituents and others across the country deserve. In fact, it seems unprecedented and in violation of the NAIC's standard operating procedures when making changes to risk-based capital (RBC).

Many people don't realize the broad impact the policies your organization put forward can have on their insurance options, livelihoods, and financial security. The NAIC was built around the idea that all state regulators should work together to develop the policies that fall under their jurisdiction, but the organization is now transferring that rulemaking authority to a small set of staff members and regulators pursuing agendas that clearly do not benefit consumers or protect markets from risk. Pushing through regulatory changes that don't reflect genuine consensus and the collective, informed preferences of all state regulators is a reckless way to make policy.

The working group has failed to follow standard NAIC practice in its efforts to change the risk factor for residual tranches. Specifically, the working group has already publicly signaled that it will mischaracterize and/or disregard reputable data related to the change, and it has failed to give the public an appropriate amount of time to provide public comment on that data. All of this has been done through a rushed process that only seems to be growing in breadth to include additional asset classes.

In fact, to many, it seems like your decision was already made — long before any calls for supporting data — and the process is now just a damn-the-torpedoes race to the finish line. This change will affect families, consumers, and businesses across the country, and it deserves the proper, responsible review it hasn't received. Unfortunately, it has also created a sense of doubt regarding the NAIC's credibility in this area. As a legislator, I take this very seriously, given that the policymaking done by the NAIC would otherwise rightly be in the purview of state legislatures and governments.

My hope is that the NAIC will change course and adhere to a credible process that allows for informed outside data and opinions and gives those it will affect the most an opportunity to understand and speak out against what is happening behind closed doors. Providing a one-year delay is one way the NAIC could do that, and I hope you take the opportunity to do just that.

Assemblyman Max Carter
Nevada State Assembly District 12

CC: RBC IRE Working Group.

CESAR AGUILAR
1700 WEST WASHINGTON, SUITE H
PHOENIX, ARIZONA 85007-2844
CAPITOL PHONE: (602) 926-3953
TOLL FREE: 1-800-352-8404
caguilar@azleg.gov

DISTRICT 26



COMMITTEES:
RANKING MEMBER
COMMERCE
MUNICIPAL OVERSIGHT & ELECTIONS

Arizona House of Representatives
Phoenix, Arizona 85007

Mr. Philip Barlow
Chair, Life Risk-Based Capital and Investment Risk and Evaluation Working Group

Dear Mr. Barlow:

I believe strongly in the need for policies that are pro-consumer, pro-competition, and backed by data as a proud member of the Commerce Committee of the Arizona State House of Representatives. I am concerned about the NAIC Risk-Based Capital Working Group's (RBC IRE WG) insistence on implementing a 45% capital charge on the equity portion of asset-backed securities. Not only does the policy inhibit consumer choice and the competitive landscape of the life insurance and annuities market, but the process leading to this recommendation will set a dangerous standard for how the NAIC approaches policymaking. I am also concerned by the proposal pending in the Capital Adequacy Task Force to impose this increase on property and casualty and health insurers.

Historically, the NAIC has used a measured and researched-back approach to generate consensus when crafting insurance-related policies and guidelines. However, a handful of regulators, who certainly do not speak for the Arizona legislature or Arizona consumers, have abandoned this analytical and data-driven method to greatly accelerate the policymaking timeline with their attempt to quickly finalize a 45% capital charge. Now, research performed by a respected outside consultant, Oliver Wyman, demonstrates that asset-backed security (ABS) residuals don't carry higher risk. We have the exact data necessary to declare a 45% charge to be ill-advised and not needed, research that the NAIC should conduct itself before making major policy changes.

Not only has the RBC IRE working group failed to follow standard NAIC processes and give the public enough time to comment as it advances a change to the risk factor for residual tranches, but it has also failed to consider the negative effects this policy will bring about for consumers. If higher costs are to be tacked on to asset-backed securities, insurers will be dissuaded from investing in these reliable and high-return assets. I am very concerned that this change will hinder important markets, such as student loans, credit cards, lending to small businesses, and lending to finance the energy transition. These are all critical priorities, nationally, in Arizona, and among my constituents. In addition to restricting lending, in the wake of restricted insurer investment returns, the availability of premium insurance product offerings will be reduced, while costs for consumers soar.

The effect on the availability and affordability of life insurance and retirement products is of particular concern for my state and others with similar demographics. More than 17% of Arizonans are of retirement age, putting us at 12th in percent of the population aged 65 years and older in the U.S.[1] Hard-working Americans who are trying to plan for their futures deserve a wide array of retirement and financial planning options. It is unfortunate that a handful of regulators are poised to take this away from them with a misguided approach.

I implore the RBC IRE working group to change course and delay the implementation of the 45% capital charge on residual tranches for at least one year. The opportunity is before you to not only rectify the policy at hand to be more consumer and competition-friendly but also to restore credibility to the NAIC in its policymaking process. I sincerely hope you seize it.

Sincerely,

Representative Cesar Aguilar (D-26)
Arizona House of Representatives
CC RBC IRE Working Group

Maricopa Association of Governments: "Age Friendly Arizona and Older Adult Demographics"

THE BUCKEYE INSTITUTE

April 5, 2024

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: **dfleming@naic.org**

Dear Mr. Barlow:

As an independent research and educational institution advancing free-market public policies in the states, **The Buckeye Institute** works to **reform regulatory codes and cut burdensome red tape.** The Buckeye Institute's recommendations have helped eliminate or relieve the burdens of more than 50 occupational licenses and have stricken hundreds of unnecessary regulatory restrictions from the Ohio Administrative Code.

With respect to the current proposal from the National Association of Insurance Commissioners (NAIC) to increase the risk charge for residuals, The Buckeye Institute recommends caution and joins the industry and other interested parties in calling for NAIC to allow more time to collect additional data. Without comprehensive data collection, new requirements of this magnitude could inflict unintended harms if implemented prematurely.

NAIC is right to protect insurance consumers from unsound corporate practices, especially as insurers acquire larger shares of opaquely structured securities. But such investments in a properly balanced portfolio also earn higher returns for insurers, which can help reduce consumer costs and premiums. Consequently, insurers and regulators must appropriately balance the risks and rewards of regulating insurer investment portfolios and strategies.

The Buckeye Institute has reviewed the report conducted by the management consulting firm Oliver Wyman (OW) and recently submitted to your office by the Alternative Credit Council. The well-designed study examined multiple risk scenarios for various asset classes and determined that residuals carried lower risk than equity in common stock. The OW study should not be dispositive, but it does challenge the prudence of rapidly increasing the current equity capital requirement from 30 percent to 45 percent. At the very least, it supports the call for more evidence that higher capital requirements will improve consumer safety. Without additional evidence, the proposed jump to 45 percent appears arbitrary and deviates from NAIC's typically data-driven approach to modifying risk charges.

88 East Broad Street, Suite 1300 • Columbus, Ohio 43215 • (614) 224-4422 • BuckeyeInstitute.org

© 2024 National Association of Insurance Commissioners

Imposing higher risk charges and cash-on-hand requirements too fast and with insufficient supporting data will likely stifle innovation in the life insurance market and compel insurers to charge higher premiums to offset lower investment returns—an unintended harm to consumers. And given the credible data undermining the rationale for the proposed changes and the industry's request for further study, adopting the new requirements without reconsideration will weaken the industry's faith in the regulatory process as it questions NAIC's motives for proceeding unabated—another unintended harm.

Rather than risk these outcomes, NAIC should temporarily pause its proposal for one year to solicit further input and collect additional data on the risk-profile of residuals. That will allow NAIC to best calibrate the risk charges and achieve the right balance of risk and reward. A temporary pause will enhance rule-making transparency and reassure the regulated industry that NAIC makes important decisions prudently, methodically, and fully supported by hard evidence.

Sincerely,
Rea S. Hederman Jr.
Vice President of Policy
The Buckeye Institute

88 East Broad Street, Suite 1300 • Columbus, Ohio 43215 • (614) 224-4422 • BuckeyeInstitute.org

© 2024 National Association of Insurance Commissioners

Mr. Philip Barlow
Chairman
Life Risk-Based Capital (E) Working Group

Dear Mr. Barlow:

A functioning, vibrant free market is the heart of the American economy. Competition drives innovation and ultimately gives consumers various options at fair prices for the goods and services they seek. This principle should apply across all sectors of the economy, including the life insurance and annuities market. These products represent valuable tools that Americans from all backgrounds and income levels can use to plan for retirement, provide for their families, and incorporate into their long-term financial planning.

The recent moves by the National Association of Insurance Commissioners (NAIC), particularly the Risk-Based Capital Working Group, demonstrate a fundamental disregard for the importance of innovation in the marketplace. The proposed 45% capital charge on asset-backed securities would do a great disservice to consumers by shrinking the offerings of life insurance and annuity policies available to them while raising the costs of those that are offered.

The proposed charge is even more troubling because it appears to not only be misguided but also predetermined. The working group has received a public study conducted by an independent researcher demonstrating that the risk the proposed charge attempts to address is nonexistent. Per Oliver Wyman, the assets in question actually carry less risk than other assets commonly held by insurers, which are not subject to a higher charge.

The research is decisive and available for all to see. It is troubling that the working group continues to press forward with a punitive measure aimed at risk that does not exist in the data. If the higher charge is adopted, the NAIC will not only embrace a policy that ultimately hurts consumers, but it will undermine its own credibility.

I ask that the Risk-Based Capital Working Group and the NAIC follow the data that is readily available. The proposed 45% capital charge is not only unnecessary, but it's harmful to consumers and markets. The NAIC should put a stop to it before its effects can be felt.

Thank you,

Tom Swatzel
Founder
South Carolinians for Responsible Government

© 2024 National Association of Insurance Commissioners



April 8, 2024

Philip Barlow
Chair, Risk-Based Capital and Investment Risk and Evaluation Working Group
National Association of Insurance Commissioners

Re: Oliver Wyman Study on Residual Tranches and Interests

Dear Mr. Barlow:

The American Consumer Institute is honored to present the National Association of Insurance Commissioners (NAIC) with comments on its proposal to raise the risk-based capital (RBC) charge for residual tranches and interests of asset-backed securities (ABS) from 30 percent to 45 percent for life insurance companies. The effects of limiting financial options on life insurance policyholders are of great concern to us, particularly because the proposal will limit the availability and affordability of such a vital resource.

Life insurance provides financial solace for those who hold these policies and can be integral in supporting families after the passing of a household's primary breadwinner. The difference in feelings of financial security between those with and without life insurance is stark.[1] While nearly 70 percent of those with life insurance feel financially secure, less than half of those without insurance can say the same.

Furthermore, after just six months, nearly half of Americans say they feel the financial burden of losing their household's primary wage earner. Life insurance helps to provide families with the cushion they need to stave off the inevitable financial burdens of a loss. Even if a policy is never used, the peace of mind that it grants is still immeasurable to working families.

There is little debate that life insurance policies are beneficial. However, rules that limit investment opportunities for life insurance policyholders threaten to limit availability and affordability. Similar to the proposal from the Federal Reserve to impose "Basel Endgame"[2] requirements on banks, this sharp increase in RBC charges would

[1] Michael Jones, "Life Insurance Statistics and Industry Trends to Know in 2023," Annuity, January 24, 2024, https://www.annuity.org/life-insurance/statistics/#:~:text=About%252050%2525%2520of%2520Americans%2520do,compared%2520to%252046%2525%2520of%2520women.

[2] "Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity," Federal Register, September 18, 2023,

4350 North Fairfax Drive, Arlington, VA, Suite 725, 22203

© 2024 National Association of Insurance Commissioners

functionally limit the investments into residual tranches and ultimately hinder ABS.[3] These investments are high-performing and can offer life insurance holders greater access to financial markets. High RBC charges amount to cash-on-hand requirements, limiting investment capital which earns interest, and helping life insurers cover customers.

The report by Oliver Wyman on the risk of losses to residual tranches and interest of ABS under various stress tests does not lend support for a 45 percent RBC charge.[4] Instead, the Wyman report indicates that a 30 percent RBC charge would best satisfy risk, making the proposed 45 percent charge unsubstantiated by testing. For the NAIC to continue implementing the current proposal would essentially create an arbitrary RBC charge that would unnecessarily limit life insurance policyholders' access to financial options.

The NAIC should not implement this rule change. At a minimum, the NAIC should hold off on rule implementation for at least a year and conduct further risk-based testing to substantiate the increase in RBC charges to 45 percent, or the charge should be set at 30 percent as the Wyman report concludes. Anything else would endanger Americans' access to valuable financial tools which could be the difference between having or not having access to health insurance.

Based on our analysis of the proposal, we conclude that consumers would be harmed in two major ways. First, the increase in RBC charges would drive the costs of life insurance and annuities up because the charge would artificially reduce insurer investment returns. As a result, insurers would have to pass this cost on to consumers. This is happening at the very time that more Americans are facing retirement insecurity and need to protect their families.

Second, the increase in RBC charges would hinder the origination of lending to consumers, because many originators of consumer loans require securitization to finance such lending. Thus, making these securitization structures/investments less attractive by jacking up the risk charge would significantly reduce demand and make consumer loans more expensive.

Considering life insurance provides benefits both in peace of mind and financial ease following losses, it is incumbent upon policymakers to not unnecessarily limit its

---

https://www.federalregister.gov/documents/2023/09/18/2023-19200/regulatory-capital-rule-large-banking-organizations-and-banking-organizations-with-significant.

[3] Bill Hulse, "How New Banking Rules Might Harm Your Business," U.S. Chamber of Commerce, November 6, 2023, https://www.uschamber.com/finance/how-new-banking-rules-might-harm-your-business#:~:text=As%20a%20whole%2C%20increasing%20capital,by%20more%20than%2020%20percent.

[4] "Oliver Wyman Residual Tranche Report," Alternative Credit Council, February 26, 2024, https://content.naic.org/sites/default/files/inline-files/Oliver%20Wyman%20Residual%20Tranche%20Report.pdf.

availability through the implementation of RBC charges that are higher than what is supported through stress testing.

If you have any questions, we can be reached on 703-282-9400.

Respectfully submitted,

Steve Pociask
President/CEO
American Consumer Institute
Steve@TheAmericanConsumer.Org

Isaac Schick
Policy Analyst
American Consumer Institute
Isaac@TheAmericanConsumer.Org

NAMIC
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

317.875.5250 | [F] 317.879.8408
3601 Vincennes Road, Indianapolis, Indiana 46268

202.628.1558 | [F] 202.628.1601
20 F Street N.W., Suite 510 | Washington, D.C. 20001

April 8, 2024

Mr. Philip Barlow, Chair
Chair, Risk-Based Capital Investment and Evaluation (E) Working Group
National Association of Insurance Commissioners
c/o Dave Fleming
Via Email: dfleming@naic.org

Mr. Tom Botsko
Chair, Capital Adequacy (E) Task Force
National Association of Insurance Commissioners
c/o Eva Yueng
Via Email: eyeung@naic.org

RE: Oliver Wyman Residual Tranche Risk Analysis and Proposal 2024-02-CA

Dear Mr. Barlow and Mr. Bostko,

Thank you for the opportunity to comment on the Oliver Wyman Residual Tranche Risk Analysis and Proposal 2024-02-CA. The following is submitted on behalf of the member companies of the National Association of Mutual Insurance Companies (NAMIC).

NAMIC has more than 1,500-member companies representing 40 percent of the total U.S. property/casualty insurance market. NAMIC member companies serve more than 170 million policyholders and write more than $323 billion in annual premiums. Our members' direct written premiums account for 67 percent of homeowners' insurance and 55 percent of automobile insurance. Through NAMIC advocacy programs it promotes public policy solutions that benefit NAMIC member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

NAMIC is writing to express our support for an additional one-year implementation delay of the increased 45% capital charge on asset-backed security (ABS) residual tranches and interests.

© 2024 National Association of Insurance Commissioners



As noted by the American Council of Life Insurers (ACLI) at the March National NAIC meeting, the insurance industry is aligned that regulators and stakeholders must thoroughly assess new data and discuss and evaluate all residual tranche charges to ensure that they align with the actual risk. Aligning risk with capital is also consistent with a foundational principle of the recently proposed Holistic Framework – equal capital for equal risk.

We believe that providing an additional year will allow additional analysis, including by the Academy of Actuaries, to help the regulatory community arrive at an informed decision and produce specific recommendations that are based on fact, and specific to individual types of assets. This additional year can provide an opportunity for understanding the impact to property and casualty companies, as opposed to assuming the risk is the same as the life industry. Unlike the life risk-based capital calculation, there is no current mechanism for assigning a property/casualty Schedule BA asset charge by investment type. Such a change in charge is significant and should be supported by a holistic review of the treatment of property/casualty Schedule BA investment types in general, rather done in isolation for one specific investment type, such as residual tranches. This concern also supports the need for additional analysis.

Thank you for your consideration of our views and your support for a process that provides consistent rigor and standards when evaluating insurance company investments for purposes of changing RBC.

Sincerely,

Colleen W. Scheele, Public Policy Counsel and Director of Financial and Tax Policy
National Association of Mutual Insurance Companies



April 8, 2024

VIA ELECTRONIC SUBMISSION

Mr. Philip Barlow
Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: RBC Factor for Asset-Backed Security Residual Tranches – Oliver Wyman Report

Dear Mr. Barlow,

The American Investment Council ("AIC")[1] appreciates the opportunity to comment on the Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBCIRE") exposure of Oliver Wyman's *Residual Tranche Risk Analysis* ("OW Report") that was released for public comment on March 17, 2024. As always, we appreciate the RBCIRE's willingness to receive input from interested parties on its important workstreams.

The OW Report is responsive to the RBCIRE's request for interested parties to provide data regarding whether the "interim" 45% RBC charge for asset backed securities ("ABS") residual tranches is a reasonably conservative factor.[2] The OW Report evaluates the potential for losses in the residual tranches of commonly-held types of structured assets and assesses how they compare with the historical losses for other asset classes. Among other things, the OW Report concludes that ABS residual tranche investments realize lower losses on a portfolio-level than common stock under corresponding stress levels. This conclusion, and others noted in the OW Report, appear to be consistent with other reputable studies that analyze similar issues.[3]

Taken together, these materials support a conclusion that the current 30% RBC charge is likely a more "reasonably conservative factor" for residual tranche investments than the 45% charge that is

[1] The AIC is an advocacy, communications, and research organization established to advance access to capital, job creation, retirement security, innovation, and economic growth by promoting responsible long-term investment. The AIC's members include the world's leading private equity and private credit firms, many of which partner with insurers to achieve their long-term investment objectives and ensure the continued success of insurers and their policyholders. Among other things, by adopting appropriate, risk-adjusted investment strategies, our members are committed to helping secure the retirement of millions of pension holders and to policyholder protection. For further information about the AIC and its members, please visit our website at http://www.investmentcouncil.org.

[2] The "interim" 45% RBC charge for residual tranches was adopted by the RBCIRE in 2023 for the 2024 reporting year. As adopted, the amendment will result in a 50% (or 15 percentage point) increase to the RBC charge applicable to ABS residual tranches as so reported on Schedule BA of the Annual Statement for life insurance companies and fraternal benefit societies.

[3] *See e.g.*, our letter to the RBCIRE dated May 12, 2023 entitled *Comments regarding Risk-Based Capital Investment Risk and Evaluation (E) Working Group 2023-09-IRE Residual Factor Proposal,* which is memorialized in the NAIC 2023 Summer National Meeting Minutes at pages 2057-2059, available at: https://naic.soutronglobal.net/Portal/Public/en-US/DownloadImageFile.ashx?objectId=10416&ownerType=0&ownerId=26573.

799 9th Street NW, Suite 200, Washington, DC 20001 202.465.7700 @AmericaInvests investmentcouncil.org

© 2024 National Association of Insurance Commissioners

AMERICAN INVESTMENT COUNCIL

currently slated to take effect for the 2024 reporting year. Stated differently, **we interpret the OW Report as establishing that the 45% charge is unreasonably conservative.** At minimum, the RBCIRE should afford itself and interested parties additional time to assess the valid issues raised by the American Council of Life Insurers ("ACLI") and other interested parties during the March 17 meeting, including obtaining additional information from Oliver Wyman and considering whether it is inappropriate to apply a single RBC factor to all ABS residual tranches. We urge the NAIC and RBCIRE to consider the differences between ABS categories and the adverse effect that an unreasonably conservative single residual RBC factor could have on lenders' willingness to originate loans and the real economy more broadly.

In light of the foregoing, **we respectfully request that the RBCIRE retain the current 30% RBC factor for ABS residual tranche investments for an additional year in order to give regulators and interested parties time to evaluate whether a 45% charge is unreasonably conservative relative to other equity RBC factors.** We welcome the opportunity to serve as a resource to the RBCIRE as it considers both "interim" and "long-term" regulatory frameworks for ABS and would be pleased provide insight into our members' perspective on these issues.

Sincerely,

/s/ Rebekah Goshorn Jurata
General Counsel
American Investment Council

cc: Mr. Dave Fleming
Senior Life Risk-Based Capital Analyst
National Association of Insurance Commissioners (via email)

© 2024 National Association of Insurance Commissioners

BRIDGEWAY ANALYTICS

Amnon Levy
Bridgeway Analytics
Amnon.Levy@BridgewayAnalytics.com

April 8, 2024

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
110 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Oliver Wyman Residual Tranche Report

Dear Associate Commissioner Barlow,

On behalf of Bridgeway Analytics, I am grateful for the opportunity to comment on the Oliver Wyman Residual Tranche Report. Our objective for submitting this comment should be interpreted as advocating for a thoughtful, long-term solution for the treatment of asset-backed securities (ABS) and their residuals, and we do not suggest using our analysis, in its current form, for quantitative inferences regarding a C-1 charge for corporate equity or CLOs across the rating spectrum. While the content in this document is informed by extensive discussions with our client base, the broader industry, NAIC staff, and state regulators and may contain analysis that Bridgeway Analytics had conducted as part of a commercial engagement and retains the right to reuse, the views in this document are solely those of Bridgeway Analytics and are based on an objective assessment of data, modeling approaches, and referenced documentation, that in our judgment and experience, are viewed as appropriate for the analysis at hand. For additional context, analysis in our comments includes Bridgeway Analytics research that may have elements that originated with commercial engagements that have *never been shared with a client as part of a paid engagement*.

Our comment letter has two sections:

- A review of the Oliver Wyman study in the context of the C-1 framework. We focus entirely on the technical aspects of the approach. While we do not dismiss valuable lessons from the study, the methods depart from those used to estimate C-1 charges for bonds, equity, and other assets in several dimensions, including a lack of consideration for portfolio concentration and diversification effects. In addition, the study takes on the significant effort of assessing past experience and estimating baseline and stress loss scenarios across different markets, which is no easy task and requires a heavy dose of professional judgment. We conclude that differences in approaches can result in significant differences in risk assessments.
- Our own analysis of data to differentiate the risks of CLO residuals and those of other asset classes. We hope the American Academy of Actuaries and the broader community can leverage the analysis to expedite their long-term efforts to differentiate the RBC C-1 treatment of structured assets and possibly other asset classes. We draw two conclusions from our analysis:
    - Not all corporate equity or CLO residual interests exhibit the same risks, and 'comparable attributes,' defined by the American Academy of Actuaries in their *Principles for Structured Securities RBC* presentation in Attachment C, can help identify those risks.
    - The patterns are consistent across different lenses, suggesting differentiated tail risks of CLO residuals can be estimated for C-1.

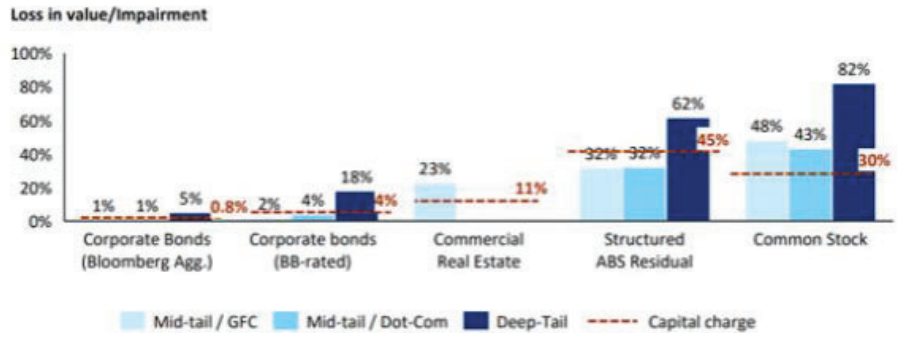
In our opinion, a more thorough set of empirical calibrations and an assessment of other classes of ABS residuals needs to be conducted. A more thorough analysis of tail risks would require calibrated simulation methods that

consider diversification and concentration risks across ABS residuals, which we discuss in *Section 2.2.2*. In addition, our results have us strongly support the Academy's approach to identifying 'comparable attributes' when differentiating risks of asset classes broadly, beyond ABS debt and their residuals.

1 A Review of the Oliver Wyman Study in the Context of the C-1 Framework

The Oliver Wyman study analyzes a random sample of ~30 residuals for several classes of ABS, including CLOs, auto loans, and student loans. Losses were estimated along tail scenarios designed for each class of ABS (e.g., loan default rates for CLO). The study concludes that, on a portfolio basis, ABS residuals perform better than common equity under all modeled stress scenarios. The study finds that losses on corporate equity (82% and 43-48%) are higher than ABS residuals (averaging 62% and 32% across ABS residuals) in the Deep-Tail and Mid-Tail stress scenarios, as represented in Figure 22 from the study, which we reproduce.

Figure 22: Capital charges compared to modeled scenario losses for selected asset classes[30]



The letter argues that the study provides ample evidence that more diligence should be done before imposing the 45% interim capital charge, with delayed implementation of changes to allow for further consideration of data put forth by interested parties.

1.1 Useful Insights

The study shares several insightful observations that we hope the community can incorporate into their understanding of ABS residual risks.

- **Characteristics that affect the potential losses on residual tranches**. The study finds residual tranche thickness and the rating of the next-most junior (i.e., the junior-most rated tranche) tranche can help differentiate losses on residuals, where thicker tranches are often associated with lower expected losses. To their credit, the study segments the residual tranche thickness by ABS class, which is critical given the significant heterogeneity in collateral risk characteristics across classes. However, risk characteristics within a class can also exhibit significant variation, resulting in inherent challenges in its use within this context. Meanwhile, agency ratings consider both thickness and collateral risk, which provides a measure that is normalized across ABS classes, in aspiration at least. This is an important point in the context of differentiating RBC C-1 using 'comparable attributes,' which we explore at greater length in *Section 2* below.
- **Analyzing risks across classes of ABS**. The study takes on the significant effort of assessing past experience and estimating baseline and stress loss scenarios across different markets, which is no easy task. We note limitations with our analysis, which focuses only on CLOs and does not attempt to take on this effort. Assessing a baseline default rate for corporates alone, for example, can lead one to significantly different conclusions depending on the market segment (e.g., broadly syndicated loans versus corporate bonds) and sample period; S&P provides useful context in A Tale of Two Markets: Credit Dispersion Characterizes U.S. Leveraged Finance

© 2024 National Association of Insurance Commissioners

in 2024. Choosing comparable baseline and tail scenarios across, say, corporate credit, auto loans, and student loans requires a heavy dose of professional judgment. Notice, for example, that the study estimates loss on common stock for a scenario argued to be comparable to 95% at well over 40%, rather than the 30% that represents the 94% 2-year loss on the S&P 500 between 1960 and 1991 which was used to estimate C-1. That being said, the study highlights the wide-ranging performance across ABS classes and the wide-ranging risk factors that drive performance, which speaks to the possible diversification benefits of investments across different classes of ABS.

1.2 Additional Needed Analysis

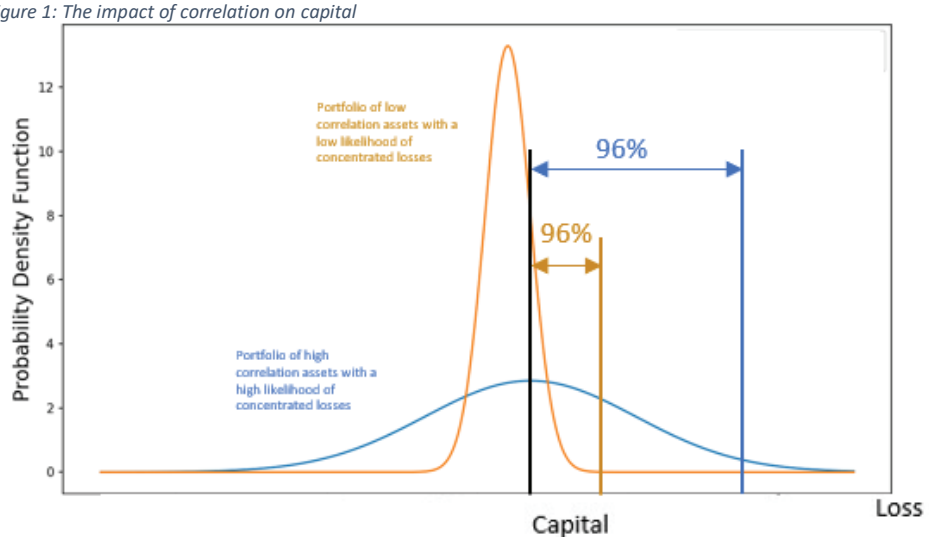
We now point to areas requiring additional analysis for the study to more closely align with approaches used to estimate C-1 charges for bonds, equity, and other assets.

1.2.1 Considerations for concentration and diversification when assessing portfolio tail risk

The study applies the same scenario to all residuals within a class of ABS, implying that the loss rates on the collateral pool are the same across all deals for each scenario. The loss rates would only be identical across the deals if the performance of the collateral pools were perfectly correlated, which could only be the case if all CLOs hold the same collateral loans - they don't. This departs from the RBC C-1 framework, where diversification and concentration effects are considered. C-1 bond factors measure the expected tail loss on a large portfolio of bonds and attribute that loss to a bond with a particular rating (e.g., A-rating), with considerations for their correlation and diversification, providing an assessment of the likelihood of concentrated loss. Similarly, the C-1 common stock factor is estimated using the S&P 500, which by its nature incorporates the correlation and diversification associated with its constituents, assessing the likelihood of concentrated loss. For context, the annual volatility on the S&P 500 is in the order of 20%, while the annual volatility on any single corporate is generally in the order of 60%-90%.

Visually, a portfolio of highly (low) correlated assets can lead to a higher (lower) likelihood of concentrated losses, as depicted in blue (orange), and should be assigned a higher (lower) capital.

Figure 1: The impact of correlation on capital



© 2024 National Association of Insurance Commissioners

The challenge partly stems from the market convention of CLOs and ABS, which are generally analyzed using scenario analysis in the spirit of the study. Unfortunately, those scenario-based tools are not designed to capture concentration diversification and concentration risks of CLO or ABS residual portfolios.

1.2.2 The framework should aspire to backtest and represent observed dynamics experienced historically

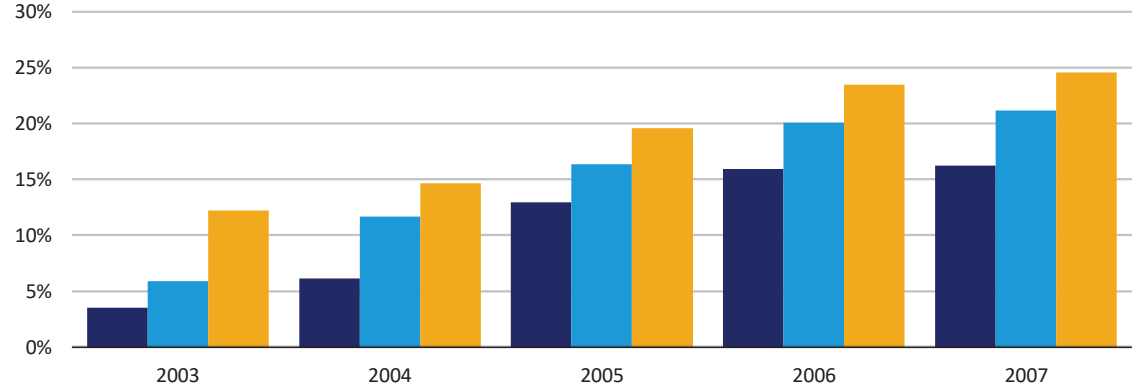
The study finds that ABS residuals experience broad performance in the mid-tail scenarios, ranging from the low teens to 45% (*Table 7*, reproduced from the Oliver Wyman study). For broadly syndicated loan (BSL) CLOs, an important asset class for insurers, average losses for residuals through the Great Financial Crisis (GFC) are estimated at ~45%.

Table 7: Portfolio average losses for all modeled assets across stress scenarios

Scenario Severity	Scenario	CLOs (BSL)	CLOs (MM)	Student loans	Subprime auto loans	Prime auto loans
95th percentile	Dot-Com	-45%	-27%	-	-	-
	GFC	-42%	-25%	-	-17%	-13%
	Mid-tail	-	-	-16%	-	-
	Long Mid-tail	-	-	-	-22%	-14%
99th percentile	Deep-tail	-72%	-55%	-20%	-74%	-26%

The 45% contrasts sharply from what transpired. A recent study by Bank of America Securitized Products Research, 2024 Year Ahead Outlook (CLO) CLO Outlook: A Tale of two CCCs, includes the lifetime profitability of residual interests of redeemed deals that originated just prior to the GFC and experienced the actual GFC; few deals originated through the crisis, with volume picking up in 2011. The Bank of America study highlights the significant positive lifetime annualized internal rate of return (IRR) (*Figure 2* reproduces parts of Exhibit 146 from the study). Another reference can be seen on the right-hand side of *Figure 3* below, which demonstrates that over 50% of CLO residuals maintained a positive return over 2-year windows straddling the GFC. While some residuals experienced losses over this period, the Bank of America analysis demonstrates they generally recovered, generating significant profits over their life. A formal statistical analysis demonstrating the strong performance of residuals through the GFC can be found in CLO Performance.

Figure 2: Annualized lifetime IRR for CLO residuals of redeemed deals by vintage – median, 25% and 75%
(Source: BofA Global Research, U.S. Securitized Products)



© 2024 National Association of Insurance Commissioners

While the study acknowledges the modeled losses differ from the observed performance of CLO residual tranches during the GFC, pointing to several factors, including simplified modeled assumptions (see footnote 25 in the study), the significant difference between the modeled outcome and the actual performance (i.e., model backtesting) raises the question over the degree to which quantitative inference can be extracted from the ~45%.

2 Data to Differentiate Residual Risks

In this section, we present an assessment of CLO residual data that may be used to estimate their risks in the context of the C-1 framework, recognizing nuances such as the need to consider portfolio diversification/ concentration effects. As explained above, we believe that the analysis supports the American Academy of Actuaries to expedite the long-term efforts to differentiate the RBC C-1 treatment of structured assets and, in the process, provide insights to the broader community on the risks associated with the asset class. In its current form, we do not intend our analysis to be used to infer an appropriate interim charge for ABS residual interests.

We draw two conclusions from our analysis:

- Not all corporate equity or CLO residual interests exhibit the same risk, and 'comparable attributes' (as defined by the American Academy of Actuaries in Attachment C) can help differentiate those risks.
- The patterns are consistent across different lenses, suggesting differentiated tail risks of CLO residuals can be estimated for the purpose of C-1.

As referenced in the introduction above, we believe a more thorough set of empirical calibrations and an assessment of other classes of ABS residuals are needed. A more thorough analysis of tail risks would require calibrated simulation methods, which we discuss in *Section 2.2.2*.

2.1 Assessing Data to Differentiate Portfolio Risks

Two core elements of our approach allow us to arrive at the conclusions we outline above:

- **Comparable attributes**. We use the rating of a CLO's most junior tranche as an identifier of the risk of its residual interest. In spirit, the risk profile of operating company equity or ABS residual interests is determined by the predictability of cash flow generated by the respective business model and leverage to which those interests are junior claimants. The likelihood that the junior most tranche is impaired represents the same likelihood that the residual incurs a significant loss.[1]
- **Measuring risk in the context of the C-1 framework**.
    - We assess the data for estimating residual risks following the approach used for estimating C-1 for common stocks, in spirit. There are several motivating factors:
        - Classifying an investment fund as an equity interest (i.e., common stock) of an operating company or residual interest of an ABS under the bond definition is determined, in part, by how the fund is structured (e.g., its capital structure). For example, Business Development Companies (BDCs) face leverage restrictions by the SEC and are classified as common stock, while CLO residuals tend to be more heavily leveraged and are classified as those of ABS. In

[1] The approach can be formalized through a structural economic framework developed by Merton, Hull, and White (Merton's Model, Credit Risk, and Volatility Skews) and Vasicek (Modeling Default Risk). Intuitively, the framework would build off of the three main elements that determine the likelihood of a residual tranche experiencing loss:

1. The value of underlying collateral.
2. Risk or uncertainty with the value and predictability of cash flows of the underlying collateral.
3. Leverage, represented by the contractual liabilities.

Notice that the value of the underlying collateral and leverage represents tranche thickness, which is a key determinant of the risk of a residual. Agencies ratings generally also consider the risk profile of the underlying assets, which is equally critical in assessing the risk of residuals.

© 2024 National Association of Insurance Commissioners

that regard, the consideration for the relative capital treatment of equity and residuals should be tied to considerations with their classification.
    - The accounting treatment under scenarios where residuals are incurring a loss, which is the region of interest, has them receive statutory treatment similar to common stock.[2]
- An important limitation is unavoidable and tied to the C-1 framework, which is inherently inconsistent with horizons over which capital for debt and equity is measured (10 and 2 years, respectively) and target probabilities (96% and 94% loss, respectively). These inconsistencies necessarily result in any approach leading to some form of arbitrage.

Assessing the loss distribution of CLO residual portfolios in the spirit of the C-1 equity factor requires an assessment of the actual variation in the performance of portfolios of CLO residuals over time or using simulation methods. The C-1 equity charge was estimated using total returns from the S&P 500, which includes the return from price fluctuations, generally the primary driver of return variation, and cash disbursements. Meanwhile, CLO residuals are not actively traded, which means that fluctuations in their value would need to be modeled, complicating the analysis.[3] Instead, we explore the return on equity (ROE), which measures the cash return, whether by an operating company or a CLO, that aspires to be comparable across corporates and CLOs.[4,5] We do so across the rating spectrum. We also explore the total return risk of corporate equity across the issuer ratings to benchmark the use of ratings as 'comparable attributes' for corporate equity within the context of the C-1 framework.

ROE performance for corporates and CLOs is presented in *Figure 3*. Portfolios are constructed across S&P issuer and junior most tranche ratings at the beginning of each two-year window. The two-year ROE is measured up to the reporting period and is computed for every firm and CLO. The left-hand (right-hand) plots the cross-sectional median and the 25% and 75% of corporates (CLOs) across issuer (junior most) rating, with BBB on top and below investment grade (IG) on the bottom. Inference for CLOs whose junior tranches are rated above BBB is limited

[2] The NAIC adopted revisions to the valuation of residuals that will now be reported at the lower of "adjusted cost" or fair value. It incorporates the "Effective Yield with a Cap" along with the "Cost Recovery Method," whereby cash flows shall be treated as a return of principal, reducing the adjusted cost. Under the "Cost Recovery Method," distributions are not recognized as interest or investment income until the residual tranche has a book adjusted carrying value (BACV) (adjusted cost basis) of zero, which is not standard and more conservative but is less onus than the "Effective Yield with a Cap," which is argued to require extensive non-automation work. Under the "Effective Yield with a Cap," BACV represents the acquisition cost, net of distributions in excess of the Allowable Earned Yield. Allowable Earned Yield, established at acquisition, is the discount rate that equates the initial best estimate of the residual's cash flows to its acquisition cost and other-then-temporary impairments (OTTI).

[3] Other differences needing consideration include residual interests having finite lives and designed to produce high yields, whereas corporate equity generally does not have contractual termination and often has the majority of its value driven by growth prospects.

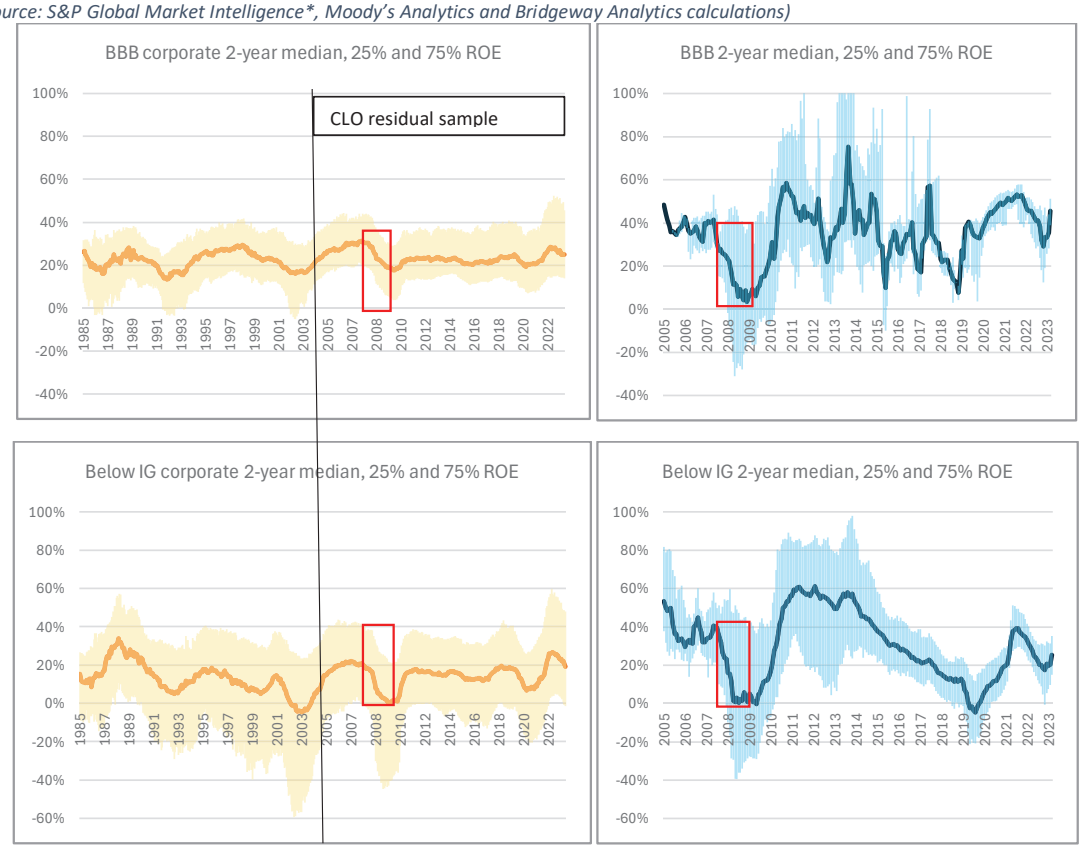
[4] For corporate equity, ROE is measured using sales minus direct and indirect costs, depreciation and amortization, and taxes. It is intended to capture how much money is available to the equity holders of a firm after suppliers, employees, debt holders, and the government have been paid and asset decay. Notice that the measure includes funds that are reinvested in order to be comparable to CLOs, which generally do not attempt to grow their asset base. ROE is normalized by corporate book equity.

[5] For CLOs, earnings are measured as distributions to residual tranches, which include interest income and change in the book value of the residual. ROE is normalized by the par value of the residual at origination less payment principle against the residual.

© 2024 National Association of Insurance Commissioners

given the limited sample and is excluded. While two-year windows are reported, results for longer horizons were explored and are broadly consistent with performance improving with the horizon. This pattern partly motivated C-1 equity to be measured over 2 years rather than 10 years, which is used for C-1 bonds and would result in an unacceptably low or possibly negative C-1 charge (see also *Figure 6*).

Figure 3: Corporate and CLO ROE dynamics
(Source: S&P Global Market Intelligence, Moody's Analytics and Bridgeway Analytics calculations)*

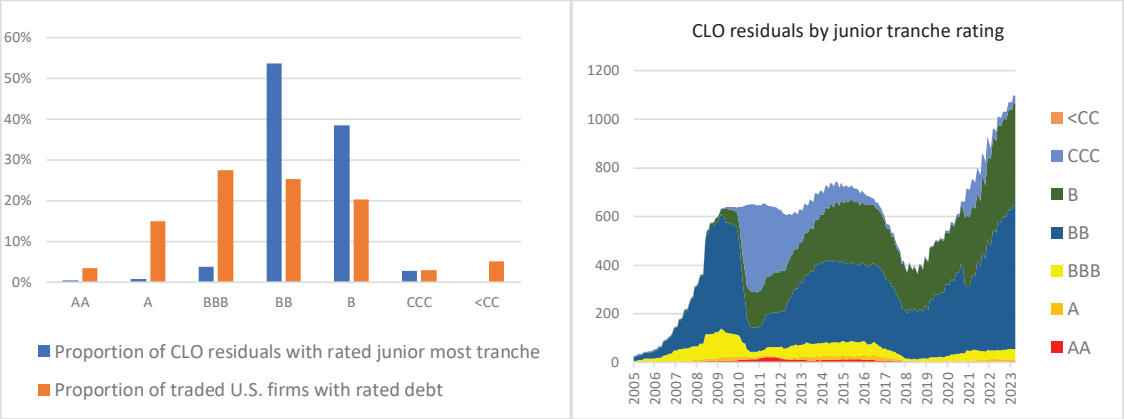


There are several notable visual patterns:

- There is significant variation in cross-sectional performance for corporate and CLOs.
- The performance of median CLO residuals tends to be higher than corporates for the BBB and below IG samples.
- The 25% worst performers in each period of the below IG sample tend to be worse for corporates than CLOs.
- The strong, positive performance will result in ROE volatility for CLO residuals appearing inflated compared to ROE volatility for corporates.
- BBB CLO performance is significantly noisier, partly driven by the limited number of transactions over varying periods (see yellow highlighted series on the right-hand side of *Figure 4*). Notice that the sample size drops with deteriorated performance, often associated with downgrades.
- CLO performance of the BBB and below IG sample in the second half of the sample is less varied, which might be driven by the shift to CLO 2.0s after the GFC (see CLO Performance).

© 2024 National Association of Insurance Commissioners

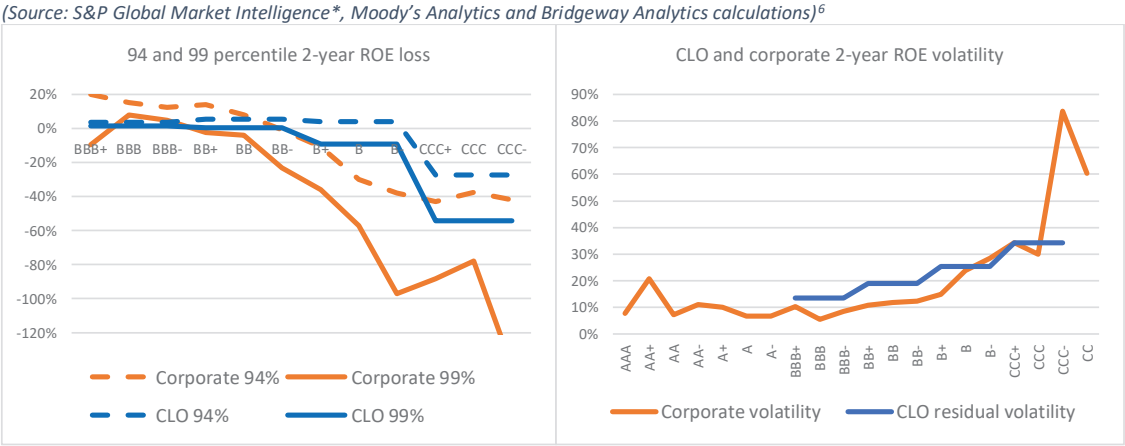
Figure 4: S&P rating composition of U.S traded corporate and junior most tranche of CLO residuals
(Source: S&P Global Market Intelligence, Moody's Analytics and Bridgeway Analytics calculations)*



The left-hand side of *Figure 5* presents the 94% (dashed) and 99% (solid) worst ROE for CLO (blue) and corporate (orange) portfolios across the S&P rating spectrum. Similarly, the right-hand side presents ROE volatility for CLO (blue) and corporate (orange) portfolios across the S&P rating spectrum. With some exceptions, losses become more negative, and volatility increases monotonically along the rating spectrum, confirming potential benefits for their use as 'comparable attributes.' Notably, risks are higher in the below IG, particularly in the B and CCC range.

The two 94% dashed lines stratal each other, with the corporate performing better in the BBB and CLOs performing better in the B and CCC range. BBB and BB CLOs and corporates exhibit similar losses at 99%, with B and CCC CLOs exhibiting higher ROE than corporates. Notice that higher performance for CLOs on the upside, as seen in *Figure 3*, has higher BBB and BB CLO volatility than equally rated corporates. However, the BBB CLO series is visibly more volatile, as discussed above.

Figure 5: CLO residual and corporate equity risk across the S&P junior most tranche/issuer rating spectrum
(Source: S&P Global Market Intelligence, Moody's Analytics and Bridgeway Analytics calculations)*[6]



[6] Percentile losses are calculated using a time series of weighted average ROE, where the weights are book equity. The observed variation in volatility across adjacent ratings is likely due to small samples within each category.

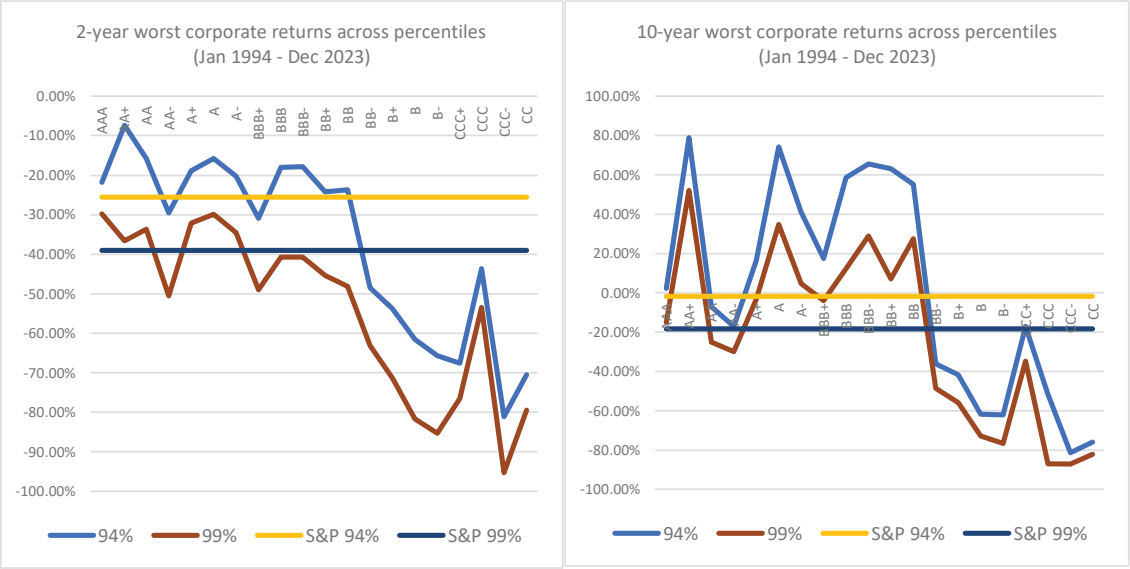
© 2024 National Association of Insurance Commissioners

We now shift our attention to an analysis of 2-year total return on corporate equity portfolios constructed across S&P issuer ratings to benchmark the use of ratings as 'comparable attributes' within the context of the C-1 framework. The left-hand side of *Figure 6* presents the 94% (blue) and 99% (brown) 2-year cumulative total returns on corporate equity portfolios reconstructed each month using their beginning period issuer ratings. The yellow (dark blue) line represents the 94% (99%) loss on the S&P 500. The 94% loss is slightly lower than the 30% obtained from the original 1960-91 study. Similar to the ROE analysis, the risk increases below IG and, noticeably, in the B and CCC range. The right-hand side represents the 10-year total return, which can produce close to zero or negative losses, which we reference above as a motivating factor of setting the C-1 common stock charge to be measured over 2 years.

We remind the reader that we do not suggest using *Figure 5* or *Figure 6* for quantitative inferences regarding a C-1 charge for corporate equity or CLOs across the rating spectrum. Additional analysis related to sample characteristics needs to be thoughtfully incorporated into the study, with smoothing techniques needing to be applied, possibly similar to the ones used in Revisions to the RBC C-1 Bond Factors. Rather, in its current form, our analysis allows us only to confirm that:

- There are potential benefits for using agency ratings as 'comparable attributes' of CLO residuals and corporate equity within the C-1 framework.
- At the lower end of the spectrum, CLO residuals and corporate equity exhibit higher risks and properties in the tail that have some similarities over the analyzed sample periods.

Figure 6: Total return on corporate equity portfolios
(Source: S&P Global Market Intelligence, Moody's Analytics and Bridgeway Analytics calculations)*



2.2 Limitations and Additional Needed Analysis

The analysis presented in this comment letter suggests potential benefits for using agency ratings as 'comparable attributes' of CLO residuals and corporate equity within the C-1 framework and that there are data and methods that can be used to estimate differentiated C-1 charges. However, there are known limits, and additional analysis is needed, which we now review at a high level.

© 2024 National Association of Insurance Commissioners

2.2.1 There are known limits to our study

Several known limitations with our analysis need to be acknowledged and possibly addressed if it is to be extended and used to support a proposed refinement to C-1 charges:

- Although our results suggest the overall methodology of using the lowest rated tranche or issuer rating as a risk proxy applies broadly, an analysis of ABS residuals beyond CLOs needs to be conducted.
- The S&P 500 was used for estimating C-1 equity and had relatively few firms rated below BBB- and argued to be representative of insurers' equity portfolios. The analysis in this presentation uses a broader set of corporates to understand the risks across the rating spectrum better. Application within the C-1 equity framework should consider the following:
    - Aligning 30% with a representative portfolio (e.g., using S&P weights).
    - Derive monotonic and smooth representation of risk across ratings using techniques similar to Revisions to the RBC C-1 Bond Factors.
- The sample periods over which corporate equity and CLO residuals were presented differ.
- ROE risk needs to be linked with total return risk on the common stock, which was used to estimate C-1 equity.
- Further assessments of the sensitivity of measurement and accounting variation resulting in differences between ROE measured for corporates and those of residual interests.
- Other limitations that need to be considered:
    - S&P ratings are credit risk opinions with broad limitations.
    - Variation in rating standards, the types of firms and industries represented across the credit spectrum change over time.
    - The economic risks captured may not align with economic risks that reflect the historical experience of life insurers' holdings.
    - No statistical assessment of robustness has been performed.

2.2.2 Additional analysis of tail risks

Beyond the limitations of our empirical analysis discussed above, tail risks would require calibrated simulation methods that consider diversification and concentration risks across ABS residuals. For example, assessing the risk of CLO residual portfolios would ideally consider correlation across the underlying collateral pools and overlapping counterparties across CLOs.[7] That sort of analysis is challenging for reasons similar to those discussed in the Oliver Wyman study review in Section 1.2. Level-setting parameters across classes of ABS that face different risk factors are challenging; baseline and tail scenarios for collateral loan default scenarios for CLOs behave very differently from those of home prices and interest rates for RMBS.

Our analysis of CLO residuals and corporate equity suggests that we may efficiently leverage agency ratings to assess the stand-alone risk of a residual interest. Along with assessing correlation across ABS collateral, a parsimonious model can provide guidance on the likelihood of significant losses on a portfolio of residuals and an appropriate C-1 risk charge. Ideally, the approach would have generic components that allow the analysis to be extended to the broad classes of ABS.

3 Conclusions and Thank You

While, in their current form, neither the Oliver Wyman study nor our assessment of data to differentiate residual risks can provide quantitative guidance on the appropriate C-1 charge(s) for CLO residuals, both provide valuable insights which we summarize:

[7] This issue was raised in a comment letter from Equitable, dated October 9, 2023.

© 2024 National Association of Insurance Commissioners

- **Conclusions from our analysis of the Oliver Wyman study**
  - The study finds residual tranche thickness and the rating of the next-most junior (i.e., the junior-most rated tranche) tranche can help differentiate losses on residuals, which is important in the context of differentiating RBC C-1 using 'comparable attributes.'
  - Level setting baseline and stress loss scenarios across different markets face significant challenges, and the study takes the first step at attempting to do so, demonstrating significant variation in the performance of residuals across classes of ABS.
  - Considerations that we view as critical when estimating C-1 charges were abstracted from and should be considered in future studies:
    - Consistency with C-1 framework for bond, equity, and other asset classes requires considerations for portfolio diversification and concentration effects, which the study departs from in its current form.
    - The framework should aspire to backtest and represent observed dynamics experienced historically, which the study, in its current form, does not.
- **Conclusions from our assessment of data to differentiate residual risks**
  - Not all corporate equity or CLO residual interests exhibit the same risk.
    - There are potential benefits for using agency ratings as 'comparable attributes' of CLO residuals and corporate equity within the C-1 framework.
    - At the lower end of the spectrum, CLO residuals and corporate equity exhibit higher risks and properties in the tail that have some similarities over the analyzed sample periods.
  - The empirical patterns are consistent across different lenses, suggesting differentiated tail risks of CLO residuals can be estimated for C-1.
  - **With notable limitations that include**
    - An analysis of ABS residuals beyond CLOs needs to be conducted. However, our results suggest the overall methodology of using the junior most tranche or issuer rating as a risk proxy applies broadly.
    - The sample periods over which corporate equity and CLO residuals were presented differ.
    - ROE risk, which our study focuses on, needs to be linked with total return risk on the common stock, which was used to estimate C-1 equity.
    - Tail risks would require calibrated simulation methods that consider diversification and concentration risks across ABS residuals.

Bridgeway Analytics was founded with a mission to support insurers and their regulators in navigating capital markets and their regulatory landscape. We often gravitate toward the most complex and dividing issues and aspire to form consensus by framing issues objectively and through data-driven analysis that can be easily understood. We are grateful for the opportunity to contribute to this process and look forward to engaging further.

Sincerely,



Amnon Levy
Founder and Chief Executive Officer

© 2024 National Association of Insurance Commissioners

Bridgeway Analytics supports the investment and regulatory community work to optimize the design, organization, and utility of regulations surrounding the management of insurance company portfolios. While the content in this document is informed by extensive discussions with our client base, the broader industry, NAIC staff, and state regulators and may contain analysis that Bridgeway Analytics had conducted as part of a commercial engagement and retains the right to reuse, the views in this document are solely those of Bridgeway Analytics and are based on an objective assessment of data, modeling approaches, and referenced documentation, that in our judgment and experience, are viewed as appropriate in articulating the landscape. Methodologies are available to the public through an email request at support@bridgewayanalytics.com. For more information visit www.BridgewayAnalytics.com.

© 2024 National Association of Insurance Commissioners

4 S&P Global Market Intelligence* Data Use Disclaimer

Copyright © 2024, S&P Global Market Intelligence (and its affiliates, as applicable)

Reproduction of any information, data, or material, including ratings ("Content") in any form, is prohibited except with the prior written permission of the relevant party. Such party, its affiliates, and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness, or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating, or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold such investment or security, does not address the suitability of an investment or security and should not be relied on as investment advice. Credit ratings are statements of opinions and are not statements of fact.



April 8, 2024

Mr. Philip Barlow
Chair
Risk-Based Capital Investment Risk and Evaluation Working Group
National Association of Insurance Commissioners

Transmitted via email to Dave Fleming at dfleming@naic.org

Re: Oliver Wyman Residual Tranche Report

Dear Chair Barlow:

This letter is submitted on behalf of MetLife, Inc. ("MetLife"). MetLife appreciates the opportunity to comment on the technical features of the Oliver Wyman "Residual Tranche Risk Analysis" report ("the Report") exposed for comment at the March 17 meeting of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group meeting. As requested by Chair Barlow, this letter offers some recommendations on ways to enhance the analysis behind the Report.

Overview

The general approach of modeling structured security residuals based on the forecast performance of underlying collateral assets that the study followed is the industry standard approach to estimating the potential loss sensitivity of these investments. We have two recommendations to improve the analysis. The first recommendation is regarding the selection of individual securities to make the findings of the study more relevant to the actual holdings of residuals in life insurers' portfolios. Second, we recommend adjustments to modeling techniques to improve estimations of loss levels to be consistent with the RBC C-1 framework and appropriate to measure the binary loss behavior of subordinated structured securities such as residuals.

Our recommendations, if implemented, will result in significantly higher average losses among a relevant sampling of deals than what the Report currently shows. Despite the need for a more robust modeling technique, the portion of the Report's analysis most relevant to life insurer holdings leads us to conclude that an RBC factor of at least 45 percent for residuals is fully justified. Specifically, the subset of residuals of BSL CLOs is the only significant category presented in which life insurers invest. For this subset,

© 2024 National Association of Insurance Commissioners

results in adverse scenarios in the Report, even absent a fuller analysis of tail events, indicate loss sensitivities that are at least equal to the 45 percent interim factor.

The remainder of this letter explores these recommendations in further detail.

Relevant Sample Set

There are two important shortcomings in the deals selected for the study:

1. Only some of the sectors studied are relevant to the actual holdings of structured securities in life insurers' portfolios.
2. Only some of the residual structures included in the study are typically offered in the market and available for life insurer investment.

The Report selected three classes of structured securities based on the share of each class to total outstanding ABS volume, but notably excluded RMBS and CMBS from consideration. According to a recent industry benchmarking study, only about 4 percent of life insurers' holdings of all non-agency structured securities are in auto and student loan ABS transactions, while CLOs, RMBS, and CMBS comprise 78 percent of these holdings[1]. We would strongly recommend including RMBS and CMBS in a potential new iteration of the study. Given the well documented weak performance of these transactions in the Global Financial Crisis, we would fully expect that their inclusion will result in relatively higher loss expectations under appropriate stress scenarios.

In general, there are two underlying drivers of securitization – risk disposition and asset funding. A risk disposition securitization creates numerous debt-like tranches and a relatively thin first-loss residual tranche. All of these tranches are typically sold into the market, and these thinner residuals comprise the bulk of residuals readily available for insurer investment. Typically, in such structuring, the next junior-most tranche in the transaction is rated below investment grade – usually in the B or BB categories. Conversely, in an asset funding securitization the issuer intends to maintain exposure to the underlying collateral while seeking a funding stream for further credit creation. The issuer retains relatively thick funding residuals while offering for sale a few tranches of higher credit quality. The Report shows that the study included many of these funding-type residuals that were unlikely sold into the market – see for example the number of Middle-Market CLOs on Figure 19 of the Report, where the rating of the next junior-most tranche after the residual was single-A, BBB, or even AAA. Including these funding-type residuals, which are not typically held by insurers, results in an artificially low estimate in the Report of the average modeled losses for residuals actually held by insurers.

[1] As reported in BlackRock peer study using S&P Global Market Intelligence data of insurers' holdings as of 12/31/2022.

© 2024 National Association of Insurance Commissioners

Modelling Calibration Consistent with C-1 Framework

The modeling technique shown in the Report seems to select certain scenarios that it classifies as either 95th or 99th percentile scenarios. We would strongly encourage properly calibrating the scenarios, and applying a technique that analyzes the behavior of residuals across a spectrum of tail scenarios.

With a proper calibration of scenarios, certain key assumptions would likely need some important fine-tuning. For example, the recovery rate for defaulted leveraged loans in a real "deep-tail" scenario would unlikely be higher than the recovery rate we've seen in recent months – the Report shows a 55.9 percent recovery rate in this scenario vs. levels around 40 percent seen in instances in the past several months amid a generally benign environment. Similarly, prepayment rates are unlikely to be of any significance in a true "deep-tail" scenario, and the 10 percent assumed prepayment rate in the Report may prove overly optimistic. These and other assumptions likely need enhanced calibration, which again is likely to result in higher modeled losses than currently shown in the Report.

Perhaps more importantly, a study of residuals and other subordinated tranches of securitizations would benefit from a deeper analysis across a broader spectrum of tail scenarios to properly determine the prudent amount of capital necessary to back these types of investments. Such an analysis is a common best practice in assessing risk in structured products, and would show that, unlike more traditional investments like corporate bonds, residuals and other subordinated structured securities exhibit a binary loss behavior where losses go from low to exceedingly high in a step-like function after a given point of the loss curve. This contrasts with the incremental loss rates exhibited by more traditional investments in tail scenarios and highlights the need for a differentiated approach to determine RBC for subordinated structured securities like residuals. If applied to this study, a technique like the one we recommend will again show a more pronounced loss behavior for residuals than those currently shown in the Report.

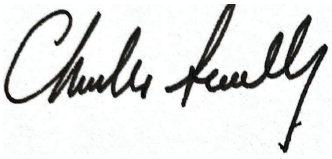
Conclusion

While the general approach of modeling residuals shown in the Report sensibly analyzes the performance of the underlying assets in securitizations, the study will likely benefit from important adjustments to the sample studied and to the modeling technique used. Nonetheless, the more relevant findings in the Report seem to justify, at a minimum, the adopted interim RBC of 45 percent for residuals. We believe that the enhancements to the study we recommend above would only make more evident that the 30 percent factor historically applied to residuals is insufficiently conservative, and that a factor above 45 percent may need to be considered as part of a more fulsome permanent solution.

© 2024 National Association of Insurance Commissioners

We reiterate MetLife's sincere appreciation for the opportunity to offer our recommendations for enhancing the study behind the Report. If you have any questions regarding the present letter, please contact Ben Cushman, Head of Global Regulatory Policy, via email at ben.cushman@metlife.com.

Sincerely,



Chuck Scully
Executive Vice President and CIO
MetLife Insurance Investments

© 2024 National Association of Insurance Commissioners



April 8, 2024

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197
Via email dfleming@naic.org

Re: Oliver Wyman Residual Tranche Report

Dear Mr. Barlow:

On behalf of Athene Holding ("Athene") we appreciate the opportunity to comment on the Oliver Wyman report offered during the 2024 Spring National Meeting.

Rather than offering a view on the methodology employed by Oliver Wyman or the appropriateness of the .45 interim factor, we believe the continuing debate around both offers the NAIC an opportunity at a critical juncture of the Framework's[1] implementation to embrace its principles in order to reach a resolution based on the application of sound data and expert analysis. As such, we support ACLI's request to delay implementation of the interim residual factor for a year, or until such time as NAIC members can make informed decisions on the appropriate outcome. We also recommend that the working group, as part of the Framework implementation and in consultation with the Academy, articulate the longer-term plan for developing permanent factors for the broad spectrum of ABS residuals.

The working group approved the .45 interim factor with an express commitment to apply a different factor (or factors) if stakeholders provided data demonstrating a different factor was more appropriate (i.e., a charge that reflects the risks associated with holding residual interests in ABS). At that time, working group members indicated a willingness to review information from stakeholders supporting a charge other than .45. Similarly, the American Academy of Actuaries ("Academy") agreed to review any such information and provide its feedback to the working group.

The Oliver Wyman report annunciates a modeling framework indicating that a lower charge may be warranted; we do not have comments on that. However, we observe that the debate around its findings further underscores the need for additional analysis. We anticipate NAIC members may receive a variety of stakeholder input with differing views on the Oliver Wyman report. This type of ongoing uncertainty is exactly why additional analysis is required to determine a reliable modeling framework for RBC to ensure we have reasonably accurate and consistent factors across asset classes. Fortunately, there is already a process underway in this area with the Academy that will allow the NAIC to do just that.

[1] *Framework for Regulation of Insurer Investments – A Holistic Review, as amended* (the "Framework")

© 2024 National Association of Insurance Commissioners

We believe that the Academy work should continue, and we encourage the NAIC to maintain the current interim factor (30% and 15% sensitivity) until such time as NAIC members can make an informed decision based on that expert analysis. It is far more important for this process and NAIC credibility that its decisions be the right ones, not expedient ones.

We appreciate the ongoing thoughtful and transparent engagement afforded by the NAIC and the working group throughout this process and we commit to providing continued constructive input.

Sincerely,



Michael Consedine
Executive Vice President
Head of US Government Relations & Regulatory Affairs

© 2024 National Association of Insurance Commissioners



Aaron J. Sarfatti
Chief Strategy Officer &
Head of Institutional Businesses and
New Ventures

April 8, 2024

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

Re: Oliver Wyman report on residual tranches

Dear Mr. Barlow-

Equitable is pleased to provide the following comments on the Oliver Wyman report titled "Residual Tranche Risk Analysis" that was exposed for comment by the RBC Investment Risk & Evaluation (E) Working Group (the "Working Group") on March 17, 2024 (the "Report").

At the outset, we note that one of the stated objectives of the Report was to "[provide] data to help inform the calibration of the capital charge of residual equity tranches." The Report goes on to conclude that an analysis of the data so provided demonstrates that "the losses for the modeled residual tranches of structured products are lower than equities" – the implicit presumption being that the recently adopted interim RBC factor of 45% for the residual tranches of structured securities was unwarranted.

Our commentary is intended to support two principal assertions:

1. Acceding to the eleventh-hour request for a delay in implementation of the 45% residuals charge would thwart the intent of regulators in adopting an interim solution
2. The Report, despite several technical limitations that create a bias toward lower loss estimates for ABS residuals, nevertheless lends support for an increased residuals factor

Our comments are constrained by the incomplete data made available for scrutiny by the Report and its authors. We anticipate further technical limitations will be identified upon a more complete release of the Report's underlying data, assumptions and extrapolations.

© 2024 National Association of Insurance Commissioners

A. Acceding to the eleventh-hour request for a delay in implementation of the 45% residuals charge would thwart the intent of regulators in adopting an interim solution

In arriving at the decision to prescribe a higher RBC charge for residuals on an interim basis, regulators at the NAIC engaged in a thorough, deliberate and transparent process in which extensive industry input was invited and provided. For the following reasons we urge regulators to ignore calls from some parties for a last-minute delay:

- **The 45% charge for residuals is explicitly intended to be *interim***. Regulators have been clear that the 45% charge is being adopted as a temporary measure while work continues on permanent updated charges for both residual and debt tranches of structured securities. The contents of the Report may be worthy of consideration as part of the longer term project to set permanent charges, but nothing in the Report justifies delaying this much-needed interim measure. Indeed, we think it likely that regulators will conclude that charges higher than 45% are needed for all or many categories of ABS residuals.

- **The rationale for expeditiously adopting an interim 45% charge for residuals has not changed**. Regulators identified a significant flaw in the RBC framework as applied to CLOs and other structured securities and, as an initial step to stem growing instances of associated RBC arbitrage resulting from a well-documented marked increase in such holdings by life insurers, put in place a *temporary* increase in the capital charge for the equity tranches of those securities. This decision, while only impacting one subcategory of structured securities investments by life insurers, sent an important message to the marketplace that regulators are taking ABS-related investment risk issues – and the attendant potential adverse impacts on policyholders - seriously. Delaying implementation of the higher charge for residuals at this late stage would serve only to undermine this message and, by extension, regulator credibility.[1]

- **Consideration of newly emerging "alternative" solutions is not practical in the context of an interim fix that is needed now**. In recent weeks, some industry participants have been floating alternatives to a single 45% charge for all residual tranches held by all insurers – for example, applying a lower charge to insurers whose overall RBC level exceeds a preset threshold or setting varying charges for residuals of different categories of structured securities. These proposals lack the crucial quality desirable for an interim solution that the single 45% charge embodies: *simplicity*. Analysis of the merits – and complexities - of any alternative solutions will inevitably generate extensive debate that should be left to permanent solution discussions and not used a pretext for delaying implementation of the interim measure.

[1] We applaud the NAIC's commitment to continuing its work on investment risk regulatory reform "without delay or pause" as expressed in the E Committee's recently updated *Framework for Regulation of Insurer Investments – A Holistic Review*.

© 2024 National Association of Insurance Commissioners

B. The Report, despite numerous technical limitations that create a bias toward lower loss estimates for ABS residuals, nevertheless lends support for an increased residuals factor

In this section we provide a high-level description of what in our view are meaningful flaws in the Report's methodology, awareness of which are pertinent for assessments of charges for residual tranches as well as any other ABS tranches. In addition, we explain why we think the analytics contained in the Report, notwithstanding these limitations, support a 45% charge.

1. The proffered data does not adequately reflect "equal capital for equal tail risk."

We note that the 95th percentile stress scenarios for leveraged loans utilized by the Report are based on data from the Global Financial Crisis ("GFC"). Yet the high yield default rates observed during the GFC were materially lower than the default rates that occurred during the credit crunch of the early 1990s and 2000s. Indeed, current NAIC C-1 bond factors are derived from credit stresses more severe than those of the GFC. Analyzing the performance of CLO collateral at a lower standard represents a deviation from the principle of equal capital for equal risk.

This anomaly arises because the Report's primary leveraged loan data source is the US LSTA 100, which only tracks data for the largest 100 leveraged loans between 1999-2021. That index therefore does not include data from the early 1990s credit crisis, and is skewed toward a more favorable rating distribution than present in current CLO collateral. For example, in 2007, less than 5% of the US LTA 100 was rated below 'B+' compared to more than 50% today.

2. The Report doesn't appropriately consider tail risk.

For modeling tail losses of residual tranches, the Report utilizes self-constructed stress scenarios and a Value at Risk severity measure that, among other flaws, are based on incomplete data and rely substantially on inferences for key parameters such as Loss Given Default ("LGD"). As a result, the extent of predicted tail losses is materially understated in the Report. A more thorough analysis would deploy a Conditional Tail Expectation risk measure – as endorsed by the American Academy of Actuaries (the "Academy") – that captures the significant cliff loss potential (i.e., sudden 100% loss of value) inherent in ABS residual tranches.

3. The Report draws on incomplete historical performance data.

Crucially, the historical analysis of ABS performance in the Report omits consideration of CMBS/RMBS. The GFC, during which CMBS/RMBS experienced deep and rapid losses, provided a practical illustration of how an extreme tail event (low probability but high impact) can unfold during a time of profound credit stress. While this type of event has not yet occurred with, for example, CLOs - due largely to their limited 20-year history of mainstream market penetration – it would be irresponsible to assume that residual tranches of CLOs and other ABS are incapable of experiencing deep losses in a credit crisis or other major tail event.

© 2024 National Association of Insurance Commissioners

In addition, the time periods examined in the Report inexplicably omit the stagflation years of the late 1970s to early 1980s. Stagflation, characterized by high and rising interest rates along with low economic growth, present hostile conditions for the performance of the collateral backing the preponderance of ABS. Including this period is imperative for a credible assessment of ABS historical losses.

Moreover, the Report uses LGD assumptions for CLO collateral that are derived from the 2019-2021 data, a period of generally favorable markets. While the recency of this LGD data captures *part* of the recent weakening in debt covenants that is characteristic of the present universe of leveraged loans, recovery rates can be expected to decline precipitously in a stress environment when equity values are lower.

4. The comparison of ABS residual tranches to US equities is fundamentally flawed.

The Report purports to show that the performance of structured security residuals is similar to that of public US equities. However, several assumptions used in drawing this comparison are inappropriate – for example:

- Stress losses projected in the Report are based on changes in "fair value", whereas RBC charges for US equities are based on changes in market value;[2] and
- The discount rates used to establish fair value do not vary by stress scenario; the Report assumes a 12% constant discount rate for residuals, whereas, for example, spreads on CCC and lower-rated US debt peaked at over 35% during the GFC - properly reflecting the increased risk to investors. Incorporating the change in risk premium within the discount rate would sharply amplify the measured loss in a "fair value" that is more comparable to market value.

5. The Report uses prepayment assumptions that are overly generous.

The Report uses assumed prepayment rates under all stress scenarios, including deep stress scenarios, that are (a) material and positive and (b) fail to adjust for the observed positive correlation of borrower health and loan prepay rates. To put it bluntly, prepayment assumptions should reflect the reality that companies on the brink of default do not prepay loans. This behavior must be represented in projected cumulative loss rates in any objective analysis of ABS performance. Adjusting for this outcome in the Report will materially increase cumulative ABS losses, with particularly substantial increases to residual tranche losses.

6. Notwithstanding these criticisms, there are important elements of the Report that show that a minimum 45% RBC charge for residual tranches of CLOs is appropriate.

- For Broadly Syndicated Loan CLOs, which according to the Report represent roughly 90% of outstanding CLOs, losses presented for the residual tranches of those securities are in the 40-

[2] The Academy has observed that calibrating a marked-to-market asset, such as the residual tranche of a structured security, needs to incorporate the market value or the volatility of that asset.

© 2024 National Association of Insurance Commissioners

45% range for the mid-tail scenarios (~95th percentile per the Report) and over 70% in a deep-tail scenario. This result alone suggests a 30% RBC factor is too low.[3]

- The appropriate RBC level for CLOs would be shown to be well above 45% if the data in the Report was analyzed with a CTE risk measure, given the heavy-tail nature of CLOs (as discussed above).

- 90% of US Life Insurer holdings of the asset classes studied in the Report are CLOs, and given that RBC is a blunt instrument, extending the 45% charge for residuals to other ABS is both pragmatic and reasonable.

We would welcome the opportunity to discuss these comments with you in greater detail.

Sincerely,



Aaron Sarfatti
Chief Strategy Officer &
Head of Institutional Businesses and New Ventures

[3] We also note that the calibration of collateral losses in the Report was understated. Correcting for this anomaly would provide further support for a higher RBC factor for residuals.

© 2024 National Association of Insurance Commissioners



April 8, 2024

Mr. Tom Botsko
Chair, NAIC Capital Adequacy (E) Task Force
Via email: Eva Yeung (eyeung@naic.org)

Mr. Philip Barlow
Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBC IRE WG)
Via email: Dave Fleming (dfleming@naic.org)

Re: Proposal 2024-02-CA (Residual Structure PC & Health)
Oliver Wyman Residual Tranche Report

Dear Mr. Botsko and Mr. Barlow,

The American Property Casualty Insurance Association[1] (APCIA) appreciates the opportunity to express our views on the Oliver Wyman study of the performance of residuals relative to other asset classes, exposed by the RBC IRE WG. We are also responding to the Capital Adequacy (E) Task Force's (CATF) proposal to impose a 45 percent interim risk-based capital (RBC) charge on residual tranche of asset-backed securities (residuals) held by property casualty insurers. We do not believe a sufficient basis has been demonstrated for this increase and agree with the American Council of Life Insurers (ACLI) that the NAIC should delay the implementation of an increased RBC charge on residuals by an additional year for all insurance lines.

Last year, the NAIC appropriately delayed imposition of a 45 percent charge on residuals on life insurers and sought industry data to conduct additional study. While we believe that any significant change in RBC charges, whether "interim" or not, should be underpinned by careful analysis conducted by the NAIC, regulators now have access to a thoughtful and credible study prepared by Oliver Wyman. In our opinion, the study does not justify a 45 percent charge on residuals. It does support the need for additional analysis in establishing an interim capital charge that is reflective of risk.

Moving forward with the 45 percent charge would be inappropriate in light of the new data. Oliver Wyman is a highly credible firm that the NAIC has appropriately relied on over the years to analyze important aspects of solvency regulation. The study constitutes compelling evidence that regulators should take additional time and analysis before making major changes to RBC. The NAIC has required substantially more rigor in the analysis underpinning every prior increase in RBC. We are concerned that failure to do so here would be inappropriate, especially insofar as applying this interim charge to property casualty and health insurers was only proposed at the March 2024 NAIC meeting.

[1] APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

555 12th Street, NW, Suite 550, Washington, DC 20004 | 202-828-7100
8700 W. Bryn Mawr Avenue, Suite 1200S, Chicago, IL 60631-3512 | 847-297-7800

© 2024 National Association of Insurance Commissioners

We are also concerned that this charge appears to be designed to align with the "Basel III Endgame" banking capital rules proposed by the Federal Reserve Board. For many years, the insurance industry and insurance regulators have rightly pointed out that banking capital rules cannot and should not be applied to insurance companies. The two business models are quite different, as property casualty insurers do not hold demand deposits and the terms of our liabilities do not subject insurers to a run on the bank, i.e., are not runnable. The Basel III Endgame proposal, whether it is appropriate or inappropriate for structured securities held by banks, should not translate to state insurance regulation. The charge of state regulators is to set insurance-specific rules that protect policyholders, not to adopt global banking rules that do not reflect the best available data.

Finally, we would like to point out that, unlike the life RBC formula, there is no current mechanism for assigning property casualty Schedule BA asset RBC charges by investment type. Assigning a different charge to one particular investment type currently within Schedule BA is a significant change and should be supported by a more holistic review of the treatment of property casualty Schedule BA investments in general. This consideration further supports ACLI's call for a one-year extension of the implementation date.

Thank you for the opportunity to convey our views and your continued commitment to ensuring that RBC changes reflect analysis and consistent standards of review by regulators. We hope that you will seriously consider our request to delay the implementation of this charge by an additional year to ensure that an appropriate charge is developed and adopted.

Sincerely,



Stephen W. Broadie
Vice President, Financial & Counsel

© 2024 National Association of Insurance Commissioners

Western & Southern
Financial Group®

400 Broadway
Cincinnati, OH 45202-3341
Tel: 513-361-6675
Fax: 513-629-1044
Kevin Howard@wslife.com

April 8, 2024

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

Re: Comments on Oliver Wyman Report

Dear Mr. Barlow:

Western & Southern Financial Group, Inc. ("W&S") appreciates the opportunity to comment on the Oliver Wyman report titled "Residual Tranche Risk Analysis" (the "Report") that was exposed for comment by the RBC Investment Risk & Evaluation (E) Working Group.

W&S's review of the Report reveals that it actually *supports* the interim 45% RBC factor for the residual tranches of asset-backed securities. The Report notes that Broadly Syndicated Loans ("BSLs"), which W&S's proprietary life insurance industry peer study estimates as comprising 87% of the industry's CLO exposure, would experience losses of 42-45% in a moderate loss (95th percentile) scenario, and losses of 72% in a deep-tail (99th percentile) scenario. (See Table 7 of the Report.) While there are several problems with the methodology used and assumptions made by the Report, its findings on the risks associated with BSL CLOs alone is enough to maintain the 45% interim charge on ABS residual tranches.

Even as the Report supports a 45% charge, it still has several critical biases and flaws as discussed below.

1) The comparison to US Equities is flawed.

   The Report's conclusion that the 45% charge is too high is entirely dependent on a comparison to US Equities' 30% charge vs. projected losses. ABS residuals are, however, fundamentally different from US Equities. First, ABS residuals are the first loss position on a portfolio of assets, which is different from a diversified portfolio of US Equities. It is entirely plausible for an ABS residual to take 100% losses, as the ABS residual exists to take all losses before the rated tranches. Second, ABS residuals are expected to take losses in the baseline scenario and those losses tend to be permanent, whereas equity mark-to-market losses tend to be transient. Third, while some ABS residuals benefit from a reinvestment window that gives the investment manager time to wait out a market downturn, US Equities have an even longer time horizon to wait out a market downturn because there is no maturity date. In other words, the supposed liquidity and holding-period advantages cited for certain ABS residuals also exist for US Equities at an even greater level. Fourth, the US Equities market has hundreds of years of data to better

calibrate loss distribution models with tail risk, while ABS residuals have just a couple of decades of data. Finally, a CLO residual tranche is underfunded on day 1 due to deal expenses and interest reserve accounts (typically by 10% or more), and then default losses are expected over the life of the securitization, further eroding principal recovery—that's how the investment is structurally designed—which is very unlike US Equities.

2) The Report uses Value-at-Risk (VaR), which is not a coherent risk metric.

It is widely recognized that VaR is not a coherent risk measure because it fails the subadditivity property. The subadditivity property implies that two separate risks cannot get worse if they are pooled together (i.e., diversification is beneficial). The reason VaR fails the subadditivity property is because VaR looks at the loss at a specific probability (e.g., 95% percentile), but it is completely blind to the loss beyond that probability. For example, an investment could take zero loss at the 95th percentile but a full loss starting at the 96th percentile. In this example, the VaR at the 95th percentile would be zero, implicitly implying very low risk. VaR does a particularly poor job of assessing risk where significant "cliff risk" exists, which is the key risk with ABS residual tranches: losses can increase very quickly as the residual tranche absorbs all of the losses of the investment pool.

This shortcoming of VaR is well understood by sophisticated investment managers that are VaR-constrained, which has led these investment managers to take additional risk not seen by VaR. The shortcomings of VaR likely exacerbated the Great Financial Crisis, as the risk of the CDO market was unseen by VaR.

Because of this, we highly recommend using Conditional Tail Expectation (CTE) to calibrate risk charges. CTE is similar to VaR; however, it is a coherent risk measure. CTE looks at the average loss beyond the probability event, meaning it can see the cliff risk that is present in ABS residuals.

3) We cannot replicate the findings of the Report.

The Report relies on a myriad of assumptions, some of which are provided, but many other key assumptions are not shared. Moreover, the Report only shows projected losses from three scenarios. As a result, it is impossible to fully assess and appropriately critique the shortcomings of the Report. And related to the VaR point above, we are unable to see if there is tail risk beyond the scenarios chosen.

For comparison, W&S's CLO modeling shows a base case of the following: assuming a base case scenario of 20% CPR, 1% CDR and 50% Recovery rate, the loan portfolio would then be sold in the open market via a competitive bidding process when the CLO Equity holder calls the deal (approximately year seven). If the loan portfolio achieves a 98 average sale price (which is 67th percentile for performing loans since 2010), the residual tranche would experience a 45% principal loss. The 45% loss our modeling projects is in the base case, reflecting a greater loss than the 42% shown for the GFC scenario for BSL CLOs in the Report.

W&S strongly supports a data-driven solution to determine an appropriate capital charge for ABS residuals. We believe that the interim charge of 45% is appropriate given the diverse risks of the many asset classes employed in ABS residual tranches. Some of these asset classes merit a lower charge than 45%, and others may warrant an even higher charge; however, W&S believes that the temporary interim charge of 45% best represents the binary cliff risks that ABS residual tranches (and most notably BSL CLOs) present. We note that a 45% charge represents a level where the investment becomes a non-admitted asset for most insurance companies, and so a charge higher than 45% may not be necessary.

W&S recognizes that the many perspectives on an appropriate capital charge for ABS residuals is in part the result of the variability and complexity of ABS asset classes. We support a single charge for the interim solution, but anticipate that at least two charges will be necessary for the permanent solution.

It is important to remember that the *interim* charge of 45% is just that—it's a temporary stopgap until a long-term solution can be developed. Until the Academy and other objective commentators weigh in with appropriate data-driven proposals to achieve a permanent solution, we believe that preserving the "Texas compromise" previously agreed upon by regulators and the industry is important to maintain consistency and credibility.

Thank you again for the opportunity to comment on this important issue; please let us know if we can be of further assistance.

Sincerely,



Kevin L. Howard
Vice President, Deputy General Counsel
& Head of Government Affairs

TEXAS HOUSE of REPRESENTATIVES

Briscoe Cain
District 128

CHAIR, HOUSE COMMITTEE on AGRICULTURE & LIVESTOCK
MEMBER, HOUSE COMMITTEE on INSURANCE

April 8, 2024

Mr. Philip Barlow
Chair, Life Risk-Based Capital and Investment Risk and Evaluation Working Group

Mr. Barlow:

Insurance industry regulations must strike a careful balance. They must protect consumers and ensure the integrity of markets while also fostering competition and a wide array of affordable policy options. To strike this balance, policymakers must make a sober assessment of the risks assumed by insurers who invest premiums into varying assets in order to achieve returns strong enough to cover their obligations to consumers. Recently, the NAIC's Risk-Based Capital Investment Risk and Evaluation Working Group (RBC IRE WG) has discarded this careful balance and vastly overstated the risks of certain assets.

The NAIC is at its most effective when it uses data, research, and real-world information to develop pragmatic solutions and build consensus among its members. My experience as a member of the Texas House Insurance Committee has informed my belief in pragmatic, responsible insurance policy that puts consumers first. However, the RBC IRE WG's proposed 45% charge for asset-backed securities falls short on every front.

Unlike previous recommendations, the recommendation to tighten rules specifically around these securities was crafted without data. There was little consensus, as the recommendation was initially delayed when some policymakers expressed concern that the NAIC was moving forward with the higher capital charges without having any demonstrated reason to do so.

When the NAIC asked for data, they received it. An independent, third-party consultant delivered a thorough research report demonstrating that the 45% charge was unjustified and unnecessary. The RBC IRE WG dismissed this critical research and is hastily advancing its predetermined policy prescription with a limited window for public review and comment.

Consumers deserve strong protections against risk, especially when it comes to financial planning tools like life insurance and annuities. The RBC IRE WG's proposed measures do them a disservice by overstating, if not entirely misrepresenting, the risks associated with asset-backed securities. These securities are a critical asset class that allows insurers to offer competitive products that protect consumers.

P.O. BOX 2910 • AUSTIN, TEXAS 78768-2910 • *phone* (512) 463-0733
BRISCOE.CAIN@HOUSE.TEXAS.GOV

© 2024 National Association of Insurance Commissioners

The NAIC and the RBC IRE WG must be thoughtful and intentional about protecting consumers, maintaining competitive markets, and letting the data guide policy recommendations. The process behind the recommended increase in capital charges for certain securities falls short on every front. I strongly urge the RBC IRE WG to consider the data that is now publicly available and halt its rush to adopt an unnecessary regulation that will ultimately harm consumers.

Sincerely,



Briscoe Cain
Texas House of Representatives
Member, Texas House Committee on Insurance

P.O. BOX 2910 • AUSTIN, TEXAS 78768-2910 • *phone* (512) 463-0733
BRISCOE.CAIN@HOUSE.TEXAS.GOV

THE HARMS GROUP

April 8, 2024

Attn: Mr. Philip Barlow
Chair, Life Risk-Based Capital and Investment Risk and Evaluation Working Group

Commissioner Jon Godfread
North Dakota Insurance Department

Dear Commissioner Godfread,

As a staunch advocate of free market competition, I am concerned by the recent developments within the National Association of Insurance Commissioners (NAIC), concerning the Risk-Based Capital Working Group.[1] Mandating a 45% capital charge on asset-backed securities, after being confronted with third-party data that disproves the need for such a proposal, is a disservice to the market and the public.

The proposed capital charge is unnecessary and detrimental to consumers and the overall vitality of the life insurance and annuities market. Imposing this mandate on insurance providers will fragment the market and force providers to drive up costs. As a result, this action limits consumer choice and contradicts the spirit of a free and competitive market.

The NAIC has been criticized before because of its closed-door agreements.[2] NAIC has ignored independent research in the consideration of the proposed rule around residual tranches. That research has demonstrated that the perceived risks associated with these asset-backed securities are unfounded. Nonetheless NAIC insists on pushing forward with a policy that is not grounded in data.

As someone who is familiar with the insurance industry and has a record of public service in North Dakota, I understand the need for transparency and accountability in policymaking. I implore the Risk-Based Capital Working Group and the NAIC to prioritize evidence-based decision-making and consumer welfare. If we hope to uphold the state regulatory system and respect the NAIC, then the organization must honor the principles of transparency and

[1] https://www.insurancebusinessmag.com/us/news/breaking-news/naic-accused-by-atr-of-bending-to-bidens-will-482877.aspx
[2] https://www.insurancebusinessmag.com/us/news/breaking-news/congressional-republicans-take-naic-to-task-over-proposal-452948.aspx

accountability, especially when proposing measures that could significantly impact consumers and the market.

I strongly encourage you to reconsider the 45% capital charge and to instead focus on policies that promote competition and consumer choice within the life insurance and annuities market. Thank you for your attention to this matter. I trust that you will carefully consider the concerns raised and take appropriate action to ensure that the interests of consumers and market participants are safeguarded.

Sincerely,



Robert W. Harms, JD

Robert W. Harms Box 2732 Williston, ND 58802 Robert@harmsgroup.net

167 Fleet Street, London EC4A 2EA, UK
+44 (0)20 7822 8380
info@aima.org
acc.aima.org

Philip Barlow
Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBC-IRE")
NAIC
via email to Dave Fleming (dfleming@naic.org)

April 8, 2024

Dear Chair Barlow:

Re: Proposal 2024-02-CA; Oliver Wyman Residual Tranche Report

The Alternative Credit Council ("ACC")[1], the private credit affiliate of the Alternative Investment Management Association Ltd ("AIMA"), appreciates the opportunity to provide a few additional comments to supplement the RBC-IRE committee's discussion of the Oliver Wyman ("OW") analysis of asset-backed securities ("ABS") residuals. In addition, we would like to present new data analysis that further demonstrates the relative safety and outperformance of CLO equity tranches compared to common stock.

Claims of 100% cliff losses versus historical track record

One concern raised by regulators is whether ABS residual tail losses during periods of market stress could be 100% in absolute terms and much greater in comparison to public equities. However, Larry Cordell, an economist at the Federal Reserve Bank of Philadelphia, along with Professor Michael Roberts of the Wharton School at the University of Pennsylvania, performed a detailed analysis of CLO residuals from 1997 to 2021. The results of their analysis were published in the Journal of Finance and found

[1] The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over $1trn of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, and the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

The ACC is the private credit affiliate of the Alternative Investment Management Association Limited (AIMA)
AIMA is registered in England as a Company Limited by Guarantee, No. 4437037. VAT Registration no. 577 5913 90. Registered Office as above.



that CLO equity outperformed the S&P 500 during that time period.[2] Their study also found that on a risk-adjusted basis, CLO equity outperformed equity "against a variety of public benchmarks."[3] A key finding of this study was the relative stability of CLO equity during two periods of significant market instability, namely the 2001 dot-com bubble and the 2008 Great Financial Crisis. The authors noted that CLOs' "equity performance highlights the resilience of CLOs to market volatility."[4] The authors attributed the outperformance of CLO equity to several of the structural features of CLOs, including "their closed-end structure, long-term funding, and embedded options to reinvest principal proceeds."[5]

The Cordell study provides a clear historical track record that CLO residuals do not suffer complete losses during periods of financial stress. In addition to the reasons cited above, residuals are priced well below par (unlike corporate bonds), reflecting both the high discount rates and an expectation of some credit losses. As a result, the interest payments are a meaningful contributor to the overall value--again, unlike corporate bonds. Even in a severe stress, both the Cordell and OW studies demonstrate that CLO equity investors can still expect to receive cash flows.

CTE 90 vs VAR 95-99 percentile

Some RBC-IRE members have asked about the difference between contingent tail exposure ("CTE") 90 and Value at Risk ("VaR") at the 95th or 99th percentile. While CTE represents the average probability-weighted loss above a certain probability level, VaR represents the loss at a specific probability level. The American Academy of Actuaries is using a CTE approach, so if the CTE 90 level is what becomes adopted, that would calculate the average of losses above the 90th percentile. The OW study examined losses at both the 95th and 99th percentiles. Those are both specific percentile points of the loss distribution but are at the higher end of the CTE 90 average range. This difference can also be explained by the fact that the OW study used stress tests during three different periods of financial stress, which is not compatible with the kind of Monte Carlo simulation used to calculate CTE. Also, the purpose of the OW study was to compare the interim capital charge for ABS residuals to that of established NAIC capital charges for similar assets, and the NAIC has historically used a 94-96th percentile VaR to establish capital charges.

BSL residuals vs the other ABS residuals in the OW study

The OW study clearly demonstrates that all three analyzed types of ABS equity outperformed common stock during periods of market stress, including the 2001 dot-

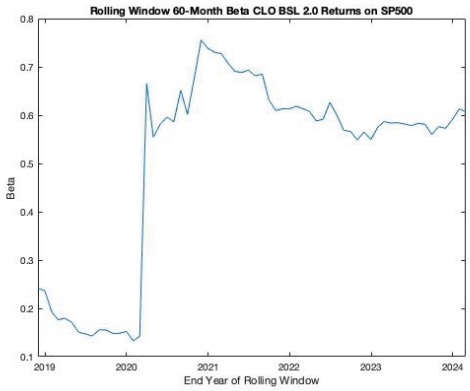
2 Cordell, R, and Schwert, M, CLO Performance, Journal of Finance, 2023. https://doi.org/10.1111/jofi.13224
3 *Id.* at 2. "Our central finding is that CLO equity tranches provide statistically and economically significant abnormal returns, or "alpha," against a variety of public benchmarks…"
4 *Id.* at 20.
5 *Id.* at 1. *See also* Jeff Helsing, Can CLO Equity Outperform if the Economy Tips into Recession?, September 26, 2022, Can CLO Equity Outperform If the Economy Tips Into Recession? | Western Asset



© 2024 National Association of Insurance Commissioners

com bubble, the 2008 Great Financial Crisis, and the 1930s Great Depression. However, given that the equity of one sub-type of collateralized loans ("CLOs"), namely broadly syndicated loans ("BSLs"), performed better overall than common stock but similar in the two medium-tail stresses, we asked finance Professor Daniel Svogun to perform a beta analysis to determine whether or not BSL equity has lower volatility than common stock.[6]

Professor Svogun was able to use time series data from Bank of America on CLO BSLs monthly median equity prices to calculate BSL equity beta using the NAIC's formula for measuring monthly volatility over a 60-month rolling window. The results of Professor Svogun's analysis (see chart below) demonstrate that the 60-month rolling beta of BSL equity is well below 1 (any beta result lower than 1 indicates less volatility relative to the S&P 500). This beta analysis compared the monthly CLO equity price change to the S&P 500 index performance each month. The beta of the full period studied (Dec 2013 - Feb 2024) with over 750 BSL CLOs included is .4989, which is well below the NAIC's .75 beta threshold for the lowest charge of 20%. The chart shows the 60-month rolling average beta following the NAIC's formula. During that time period, the beta of BSL equity remains below the .75 threshold in all but one month, where it reaches .7564. Note the time indicated in the x-axis is the ending period of the 60-month rolling beta. As a result, to be consistent with the principle of equal capital for equal risk, it would be more appropriate for the NAIC RBC charge for BSL equity to be adjusted to 20% using the NAIC's formula to adjust the equity capital charge according to its level of volatility compared to the S&P 500.



Bank of America CLO data; calculations from finance professor Daniel Svogun, Ph.D., Busch School of Business, CUA

66 Professor Daniel Svogun is a professor of finance at the Busch School of Business, Catholic University of America, whose research specializes in the "time value of money, ratio analysis, [and] the valuation of stock and bonds." https://business.catholic.edu/faculty-and-research/faculty-profiles/svogun-daniel/index.html

© 2024 National Association of Insurance Commissioners

This finding that BSL equity is less volatile than the S&P 500 should not be a surprise because it is consistent with the results of both the OW study and the Cordell CLO equity research paper. Furthermore, it provides additional evidence of the relative outperformance of BSL CLO equity compared to common stock.

The punitive nature of a single ABS residual charge

In response to regulators' requests, we were able to anecdotally confirm that insurers invest in CLOs, investment-grade auto loan and student loan ABS residuals. However, several of our insurance and investment members noted that they invest in other types of ABS as well and expressed concerns about the inequity of a single residual C-1 charge of 45% for all ABS regardless of the type or quality of the underlying collateral.

One specific example where a 45% residual C-1 factor would be unwarranted is for Commercial Property Assessed Clean Energy (C-PACE) ABS[7]. C-PACE ABS are backed by loans to U.S. commercial property owners that finance energy efficiency, water conservation and renewable energy projects. C-PACE loans are high-quality, super senior to a mortgage loan on a property, given that the loans are repaid as a benefit assessment on the property tax bill. However, it is uneconomic and unfeasible to rate or invest in individual C-PACE loans at scale due to the relatively small average ticket size. As a result, these loans are aggregated in a securitization or structured product so that insurers can invest in the C-PACE asset class. However, the 45% C-1 charge on the residual tranche, even if it is a small part of the structure, can negatively impact the capital-adjusted risk-return profile of a C-PACE ABS. Insurance investors in C-PACE ABS are already subject to higher capital charges compared to investing directly in the underlying, so the interim 45% residual charge makes it even harder to justify the relative risk-reward analysis for an insurance investment. Investors are aware that the 45% residual charge is meant to be an interim one, but the reality is that it may be in place for many years, particularly for smaller ABS asset classes. This would, in effect, significantly disincentivize insurers from investing in high-quality and sustainable C-PACE assets.

Conclusion

At a high level, the OW analysis and findings demonstrate that expected losses in stress scenarios can vary depending on the underlying collateral and structure, which makes a 45% residual charge inappropriate. As more information is gained on insurers' residual exposure, it is very likely that there are other types of ABS beyond the ones in the OW study and C-PACE ABS for which a 45% charge would not be appropriate based on their specific level of risk. As a result, we respectfully request the NAIC to reconsider

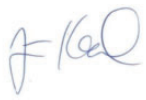
7 C-PACE loans are used by commercial property owners to finance climate and environment-related projects, including climate resiliency, renewable energy, and water and energy efficiency improvements. *See generally*, "Credit FAQ: ABS Frontiers: The C-PACE Space Explained, (2024) at https://www.spglobal.com/ratings/en/research/articles/231213-credit-faq-abs-frontiers-the-c-pace-space-explained-12943764.

© 2024 National Association of Insurance Commissioners

imposing the highest capital charge level in its history until the impact of this charge on all ABS residuals is better understood and determined to be appropriate. In addition, since the only two available empirical studies demonstrate that CLO equity outperforms common stock during periods of financial distress—and we now have evidence that BSLs have a lower beta—we respectfully urge the NAIC to maintain the 30% charge until additional analysis can be performed on what ABS residuals insurers actually hold on their balance sheet and whether a 45% charge would be appropriate.

We welcome the opportunity to discuss these supplementary comments and additional data analysis. From our perspective, there are now only two data-driven analyses available to you, both of which demonstrate that a single 45% charge on ABS residuals would not correspond to the actual levels of risk. If you have any questions about this new information, please reach out to me or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at 202-304-0311 or jengelhard@aima.org. The ACC will provide a similar comment letter to the Capital Adequacy Task Force, given that they have proposed a 45% charge for ABS residuals for the property casualty and health insurance RBC formulas.

Respectfully,



Jiří Król
Global Head of Alternative Credit Council

© 2024 National Association of Insurance Commissioners

Mariana Gomez-Vock
Senior Vice President, Policy Development
American Council of Life Insurers
Marianagomez-vock@acli.com

April 8, 2024

Mr. Philip Barlow
Chair, NAIC Risk Based Capital (RBC) Investment Risk and Evaluation Working Group
National Association of Insurance Commissioners
[via e-mail to dfleming@naic.org]

Re: Exposure of Oliver Wyman Residual Tranche Report

Dear Chair Barlow,

The American Council of Life Insurers (ACLI) is pleased to submit these comments responding to the RBC Investment Risk and Evaluation Working Group's ("the Working Group") exposure of the Oliver Wyman ("OW") Residual Tranche Report. ACLI's 280 member companies represent 94 percent of the life insurance industry's assets. We are writing to you today on behalf of a broad coalition of life insurers – large, small, stock and mutuals, private-equity and non-private equity.

Since the emergence of the "Texas Compromise"[1] in June 2023, ACLI has worked diligently on residual tranche issues. The project has been complex and challenging. While ACLI is not as far along as we had originally planned, there has been significant progress – ACLI's Principles of Consensus on the C-1 Framework for Structured Securities, were adopted unanimously by the ACLI Board in September 2023. The Principles were labor intensive and took several months to develop but were necessary before ACLI attempted to undertake an analytical review of residual tranches. ACLI remains committed to finding a consensus-based solution to this issue.

ACLI is respectfully asking for a one-year deferral of the 45% factor, allowing time for regulators and stakeholders to consider the factor within the context of the Academy's work and the impact of recent changes in accounting treatment and reporting standards. With multiple workstreams engaged to develop fact and risk-based information, a finite deferral of one additional year will advance the objective of implementing a data-informed interim factor.

1. *ACLI supports regulators' efforts to proactively evaluate and address concerns about particular asset classes – including residual tranches.*

As noted in our testimony at the March 17 meeting of the Working Group, ACLI is supportive of the Working Group's efforts in this area. It is regulators' prerogative to proactively evaluate any investment

[1] Texas Department of Insurance, June 9, 2023 comment letter in Attachment 2 of rbcire-6-14-23-materials, "TDI supports a compromise that would set the residual tranche base factor at 30% and a sensitivity test factor at 15% for the 2023 risk-based capital formula. Then, in 2024 the base factor would move to 45% and the sensitivity test factor would drop to 0%."

© 2024 National Association of Insurance Commissioners

they believe merits greater scrutiny, including structured securities and residual tranches. Investments evolve over time – and regulations must evolve alongside them. We appreciate that the Working Group has strived to maintain a transparent process and that the Chair has created opportunities for stakeholders to share their views on this complex topic.

2. *ACLI supports further study on the potential drivers of risk within the residual tranches to determine appropriate interim RBC factors.*

Considering the brief exposure period and in a desire to avoid duplicative efforts, the American Academy of Actuaries ("the Academy") is the appropriate body to conduct a technical review of the OW study. While ACLI is not submitting comments on the study itself, we do believe it raises a relevant question on whether the variations of the residual tranche structure or specific attributes are driving risk.[2] For example, the OW study looked at residual tranche thickness and collateral types.

The forthcoming Academy analysis, expected this summer, will identify comparable attribute candidates to appropriately capture the major drivers of tail risk. The Academy's work should provide additional insights on this matter and help regulators determine the best approach for determining C-1 charges, for both Broadly Syndicated Loan Collateralized Loan Obligations ("BSL CLOs") and non-CLO Asset Backed Securities ("ABS"). Additional analysis on industry holdings and the risk drivers within the residual tranches across different types of asset classes would be useful to ensure that regulators have the most appropriate approach for the interim RBC factors in place. This analysis may also help avoid unintended consequences that may occur when the charge is applied to BSL CLOs and other types of securitizations, especially those that have not been specifically evaluated by regulators or the Academy. It is possible that the interim factor (45%) could potentially incentivize structures with lower equity subordination (higher leverage) rather than structures with higher equity subordination (lower leverage).

3. *It is important for stakeholders to understand the cumulative impact of recent regulatory changes impacting residual tranches.*

Since 2021, regulators have made multiple changes impacting the disclosure, reporting, and treatment of residual tranches and interests. First, these changes will increase the consistency in reporting by clarifying that residuals in substance should be treated as residuals and disclosed on Schedule BA. The changes mean that some assets that may have previously been disclosed on Schedule D-1, will be reported on Schedule BA and receive a higher RBC factor. Second, further changes are likely under the Principles Based Bond Definition ("PBBD"), which becomes effective in YE 2025. At this point, it is still unclear which assets will be classified as ABS (thus impacting residuals of those ABS) under the PBBD. It is possible that additional analysis and calibration of the ABS residual risk charges may be needed after understanding exactly which assets are classified as ABS under the new definition in 2025.

[2] Other regimes, including Basel III have identified multiple risk drivers for securitization, including maturity, seniority level, tranche thickness, and final ratings. Tranche thickness and maturity were added to reduce the importance of external ratings and enhance risk sensitivity. *See* Moody's Analytics, *Capital calculations under the revised securitization framework* 3-5 (2017) (describing the inclusion of additional risk drivers to reduce dependence on external ratings and increase risk sensitivity), *available at* https://www.moodysanalytics.com/-/media/whitepaper/2017/capital-calculations-under-the-revised-securitasation-framework.pdf; *See also* Basel III Document: Revisions to the Securitization Framework 9-12 (2016) (describing the inclusion of additional risk drivers into the external-ratings based approach (ERBA) for securitizations).

© 2024 National Association of Insurance Commissioners

The adoption of the PBBD will change the carrying value of residuals and as noted by one of the Academy's RBC principles for structured securities, the accounting must be considered when determining an appropriate RBC factor.[3] ACLI believes that consideration is appropriate for all factor changes, whether it is interim or not. Specifically, the new residual tranche accounting likely will result in carrying values broadly across the industry to be lower than fair values. As a result, any RBC factor developed using fair value loss RBC could potentially overstate exposure to loss broadly across all companies, especially in cases where companies account for residuals using the practical expedient. The carrying value accounting and the use of fair value as the loss metric should both be considered when determining whether an RBC factor is reasonably conservative and reflective of risk.

In 2023, there was a significant increase in the aggregate amount of residuals ($11.6B) reported by life insurers on Schedule BA, although the acquisition data indicates that reclassification of assets was the primary driver of increased exposure to Schedule BA residuals.[4] While the reporting changes make an accurate year-over-year analysis somewhat imperfect, the data demonstrates that life insurers' acquisition of residuals declined by 28% between 2022 and 2023.

The 2023 sensitivity test results give regulators the data they need to identify and mitigate potential solvency concerns now. The 2023 sensitivity test data also provides additional insight into the impact of the 45% charge on 110 life insurance entities. Five companies (5%) would see a change of at least 5% in Authorized Control Level RBC. The remainder of life companies examined (95%) would have less than a 5% change in Authorized Control Level RBC If the charge is applied. Around 33% of life companies examined would have a change of <0.1%.

The 2023 reclassification data, the ability to evaluate companies at both the 30% and 45% RBC charge through the 15% sensitivity test in place for YE 2023, and the consideration of the January 1, 2025 accounting changes are potentially material to the judgement of an appropriate interim RBC factor. It is prudent to review each of these concepts thoroughly prior to establishing an interim RBC factor which may be in place for several years.

4. *ACLI respectfully requests a one-year deferral to better understand emerging data and research by the Academy.*

In June 2023, regulators opted to impose a 45% interim RBC charge for residuals as of YE 2024 while the NAIC Structured Securities Group ("SSG") develops a more sophisticated approach for BSL CLOs.[5] However the 45% charge applies to all structured securities irrespective of their risk. The 45% factor is often described as a reasonably conservative solution for an interim RBC charge that would apply until the SSG's modeling work was done. However, the SSG has been focusing on BSL CLO debt. There is no apparent timeline for modeling asset-backed securities, nor is it clear that the SSG will model all classes of

[3] Principles 3 states that "C-1 requirements should generally reflect the impact of risk on statutory surplus. Changes in accounting treatment will affect RBC." The Academy noted that "all else equal, assets that are marked to market ("MTM") may have higher C-1 requirements because C-1 on MTM assets incorporates price fluctuations in addition to credit losses. In practice, this means that C-1 for residual tranches would consider price fluctuations, whereas C-1 for unimpaired rated debt tranches only considers credit losses."
[4] NAIC Year-End 2023 Aggregated Residual Data, *available at* https://content.naic.org/sites/default/files/call_materials/2023%20Residual%20Aggregated%204-1-24.pdf.
[5] The initial modeling excludes Commercial Real Estate CLOs, asset-backed securities, resecuritizations, Collateralized Debt Obligations (CDOs), Trust Preferred CDOs, and Middle Market CLOs.

© 2024 National Association of Insurance Commissioners

ABS or other types of residual tranches. Accordingly, the interim solution may be more enduring for certain types of ABS.

ACLI acknowledges that some regulators feel urgency about the work. ACLI is not suggesting regulators pause the workstream or abandon the inquiry into the appropriate treatment of residual tranches and structured securities. We are respectfully asking for a temporary, one-year deferral, allowing time for regulators and stakeholders to consider the RBC factor within the context of the Academy's work on comparable attributes and the impact of recent changes in accounting treatment. Regulators continually strive to "get it right". Spending a bit more time on this will help to ensure that a true data-informed RBC factor for residual tranches is adopted.

For the reasons cited above, ACLI respectfully requests an additional one-year deferral.

5. Conclusion

Thank you for the opportunity to share these views. We would be pleased to discuss this letter with you in further detail, at your request.

Sincerely,



Mariana Gomez-Vock
Senior Vice President, Policy Development

© 2024 National Association of Insurance Commissioners



April 8, 2024

Mr. Philip Barlow
Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Review of Oliver Wyman study on ABS residual tranches

Dear Chair Barlow,

Oliver Wyman has conducted a study on Asset-Backed Securities (ABS) residual tranche risk (OW study) that was presented to the Risk-Based Capital Investment Risk and Evaluation Working Group of the NAIC (RBCIRE) at the 2024 Spring National Meeting. Working Group members asked the American Academy of Actuaries[1] C1 Subcommittee (subcommittee) to review and comment on the OW study. This letter focuses on the OW study's consistency with the six ABS RBC principles presented by the subcommittee to RBCIRE at the 2023 Fall National Meeting. A full technical review of the OW study is outside the scope of this letter.

The table below provides a summary of this review's conclusions, with detailed explanations provided throughout the remainder of this letter.

Principle #1	Partially consistent
Principle #2	Consistent
Principle #3	Consistent
Principle #4	Partially consistent
Principle #5	Partially consistent
Principle #6	Inconsistent

Principle #1: The purpose of RBC is to help regulators identify potentially weakly capitalized insurers, therefore changes that have a small impact on RBC ratios may not justify a change to the RBC formula.

Principle #1 includes two complementary elements. The first is that RBC is intended to highlight for regulators potential solvency issues with insurers. In other words, if an insurer is exposed to a

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

risk, then its RBC ought to reflect that. The second is a materiality consideration where enhancements with the highest potential impact on RBC should be prioritized over potential changes that may increase precision but not materially impact RBC.

Regulators have identified residual tranches as a material risk warranting a change to the RBC formula. Therefore, the OW study, providing data on residual tranches, is consistent with Principle #1.

However, the subcommittee disagrees with the implicit suggestion from the OW study that C-1 for residual tranches can be informed by comparing risk of residual tranches to the risk of common stock (other sections of this letter also reference the comparison to common stock, which we believe is implied although not explicitly stated in the OW study). The subcommittee's view is based on the following:

- While leveraging existing C-1 factors from other asset classes may be a reasonable approach under some circumstances, the use of this approach should be predicated on similar risk characteristics or having insufficient data to support risk modeling (see Appendix 1 for the C-1 modeling flowchart that was introduced by the subcommittee at the 2023 NAIC Summer National Meeting).
- In the subcommittee's view, the risk characteristics for residual tranches (especially in the tail) are significantly different from common stock. Therefore, assessing the C-1 factor for residual tranches using the existing C-1 factor for common stock may lead to inappropriate conclusions.
- The C-1 factor for residual tranches should not be informed by the C-1 factor for common stock because statutory accounting for these two asset classes is different. Accounting for common stock is on a mark-to-market basis whereas SSAP 21R provides an option for residual tranches to be valued on a discounted cash flow basis (further discussed under Principle #3 below).

Principle #2: Emerging investment risks create concerns for regulators, and existing regulatory tools can be considered alongside RBC for addressing these newer risks—but RBC needs to be considered when there are material solvency issues.

Regulators have generally identified ABS as an emerging risk that could impact solvency. Residual tranches, specifically, are an emerging risk. By providing new data and analysis to explore the risk of residual tranches, the OW study is consistent with Principle #2.

In addition, emerging investment risk can arise in circumstances where the C-1 factor for an asset class is not commensurate with the underlying investment risk. The OW study brings to light material differences in risk characteristics across different types of residual tranches and therefore the potential need for differentiated C-1 factors. This is a helpful insight and is consistent with Principle #2.

Principle #3: C-1 requirements should generally reflect the impact of risk on statutory surplus. Changes in accounting treatment will affect RBC.

Statutory accounting for residual tranches is impacted by the recently adopted SSAP 21R where residual tranche valuations are not directly subject to mark-to-market volatility. SSAP 21R allows insurers to use a discounted cash flow approach to residual tranche valuation (an approach

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

that was adopted after the development of the OW study). Under this approach, a discount rate for each residual tranche is determined at purchase and remains unchanged. The asset is impaired if the present value of cash flows is less than book value.

The OW study uses a fixed discount rate in assessing potential loss exposure for residual tranches, which in effect excludes potential mark-to-market exposure under a stress scenario. This approach is largely consistent with SSAP 21R and Principle #3.

Principle #4: C-1 requirements for a given tranche should align with that tranche's risk, to the extent practical.

Principle #4 addresses the idea that C-1 should reflect the level of risk in each tranche, rather than being constrained by requirements that C-1 on ABS equals C-1 on collateral. On this point, the OW study is consistent with Principle #4 where the exposure analysis of residual tranches is based on projected performance of the underlying collateral.

The subcommittee's view is that residual tranches and common stock have different risk characteristics, so the study's reference to C-1 factors for common stock may be inconsistent with Principle #4. Further, since the OW study assumes sufficient data to support modeling the risks, the C1 modeling flowchart would not end with using existing C-1 factors, whether for common stock or some other asset class, unless residual tranches are impractical to model individually. An assessment of individual asset modeling's practicality is outside the scope of the OW study and of this letter.

Principle #5: C-1 requirements on ABS should treat the collateral as a dynamic pool of assets, incorporating future trading activities that are reasonable and vary appropriately by economic scenario.

Principle #5 clarifies that no assumption should be made for reduced risk through better-than-market credit selection, which is consistent with the OW study.

Principle #5 also suggests that trading activity subject to or mandated by the structure's legal documents should be incorporated as part of the risk modeling in determining C-1 requirements. Specific to collateralized loan obligations (CLOs), the OW study does not incorporate trading activity in the form of reinvestments within the collateral pool. This simplification is inconsistent with Principle #5 and may potentially bias the results in a conservative direction, which the OW study acknowledges.

Principle #6: Each C-1 factor is based on the asset class's risk profile. However, the risk profile for ABS differs from the risk profile for bonds. Therefore, C-1 requirements for ABS should be calibrated to different risk measures where appropriate.

Principle #6 suggests that ABS and corporate bonds need not use the same risk measure and that a conditional tail expectation (CTE) risk measure is likely more appropriate than percentile for ABS to capture tail risk. The OW study is based on percentiles, which would be inconsistent with Principle #6 because percentiles may struggle to capture tail risk for ABS. While not using CTE explicitly, the OW study does include percentile results under a deep-tail scenario. This provides a potential upper bound for a CTE risk measure.

The C1 Subcommittee appreciates your attention to the issues raised in this letter and looks forward to discussing them further with you. Should you have any questions or comments in

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

© 2024 National Association of Insurance Commissioners

response to this letter, please contact Amanda Barry-Moilanen, life policy analyst (barrymoilanen@actuary.org).

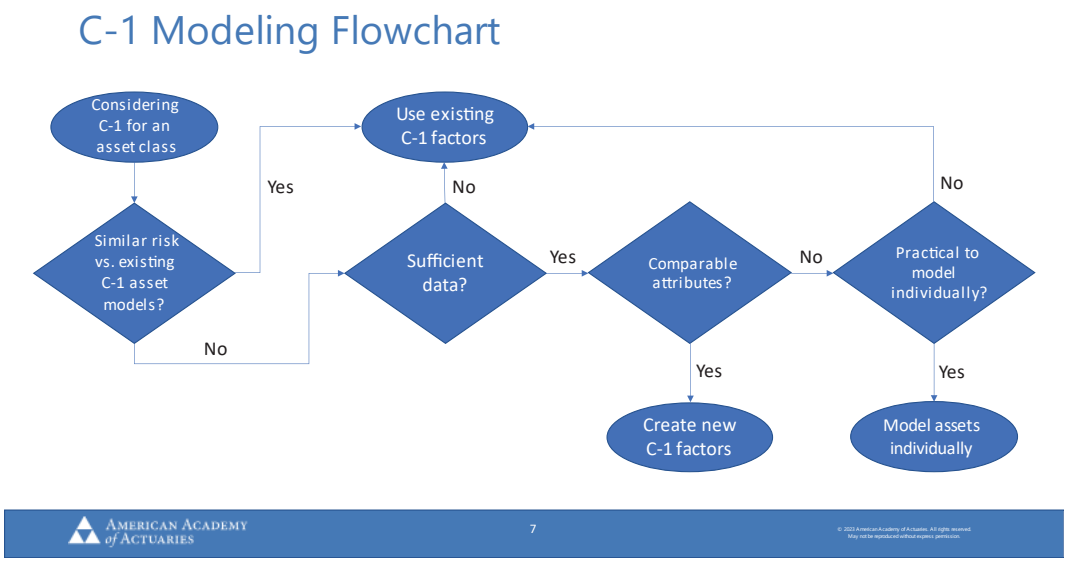
Sincerely,

Stephen Smith
Chairperson, C1 Subcommittee
American Academy of Actuaries

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

© 2024 National Association of Insurance Commissioners

Appendix 1



1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

SENATOR PAUL BAILEY
State of Tennessee
NASHVILLE

CORDELL HULL BUILDING
425 REP JOHN LEWIS WAY N
SUITE 736
NASHVILLE, TENNESSEE
37243
(615) 741-3978

MEMBER OF COMMITTEES
Chairman of Commerce and Labor
Transportation

April 8, 2024

Dear Mr. Barlow:

The life insurance and annuities market boasts a complex collection of products that provide hardworking Americans from all socioeconomic backgrounds with the crucial tools they need to get ahead in planning and saving for retirement. Given the important yet delicate nature of this market, I'm concerned by the NAIC Risk-Based Capital Investment Risk and Evaluation (RBC IRE) Working Group's recent conduct in moving forward on a 45% capital charge on asset-backed securities.

When drafting insurance rules, regulators should adhere to data and consider the costs and benefits of any changes. This is particularly important given the NAIC's unique role in guiding consensus for insurance policymaking across the entire country. However, this is not the path the NAIC has been following recently. Independent and verified data in the form of the Oliver Wyman study clearly demonstrates that asset-backed security (ABS) equity is less risky than other securities with a 30% charge. This demonstrates that a 45% capital charge on residual tranches is disproportionately high relative to other insurer investments. This study is thorough and uses a sophisticated analysis. Some regulators are misstating that the study supports a 45% charge. This is untrue and regulators should seek clarification from the study sponsors and authors if they have questions about the research conclusions.

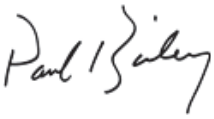
Beyond being unnecessary, I worry that a 45% capital charge on ABS equity would be extremely burdensome for the life insurance and annuities market and, by extension, for American consumers. In my role as the Chair of the Commerce and Labor Committee in the Tennessee State Senate, I remain committed to safeguarding consumers and market competition. If ABS equity is saddled with a 45% capital charge, insurers will be dissuaded from investing in these assets. This would reduce investment returns, steer insurers into less appropriate investments, and reduce or eliminate options for consumers who need help protecting their families and saving for retirement.

Hardworking people across the Volunteer State deserve to know that rules affecting their insurance policies are made in full sunlight and with their best interests at heart. Therefore, it is concerning to see the NAIC forge ahead in such an unprecedented and thoughtless manner, despite data and research, to pursue this misguided policy proposal. I am concerned that this move undermines the credibility of the NAIC itself, and calls into question the wisdom of states permitting standard-setting by the organization.

Legislators like myself are questioning what ill-founded policy moves might be next, given that the NAIC seems willing to ignore data and harm our citizens.

Before it's too late, I encourage the RBC IRE working group to delay the implementation of the 45% capital charge on residual tranches. Regulators ought to review the data and adopt a more consumer- and competition-centric approach. The life insurance and annuities market is an integral facet of the American economy. I hope the NAIC sees things the same way.

Sincerely,



Paul Bailey

Chairman of Commerce & Labor

15th District of Tennessee

Attachment Seven
Capital Adequacy (E) Task Force
8/14/24

Priority 1 – High Priority
Priority 2 – Medium Priority
Priority 3 – Low Priority

CAPITAL ADEQUACY (E) TASK FORCE
WORKING AGENDA ITEMS FOR CALENDAR YEAR 2024

2024 #	Owner	2024 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – Life RBC							
L1	Life RBC WG	Ongoing	Ongoing	Make technical corrections to Life RBC instructions, blank and /or methods to provide for consistent treatment among asset types and among the various components of the RBC calculations for a single asset type.			
L2	Life RBC WG	1	~~2023~~ 2024 or later	1. Monitor the impact of the changes to the variable annuities reserve framework and risk-based capital (RBC) calculation and determine if additional revisions need to be made. 2. Develop and recommend appropriate changes including those to improve accuracy and clarity of variable annuity (VA) capital and reserve requirements.	CADTF	Being addressed by the Variable Annuities Capital and Reserve (E/A) Subgroup	
L3	Life RBC WG	1	~~2023~~ 2024 or later	Provide recommendations for the appropriate treatment of longevity risk transfers by the updated longevity factors and consider expanding the scope to include all payout annuities.	New Jersey	Being addressed by the Longevity (E/A) Subgroup	
L4	Life RBC WG	1	~~2023~~ 2024 or later	Monitor the economic scenario governance framework, review material economic scenario generator updates, key economic conditions, and metrics, support the implementation of an economic scenario generator for use in statutory reserve and capital calculations and develop and maintain acceptance criteria		Being addressed by the Generator of Economic Scenarios (GOES) (E/A) Subgroup	
Carryover Items Currently being Addressed – Life RBC							
L5	Life RBC WG	1	~~2023~~ 2024 or later	Update the current C-3 Phase I or C-3 Phase II methodology to include indexed annuities with consideration of contingent deferred annuities as well	AAA		
L6	Life RBC WG	1	~~2023~~ 2024 or later	Review companies at action levels, including previous years, to determine what drivers of the events are and consider whether changes to the RBC statistics are warranted. Deliberate the relevant weights assigned to various risk components.			
~~L7~~	~~Life RBC WG~~	~~1~~	~~2023 or later~~	~~Work with the Academy on creating guidance for the adopted C-2 mortality treatment for 2023 and next steps.~~			
New Items – Life RBC							
L7	Life RBC WG	1	2024 or later	In light of SAPWG INT to permit admittance of negative IMR, SAPWG requested CADTF to consider: 1. The elimination of any admitted net negative IMR from Total Adjusted Capital (TAC). 2. Sensitivity testing with and without negative IMR.	CADTF		
L8	Life RBC WG	1	2024 or later	Develop a structure proposal to reflect the split of the Annual Statement, Schedule D, Part 1 into two schedules pursuant to the SAPWG adopted bond project.	CADTF		
L9	Life RBC WG	1	2024 or later	Consider SAPWG Referral for Investments in Tax Credit Structures	SAPWG		

Revised 03/17/2024

© 2024 National Association of Insurance Commissioners

L10	Life RBC WB	1	2024 or later	Consider possible structural changes to account for reporting changes for collateral loans addressed through instructional changes for 2024 with the adoption of proposal 2024-15-L			
2024 #	**Owner**	**2024 Priority**	**Expected Completion Date**	**Working Agenda Item**	**Source**	**Comments**	**Date Added to Agenda**
Ongoing Items – RBC IR & E							
Carryover Items Currently being Addressed – RBC IR &E							
IR1	RBC IRE	2	~~2023~~ 2024 or later	Supplementary Investment Risks Interrogatories (SIRI)	**Referred from CADTF** Referral from Blackrock and IL DOI	The Task Force received the referral on Oct. 27. This referral will be tabled until the bond factors have been adopted and the TF will conduct a holistic review all investment referrals.	**1/12/2022** 11/19/2020
IR2	RBC IRE	2	~~2023~~ 2024 or later	NAIC Designation for Schedule D, Part 2 Section 2 - Common Stocks Equity investments that have an underlying bond characteristic should have a lower RBC charge. Similar to existing guidance for SVO-identified ETFs reported on Schedule D-1, are treated as bonds.	**Referred from CADTF** Referral from SAPWG 8/13/2018	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	**1/12/2022** 10/11/2018
IR3	RBC IRE	2	~~2023~~ 2024 or later	Structured Notes - defined as an investment that is structured to resemble a debt instrument, where the contractual amount of the instrument to be paid at maturity is at risk for other than the failure of the borrower to pay the contractual amount due. Structured notes reflect derivative instruments (i.e., put option or forward contract) that are wrapped by a debt structure.	**Referred from CADTF** Referral from SAPWG April 16, 2019	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	**1/12/2022** 8/4/2019
IR4	RBC IRE	2	~~2023~~ 2024 or later	Comprehensive Fund Review for investments reported on Schedule D Pt 2 Sn2	**Referred from CADTF** Referral from VOSTF 9/21/2018	Discussed during Spring Mtg. NAIC staff to do analysis. 10/8/19 - Exposed for a 30-day comment period ending 11/8/19 3-22-20 - Tabled discussion pending	**1/12/2022** 11/16/2018

Revised 03/17/2024

						adoption of the bond structure and factors.	
New Items – RBC IR & E							
IR5			~~2023~~ 2024 or later	Evaluate the appropriate RBC treatment of Asset-Backed Securities (ABS), including Collateralized Loan Obligations (CLO), collateralized fund obligations (CFOs), or other similar securities carrying similar types of tail risk (Complex Assets).	Request from E Committee, SAPWG, VOSTF	Per the request of E Committee comments were solicited asking if these types of assets should be considered a part of the RBC framework.	1/12/2022
IR6			~~2023~~ 2024 or later	Evaluate the appropriate RBC treatment of Residual Tranches.	Request from E Committee, SAPWG, VOSTF	Per the request of E Committee comments were solicited asking if these types of assets should be considered a part of the RBC framework.	1/12/2022
IR7			2025 or later	Phase 2 Bond analysis - evaluate and develop an approach to map other ABS to current bond factors following the established principles from Phase I where the collateral has an assigned RBC. This project will likely require an outside consultant and the timeline could exceed 2-3 years.	Request from E Committee	Per the request of E Committee comments were solicited requesting the need for outside review.	1/12/2022
IR8	RBC IRE		~~2023~~ 2024 or later	Address the tail risk concerns no captured by reserves for privately structured securities.	Referral from the Macroprudential (E) Working Group		8/11/2022
New Items – RBC IR & E							
IR9	RBC IRE		2024 or later	Develop a structure proposal to reflect the split of the Annual Statement, Schedule D, Part 1 into two schedules pursuant to the SAPWG adopted bond project for all lines of business.	CADTF		
2024 #	**Owner**	**2024 Priority**	**Expected Completion Date**	**Working Agenda Item**	**Source**	**Comments**	**Date Added to Agenda**
Ongoing Items – P&C RBC							
P1	Cat Risk SG	1		Continue development of RBC formula revisions to include a risk charge based on catastrophe model output:			
			Year-end 2024 or later	a) Evaluate other catastrophe risks for possible inclusion in the charge - determine whether to recommend developing charges for any additional perils, and which perils or perils those should be.	Referral from the Climate and Resiliency Task	~~12/2/23 Proposal 2023-15-CR (Convective Storm for Informational~~	4/26/2021

Revised 03/17/2024

					Force. March 2021	~~Purposes Only Structure) was exposed for a 60-day comment period at the Joint P/C RBC and Cat Risk SG meeting.~~ 03/17/24 Proposal 2023-15-CR was adopted by the Subgroup, Working Group, and the Task Force during the Spring National Meeting 4/23/24 Proposal 2023-17-CR was adopted during April 23 interim Cat Risk SG meeting. 4/25/24 Proposal was adopted during the April 25 PCRBC WG interim meeting.	
P2	PCRBCWG	1	Ongoing	Review and analyze the P/C RBC charges that have not been reviewed since developed.			3/23/2023
Carryover Items Currently being Addressed – P&C RBC							
P3	P&C RBC WG	1	Year-end 2025 or later	Evaluate a) the current growth risk methodology whether it is adequately reflects both operational risk and underwriting risk; b) the premium and reserve based growth risk factors either as a stand-alone task or in conjunction with the ongoing underwriting risk factor review with consideration of the operational risk component of excessive growth; c) whether the application of the growth factors to NET proxies adequately accounts for growth risk that is ceded to reinsures that do not trigger growth risk in their own right. *Referral to the Academy: https://naiconline.sharepoint.com/teams/FRSRBC/PRBC/2018%20Calls%20-%20PRBC/PCRBC/06_14/attC01_Growth%20Risk%20Referral%20to%20Academy.pdf*	Referral from Operational Risk Subgroup	1) Sent a referral to the Academy on 6/14/18 conference call.	1/25/2018
P4	P&C RBC WG	1	2024 Summer Meeting or later	Continue working with the Academy to review the methodology and revise the underwriting (Investment Income Adjustment, Loss Concentration, LOB UW risk) charges in the PRBC formula as appropriate.		11/16/23 The Academy provided a presentation on their Underwriting Risk Report at the Joint	6/10/2019

Revised 03/17/2024

© 2024 National Association of Insurance Commissioners

						PCRBC And Cat Risk SG meeting. 3/17/23 Proposal 2024-11-P was exposed for a 30-day public comment period during the Spring National Meeting. 4/25/24 Proposal 2024-11-P was adopted during the PCRBCWG interim meeting.	
P5	P&C RBC WG	1	2025 Summer Meeting or later	Evaluate the Underwriting Risk Line 1 Factors in the P/C formula.			7/30/2020
P6	Cat Risk SG	1	2025 Spring Meeting	Quantify the R5 Ex-cat Factors for wildfire peril (for informational purposes only) Evaluate the possibility of adding PR018A to determine the R5 ~~including~~ excluding the wildfire peril in additional to earthquake, and hurricane.			3/21/2023
P7	Cat Risk SG	2	2025 Spring Meeting	Evaluate the impact of flood peril to the insurance market			3/21/2023
P8	PCRBCWG	1	2024 Spring Meeting	Adding pet insurance line in the RBC PR017, 018, 035 and RBC Schedule P, parts due to the adoption of the Annual Statement Blanks proposal 2023-01BWG.		~~12/2/23 Proposal 2023-14-P (Pet Insurance) was exposed for a 60-day comment period at the Joint P/C RBC and Cat Risk SG meeting. 2/21/24 Proposal 2023-01BWG was adopted at the BWG Interim Meeting.~~ 3/17/24 Proposal 2023-14-P was adopted by the Subgroup, Working Group, and the Task Force during the Spring National Meeting	7/27/2023

Revised 03/17/2024

P9	Cat Risk SG	1	2024 Summer Meeting	Create a new disclosure to collect more information of insurers catastrophe reinsurance programs. *Referral from Reinsurance (E) Task Force:* *https://naiconline.sharepoint.com/teams/FRSRBC/PRBC/2024%20Calls%20-%20Joint/03_17_NM/Att2c_%20Referral%20from%20RTF%20to%20PCRBCWG%20(1).docx*	Referral from Reinsurance (E) Task Force	~~11/16/23 Received a referral and proposal from RTF.~~ ~~12/2/23 Proposal 2023-13-CR (Cat Risk Insurance Program Interrogatory) was exposed for a 60-day comment period at the Joint PCRBC and Cat Risk SG meeting.~~ 3/17/24 Proposal 2023-13-CR was adopted by the Subgroup, Working Group, and the Task Force during the Spring National Meeting.	2/20/2024
P10	PCRBCWG	1	2024 Summer Meeting	Update PR019, Line 25 Annual Statement Source and the Statement Value to avoid double-counting on Stop-Loss premium.		3/17/24 Proposal 2024-10-P was exposed for a 30-day public comment period during the Spring National Meeting. 4/25/24 Proposal was adopted during 4/25 PCRBCWG interim meeting.	2/20/2024
P11	Cat Risk SG	1	2024 Summer Meeting	Create additional Rcat pages to collect commercial Cat modelers product information known as "Climate Conditioned Catalogs", which would provide an estimate of climate change for hurricane and wildfire.	From Solvency Workstream of the Climate & Resiliency (EX) Task Force	1/29/24 Proposal 2023-17-CR was exposed for a 30-day public comment period at the Cat Risk SG Interim Meeting on Jan. 29. 3/17/24 Proposal 2024-10-P was re-exposed for a 22-day public comment period during the	1/29/2024

Revised 03/17/2024

© 2024 National Association of Insurance Commissioners

						Spring National Meeting.	
P12	PCRBCWG	1	2024 Spring Meeting	Change the RBC Schedule P short-tail lines to vendor link, which will pull directly from the Annual Statement, Schedule P short-tail lines as the adopted blanks proposal 2023-16BWG modified the Schedule P short-tail lines to show 10 years of data beginning in 2024.		2/21/24 Blanks Proposal 2023-16BWG was adopted at the BWG meeting 3/17/24 Proposal 2024-01-P was adopted by the Subgroup, Working Group, and the Task Force during the Spring National Meeting.	
New Items – P&C RBC							
P13~~P10~~	Cat Risk SG~~PCRBCWG~~	~~21~~	2025 Fall Meeting~~2024 Summer Meeting~~	Consider: 1) further investigating all geographic concentration related issues. possibly modifying the property and casualty (P/C) risk-based capital formulas~~Update PR019, Line 25 Annual Statement Source and the Statement Value to avoid double-counting on Stop-Loss premium.~~		6/10/24 Exposed a referral from the Tas Force for a 30-day comment period ending July 10.	~~2/20/2024~~
2024 #	**Owner**	**2024 Priority**	**Expected Completion Date**	**Working Agenda Item**	**Source**	**Comments**	**Date Added to Agenda**
Ongoing Items – Health RBC							
X1	Health RBC WG	Yearly	Yearly	Evaluate the yield of the 6-month U.S. Treasury Bond as of Jan. 1 each year to determine if further modification to the Comprehensive Medical, Medicare Supplement and Dental and Vision underwriting risk factors is required. Any adjustments will be rounded up to the nearest 0.5%.	HRBCWG	~~Adopted 2022-16-CA (YE 2023) Exposed 2024-09-CA (YE 2024)~~ Adopted 2024-09-CA (YE-2024)	11/4/2021
X2	Health RBC WG	3	Ongoing	Continue to monitor the Federal Health Care Law or any other development of federal level programs and actions (e.g., state reinsurance programs, association health plans, mandated benefits, and cross-border) for future changes that may have an impact on the Health RBC Formula.	4/13/2010 CATF Call	Adopted 2014-01H Adopted 2014-02H Adopted 2014-05H Adopted 2014-06H Adopted 2014-24H Adopted 2014-25H Adopted 2016-01-H Adopted 2017-09-CA Adopted 2017-10-H The Working Group will continually evaluate any changes	

© 2024 National Association of Insurance Commissioners

						to the health formula because of ongoing federal discussions and legislation. Discuss and monitor the development of federal level programs and the potential impact on the HRBC formula.	1/11/2018
Carryover Items Currently being Addressed – Health RBC							
X3	Health RBC WG	2	Year-End 2025 RBC or Later	Consider changes for stop-loss insurance or reinsurance.	AAA Report at Dec. 2006 Meeting	(Based on Academy report expected to be received at YE-2016) 2016-17-CA Adopted proposal 2023-01-CA	
~~X4~~	~~Health RBC WG~~	~~3~~	~~Year-end 2025 RBC or later~~	~~Review the individual factors for each health care receivables line within the Credit Risk H3 component of the RBC formula.~~	~~HRBC WG~~	~~Adopted 2016-06-H Rejected 2019-04-H Annual Statement Guidance (Year-End 2020) and Annual Statement Blanks Proposal (Year-End 2021) referred to the Blanks (E) Working Group Adopted 2024-12-H (MOD)~~	
X5~~4~~	Health RBC WG	1	Year-end 2025 RBC or later	Work with the Academy to perform a comprehensive review of the H2 - Underwriting Risk component of the health RBC formula including the Managed Care Credit review. ~~(Item 18 above)~~ Review the Managed Care Credit calculation in the health RBC formula - specifically Category 2a and 2b. Review Managed Care Credit across formulas. As part of the H2 - Underwriting Risk review, determine if other lines of business should include investment income and how investment income would be incorporated into the existing lines if there are changes to the structure.	HRBCWG	Review the Managed Care Category and the credit calculated, more specifically the credit calculated when moving from Category 0 & 1 to 2a and 2b.	4/23/2021 12/3/2018

Revised 03/17/2024

~~X6~~	~~Health RBC WG~~	~~1~~	~~Year-end 2025 or later~~	~~Review referral letter from the Operational Risk (E) Subgroup on the excessive growth charge and the development of an Ad Hoc group to charge.~~	~~HRBCWG~~	~~Review if changes are required to the Health RBC Formula~~	~~4/7/2019~~
X~~7~~5	Health RBC WG	3	Year-End 2025 or later	Discuss and determine the re-evaluation of the bond factors for the 20 designations.	Referral from Investment RBC July/2020	Working Group will use two- and five-year time horizon factors in 2020 impact analysis. Proposal 2021-09-H - Adopted 5/25/21 by the WG	9/11/2020
New Items – Health RBC							
2024 #	**Owner**	**2024 Priority**	**Expected Completion Date**	**Working Agenda Item**	**Source**	**Comments**	**Date Added to Agenda**
Ongoing Items – Task Force							
CA1	CADTF	2	2023	Affiliated Investment Subsidiaries Referral Ad Hoc group formed Sept. 2016	Ad Hoc Group	~~Structural and instructions changes will be exposed by each individual working group for comment in 2022 with an anticipated effective date of 2023. Proposal 2022-09-CA was adopted at the 2022 Summer Meeting. Proposal 2022-09-CA MOD was adopted at the 2023 Spring Meeting. Proposal 2023-12-CA was adopted at the 2023 Fall Meeting. Editorial Proposal 2024-08-CA will be exposed on 3/17/24 for a 30-day public comment,~~ Proposal 2024-08-CA was adopted at the	

Revised 03/17/2024

						2024 Spring National Meeting. Proposal adopted during 4/30 TF interim meeting.	
CA2			Ongoing	All investment related items referred to the RBC Investment Risk & Evaluation (E) Working Group		Proposal 2024-02-CA (Residual Structure PC & Health) was exposed for comment ending Mar. 2. 3/17/24 – the TF exposed this proposal for a 30-day public comment period. 4/30/24- the RG adopted this structure proposal. 6/28/24-the TF adopted proposal 2024-18-CA to retain 20% charge for the	1/12/2022

Revised 03/17/2024

						Total Residual Tranches or Interests.	
CA3	CADTF	3	Ongoing	Receivable for Securities factor		Consider evaluating the factor every 3 years. (2024, 2027, 2030 etc.) Factors will be exposed for comments in April 2024. 6/28/24 - the TF adopted proposal 2024-13-CA.	
~~CA4~~	~~CADTF~~	~~1~~	~~2026 or later~~	~~Established the Risk Evaluation Ad Hoc Group to: b) Evaluate the RBC factors. c) Potentially develop an evaluating process. d)~~a) ~~Prioritize those factors that require reviewing.~~		~~7/26/23 – the Risk Evaluation Ad Hoc Group established 3 Ad Hoc Subgroup to focus on different issues: 1) RBC Purposes & Guidelines Ad Hoc Subgroup; 2) Asset Concentration Ad Hoc Subgroup; and 3) Geographic Concentration Ad Hoc Subgroup.~~	~~03/23/2023~~
CA~~5~~4	CADTF	1	Ongoing	Update the annual investment income adjustment to the comprehensive medical, medicare supplement, and dental and vision factors.		4/30/24 – the TF exposed proposal 2024-09-CA for a 30-day public comment period. 6/28/24 – the TF adp[ted the proposal.	4/30/2024
~~CA5~~	~~CADTF~~	~~2~~	~~2024 or later~~	~~Evaluate if changes should be made in the RBC formula to reflect the split of the Annual Statement, Schedule D, Part 1 into two sections. *Referral:* SCDPT1~~	~~Blanks WG and SAPWG~~	~~12/2/23 – the TF agreed to send a referral to the RBCIREWG to continue reviewing this issue.~~	~~12/2/2023~~
~~CA6~~	~~CADTF~~	~~2~~	~~2024 or later~~	~~Evaluate if changes should be made in the RBC formula to reflect the possible changes in the Annual Statement, Schedule BA proposal for non-bond debt securities *Referrals:* SCBAPT1~~	~~Blanks WG and SAPWG~~	~~12/2/23 – the TF received a referral from SAPWG regarding the possible~~	~~12/2/2023~~

Revised 03/17/2024

						~~Annual Statement reporting for debt securities that do not qualify as bonds on Schedule BA. TF agreed to forward the referral along with the ACLI comment to the RBCIREWG.~~	
~~CA7~~CA~~6~~5	CADTF	2	~~2024~~ 2025 or later	Evaluate if changes should be made in the RBC formula to reflect the possible changes in Schedule BA Collateral Loan reporting, including structural changes to RBC blanks and forecasting and changes of risk charges that commensurate with underlying collateral type. *Referral from Statutory Accounting Principles (E) Working Group: https://naiconline.sharepoint.com/teams/FRSRBC/Capital%20Adequacy%20CapAd%20Task%20Force/2024%20Calls/03_17NM/Att14Collateral%20Loan%20Memo%20to%20Multiple%20Groups.docx*		1/23/24 – the TF received a referral from SAPWG regarding collateral loan reporting changes 3/26/24 – the TF exposed this referral for a 45-day public comment period. 6/28/24 – the SAPWG provided updates on this project.	1/23/2024
~~CA8~~CA~~7~~6	CADTF	2	2024 or later	Review the proposal from the ACLI to modify the treatment of repurchase agreements in the Life RBC formula to determine whether its possible application to P/C and Health formulas. *Referral from Life Risk-Based Capital (E) Working Group: Att16 2024-06-CA Repurchase Agreements P&C and Health.pdf*	Life RBC WG	1/25/24 – the TF received a referral from LRBCWG. Proposal 2024-06-CA (Repurchase Agreements PC & Health(was exposed for comment ending Mar.2. 3/17/24 – the TF exposed this referral for a 30-day public comment period.	1/25/2024
~~CA9~~	~~CADTF~~	~~2~~	~~2024 or later~~	~~Establish a long-term approach for the issue of the negative interest maintenance reserve (IMR)~~ ~~*Referrals:*~~ ~~Negative IMR~~	~~SAPWG~~	~~12/2/23 – the TF agreed to forward the referral to LRBCWG.~~	~~12/2/2023~~
Carryover Items Currently being Addressed – Task Force							

Revised 03/17/2024

New Items –Task Force							
CA~~8~~7	CADTF	1	2024 or later	Review the possibility of establishing a new Working Group to evaluate the non-investment risk issues. a) Review the possibility of removing the TAC and ACL amounts I the annual statement's five-year historical data page. b) Re-evaluate some of the missing non-investment risks to determine whether the Task Force should include them in the RBC calculation or i~~f~~ it should appropriately handle those risks utilizing other regulatory methods. c) Review those non-investment factors and instructions that have not been reviewed since being developed to determine if modifications should be made.			4/30/2024
CA~~9~~8	CADTF	2	2025 or later	Review the RBC Preamble to determine whether additional modification is required to clarify and emphasize the purposes and intent of using RBC.	RBC Purposes & Guidelines Ad Hoc Subgroup		4/30/2024
CA~~10~~9	CADTF	2	2025 or later	Evaluate if changes should be made in the RBC formula to reflect the possible changes in the existing low-income housing tax credit investment lines in the RBC formulas to allow the expansion of including any type of state or federal tax credit program,	SAPWG	4/30/24 – the referral was exposed for a 30-day public comment period. 6/28/24 – the SAPWG provided updates on this project.	4/30/2024

Historical Comments:

P1:

4/26/21 - The SG exposed the referral for a 30-day period.
6/1/21 - The SG forwarded the response to the Climate and Resiliency Task Force.
2/22/22 - The SG adopted proposal 2021-17-CR (adding the wildfire peril for informational purposes only). The SG continues reviewing other perils for possible inclusion in the Rcat.

8/11/22 – The TF adopted Proposal 2022-04-CR (2013-2021 Wildfire Event Lists)

9/26/22 – The SG formed an ad hoc group to conduct review on severe convective storm models.

7/18/23-The SG is finishing reviewing the following SCS vendor models: RMS, Verisk, KCC, and Corelogic.

12/2/23-Proposal 2023-15-CR (Convective Storm for Informational Purposes Only Structure) was exposed for a 30-day comment period at the Joint P/C RBC and Cat Risk SG meeting.

CA1:

1. Structural and instructions changes will be exposed by each individual working group for comment in 2022 with an anticipated effective date of 2023.
2. Proposal 2022-09-CA MOD was adopted at the 2023 Spring Meeting.
3. Proposal 2023-12-CA was adopted at the 2023 Fall Meeting.
4. Editorial Proposal 2024-08-CA will be exposed on 3/17/24 for a 30-day public comment.

Revised 03/17/2024

© 2024 National Association of Insurance Commissioners

PROCEDURES OF THE FINANCIAL CONDITION (E) COMMITTEE'S CAPITAL ADEQUACY TASK FORCE IN CONNECTION WITH PROPOSED AMENDMENTS TO RISK-BASED CAPITAL BLANKS AND INSTRUCTIONS

The following establishes procedures and rules of the Financial Condition (E) Committee's Capital Adequacy Task Force (Task Force) and its Working Groups with respect to proposed amendments to the NAIC RBC Forecasting (blanks) and Instructions.

1. The Task Force may consider relevant proposals to change the RBC blanks and instructions at the national meeting or designated interim meeting as scheduled by the Task Force.

2. All proposals for suggested changes and amendments shall use NAIC Proposal Forms and shall be stated in a concise and complete manner and include the appropriate blank and instruction modifications. The Proposal Form and its instructions are available online under related documents and resources at https://content.naic.org/cmte_e_capad.htm. All interested party proposals should be emailed to the appropriate NAIC staff support with a completed proposal form and mocked-up changes.

   The following guidelines apply:

   - Although proposal shall be exposed throughout the year to allow ample time for consideration, any proposals that affect an RBC blank (e.g. all pages after LR001, PR001, XR001) must be exposed by the Task Force or its Working Groups no later than March 31 of the effective year of the change. - The proposal must be adopted by the Task Force no later than May 15 of the effective year of the change.
   - Any proposal that only affects the instructions or factors must be exposed by the Task Force / Working Group by May 15 and adopted by the Task Force by June 30 of the current year.
   - Only the Task Force may extend the June 30th adoption deadline for previously considered proposals upon a -two-thirds- consent of the Task Force members present where such extension can be no later than July 30th of the current year. This would be considered only in rare circumstances where urgency of such adoption is high and implementation by the RBC software vendors is feasible. The two-thirds consent applies only in the instance of a Task Force vote that is outside of the standard RBC adoption deadlines (May 15 and June 30).

   An illustration of the proposed change to the RBC blank, factors, or instructions should accompany the Proposal Form. In addition, an impact analysis is preferred for any factor change. If another NAIC Committee, Task Force or Working Group is known to have considered this proposal, that Committee, Task Force or Working Group should provide any relevant information.

   The Task Force/Working Groups will review the proposal and determine whether to receive the proposal and expose for public comment (initial exposure of at least 30-days to ensure adequate time to provide comment on any structural change, unless a shorter exposure is approved by the Task Force or Working Groups) or to reject the proposal. The comment period shall end at least 3 business days prior to the next designated national or interim meetings of the Task Force/ Working Group. The Task Force/Working Group will consider comments received on each proposal at its next meeting. Proposals under consideration may be deferred by the Task Force/Working Group if the proposal has merit but warrants additional work or input. The Task Force may also refer proposals to other NAIC groups due to their technical expertise or for additional review. If a proposal has been referred to another NAIC group it will be considered again after comments/recommendations are received. The Task Force will review and adopt the working agenda at each National Meeting, if necessary, to ensure all items designated as a priority 1 are being addressed, to add or delete items that have been addressed or to reprioritize the remaining items on the working agenda.

3. Interested Party proposals filed with the appropriate NAIC staff support shall be considered at the next regularly scheduled meeting of the Task Force/Working Group if the proposal is filed at least fifteen business days prior to the meeting.

4. The NAIC staff support shall prepare the meeting materials including all suggested proposals. Interim meeting

© 2024 National Association of Insurance Commissioners

materials will be posted no later than three business days prior to the scheduled meeting on the NAIC website. Initial national meeting materials will be posted ten business days before the first day of each National Meeting on the NAIC website. Materials posted ten business days in advance of the National Meeting will not be printed for distribution.

5. At each meeting, the Task Force/Working Group will review comments that were received by the comment exposure due date for suggested proposals.

6. NAIC staff support will incorporate any editorial changes discovered in the annual updates of the RBC formulas e.g., reference changes due to new SSAPs or annual statement references. NAIC staff support may also request that the Task Force/Working Group reconsider items adopted, if these items contain substantial -modifications.

7. The Task Force/Working Group may, when deemed necessary, appoint an Ad Hoc Group to study proposals and/or certain issues.

8. The NAIC will publish the RBC Forecasting and Instructions for the next subsequent year on, or about November 1 each year. The following documentation will be posted to the NAIC Web site:
    - RBC Proposals adopted by the Task Force (after each interim and National Meeting)
    - Annual RBC Newsletters (after Summer National Meeting)
    - Annual RBC Statistics (after Summer National Meeting)
    - Working Agenda (after each National Meeting)
    - Any subsequent corrections to these publications (as needed)

© 2024 National Association of Insurance Commissioners

Draft: 8/14/24
Adopted by the Executive (EX) Committee and Plenary, Dec. xx, 2024
Adopted by the Financial Condition (E) Committee, Dec. xx, 2024
Adopted by the Capital Adequacy (E) Task Force, TBD

2025 Proposed Charges

CAPITAL ADEQUACY (E) TASK FORCE

The mission of the Capital Adequacy (E) Task Force is to evaluate and recommend appropriate refinements to capital requirements for all types of insurers.

Ongoing Support of NAIC Programs, Products, or Services

1. The **Capital Adequacy (E) Task Force** will:
   A. Evaluate emerging "risk" issues for referral to the risk-based capital (RBC) working groups/subgroups for certain issues involving more than one RBC formula. Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.
   B. Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC).
   C. Evaluate relevant historical data and apply defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to the current asset risk structure and factors in each of the RBC formulas.

2. The **Health Risk-Based Capital (E) Working Group**, **Life Risk-Based Capital (E) Working Group**, and **Property and Casualty Risk-Based Capital (E) Working Group** will:
   A. Evaluate refinements to the existing NAIC RBC formulas implemented in the prior year. Forward the final version of the structure of the current year life and fraternal, property/casualty (P/C), and health RBC formulas to the Financial Condition (E) Committee by June.
   B. Consider improvements and revisions to the various RBC blanks to: 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity; and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified. Any proposal that affects the RBC structure must be adopted no later than ~~April 30~~May 15 of the reporting year, and any proposal that affects the RBC factors and/or instructions must be adopted no later than June 30 of the reporting year. Adopted changes will be forwarded to the Financial Condition (E) Committee by the next scheduled meeting or conference call. Any adoptions made to the annual financial statement blanks or statutory accounting principles that affect an RBC change adopted by June 30 and result in an amended change may be considered and adopted by July 30, where the Capital Adequacy (E) Task Force votes to pursue by ~~super-majority (~~two-thirds~~)~~ consent of members.
   C. Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the revised *Accounting Practices and Procedures Manual* (AP&P Manual) to ensure that model laws, publications, formulas, analysis tools, etc. supported by the Task Force continue to meet regulatory objectives.
   D. Review the effectiveness of the NAIC's RBC policies and procedures as they affect the accuracy, audit ability, timeliness of reporting access to RBC results, and comparability among the RBC formulas. Report on data quality problems in the prior year RBC filings at the summer and fall national meetings.

3. The **Variable Annuities Capital and Reserve (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group

© 2024 National Association of Insurance Commissioners

and the Life Actuarial (A) Task Force will:

A. Monitor the impact of the changes to the variable annuities (VA) reserve framework and RBC calculation and determine if additional revisions need to be made.
B. Develop and recommend appropriate changes, including those to improve the accuracy and clarity of VA capital and reserve requirements.

4. The **Longevity Risk (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
   A. Provide recommendations for the appropriate treatment of longevity risk transfers by the new longevity factors.

5. The **Catastrophe Risk (E) Subgroup** of the Property and Casualty Risk-Based Capital (E) Working Group will:
   A. Recalculate the premium risk factors on an ex-catastrophe basis, if needed.
   B. Continue to update the U.S. and non-U.S. catastrophe event list.
   C. Continue to evaluate the need for exemption criteria for insurers with minimal risk.
   D. Evaluate the RBC results inclusive of a catastrophe risk charge.
   E. Refine instructions for the catastrophe risk charge.
   F. Continue to evaluate any necessary refinements to the catastrophe risk formula.
   G. Evaluate other catastrophe risks for possible inclusion in the charge.

6. The **RBC Investment Risk and Evaluation (E) Working Group** will:
   A. Perform a comprehensive review of the RBC investment framework for all business types, which could include:
      i. Identifying and acknowledging uses that extend beyond the purpose of the *Risk-Based Capital (RBC) for Insurers Model Act* (#312).
      ii. Assessing the impact and effectiveness of potential changes in contributing to the identification of weakly capitalized companies; i.e., those companies at action levels.
      iii. Documenting the modifications made over time to the formulas, including, but not limited to, an analysis of the costs in study and development, implementation (internal and external), assimilation, verification, analysis, and review of the desired change to the RBC formulas and facilitating the appropriate allocation of resources.

7. The **Generator of Economic Scenarios (GOES) (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
   A. Monitor that the economic scenario governance framework is being appropriately followed by all relevant stakeholders involved in scenario delivery.
   B. Review material economic scenario generator updates, either driven by periodic model maintenance or changes to the economic environment and provide recommendations.
   C. Regularly review key economic conditions and metrics to evaluate the need for off-cycle or significant economic scenario generator updates and maintain a public timeline for economic scenario generator updates.
   D. Support the implementation of an economic scenario generator for use in statutory reserve and capital calculations.
   E. Develop and maintain acceptance criteria that reflect history as well as plausibly more extreme scenarios.

NAIC Support Staff: Eva Yeung

© 2024 National Association of Insurance Commissioners

NATIONAL MEETING
SUMMER / CHICAGO
2024 NAIC

TO: Nathan Houdek (WI), Chair of the Financial Condition (E) Committee
Michael Wise (SC), Co-Vice Chair of the Financial Condition (E) Committee
Cassie Brown (TX), Co-Vice Chair of the Financial Condition (E) Committee

FROM: Tom Botsko (OH), Chair of the Capital Adequacy (E) Task Force

DATE: July 31, 2024

RE: Request for a New Working Group

The Capital Adequacy (E) Task Force, along with the RBC working groups, are requesting a new working group be appointed to review non-investment related factors that affect the RBC formula. When necessary, other groups will be contacted for their expertise. This new working group, the Risk-Basedd Capital Risk Research (E) Working Group, would be charged with performing a comprehensive review of the RBC framework for all business types, which could include: 1) identifying and acknowledging uses that extend beyond the purpose of the *Risk-Based Capital (RBC) Model Act* (#312); 2) assessing the impact and effectiveness of potential changes that would contribute to the identification of weakly capitalized companies (i.e., those companies at action level); and 3) documenting the modifications made over time to the formulas, including, but not limited to an analysis of the costs in:

- Study and development.
- Implementation (internal and external).
- Assimilation.
- Verification.

Since the inception of the RBC formulas in the early 1990s, many of the risk factors have not been evaluated/updated for the appropriateness of the initial risk charge.

We believe that a regularly scheduled analysis of these risk charges is necessary to maintain the accuracy of the formula and to stay current with economic conditions. We also understand that the Insurance Core Principles (ICPs) speak to the periodic review of the solvency framework. This proposed working group would work in parallel with these principles to review and maintain appropriate RBC charges.

Another important aspect of this working group would be to maintain documentation of the analysis and the background of the charge. At various times, the RBC working groups have reached out to the original members of the group that created the RBC formulas to better understand the thought process/reasons for some of the original charges.

As the proposals are discussed and adopted by this new group, they will move up to the Task Force for further discussion. The Task Force will then decide if this should be discussed and adopted at the Task Force level or be sent down to the individual RBC working groups. Each proposal will have different circumstances and will be handled accordingly.

As the insurance environment evolves both domestically and internationally, it is imperative that our organization stays current. The development of group capital within the NAIC is an indicator that our organization needs to maintain appropriate and current methodology.

Thank you for taking the time to review this request. We are available to discuss this with you at your convenience.

Please contact Eva Yeung, NAIC staff support for the Capital Adequacy (E) Task Force, at with any questions.

Cc: Dan Daveline; Eva Yeung; Maggie Chang; Kazeem Okosun Derek Noe; Dave Fleming; Julie Gann

© 2024 National Association of Insurance Commissioners

© 2024 National Association of Insurance Commissioners

EXAMINATION OVERSIGHT (E) TASK FORCE

Examination Oversight (E) Task Force July 25, 2024, Minutes 9-933
Financial Analysis Solvency Tools (E) Working Group July 16, 2024, Minutes (Attachment One) 9-935
Revisions and Referral from the Risk-Focused Surveillance (E) Working Group (Attachment One-A) 9-938
Referral from the Group Solvency Issues (E) Working Group (Attachment One-B) 9-951
Referral from the Risk-Focused Surveillance (E) Working Group (Attachment One-C) 9-952
Referral from the Financial Analysis (E) Working Group (Attachment One-D) 9-953
Information Technology (IT) Examination (E) Working Group May 9, 2024, Minutes (Attachment Two) 9-954

© 2024 National Association of Insurance Commissioners

Draft: 8/6/24

Examination Oversight (E) Task Force
Virtual Meeting (*in lieu of meeting at the Summer National meeting*)
July 25, 2024

The Examination Oversight (E) Task Force met July 25, 2024. 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-Heir represented by David Phifer (AK); Mark Fowler, represented by Blase Abreo (AL); Barbara D. Richardson represented by David Lee (AZ); Ricardo Lara represented by Laura Clements (CA); Michael Conway represented by Rolf Kaumann and Carol Matthews (CO); Andrew N. Mais represented by Michael Shanahan (CT); Trinidad Navarro represented by Rylynn Brown (DE); Michael Yaworsky represented by Chad Mason (FL); Doug Ommen represented by Daniel Mathis (IA); Dean L. Cameron represented by Eric Fletcher (ID); Amy L. Beard represented by Jerry Ehlers and Roy Eft (IN); Vicki Schmidt represented by Levi Nwasoria (KS); Sharon P. Clark represented by Vicki Lloyd (KY); Timothy J. Temple represented by Melissa Gibson (LA); Kevin P. Beagan 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 Doug Bartlett (NH); Justin Zimmerman represented by David Wolf (NJ); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); Carter Lawrence represented by Daniel Clements (TN); Cassie Brown represented by Shawn Frederick (TX); Scott A. White represented by Jennifer Blizzard (VA); Mike Kreidler represented by Tarik Subbagh (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its 2023 Fall National Meeting Minutes

Kaumann made a motion, seconded by Orth, to adopt the Task Force's Nov. 15, 2023, minutes (*see NAIC Proceedings – Fall 2023, Examination Oversight (E) Task Force*). The motion passed unanimously.

2. Adopted the Reports of its Working Groups

A. Electronic Workpaper (E) Working Group

Laura Clements provided the report of the Electronic Workpaper (E) Working Group. She said that the Working Group has not met in open session yet this year. However, it held a series of monthly virtual sessions through April to provide ongoing updates on the TeamMate+ Transition and cover emerging questions as states worked through implementation. She provided updated statistics related to the TeamMate+ transition and noted that the Working Group will begin developing best practices going forward as departments gain experience working in the application.

B. Financial Analysis Solvency Tools (E) Working Group

Chew provided the report of the Financial Analysis Solvency Tools (E) Working Group. He stated that the Working Group met July 16 and adopted guidance in the *Financial Analysis Handbook* related to affiliated investment management services and agreements.

The Working Group exposed the following draft revisions for a 30-day public comment period ending Aug. 15:

- Guidance regarding Form A and disclaimer of affiliation applications.
- Guidance regarding the property/casualty (P/C) insurers catastrophe reinsurance program.

© 2024 National Association of Insurance Commissioners

- Guidance regarding the Own Risk and Solvency Assessment (ORSA) guidance related to Form F.
- Guidance regarding pricing and underwriting risks of health insurers.

The Working group also exposed revisions to the credit risk repository within the *Financial Analysis Handbook* for a 45-day public comment period ending Aug. 30.

C. Financial Examiners Coordination (E) Working Group

Radel provided the report of the Financial Examiners Coordination (E) Working Group. He stated that the group met on March 13 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss reports on group coordination.

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

Vang provided the report of the Information Technology (IT) Examination (E) Working Group. He said the Working Group met May 9 to discuss a referral from the Cybersecurity (H) Working Group that requested consideration of adding or revising the IT review guidance within the *Financial Condition Examiners Handbook* to better prioritize cybersecurity risks. The Working Group formed a Cybersecurity Drafting Group, which met June 17 and decided to use the new National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF) 2.0 to update handbook guidance. He said Exhibit C will be reviewed for areas that may be reduced or removed as a part of this project as well. NAIC staff have completed the initial gap analysis, and a Drafting Group meeting is scheduled for Aug. 5 to review and determine the next steps for drafting updated guidance.

Eft made a motion, seconded by Malm, to adopt the reports of the Electronic Workpaper (E) Working Group, the Financial Analysis Solvency Tools (E) Working Group, including its July 16 minutes (Attachment One), the Financial Examiners Coordination (E) Working Group, and the Information Technology (IT) Examination (E) Working Group, including its May 9 minutes (Attachment Two).

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2024_2Summer/EOTF/EOTF Minutes 7.25.24 - Final.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/24/24

Financial Analysis Solvency Tools (E) Working Group
Virtual Meeting
July 16, 2024

The Financial Analysis Solvency Tools (E) Working Group of the Examination Oversight (E) Task Force met July 16, 2024. The following Working Group members participated: Greg Chew, Chair (VA); Amy Garcia, Vice Chair (TX); Richard Russell (AL); Dave Lathrop and Kurt Regner (AZ); Michelle Lo (CA); N. Kevin Brown (DC); Carolyn Morgan (FL); Amanda Denton (IN); Lynn Beckner (MD); Judy Weaver and Kristin Hynes (MI); Pat Gosselin (NH); Olga Dixon (NJ); Victor Agbu (NY); Dwight Radel and Tim Biler (OH); Liz Ammerman (RI); and Kristin Forsberg (WI). Also participating was Kenneth Cotrone (CT).

1. Adopted Revisions to the Handbook

Chew stated the first item of business is to consider adoption of revisions to the *Financial Analysis Handbook* (Handbook) regarding affiliated investment management services and agreements as referred by the Risk-Focused Surveillance (E) Working Group. Chew said a dedicated drafting group within the Risk-Focused Surveillance (E) Working Group drafted the guidance, and it underwent a thorough review process, including a public comment period. Chew recommended that the Working Group adopt the proposed revisions as referred by the Risk-Focused Surveillance (E) Working Group, given the prior opportunity for public input and the need to maintain consistency with proposed revisions for the *Financial Condition Examiners Handbook*.

Gosselin made a motion, seconded by Lo, to adopt the revisions to the Handbook (Attachment One-A). The motion passed unanimously.

2. Exposed Revisions to the Handbook

Chew said the next item of business is to consider exposing revisions to three specific areas of the Handbook: 1) complex ownership structures; 2) the property/casualty (P/C) catastrophe reinsurance program; and 3) the Own Risk and Solvency Assessment (ORSA) guidance related to the Form F-Enterprise Risk Report.

A. Complex Ownership Structures

Chew said the first set of proposed revisions addresses regulatory considerations and guidance on complex ownership structures. These revisions were initiated and referred by the Group Solvency Issues (E) Working Group (Attachment One-B). The Group Solvency Issues (E) Working Group formed a drafting group to examine two key areas related to ownership structures. The first area focuses on whether regulators are obtaining a clear understanding of risk associated with holding company structures. Specifically, the concern is that contractual agreements may be structured to avoid regulatory disclosures and requirements. The second area examines the concept of control. Chew said while ownership exceeding 10% is generally presumed to indicate control, the drafting group recognized that control and conflict of interest considerations may arise even with ownership below 10%. The drafting group proposed revisions within the Handbook where additional guidance or clarity might be beneficial. This includes the review of Form A and the holding company analysis analyst reference guide. Jane Koenigsman (NAIC) stated the revisions also include best practices and guidance on the review of disclaimers of affiliation, which is a topic that is currently not addressed in the Handbook.

B. P/C Catastrophe Reinsurance Program

© 2024 National Association of Insurance Commissioners

Chew said the next set of proposed revisions pertain to a new interrogatory within the Property/Casualty Risk-Based Capital (RBC) filing for insurers facing natural catastrophe risks.

Rodney Good (NAIC) said the Property and Casualty Risk-Based Capital (E) Working Group and the Catastrophe Risk (E) Subgroup recently adopted this new interrogatory. This requires insurers exposed to natural catastrophe risks to provide a detailed written explanation of their reinsurance strategy. Good explained that the proposed guidance within the Handbook is designed to assist regulators in reviewing the information gathered through this interrogatory and assist them in evaluating the effectiveness of an insurer's strategy for mitigating natural catastrophe risk.

C. ORSA Guidance

Chew said the next set of proposed revisions concerns ORSA guidance and Form F exemptions. Ralph Villegas (NAIC) said the proposed revisions are to update outdated guidance in the Handbook to align with the current ORSA Guidance Manual.

The Working Group agreed to expose the proposed revisions for a 30-day public comment period ending Aug. 15.

3. Exposed Draft Revisions to the Handbook's Credit Risk Repository and Reference Guide

Chew said NAIC staff have proposed potential revisions to the Handbook's branded risk repositories. The NAIC's *State Ahead 2.0* strategic plan aims to enhance the tools provided to regulators for financial analysis. The recent release of the enhanced Financial Profile Report at the end of last year was a significant step. This report consolidates information from statutory financial statements, previously found in separate reports, creating a single resource for analysts conducting risk assessments. As part of the *State Ahead 2.0* strategic plan, the automated risk repositories will be eliminated since the data now exists elsewhere. However, the goal is to retain the qualitative resources for regulators to analyze and interpret financial statement data. Given the availability of the enhanced Financial Profile Report for life and P/C businesses, Chew said the focus today is on how best to incorporate the repositories into the analyst reference guide to create a single comprehensive guide for each branded risk category.

Koenigsman presented an overview of proposed changes to the Credit Risk Assessment chapter in the Handbook. These changes aim to combine the repositories with the analyst reference guide, while still providing analysts with the necessary guidance to assess various risks. The majority of the revisions involve moving text from the repository into the reference guide. Redundancies were eliminated where procedures and guidance were essentially the same. The proposal also includes renaming risks for better specificity and reorganizing the guidance for different risks. Koenigsman noted that the Health Enhanced Profile Report and the quarterly profile for all business types are still under development. Therefore, existing automated results will remain in place until these reports are available.

Given the extensive nature of this work, Chew asked regulators if they agreed with the general outline and structure of the revised chapter provided by NAIC staff. Several members indicated their support for merging the guidance. Hearing no objection, NAIC staff were directed to begin the process of combining the remaining eight branded risk chapters more effectively. Chew further proposed exposing the draft guidance for credit risk assessment first, followed by the remaining eight chapters after NAIC staff completed merging the text.

The Working Group agreed to expose the proposed revisions for a 45-day public comment period ending Aug. 30.

4. Received a Referral from the Risk-Focused Surveillance (E) Working Group

© 2024 National Association of Insurance Commissioners

Chew said a referral was received from the Risk-Focused Surveillance (E) Working Group regarding revisions to the Handbook's guidance on surplus notes and capital maintenance agreements (Attachment One-C). To address this, Chew requested volunteers from the states to draft updated guidance for the Handbook. Garcia, Weaver, and Cotrone all volunteered. Chew directed NAIC staff to contact the volunteers directly to coordinate efforts on this project. Chew said the aim is to have the proposed guidance ready for review at the Working Group's next meeting.

5. Received a Referral from the Financial Analysis (E) Working Group and Exposed Revisions to the Handbook

Chew said a referral was received from the Financial Analysis (E) Working Group to add new guidance to the Handbook regarding the potential impact of pricing and underwriting risks on health insurers, particularly those participating in Affordable Care Act (ACA) Health Insurance Exchanges (Attachment One-D).

Bill Rivers (NAIC) then presented a summary of the proposed new procedures and guidance drafted by NAIC staff to address the referral. This includes additions to the pricing and underwriting section of the Handbook. The proposed guidance focuses on two areas: product pricing and the need for insurers to develop a prospective strategic plan to manage operational and capital needs in case of significant enrollment fluctuations.

The Working Group agreed to expose the proposed additions to the Handbook for a 30-day public comment period ending Aug. 15.

Having no further business, the Financial Analysis Solvency Tools (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2024_Summer/EOTF

© 2024 National Association of Insurance Commissioners

Attachment One-A
Examination Oversight (E) Task Force
7/25/24

MEMORANDUM

TO: Greg Chew (VA), Chair, Financial Analysis Solvency Tools (E) Working Group

FROM: Amy Malm, Chair, Risk-Focused Surveillance (E) Working Group

DATE: May 30, 2024

RE: Affiliated Services Guidance

In late 2022, the Risk-Focused Surveillance (E) Working Group received a referral from the Macroprudential (E) Working Group recommending updates to NAIC handbooks (Examiners and Financial Analysis) to provide more guidance to regulators on reviewing affiliated investment management services and agreements. The referral was part of a broader initiative to address a list of "Regulatory Considerations Applicable (But Not Exclusive) to Private Equity (PE) Owned Insurers." Because the issue was important for both financial analyst reviews of Form D filings and the subsequent review of affiliated investment services during financial exams, the topic was referred to the Risk-Focused Surveillance (E) Working Group so that guidance could be developed together for both functions.

After a development period that included drafting group work, presentation of the proposed guidance at an in-person meeting, public exposure, and a call to review and finalize an updated draft, the Risk-Focused Surveillance (E) Working Group finalized updated drafts of proposed revisions to the NAIC's *Financial Analysis Handbook* (FAH) and *Financial Condition Examiners Handbook* (FCEH). The proposed edits to the FAH are provided in **Attachment One** of this memorandum.

The proposed revisions have been thoroughly reviewed and subjected to a public comment period and staff recommends they be considered for adoption by the Financial Analysis Solvency Tools (E) Working Group without additional public exposure or significant modifications. This will ensure the guidance remains consistent with the revisions proposed for the FCEH.

If there are any questions regarding the proposed recommendations, please contact us or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification. Thank you for your consideration.

© 2024 National Association of Insurance Commissioners

Attachment One

Note: This document includes excerpts from the NAIC's *Financial Analysis Handbook* to which revisions are being proposed to update guidance around the review of affiliated investment management services and agreements. The proposed revisions are shown as tracked changes throughout.

Analysis 1 – III.B.1.b Credit Risk Repository – Life/A&H/Fraternal Annual

Note: To conserve space, similar guidance currently included in the Credit, Liquidity, Market and Operational Risk Repositories for all statement types has not been included in this file.

Credit Risk: Amounts actually collected or collectible are less than those contractually due or payments are not remitted on a timely basis.

Note: The repository is not an all-inclusive list of possible procedures. Therefore, risks identified for which no procedure is available should be analyzed by the state insurance department based on the nature and scope of the risk. Also, note that key insurance operations or lines of business, for example, may have related risks addressed in different repositories. Therefore, the analyst may need to review other repositories in conjunction with credit risk. For example:

- Investment strategy is also discussed in the Liquidity, Market, and Strategic Risk Repository.
- Investment asset classes (Bonds, Mortgages, etc.) also are discussed in Market and/or Liquidity Risk Repositories.
- Reinsurance also is discussed in the Operations and Strategic Risk Repositories.

Analysis Documentation: Results of credit risk analysis should be documented in Section III: Risk Assessment of the insurer.

----------Text deleted to conserve space----------

Additional Analysis and Follow-up Procedures
----------Text deleted to conserve space----------
NAIC Capital Market's Bureau Analytical Assistance: Consider requesting the following analytical reviews: • Review of the insurer's investment portfolio. • Review of Investment Management Agreements.
Third-Party Investment Advisers: Assess and determine if any concerns exist regarding third party investment advisers and associated contractual arrangements.

© 2024 National Association of Insurance Commissioners

- Review Annual Financial Statement, General Interrogatories, Part 1, #29.05. Does the insurer utilize third party investment advisors, broker/dealer or individuals acting on behalf of the insurer with access to their investment accounts?

If "yes", consider the following procedures:

- Verify that all affiliated and unaffiliated investment advisors the analyst is aware of are disclosed in the interrogatory, whether primary or sub-advisors.
    - Verify that Investment Management Agreements required to be filed with the department have been filed and consider requesting copies of agreements that have not been filed with the department for review.
    - Gain an understanding of the types of investments that are being managed by each of the advisors/sub-advisors disclosed in the interrogatory.

- Review the results of the most recent financial examination work papers, follow-up and prospective risk information and the summary review memorandum provided by the examiners. Did the examination identify any issues with regard to investment advisers and associated contractual arrangements that require follow-up analysis or communication with the insurer? If "yes", document the follow-up work performed.
- Compare Annual Financial Statement, General Interrogatories, Part 1, #29.05 for the current year to the prior year to determine if there have been any changes in advisors. If yes,
    - Consider obtaining an explanation for the change from the insurer.
    - Consider obtaining a copy of the new investment advisor agreement and review it for appropriate provisions.
- Using the information reported in Annual Financial Statement, General Interrogatories, Part 1, #29.05, obtain and review SEC Form ADV (if available), to determine if the investment advisor is in good standing with the SEC. If not in good standing, contact the insurer to request an explanation.
- If agreements with third party investment advisers are affiliated, have the appropriate Form D – Prior Notice of Transactions been filed and approved by the department? Were any concerns noted or follow-up monitoring recommended?
    - See additional guidance in V. C. Domestic and/or Non-Lead State Analysis – Form D Procedures for reviewing affiliated investment manager agreements.
- Request information from the insurer regarding the background and expertise in any complex or non-traditional assets (such as structured securities, mortgage loans, investment funds) of its investment advisors (in-house and/or contractual) and its analytical system capabilities. Determine whether the advisors and systems are adequate to allow the insurer to continuously monitor its ~~structured securities~~ investments.
- If the insurer uses an external asset manager, consider if there are any investments that may represent a potential for conflict. Examples of this are (1) if there are Investments Report on Schedule BA that are ~~invested in~~ funds that are affiliated/related with the asset manager or are managed by that asset manager, (2) Structured Securities in which the asset manager or an affiliate/related party had a role in originating, or (3) direct investments in the asset manager or any of its affiliates/related parties. If the external asset manager qualifies as a related party, utilize guidance provided in the "Related Party

Exposure in the Investment Portfolio" section above to assist in this review. Consider the following issues:

- ~~If any conflicts of interest exist~~Have any potential conflicts of interest been reviewed and formally approved by the Board or Investment Committee.
- If the investment is appropriate for the insurer's portfolio and is arm's-length.
- If the insurer is paying ~~double~~ overlapping fees.

© 2024 National Association of Insurance Commissioners

Analysis 2 – III.B.1.d Credit Risk Repository – Analyst Reference Guide

Note: To conserve space, similar guidance currently included in the Credit, Liquidity, Market and Operational Analyst Reference Guides has not been included in this file.

Credit Risk Assessment

Credit Risk: Amounts actually collected or collectible are less than those contractually due or payments are not remitted on a timely basis.

The objective of Credit Risk Assessment analysis is focused primarily on exposure to credit risk of investments and reinsurance receivables. The following discussion of procedures provides suggested data, benchmarks and procedures analysts can consider in their review. In analyzing credit risk, analysts may analyze specific types of investments and receivables held by insurers. Analysts' risk-focused assessment of credit risk should take into consideration the following areas (but not be limited to):

- Concentrations of investments (i.e., diversification)
- Materiality of high-risk or low-quality investments
- Extensive use of reinsurance
- Credit quality of reinsurers
- Collectability of reinsurance receivables
- Collectability of other receivables
- Credit quality of affiliates
- Quality of collateral
- Strategies for mitigating credit risk (i.e., counterparty risk with derivatives and off-balance sheet transactions)
- Uncollected premium and agents' balances

----------Text deleted to conserve space----------

Additional Analysis and Follow-Up Procedures

INVESTMENT STRATEGY directs analysts to consider requesting and reviewing a copy of the insurer's formal adopted investment plan. This should be evaluated to determine if the plan appears to result in investments that are appropriate for the insurer, based on the types of business written and its liquidity and cash flow needs and to determine whether the insurer appears to be adhering to its plan. For example, the insurer's plan for investing in non-investment grade bonds should be reviewed for guidelines for the quality of issues invested in and diversification standards pertaining to issuer, industry, duration, liquidity, and geographic location.

© 2024 National Association of Insurance Commissioners

EXAMINATION FINDINGS direct analsyts to consider a review of the recent examination report, summary review memorandum and communication with the examination staff to identify if any credit risk issues were discovered during the examination.

NAIC CAPITAL MARKETS BUREAU ANALYTICAL ASSISTANCE directs analysts to consider requesting the NAIC's Capital Markets Bureau (CMB) to assist with investment portfolio or investment management agreement analysis. The CMB has different levels of analysis that can be arranged to assist the state.

THIRD-PARTY INVESTMENT ADVISORS assist analysts in determining whether concerns exist regarding the use of third-party investment advisers. As investments and investment strategies grow in complexity, insurers may consider the use of unaffiliated third-party investment advisers to manage their investment strategy. Investment advisers may operate independently or as part of an investment company. Investment advisers and companies are subject to regulation by the U.S. Securities and Exchange Commission (SEC) and/or by the states in which they operate, generally based on the size of their business. In certain situations, insurers may use a broker-dealer for investment advice. Broker-dealers are subject to regulation by the Financial Industry Regulatory Authority (FINRA). Regardless, most broker dealers and investment advisers will register with the SEC and annually update a Form ADV–Uniform Application for Investment Adviser Registration and Report Form by Exempt Reporting Advisers, which provides extensive information about the nature of the organization's operations. To locate these forms, analysts can go to *https://adviserinfo.sec.gov* and perform a search based on the company name.

Key information provided on a Form ADV includes:

a. Regulatory agencies and states in which the adviser/broker is registered

b. Information about the advisory business including size of operations and types of customers (Item 5)

c. Information about whether the company provides custodial services (Item 9)

d. Information about disciplinary action and/or criminal records (Item 11)

e. A report of the independent public accountant verifying compliance if the investment advisor also acts as a custodian

It is important to note that the information provided on Form ADV is self-reported and is subject to limited regulatory oversight. However, the information may be valuable to analysts in assessing the suitability and capability of investment advisers providing advisory services to insurers. In addition, although not expressly prohibited (as discussed at e. above), it is a best practice for the insurer to choose a national bank, state bank, trust company or broker/dealer which participates in a clearing corporation, other than its investment manager/advisor, to hold its assets in custody to promote segregation of duties. See additional guidance on custodial expectations in Section 1.F – Outsourcing of Critical Functions of the NAIC's Financial Condition Examiners Handbook.

Analysts should consider any significant risks identified in the most recent risk-focused examination and whether any follow-up procedures were recommended by the examiner. The examiner may have performed steps to determine the following: whether the investment adviser is suitable for the role (including whether he/she is registered and in good standing with the SEC and/or state securities regulators); whether the investment advisory agreements contain appropriate provisions; whether the adviser is acting in accordance with the agreement; and whether management/board oversight of the investment adviser is sufficient for the relationships in place.

Analysts should determine if changes have occurred in the insurer's use of investment advisers that may prospectively impact the insurer's investment strategy and overall management of the investment portfolio. If changes have occurred analysts may consider asking the insurer for an explanation for the

© 2024 National Association of Insurance Commissioners

change in investment advisers and obtain a copy of the new adviser agreement to gain an understanding of the provisions including the advisor's authority, specific reference to compliance with the insurer's investment strategy and/or policy statements, as well as state investment laws; conflicts of interest; fiduciary responsibilities; fees; and the insurer's review of the adviser's performance. ~~(~~Refer to the *Financial Condition Examiners Handbook* for further guidance and see V. C. Domestic and/or Non-Lead State Analysis – Form D Procedures for additional guidance on reviewing affiliated investment management agreements.~~)~~

Analysts can determine if the investment advisor is in good standing with the SEC. The SEC does not officially use the term "good standing"; however, for this analysis, the term is used to mean a firm that is registered as an investment adviser with the SEC and does not report disciplinary actions or criminal records in Item 11 of the Form ADV.

If the insurer uses an external asset manager and if investments on Schedule BA assets are invested in funds that are affiliated with the asset manager or are managed by that asset manager, analysts should consider several possible issues that may result from this scenario. A possible concern may exist when the asset manager is also managing other funds in addition to managing assets for the insurer and then invests the insurer's assets in those other funds that the asset manager manages. While those funds may be good investments, both in general and for the insurer, there are a few issues that may need to be considered. First is the potential for a conflict of interest if the asset manager is using the insurer's available funds to provide seed money or fund the manager's other funds. Second is if any concerns exist regarding the appropriateness of the fund for the insurer's investment portfolio and if the transactions would be considered on an arm's-length basis. Third is the understanding that the insurer may be paying ~~double~~ overlapping fees as the insurer would pay the asset manager a fee for the investment and then also pay a fee within the fund investment. There may be similar concerns with other complex investments such as structured securities that are originated by the asset manager or one of its affiliates/related parties. The fees associated with these investments could be considered arms-length and appropriate but would require further review and potentially additional support or documentation to make that determination.

© 2024 National Association of Insurance Commissioners

Analysis 3 – V. C. Domestic and/or Non-Lead State Analysis – Form D Procedures

Special Notes:

The following procedures do not supersede state regulation but are merely additional guidance analysts may consider useful only if the state has adopted the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions*, (#450).

Form D – Prior Notice of a Transaction

Form D is transaction specific and is not part of the regular annual/quarterly analysis process. The review of these transactions may vary as some states may have regulations that differ for Form D.

----------*Detail Eliminated to Conserve Space*----------

Assessment of Form D – Prior Notice of a Transaction

14. Review Form D for any significant and/or unusual items or inconsistencies. Determine if the transaction is fair and reasonable as required under Section 5A(1)(a) of Model #440 by considering the following:
    a. For reinsurance agreements, are the general terms, settlement provision, and pricing consistent with those of agreements with non-affiliates?
    b. For management, service or cost-sharing agreement, are the charges or fees to be paid by/to the insurer reasonable in relation to the cost of such services?
    c. Are fees paid for related party transactions consistent with the applicable section of the state's Insurance Holding Company Act? (Note: Insurers should not use related-party transactions as a method for transferring profits of the insurance company to an affiliate or related party.)
    d. Will the insurer have adequate surplus upon completion of the transaction?
    e. Does the transaction comply with the NAIC AP&P Manual? Are expenses incurred and payment received allocated to the insurer in conformity with prescribed insurance accounting practices consistently applied?
    f. Are books, accounts and records of each party maintained clearly and accurately to disclose the nature and details of the transactions including such information as is necessary to support the reasonableness of charges or fees to the respective parties?
    g. Does the transaction comply with the state's requirements regarding the insurer's ownership of data and records that are held by an affiliate, and control of premium or other funds belonging to the insurer that are collected or held by an affiliate?[1]

[1] Procedure 16.g represents amendments to Insurance Holding Company System Model Act (Model #440) Section 5A(1)(h) and 5A(1)(i) as adopted by the NAIC on Aug. 17, 2021. As state insurance departments are still in the process of adopting these amendments into state law, analysts should refer to their own state's holding company law or regulation regarding compliance with Form D filings of management, service and cost-sharing agreements

© 2024 National Association of Insurance Commissioners

h. Do unusual circumstances, risks or concerns exist?

i. Any other state-specific requirements for determining and reviewing fair and reasonableness.

15. Determine whether the transaction was accounted for properly, based on statutory accounting principles, with the NAIC AP&P Manual.

16. In evaluating fairness and reasonableness of affiliated investment management agreements, consider whether the following elements are appropriately included in the agreement:
    a. **Selection of Investments** – It should be clear from the advisory agreement how the investment adviser will select investments. This should be detailed through clear investment guidelines documented in the investment management agreement, which are also in compliance with the insurer's investment strategy and applicable laws and regulations.
    b. **Authority for Transactions** – Advisory agreements should address the level of authority that will be given to the investment adviser in executing transactions.
    c. **Conflicts of Interest** – To the extent that any conflicts of interest may be known to the insurer, the advisory agreement should specifically indicate the manner in which such conflicts will be considered.
    d. **Fiduciary Responsibility** – Language provided in the investment management agreement should acknowledge the investment adviser's role as a fiduciary in advising the insurer and, if applicable, confirm the entity's registration as an investment advisor/manager with the SEC and/or State securities regulators.
    e. **Calculation of Fees** – It is important that the manner in which fees are calculated is well defined in the management agreement and that the structure of the fee is considered as management assesses the adviser's performance. Special attention should be paid to whether there are any performance or incentive fees over and above a base management fee.
    f. **Sub-Advisors** – Does the investment manager have the authority to engage sub-advisors and is consent by the insurer required? Who is responsible for the fees of the sub-advisor?
    g. **Reporting** – Are expectations for the reporting of portfolio performance included in the agreement?
    h. **Termination** – Are there appropriate termination provisions, both with and without cause?
    i. **Review of Performance and Compliance** – Agreements should include consideration of information that will be provided to the company to permit the company to perform adequate review of the adviser's performance and execution of the investment strategy, including compliance with adopted investment guidelines.

© 2024 National Association of Insurance Commissioners

Analysis 4 – V.F. Domestic and/or Non-Lead State Analysis – Analyst Reference Guide

Non-Lead State Holding Company System Analysis Procedures

Refer to section VI.C. Group-wide Supervision - Insurance Holding Company System Analysis Guidance (Lead State) for additional guidance on holding company analysis procedures.

Forms A, B, D, E (or Other Required Information), and Extraordinary Dividend/ Distribution

----------*Detail Eliminated to Conserve Space*----------

Form D – Prior Notice of a Transaction

PROCEDURES #1-186 assist analysts in reviewing the Form D filing for completeness and help guide analysts through major items of information required by Form D.

Best Practices for Agreements with Affiliates for Management and Services

Charges for Fees for Services

SSAPs 25 and 70 and Appendix A-440 discuss the Transactions Involving Services, Allocation of Costs, and Other Management Requirements.

Pricing for agreements with affiliates may be negotiated between related parties on a variety of basis including cost and other than cost-based pricing. Regardless of the method utilized, it is the responsibility of management to appropriately evidence that the terms of the agreement satisfy the "fair and reasonable" standard. It is management's responsibility to provide documentation demonstrating that this standard has been met using any of a number of methods including but not limited to those described below. The Form D filing should thus include management's documented support for its assertion that the transaction meets the "fair and reasonable" standard.

----------*Detail Eliminated to Conserve Space*----------

Regulator Considerations

Items for initial filing review—the actual document(s) should be filed, not merely a summary (these apply regardless of the method – cost or other than cost – unless otherwise noted):

- Identify and document:
  - The specific services that will be provided
    - The specific expenses and/or costs that are to be covered by each party (cost)
  - The entity(ies) providing and receiving each of those services

© 2024 National Association of Insurance Commissioners

        - Separate affiliate entities from non-affiliates
    - Allocation method (cost or other than cost) of the agreement
        - The charges or fees for the services indicated
    - The accounting basis used to apportion expenses (cost)
    - Confirm that contract provisions will be accounted for in accordance with SSAPs
    - Invoicing and settlement terms (should allow for admittance under SSAP 96)
    - The effective date and termination date
    - The records rights and policies of each entity that is a party in the contract
    - The governing law
    - Any unique and relevant clauses not covered above
    - Financial statements of the entity providing the services
- Other Considerations for Review of the Agreement:
    - Determine the reasonableness of the allocation method and the charges or fees, considering such items highlighted in the "Transactions at Cost" and "Transactions at Other than Cost" sections above
    - Assess if cash flows/activities relating to the agreement are in line with forecasted amounts provided in the initial Form D review and, if not, inquire about material or unexpected variations, their cause, and implications
    - Consider if there have been significant changes in the market for the services subject to the agreement, whether management has considered them and, if so, whether changes to the agreement have been made or are anticipated (for other than cost-based agreements)
    - Inquire of management if the agreement continues to be fair and reasonable and their supporting rationale and whether it has changed since the initial filing
    - Consider the insurer's aggregate exposure to all agreements with affiliates, current and trending, both in terms of absolute dollars as well as relative to a base (e.g., capital and surplus; total expenses, etc.)
    - Does the agreement trigger or increase related party transaction or financial /solvency concerns
    - Determine the agreement does not divert funds that could be considered a dividend
    - Determine the agreement does not result in the insurer's fair share of expenses being retained by or allocated to a parent/affiliate, thereby masking the true performance of insurance operations
    - Summarize the business rationale for purpose and need of the agreement
    - Summarize the financial impact of the agreement on the company's surplus or financial condition
    - Summarize the impact the agreement would have on the priority status of the company
    - Summarize the reasons to approve/disapprove the agreement

Additional Considerations for Affiliated Investment Management Agreements:

In addition to regulator considerations for filing review listed above, the following considerations are included to provide additional guidance for a review of affiliated investment management agreements. A critical consideration in assessing whether the terms of an affiliated investment management agreement are fair and reasonable is to assess the level of oversight provided to the affiliated asset manager, as outlined through the following criteria:

- **Selection of Investments** – The insurer should provide guidance to its affiliated asset manager on investment selection by providing clear investment guidelines that are documented in the investment management agreement at a sufficient level of detail on (a) what are permitted investment types, (b) limitations and restrictions on exposures, (c) specific risk metrics (e.g., credit quality and duration). These guidelines should reflect the type of assets that the asset manager has experience in. The guidelines for unaffiliated asset managers are often more limiting than the insurer's investment guidelines but it is not uncommon that may be the same in the case of an affiliated asset manager given the nature of that relationship. Nonetheless this should be a separate and distinct document.
- **Authority for Transactions** – The investment management agreement should describe the level of discretion that the affiliated asset manager has, as opposed to transactions that require prior approval from the insurer. Total discretion for the affiliated asset manager may not be appropriate for investments that are very complex, illiquid or large exposures. It may be desirable in those situations for the insurer's investment committee to retain authority.
- **Conflicts of Interest** – This is an important protection against an investment adviser's biases due to business arrangements (e.g., referral relationships, affiliate product offerings, etc.) that may interfere with the proper execution of the investment strategy. For example, investment advisers often have affiliates that offer investment options that should be available to the insurer but should not be given preferential treatment if competitor products are determined to be a better fit for the selected investment strategy. This is somewhat less critical for affiliated asset managers, but it is still advisable to have appropriate recognition of the potential for concerns, especially when the affiliated asset manager may also have third party clients. The typical areas of focus are transactions such as cross trades (those not involving a broker) and investments that may be considered related party transactions. This goes in conjunction with the acknowledgement that the affiliated asset manager is acting in a fiduciary capacity.
- **Fiduciary Responsibility** – Asset managers, whether or not they are formally registered as such, are still subject to the Investment Advisers Act of 1940. As such it is critical that all asset managers, whether affiliated or unaffiliated, acknowledge that the standard of care is that of a fiduciary. The affiliated investment manager is a separate legal entity from the insurer and this recognition provides for a standard of care that is equivalent. This is an important legal distinction that may help protect the insurer's interests in the execution of the company's investment strategy. The fiduciary standard is generally implied when an asset manager is registered as an investment advisor, which may be required at the federal (SEC) or state level (state securities regulator) depending on the nature and extent of services provided. In reviewing an affiliated Investment Management Agreement, the department should consider confirming whether the advisor is formally registered in accordance with existing legal requirements and in good standing

© 2024 National Association of Insurance Commissioners

with its securities regulators. If the advisor asserts that it is exempt from registration requirements, the department should consider verifying that the advisor continues to meet the exemption criteria.

- **Calculation of Fees** – Management fees should reflect the current market conditions and should reflect the kind of assets and type of asset management. More complex investments and investment strategies do warrant higher management fees. Management fees for more plain vanilla assets have declined significantly over the last few years. While not common, different kinds of performance or incentive fees may be included. If so, it is important that the language be extremely clear when such payments are due so that the calculation can be verified. In the case of affiliated asset managers, special attention should be paid to the total amounts paid by the insurer to guard against such fees becoming a way around dividend restrictions. For example, if the advisory fee is computed based on volume of transactions, it would be important for management to closely review the frequency of trades to help avoid excessive charges.
- **Sub-Advisors** – The insurer should retain the right to consent to any sub-advisors as well as the ability to cancel such an arrangement. It should also be clear who is responsible for paying the management fees of the sub-advisor. Either the sub-advisor's fees should be paid by the primary asset manager, or if paid by the insurer, the assets managed by the sub-advisor should not be included in the calculation for the primary manager. The affiliated asset manager may make the argument that they are overseeing the activities of the sub-advisors. Oversight is much less resource intensive and does not warrant a significant fee, even if permitted.
- **Reporting** – When the asset manager is affiliated, this is also less of a concern. Nonetheless some clear language on responsibility is advisable. This should include at least quarterly, if not monthly, reporting of the portfolio including different risk metrics.
- **Termination** – The agreement should include clear termination provisions that allow for a timely transition of investment management services and protect the rights of the insurer upon termination of the agreement.
- **Review of Performance and Compliance** – Following on some of the points above, proper governance still requires regular performance review and tracking of compliance with investment guidelines.

The insurer should still maintain an adequate control framework over investments, including monitoring and managing transactions, and monitoring compliance by the affiliate. They should not rely solely on the affiliated investment manager for oversight in this area.

© 2024 National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To: Greg Chew, Chair of Financial Analysis Solvency Tools (E) Working Group

From: Jamie Walker, Chair of Group Solvency Issues (E) Working Group

Date: Nov. 20, 2023

Re: Referral on Guidance for Regulatory Review of Form A and Disclaimer of Affiliation Applications

In July 2022, the NAIC Macroprudential (E) Working Group (MWG) of the Financial Stability (E) Task Force (FSTF) sent a referral to the Group Solvency Issues (E) Working Group (GSIWG) concerning NAIC activities to develop regulatory considerations and guidance related to complex ownership structures.

The MWG's considerations that were referred to GSIWG are listed as follows. For reference, the 2022 referral to GSIWG including additional details is included as **Attachment A**.

MWG Consideration Items Referred to GSIWG:

1. *Regulators may not be obtaining clear pictures of risk due to holding companies structuring contractual agreements in a manner to avoid regulatory disclosures and requirements. Additionally, affiliated/related party agreements impacting the insurer's risks may be structured to avoid disclosure (for example, by not including the insurer as a party to the agreement).*
2. *Control is presumed to exist where ownership is >=10%, but control and conflict of interest considerations may exist with less than 10% ownership. For example, a party may exercise a controlling influence over an insurer through Board and management representation or contractual arrangements, including non-customary minority shareholder rights or covenants, investment management agreement (IMA) provisions such as onerous or costly IMA termination provisions, or excessive control or discretion given over the investment strategy and its implementation. Asset-management services may need to be distinguished from ownership when assessing and considering controls and conflicts.*

The GSIWG formed a drafting group to review these two MWG considerations against the existing regulatory guidance, and to develop proposals to address the MWG's considerations.

In its review of the *Financial Analysis Handbook* the drafting group concluded that the Handbook includes substantial guidance regarding the review of Form A and the review of business plans in annual risk-focused solvency surveillance. However, it identified some areas where additional guidance or clarity in the Handbook may be appropriate, specifically the review of disclaimers of affiliation.

The GSIWG recommends the FASTWG consider the draft guidance provided in **Attachment B** for public exposure and adoption into the Handbook.

If you have any questions, please contact NAIC Staff, Jane Koenigsman (jkoenigsman@naic.org).

Washington, DC 444 North Capitol Street NW, Suite 700, Washington, DC 20001-1509 p | 202 471 3990
Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600
New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000
www.naic.org

© 2024 National Association of Insurance Commissioners

Attachment One-C
Examination Oversight (E) Task Force
7/25/24

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Greg Chew (VA), Chair, Financial Analysis Solvency Tools (E) Working Group

FROM: Amy Malm, Chair, Risk-Focused Surveillance (E) Working Group

DATE: January 29, 2024

RE: Referral of Macroprudential (E) Working Group Considerations.

In 2022, the Risk-Focused Surveillance (E) Working Group received a referral from the Macroprudential (E) Working Group related to a list of 13 regulatory considerations that have emerged due to recent activities of insurance groups, including but not limited to those pursued by private equity owned insurers. These issues were referred to the Risk-Focused Surveillance (E) Working Group due to its ongoing work on affiliated service agreements, as well as its charge to develop consistency between analysis and examination guidance. While work is underway on several of the issues referred, the Risk-Focused Surveillance (E) Working Group feels that two of items referred are not directly related to affiliated services, nor do they necessitate consistency in analysis/exam guidance as they are primarily financial analyst considerations.

As such, the Risk-Focused Surveillance (E) Working Group is referring consideration of these issues and the development of guidance in these areas, if necessary, to the Financial Analysis Solvency Tools (E) Working Group for its consideration:

- Surplus Notes and appropriate interest rates given their special regulatory treatment, including whether floating rates are appropriate. If necessary, follow any Statutory Accounting Principles (E) Working Group projects related to this topic.
    - See the regulator discussion under Consideration 3 in the full text of the attached referral for additional information and context.

- Owners of insurers, regardless of type and structure, may be focused on short-term results which may not be in alignment with the long-term nature of liabilities in life products. Items discussed include capital maintenance agreements, including the development of regulatory guidance for when it might be appropriate to request an agreement and ways to make them stronger.
    - See the regulator discussion under Consideration 4 in the full text of the attached referral for additional information and context.

Attached is the full text of the referral provided to the Risk-Focused Surveillance (E) Working Group to assist in understanding and evaluating these issues. If there are any questions regarding the proposed recommendations, please contact us or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification. Thank you for your consideration.

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Greg Chew, Chair, Financial Analysis Solvency Tools (E) Working Group

FROM: Judy Weaver, Chair, Financial Analysis (E) Working Group

DATE: May 8, 2024

RE: Enhanced Guidance for Health Insurers

As you may be aware, the Financial Analysis (E) Working Group (FAWG) meets annually in Kansas City to discuss, among other things, potentially troubled insurers and insurance groups. During this meeting, FAWG also discusses issues and industry trends, including identifying any that are potentially adverse or might warrant communication and coordination with other NAIC groups. As a result of the issues and trends discussed, FAWG would like to refer the following item to the attention of your group.

1. **Pricing/Underwriting Risks of Health Insurers** – Health insurers are exposed to a wide range of pricing and underwriting risks that have the potential to rapidly impact their solvency position. This is particularly true for those insurers that participate in ACA Health Insurance Exchanges where guaranteed issuance is required, and pricing differences between participating insurers have the potential to result in significant variances in projected membership. As such, it is recommended that additional guidance on the pricing/underwriting risks faced by health insurers be considered for incorporation in the NAIC's *Financial Analysis Handbook*. In addition, a related issue is recommended for consideration as follows:

    a. **Failure to Plan for Variation in Membership Levels** – Many health insurers are exposed to significant swings in enrollment (increases or decreases), which can impact solvency if the company is not adequately capitalized (or have access to additional capital resources) and prepared to adjust operational support up or down to accommodate changes in membership. These strategic and operational risks are often interrelated with the pricing/underwriting risks outlined above.

If there are any questions regarding the proposed recommendations, please contact me or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification.

EXECUTIVE OFFICE • 444 North Capitol Street NW, Suite 700 • Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • One New York Plaza, Suite 4210 • New York, NY 10004 p | 212 398 9000 f | 212 382 4207
www.naic.org

© 2024 National Association of Insurance Commissioners

Attachment Two
Examination Oversight (E) Task Force
7/25/24

Draft: 5/20/24

Information Technology (IT) Examination (E) Working Group
Virtual Meeting
May 9, 2024

The IT Examination (E) Working Group of the Examination Oversight (E) Task Force met May 9, 2024. The following Working Group members participated: Ber Vang, Chair (CA); Shane Mead, Vice Chair (KS); Blase Abreo (AL); William Arfanis and Michael Shanahan (CT); Ginny Godek (IL); Jerry Ehlers (IN); Dmitriy Valekha (MD); Kim Dobbs and Cynthia Amann (MO); Colton Schulz (ND); Lindsay Crawford (NE); Metty Nyangoro (OH); and Eli Snowbarger (OK).

1. Discussed Activities in Response to the March 7, 2023, Referral from the Cybersecurity (H) Working Group

Mead led a discussion on drafting group activities in 2023 that addressed a referral received from the Cybersecurity (H) Working Group. This referral asked the IT Examination (E) Working Group to consider making cybersecurity a higher priority in the examination process. The referral also mentioned several frameworks and documents that the drafting group could use as source materials.

Mead said the drafting group considered the listed source materials and other guidance papers before deciding to use the National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF) 2.0 as the primary guidance source for enhancing cybersecurity procedures in the IT exam process. The NIST CSF was chosen by the drafting group due to its similarity to Exhibit C procedures and the introduction of new concepts not currently in the IT exam process. The drafting group began identifying areas within Exhibit C that may be obsolete or overlap with NIST procedures, intending to incorporate appropriate procedures from NIST, while removing less significant areas to avoid major changes to IT examiners' workload.

2. Heard an Update on the NIST CSF 2.0

Schulz said he had been following the NIST work since the beginning of the CSF 2.0 discussions. Schulz said NIST's primary goals were to add information on governance and supply chain management, as these concepts were under-supported in CSF 1.0. In the NIST meetings and workshops, a consensus was reached that "governance" was the only missing pillar from CSF 1.0. NIST focused its efforts on implementing this pillar.

3. Discussed Drafting Group Goals for 2024

Vang discussed how the drafting group faced a challenge in 2023 in reaching a conclusion on cybersecurity matters. The drafting group was not comfortable concluding with "effective" versus "ineffective" on cybersecurity matters, which is the conclusion for Exhibit C, IT General Controls. Bruce Jenson (NAIC) asked if the conclusion reached on cybersecurity would be different and/or more forward-looking than the conclusion reached through IT General Controls. Vang responded that the conclusion would be different due to the timing requirements. The exam team relies on the IT General Controls conclusion earlier in the exam to determine reliance on the controls. Cybersecurity risks are likely to be present during and after the exam; therefore, the conclusions are planned to be different and reached at different points in the exam, with the cybersecurity conclusion intended to be more forward-looking. As a representative of the Cybersecurity (H) Working Group, Amann said cybersecurity risks are infiltrating all parts of a company and can have a different impact than the risks related to data reliability. Mead agreed and said the approach taken by the drafting group would keep these ideas in mind. The group will continue to explore solutions to this issue, including the options of passing risks to the examination, reaching a negative conclusion, and reaching a conclusion on the maturity level of a company's cybersecurity program. The drafting group will bring its work back to the full Working Group later this year for discussion.

© 2024 National Association of Insurance Commissioners

Having no further business, the IT Examination (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/EOTF/2024 Summer NM/ITEWG 5.9.24 Meeting Minutes.docx

© 2024 National Association of Insurance Commissioners

FINANCIAL STABILITY (E) TASK FORCE

Financial Stability (E) Task Force Aug. 13, 2024, Minutes 9-957
List of 13 Macroprudential (E) Working Group Considerations—Private Equity (PE)-Related and Other (Attachment One) 9-960

© 2024 National Association of Insurance Commissioners

Draft: 8/22/24

Financial Stability (E) Task Force
Chicago, Illinois
August 13, 2024

The Financial Stability (E) Task Force met in Chicago, IL, Aug. 13, 2024. The following Task Force members participated: Justin Zimmerman, Chair (NJ); Judith L. French, Vice Chair, represented by Dwight Radel (OH); Mark Fowler represented by Sheila Travis (AL); Alan McClain represented by Leo Liu (AR); Barbara D. Richardson represented by Lori Dreaver Munn (AZ); Andrew N. Mais represented by Ken Cotrone (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Virginia Christy (FL); Doug Ommen represented by Carrie Mears (IA); Vicki Schmidt represented by Tish Becker (KS); Kevin P. Beagan represented by John Turchi (MA); Joy Y. Hatchette represented by Lynn Beckner (MD); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Tadd Wegner (NE); Adrienne A. Harris represented by Bob Kasinow (NY); Glen Mulready represented by Ryan Rowe (OK); Andrew R. Stolfi represented by Kirsten Anderson (OR); Michael Humphreys represented by Diana Sherman (PA); Alexander S. Adams Vega represented by Glorimar Santiago (PR); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Amy Garcia (TX); Scott A. White represented by Dan Bumpus (VA); and Nathan Houdek (WI). Also participating was: Elizabeth Kelleher Dwyer (RI).

1. Heard Opening Remarks

Acting Commissioner Zimmerman said materials for consideration and discussion for this meeting were emailed to Task Force members and are available on the NAIC website in the Committees section under "Financial Condition (E) Committee." Materials are also available on the member SharePoint site (formerly Member Connect) and in the Event App.

2. Adopted its Spring National Meeting Minutes

Mears made a motion, seconded by Sherman, to adopt the Task Force's March 16 minutes (*see NAIC Proceedings – Spring 2024, Financial Stability (E) Task Force*). The motion passed unanimously.

3. Received an Update on the FSOC

Director Dwyer gave an update on the Systemic Risk Committee (SRC) of the Financial Stability Oversight Council (FSOC) and its revamping in 2024 to focus on risk identification and sector monitoring. The *Nonbanks Designation Guidance* issued last year addresses the SRC's role in monitoring and identifying risk. This analytic framework lays out a general approach to risk identification and monitoring. The framework contains a definition of threats to financial stability and contains a description of vulnerabilities and transmission channels that may be sources of threats to financial stability. Climate-related initiatives also continue at the Climate-Related Financial Risk Committee (CFRC) of the FSOC.

4. Received an Update from the Macroprudential (E) Working Group

Kasinow gave an update regarding the 13 private equity (PE) considerations (Attachment One). Three out of the 13 considerations have been completed; four of 13 have made significant progress; and three of 13 are works in progress. This does not add up to 13, and that is due to some considerations having three or four parts that are in different stages of completion.

© 2024 National Association of Insurance Commissioners

Kasinow then gave an update on the Macroprudential (E) Working Group meeting on July 8, which was in regulator-to-regulator session, to discuss cross-border reinsurance. A regulator asked NAIC staff to conduct additional analysis of cross-border reinsurance activity, including a breakout of the types of products ceded and the jurisdictions of the reinsurers. The discussion led to a request for additional data and analysis from NAIC staff. The analysis is being conducted and a follow-up call will be scheduled shortly.

Kasinow discussed the progress on the liquidity stress test (LST). Submissions were due June 30, and states and the NAIC received all required filers' submissions. NAIC staff is analyzing the submissions and will provide summary results to the Working Group in September. The LST's separate account work was also discussed. After careful consideration, it has been determined that no additional reporting is required, and the existing framework is adequate.

Kasinow discussed the Counterparty Project. Early last year, NAIC staff started to work on a project to enhance its ability to aggregate counterparty exposure data from NAIC internal databases. As a result of this project, the NAIC can now identify exposures timelier and more accurately and provide states with a breakdown of exposures for their regulated companies. There is now a Tableau dashboard on StateNet for state regulators to use. Additionally, initial steps have been taken on quantifying credit risk utilizing counterparty nationally recognized statistical rating organization (NRSRO) ratings, probability of default, and loss given default tables.

Finally, at the Spring National Meeting, the Working Group discussed developing the climate risk dashboard. However, the group believes the dashboard is a better fit for the Climate and Resiliency (EX) Task Force. NAIC staff have prepared a preliminary climate risk dashboard framework and will look for volunteer state regulators to develop it further. The Working Group will monitor the development and focus more on the macroprudential application of a U.S. insurance climate risk dashboard domestically, federally, and globally.

5. Received an Update from the Valuation Analysis (E) Working Group

Andersen gave an update regarding *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves 53* (AG 53), which was adopted in 2022. The main purpose is to help ensure claims-paying ability even if complex assets do not perform as expected. AG 53 requires disclosures- and asset-related information for most life insurers over a size threshold. It gives companies an opportunity to tell their stories regarding their complex assets and associated risks, as well as how their cash flow testing models address those risks. The second round of annual submissions were received in 2024.

Andersen reviewed the areas of focus for this year, as well as last year. One goal has been to lessen reliance on high net yields to pay claims. If it is above certain yields, there should be an assumption of an offsetting risk. Another area of focus is to help ensure that there are enough quality assets at the reinsurer to pay reinsurance claims in moderately adverse conditions.

Andersen then gave insight into a new piece of information: project allocations of asset types on companies' cash flow testing models. Often, with life insurance and annuity businesses, the companies perform projections of 30 years or longer. If these allocations and riskier asset classes escalate over time, it could be a sign that reserve adequacy may not be achieved and that those volatile assets do not perform as expected. Andersen said that another point of data that seems to be helpful is the tranche-level information from each company.

Andersen then spoke on asset adequacy testing (AAT) on reinsurance ceded. The Life Actuarial (A) Task Force is discussing this issue. There is reinsurance activity taking place where reserves are held lower than U.S. statutory standards. In some of those cases, reserves are substantially lower or disappear. It is important to know if the lower reserve amounts are adequate when using reasonable assumptions. Discussions are taking place in 2025 to further this project further and discuss types of requirements and scope.

© 2024 National Association of Insurance Commissioners

6. Heard an International Update

Tim Nauheimer (NAIC) reported that the Macroprudential Monitoring Working Group and the Macroprudential Supervision Working Group met in person in April and the parent Macroprudential Committee met in June. The April Macroprudential Monitoring Working Group meeting focused on analyzing individual insurer monitoring (IIM) submissions. Based on the analyses performed of the 60 insurance groups that were identified for the 2024 global insurer pool, several insurance groups have been identified for inclusion in the collective discussion.

Nauheimer then gave an update on the 2024 sector-wide monitoring (SWM) data collection exercise being completed. NAIC staff gather and submit aggregate data on behalf of the U.S. This exercise consists of a qualitative component, quantitative component, climate component, and reinsurance component. In July, the International Association of Insurance Supervisors (IAIS) published its *Global Insurance Market Report* (GIMAR) mid-year update. Interim results reflect stable solvency, liquidity, and profitability positions. The full-year 2024 GIMAR will be published in December. Utilizing IIM and SWM results, the report will elaborate on key potential systemic risk developments in the insurance sector, compare these to the banking sector, and detail solvency, profitability and liquidity positions. Additionally, progress is underway with drafting an issue paper on structural shifts in the life insurance sector. Also, a planned public consultation on ancillary indicators as part of the global monitoring exercise is also underway. Ancillary indicators include derivatives, reinsurance, credit risk, and level-3 assets.

Nauheimer said the IAIS released its fourth public consultation on climate risk supervisory guidance. This includes the draft application paper on climate scenario analysis in the insurance sector. The application paper outlines macroprudential guidance supporting Insurance Core Principle (ICP) 24 related to stress testing and scenario analysis for climate-related risk.

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/FSTF/2024/2024_2 Summer/Minutes

© 2024 National Association of Insurance Commissioners

Attachment One
Financial Stability (E) Task Force
8/13/24

Color Legend
Consideration addressed and closed
Significant progress, a few open items to be addressed.
Consideration is open-progress has been made, but work continues.

Tracking for the List of 13 MWG Considerations – PE Related and Other

Original exposure of 13 considerations: March 16, 2022

Consideration	Update Date	Update Date	Update Date	Update Date	Update Date	Update Date	2024 Spring National Meeting Update	2024 Summer National Meeting Update
1. Holding Company Structures:	8/4/2022	3/22/2023	3/22/2023	4/15/2023	7/12/2023	12/11/2023		
Regulators may not be obtaining clear pictures of risk due to holding companies structuring contractual agreements in a manner to avoid regulatory disclosures and requirements. Additionally, affiliated/related party agreements impacting the insurer's risks may be structured to avoid disclosure (for example, by not including the insurer as a party to the agreement).	Sent a referral for new work to the Group Solvency Issues (E) Working Group.	***GSIWG Update:*** *The GSIWG plans to discuss this issue at its Dec. 14 meeting to determine next steps in addressing the referral.*		**GSIWG Update:** The GSIWG formed a drafting group to develop best practices for regulatory review in this area. The drafting group has met multiple times and continues to work on the development of written best practices. After the best practices are developed, the drafting group will consider whether any should be proposed for inclusion in NAIC Handbooks or other action should be considered.		**GSIWG Update:** *8. Aversen 12-11-23* In November 2023, the GSIWG adopted regulator-only sound practice guidance for use in reviewing complex ownership structures of insurers (see attached PDF). The Sound Practices document has been posted to StateNet for regulator review and use. In addition, the GSIWG referred proposed additions to the NAIC's Financial Analysis Handbook to the Financial Analysis Solvency Tools (E) Working Group for further consideration in 2024. These edits include additional Form A (Change of Control) review procedures, as well as new guidance for use by regulators in evaluating Disclaimer of Control/Affiliation filings. See the attached Word docs for the referral to FAST WG, as well as the proposed Handbook edits. These documents will be exposed for public comment by FAST WG in 2024 and then adopted for inclusion in the 2025 FAH. Finally, the Risk-Focused Surveillance (E) Working Group has formed an Affiliated IMA Drafting Group to discuss the development of additional guidance related to regulator review of affiliated investment management agreements and related services. The Drafting Group is currently developing	**RFSWG Update:** *1-29-24* The RFSWG finalized updated guidance on regulator review and monitoring of affiliated services at the NAIC's 2023 Summer National Meeting. This guidance was subsequently adopted for inclusion in the 2024 publications of the NAIC's Financial Analysis Handbook and Financial Condition Examiners Handbook. At that same meeting, the RFSWG formed an Affiliated Investment Management Agreement drafting group to develop more specific guidance for use in reviewing investment advisory services provided by an affiliate. The Drafting Group plans to present proposed handbook guidance to the RFSWG for review at the NAIC's Spring 2024 National Meeting.	**RFSWG Update:** *5-16-24* The RFSWG met at the 2024 Spring National Meeting and finalized proposed guidance for both the Analysis and Examination Handbooks related to affiliated investment management agreements and services. The updated guidance was subsequently adopted by the respective handbook working groups and will be included in the 2025 publications.
2. Ownership and Control:								
Control is presumed to exist where ownership is >=10%, but control and conflict of interest considerations may exist with less than 10% ownership. For example, a party may exercise a controlling influence over an insurer through Board and management representation or contractual arrangements, including non-customary minority shareholder rights or covenants, investment management agreement (IMA) provisions such as onerous or costly IMA termination provisions, or excessive control or discretion given over the investment strategy and its implementation. Asset-management services may need to be distinguished from ownership when assessing and considering controls and conflicts.	Sent a referral for new work to the Group Solvency Issues (E) Working Group.	***GSIWG Update:*** *The GSIWG plans to discuss this issue at its Dec. 14 meeting to determine next steps in addressing the referral.*		GSIWG Update: The GSIWG formed a drafting group to develop best practices for regulatory review in this area. The drafting group has met multiple times and continues to work on the development of written best practices. After the best practices are developed, the drafting group will consider whether any should be proposed for inclusion in NAIC Handbooks or other action should be considered.		See update above that covers this topic as well.	See update on #1 above that covers this topic as well.	**RFSWG Update:** *5-15-24* The RFSWG met at the 2024 Spring National Meeting and finalized proposed guidance for both the Analysis and Examination Handbooks related to affiliated investment management agreements and services. The updated guidance was subsequently adopted by the respective handbook working groups and will be included in the 2025 publications.
3. Investment Management Agreements (IMAs):								
The material terms of the IMA and whether they are arm's length or include conflicts of interest —including the amount and types of investment management fees paid by the insurer, the termination provisions (how difficult or costly it would be for the insurer to terminate the IMA) and the degree of discretion or control of the investment manager over investment guidelines, allocation, and decisions.	Sent a referral to the **Risk-Focused Surveillance (E) Working Group** to add this consideration to existing work involving affiliated agreements and Form D filings. Also sent a referral to the **Valuation of Securities (E) Task Force (VOSTF)** to highlight the regulatory discussion involving topics it administers.	***RFSWG Update:*** The RFSWG received and discussed this referral during its Nov. 1 interim meeting. During the meeting, the RFSWG agreed to defer further work on this issue until its ongoing project to update general guidance in NAIC handbooks related to affiliated service agreements is completed in early 2023. **VOSTF:** discussed the referral and decided RFSWG was in the best position to address this concern.		**RFSWG Update:** The RFSWG is nearing the completion of its project to update general guidance in NAIC handbooks related to affiliated service agreements, which is expected to be completed by the 2023 Summer National Meeting. After the general guidance is completed, the Working Group plans to begin work on more targeted guidance related to affiliated investment management agreements.			**RFSWG Update:** *1-29-24* The RFSWG formed an Affiliated Investment Management Agreement drafting group to develop more specific guidance for use in reviewing investment advisory services provided by an affiliate. The Drafting Group plans to present proposed handbook guidance to the RFSWG for review at the NAIC's Spring 2024 National Meeting.	**RFSWG Update:** *5-16-24* The RFSWG met at the 2024 Spring National Meeting and finalized proposed guidance for both the Analysis and Examination Handbooks related to affiliated investment management agreements and services. The updated guidance was subsequently adopted by the respective handbook working groups and will be included in the 2025 publications.
4. Owners of Insurers with Short-Term Focus and/or Unwilling to Support a Troubled Insurer:								
Owners of insurers, regardless of type and structure, may be focused on short-term results which may not be in alignment with the long-term nature of liabilities in life products. For example, investment management fees, when not fair and reasonable, paid to an affiliate of the owner of an insurer may effectively act as a form of unauthorized dividend in addition to reducing the insurer's overall investment returns. Similarly, owners of insurers may not be willing to transfer capital to a troubled insurer.	Sent a referral to the Risk-Focused Surveillance (E) Working Group to add this consideration to existing work involving affiliated agreements and fees. Also sent a referral to the Life Actuarial (A) Task Force recognizing its existing work to ensure the long-term life liabilities (reserves) and future fees to be paid out of the insurer are supported by appropriately modeled assets.	***RFSWG Update:*** *The RFSWG received and discussed this referral during its Nov. 1 interim meeting. During the meeting, the RFSWG agreed to defer further work on this issue until its ongoing project to update general guidance in NAIC handbooks related to affiliated service agreements is completed in early 2023.*	***LATF Update:*** *Asset adequacy analysis requirements in NAIC Model 8820 and VM-30 require that company Appointed Actuaries perform testing to ensure that the reserves held for the company's liabilities are adequate in light of the assets supporting the business. Regulators review associated company Statements of Actuarial Opinion periodically.*	**LATF Update 6/23:** Actuarial Guideline 53 – Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves (AG 53) became effective for year-end 2022. AG 53 requires additional disclosures related to life insurance and annuity company investment return assumptions for complex and high yielding assets. Regulators are conducting targeted reviews of the AG 53 disclosures to ensure that company investment returns for complex and high-yielding assets are not overly optimistic.		**RFSWG Update:** *1-29-24* The RFSWG formed an Affiliated Investment Management Agreement drafting group to develop guidance related to the reasonableness of investment management fees. Proposed guidance on this topic is expected to be discussed at the Spring 2024 National Meeting. In addition, the RFSWG referred the considerations related to capital maintenance agreements over to the Financial Analysis Solvency Tools Working Group. **LATF/VAWG Update:** *12-1-23* AG 53 reviews are in progress and focus on 4 areas related to this consideration of a potential conflict of interest of SY owners and an insurance co. The 4 areas are: high net yield assumptions attribution analysis of net yield assumptions investment expense assumptions reinsurance collectability	**RFSWG Update:** *5-16-24* The RFSWG met at the 2024 Spring National Meeting and finalized proposed guidance for both the Analysis and Examination Handbooks related to affiliated investment management agreements and services. The updated guidance was subsequently adopted by the respective handbook working groups and will be included in the 2025 publications. In addition, the RFSWG referred issues related to surplus notes and capital maintenance agreements to the Financial Analysis Solvency Tools (E) Working Group. **FASTWG Update:** *5-16-24* The FASTWG held an open call on 7/16/24 to discuss the development of additional guidance for regulator use in reviewing surplus notes and capital maintenance agreements. As a result of the call, the Working Group agreed to form a drafting group to assist NAIC with the development of additional guidance in this area. **LATF/VAWG Update: 7-22-24** Reviews of AG 53 reports for year-end 2023 are in progress. As an expansion to the 4 areas that were in focus last year (high net yield assumptions, attribution analysis of net yield assumptions, investment expense assumptions, and reinsurance collectability) to ensure reserve adequacy associated with long-term liabilities is achieved, more refined information is being reviewed. This includes information related to projected portfolio allocations, structured assets by tranche, and payment in kind which may impact availability of future cash flows to support claims payments.

5. Operational, Governance and Market Conduct Practices: Operational, governance and market conduct practices being impacted by the different priorities and level of insurance experience possessed by entrants into the insurance market without prior insurance experience, including, but not limited to, PE owners. For example, a reliance on TPAs due to the acquiring firm's lack of expertise may not be sufficient to administer the business. Such practices could lead to lapse, early surrender, and/or exchanges of contracts with in-the-money guarantees and other important policyholder coverage and benefits.	The MWG will keep developing more specific suggestions before likely referring this consideration to the Risk-Focused Surveillance (E) Working Group.	***MWG Update:*** *No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.*		**MWG Update:** No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.			**MWG Update:** No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.	**MWG Update:** No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.
6. Definition of Private Equity (PE): No uniform or widely accepted definition of PE and challenges in maintaining a complete list of insurers' material relationships with PE firms. (UCAA (National Treatment WG) dealt with some items related to PE.) This definition may not be required as the considerations included in this document are applicable across insurance ownership types.	The MWG determined it was not feasible to determine a definition. Therefore, no further work on this consolidation shall be conducted and is considered closed or resolved.						**Closed**-Item considered and addressed.	**Closed**-Item considered and addressed.
7. Identifying Related Party-Originated Investments (Including Structured Securities): The lack of identification of related party-originated investments (including structured securities). This may create potential conflicts of interests and excessive and/or hidden fees in the portfolio structure, as assets created and managed by affiliates may include fees at different levels of the value chain. For example, a CLO which is managed or structured by a related party. (An agenda item and blanks proposal are being developed by SAPWG.)	Sent a referral to the Statutory Accounting Principles (E) Working (SAPWG) Group recognizing its existing work regarding disclosures for related-party issuance/acquisition. Once MWG regulators work with these SAPWG disclosures and regulatory enhancements from referrals to other groups, further regulatory guidance may be considered as needed.	**SAPWG Completed Actions:** Ref #2021-21 included revisions that clarified guidance for related parties and developed a blanks proposal which provided new investment schedule columns with reporting codes to identify investments that involve related parties. (Adopted May 2022) Ref #2021-22BWG added six related party reporting codes effective for year-end 2022. The investment schedule disclosures include codes that identify the role of the related party in the investment, e.g., a code to identify direct credit exposure as well as codes for relationships in securitizations or similar investments. (Adopted May 2022)			**SAPWG Completed Actions:** Ref #2022-15, included revisions to clarify that any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity, is an affiliated investment. (Adopted March 2023)		**SAPWG Update: Closed** No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral and objective are complete.	**Closed**-Item considered and addressed.
8. Identifying Underlying Affiliated/Related Party Investments and/or Collateral in Structured Securities: Though the blanks include affiliated investment disclosures, it is not easy to identify underlying affiliated investments and/or collateral within structured security investments. Additionally, transactions may be excluded from affiliated reporting due to nuanced technicalities. Regulatory disclosures may be required to identify underlying related party investments and/or collateral within structured security investments. This would include, for example, loans in a CLO issued by a corporation owned by a related party. (An agenda item and blanks proposal are being developed by SAPWG.)	Sent a referral to the Statutory Accounting Principles (E) Working Group in recognition of existing work to develop disclosures to identify the role of the related party in the investment and codes for relationships in securitizations or similar investment. Also sent a referral for new work to the Examination Oversight (E) Task Force for the CLO/structured security considerations.	**SAPWG Completed Actions:** See above descriptions (Ref # 2021-21 and Ref #2021-22 BWG) on investment reporting codes for year end 2022 reporting. Ref #2019-34 included revisions that clarify: 1) identification of related parties; 2) a non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or affiliation; 3) a disclaimer of control or affiliation does not eliminate the classification as a "related party" and the disclosure of material transactions. This agenda item also resulted in the creation of a new Schedule Y Part 3, which was effective for year-end 2021. This schedule identifies all entities with greater than 10% ownership – regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation and identifies the ultimate controlling party. (Ref #2019-34 and Ref #2020-37BWG, both adopted March 2021)	**EOTF/VAWG Update:** The EOTF delegated work on this referral to its Financial Analysis Solvency Tools (E) Working Group and its Financial Examiners Handbook (E) Technical Group. Both groups developed new guidance for inclusion in 2023 NAIC handbooks related to the new related party investment disclosures developed by SAPWG and the AG 53 standards developed by LATF that will be in effect for 12/31/22 reporting. The groups may develop additional guidance for NAIC handbooks, as well as supporting regulatory reports and tools, as work proceeds in this area.		***SAPWG Completed Actions:*** *See above descriptions (Ref # 2021-21, Ref #2022-15 and Ref #2021-22 BWG)*		**SAPWG Update: Closed** No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral objective and are complete. **EOTF/VAWG Update: 12-1-23** AG 53 Guidance Document – more refined information to be attained for year-end 2023 e.g., structured asset information by tranche	**SAPWG Update:** No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral objective and are complete. **EOTF/VAWG Update: 7-22-24** The AG 53 reports collected information relating to affiliated investments. Review of this information is in progress.
9. Asset Manager Affiliates and Disclaimers of Affiliation: Broader considerations exist around asset manager affiliates (not just PE owners) and disclaimers of affiliation avoiding current affiliate investment disclosures. (A new Sc Y, Pt 3, has been adopted and will be in effect for year-end 2021. This schedule will identify all entities with greater than 10% ownership – regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation. It will also identify the ultimate controlling party. Additionally, SAPWG is developing a proposal to revamp Schedule D reporting, with primary concepts to determine what reflects a qualifying bond and to identify different types of investments more clearly, including asset-backed securities.)	MWG regulators are comfortable waiting to realize the benefits of the recently implemented Schedule Y, Part 3, along with the changes other NAIC committee groups will make for several of the previously listed referrals, before determining if additional work is needed. Also, a referral was sent to the Statutory Accounting Principles (E) Working Group recognizing its existing work to revamp Schedule D reporting along with the previously mentioned code disclosures will assist with this consideration.	***SAPWG Completed Actions:*** See above descriptions of Schedule Y Part 3. (Ref #2019-34 and Ref #2020-37BWG).	***SAPWG Ongoing Work:*** Ref #2022-15, which clarifies affiliated investment reporting, is planned for adoption consideration at the 2023 Spring National Meeting. It adds guidance on reporting of affiliated investments. As part of a project known as the bond project, the SAPWG is developing a proposal to revise Schedule D reporting, which intends to determine what is considered a qualifying bond and to identify different types of investments more clearly. For example, the current bond proposal would divide Schedule D-1 into a Schedule D-1-1 for issuer credit obligations and a Schedule D-1-2 for asset backed securities. The proposal includes more detailed reporting lines to provide more granularity on the actual types of investments held. The effective date of the bond proposal, and the reporting changes, is anticipated for January 1, 2025. Reporting changes to reflect the Schedule D-1 proposed changes were exposed by the Blanks (E) Working Group on March 7, 2023. Updated revisions to the statutory accounting guidance are planned for exposure by the Statutory Accounting Principles (E) Working Group at the 2023 Spring National Meeting. Ref #2022-17, which clarifies interest income disclosures, is planned for adoption consideration at the 2023 Spring National Meeting.		***SAPWG Completed Actions:*** *See above descriptions Ref # 2021-21, Ref #2022-15 and Ref #2021-22 BWG; Ref #2022-17, incorporated revisions to data-capture interest income disclosures, and established new disclosures for aggregate paid-in-kind interest and deferred interest. (Adopted March 2023). SAPWG Ongoing Work: Reporting changes to reflect the Schedule D-1 proposed changes were exposed by the Blanks (E) Working Group on March 7, 2023, and updated revisions are anticipated for exposure shortly after the 2023 Summer National Meeting. The statutory accounting revisions to incorporate a new principles-based bond definition in SSAP No. 26R—Bonds and SSAP No. 43R—Asset Backed Securities will be presented for adoption at the 2023 Summer National Meeting.*		**SAPWG Update: Closed** No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral objective and are complete. The bond proposal and the reporting changes have been approved and will become effective January 1, 2025.	**SAPWG Update: Closed** No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral objective and are complete. The bond proposal and the reporting changes have been approved and will become effective January 1, 2025.
10. Privately Structured Securities: The material increases in privately structured securities (both by affiliated and non-affiliated asset managers), which introduce other sources of risk or increase traditional credit risk, such as complexity risk and illiquidity risk, and involve a lack of transparency. (The NAIC Capital Markets Bureau continues to monitor this and issue regular reports, but much of the work is complex and time-intensive with a lot of manual research required. The NAIC Securities Valuation Office will begin receiving private rating rationale reports in 2022; these will offer some transparency into these private securities.)	Sent a referral to the Life Actuarial (A) Task Force recognizing its existing work on an Actuarial Guideline including disclosure requirements for the risks of privately structured securities and how the insurer is modeling the risks. Sent a referral to the VOSTF highlighting the MWG regulators' support for the blanks proposal to add market data fields for private securities being considered by the Valuation of Securities (E) Task Force (VOSTF). MWG regulators will wait on any further work or referrals until they have an opportunity to work with the results of the VOSTF proposal	***LATF Update:*** *Actuarial Guideline 53 (AG 53) has been adopted by the NAIC's Executive (EX) Committee and Plenary and was effective for year-end 2022 reporting. Starting in Spring 2023, regulators on the Valuation Analysis (E) Working Group will be conducting AG 53 reviews. This will involve a targeted review of asset adequacy analysis related to modeling of business supported with projected high net yield assets.*	***VOSTF Update:*** The VOSTF sent referrals to the Financial Condition (E) Committee, Financial Stability (E) Task Force, Macroprudential (E) Working Group, Capital Adequacy (E) Task Force, Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Life Actuarial (A) Task Force, Financial Analysis (E) Working Group, Statutory Accounting Principles (E) Working Group and Valuation Analysis (E) Working Group requesting feedback on a proposal to have the NAIC's SVO develop the analytical capability to produce risk metrics for bond	***RBCIREWG Update:*** *The Risk-Based Capital Investment Risk and Evaluation (E) Working Group added this item to its working agenda. While not specifically addressing privately structured securities, the Working Group's current work on collateralized loan obligations may contribute to addressing this item.*			**RBCIREWG Update: 8-2-24** The Risk-Based Capital Investment Risk and Evaluation (E) Working Group met June 23, May 22, and April 12 to discuss residual tranches and the 45% risk-based capital (RBC) factor in place for year-end 2024. After consideration of comments, as well as a review of alternative proposals to bifurcate residual tranches between 30% and 45% RBC categories, the Working Group adopted a motion to retain the 45% RBC factor for all residual tranches for year-end 2024.	

	[illegible] and the SAPWG Schedule D revamp project. Sent a referral for new work to the RBC Investment Risk and Evaluation (E) Working Group to address the tail risk concerns not captured by reserves.		[illegible] investments, and model measures of interest rate sensitivity and project investment cash flows and estimated losses for any given interest rate or economic scenario for regulator use. Those groups were asked if they support the proposal and to describe different ways they envision being able to take advantage of such a capability within the NAIC.	***SAPWG Ongoing Work:*** • *As discussed above, the Schedule D bond proposal is planned for 2025 reporting.*			**VOSTF Update:** *2-6-24* In 2023 the Securities Valuation Office (SVO) proposed an amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the P&P Manual) to make all Structured Equity and Funds, which captures a subset of the privately structured securities market, ineligible for filing exemption. The Task Force deferred action on that proposal and instructed the SVO to instead draft a new proposal that was more limited in scope and which would enable the targeting of individual securities with material risk assessment differences. Privately structured securities with material differences in assessment between Credit Rating Providers and the SVO would be captured in the discussion on Reliance on Rating Agencies in 11, below. The proposal for the SVO to develop the analytic capability to collect and analyze risk metrics is currently on hold. **SAPWG Update:** No further work deemed necessary. Previous initiatives have addressed the PE concern and the referral objective is complete. The bond proposal and the reporting changes have been approved and will become effective January 1, 2025.	**VOSTF Update:** *7-17-24* Privately structured securities with material differences in assessment between Credit Rating Providers and the SVO would be captured in the discussion on Reliance on Rating Agencies in 11, below. The proposal for the SVO to develop the analytic capability to collect and analyze risk metrics is currently on hold. **SAPWG Update:** No further work deemed necessary. Previous initiatives have addressed the PE concern and the referral objective is complete. The bond proposal and the reporting changes have been approved and will become effective January 1, 2025.
11. Reliance on Rating Agencies: The level of reliance on rating agency ratings and their appropriateness for regulatory purposes (e.g., accuracy, consistency, comparability, applicability, interchangeability, and transparency). (VOSTF has previously addressed and will continue to address this issue.)	Sent a referral to the VOSTF indicating the MWG regulators agreement to monitor the work of its ad hoc group addressing various rating agency considerations.	***VOSTF Update:*** • The Task Force adopted an amendment at it Feb. 21 meeting that effective Jan. 1, 2024, financially modeled collateralized loan obligations (CLO) will not be eligible to use credit rating provider ratings to determine an NAIC Designation. • The Task Force has drafted a list of questions to discuss with each rating agency in future regulatory-only meetings. The questions are in the materials for the Spring National Meeting and will likely being exposed for public comment. • The Securities Valuation Office (SVO) has proposed an amendment to remove Structured Equity and Funds transactions from being eligible to use credit rating provider (CRP) ratings to assign an NAIC Designation. The SVO has proposed defining Structured Equity and Funds investments as investments which, through the insertion of an intervening entity such as a special purpose vehicle (SPV) or limited partnership, enable underlying assets that may not qualify as 'bonds' or be eligible to receive an NAIC Designation under the current regulatory guidance, to be reported as 'bonds' because the intervening entity issues notes and those notes receive a credit rating provider rating. The SVO identified multiple regulatory reporting arbitrage opportunities with these investments that circumvent regulatory guidance using a CRP rating to accomplish that result. • The Task Force adopted a new charge for 2023 to stablish criteria to permit staff's discretion over the assignment of NAIC designations for securities subject to the FE process (the use of CRP ratings to determine an NAIC designation) to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objectives. The criteria have not yet been proposed.			VOSTF received referral responses from the Financial Condition (E) Committee, the Life Actuarial (A) Task Force, the Financial Analysis (E) Working Group and the Valuation Analysis (E) Working Group. The Life Actuarial Task Force and Valuation Analysis Working Group supported the proposal and provided examples of risk metrics which would be useful to their groups. The Financial Analysis Working Group supported the VOSTF investigating various products because it said the risk metrics could be more effective in helping financial analysts and examiners to fully evaluate and assess investment risks. The Financial Condition Committee said it was worthwhile for the VOSTF to continue to investigate the various products which could be made available to the SVO staff and state regulators that provide some of the alternative investment risk measures as they could obviate the need for the NAIC to collect that information form NAIC Annual Statements. However, the E Committee said that before it could sponsor the proposal it would need more information to fully understand the costs and benefits of such products. This is an ongoing initiative.	*VOSTF has drafted a list of questions to discuss with each rating agency in future regulator-only meetings. The SVO has received comments from certain rating agencies and is incorporating those comments into a final list of questions to be agreed to by the Task Force. At the 2023 Spring National, during the discussion of the proposed amendment on Structured Equity and Funds, the Task Force deferred action on the Structured Equity and Funds amendment and directed the SVO staff to draft a distinct process on how it would recommend challenging an NAIC Designation assigned from a credit rating provider ("CRP") rating pursuant to the Filing Exemption ("FE") process which the SVO thinks is not a reasonable assessment of risk for regulatory purposes. The SVO subsequently proposed an amendment which would grant the SVO staff a limited amount of discretion over the FE process to address the NAIC's current blind reliance on credit ratings. The amendment would establish strict due process requirements before the SVO could over-ride a CRP rating including a materiality threshold of a 3-notch difference in order to flag a CRP rating and sufficient notice to insurers to provide time for insurers to appeal SVO assessments. This amendment will continue to be discussed by the Task Force and interested parties.*	**VOSTF Update:** *2-6-24* The Securities Valuation Office (SVO) has proposed an amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the P&P Manual) to authorize procedures for the SVO's discretion over NAIC Designations assigned through the Filing Exemption (FE) process. The amendment would grant the SVO staff some level of discretion over the FE process to address the NAIC's current blind reliance on credit ratings. It also addresses the Financial Condition (E) Committee's charge to the Task Force to: Establish criteria to permit staff's discretion over the assignment of NAIC designations for securities subject to the FE process (the use of CRP ratings to determine an NAIC designation) to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objectives. The proposed process would include: •Establishment of a materiality threshold required to flag a CRP rating. In order to limit the SVO's use of this process to only what would be considered truly material differences of opinion, the SVO would only be able to change a Designation assigned through the FE process if it were 3 or more notches different than the SVO's assessment. •Exclusion of a subgroup of the Task Force in the review process before any rating would be removed. •Procedural steps to ensure insurers are given due process: ample notification to insurer, an opportunity for the insurer to provide full documentation to the SVO and explain its analysis of the investment, an opportunity to get an alternate CRP rating, and sufficient time to file the security, if needed. VOSTF is currently reviewing comments from interested parties and discussion is ongoing.	**VOSTF Update:** *7-17-24* The Securities Valuation Office (SVO) has proposed an amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the P&P Manual) to authorize procedures for the SVO's discretion over NAIC Designations assigned through the Filing Exemption (FE) process. The amendment would grant the SVO staff some level of discretion over the FE process to address the NAIC's current blind reliance on credit ratings. It also addresses the Financial Condition (E) Committee's charge to the Task Force to: Establish criteria to permit staff's discretion over the assignment of NAIC designations for securities subject to the FE process (the use of CRP ratings to determine an NAIC designation) to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objectives. The proposal is intended to complement E Committee's Framework for Regulation of Insurer Investments – A Holistic Review. The proposed process would include: •Establishment of a materiality threshold required to flag a CRP rating. In order to limit the SVO's use of this process to only what would be considered truly material differences of opinion, the SVO would only be able to change a Designation assigned through the FE process if it were 3 or more notches different than the SVO's assessment. •Final decisions would be made by a subgroup of the Task Force ~~in the review process~~ before any rating would be removed. •Procedural steps to ensure insurers are given due process: ample notification to insurer, an opportunity for the insurer to provide full documentation to the SVO and explain its analysis of the investment, an opportunity to get an alternate CRP rating, and sufficient time to file the security, if needed. VOSTF is currently reviewing comments from interested parties and discussion is ongoing.
12. Pension Risk Transfer (PRT) Business Supported by Complex Investments: The trend of life insurers in pension risk transfer (PRT) business and supporting such business with the more complex investments outlined above (**LATF has exposed questions aimed at determining if an Actuarial Guideline** is needed to achieve a primary goal of ensuring claims-paying ability even if the complex assets (often private equity-related) did not perform as the company expects, and a secondary goal to require stress testing and best practices related to valuation of non-publicly traded assets (note – LATF's considerations are not limited to PRT). Additionally, enhanced reporting in 2021 Separate Accounts blank will specifically identify assets backing PRT liabilities.) Considerations have also been raised regarding the RBC treatment of PRT business. a. Review applicability of Department of Labor protections resulting for pension beneficiaries in a PRT transaction. b. Review state guaranty associations' coverage for group annuity certificate holders (pension beneficiaries) in receivership compared to Pension Benefit Guaranty Corporation (PBGC) protection.	LATF's Actuarial Guideline Sent a referral to the LATF recognizing its work on an Actuarial Guideline which should address the reserve considerations of pension risk transfer (PRT) business. Sent a referral to the SAPWG to address the related disclosure considerations as the goal was to have them in the Notes to Financial Statements.	***LATF Update:*** *The PRT Drafting Group of the VM-22 SG is considering the development of PRT/longevity risk mortality factors. The DG hopes to share data with the Longevity Risk Subgroup of LATF that the Subgroup could consider for C-2 RBC for PRT products and longevity risk transactions.*	**SAPWG Completed Actions:** Ref #2020-37: Separate Account – Product Identifiers and Ref #2020-38: Pension Risk Transfer - Separate Account Disclosure, which did not result in statutory accounting revisions but instead resulted in modifications to the reporting of PRT transactions in the annual financial statements, was adopted by the SAPWG May 2021. Ref #2021-03BWG was adopted by Blanks (E) Working Group in 2021. Comment – The 2022 review of the initial 2021 disclosures noted that although the instructions were clarified to require by product reporting including the use of a distinct disaggregated product identifier for each product represented; most entities are still broadly grouping PRT activity in the disclosures. Review of 2022 data is planned to be completed in the first half of 2023.	**LATF Update:** June 27, 2023, per Scott O'Neal; The VM-22 Subgroup of LATF is currently developing a new reserving framework for non-variable annuities. As part of this effort, there is a distinct methodology being developed for longevity reinsurance/PRT. This has been the most controversial aspect of the VM-22 project. VM-22 is expected to go live no sooner than 2026. There is also a separate Longevity Risk (E/A) Subgroup of LATF that will work to develop a longevity reinsurance/PRT related capital charge. This work is on hiatus until the VM-22 reserving framework is adopted	**LATF Update:** July 12, 2023, per Scott O'Neal; The PRT drafting group hasn't met since January 2023, and the Longevity Risk Subgroup is holding off on meeting until the VM-22 Subgroup finalizes the VM-22 methodology		**SAPWG Update:** *1-30-24* Review of 2022 data was completed by NAIC staff in 2023 and continued data and reporting issues were identified. Review of 2023 YE data will be completed in the second quarter of 2024. This will allow for regulator review and input in determining if addition instruction or other follow-up is needed. **LATF Update:** *2-5-24* Confirmed no change in status since July 12, 2023 due to the VM-22 methodology not being final.	**SAPWG Update:** *7-25-24* The data collected provides overall detail of PRT product balances in the separate accounts. Continued regulator discussion is anticipated to see if further granularity is necessary for regulator review. **LATF Update:** *7/16/24* An industry field test of the draft VM-22 methodology will begin 7/31/24 and go through 9/30/24. After results are reviewed and any necessary revisions are made, the VM-22 reserving methodology is expected to be effective for 11/26. The Longevity Risk (E/A) Subgroup will meet after the VM-22 framework is finalized.

7. Department of Labor Protections	***MWG Update:*** *NAIC staff are continuing to hold discussions with Department of Labor representatives.*				***MWG Update:*** Discussions with DoL continue. DoL is in the process of updating their fiduciary requirements under 95-1, which require due diligence in assessing an insurer prior to a PRT transaction.		**MWG update: Closed** DOL revised their fiduciary standards (95-1) and duties to evaluate an insurance company prior to approving a PRT.	**MWG update: Closed** DOL revised their fiduciary standards (95-1) and duties to evaluate an insurance company prior to approving a PRT.
8. State Guaranty Funds Compared to PBGC Protection – NOLHGA 2016 Study	No further action was deemed necessary ***MWG Update:*** *However, NAIC staff have contacted PBGC representatives to inquire if they have any items they wish to address with the MWG.*						**Closed** It appears state guaranty funds provide adequate protections for PRT business according to NOLHGA study and other research. No further action was deemed necessary	**Closed** It appears state guaranty funds provide adequate protections for PRT business according to NOLHGA study and other research. No further action was deemed necessary
9. RBC Treatment of PRT Business	Sent a referral to the Longevity Risk (E/A) Subgroup recognizing its work will also address PRT business and indicating the MWG regulators will monitor this work.	***LATF Update:*** *The Longevity Risk (E/A) Subgroup will review the currently exposed VM-22 PBR methodology once it is finalized and adopted. The Subgroup will consider whether to develop and recommend longevity risk factor(s) for the product(s) that were excluded from the application of the current longevity risk factors.*			***LATF Update*** : July 12, 2023, per D. Flemming No change in this item as the VM-22 framework is not final yet.		**LATF Update: *1-30-24*** The VM-22 Subgroup is still working on assumptions and other aspects, so the work on the framework continues. With that, the work of the Longevity Risk (E/A) Subgroup is pending this outcome	**LATF Update: 7-22-24** The VM-22 Subgroup is still working on assumptions and other aspects, so the work on the framework continues. With that, the work of the Longevity Risk (E/A) Subgroup is pending this outcome
13. Offshore/Complex Reinsurance:					**July 11, 2023**			
Insurers' use of offshore reinsurers (including captives) and complex affiliated sidecar vehicles to maximize capital efficiency, reduce reserves, increase investment risk, and introduce complexities into the group structure.	***MWG Update:*** *MWG regulators are wrapping up the confidential discussions with industry participants and other jurisdictions regarding the use of offshore reinsurers and complex affiliated reinsurance vehicles. They are continuing discussions to identify the best mechanism to ensure reviewing/approving regulators can identify the true economic impacts of the reinsurance transaction. MWG regulators will consider further work and/or referrals once they have concluded these discussions.*	At the Spring NM 2023 The Working Group released for comment the reinsurance comparison worksheet designed for regulators to assess cross-border reinsurance treaties where there are different regulatory systems involved. We believe the cross-border reinsurance worksheet will enhance state insurance regulators' ability to monitor these transactions. The comment period ended Apr 28 and the MWG is in the process of addressing comments received.			***MWG Update:*** The Reinsurance Worksheet was adopted on a joint FSTF/MWG virtual meeting on June 20. 2023.		**MWG Update:** Continue to monitor offshore reinsurance market, meet with IIMA and enhance ReWS. Monitor and asses ceded reserves offshore by transaction type, i.e., MoatCo, Coinsurance, Funds WH and asset intensive reinsurance. **LATF Update:** *2-8-24* Proposal being considered to require Asset Adequacy Testing for Reinsurance transactions.	**MWG Update:** Continue to monitor cross-border reinsurance market and continue dialogue with other jurisdictions. The MWG met July 8 to receive a report of crossborder reinsurance activity and trends. State regulators requested NAIC run additional metrics. Continue to monitor and asses ceded reserves offshore by transaction type, ie., MoatCo, Coinsurance, Funds WH and asset intensive reinsurance. **LATF Update: *7/16/24*** Discussions are continuing on a potential proposal to require Asset Adequacy Testing for certain reinsurance transactions. Comments on the potential proposal will be heard at a 7/25/24 meeting of LATF with additional discussions expected to take place at the LATF session of the Summer National Meeting.

RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE

Receivership and Insolvency (E) Task Force Aug. 14, 2024, Minutes 9-965
Receivership and Insolvency (E) Task Force 2025 Proposed Charges (Attachment One) 9-968
Report of the Receivership Law (E) Working Group (Attachment Two) 9-970
Federal Home Loan Bank (FHLB) Exemption Legislation in States' Receivership Laws (Attachment Two-A) 9-974
Provisions of *Insurer Receivership Model Act* (#555) (Attachment Two-B) 9-976

© 2024 National Association of Insurance Commissioners

Draft: 8/19/24

Receivership and Insolvency (E) Task Force
Chicago, Illinois
August 14, 2024

The Receivership and Insolvency (E) Task Force met in Chicago, IL, Aug. 14, 2024. The following Task Force members participated: Ann Gillespie, Chair, represented by Kevin Baldwin (IL); Glen Mulready, Vice Chair, represented by Donna Wilson (OK); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Lorenzo Alexander and Marie McKitt (AL); Michael Conway represented by Rolf Kaumann and Cindy Hathaway (CO); Andrew N. Mais represented by Jane Callahan (CT); Karima M. Woods represented by N. Kevin Brown (DC); Michael Yaworsky represented by Yamile Benitez-Torviso (FL); Doug Ommen represented by Daniel Mathis (IA); Vicki Schmidt represented by Chut Tee (KS); Sharon P. Clark represented by Russell Coy (KY); Timothy J. Temple represented by Matthew Stewart and David Caldwell (LA); Kevin P. Beagan represented by Christopher Joyce (MA); Robert L. Carey represented by Robert Wake (ME); Chlora Lindley-Myers represented by Shelley Forrest (MO); Mike Causey represented by Angela Hatchell (NC); Jon Godfread represented by Colton Schulz (ND); Eric Dunning represented by Tadd Wegner (NE); Justin Zimmerman represented by David Wolf (NJ); Judith L. French represented by Sean Sheridan (OH); Andrew R. Stolfi represented by Kirsten Anderson (OR); Michael Humphreys represented by Laura Lyon Slaymaker and Joe Cho (PA); Elizabeth Kelleher Dwyer represented by Matt Gendron (RI); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jessica Barta (TX); Scott A. White represented by Dan Bumpus (VA); Mike Kreidler represented by Charles Malone (WA); and Nathan Houdek represented by Mark McNabb (WI).

1. Adopted its Spring National Meeting Minutes

Schultz made a motion, seconded by Wilson, to adopt the Task Force's March 17 minutes (*see NAIC Proceedings – Spring 2024, Receivership and Insolvency (E) Task Force*). The motion passed unanimously.

2. Adopted its 2025 Proposed Charges

Baldwin said the 2025 proposed charges do not contain any substantive edits. The charges were released for a 14-day public comment period that ended Aug. 9. No comments were received.

Gendron made a motion, seconded by Malone, to adopt the 2025 proposed charges of the Task Force and its working groups (Attachment One). The motion passed unanimously.

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

Wilson said the Receivership Financial Analysis (E) Working Group met Aug. 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.

Slaymaker made a motion, seconded by Gendron, to adopt the report of the Receivership Financial Analysis (E) Working Group. The motion passed unanimously.

4. Adopted the Report of the Receivership Law (E) Working Group

Slaymaker said the Receivership Law (E) Working Group met July 24. During this meeting, the Working Group heard an overview and update on the status of states' adoption of the Federal Home Loan Bank's (FHLB's) legislation regarding exemptions to stays and injunctions in receivership. Since this topic was first discussed in

© 2024 National Association of Insurance Commissioners

2013, 29 states have adopted similar exemption legislation, and two states have pending legislation. NAIC staff have made available a list of the states with legislation and the states' legal citations on the Task Force's web page to assist the remaining states that may be approached with proposed legislation. Additionally, for state insurance regulators who may want to review the language that other states have adopted, the details are posted to StateNet. State insurance regulators can also contact NAIC staff for information.

Slaymaker said the Working Group heard a presentation on the results of the litigation in Pennsylvania on Penn Treaty Network America (Penn Treaty) and how the issues from that litigation about continuation of coverage and over-the-cap claims relate to the current *Insurer Receivership Model Law* (#555). The three key issues regarding Penn Treaty were: 1) the provision that the rights and liabilities of the parties should be fixed at the time of the liquidation or at such time as the court orders; 2) the provision for the termination of coverage no later than 30 days following the liquidation order, absent certain specific circumstances; and 3) the principle that subclasses of policyholder claims cannot be created in the priority scheme.

Slaymaker said the three issues could be addressed if a state has provisions similar to Model #555 Sections 501 and 502 in its law. It is also helpful to have Section 801. In 2019, the Task Force looked at states' laws and determined wide variances between states that had Section 502, those that had an older version, and those that had no similar provision. All states that do not have the current version of Model #555 Sections 501, 502, and 801 are strongly encouraged to review and update receivership laws to avoid similar issues that may arise in future insolvencies.

Schultz made a motion, seconded by Wolf, to adopt the report of the Receivership Law (E) Working Group (Attachment Two). The motion passed unanimously.

5. Heard a Report on International Resolution Activities

Wake said the International Association of Insurance Supervisors (IAIS) Resolution Working Group is reviewing comments received on the public consultation of the revisions to Insurance Core Principle (ICP) 12 (Exit from the Market and Resolution) and ICP 16 (Enterprise Risk Management for Solvency Purposes) related to recovery and resolution. After receiving feedback from the IAIS Supervisory Material Review Task Force, the Resolution Working Group is expected to meet Sept. 11–12 in Basel, Switzerland, to review the draft response and prepare a report for its parent committee, the IAIS Policy Development Committee.

6. Heard an Update from RRC on Upcoming IAIR Events

Jan Moenck (Risk & Regulatory Consulting—RRC) said the International Association of Insurance Receivers (IAIR) has several upcoming events planned. The IAIR will hold a virtual training event Sept. 10 focused on ethics and a two-day training event Oct. 16–17 focused on early detection of financial issues. The IAIR plans to hold its next issues forum, guaranty fund forum, and roundtable session in conjunction with the Fall National Meeting.

7. Heard an Update from the NCIGF on the Proposed Federal APRA

Ashley Rosenberger (National Conference of Insurance Guaranty Funds—NCIGF) said the NCIGF has formed a subcommittee to review the scope and applicability of the proposed federal American Privacy Rights Act (APRA) to data of the NCIGF and states' guaranty funds. She said the APRA creates obligation for certain defined organizations that possess consumers covered data as the bill defines it, and it provides consumers with specific rights and powers with respect to their covered data. Based on this review, APRA may apply to NCIGF, its subsidiary Guaranty Support Inc. (GSI), and its property and casualty guaranty funds, which have covered data as described in the bill. APRA was designed to apply to organizations that gather and monetize data or sell it. NCIGF believes it is not an intended entity. The language in APRA may not be precise enough to exclude the NCIGF, GSI

© 2024 National Association of Insurance Commissioners

and the guaranty funds. NCIGF subcommittee has put together language to exclude NCIGF from this bill or future bills. She said the NCIGF is in communication with congressional staff to discuss why NCIGF, GSI and guaranty funds should be excluded, because data is not monetized, aggregated, or sold. Data is used to fulfil statutory obligations to pay and settle covered claims. Compliance with APRA may require more staff that would be unduly burdensome. She said NCIGF believes it falls into the category of service provider, which has less burdensome requirements under the bill, but may require changes to policies and practices. She said the subcommittee thought it may also apply to receivers and the estate they are responsible for, if they possess the covered data as defined in the bill. However, NCIGF did not see how states were specifically addressed in the bill.

Baldwin said this may be a topic for the Receivership Law (E) Working Group to review.

8. Heard an Update on an Insurer in Liquidation

Mark Bennett (Cantilo & Bennett LLP) said the U.S. Court of Appeals for the DC Circuit issued a ruling Aug. 9, 2024, in the case of Richardson, as Receiver of Nevada Health Co-Op v. U.S., where the receiver prevailed. The Court of Appeals ruled the U.S. government had no right to offset the Affordable Care Act's (ACA's) Consumer Operated and Oriented Plan's (Co-Op's) start-up loans against the $55 million in statutory amounts owed to Nevada Health under the ACA's risk corridor, reinsurance, risk adjustment, and cost sharing reduction programs.

Bennett said it is uncertain how this and other related rulings could impact federal claims in future estates. He said there are still lengthy delays in receiving responses from the U.S. government to requests for federal waivers. Jane Koenigsman (NAIC) said state sponsors are needed to propose an amendment to the Federal Priority Act to address the timeliness of receipt of federal waivers.

Having no further business, the Receivership and Insolvency (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/RITF/2024 Summer NM/RITF_Minutes_081424.docx

© 2024 National Association of Insurance Commissioners

Adopted by the Receivership and Insolvency (E) Task Force, Aug. 14, 2024

2025 Proposed Charges
RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE

The mission of the Receivership and Insolvency (E) Task Force is to be administrative and substantive on issues concerning insurer insolvencies and insolvency guarantees. Such duties include, without limitation: 1) monitoring the effectiveness and performance of the state administration of receiverships and the state guaranty fund system; 2) coordinating cooperation and communication among state insurance regulators, receivers, and guaranty funds; 3) monitoring ongoing receiverships and reporting on such receiverships to NAIC members; 4) developing and providing educational and training programs in the area of insurer insolvencies and insolvency guarantees to state insurance regulators, professionals, and consumers; 5) developing and monitoring relevant model laws, guidelines, and products; and 6) providing resources for state insurance regulators and professionals to promote efficient operations of receiverships and guaranty funds.

Ongoing Support of NAIC Programs, Products, or Services

1. The **Receivership and Insolvency (E) Task Force** will:
   A. Monitor and promote efficient operations of insurance receiverships and guaranty associations.
   B. Monitor and promote state adoption of insurance receivership and guaranty association model acts and regulations, and monitor other legislation related to insurance receiverships and guaranty associations.
   C. Provide input and comments to the International Association of Insurance Supervisors (IAIS), the Financial Stability Board (FSB), and other related groups on issues regarding international resolution authority.
   D. Monitor, review, and provide input on federal rulemaking and studies related to insurance receiverships.
   E. Provide an ongoing review of the *Receiver's Handbook for Insurance Company Insolvencies* (Receiver's Handbook), other related NAIC publications, and the Global Receivership Information Database (GRID), and make any necessary updates.
   F. Monitor the work of other NAIC committees, task forces, and working groups to identify and address any issues that affect receivership law and/or regulatory guidance.
   G. Perform additional work as directed by the Financial Condition (E) Committee and/or received through referrals by other groups.

2. The **Receivership Financial Analysis (E) Working Group** will:
   A. Monitor receiverships involving nationally significant insurers/groups to support, encourage, promote, and coordinate multistate efforts in addressing problems.
   B. Interact with the Financial Analysis (E) Working Group, domiciliary regulators, and lead states to assist and advise on the most appropriate regulatory strategies, methods, and/or action(s) regarding potential or pending receiverships.

3. The **Receivership Law (E) Working Group** will:
   A. Review and provide recommendations on any issues identified that may affect states' receivership and guaranty association laws (e.g., any issues that arise as a result of market conditions, insurer insolvencies, federal rulemaking and studies, international resolution initiatives, or the work performed by or referred from other NAIC committees, task forces, and/or working groups).
   B. Discuss significant cases that may affect the administration of receiverships.

NAIC Support Staff: Jane Koenigsman
SharePoint/NAIC Support Staff Hub/Member Meetings/E CMTE/RITF/2024 Summer NM/2025 Proposed Charges.docx

© 2024 National Association of Insurance Commissioners

This page intentionally left blank.

© 2024 National Association of Insurance Commissioners

Draft: 8/1/24

Receivership Law (E) Working Group
Virtual Meeting
July 24, 2024

The Receivership Law (E) Working Group of the Receivership and Insolvency (E) Task Force met July 24, 2024. The following Working Group members participated: Kevin Baldwin, Co-Chair (IL); Laura Lyon Slaymaker, Co-Chair (PA); Joe Holloway and Jack Hom (CA); Jane Callanan (CT); Yamile Benitez-Torviso (FL); Kim Cross (IA); Tom Travis (LA); Christopher Joyce (MA); Robert Wake (ME); Tom Mitchell (MI); Shelley Forrest (MO); David Ashton (TX); and Charles Malone (WA).

1. Heard an Overview and Update on States' Adoption of Receivership Law Provisions for FHLB Exemption to Stays and Injunctions

Baldwin said that at the Spring National Meeting, the Receivership and Insolvency (E) Task Force asked the Working Group to re-educate and develop helpful aids to assist states that may be approached to adopt this FHLB exemption to stays and injunctions.

Baldwin said that in the fall of 2012, the Federal Home Loan Bank (FHLB), at the request of its regulator, the Federal Housing Finance Agency (FHFA), sent a request to the Receivership and Insolvency (E) Task Force with a legislative proposal with draft language to the *Insurance Receivership Model Act* (#555) or equivalent state statues, to include pledges, security, and collateral relating to an FHLB security agreement within the exemptions to stays and injunctions in Section 108 regarding avoidable preferences and liens in Section 604. The proposal would result in FHLB collateral for loans made to insurers being treated similarly to loans made to member banks under federal bankruptcy laws.

Baldwin said that in 2013, the NAIC's Federal Home Loan Bank Legislation (E) Subgroup and Receivership and Insolvency (E) Task Force concluded a study of the proposal and issued a report in which they concluded that state insurance regulators do not support or oppose the FHLB's legislative proposal. State insurance regulators recognized that access to FHLB funding can be beneficial for insurers seeking liquidity options. The report offered several recommendations to the state insurance regulators, including: 1) the need for states to assess their own laws; 2) suggesting alternative language to address communication by an FHLB of the process and timing for the release of excess collateral, payment of fees, and available options for the insurer to renew or restructure; and 3) the need for regulatory oversight and pre-receivership planning of an insurer's use of FHLB agreements.

Baldwin said the key benefit of FHLB membership is the ability to provide liquidity funding options to insurance company members without the added collateral that the FHLB may have required if the exemptions are not in place. Many state insurance regulators did not want to jeopardize access to that liquidity option or make it more difficult or costly for insurers. The concern expressed by state insurance regulators and receivers was the generally high collateral requirements required under FHLB membership agreements and whether a receiver would have adequate time upon entering a receivership order without a stay to assess the agreements, the collateral requirements, and asset quality before the FHLB takes action under the agreement. However, some states expressed that in terms of priority of claims, the FHLB would already be considered a secured creditor up to the amount of its collateral, so the agreement would be treated similarly to other secured creditor agreements, but for the temporary stay. Baldwin said that since 29 states have adopted an exemption so far, the benefits of FHLB lending appear to outweigh the concerns in a majority of states.

© 2024 National Association of Insurance Commissioners

Baldwin said there may be a few differences in how states have incorporated the exemption into the law. Some states have included the FHLB exemption in the section authorizing stays. In Illinois, where stays are issued under the receivership court's general statutory and adjunctive powers, the FHLB exemption was instead placed in the avoidable preference statute.

Baldwin said Rhode Island and Utah are the most recent to adopt exemptions this year. Legislation was also introduced in Connecticut earlier this year.

Baldwin highlighted two resources for state insurance regulators. First is a list of states' legislative actions that will be posted to the Receivership and Insolvency (E) Task Force's web page (Attachment Two-A). The list is aimed at assisting any state insurance regulators that the FHLB may approach to have more information about which other states have incorporated these legislative requests into state law. The details of the legislative provisions in each state's law will be posted to StateNet for state insurance regulators or can be requested from NAIC staff. Baldwin asked that any state insurance department with pending legislation or that recently enacted this provision and is not on the list please notify NAIC staff so that the list can be updated.

2. Heard a Presentation on the Outcome of Recent Litigation Regarding Penn Treaty

Slaymaker said that at the Receivership and Insolvency (E) Task Force's meeting during the Spring National Meeting, state insurance regulators were reminded why it is important to consider legislative amendments to address provisions in the law that had previously been identified as important during the Task Force's macroprudential assessment. The topic of continuation of coverage and exclusions for life and health business was one of those provisions. The Task Force did a study in 2019 that showed wide variances between states that had adopted Section 502 of Model #555, those with an older version of Section 502, and those with no provision. There was recent litigation in Pennsylvania related to the continuation of coverage and over-the-cap claims with the Penn Treaty Network America Insurance Company (Penn Treaty) receivership. It is important for all states to understand the outcome of this case and how it relates to provisions in each state's laws or the need for such a provision.

Michael Broadbent (Cozen O'Connor) discussed the provisions of Model #555 that address the three key issues identified by the Penn Treaty litigation (Attachment Two-B). Penn Treaty was the second largest long-term care (LTC) insurer that entered rehabilitation in 2009 and liquidation in 2017. During that liquidation phase, the liquidators sought to set aside a portion of the assets to pay for over-the-limit or over-the-cap benefits (i.e., benefits that the policyholders would have been entitled to absent the liquidation) on claims that exceeded the guaranty association limits. Pennsylvania law does not have the related Model #555 provisions. The Pennsylvania law had a few specific provisions that the court analyzed in relation to three important issues. First was the provision that the rights and liabilities of the parties should be fixed at the time of the liquidation or at such time as the court orders. Second, and perhaps most important, was the provision for the termination of coverage no later than 30 days following the liquidation order, absent certain specific circumstances. Third was the principle that subclasses of policyholder claims cannot be created in the priority scheme. This means that the benefits within each policy cannot be split, such that some benefits are paid within one class, and other benefits are in another class. There needs to be a single class of policyholder claims.

Broadbent said the Supreme Court of Pennsylvania found that there was no statutory authority or any standard that would guide the proposed plan to pay the over-the-limit benefits using estate assets. The Court was clear that Pennsylvania law terminated coverage at liquidation and did not expressly authorize the use of the estate assets to pay for these benefits. This reflected the idea that if there was neither a clear direction that this was permissible nor a framework for the liquidator to bring the proposal and have it analyzed by the court, then the

© 2024 National Association of Insurance Commissioners

liquidator could not pursue a plan to distribute these assets in any circumstance. As part of that decision, the Commonwealth Court of Pennsylvania specifically drew a contrast to Model #555 and highlighted that Pennsylvania had not adopted the provisions. The Court viewed not having adopted those provisions as a reflection that Pennsylvania did not provide the authority for the liquidator to make a plan to pay the over-the-limit benefits.

Broadbent explained these three key issues as they relate to Model #555 provisions. He said under Section 501 of Model #555, rights and liabilities are fixed at the time of liquidation unless the court fixes them otherwise, pursuant to another section of the law or pursuant to its order.

Broadbent said the most significant changes come in Section 502, which addresses the cancellation or continuation of coverage issues critical in the Penn Treaty litigation. One of the concerns of the Court with Penn Treaty was that no later than 30 days after the liquidation order, there was no insurance coverage available for LTC policyholders beyond the benefits provided to them by the guaranty associations. Section 502 addresses that issue directly, and it splits it into: 1) the automatic continuation of coverage, whereby it automatically continues for those obligations that will be satisfied by the guaranty associations; and 2) the permissive continuation of coverage, whereby it permits the liquidator to seek the Court's approval to continue the coverage for that portion of the policy that the guaranty association does not cover. Subsection 502(B) removes life, disability income, LTC, health insurance, and annuities from the automatic application of the 30-day cancellation rule and then provides that those policies can be continued for a longer or shorter period. The date of the cancellation of coverage could be set at the liquidator's request, where the court approves.

Broadbent said the third problem the Court identified in the liquidator's plan was creating subclasses by breaking up the policy benefits. Section 801 addresses that concern directly by placing the claims that fall within the continued coverage period after 30 days of the liquidation order within the same priority class as the other policyholder-level claims, thereby solving the concern that the Court raised in addressing the liquidator's proposal.

Broadbent said all three highlighted issues are addressed in Sections 501, 502, and 801. At a minimum, the provisions provide a framework for analyzing these three questions. By making the continuation of the coverage past 30 days, or the portion not covered by a guaranty association, permissive, the liquidator has to bring a proposal and seek the Court's approval. These provisions of Model #555 provide for the possibility of an over-the-limit benefit and how it should be handled. This is an advantage over the existing approach in most states, which have either part or none of these Model #555 sections. Whether a state insurance regulator believes it is equitable or inequitable to provide for over-the-limit benefits, it is better to have the statutory authorization to propose such benefit payments. The Model #555 provisions give clarity and consistency that benefit all involved parties and would limit some litigation expenses that might arise to the extent of disagreement on whether it is permissible in a particular state or advisable in that estate.

Broadbent said Model #555 provisions fit into finding a framework for the questions presented in the Penn Treaty liquidation and, in his view, are a good argument for state insurance departments to adopt these provisions to provide a structure for future estates.

Baldwin said adopting Subsection 502(B) would be extremely helpful. He asked if Section 801 is necessary or if it would just be helpful because if a state has Subsection 502(B), these claims are still by policyholders and, as a matter of presumption, would be at the same priority level. Claims for continuation of coverage should be at the same priority level as claims incurred prior to fixing rights and liabilities.

Broadbent said it is perhaps unnecessary to have Section 801, but it is helpful. If a state does not have Section 801, he does not know what arguments could be made by someone who wanted to oppose setting aside assets

to pay the benefits of continued coverage. In the absence of Section 801 or something similar, the argument could be made that Section 502 achieves the outcome, but he feels it is helpful to have that expressly provided for in the statute. More available evidence of what the statute intends limits the questions that a court may face to the extent of disagreement.

Baldwin said this presentation was a good start for state insurance regulators to think about this issue within states' laws.

Having no further business, the Receivership Law (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/2024 NAIC Meetings/Summer National Meeting/E Committee/RITF/072424_RLWG minutes.docx

© 2024 National Association of Insurance Commissioners

Legislative Status by State:

- Enacted Legislation (29): AL, AZ, CO, DE, GA, IL, IN, IA, KS, KY, MD, MI, MN, MO, MS, NE, NC, NH, NJ, OH, OK, PA, RI, SC, TN, UT, VT, WI, WV
- Pending Legislation (2): CT, MA

State	Bill Number / Link	Status
ALABAMA	HB 370	Law Enacted 5/11/16
ARIZONA	SB 1049 (part of a larger omnibus bill)	Law Enacted 2/9/21
COLORADO	H. 1215	Law Enacted 3/21/14
CONNECTICUT	SB 323	Introduced 2/29/24
DELAWARE	S. 154	Law Enacted 4/8/14
GEORGIA	HB 552 (originally HB 624)	Law Enacted 5/5/15
ILLINOIS	SB 1297	Law Enacted 8/11/17
INDIANA	S. 1486; 27-9-3.1-12; 27-9-3.1-17; Title 27	Law Enacted 4/6/11
IOWA	S. 2133	Law Enacted 3/14/14
KANSAS	H. 2514	Law Enacted 3/25/14
KENTUCKY	HB 171	Law Enacted 3/30/22
MARYLAND	HB 504; SB 458	Law Enacted 5/30/21
MASSACHUSETTS	SB 641 (https://malegislature.gov/Bills/193/S641)	Introduced 1/19/23
MICHIGAN	S. 937	Law Enacted 6/14/12
MINNESOTA	HF 3255 (part of a larger budget bill)	Law Enacted 6/2/22
MISSOURI	SB 932	Law Enacted 7/1/16
MISSISSIPPI	SB 2227	Law Enacted 3/10/23
NEBRASKA	L. 337	Law Enacted 3/20/13
NEW HAMPSHIRE	SB 66	Law Enacted 7/28/23
NEW JERSEY	A 1746	Law Enacted 11/20/23
NORTH CAROLINA	HB 440	Law Enacted 7/21/17
OHIO	SB 169	Law Enacted 12/22/17
OKLAHOMA	S. 697	Law Enacted 4/22/13
PENNSYLVANIA	HB 2353	Law Enacted 10/14/14

© 2024 National Association of Insurance Commissioners

State	Bill Number / Link	Status
RHODE ISLAND	H7432; S2270	Law Enacted 6/17/24
SOUTH CAROLINA	S. 693	Law Enacted 5/26/16
TENNESSEE	HB 673	Law Enacted 5/21/19
UTAH	SB 31	Law Enacted 3/13/24
VERMONT	SB 95	Law Enacted 6/6/23
WASHINGTON	SB 5400	Introduced 1/10/22. Died upon adjournment.
WEST VIRGINIA	HB 2461	Law Enacted 4/1/15
WISCONSIN	AB 822	Law Enacted 4/16/18

History:
In the fall of 2012 the Federal Home Loan Banks (FHLB), at the request of its regulator (the Federal Housing Finance Agency—FHFA), sent a request to the Receivership and Insolvency (E) Task Force with a legislative proposal that would have FHLB collateral relating to loans made to its insurer-members treated the same in receivership as FHLB collateral relating to loans made to its FDIC-insured member banks is treated in a federal bankruptcy. Specifically, the FHLB proposal offered draft language to the *Insurance Receivership Model Act* (IRMA Model #555) or equivalent state statues, to include pledges, security and collateral relating to a FHLB security agreement within the exemptions to its stays and injunctions (IRMA Section 108) and voidable preferences and liens (IRMA Section 604).

The FHLB proposal is posted to the NAIC website at:
https://content.naic.org/sites/default/files/committee_related_documents/committees_e_receivership_related_fhlb_exec_summary.pdf

In 2013, the NAIC's Federal Home Loan Bank Legislation (E) Subgroup and Receivership and Insolvency (E) Task Force concluded its review of the proposal and issued a report which states that it does not support or oppose the FHLB's legislative proposal. However, the report did offer several recommendations to the states, including the need for states to assess their own laws; suggested alternative language to address communication by a FHLB, at the request of the receiver, of the process and timing for the release of excess collateral, payment of fees and available options for an insurer-member to renew or restructure an advance to defer associated prepayment fees, and etc.; and the need for regulatory oversight and pre-receivership planning of insurer's use of FHLB agreements.

The Task Force Memo is posted to the NAIC website at:
https://content.naic.org/sites/default/files/committee_related_documents/committees_e_receivership_related_fhlb_1311_sg_report.pdf

© 2024 National Association of Insurance Commissioners

To: Laura Slaymaker, Deputy Commissioner, Pennsylvania Insurance Department
From: Michael Broadbent, Cozen O'Connor
RE: Receivership Law Working Group; IRMA
Date: July 19, 2024

This Memorandum briefly summarizes the provisions of Insurance Receivership Model Act ("IRMA") addressed to benefits in excess of guaranty association limits on claims arising more than thirty days after the entry of a liquidation order (the "OTL Benefits").

The OTL Benefits issue was specifically highlighted in the liquidation of Penn Treaty, where the court held that Pennsylvania law automatically terminated all insurance policies and the coverage associated with those policies no later than thirty days after the entry of a liquidation order, except to the extent the policies or coverage was transferred to another insurer or the guaranty associations. *See* 40 P.S. § 221.21. The rights and liabilities of the parties were fixed as of the liquidation order, except to the extent coverage was continued under § 221.21 or certain "Special Claims" language applied. Taken together, these provisions and prior case law precluded policyholders with OTL Benefits claims arising post-liquidation from receiving distributions together with other covered claims in second priority class for "[a]ll claims under policies for losses wherever incurred." 40 P.S. § 221.44(b).

IRMA provides one possible method for addressing the issue as presented in *Penn Treaty*, although other alternatives may be available to meet specific state needs. Under the header of "Continuation of Coverage," IRMA § 502B carves out "life, disability income, long term care or health insurance or annuities" from the standard no-more-than-thirty-days cancellation provision. Instead, the coverage provided by such policies is continued (1) to allow for guaranty association coverage, *and* (2) to the extent approved by the court for policies or portions of policies not covered by guaranty associations. *See* IRMA § 502D. In this way, IRMA makes a logical distinction between the automatic continuation of benefits within guaranty association limits (because such coverage is required to allow the associations to fulfill their obligations) and the permissive continuation of uncovered benefits (because OTL Benefits may appropriate in some cases but not in others).

IRMA expressly authorizes the liquidator to continue the uncovered portion of coverage until "a date proposed by the liquidator and approved by the receivership court to cancel coverage." *See* IRMA §§ 502B, D; *see also* IRMA § 501B (rights and liabilities to be fixed on set date).[1] IRMA also provides guidelines for the use of reinsurance for uncovered policies and uncovered portions of policies that are continued by court approval under the process described in § 502. *See* IRMA § 612.

Importantly, the distribution scheme in IRMA § 801 also provides that claims "incurred during the extension of coverage provided for in Section 502" are in the same priority class as nearly all other policyholder loss claims under the category of "[a]ll claims under policies of insurance." As a result, the Liquidator may request and obtain court approval for continuing coverage on the portion of policies not covered by the guaranty associations, and, having obtained such approval, the Liquidator may use estate assets to pay the OTL Benefits within the class of policyholder claims arising pre-liquidation.

Relevant portions of IRMA § 502 appear below with key language emphasized in bold.

[1] The liquidator can propose a period that is more or less than thirty days. *See* IRMA § 502 Drafting Note (referencing shorter period of time); § 502B (permitting "further exten[sion]" of time); *see also* §§ 502D, 801C.

© 2024 National Association of Insurance Commissioners

Section 502

B. **Notwithstanding any policy or contract language or any other statute, all policies, insurance contracts** (other than reinsurance by which the insurer has ceded insurance obligations to another person), surety bonds or surety undertakings, **other than life, disability income, long term care or health insurance or annuities, in effect at the time of issuance of an order of liquidation shall continue in force as provided in this section**, unless further extended by the receiver with the approval of the receivership court, until the earlier of:

(1) Thirty (30) days from the date of entry of the liquidation order;

(2) The date of expiration of the policy coverage;

(3) The date the insured has replaced the insurance coverage with equivalent insurance with another insurer or otherwise terminated the policy;

(4) The date the liquidator has effected a transfer of the policy obligation pursuant to Section 504A(5); or

(5) The date proposed by the liquidator and approved by the receivership court to cancel coverage.

D. Policies of life, disability income, long term care or health insurance or annuities covered by a guaranty association or portions of such policies covered by one or more guaranty associations, under applicable law, shall continue in force, subject to the terms of the policy (including any terms restructured pursuant to a court-approved rehabilitation plan) to the extent necessary to permit the guaranty associations to discharge their statutory obligations. **Policies of life, disability income, long term care or health insurance or annuities, or portions of such policies, not covered by one or more guaranty associations shall terminate as provided under Subsection B**, except to the extent the liquidator proposes and the receivership court approves the use of property of the estate, consistent with Section 801, for the purpose of continuing the contracts or coverage by transferring them to an assuming reinsurer.

© 2024 National Association of Insurance Commissioners

REINSURANCE (E) TASK FORCE

Reinsurance (E) Task Force July 22, 2024, Minutes 9-979
Reinsurance (E) Task Force and Reinsurance Financial Analysis (E) Working Group 2025 Proposed Charges (Attachment One) 9-983
Memorandum to the Valuation Analysis (E) Working Group, Life Risk-Based Capital (E) Working Group, and Reinsurance (E) Task Force from the Statutory Accounting Principles (E) Working Group Dated March 19, 2024, Regarding Statutory Accounting Principles (E) Working Group Exposures on Life Reinsurance (Attachment Two) 9-985

© 2024 National Association of Insurance Commissioners

Draft: 8/3/24

Reinsurance (E) Task Force
Virtual Meeting (*in lieu of meeting at the 2024 Summer National Meeting*)
July 22, 2024

The Reinsurance (E) Task Force met July 22, 2024. The following Task Force members participated: Chlora Lindley-Myers, Chair, represented by John Rehagen (MO); Ricardo Lara, Vice Chair, represented by Monica Macaluso (CA); Mark Fowler represented by Todrick Burks (AL); Lori K. Wing-Heier represented by David Phifer (AK); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by William Arfanis (CT); Trinidad Navarro represented by Charles Santana (DE); Michael Yaworsky represented by Jane Nelson (FL); John F. King represented by Bryce Rawson (GA); Doug Ommen represented by Kim Cross and Kevin Clark (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Vicki Lloyd (KY); Timothy J. Temple represented by Melissa Gibson (LA); Kevin P. Beagan represented by Christopher Joyce (MA); Robert L. Carey represented by Robert Wake (ME); Grace Arnold represented by Fred Andersen (MN); Mike Chaney represented by Chad Bridges (MS); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Chris Amory (NE); D.J. Bettencourt represented by Doug Bartlett (NH); Justin Zimmerman represented by David Wolf (NJ); Alice T. Kane represented by Don Gilbert (NM); Adrienne A. Harris represented by Martha Lees and Bob Kasinow (NY); Judith L. French represented by Cam Piatt (OH); Glen Mulready represented by Eli Snowbarger (OK); 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 Doug Stolte (VA); and Nathan Houdek represented by Mark McNabb (WI).

1. Adopted its Spring National Meeting Minutes

Obusek made a motion, seconded by Kaumann, to adopt the Task Force's Feb. 26 minutes (*see NAIC Proceedings—Spring 2024, Reinsurance (E) Task Force*). The motion passed unanimously.

2. Adopted its 2025 Proposed Charges

Rehagen noted that the Task Force's 2025 proposed charges included minor revisions from 2024 to reflect the current duties of the Task Force and the Reinsurance Financial Analysis (E) Working Group.

Eft made a motion, seconded by Joyce, to adopt the 2025 proposed charges of the Task Force and the Reinsurance Financial Analysis (E) Working Group (Attachment One). The motion passed unanimously.

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

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 June 27, May 13, and March 28 to approve several certified and reciprocal jurisdiction reinsurers for passporting.

Kaumann stated that the Working Group has now approved 85 reciprocal jurisdiction reinsurers and 41 certified reinsurers for passporting and that 49 states have passported a reciprocal jurisdiction reinsurer. He noted that the list of passported reinsurers can be found on the Certified and Reciprocal Jurisdiction Reinsurer web page.

Kaumann made a motion, seconded by Wake, to adopt the report of the Reinsurance Financial Analysis (E) Working Group. The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

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 Nov. 1, 2023, in regulator-to-regulator session, pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings, where the Working Group reapproved the status of Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK) as qualified jurisdictions and Bermuda, Japan, and Switzerland as reciprocal jurisdictions. He noted that Bermuda, Japan, and the UK are in the process of making changes to their regulatory systems and that NAIC staff are monitoring the implementation of these changes and will report any findings to the Working Group.

5. Discussed Ongoing Projects at the NAIC That Affect Reinsurance

Rehagen stated that a project had been started in the Life Actuarial (A) Task Force that would require asset adequacy testing (AAT) to be performed using a cash flow testing methodology for life and annuity reinsurance transactions. He stated that this project was proposed by several state insurance regulators and recommends changes to the AAT methodology for the assets that support reinsurance transactions. He stated that this project was discussed publicly at the Life Actuarial (A) Task Force's June 20, Feb. 15, and Feb. 8 meetings and noted that there was substantial discussion during those meetings. Rehagen provided an opportunity for Task Force members, interested state insurance regulators, and other interested parties to provide comments on the project.

Andersen stated that the Life Actuarial (A) Task Force was scheduled to meet July 25 to conduct a detailed discussion of the comment letters received from the June 20 exposure.

Karalee Morell (Reinsurance Association of America—RAA) spoke on behalf of the RAA, Swiss Re, and Hannover Re. She stated that her group recognizes that there are valid regulatory concerns, and they are committed to working together to find appropriate solutions. She also stressed the importance of coordination between NAIC groups to ensure that there is no duplication of efforts. She stated that her group believes that the current proposals being considered would create some unnecessary obstacles that will negatively impact the insurance marketplace without addressing the regulator's fundamental concern. She noted that their belief is that the core regulator concern is collectability, not reserving levels; therefore, any solutions should be directly targeted at that issue. In addition, it is critically important that any action taken by the NAIC be consistent with 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) and collateral treatment extended to reciprocal jurisdictions and reciprocal jurisdiction reinsurers under those agreements.

Brian Bayerle (American Council of Life Insurers—ACLI) stated that his group intends to work with the state insurance regulators to develop the necessary tools to assess and mitigate insurance risks while ensuring consumer access to life and retirement products. He noted that reinsurance remains a vital tool for proper risk management and that the NAIC effort should encourage the responsible use of reinsurance and make a great effort not to disrupt this critical marketplace. He stated that his group believes it is critical that the various work streams be coordinated at the NAIC and that industry wants to ensure whatever additional requirements arise out of these efforts are value added to the regulators' regulatory responsibilities and truly address these underlying concerns. He noted that they further want to seek coordination to avoid any duplicate work or contradictory requirements. He noted that it is critical that the state insurance regulators get the scope right to avoid unnecessary work that does not aid in their review of the companies. Specifically, it is necessary and appropriate, depending on the degree of additional work, that these requirements for AAT must be applied prospectively only. He stated that his group supports a disclosure-based framework that leverages the good work that companies are already doing when they enter a reinsurance transaction. Additionally, the ACLI encourages

© 2024 National Association of Insurance Commissioners

the NAIC to look closely at the proposed requirements and how they would align with existing requirements, such as the EU and UK Covered Agreements.

Patricia Matson (Risk and Regulatory Consulting—RRC) stated that her firm has been involved with many transactions that involve moving business offshore and noted that based on what they have seen firsthand, the amount of assets that back the policyholder obligations declined significantly. She noted that she strongly believes that there does need to be a solution to address the decline in assets and is in favor of requirements for the appointed actuary to directly assess the adequacy of the invested assets and reserves in order to make sure that the assets are sufficient to support the policyholder obligations even after a reinsurance transaction. She stated that she does not believe that evaluation of counterparty risk or disclosures alone is sufficient to address the issue. She noted that there are already many disclosures required as those transactions occur, and counterparty risk has to be evaluated by the actuary under existing standards and that despite those requirements that already exist, there are cases where assets after the transaction are not sufficient to cover the obligations to the customer under moderately adverse conditions.

Peter Gould (Unaffiliated) stated that he is a retiree and end user of insurance products and that he depends on annuity income for a substantial portion of his retirement income. He noted that there had been rapid developments and changes in the industry. He suggested that NAIC staff and state insurance regulators begin testing these proposed procedures on real-life data from companies that are currently or have previously failed or are in rehabilitation to help provide an early warning of these problems to fix so that policyholders will not be dependent on state guaranty associations. He stressed the importance of this project and the financial impact that a failure by a company could have on end users of these products.

Mark Tenney (Mathematical Finance Company) noted that his main comment relates to collectability. He stated that the International Monetary Fund's (IMF's) views are that Latin America and offshore islands currently have measures that restrict capital flows during crises, so if there is a financial crisis, the IMF supports these countries in limiting outflows of capital. He stated that if state insurance regulators are expecting that during a crisis there are going to be capital outflows from offshore. The IMF is expecting that to prevent those outflows, there will be a clash between two regulator groups. He stated that with Bermuda, for example, the private equity (PE) companies are very interested in alternative investments and noted that there is a large amount of Chinese money in the Cayman Islands and Bermuda. He noted that there may be more than $2 trillion of Chinese-related investment money that goes through variable interest entities, which are not allowed under Chinese law, and that at some point, the $2 trillion could simply disappear if a Chinese court ruled those investments were invalid. He further stated that if the reinsurers in Bermuda can purchase some investments related to that, and if it is cut off by China, then that money just disappears. Additionally, a reinsurance failure in these regions could impact efforts to try to get climate mitigation capital to flow to Latin America, and there is an estimate that they need $400 billion to $1.1 trillion per year of spending by Latin America, which is not currently happening. He noted that a large reinsurer failing would discredit the regulators in that region, which would disrupt these enormous climate flow payments that need to be made.

Jason Kehrberg (PolySystems), on behalf of the American Academy of Actuaries (Academy), stated that the Academy developed its comments to balance the view that the appointed actuary should be able to apply principles and judgment in their AAT and that they understand the need for regulators to provide additional guidance on AAT in certain situations, such as those outlined in the exposure. He recognized that reinsurance has proved to be an effective risk mitigation tool and believes that any changes to AAT requirements should avoid incentivizing insurance companies from implementing appropriate reinsurance solutions.

Jake Stultz (NAIC) stated that in 2023, the Macroprudential (E) Working Group had created a new reinsurance worksheet, which is an optional tool for state insurance regulators to get a better understanding of reinsurance transactions at the companies they regulate. He noted that the worksheet allows for more consistent and

© 2024 National Association of Insurance Commissioners

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 Condition Examiners Handbook.* He said that the work completed using the reinsurance worksheet will remain confidential. He requested that if anybody who had used the worksheet had any comments on the overall form or function, please provide those to him so they can be compiled and shared with the appropriate NAIC group.

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

Stultz noted that the Valuation Analysis (E) Working Group sent two referrals to the Statutory Accounting Principles (E) Working Group at the 2023 Fall National Meeting, and as a result, a referral that summarizes both issues was then sent to the Task Force (Attachment Two). The first referral recommends that the Working Group remove a specific sentence from Appendix A-791, Section 2C, because it is unnecessary and is being misinterpreted. The second referral requests clarification on the evaluation of risk transfer on life reinsurance treaties. He stated that these referrals will be addressed by the Statutory Accounting Principles (E) Working Group over the next several months. Stultz noted that the Statutory Accounting Principles (E) Working Group is also working on a project that proposes to expand reporting of assets that are subject to a funds withheld or modified coinsurance (modco) arrangement and that an agenda item will be exposed at the Summer National Meeting.

Stultz stated that in 2023, there was an issue with Vesttoo, a reinsurance broker, where fraudulent letters of credit had been used for collateral purposes. He noted that several groups at the NAIC had discussed the issue and are continuing to monitor the situation and that the NAIC's current understanding is that all the letters of credit have been replaced. There have been several legal settlements between Vesttoo and the impacted companies.

Stultz noted that there were several bank failures in early 2023 that impacted reinsurance since some of these banks were approved on the List of Qualified U.S. Financial Institutions (QUSFI List). He stated that the *Credit for Reinsurance Model Law* (#785) allows a letter of credit to be used as collateral under Section 3 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. He stated that a drafting note in Model #785 also clarifies what needs to be done in situations when a financial institution loses its status as a QUSFI. As a result of the bank failures, the Valuation of Securities (E) Task Force adopted a minor revision to the *Purposes and Procedures Manual* (P&P Manual) that streamlines the process of removing troubled financial institutions from the QUSFI List. He stated that he is not aware of any issues with any banks at this time but that NAIC staff will continue to monitor any news about any banks on the QUSFI List.

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

/NAICSupportStaffHub/Member Meetings/E CMTE/RTF/2024SummerNM/Meeting/Minutes/0 ReinsuranceTFmin 07.22.2024.docx

© 2024 National Association of Insurance Commissioners

2025 Proposed Charges

The mission of the **Reinsurance (E) Task Force** is to monitor and coordinate activities and areas of interest that overlap to some extent the charges of other NAIC groups—specifically the International Insurance Relations (G) Committee.

The **Reinsurance (E) Task Force** will:

1. Provide a forum for the consideration of reinsurance-related issues of public policy.

2. Oversee the activities of the Reinsurance Financial Analysis (E) Working Group.

~~2.~~3. Coordinate with the Mutual Recognition of Jurisdictions (E) Working Group on matters regarding reinsurance.

4. Communicate and coordinate with the Federal Insurance Office (FIO), other federal authorities, and international regulators and authorities on matters pertaining to reinsurance.

~~3.~~5. Monitor reinsurance-related activities of other task forces and working groups at the NAIC.

~~4.~~6. Consider any other issues related to the ~~revised~~ *Credit for Reinsurance Model Law* (#785), *Credit for Reinsurance Model Regulation* (#786), and *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787).

~~5.~~7. Monitor the development of international principles, standards, and guidance with respect to reinsurance. This includes, but is not limited to, monitoring the activities of various groups within the International Association of Insurance Supervisors (IAIS), including the Reinsurance and Other Forms of Risk Transfer Subcommittee, the Reinsurance Mutual Recognition Subgroup, and the Reinsurance Transparency Group.

~~6.~~8. Consider the impact of reinsurance-related federal legislation, including, but not limited to, the federal Nonadmitted and Reinsurance Reform Act of 2010 (NRRA) and the Federal Insurance Office Act, and coordinate any appropriate NAIC action.

~~7.~~9. Continue to monitor the impact of reinsurance-related international agreements, including the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (EU Covered Agreement) and the "Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance" (UK Covered Agreement).

2025 Proposed Charges

The **Reinsurance Financial Analysis (E) Working Group** will:

1. Operate in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, and operate in open session when discussing certified reinsurance topics and policy issues, such as amendments to the Uniform Application for Certified or Reciprocal Jurisdiction Reinsurers.

© 2024 National Association of Insurance Commissioners

2. Provide advisory support and assistance to states in the review of reinsurance collateral reduction applications. The process of reviewing applications for reinsurance collateral reduction and qualified jurisdictions should strengthen state regulation and prevent regulatory arbitrage.

3. Provide a forum for discussion among NAIC jurisdictions of reinsurance issues related to specific companies, entities, or individuals.

4. Support, encourage, promote, and coordinate multistate efforts in addressing issues related to certified reinsurers, including, but not limited to, multistate recognition of certified or reciprocal jurisdiction reinsurers.

5. Provide analytical expertise and support to the states with respect to certified reinsurers, reciprocal jurisdiction reinsurers, and applicants.

6. Provide advisory support on issues related to the determination of qualified jurisdictions.

7. Ensure the public passporting website remains current.

© 2024 National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Fred Andersen, Chair of the Valuation Analysis (E) Working Group
Rachel Hemphill, Vice Chair of the Valuation Analysis (E) Working Group
Philip Barlow, Chair of the Life Risk-Based Capital (E) Working Group
Ben Slutsker, Vice-Chair of the Life Risk-Based Capital (E) Working Group
John Rehagen, Chair representative of Chlora Lindley Meyers, Reinsurance (E) Task Force
Monica Macaluso ,Vice Chair representative of Adreienne Harris, Reinsurance (E) Task Force

FROM: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice-Chair of the Statutory Accounting Principles (E) Working Group

DATE: March 29, 2024

RE: SAPWG Exposures on Life Reinsurance

During the 2024 Spring National Meeting, the Statutory Accounting Principles (E) Working Group (SAPWG) exposed the following agenda items with a May 31, comment deadline. Both agenda items were to address referrals from the Valuation Analysis (E) Working Group received by SAPWG on their Jan. 10 call.

- Ref #2024-05: Appendix A-791 Life and Health Reinsurance - Revisions remove the first sentence of the *Appendix A-791 Life and Health Reinsurance Agreements* (A-791), paragraph 2.c. Question and Answer, as it is unnecessary.

- Ref #2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts - Revisions to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* incorporate guidance from *SSAP No. 62R—Property and Casualty Reinsurance, Exhibit A, Implementation Questions and Answers, question 1*0, which requires risk transfer to be evaluated in aggregate for contracts with interrelated contract features such as experience rating refunds. Additionally, a reference is added to A-791, paragraph 6, regarding the entirety of the contract.

The Working Group is providing notice of the exposures and appreciates your time whether your group chooses to provide feedback or simply is following the development of these items. If you have any questions, please contact Dale Bruggeman, or Kevin Clark, SAPWG Chair and Vice Chair, with any questions.

Cc: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Eva Yeung, Dave Fleming, Maggie Chang, Kazeem Okosun, Scott O'Neal, Jennifer Frasier, Pat Allison

Note 1: The following page summarizes exposed revisions, but full agenda items are on the SAWPG web page. https://content.naic.org/committees/e/statutory-accounting-principles-wg

© 2024 National Association of Insurance Commissioners

Ref #*2024-05: Appendix A-791 Life and Health Reinsurance*

Exposed Revisions - A-791, Life and Health Reinsurance Agreements, paragraph 2c's, Question and Answer):

Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a "loss carryforward" provision), under what circumstances would any provisions of the reinsurance agreement be considered "unreasonable provisions which allow the reinsurer to reduce its risk under the agreement" thereby violating subsection 2.c.?

A ~~– Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide.~~ So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements ~~is~~ are effective for contracts in effect as of January 1, 2021.

Ref #2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to incorporate guidance to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* that is consistent with the guidance currently in *SSAP No. 62R—Property and Casualty Reinsurance*, Exhibit A Implementation Questions and Answers, question 10. This guidance, which originates from GAAP guidance, which is applicable to all contract types, requires risk transfer to be evaluated in aggregate for contracts with interrelated contract features such as experience rating refunds. The revisions also adds a reference in *Appendix A-791 Life and Health Reinsurance Agreements* (A-791), paragraph 6 regarding the entirety of the contract.

Exposed Revisions SSAP No. 61R:

Transfer of Risk

17. Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement. If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., limits or diminishes the transfer of risk by the ceding entity to the reinsurer), the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.

~~17.~~18. For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. For instance, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist. The inconsistency that could result from varying interpretations of the term contract is limited by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating

© 2024 National Association of Insurance Commissioners

whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers in the aggregate do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

~~18.~~19. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. All reinsurance agreements covering products that transfer significant risk shall follow the guidance for reinsurance accounting contained in this statement. All reinsurance contracts covering products that do not provide for sufficient transfer of risk shall follow the guidance for Deposit Accounting.

~~19.~~20. Yearly renewable term (YRT) reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain any of the conditions described in Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k., shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. YRT agreements shall follow the requirements of A-791, paragraph 6, regarding the entire agreement and the effective date of agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience.

© 2024 National Association of Insurance Commissioners

RISK RETENTION GROUP (E) TASK FORCE

Risk Retention Group (E) Task Force July 24, 2024, Minutes 9-989
Referral to the National Treatment and Coordination (E) Working Group (Attachment One) 9-991
Risk Retention Group (E) Task Force 2025 Proposed Charges (Attachment Two) 9-992

© 2024 National Association of Insurance Commissioners

Draft: 7/29/24

Risk Retention Group (E) Task Force
Virtual Meeting *(in lieu of meeting at the 2024 Summer National Meeting)*
July 24, 2024

The Risk Retention Group (E) Task Force met July 24, 2024. The following Task Force members participated: Kevin Gaffney, Chair, represented by Sandra Bigglestone (VT); Karima M. Woods, Vice Chair, represented by Sean O'Donnell (DC); Mark Fowler represented by Sheila Travis (AL); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Russell Coy (KY); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Eric Dunning represented by Kristy Hadden (NE); Scott Kipper represented by Gennady Stolyarov (NV); Mike Causey represented by Lori Gorman (NC); Jon Godfread represented by Matt Fischer (ND); Michael Wise represented by Ryan Basnett (SC); and Cassie Brown represented by Leah Gillum (TX).

1. Discussed a Referral to the National Treatment and Coordination (E) Working Group

Bigglestone summarized that the Task Force developed the Uniform Risk Retention Group Registration Form to encourage uniformity among states. She indicated that the referral (Attachment One) drafted to the National Treatment and Coordination (E) Working Group considers the integration of the registration form into the electronic Uniform Certificate of Authority Application (UCAA) System. She stated that this would expedite the filing of registrations by risk retention groups (RRGs) by allowing them to submit the form to all states they desire to be registered, as opposed to filing a manual document separately in each state.

Doggett commented that the UCAA project is well underway and that she has not seen the registration form. She said she was not sure when it could be scoped into the project. Bigglestone commented that the registration form would be attached to the referral for consideration.

Hearing no further comments, Bigglestone said the referral would be sent, and an update would be provided at a subsequent meeting.

2. Adopted its 2025 Proposed Charges

Andy Daleo (NAIC) discussed a memorandum that included the Task Force's 2025 proposed charges. He noted that the proposed edits included: 1) clarifying the need for the Task Force to monitor other NAIC workstreams to ensure that RRGs remain in compliance with filing requirements; and 2) enhancing the language regarding the potential need to provide guidance to domiciliary and non-domiciliary states regarding RRGs.

O'Donnell made a motion, seconded by Orth, to adopt the Task Force's 2025 proposed charges (Attachment Two). The motion passed unanimously.

3. Discussed Other Matters

Bigglestone provided updates on: 1) the *Privacy of Consumer Financial and Health Information Regulation* (#672) and its impact on RRGs; and 2) on referrals.

Bigglestone stated that throughout the first part of 2024, Model #672 leadership focused on understanding work status to ensure a proper transition of responsibilities. Following the Privacy Protections (H) Working Group's meeting at the Spring National Meeting, the Working Group held a public meeting during which it heard from a subject matter expert (SME) on the current privacy landscape. During a public call June 12, after hearing comments

© 2024 National Association of Insurance Commissioners

from interested parties, the Working Group adopted its path forward to revise the existing NAIC privacy model, Model #672, in the coming months.

Bigglestone said the first referral was sent to the Financial Regulation Standards and Accreditation (F) Committee regarding recommendations on the applicability of the group capital calculation (GCC) RRGs within the Part A accreditation standards. The referral explains the flexibility of exempting an RRG from GCC. During the 2024 Summer National Meeting, the Financial Regulation Standards and Accreditation (F) Committee will: 1) discuss clarification language that will be added to the Part A accreditation standards that indicates RRGs are subject to the GCC calculation, with consideration given to flexibility on its applicability; and 2) discuss clarification language that will be added regarding the inapplicability of liquidity stress testing (LST) to RRGs.

Bigglestone commented on a second referral sent to the Financial Analysis Solvency Tools (E) Working Group, which contained proposed language for inclusion within the *Financial Analysis Handbook* (Handbook) regarding the GCC for RRGs. She indicated that the Task Force will follow up on implementing this language into the Handbook.

Having no further business, the Risk Retention Group (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2024_Summer/RRGTF/RRGTF minutes July 25 2024

© 2024 National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Debbie Doggett, Chair, National Treatment and Coordination (E) Working Group

FROM: Sandra Bigglestone, Chair, Risk Retention Group (E) Task Force

DATE: June 11, 2024

RE: Risk Retention Group Registration Form

The Risk Retention (E) Task Force developed a Uniform Risk Retention Group Registration Form for filing with non-domicile states. The Task Force requests that the National Treatment and Coordination (E) Working Group consider the integration of the registration form into the electronic UCAA system. The Task Force understands that the UCAA work is well underway and requests that consideration be given to integrating this form into the earliest phase of the project. This significant enhancement will allow risk retention group insurers to quickly and easily file the form at one-time with all states it requests registration.

The Task Force would like to extend a collaborative offer with National Treatment throughout the integration phase, feel free to reach out to either myself or Andy Daleo at adaleo@naic.org for Task Force participation during meetings or for further discussion.

© 2024 National Association of Insurance Commissioners

Attachment Two
Risk Retention Group (E) Task Force
7/24/24

Draft: 7/2/24
Adopted by the Executive (EX) Committee and Plenary, [_____]
Adopted by the Financial Condition (E) Committee, [_____]
Adopted by the Risk Retention Group (E) Task Force, [_____]

2025 Proposed Charges

RISK RETENTION GROUP (E) TASK FORCE

The mission of the Risk Retention Group (E) Task Force is to stay apprised of the work of other NAIC groups related to financial solvency regulation and the NAIC Financial Regulation Standards and Accreditation Program. The Task Force may make referrals to the Financial Regulation Standards and Accreditation (F) Committee and/or other NAIC groups, as deemed appropriate.

Ongoing Support of NAIC Programs, Products, or Services

1. The **Risk Retention Group (E) Task Force** will:
   ~~1.~~A. Monitor and evaluate the work of other NAIC committees, task forces, and working groups that may affect the filing requirements or compliance of ~~related to~~ risk retention groups (RRGs) (e.g., a~~A. Specifically, if any of these a~~ctions ~~affect~~ that affect~~the NAIC Financial Regulation and~~ compliance with the NAIC Accreditation Standards Program~~), assess whether and/or how the changes should apply to RRGs and their affiliates~~.
   ~~2.~~B. Monitor and ~~analyze~~ review any federal activities~~actions~~, including any U.S. Government Accountability Office (GAO) reports, and~~.~~ c~~C~~onsider any necessary action ~~necessary as a result of federal activity~~.
   ~~3.~~C. Monitor the ~~impacts of recent tools and~~ resources ~~made~~ available to domiciliary and non-domiciliary state insurance regulators ~~pertaining to~~of RRGs. Consider whether additional guidance should be provided to domiciliary and non-domestic states of RRGs~~action is necessary~~, including educational ~~opportunities~~programs~~, updating~~ or enhancements or the development of new resources ~~and further clarifications~~.

© 2024 National Association of Insurance Commissioners

VALUATION OF SECURITIES (E) TASK FORCE

Valuation of Securities (E) Task Force Aug. 13, 2024, Minutes 9-994
Valuation of Securities (E) Task Force June 18, 2024, Minutes (Attachment One) 9-1005
Valuation of Securities (E) Task Force May 2, 2024, Minutes (Attachment Two) 9-1014
Valuation of Securities (E) Task Force 2025 Proposed Charges (Attachment Three) 9-1018
Amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to Update the Definition of an NAIC Designation (Attachment Four) 9-1020
Amendment to the P&P Manual Authorizing the Procedures for the Securities Valuation Office's (SVO's) Discretion over NAIC Designations Assigned Through the Filing Exemption (FE) process (Attachment Five) 9-1041

© 2024 National Association of Insurance Commissioners

Draft: 8/22/24

Valuation of Securities (E) Task Force
Chicago, Illinois
August 13, 2024

The Valuation of Securities (E) Task Force met in Chicago, IL, Aug. 13, 2024. The following Task Force members participated: Doug Ommen, Chair, represented by Carrie Mears and Kevin Clark (IA); Eric Dunning, Vice Chair, represented by Tadd Wegner (NE); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Sheila Travis and Sanjeev Chaudhuri (AL); Ricardo Lara represented by Laura Clements (CA); Andrew N. Mais represented Kenneth Cotrone (CT); Michael Yaworsky represented by Nicole Crockett and Ray Spudeck (FL); Dean L. Cameron represented by Eric Fletcher (ID); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Melissa Gibson (LA); Kevin P. Beagan represented by John Turchi (MA); Joy Y. Hatchette represented by Greg Ricci (MD); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Jon Godfread represented by Matt Fischer (ND); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by David Wolf (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Cameron Piatt (OH); Glen Mulready represented by Diane Carter (OK); Michael Humphreys represented by Diana Sherman (PA); Cassie Brown represented by Amy Garcia and Jamie Walker (TX); Jon Pike represented by Jake Garn (UT); Scott A. White represented by Doug Stolte and Greg Chew (VA); Mike Kreidler represented by Katy Bardsley and Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its June 18, May 2, and Spring National Meeting Minutes

The Task Force met June 18 and May 2. During these meetings, the Task Force took the following action: 1) adopted amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to: a) permit NAIC designations for short-term, asset-backed securities (ABS); b) add Spain to the List of Foreign (Non-U.S.) Jurisdictions Eligible for Netting for Purposes of Determining Exposures to Counterparties for Schedule DB, Part D, Section 1; c) change the effective date for the implementation of collateralized loan obligation (CLO) modeling to Dec. 31, 2025; d) clarify permitting insurers to self-assign an NAIC designation 6*; and e) make current the list of Securities of Valuation Office (SVO) processes; 2) exposed several P&P Manual amendments to: a) update the definition of an NAIC designation; b) authorize the procedures for the SVO's discretion over NAIC designations assigned through the filing exempt (FE) process; and c) permit NAIC designations for short-term ABS; and 3) heard an update on the proposed CLO modeling methodology.

Doggett made a motion, seconded by Bardsley, to adopt the Task Force's June 18 (Attachment One), May 2 (Attachment Two), and Spring National Meeting (*see NAIC Proceedings – Spring 2024, Valuation of Securities (E) Task Force*) minutes. The motion passed unanimously.

2. Adopted its 2025 Proposed Charges

Mears said the next item is to consider the adoption of the Task Force's proposed 2025 charges. The proposed charges are unchanged from 2024, with the addition of the Valuation of Analysis (E) Working Group as a group with which the Task Force coordinates.

Fischer made a motion, seconded by Clements, to adopt the 2025 proposed charges (Attachment Three). The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

3. Adopted a Revised Proposed Amendment to the P&P Manual to Update the Definition of an NAIC Designation

Mears said the next item on the agenda is to discuss and consider for adoption a revised proposed P&P Manual amendment to update the definition of an NAIC designation.

Marc Perlman (NAIC) said that, as mentioned at previous meetings, NAIC designations are currently explained and defined in both Parts One and Two of the P&P Manual. The exposed amendment is the latest iteration in an attempt to consolidate the explanations and definitions into Part One because what constitutes an NAIC designation is a fundamental Task Force policy. The NAIC received three comment letters during the last exposure.

First, the SVO proposed inserting a new paragraph under the existing "Regulatory Objective" heading to explain the reason for the proposed change from "credit risk" to the new concept of "investment risk." While credit risk is usually the overall fundamental and predominant determinant of what an NAIC designation represents, it traditionally focuses on an issuer's ability to make payments in accordance with contractual terms and, therefore, may be too narrow a concept for NAIC purposes. For example, the performance component of a principal protected security (PPS) may produce no return; therefore, the PPS could pay no interest with no event of default by the issuer. Similarly, the SVO assigns NAIC designations to funds using a Weighted Average Rating Factor (WARF) methodology where the fund does not pay in accordance with contractual terms. As such, focusing solely on credit risk could limit the SVO's ability to assess the risk of the performance component of a PPS or fund payments. Instead, by looking at what is called "investment risk," defined as the likelihood of the insurer's receipt of full principal and expected interest, the SVO can account for the performance component of a PPS, the share of a fund, and a variety of the risks that may be present in both traditional and more complex securities, particularly those that do not qualify as bonds under the upcoming principles-based bond definition. The use of "investment risk" is also consistent with language used in the Financial Condition (E) Committee's *Framework for Regulation of Insurer Investments – A Holistic Review* (Framework).

Secondly, the "Definition" paragraph would clarify that investment risk is defined as the likelihood of an insurer's timely receipt of an investment's full principal and expected interest.

Mike Reis (Northwestern Mutual), representing the American Council of Life Insurers (ACLI), Private Placement Investors Association (PPIA), and North American Securities Valuation Association (NASVA), said the Task Force has been working on this topic for multiple years. The joint trades have been involved in many meetings with Mears, other regulators, and the SVO. There has been a lot of give-and-take, good cooperation, and interaction. The Task Force has taken a lot of ACLI, PPIA, and NASVA recommendations to get the appropriate language. Reis said the Task Force took the vast majority of the comments from the ACLI, PPIA, and NASVA's last letter, but he understands why not everything they suggested was included.

Christopher Anderson (Anderson Insights) said two things need to be considered both with respect to credit ratings and NAIC designations: 1) methodologies used to arrive at those decisions; and 2) rationales explaining how those methodologies are used. Regarding credit ratings, hundreds of methodologies have been developed by credit rating providers (CRPs), and they are prohibited from releasing a rating unless they have a methodology in place to support that rating. Furthermore, for each rating, there is a rating rationale explaining how that methodology was applied and what the subsequent credit rating was. As it stands today, the SVO explains that it uses credit rating methodologies from the CRPs but does not have its own library of methodologies. Furthermore, it does not release rationales, which the U.S. Securities and Exchange Commission (SEC) requires of all CRPs. There is no written explanation of how an NAIC designation is determined. Compared to what the SEC requires of the rating agencies, this is less robust and not as auditable or able to be overseen as is the case with the rating agencies. Rating agencies, however, produce credit

© 2024 National Association of Insurance Commissioners

ratings. Now, the SVO proposes to measure investment risk. Anderson said it is probably workable and acceptable not to have proprietary methodologies for credit risk, which is what the SVO is doing now; however, when it comes to investment risk, Anderson explained that he does not know of any existing methodologies. It would be necessary to have the actual procedures for how investment risk is going to be determined in the P&P Manual. There are methodologies that exist in the real world for credit risk, but Anderson said that as far as he knows, there is no real methodology for investment risk. Anderson suggested that those methodologies be a part of this proposal so that they can be complete and operational.

Mears said as a reminder that this is just the definition and that there is no procedural component. As it stands, the Task Force expects the bond definition to go into place next year, which may result in some investments being filed with the SVO for analysis. She said that, when appropriate, there may be a need to build out more specific methodologies that will be addressed as they occur, as this is just the definition piece.

Bardsley made a motion, seconded by Fletcher, to adopt the P&P Manual amendment dated July 29 (Attachment Four) to update the definition of an NAIC designation. The motion passed unanimously.

4. Adopted a Revised Proposed Amendment to the P&P Manual Authorizing the Procedures for the SVO's Discretion over NAIC Designations Assigned Through the FE Process

Mears said the next item on the agenda is to receive and consider for adoption a revised proposed P&P Manual amendment for the SVO's discretion over NAIC designations assigned through the filing exemption (FE) process, which is the official name of the amendment. However, as an early response to some verbal comments received, Mears reiterated that this is a regulator-driven amendment.

Seven comment letters were submitted on the revised amendment. Mears addressed some of the issues raised in the comments. First, Mears touched briefly on a few comments in letters representing items previously discussed.

One comment states that the SVO will review every FE security under this process. Mears clarified that this process is meant to represent an action plan for discrepancies or issues under the normal review process, whether that be regulatory review during analysis, examination, or SVO findings. For example, private letter (PL) rating rationales are submitted to the SVO. There is no change to the review process. This process covers the next steps that would come from that. The proposed policy provides a formal process for the NAIC to follow. The process is only applied to possible exceptions and focuses on the types of reviews and questions state insurance regulators and staff already have and bring forth. There is no special or new identification process to put in place.

There was another comment that aligns with Anderson's earlier comments about methodology transparency. As mentioned at the Spring National and other earlier meetings, the SVO is not a rating agency but often relies on rating agency methodologies as part of its assessments. The SVO considers multiple methodologies when it reviews a security and will use one or a combination of methodologies it believes will produce a reasonable assessment of risk for regulatory purposes. Because the SVO relies upon the methodologies of other entities, it does not publish these methodologies. Mears reiterated that state insurance regulators feel strongly that the SVO should consider a variety of sources to be valid for their use and be open to the various methodologies that are presented across the board. State insurance regulators do not desire to limit the SVO to a single methodology that would preclude the use of others. Also, the SVO's use of a particular methodology from a rating agency should not be construed as validation of one CRP over another.

A few comment letters mentioned that rating agencies are "accredited." As explained in previous meetings, the SEC's Office of Credit Ratings (OCR) is tasked with recognizing nationally recognized statistical rating organizations (NRSROs). The SEC's oversight does not include the validation or endorsement of rating agency

© 2024 National Association of Insurance Commissioners

methodologies or ratings. Such endorsement is expressly prohibited by the Credit Rating Agency Reform Act of 2006. Likewise, the NAIC and state insurance regulators, making up a state-based organization, are prohibited from regulating credit ratings and methodologies. The NAIC's interest is purely as a consumer of ratings and how it uses those ratings in its insurance regulatory processes.

There was concern that the NAIC might sell confidential data. The NAIC absolutely does not sell confidential data it receives. There is already a component in Part Two of the P&P Manual addressing this concern: "The SVO routinely receives financial information, legal documents, and other data from reporting insurance companies so that it may assess the reported investment for the NAIC. While the NAIC is not a guarantor of the confidentiality of information submitted to the SVO, the SVO does not redistribute documents obtained during its work for other than regulatory purposes or as may be required by law."

There was a note about the transparency of the SVO fees. The Task Force is not responsible for the SVO's fees. Fees are determined via the NAIC Executive (EX) Committee. The SVO fees are part of the publicly discussed and exposed annual NAIC budget, and the NAIC Executive (EX) Committee and Plenary ultimately approves the fees in the budget. The SVO publishes these fees on its web page each year, so there is transparency from that perspective.

Mears spoke in more detail about some suggestions in the comment letters incorporated into the amendment or, in some cases, why they were not. One suggestion was to reference the Financial Condition (E) Committee's Framework to note how this process would rarely be used. Some parties thought the discretion process would be used for all FE securities. In contrast, others thought that the intent was to use the process rarely and requested that the concept be incorporated into the amendment itself, which was done. The idea from the Framework is that multiple components work in conjunction with one another, one being the implementation of an overall CRP diligence and governance process. The Committee has been working diligently on setting up that process with the exposure of a request for proposal (RFP), which will occur at the upcoming meeting. Similar to implementing this discretion proposal, the CRP due diligence process will presumably take some time to implement, but it will be the cornerstone of the NAIC's use of CRPs, allowing this discretion amendment to act as a backstop, as noted in the Framework. The Task Force looks forward to everyone's support as that diligence framework is developed. Given the proposed CRP discretion process, the SVO does not foresee large numbers of FE challenges relative to the population of FE securities. The SVO added such language for clarification and consistency. There was an update for credit risk versus investment risk, which was previously discussed, and the amendment tried to be consistent and align with what is in the Committee's Framework.

Mears said that a comment that came up in multiple conversations was about the role of the domiciliary regulator. State insurance regulators retain all oversight and authority over the discretion proposal. No rating can be removed from FE without regulatory approval through the Task Force subgroup, and the proposal now makes it clear that the domiciliary regulator will always be invited to participate in the sub-group meeting. Mears reminded interested parties, however, that NAIC designations do not allow for permitted or prescribed practices, meaning they cannot be assigned by individual states or be company-specific, so discussions will be held by the subgroup.

There was a request to add more specificity around the timeline for review. The SVO cannot be certain how long it will take for the information to be submitted, how long discussions with insurers will last as they want to be fulsome, the complexity of the investments they will be reviewing, and the availability of all the parties to meet. Given all these unknowns, setting a specific deadline for the SVO would be difficult. The SVO and overseeing state insurance regulators expect that the work will always be expeditiously done once all the information has been received.

© 2024 National Association of Insurance Commissioners

Mears discussed the role of CRPs and the review, clarifying that the NAIC does not regulate rating agencies, as it is the SEC's role. NAIC Members regulate insurers. The discretion process is specific to the assessment of the risk of an insurer's investment and determining whether the credit rating for that investment is appropriate for the NAIC's regulatory objectives. Again, neither the NAIC nor its Members tell a rating agency how to determine a rating. Additionally, under the discretion process, the state insurance regulators' choice to remove a rating from the FE process would in no way overrule any rating agency rating. Rather, they would choose not to use a rating for regulatory purposes.

Also, CRPs are not insurance regulators, which was implied by a few comment letters. CRPs are for-profit entities that assess credit risk and sell those credit risk assessments so consumers, like the NAIC, can use them. As mentioned before, CRPs are extremely important to the NAIC, and their ratings will continue to be used. In the end, some ratings may not be appropriate for NAIC purposes. This proposal is an insurance regulatory process for the NAIC to continue acting as a consumer of ratings. If the insurer has invested in a security that is under review by this process and it wants to involve the CRP, it can invite the CRP to participate at any time. The insurers have the authority to invite external parties to be part of what would otherwise be a confidential discussion between an insurer and its state insurance regulator. This is stated in the first section of paragraph 168 of the amendment, which states that "*…to provide additional information to the IAO such as their internal analysis, presentations from the issuer, meetings with the issuer's management team and any other information that may be useful or persuasive in the analysis of the security.*" The SVO agrees that this point can be further emphasized in the last sentence of that paragraph that in addition to "authorized insurer(s) staff," insurers may also include other authorized parties.

Mears reiterated that while the NAIC is unable to effectively force an insurer to invite other authorized parties to discussions, it will absolutely permit and encourage the insurer to do so. There will likely be questions the NAIC may have that are best answered by the CRP, which may be made very clear to insurers. The lack of ability to force this CRP involvement in no way minimizes the role of the CRP in the processes. This is recognized by the forthcoming implementation of the overall diligence framework, which, among other things, would be predicated on an open dialog between the NAIC and CRPs. The intent from the Committee's outline is that this diligence framework is the cornerstone of the NAIC's use of CRPs, with discretion acting as a backstop. Therefore, it is entirely reasonable to expect transparent discussions with state insurance regulators between the regulators and CRPs on an ongoing basis.

Lastly, there was concern about reputational harm to CRPs. The NAIC does not disclose which CRP rating is under review. The NAIC only discloses the security and the NAIC designation. The discussions with insurers and Task Force subgroup members will all be confidential and require the parties involved to agree to confidentiality provisions. Any party that cannot maintain confidentiality will not be invited or permitted to participate. There will be no public disclosure of the rating agency involved in our review.

Charles Therriault (NAIC) said the SVO appreciates the constructive comments submitted by interested parties on the June 4, 2024, version of the amendment that was exposed for a 38-day comment period that ended July 26. The SVO incorporated comments into the additional attachment in the materials (Attachment Six*) dated July 30, 2024. As noted in that accompanying memorandum, the updates include the following: 1) clarification that the process will be consistently applied across all CRPs; 2) defining the term "authorized insurers;" 3) clarification regarding the SVO's written summary of its analysis during the review phase; 4) including other authorized parties to discuss the security with the SVO; 5) the Investment Analysis Office (IAO) will communicate in writing its opinion of the appropriate NAIC designation category; 6) the annual summary will be anonymized and will not disclose information on specific securities, CRPs, or impacted insurers; 7) the SVO will publish an anonymized summary within 45 days of a security being removed from the FE process, without references specific to the security or CRP, to avoid disclosing confidential information; and 8) filing impact on issuers that have multiple securities within the same debt class.

© 2024 National Association of Insurance Commissioners

These updates are identified in yellow in the noted attachment. The SVO recommended this revised version be adopted today.

Sasha Kamper (Mutual of Omaha), representing the PPIA, ACLI, and NASVA, echoed many of Reis's comments on the prior discussion item. The organizations Kamper represents have been working closely with NAIC staff and state insurance regulators on this topic on and off for several years. When it was first brought forward, many of their members had deep reservations about the idea of rating discretion, and nobody wanted to see more regulation. Kamper credited the SVO and certain regulators for working with them over the past couple of years and helping shape and evolve the exposure to the state it is in today. Kamper said today's exposure strikes a healthy balance between giving the NAIC more transparency into the privately rated world of securities and oversight into that process but also provides transparency for the insurers and adequate due process such that her members can get comfortable having a good framework to apply ratings discretion on a fair and consistent basis. Kamper thanked all for the work and effort and for meeting them in the middle on this issue. There are still some implementation issues that must be worked through. The SVO is working on systems changes for fields and confidentiality. This was raised in the letter submitted on this issue regarding how insurers would be notified if a security was flagged for needing more information. Industry wants to make sure insurers cannot miss that notification so they can turn around those materials in a timely fashion. Some challenges are still being worked through, even with private ratings rationales (e.g., ensuring they get into the system, insurers submit them, and the system can accept and store them.) There are a lot of issues to work through, but they are operational details, and industry is committed to working with the IAO on them to get ready so that this can be implemented in the 2026/2027 timeframe that has been discussed. There is no reason to hold up the policy decision. Industry members are grateful for all the help and dialog in this and are comfortable with moving forward.

Joe Engelhard (Alternative Credit Council—ACC) said, similar to the comments of the joint trades that were just speaking, he acknowledges the many procedural improvements outlined in the July 30 memorandum, which includes several changes asked for in the July 26 comment letter. Previous comments were also taken seriously by the SVO, which is appreciated. To highlight a few of the changes of particular focus, the changes made to paragraph 164 clarify that it is not expected that this new authority would need to be used very often, which Mears mentioned in her comments. Mears's comments earlier about the governance process may help avoid the need to use this often. This is important because the biggest conceptual concern is an adverse market reaction to using this authority, which could go well beyond the affected rating. Changes in paragraph 172 are appreciated and make it clear that domiciliary regulators will be invited to participate if they want to.

Engelhard asked for a clearer timetable and the overall review and appeals process. He explained that the ACC noted there were already some timeframes in paragraph 167. Because of the joint trades letter, the NAIC added to the amendment about the end of the process in paragraph 181 that within 45 days, the SVO will issue an anonymized summary. However, between stages 169 and 181, there is still no time frame. The ACC still thinks that if this review takes a long time due to market forces, it may not matter what happens at the end. If it takes too long, markets will move, and that rating will be outdated at that point, or markets will move on. The ACC's principal concern is the implication to the overall markets on an affected security. The wording of the anonymized summary will be important, even if there is no mention of the specific security or the CRP. Depending on how broad the language in the summary is, it might cast doubt not just on that security but also on the entire methodology for that asset class or the use of that specific rating agency's methodology for that asset class. As mentioned earlier, hopefully, this is rarely used and will not have a big impact, but the ACC would note that a lot of care should be taken in how that anonymized summary is made because it might have a much bigger impact than on that one security alone.

Mears asked if it would be feasible to get examples of various securities to share what the ACC thinks would be an appropriate way to describe those anonymously versus what might be problematic. There can be some

© 2024 National Association of Insurance Commissioners

dialogue on that topic to ensure everyone is on the same page. Engelhard said he could certainly ask his members and reply to that request.

Jason Rapert (Providence Financial Group), as a consultant on behalf of Egan-Jones Ratings Company, thanked the Task Force for all the great work and appreciated the effort that the Task Force made to get to this point. Rapert introduced himself and provided his professional background. He said he is currently president of Providence Financial Group. He served in the Arkansas State Senate from 2011–2023 as chairman of the Arkansas Senate Insurance & Commerce Committee and president of the National Council of Insurance Legislators (NCOIL). He previously served in the Compact in association with the NAIC. Rapert appreciated the vast work that state insurance regulators do in their states for the regulation of insurance in this country. He previously was a Series 7 licensee and investment advisor licensee. Rapert said he worked in this arena professionally before entering public service.

Rapert said his comments would settle on just one thing that he would like to see considered now or in the future. There are a few items to consider that he believes would significantly enhance the proposal. At the heart of the matter is the issue of whether a particular rating is an accurate reflection of credit quality. While he understands that state insurance regulators and the Task Force cannot require the relevant CRP to be included in the proceedings, there seems to be no reason for not informing the CRP that one of its ratings is being reviewed and providing it the opportunity to explain its rating and defend its work. He said he understands that the insurance company can invite the CRP to participate in the process, but there seems to be a hole in the sense that in some cases, the insurance company may decide not to go through the burden of defending a rating, particularly if it is a relatively small portion of its overall portfolio, which is often the case. In this case, the state insurance regulator would not have the benefit of the CRP's perspective, and the CRP would not be able to explain its rating, potentially to the detriment of its reputation, which Mears spoke to in her comments. This dynamic creates due process issues. It seems that more information is always better. Rapert proposed that in order for the state insurance regulators to remedy this issue, language be considered and inserted into the policy to require that the CRP be informed of the issue at the commencement of the review and be provided with the opportunity to explain its rating. He understands that it has been stated that state regulators do not have the ability to require that. In this situation, it seems that when the heart of this is questioning a rating and trying to make a fair decision, there seems, or needs to be, some best practices would be encouraged to make sure that the entity being questioned in the process truly does have a seat at the table in some way. He thanked Mears and said he knew she and Task Force members worked hard on the proposal. Rapert said this is the one thing that he would love to see addressed in some way in this proposal.

Mears said she does not want to get ahead of Commissioner Houdek leading the Financial Condition (E) Committee Aug. 15. There will be an RFP exposure at the Committee, and there is a component trying to lean into what those kinds of iterative communications between the NAIC and CRPs can look like. There is room for that to be expanded to incorporate some of Rapert's concerns. That will be open for comment for 60 days, and the Committee welcomes comments. Mears suggested that Rapert tie some of these issues to that RFP since those would be happening first and allow for robust discussion. State insurance regulators review investments all the time. There are multiple investments for which she asks insurers for more information, such as the rating report and certain details embedded in the regulatory process. When we put something under review, in many cases, it is just to get more information. It is contemplated, even in this process, that that could be the end of it. We would not want to create undue concern or harm with the automatic notification of that process. It would probably feel like a lot since that is a regulators job. Mears said Rapert's comments and concerns are well-heard and understood. Many of those can be addressed through what is laid out in the Committee's RFP, the Framework's diligence process, and the required communication. This discretion proposal is meant to be a backstop to the CRP due diligence process in the Framework, and the Task Force would encourage Egan-Jones Ratings Company and any of the CRPs to read through that and provide comments on how the CRP due diligence processes could be improved.

© 2024 National Association of Insurance Commissioners

Malm said Wisconsin would like to make a motion to adopt with some friendly amendments. Malm suggested striking "joint meeting of the" from the first sentence in item 174 of Attachment Six*; striking "and the credit committee" from the first sentence of that paragraph; and striking "and credit committee" from the third sentence in that section. That would address some of the comments and ensure that there will be a look back or review process once implemented to ensure that this process is working as intended and to clarify that state insurance regulators have the ability to make changes to the procedure in order to address any issues that have been highlighted.

Cotrone thanked all interested parties for their constructive feedback during the different phases of this proposal. He thanked the state insurance regulators for being engaged in drafting these proposals to their current state.

Walker said she echoed Cotrone's comments. She remarked that when this proposal first came out, how far apart all the parties were, and the back-and-forth communication was needed to understand the issues. She said this is a solid proposal that gets us to the point where the Task Force needs to be, and the NAIC does not rely blindly on CRPs while not creating undue uncertainty in the related markets. Walker said this is a great enhancement to the regulatory oversight of that function. Walker said she anticipates, as it takes two years to get all the operational pieces on it, the Task Force will continue to get updates on it. It is a way to step into this process, but the SVO can also move forward and figure out how to operationalize it in a way that everyone intended it to work. She said the Task Force has a great work product.

Mears reiterated that the motion would make a friendly amendment to paragraph 174 to remove the reference to "joint meeting" and the two references to "and the credit committee" to demonstrate that this is a meeting of the Task Force subgroup, and the Task Force subgroup has that authority in that perspective. Also, there is a look back on the procedures once they are implemented so that the Task Force has the ability to hear feedback and make changes to it.

Malm made a motion, seconded by Stolte, to adopt the proposed P&P Manual amendment, dated July 30, 2024, for discretion over NAIC designations assigned through the FE process (Attachment Five). The motion passed unanimously.

5. Exposed a Proposed Amendment to the P&P Manual to Require Annual Reviews of Regulatory Transactions

Mears said the next item on the agenda is to discuss and consider for exposure a proposed P&P Manual amendment to require annual reviews for Regulatory Transactions.

Therriault said the P&P Manual has specialized instructions for the filing and reporting of Regulatory Transactions. These transactions do not receive NAIC designations but are permitted to receive SVO Analytical Values. SVO Analytical Values are identified by the SVO Analytical Department Symbol of RTS for those that are SVO assigned and RT for those that are not SVO assigned. Those with an RT receive the treatment of an NAIC 6.

The P&P Manual does not specify that an annual update is required for Regulatory Transactions, as it does for all other filings. This amendment clarifies that annual updates are required for Regulatory Transactions in order to maintain their SVO assigned SVO Analytical Value with the RTS administrative symbol; otherwise, they revert to RT (indicating that the SVO did not review it) and the treatment of an NAIC 6.

The SVO recommended exposing this amendment for a 30-day public comment period ending Sept. 13.

© 2024 National Association of Insurance Commissioners

Mears directed the SVO to expose the P&P Manual amendment to require the annual update of regulatory transactions with an RTS for a 30-day public comment period ending Sept. 13.

6. Exposed a Proposed P&P Manual Amendment to Update the List of NAIC CRPs

Mears said the next item on the agenda is to hear about a proposed P&P Manual amendment update to the list of CRPs.

Therriault said Part Three of the P&P Manual lists the classes of securities for which each CRP is authorized by the SEC to issue credit ratings. The list was last reviewed Feb. 2, 2021. No class changes were identified, and one minor editing error was corrected in the amendment, along with an update to the review date.

The SVO recommended exposing this amendment for a 30-day public comment period ending Sept. 13.

Mears directed the SVO to expose the P&P Manual amendment to update the list of NAIC CRPs for a 30-day public comment period ending Sept. 13.

7. Received a Staff Report on the Projects of the Statutory Accounting Principles (E) Working Group

Mears said the next item on the agenda is to hear updates on Statutory Accounting Principles (E) Working Group projects.

Julie Gann (NAIC) said she would provide an update on key accounting projects under the coordination initiative. This is a summary; all exposures and adoptions are on the Working Group's web page. She began with the bond project and stated that, hopefully, everyone is aware that all accounting and reporting revisions have previously been adopted. Those are all posted on the Working Group's web page, and the bond reporting changes for the new principles-based bond definition are effective Jan. 1, 2025. The Working Group took three actions during this national meeting. First, it adopted the bond project issue paper. Issue papers are not authoritative but provide details on all the discussions and elements considered as part of the project. Second, a question-and-answer document (Q&A) was exposed for the implementation guide. This addresses key topics and how they should be considered under the bond definition, which has been exposed until Sept. 27. Three more topics are expected to be considered and hopefully included within that Q&A. These topics will be added to the exposure as soon as the small bond group can consider them. Lastly, revisions regarding debt securities issued by funds were exposed for a 24-day comment period ending Sept. 6. The original adopted guidance, currently in effect, limits that guidance for SEC-registered funds, but under the principles-based concept, the Working Group wanted to incorporate something more principles-based; therefore, the guidance was revised to allow debt securities issued by operating entities to also be considered issuer credit obligations. The Working Group worked with industry during the interim in establishing this guidance, and it has been exposed for a 24-day comment period ending Sept. 6 to allow industry and state insurance regulators to review it before it is incorporated into the bond definition. The key element to highlight is that the SEC guidance is still included, but it is a practical, expedient, safe harbor, and the debt issuance limits permitted for some SEC entities should not be used as a thought process for whether another debt security issued by a fund should qualify as an issuer credit obligation. Each debt must be reviewed as to the primary purpose of the issuance. If it was issued to raise debt capital, it should not be included as an issuer credit obligation and should be assessed as an asset-backed security (ABS).

Gann said that everyone should already be aware there is new free bond training being offered by the NAIC for 2024 for both state insurance regulators and industry regarding the principles-based bond project. Gann said some people were waiting for the downloadable content to be part of that training before they took it, and she received confirmation that that content is now available. She said that if anyone has been waiting for that, please sign up to take it. Moving on to a few other topics, Gann said she wants to assure everyone that

© 2024 National Association of Insurance Commissioners

the Working Group will not be boring now that the bond project is done. It still has several other items that are being discussed. The first concerns credit repacks, which the Working Group exposed a detailed agenda item addressing. A credit repack is a bond wrapped with a derivative in a special purpose vehicle (SPV) and then held by the insurer instead of holding a bond and a derivative separately. The Working Group proposed significant revisions to *Statement of Statutory Accounting Principle* (*SSAP) No. 86—Derivatives*, which is its derivative standard, to require bifurcation of those instruments. The bond piece would be held as a bond, and the derivative piece would be held as a derivative. From what the Working Group has looked at so far if this was a combined structure, it would fail the principles-based bond definition, so it would be a non-bond debt security. The Working Group has a comment letter deadline of Sept. 27 to allow for consideration of those revisions at the Fall National Meeting.

The key item of note was that the Working Group is relooking at repurchase agreements and security lending agreement guidance. This comes along in response to a Life Risk-Based Capital (E) Working Group request from the ACLI to incorporate a conforming repurchase agreement risk-based capital (RBC) factor because the Statutory Accounting Principles (E) Working Group has that for securities lending, but the accounting and reporting of repurchase agreements and securities lending is currently different. The Working Group is looking at that guidance to see if elements should be converged before it moves forward in supporting RBC changes. The Working Group exposed a memorandum during its session at the Summer National Meeting that details its current accounting, reporting, and RBC charges for repurchase agreements and securities lending, with a variety of staff comments and requests for practical application and how things are being done in practice, for a 45-day comment period ending Sept. 27.

Gann gave a reminder that because it has already been adopted, the Working Group has new guidance for tax credit investments, which will go into effect Jan. 1, 2025. With this guidance, the federal tax credit guaranteed reporting line has been removed from the reporting. With the new guidance, NAIC designations from a CRP or the SVO will not impact the accounting and reporting of tax credit investments in the scope of *SSAP No. 93—Low-Income Housing Tax Credit Property Investments*. During its session at the national meeting, the Working Group exposed some clarifying edits to the guidance for a 45-day comment period ending Sept. 27. These are a high-level summary of the key investment-related items. Please refer to the Statutory Accounting Principles (E) Working Group's web page for the full list of projects the Working Group is working on.

8. Received a Report from the SVO on Filing Investments Moving to Schedule BA in 2025 Due to Changes to SSAP No. 26R and SSAP No. 43R

Mears said the next item on the agenda is to hear updates from the SVO on filing securities moving to Schedule BA from Schedule D because of updates to *SSAP No. 26R—Bonds* and *SSAP No. 43R—Loan-Backed and Structured Securities.*

Therriault said the Statutory Accounting Principles (E) Working Group adopted changes related to the principles-based bond definition project that impacted SSAP No. 26R and SSAP No. 43R. The changes are effective Jan. 1, 2025. For the most part, these changes do not impact the assignment of NAIC designations. The one exception will be investments moving from Schedule D to Schedule BA. Only NAIC designations assigned by the SVO receive the RBC treatment for that level of risk for life insurance companies. Schedule BA has separate reporting lines for investments with SVO-assigned NAIC designations. These lines are used in the RBC instructions.

If these investments already have an SVO-assigned NAIC designation, insurers only need to continue filing them with the SVO. No other action is needed. However, some investments moving to Schedule BA may have a CRP rating. If they have a CRP rating and a life insurer wishes to have an SVO-assigned NAIC designation, the insurer should contact the SVO to inform them that they would like to file the investment with the SVO. The

© 2024 National Association of Insurance Commissioners

insurer can use the SVO's general inquiry email address listed on the SVO's web page, SVOInquiryDesk@naic.org, or contact one of the analysts, managers, or Therriault.

Christopher Anderson (Anderson Insights) said that when something is moved to Schedule BA, the NAIC has made the determination that it is not eligible for bond treatment. Anderson asked how an RBC factor is determined if something is not a bond. He said there are two kinds of risk: bond risk, which is a promise of repayment, and price volatility risk. For unaffiliated common stock, for example, the examination was how much the prices vary. If you use a weighted average rating factor methodology and try to say something is a bit bond-like, we will use the bond factor and a bit like something else. Anderson asked how the factor for the equity element is determined in that scenario. Anderson said everyone seems to think the risk factor for unaffiliated common stock is 30%. That is true if the beta is 1. However, the factor for unaffiliated common stock can range from 22.5%–45%, depending on the price volatility compared to the other assets in the marketplace and the other shares of stock. He asked how to take something that is not purely a bond and come up with something meaningful in terms of what the RBC factors should be. Anderson said serious consideration for how this can be accomplished should be given sooner rather than later. This matters less for the Task Force than for the Capital Adequacy (E) Task Force because it sets the RBC factors. He said this apples-to-oranges comparison does not seem to be an appropriate way of coming up with a holistic level of risk. Anderson also encouraged a review of the weighted average risk factor (WARF). He asked whether weighing the multiple risk factors and putting them all together captures investment risk in a way that is appropriate for RBC. Anderson said he hopes that there will be a sense of urgency and that the Task Force will not proceed with saying that the SVO should be developing RBC factors for assets that are somewhat bond-like and others that are not quite bond-like.

Mears said that, as Anderson noted, the Task Force is not responsible for setting RBC factors. She said she would have to defer that conversation, as Anderson noted, to a more appropriate group.

Clark said there are various reasons a debt security might fail the bond definitions, not all of which relate to its inclusion of equity risk. Also, he said he fully expects there to be some non-qualifying debt securities that the SVO cannot rate because it does not have a methodology to do so. This creates an avenue for companies to potentially get an NAIC designation based on the risk when it is warranted, but obviously, something causes it to fail the bond definition. He said an additional review by the SVO makes sense.

Mears said the Task Force does not know what this population will look like until it is up there, which leaves room for the Task Force to identify either themes or things that can be addressed that are appropriate for the Task Force to review and bring those to its agenda for further discussion.

9. Received a Staff Report on the Proposed CLO Modeling Methodology and the CLO Ad Hoc Group

Eric Kolchinsky (NAIC) said he had two announcements to make about the collateralized loan obligation (CLO) project. First, the Structured Securities Group (SSG) has completed running the 10 scenarios for each eligible CLO owned by insurance companies. Unfortunately, an administrative issue has held up the posting. The SSG will post the results for review on the CLO page as soon as that issue is resolved. These results will also be provided to the American Academy of Actuaries (Academy) for its analysis of the RBC factors.

Kolchinsky also said the SSG has completed the analysis of the methodology adjustments suggested by an interested party. It will present those at the next CLO Ad Hoc Group call sometime in September.
Having no further business, the Valuation of Securities (E) Task Force adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 7/10/24

Valuation of Securities (E) Task Force
Virtual Meeting
June 18, 2024

The Valuation of Securities (E) Task Force met June 18, 2024. The following Task Force members participated: Doug Ommen, Chair, represented by Carrie Mears (IA); Eric Dunning, Vice Chair, represented by Lindsay Crawford and Andrea Johnson (NE); Ricardo Lara represented by Laura Clements (CA); Andrew N. Mais represented by Kenneth Cotrone (CT); Michael Yaworsky represented by Carolyn Morgan and Ray Spudeck (FL); Dean L. Cameron represented by Eric Fletcher (ID); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Stewart Guerin (LA); Kevin P. Beagan represented by John Turchi (MA); Joy Y. Hatchette represented by Greg Ricci and Matt Kozak (MD); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by Debbie Doggett and Danielle Smith (MO); Jon Godfread represented by Matt Fischer (ND); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by John Sirovetz (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Cameron Piatt (OH); Cassie Brown represented by Amy Garcia and Rachel Hemphill (TX); Jon Pike represented by Jake Garn (UT); Scott A. White represented by Doug Stolte and Greg Chew (VA); Mike Kreidler represented by Steve Drutz (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted a P&P Manual Amendment to Permit NAIC Designations for Short-Term ABS

Mears said the first five agenda items were exposed at the last Task Force meeting. These are all non-contested, meaning that either no comment letter was received, or the letter received expressed support for the amendment. The five amendments will be summarized and considered in one motion.

The first proposed amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) is to permit NAIC designations for short-term asset-backed securities (ABS).

Charles Therriault (NAIC) said the Statutory Accounting Principles (E) Working Group adopted revisions to *Statement of Statutory Accounting Principles (SSAP) No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* in the *Accounting Practices and Procedures Manual* (AP&P). The revisions, which will be effective Jan. 1, 2025, further restrict the investments that are permitted for cash equivalent or short-term investment reporting. Included in those revisions is an instruction that, regardless of the maturity date, certain investments are not permitted to be reported as cash equivalents and must be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable. The revisions specifically refer to ABS captured in the scope of SSAP No. 43R. This amendment would permit the assignment of NAIC designations to these investments if they are captured within the scope of the revised SSAP No. 43—Asset-Backed Securities and are eligible to be reported on the new Asset-Backed Security Schedule D, Part 1, Sub-Part 2.

The amendment was exposed for a 30-day public comment period that ended on June 2, 2024. One joint comment letter was received from the American Council of Life Insurers (ACLI), the Private Placement Investors Association (PPiA), and the North American Securities Valuation Association (NASVA), which supported the amendment as drafted. The Securities Valuation Office (SVO) recommends the adoption of the amendment.

© 2024 National Association of Insurance Commissioners

Mears said the next proposed P&P Manual amendment is to add Spain to the List of Foreign (Non-U.S.) Jurisdictions Eligible for Netting for Purposes of Determining Exposures to Counterparties for Schedule DB, Part D, Section 1.

Marc Perlman (NAIC) said Banco Bilbao Vizcaya Argentaria S.A. (BBVA), a bank organized under Spanish law, has requested that Spain be added to the P&P Manual's list of jurisdictions eligible for counterparty close-out netting.

The purpose of identifying jurisdictions eligible for close-out netting is to permit the calculation of credit risk exposures to counterparties in Schedule DB, Part D, Section 1. The netting of offsetting liabilities with a counterparty will only be permitted in that Schedule if there is a master agreement that provides for such netting and if there is adequate legal certainty that close-out netting would be enforced upon default of the counterparty. The P&P Manual provides for additions to the list of jurisdictions eligible for close-out netting if, in the SVO's opinion, legal opinions or other analysis provide adequate legal certainty that, upon default of the counterparty, close-out netting would be enforced.

In support of its application, BBVA submitted a legal opinion of the law firm Clifford Chance S.L.P. on the validity and enforceability of close-out netting provisions under Spanish law. The opinion was commissioned by the International Swaps and Derivatives Association (ISDA), a private trade organization whose mission is to foster safe and efficient derivatives markets, in part through the development of standardized documentation. ISDA netting opinions are widely accepted by regulators around the globe, specifically by banking regulators.

Each of the netting opinions commissioned by ISDA, including the Spanish opinion, spell out various parameters, specific to the laws of the relevant jurisdiction, which a master agreement must meet to be consistent with the opinion. It would be impracticable to expect the SVO to review all master agreements for compliance with the parameters delineated in the netting opinion for the relevant jurisdiction. Therefore, the proposed amendment updates the netting eligibility section of the P&P Manual to include a provision that it is assumed that each master agreement complies with the parameters delineated in the netting opinion for the relevant jurisdiction.

Upon review of the Spanish law opinion, the SVO thinks it provides adequate legal certainty that close-out netting would be enforced, assuming that master agreement provisions are consistent with the parameters explained in the netting opinion. As such, the SVO recommends adding Spain to the list of jurisdictions eligible for counterparty exposure netting.

The amendment was exposed for a 30-day public comment period that ended June 2. One joint comment letter was received from the ACLI, PPiA, and NASVA, supporting the amendment as drafted.

3. Adopted a P&P Manual Amendment to Change the Effective Date for the Implementation of CLO Modeling

Mears said the next proposed P&P Manual amendment is to change the effective date for the implementation of collateralized loan obligation (CLO) modeling.

Therriault said at the 2024 Spring National Meeting that the Structured Securities Group (SSG) requested a change to the effective date for the financial modeling of CLOs to assign NAIC designations and NAIC designation categories, moving it to year-end 2025 from year-end 2024. The Task Force agreed to this change. This proposed non-substantive amendment reflects the changes necessary to provide notice in the P&P Manual of the implementation effective date change.

© 2024 National Association of Insurance Commissioners

The amendment was exposed for a 30-day public comment period that ended on June 2, 2024. One joint comment letter was received from the ACLI, PPiA, and NASVA, supporting the amendment as drafted. The SVO recommends the adoption of the proposed amendment.

4. Adopted a P&P Manual Amendment to Clarify Permitting Insurers to Self-Assign an NAIC Designation 6*

Mears said the next proposed P&P Manual amendment is to clarify how insurers are permitted to self-assign as an NAIC designation 6*.

Therriault said the SVO was requested to review the instructions for insurer self-assignment of the NAIC 6* designation. An NAIC 6* can be self-assigned by an insurer in lieu of reporting the obligation with appropriate documentation in instances where appropriate documentation does not exist, but the requirements for an insurance company to assign a 5.B GI are not met. An NAIC 6* can also be self-assigned when the security is deemed to possess the credit characteristics of securities assigned an NAIC 6, meaning the obligation is in or near default.

He said this non-substantive P&P Manual amendment is not a change in policy and is only intended to clarify the instructions that allow insurers to self-assign using the NAIC designation of 6*. The SVO welcomes observations like this from industry. If there is something about the P&P Manual that is unclear, it is important to draft clarifying amendments, he said.

The amendment was exposed for a 30-day public comment period that ended on June 2, 2024. One joint comment letter was received from the ACLI, PPiA, and NASVA, supporting the amendment as drafted. The SVO recommends adoption of the proposed amendment.

5. Adopted P&P Manual Amendment to Make the List of SVO Processes Current

Mears said the last of the five proposed P&P Manual amendments is to make the list of SVO processes current.

Perlman said the P&P Manual references several processes the SVO uses to identify information, entities, or securities for inclusion in various lists published as part of its Compilation and Publication of the SVO List of Investment Securities responsibilities. This amendment proposes updates to this section of the P&P Manual to remove those processes which the SVO no longer undertakes (such as the exchange rate, ex dividend, and surplus note processes) and insert the processes that the SVO does perform but are either missing or mislabeled (processes such as Counterparties Designated by the SVO, Funds, Credit Ratings Eligible for Transaction, Sovereign Designation Equivalent, and RSAT processes). Additionally, the SVO proposes revising the name of a list related to one of the SVO processes from “List of Counterparties Rated by the SVO,” to “List of Counterparties Designated by the SVO,” since the SVO produces designations that are distinct from rating agency ratings.

The amendment was exposed for a 30-day public comment period that ended on June 2, 2024. One joint comment letter was received from the ACLI, PPiA, and NASVA, supporting the amendment.

Clements made a motion, second by Spudeck, to adopt the following amendments: permit NAIC designations for short-term ABS; add Spain to the List of Foreign (Non-U.S.) Jurisdictions Eligible for Netting for Purposes of Determining Exposures to Counterparties for Schedule DB, Part D, Section 1; change the effective date for the implementation of CLO modeling; clarify how insurers are permitted to self-assign an NAIC designation 6*; and make the list of SVO processes current. The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

6. Exposed a Revised Proposed P&P Manual Amendment to Update the Definition of an NAIC Designation

Mears said the next item is to receive and consider for exposure a revised proposed P&P Manual amendment to update the definition of an NAIC designation.

Perlman said as mentioned at previous meetings, NAIC designations are currently explained and defined in both parts One and Two of the P&P Manual. The SVO proposed consolidating the explanations and definitions into Part One because what constitutes an NAIC designation is a fundamental policy of the Task Force. This proposal has now gone through several iterations. At the 2023 Summer National Meeting, the Task Force discussed an initial draft of a proposed amendment. The Task Force directed the SVO staff to consider the feedback from Task Force members and interested parties and update the proposal. During and following the 2024 Spring National Meeting, the Task Force received additional comments on the updated amendment. The revised amendment reflects the actionable comments received from Task Force members and interested parties during each comment period.

1. The SVO created an even more concise definition of an NAIC designation that focuses on the likelihood that an insurer will receive full and timely principal and expected interest. This change is notable because it reflects a departure from the term "credit risk" which focuses on the ability of an issuer to make payments in accordance with contractual terms. Credit risk alone may, at times, be too narrow a concept for NAIC purposes. For example, the performance component of a principal protected security (PPS) may produce no return, and therefore, the PPS could pay no interest with no event of default by the issuer. As such, focusing solely on credit risk could limit the SVO's ability to assess the risk of the performance component of a PPS. By looking instead at the likelihood of the insurer's receipt of principal and expected interest, the SVO can account for the performance component in the PPS example. This definition allows the SVO to account for a variety of risks that may be present in both traditional and more complex bonds and particularly have designations that may be used outside of Schedule D bonds, such as those that don't qualify for the upcoming bond definition or funds that may receive a designation. The use of investment risk is also consistent with the language used in the E Committee framework for investments.

2. It is worth highlighting, however, that for the purposes of assigning an NAIC designation, volatility/interest rate, prepayment, extension, and liquidity risks will remain expressly excluded from the definition.

3. The SVO revised the regulatory objective to clarify that an objective of the Task Force is to support regulators in the assessment of the financial ability of an insurer to maintain financial solvency.

4. The SVO removed reference to the currently stated regulatory assumption that debt instruments pay scheduled interest and principal at maturity.

5. The SVO removed the application of Subscript S for other non-payment risks and the concept of "other non-payment risks." It has been noted that there are lingering references to Subscript S throughout the P&P Manual. If this amendment is adopted, the SVO will remove any remaining P&P Manual references to Subscript S in a subsequent amendment.

Mears said this definition provides a foundation for the role of a designation. The amendment does not, on its own, create any new policies or procedures. Any future changes to policies or procedures would go through a deliberative process as normal, if applicable. This is a foundational definition and not a procedure that is being put into place.

© 2024 National Association of Insurance Commissioners

Christopher Anderson (Anderson Insights) said it is important to get this brief comment in the mix before the Summer National Meeting. Something that could be added to this proposal that would make it more useful is an implementation plan. This is a new risk measure that goes beyond credit risk. Credit risk is dealt with through ratings from rating agencies that are used by the NAIC. Secondly, the bond project addresses all kinds of issues, such as principal-protected securities and others. The question is if there are over 300,000 individual bonds owned by insurance companies, the NAIC has those numbers on a quarterly basis. Anderson asked how these standards will be applied to the securities that are outstanding. According to the budget, the SVO reviews about 10,000 securities. Most of those are annual updates. Less than 2,000 securities that the SVO reviews each year are new issues rather than annual updates. The SVO has 22 analysts, according to the latest posted numbers, and five supervisors. The rating agencies have over 5,000 analysts and supervisors, and they are doing credit. The SVO has been tasked with looking at over 8,000 private rating rationales. These 22 analysts have a burden. The question is, how this standard can, which is beyond credit risk, be applied to the broadest measure of debt instruments that are presently being owned by insurance companies. Given the numbers, there needs to be an implementation plan, he said.

Mears said some of the verbiage here may help because there is nothing to implement. This is representative of the policies and procedures the Task Force has today. One of the changes, including the investment risk, is to stay coordinated with the investment framework that has been put out via the Financial Condition (E) Committee and the role of the SVO in providing designations for assets. For example, if the asset fails the bond definition, it would no longer be on Schedule D, but the asset would, at least as it stands right now, be able to receive an NAIC designation on Schedule BA. How to utilize those NAIC designations will ultimately be defined by the risk-based capital (RBC) groups. What has been discussed is the expectation that Schedule BA types of assets may still receive bond-like capital treatment but only if there is an SVO-provided NAIC designation. For a PPS, which is the example here, the SVO will provide NAIC designations for those investments if the insurer chooses. The definition itself does not change anything. There is no implementation plan because there are no actions that would be taken directly in relation to the definition change.

Alan Routhenstein (Routhenstein & Company) asked if the Task Force received input from the Life Risk-Based Capital (E) Working Group or the Risk-Based Capital Investment Risk and Evaluation (E) Working Group on this change and how it would impact how they calculate RBC factors.

Mears said it would not impact how they calculate RBC factors. The Task Force remains responsive to the RBC groups. As the various RBC groups and the Capital Adequacy (E) Task Force consider these issues, which would include bonds on Schedule BA, they also have an agenda item that covers funds, which may result in feedback to the Task Force of what it would need to consider. Their goals would then be the policies and procedures that the Task Force would need to put in place. The Task Force stands ready to be reactive to the needs of the RBC groups. There are no changes or actions that come from this definition change.

Routhenstein said the RBC has a separate factor for interest rate risk from C1 risk, which is credit risk. C1 risk is based on the NAIC designation. The C3 risk is based on an interest rate scenario modeling. If NAIC designations are based on interest rate modeling, then there is some kind of redundancy that is built in.

Mears said these types of risks are explicitly excluded. Interest rate risk, prepayment risk, extension risk, and liquidity risk are not risks that fall under the NAIC designation definition. A component notes that tail risk was in a previous iteration of this. In response to industry comments, there is a caveat that the Task Force would coordinate with the RBC groups. The Task Force remains very cognizant of what the RBC needs are. For example, if the RBC groups incorporate some measure of tail risks in a capital charge, that would mean the Task Force would need to adjust what's being represented by the NAIC designation and be responsive with the intent to not double count anything.

© 2024 National Association of Insurance Commissioners

Husain Bootwala (Guggenheim Partners LLC) said the definition changed from credit risk to investment risk, and the filing exempt (FE) process is based on the credit rating provider (CRP) ratings, which is a credit rating and a credit risk. He asked how that would work for the FE process.

Mears said it would not change anything. NAIC designations are not credit ratings. The NAIC uses credit ratings to inform NAIC designations where appropriate. For example, PPS are not part of the FE process because they incorporate risks that would need to be otherwise reviewed by the SVO, and that needs to be reflected differently based on regulatory needs and practices. That asset type was removed from the FE process for that reason. This would not mean that the NAIC expects the CRP ratings to be different regarding credit risk but recognizing that, in our case, NAIC designations may go beyond that. The SVO can provide an NAIC designation for certain funds that are held by insurers that have credit risk, but the NAIC designation is not necessarily directly tied to credit risk, as the SVO considers multiple components and has a methodology for that, including, for example, how derivatives are used for those purposes. This recognizes that the designation may be broader than credit risks but it's not changing anything that the Task Force expects from the credit rating providers.

Bootwala asked for confirmation that this would not have implications for the FE process as it currently stands. Mears said there are no policy or procedure changes coming out of the definition amendment. The definition is meant to be basic. If the Task Force identifies a certain asset class that should no longer qualify for FE, it would go through a deliberative process as it happens.

Mears directed the SVO to expose the P&P Manual amendment to update the definition of an NAIC Designation for a 28-day comment period that would end on July 18, 2024.

7. Exposed a Revised Proposed P&P Manual Amendment Authorizing the Procedures for the SVO's Discretion Over NAIC Designations Assigned Through the FE Process

Mears said the next item on the agenda is to receive and consider for exposure a revised proposed P&P Manual amendment for the SVO's discretion over NAIC designations assigned through the FE process.

Therriault said the SVO has worked hard to incorporate the comments received from the Task Force members and interested parties into the amendment. It is important to remember that this amendment originated from a request by the industry for a proposal allowing the SVO to target specific ratings it was concerned with instead of a broader proposal that would have removed a whole asset class from FE eligibility. The first iteration of the amendment was exposed for comment a little over a year ago on May 15, 2023. The second version was exposed for comment at the 2023 Fall National Meeting on Dec. 2, 2023, and now we have the third version, dated June 4, 2024, being discussed at this meeting. In response to regulator and industry comments, the complexity of the process has increased in each iteration. As outlined in the memo, the revised amendment incorporates the following process steps:

1. SVO staff or an insurance regulator identifies an FE security with an NAIC designation determined by a rating that appears to be an unreasonable assessment of investment risk.
2. The SVO Credit Committee (CC) meets to determine if it agrees that the rating appears to be an unreasonable assessment of investment risk and, if so, places the security "Under Review."
3. If the SVO CC votes to put the security "Under Review," an information request will be sent through VISION to insurers that hold that security in their VISION portfolio and their statutory financial statements to indicate ownership of the security, and the SVO Administrative Symbol "UR" will be assigned to the security to identify it in VISION and AVS+.
4. If the information request does not receive a response, the SVO may reach out to the domiciliary chief financial regulator.

© 2024 National Association of Insurance Commissioners

5. Upon receipt of all necessary documentation through the information request, the SVO will then perform a full analysis of the security. During its review, the SVO will coordinate verbally and in writing with insurer staff authorized to discuss the security to ask questions and discuss issues the SVO may have about the security and also respond to any questions the authorized insurer staff may have about the SVO's analysis. This communication is intended to be an open dialogue.
6. The SVO CC reconvenes to determine, based on its full analysis of all necessary information, whether the FE NAIC designation is three (3) or more notches different than the SVO CC's opinion and, therefore, whether the SVO should proceed in requesting the removal of the CRP rating from the FE process by the subgroup of the Task Force.
7. If the SVO CC's decision is to proceed with the CRP rating removal request, the SVO CC and a subgroup of the Task Force will meet to discuss the security. The domiciliary regulators of the authorized insurers will be invited to the Task Force subgroup meeting and will be provided with relevant documentation through a confidential website. The authorized insurer staff and other authorized parties requested by those insurers to participate will be invited to present their analysis at the joint meeting. At that meeting, the SVO CC will present its analysis, which may include any information provided to it or independently sourced. Following the presentations, the SVO CC and Task Force subgroup will deliberate privately where the Task Force subgroup will vote on whether it agrees with the SVO CC recommendation and if the CRP rating will be removed from the FE process. At the conclusion of the joint meeting, the SVO will communicate the decision to the authorized insurers.
8. At any time during this process, an alternate CRP rating may be requested. If an alternative CRP rating is received, it will be incorporated into the FE process, if applicable. If there are no alternative CRP ratings, the SVO CC's assessment will be entered into VISION if the Task Force subgroup approves the CRP rating removal.
9. For transparency, an anonymized summary of each unique issue or situation will be published on the SVO webpage or another insurer-accessible location.
10. The SVO will identify through SVO Administrative Symbols when a CRP rating(s) has been removed from the FE process for a security.
11. At the Spring National Meeting, the SVO director will summarize FE discretion actions taken during the preceding year.

Throughout the proposed amendment, the Task Force also replaced references to "credit risk" with the term "investment risk" to make this proposal consistent with the Designation Definition proposal Perlman discussed, assuming that the proposal is adopted.

Additionally, based on regulator comments, the SVO recommends the following edits which will be included in the exposure:

1. In paragraph 168, regarding the exchange between the Investment Analysis Office (IAO) and insurers holding the security at the time of the IAO review, include the words "**verbally and in writing,**" so that it reads, "At any time during the information request submission period or during the IAO's subsequent analysis of the security, the insurance company holders of the security are encouraged to provide additional information to the IAO such as their internal analysis, presentations from the issuer, meetings with the issuer's management team and any other information that may be useful or persuasive in the analysis of the security. The IAO will coordinate **verbally and in writing** with the authorized insurer(s) staff to discuss any questions or issues the IAO may have about the security and answer any question that the authorized insurer(s) staff may have about the IAO's analysis."
2. Amend the first sentence of paragraph 172 to remove the language "for so long as the VOS/TF chair deems such meetings necessary" so that the Valuation of Securities (E) Task Force subgroup is not at the discretion of the Task Force Chair. The sentence would then read, "The Credit Committee shall schedule a call with a VOS/TF Sub-Group (the composition of which shall be determined by the VOS/TF

© 2024 National Association of Insurance Commissioners

chair) to discuss and explain its analytical basis for any Eligible NAIC CRP Credit Rating being recommended for removal from Filing Exemption eligibility."

3. Paragraph 175 would be added to answer the question of what would happen if the Chair deemed the Task Force subgroup meetings unnecessary because the SVO did not think that would cause the IAO to lose its discretion authority. The SVO proposes removing the Chair's sole discretion to not convene the subgroup and update paragraph 175 to give the Chair the discretion to direct the Task Force to review the IAO discretion process. The paragraph would read, "At any time, the VOS/TF chair may direct the VOS/TF to review the described process to ensure it remains effective and efficient and to recommend revisions to any components."

Because of the complexity of the proposal, the SVO may need to charge fees to cover its cost, but any such charge would need to be approved by the NAIC Executive (EX) Committee. The SVO will work through these complexities during the implementation, and any issues will be brought back before the Task Force for discussion. It will likely take one or two years to implement the proposal. Once approved, the exact timing for implementation will depend on the capacity of the technology team to take on the project.

Mears said the points just made are direct edits to the document that will be exposed. She said that those who downloaded the materials for this meeting should use the updated document if they plan to make a comment.

Mears said there were some comments made in the last exposure that are not reflected in these changes. One was recommending a review of separating policy-making and implementation within the SVO and IAO. This will be reviewed as part of the Financial Condition (E) Committee framework process that is looking holistically at how regulators utilize the centralized investment expertise within the NAIC. Interested parties should look to that committee to provide further guidance and feedback as it goes through this process. There have been comments about ensuring there is oversight on the back end of the SVO, reviews of policy and procedures put in place, and the designation output of the SVO. Regulator oversight is built into this process through the Task Force subgroup approval and the related components of this process. Separately, the Financial Condition (E) Committee process will include a request for proposal (RFP) draft, which will be forthcoming, and is meant to answer the broader due diligence process over CRPs and how to implement it using a consultant. The Financial Condition (E) Committee is contemplating the assistance from that third party and building out an assessment process for the SVO and its output of designations. The Task Force noted this verbally and in writing in the last set of comments, but that would be part of the RFP process, too, and not just part of this proposed P&P Manual amendment, which is more narrowly described for that discretion piece. There will be further deliberation and consideration at the Financial Condition (E) Committee level. This exposure is specifically for the amendment to the P&P Manual for the SVO.

Cotrone said Connecticut supports the edited comments to be included in the updated proposal and asked when the exposure would be available on the website. Therriault said he hoped the edits would be available after the meeting or the following day.

Michael Reis (Northwestern Mutual Life Insurance Company) asked if the proposed edits would be tracked and asked for the paragraph number for reference. Perlman said "verbally and in writing" was added to paragraph 168, and paragraphs 172 and 175 were the other changes. The changes will be highlighted in yellow.

Piatt said paragraph 80 says, "the risk of blind reliance." He said it may be better to change this to something like "overreliance" or "imprudent reliance" rather than "blind reliance." Mears said that is consistent with the language that is part of the holistic overview of the Financial Condition (E) Committee to increase informed reliance. The Task Force could use something like "informed reliance" as well or try to use consistent language

with other initiatives. Therriault suggested that once the policy process for rating agency ratings is changed, that may be the time to revise this section to be consistent.

Mears said unlike the last exposure, which was for 30 days, the Task Force would like to give additional time for the exposure based on when materials for the Summer National Meeting need to be posted. July 26 would allow some time to get through those comments and make changes to the materials in time for the Summer National Meeting.

Mears directed the SVO to expose the P&P Manual amendment that gives the SVO discretion over NAIC designations assigned through the FE process for a 38-day comment period that would end on July 26, 2024.

8. Received Updates on the Proposed CLO Modeling Methodology and Ad Hoc Group

Mears said the next item on the agenda is to hear updates on the proposed CLO modeling methodology and CLO ad-hoc working group.

Eric Kolchinsky (NAIC) said the SSG is almost finished with the inventory of 2023 CLOs, both reported and the SSG's additions. The next step is to run 10 scenarios on the universe starting next week. There will be a webpage with the results that everyone can look at by the Summer National Meeting, which is when the SSG will provide the probabilities. The SSG is working with the American Academy of Actuaries (Academy) on the RBC for CLOs.

Having no further business, the Valuation of Securities (E) Task Force adjourned.

NAIC Support Staff Hub/Committees/E CMTE/VOSTF/Summer Natl Mtg/VOSTF_2024-06-18_Interim_Meeting_Minutes_v3.docx

© 2024 National Association of Insurance Commissioners

Attachment Two
Valuation of Securities (E) Task Force
8/13/24

Draft: 6/5/2024

Valuation of Securities (E) Task Force
Virtual Meeting
May 2, 2024

The Valuation of Securities (E) Task Force met May 2, 2024. The following Task Force members participated: Doug Ommen, Chair, represented by Carrie Mears (IA); Eric Dunning, Vice Chair, represented by Lindsay Crawford and Andrea Johnson (NE); Mark Fowler represented by Sheila Travis and Sanjeev Chaudhuri (AL); Lori K. Wing-Heier represented by David Phifer (AK); Ricardo Lara represented by Laura Clements (CA); Andrew N. Mais represented by Kenneth Cotrone (CT); Michael Yaworsky represented by Ray Spudeck (FL); Dana Popish Severinghaus represented by Ann Gillespie and Vincent Tsang (IL); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Stewart Guerin (LA); Kathleen A. Birrane represented by Greg Ricci (MD); Gary D. Anderson represented by Rachel M. Davison and John Turchi (MA); Chlora Lindley-Myers represented by Debbie Doggett and Danielle Smith (MO); D.J. Bettencourt represented by Jennifer Li (NH); Justin Zimmerman represented by John Sirovetz (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Jon Godfread represented by Matt Fischer (ND); Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Alec Reid (OK); Michael Humphreys represented by Diana Sherman (PA); Cassie Brown represented by Amy Garcia and Rachel Hemphill (TX); Jon Pike represented by Malis Rasmussen (UT); Scott A. White represented by Doug Stolte and Greg Chew (VA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted a P&P Manual Amendment to Update U.S. Government Agency and Other U.S. Government Obligation Abbreviations

Mears said the first item is to consider for adoption the proposed *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) amendment to update the U.S. government agency and other U.S. government obligations abbreviations.

Linda Phelps (NAIC) said this is a technical amendment to the P&P Manual. As part of the implementation of the principles-based bond project, there were modifications to the annual statement blanks. As such, the Securities Valuation Office (SVO) has identified abbreviations for the U.S. government and other entities that will need to be modified for reporting purposes of insurance company statement blanks to accommodate space limitations and to eliminate conflicting abbreviations. The SVO recommends adoption of this proposed technical amendment in advance of the Jan. 1, 2025, implementation date of the new statement blanks. This was exposed for a 30-day public comment period ending April 17, and no comment letters were received.

Botsko asked if the change in abbreviations would roll over into the risk-based capital (RBC) instructions and/or any of the annual statement pages that would have to be amended as well. Charles Therriault (NAIC) said any of the line reporting comes from the RBC side and should not impact the line instructions at all. Botsko said he would look it over to double-check and get back to the Task Force.

Malm made a motion, seconded by Crawford, to adopt the P&P Manual amendment to update the U.S. government agency and other U.S. government obligations abbreviations. The motion passed unanimously.

2. Adopted a P&P Manual Amendment That Updates SSAP References for SCA, Related Party Bond, or Preferred Stock Investments

Marc Perlman (NAIC) said at the end of 2022, the Task Force adopted amendments to the subsidiary, controlled, and affiliated (SCA) section of the P&P Manual to more clearly define SCA investments, including

© 2024 National Association of Insurance Commissioners

those that were eligible for filing exemptions (FEs), specifically with regards to structured deals, and also to include related party investments. Within the definitions of an SCA and related party bond, the Task Force made a specific reference to paragraph 4(a) in *SSAP No. 43R—Loan-Backed and Structured Securities* to help define which structured or loan-backed investments would qualify as an SCA or related party bond. Subsequent to the adoption of the P&P Manual amendment, SSAP No. 43R was amended, and the paragraph reference in the P&P Manual is no longer accurate. Additionally, with the implementation of the principles-based bond definition, the name of SSAP No. 43R will be changing from "Loan-Backed and Structured Securities" to "Asset-Backed Securities" on Jan. 1, 2025.

To avoid the need for additional P&P Manual updates due to potential future amendments to SSAP No. 43R, the SVO proposes a technical amendment to (i) remove that SSAP No. 43R paragraph-specific reference and (ii) include a note that says as of Jan. 1, 2025, all P&P Manual references to SSAP No. 43R will be updated without any further action necessary by the Task Force to reflect SSAP No. 43R's new name, *SSAP No. 43—Asset-Backed Securities*.

The amendment was exposed for a 30-day public comment period that ended April 17, and no comment letters were received.

Spudeck made a motion, seconded by Sherman, to adopt the proposed technical amendment to the P&P Manual, which updates references in the SSAPs that address guidance for SCA, related party bond, or preferred stock investments. The motion passed unanimously.

3. Exposed a P&P Manual Amendment to Permit NAIC Designations for Short-Term ABS

Therriault said the Statutory Accounting Principles (E) Working Group adopted revisions to *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* in the *Accounting Practices & Procedures Manual* (AP&P) on Dec. 1, 2023. The revisions, which will be effective Jan. 1, 2025, further restrict investments that are permitted for cash equivalent or short-term investment reporting. Included in those revisions is an instruction that, regardless of the maturity date, certain investments are not permitted to be reported as cash equivalents and must be reported on the investment schedule that corresponds to the SSAP for which the investment is applicable. The revisions specifically refer to asset-backed securities (ABS) captured in the scope of SSAP No. 43R. The amendment proposes permitting the assignment of an NAIC designation to these investments if they are captured within the scope of the revised SSAP No. 43 and are eligible to be reported on the new ABS schedule D, part 1, sub-part 2. This is to align with the changes to SSAP No. 43 instructions.

Mike Reis (Northwestern Mutual representing the American Council of Life Insurers—ACLI and the North American Securities Valuation Association—NASVA) asked whether the only change, pursuant to the proposed amendment, would be related to P&P Manual, part 1, paragraph 128, "Short-Term Investments," which says short-term investment are excluded from receiving an NAIC designation by the SVO, but ABS, with a maturity of less than one year, can be assigned an NAIC designation by the SVO and would be shown as a bond.

Therriault said there are no definitional changes, as the Task Force does not define a bond. The Task Force makes exceptions for investments with maturities of less than a year. This proposed amendment will permit the SVO to assign designations to short-term ABS if it follows the guidance in SSAP No. 43.

Mears directed the SVO to expose the P&P Manual amendment to permit NAIC designations for short-term ABS for a 30-day public comment period ending June 2.

© 2024 National Association of Insurance Commissioners

4. Exposed a P&P Manual Amendment to Add Spain to the List of Foreign (Non-U.S.) Jurisdictions Eligible for Netting Schedule DB, Part D, Section 1

Perlman said Banco Bilbao Vizcaya Argentaria, S.A., (BBVA), a bank organized under the laws of Spain, has requested the addition of Spain to the P&P Manual's list of jurisdictions eligible for counterparty close-out netting.

The purpose of identifying jurisdictions eligible for close-out netting is to permit the calculation of credit risk exposures to counterparties in Schedule DB, Part D, Section 1. The netting of offsetting liabilities with a counterparty will only be permitted in that schedule if there is a master agreement that provides for such netting and if there is adequate legal certainty that closeout netting would be enforced upon default of the counterparty. The P&P Manual provides for the addition of jurisdictions to those eligible for close-out netting if, in the SVO's opinion, legal opinions or other analyses provide adequate legal certainty that, upon default of the counterparty, close-out netting would be enforced.

In support of its application, BBVA submitted a legal opinion of the law firm Clifford Chance, S.L.P., on the validity and enforceability of close-out netting provisions under Spanish law. The opinion was commissioned by the International Swaps and Derivatives Association (ISDA), a private trade organization whose mission is to foster safe and efficient derivatives markets, in part through the development of standardized documentation. ISDA netting opinions are widely accepted by regulators around the globe, specifically by banking regulators.

Each of the netting opinions commissioned by ISDA, including the Spanish opinion, spell out various parameters, specific to the laws of the relevant jurisdiction, which a master agreement must meet to be consistent with the opinion. For example, according to the Spanish opinion, there are different requirements for netting enforceability depending on whether the insolvent Spanish counterparty is or is not a Spanish bank, credit institution, investment firm, or broker-dealer. It would be impracticable to expect the SVO to review all master agreements for compliance with the parameters delineated in the netting opinion for the relevant jurisdiction. Therefore, the SVO proposed amending the netting eligibility section of the P&P Manual to include a proviso that it is assumed that each master agreement complies with the parameters delineated in the netting opinion for the relevant jurisdiction.

Upon the SVO's review of the Spanish law opinion, the SVO believes it provides adequate legal certainty that closeout netting would be enforced (assuming that master agreement provisions are consistent with the parameters explained in the netting opinion). As such, the SVO proposes adding Spain to the list of jurisdictions eligible for counterparty exposure netting.

Mears directed the SVO to expose the P&P Manual amendment to add Spain to the List of Foreign (Non-U.S.) Jurisdictions Eligible for Netting for a 30-day comment period ending June 2, 2024.

5. Exposed a Proposed P&P Manual Amendment to Change the Effective Date for the Implementation of CLO Modeling

Therriault said at the 2024 NAIC Spring National Meeting the Structured Securities Group (SSG) requested a change to the effective date for the financial modeling of collateralized loan obligations (CLOs) to assign NAIC designations and designation categories to year-end 2025 from year-end 2024. The additional time will permit the SSG to improve the methodology and allow better alignment with the approach of other NAIC workstreams. The Task Force agreed to this change. This proposed non-substantive amendment reflects the changes necessary to provide notice in the P&P Manual of the implementation effective date change.

Mears directed the SVO to expose the proposed P&P Manual Amendment to change the effective date for implementing CLO modeling for a 30-day comment period ending June 2, 2024.

© 2024 National Association of Insurance Commissioners

6. Exposed a Proposed P&P Manual Amendment to Clarify Permitting Insurers to Self-Assign an NAIC Designation 6*

Therriault said the SVO was requested to review the instructions for insurers' self-assignment of an NAIC 6* designation. An NAIC 6* can be self-assigned by an insurer in lieu of reporting the obligation with appropriate documentation during instances where this type of documentation does not exist and the requirements for an insurance company to assign a 5.B GI are not met. An NAIC 6* can also be self-assigned when the security is deemed to possess the credit characteristics of securities that are assigned an NAIC 6, meaning the obligation is in or near default and payment of interest, principal, or both is not being made or will not be made in accordance with the contractual agreement. This non-substantive P&P Manual amendment is not a change in policy but is intended to clarify the self-assignment instructions for insurers that use the NAIC designation of 6*.

Mears directed the SVO to expose the proposed amendment to clarify permitting insurers' self-assigning as an NAIC 6* designation for a 30-day public comment period ending June 2.

7. Exposed a P&P Manual Amendment to Update the List of SVO Processes

Perlman said the P&P Manual references several processes the SVO uses to identify information, entities, or securities for various lists, which are part of the SVO's Compilation and Publication of the SVO List of Investment Securities responsibilities. The SVO proposes updating this section of the P&P Manual to remove those processes that the SVO no longer undertakes (such as the exchange rate, ex-dividend, and surplus note processes) and insert processes the SVO does perform but are either missing or mislabeled (such as the Counterparties Designated by the SVO, funds and credit ratings eligible for transactions, Sovereign Designation Equivalent, and the replication synthetic asset transactions [RSAT] processes). Additionally, the SVO proposes revising the list name, "List of Counterparties Rated by the SVO," t "List of Counterparties Designated by the SVO," since the SVO produces designations that are distinct from rating agency ratings.

Mears directed the SVO to expose the proposed amendment to update the list of SVO processes for a 30-day public comment period ending June 2.

8. Received Updates on the Proposed CLO Modeling Methodology and Ad Hoc Group

Eric Kolchinsky (NAIC) said the SSG had a meeting with the CLO Ad Hoc Working Group, where it reviewed proposed scenarios and comments the SSG received from interested parties. They also discussed how the SSG assisted the American Academy of Actuaries (Academy) in its analysis of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group. The SSG took away several tasks to complete from the CLO Ad Hoc Working Group, including a review of the provided suggestions. There is one detailed proposal from a third party, which the SSG will review. The SSG will also redo all the scenarios in its 2023 deals and post the updates online, as well as propose the scenario probabilities. One of the biggest takeaways was that interested parties did not feel like they could give the SSG feedback without those probabilities. So, SSG will provide the probabilities as a starting point. The SSG has continued to receive comments and will likely have the next CLO Ad Hoc Working Group meeting in late June. Kolchinsky said that everything is going quite well and proceeding at a good pace.

Having no further business, the Valuation of Securities (E) Task Force adjourned.

© 2024 National Association of Insurance Commissioners

Draft: 7/23/24

2025~~4~~ Proposed Charges

VALUATION OF SECURITIES (E) TASK FORCE

The mission of the Valuation of Securities (E) Task Force is to provide regulatory leadership and expertise to establish and maintain all aspects of the NAIC's credit assessment process for insurer-owned securities, as well as produce insightful and actionable research and analysis regarding insurer investments.

Ongoing Support of NAIC Programs, Products or Services

1. The **Valuation of Securities (E) Task Force** will:

A. Review and monitor the operations of the NAIC Securities Valuation Office (SVO) and the NAIC Structured Securities Group (SSG) to ensure they continue to reflect regulatory objectives.

B. Maintain and revise the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to provide solutions to investment-related regulatory issues for existing or anticipated investments.

C. Monitor changes in accounting and reporting requirements resulting from the continuing maintenance of the *Accounting Practices and Procedures Manual*, as well as financial statement blanks and instructions, to ensure that the P&P Manual continues to reflect regulatory needs and objectives.

D. Consider whether improvements should be suggested to the measurement, reporting and evaluation of invested assets by the NAIC as the result of: 1) newly identified types of invested assets; 2) newly identified investment risks within existing invested asset types; or 3) elevated concerns regarding previously identified investment risks.

E. Identify potential improvements to the credit filing process, including formats and electronic system enhancements.

F. Provide effective direction to the NAIC's mortgage-backed securities modeling firms and consultants.

G. Coordinate with other NAIC working groups and task forces—including, but not limited to, the Capital Adequacy (E) Task Force, the Statutory Accounting Principles (E) Working Group, the Blanks (E) Working Group, ~~and~~ the Risk-based Capital Investment Risk & Evaluation (E) Working Group, and the Valuation Analysis (E) Working Group—to formulate recommendations and to make referrals to such other NAIC regulator groups to ensure expertise relative to investments, or the purpose and objective of guidance in the P&P Manual, is reflective in the guidance of such other groups and that the expertise of such other NAIC regulatory groups and the objectives of their guidance is reflected in the P&P Manual.

H. Identify potential improvements to the filing exempt process (the use of credit rating provider ratings to determine an NAIC designation) to ensure greater consistency, uniformity and appropriateness to achieve the NAIC's financial solvency objectives.

© 2024 National Association of Insurance Commissioners

I. Implement policies to oversee the NAIC's staff administration of rating agency ratings used in NAIC processes, including staff's discretion over the applicability of their use in its administration of filing exemption.

J. Establish criteria to permit staff's discretion over the assignment of NAIC designations for securities subject to the filing exempt process (the use of credit rating provider ratings to determine an NAIC designation) to ensure greater consistency, uniformity and appropriateness to achieve the NAIC's financial solvency objectives.

K. Implement additional and alternative ways to measure and report investment risk.

NAIC Support Staff: Charles Therriault, Marc Perlman

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-08 Summer NM/02-Proposed 2025 Charges/2024-XXX.01 VOSTF_Proposed_2025_Charges.docx

© 2024 National Association of Insurance Commissioners

Attachment Four
Valuation of Securities (E) Task Force
8/13/24

SVO

NAIC
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

CC: Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau

RE: Proposed Amendment to Update the Definition of an NAIC Designation in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual)

DATE: July 29, 2024

Summary –

NAIC Designations are currently explained and defined in both Parts One and Two of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual). The SVO proposes both consolidating these explanations and definitions in Part One only and clarifying the meaning of an NAIC Designation including their use, purpose and risks addressed.

This amendment has undergone several iterations. The Valuation of Securities (E) Task Force exposed the prior version of this amendment, dated June 4, 2024, for a 28-day comment period that ended on July 18, 2024. The following updates have been made to the prior version and reflect actionable recommendations received from interested parties:

1. The inclusion of a new paragraph under the heading "Regulatory Objective" to explain why the term "investment risk," meaning the likelihood that an insurer will receive full and timely principal and expected interest, is replacing "credit risk," which traditionally focuses on the ability of an issuer to make payments in accordance with contractual terms. While credit risk is usually the overall fundamental and predominant determinant of what an NAIC Designation represents, focusing on credit risk alone would limit the SVO's ability to appropriately assess certain risks including, but not limited to, the performance component of a PPS or certain funds which do not pay in accordance with contractual terms.

2. More clearly define the term "investment risk" under the heading "Definitions".

Proposed Amendment - The proposed changes to the current P&P Manual are shown below with

© 2024 National Association of Insurance Commissioners

additions in red font color, and deletions in ~~red strikethrough~~. New text added since the last presented iteration of the proposal is in highlighted red underline.

(VERSION WITH CHANGES DISPLAYED)

PART ONE
POLICIES OF THE NAIC VALUATION OF SECURITIES (E) TASK FORCE

POLICIES PERTAINING TO SVO AND SSG OPERATIONS

. . .

~~NAIC Designations~~

[Editing note: select portions moved from Part One, paras. 37-39 to the new "NAIC Designations" section within Part One]

~~37. The SVO's analysis of credit risk (hereafter defined), is expressed as an opinion of credit quality by assignment of an NAIC Designation that is notched to reflect the position of the specific liability in the issuer's capital structure. Collectively, NAIC Designations as defined in this Manual describe a credit quality risk gradation range from highest quality (least risk) to lowest quality (greatest risk). NAIC Designations express opinions about credit risk except when accompanied by the NAIC Designation subscript, described below.~~

- ~~Credit risk is defined as the relative financial capability of an obligor to make the payments contractually promised to a lender. Credit analysis is performed solely for the purpose of designating the quality of an investment made by an insurance company so that the NAIC member's department of insurance can better identify regulatory treatment.~~
- ~~Credit risk is assessed by analyzing the information and documentation provided to the SVO by the reporting insurance company and its advisors. The SVO does not audit the information submitted and assumes the information to be timely, accurate and reliable.~~
- ~~The ability of an insurance company to realize payment on a financial obligation can be affected by factors not related to credit risk or by the manner in which the repayment promise has been structured.~~
- ~~NAIC Designations do not measure other risks or factors that may affect repayment, such as volatility/interest rate, prepayment, extension or liquidity risk.~~
- ~~An NAIC Designation must be interpreted by the NAIC member in context of the NAIC Financial Regulation Standards and Accreditation Program, other characteristics of the investment, and the specific financial and regulatory status of the insurance company.~~

~~38. The result of the SVO's credit analysis, expressed as an opinion of credit quality by assignment of an NAIC Designation shall be further expanded into NAIC Designation Categories as, and for the purposes, discussed in this Manual.~~

~~**NOTE**: See "Production of NAIC Designations" in Part Two.~~

~~**Other Non-Payment Risk in Securities**~~

~~39. The result of the SVO's analysis of securities for other non-payment risk is expressed by the assignment of an NAIC Designation Subscript S and the application of the notching procedures described below.~~

~~**NOTE:** See "NAIC Designation Subscript S" and "SVO Notching Guidelines" in Part Two.~~

NAIC DESIGNATIONS

NAIC DESIGNATIONS

Regulatory Objective

88. An objective of the VOS/TF is to support regulators in the assessment of the financial ability of an insurer to maintain financial solvency, through the making of policy concerning insurer investment risk and the identification and sharing of pertinent information with other relevant regulators and regulatory groups responsible for the NAIC's regulatory framework.

89. The below definition of an NAIC Designation focuses on the likelihood that an insurer will receive full and timely principal and expected interest (i.e., investment risk). The definition differs from "credit risk" which traditionally focuses on the ability of an issuer to make payments in accordance with contractual terms. Credit risk alone may, at times, be too narrow a concept for NAIC purposes. For example, the performance component of a principal protected security (PPS) may produce no return and, therefore, the PPS could pay no interest with no event of default by the issuer. Similarly, the SVO assigns NAIC Designations to certain funds using a Weighted Average Rating Factor (WARF) methodology where the fund does not pay in accordance with contractual terms. As such, while credit risk is usually the overall fundamental and predominant determinant of what an NAIC Designation represents, focusing on credit risk alone would limit the SVO's ability to appropriately assess certain risks including, but not limited to, the performance component of a PPS or certain funds for regulatory purposes.

Definitions

90. NAIC Designations represent opinions of gradations of the likelihood of an insurer's timely receipt of an investment's full principal and expected interest ("investment risk"). Where appropriate for a given investment, NAIC Designations and Designation Categories shall reflect "tail risk" and/or loss given default, the position of the specific liability in the issuer's capital structure, and all other risks, except for volatility/interest rate, prepayment, extension or liquidity risk. NAIC Designations shall be identified by the NAIC 1 through NAIC 6 symbols (as modified by NAIC Designation Categories) which indicate the highest quality (least risk) to the lowest quality (greatest risk), respectively.

Use and Purposes of NAIC Designations

91. **NAIC Designations** are proprietary symbols of the NAIC. The SVO, the SSG and, under certain circumstances, insurers, produce NAIC Designations for insurer-owned securities using the policies, procedures or methodologies adopted by the VOS/TF in this Manual. The analysis is performed solely for the purpose of designating the quality of an investment

made by an insurance company so that the NAIC member's department of insurance can better identify regulatory treatment. Investment risk is assessed by analyzing the information and documentation provided to the SVO by the reporting insurance company and its advisors. The SVO does not audit the information submitted and assumes the information to be timely, accurate and reliable.

92. **NAIC Designations** are produced for statutory accounting, reporting, state investment laws and other purposes identified in the NAIC Financial Regulation Standards and Accreditation Program and/or other NAIC developed regulatory guidance embodied in state law and must be interpreted by the NAIC member in context of the NAIC Financial Regulation Standards and Accreditation Program, other characteristics of the investment, and the specific financial and regulatory status of the insurance company.

93. **NAIC Designations** must be considered in the context of its appropriateness and consistency of use in the NAIC Policy Statement and Financial Regulation Standards (SFRS) and other NAIC guidance. For example, the NAIC Designation serves as the basis for determining the appropriate risk-based capital factor for a given security. NAIC Designations should consider if risks, such as tail-risk, are inconsistent with, or duplicative of, risks already captured and defined in the risk-based capital factors, as applicable.

© 2024 National Association of Insurance Commissioners

APPLICATION OF NAIC DESIGNATIONS

94. **NAIC 1** is assigned to obligations exhibiting the highest quality. Investment risk is at its lowest and the issuer's credit profile is stable. This means that interest, principal or both will be paid in accordance with the contractual agreement and that repayment of principal is well protected. An **NAIC 1** obligation should be eligible for the most favorable treatment provided under the NAIC Financial Regulation Standards and Accreditation Program.

95. **NAIC 2** is assigned to obligations of high quality. Investment risk is low but may increase in the intermediate future and the issuer's credit profile is reasonably stable. This means that for the present, the obligation's protective elements suggest a high likelihood that interest, principal or both will be paid in accordance with the contractual agreement, but there are suggestions that an adverse change in circumstances or economic, financial or business conditions will affect the degree of protection and lead to a weakened capacity to pay. An **NAIC 2** obligation should be eligible for relatively favorable treatment under the NAIC Financial Regulation Standards and Accreditation Program.

96. **NAIC 3** is assigned to obligations of medium quality. Investment risk is intermediate and the issuer's credit profile has elements of instability. These obligations exhibit speculative elements. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is reasonable for the present, but an exposure to an adverse change in circumstances or economic, financial or business conditions would create an uncertainty about the issuer's capacity to make timely payments. An **NAIC 3** obligation should be eligible for less favorable treatment under the NAIC Financial Regulation Standards and Accreditation Program.

© 2024 National Association of Insurance Commissioners

97. **NAIC 4** is assigned to obligations of low quality. Investment risk is high and the issuer's credit profile is volatile. These obligations are highly speculative, but currently the issuer has the capacity to meet its obligations. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is low and that an adverse change in circumstances or business, financial or economic conditions would accelerate credit risk, leading to a significant impairment in the issuer's capacity to make timely payments. An **NAIC 4** obligation should be accorded stringent treatment under the NAIC Financial Regulation Standards and Accreditation Program.

98. **NAIC 5** is assigned to obligations of the lowest credit quality, which are not in or near default. Investment risk is at its highest and the issuer's credit profile is highly volatile, but currently the issuer has the capacity to meet its obligations. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is significantly impaired given any adverse business, financial or economic conditions. An **NAIC 5** Designation suggests a very high probability of default. An **NAIC 5** obligation should incur more stringent treatment under the NAIC Financial Regulation Standards and Accreditation Program.

99. **NAIC 6** is assigned to obligations that are in or near default. This means that payment of interest, principal or both is not being made, or will not be made, in accordance with the contractual agreement. An **NAIC 6** obligation should incur the most severe treatment under the NAIC Financial Regulation Standards and Accreditation Program.

NOTE: See "Prohibition on Use of NAIC Designation in a Covenant" and "Coordination Between the Statutory Accounting Principles Working Group and the Valuation of Securities Task Force" in Part One; and "Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities" in Part Three.

APPLICATION OF NAIC DESIGNATION CATEGORIES

100. Upon the determination of an NAIC Designation, the SVO produces NAIC Designation Categories.

101. **NAIC Designation Category** – Means and refers to 20 more granular delineations of investment risk in the **NAIC 1** through **NAIC 6** investment risk scale used by the VOS/TF to relate investment risk in insurer-owned securities to a risk-based capital factor assigned by the NAIC Capital Adequacy (E) Task Force. Each delineation of investment risk is represented by a letter (a Modifier) which modifies the NAIC Designation grade to indicate a more granular measure of investment risk within the NAIC Designation grade. The more granular delineations of investment risk are distributed as follows: 7 for the **NAIC 1** Designation grade indicated by the letters A through G; 3 delineations each for each of the NAIC Designation grades **NAIC 2**, **NAIC 3**, **NAIC 4** and **NAIC 5** indicated by the letters A, B and C and 1 delineation for NAIC Designation grade **NAIC 6**. The NAIC Designation Category framework is shown in this Manual. All Modifiers roll up into the respective NAIC Designation grade as they are a subset of them.

102. **NAIC Designation Categories** are a subset of **NAIC Designations** and are used by the VOS/TF to link the NAIC risk-based-capital (RBC) framework adopted by the NAIC Capital Adequacy (E) Task Force to the VOS/TF's investment risk assessment process. The NAIC Capital Adequacy (E) Task Force assigns RBC factors to each NAIC Designation Category as shown below.

NAIC Designation	+	NAIC Designation Modifier	=	NAIC Designation Category
1		A		1.A
1		B		1.B
1		C		1.C
1		D		1.D
1		E		1.E
1		F		1.F
1		G		1.G
2		A		2.A
2		B		2.B
2		C		2.C
3		A		3.A
3		B		3.B
3		C		3.C
4		A		4.A
4		B		4.B
4		C		4.C
5		A		5.A
5		B		5.B
5		C		5.C
6				6

103. NAIC Designations and Designation Categories may be adjusted in accordance with the procedures described in this Manual so that an NAIC Designation and Designation Category for a given security reflects the position of that specific security in the issuer's

© 2024 National Association of Insurance Commissioners

capital structure.

NAIC DESIGNATIONS RELATED TO SPECIAL REPORTING INSTRUCTION

104. An insurance company that self-assigns a 5GI must attest that securities receiving this designation meet all required qualifications by completing the appropriate general interrogatory in the statutory financial statements. If documentation necessary for the SVO to perform a full investment risk analysis for a security does not exist or if an NAIC CRP credit rating for an FE or PL security is not available, but the issuer is not current on contractual interest and principal payments, and/or if the insurer does not have an actual expectation of ultimate payment of all contracted interest and principal, the insurance company is required to self-assign this security an NAIC 6*.

105. NAIC 6* is assigned by an insurer to an obligation in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5GI are not met.

106. Securities with NAIC 5GI Designations are deemed to possess the investment risk characteristics of securities assigned an NAIC 5 Designation. A security assigned an NAIC 5GI Designation incurs the regulatory treatment associated with an NAIC 5 Designation.

107. Securities an insurance company previously assigned as NAIC 5GI are permitted to subsequently receive this designation if the requirements for an NAIC 5GI designation continue to be met.

108. Securities with NAIC 6* Designations are deemed to possess the credit investment risk characteristics of securities assigned an NAIC 6 Designation. Therefore, a security assigned an NAIC 6* Designation incurs the regulatory treatment associated with an NAIC 6 Designation.

109. Securities that are residual tranches or interests, as defined in *SSAP 43R – Loan Backed and Structured Securities*, shall be reported on Schedule BA - Other Long-Term Invested Assets, without an NAIC Designation and are ineligible to be assigned an NAIC 5GI or NAIC 6* Designation.

NOTE: The GI after the quality indicator 5 refers to General Interrogatory and distinguishes NAIC 5GI from an NAIC 5 Designation. The asterisk (*) after the quality indicator 6 distinguishes the NAIC 6* Designation from an NAIC 6 Designation.

NAIC General Interrogatory

110. **NAIC 5GI** and NAIC Designation Category **NAIC 5.B GI** is assigned by an

insurance company to certain obligations that meet all of the following criteria:

- Documentation necessary to permit a full investment risk analysis of a security by the SVO does not exist or an NAIC CRP credit rating for an FE or PL security is not available.
- The issuer or obligor is current on all contracted interest and principal payments.
- The insurer has an actual expectation of ultimate payment of all contracted interest and principal.

NAIC PLGI

111. Effective July 1, 2018, insurance companies shall be responsible for providing the SVO copies of private rating letters for PL securities, where applicable, until such time as industry representatives and the SVO shall have established reliable procedures for obtaining the necessary information on credit ratings directly from the NAIC CRPs. For PL Securities issued prior to January 1, 2018, if an insurance company cannot provide a copy of the rating letter to the SVO due to confidentiality concerns and the rating is not included in a CRP credit rating feed (or other form of direct delivery from the NAIC CRP), the insurer shall report such securities on such securities' General Interrogatory to be developed for this purpose (i.e., a PLGI security).

Monitoring of SVO-Designated Securities

112. The SVO shall monitor, on an ongoing basis through the information provided by insurers as required by the Material Credit Events Filing described in this Manual, improvements and deterioration of credit quality of securities that are not filing exempt.

PART TWO
OPERATIONAL AND ADMINISTRATIVE INSTRUCTIONS APPLICABLE TO THE SVO

~~PRODUCTION OF NAIC DESIGNATIONS~~ [EDITING NOTE: MOVED TO PART ONE "NAIC DESIGNATIONS".]

~~NAIC DESIGNATIONS~~

~~18. NAIC Designations are proprietary symbols of the NAIC. The SVO and sometimes the SSG produce NAIC Designations for insurer-owned securities using the policies, procedures or methodologies adopted by the VOS/TF in this Manual. NAIC Designations identify a category or band of credit risk. NAIC Designations are produced for statutory accounting, reporting, state investment laws and other purposes identified in the NAIC Financial Regulation Standards and Accreditation Program and/or other NAIC developed regulatory guidance embodied in state law. NAIC Designations are adjusted in accordance with the notching procedures described below so that an NAIC Designation for a given security reflects the position of that specific security in the issuer's capital structure. NAIC Designations may also be adjusted by notching to reflect the existence of other non-payment risk in the specific security in accordance with the procedures described in this Manual.~~

~~19. **NAIC 1** is assigned to obligations exhibiting the highest quality. Credit risk is at its lowest and the issuer's credit profile is stable. This means that interest, principal or both will be paid in accordance with the contractual agreement and that repayment of principal is well protected. An **NAIC 1** obligation should be eligible for the most favorable treatment provided under the NAIC Financial Regulation Standards and Accreditation Program.~~

~~20. **NAIC 2** is assigned to obligations of high quality. Credit risk is low but may increase in the intermediate future and the issuer's credit profile is reasonably stable. This means that for the present, the obligation's protective elements suggest a high likelihood that interest, principal or both will be paid in accordance with the contractual agreement, but there are suggestions that an adverse change in circumstances or economic, financial or business conditions will affect the degree of protection and lead to a weakened capacity to pay. An **NAIC 2** obligation should be eligible for relatively favorable treatment under the NAIC Financial Regulation Standards and Accreditation Program.~~

~~21. **NAIC 3** is assigned to obligations of medium quality. Credit risk is intermediate and the issuer's credit profile has elements of instability. These obligations exhibit speculative elements. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is reasonable for the present, but an exposure to an adverse change in circumstances or economic, financial or business conditions would create an uncertainty about the issuer's capacity to make timely payments. An **NAIC 3** obligation should be eligible for less favorable treatment under the NAIC Financial Regulation Standards and Accreditation Program.~~

22. **NAIC 4** is assigned to obligations of low quality. Credit risk is high and the issuer's credit profile is volatile. These obligations are highly speculative, but currently the issuer has the capacity to meet its obligations. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is low and that an adverse change in circumstances or business, financial or economic conditions would accelerate credit risk, leading to a significant impairment in the issuer's capacity to make timely payments. An **NAIC 4** obligation should be accorded stringent treatment under the NAIC Financial Regulation Standards and Accreditation Program.

23. **NAIC 5** is assigned to obligations of the lowest credit quality, which are not in or near default. Credit risk is at its highest and the issuer's credit profile is highly volatile, but currently the issuer has the capacity to meet its obligations. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is significantly impaired given any adverse business, financial or economic conditions. An **NAIC 5** Designation suggests a very high probability of default. An **NAIC 5** obligation should incur more stringent treatment under the NAIC Financial Regulation Standards and Accreditation Program.

24. **NAIC 6** is assigned to obligations that are in or near default. This means that payment of interest, principal or both is not being made, or will not be made, in accordance with the contractual agreement. An **NAIC 6** obligation should incur the most severe treatment under the NAIC Financial Regulation Standards and Accreditation Program.

NOTE: See "NAIC Designations," "Prohibition on Use of NAIC Designation in a Covenant" and "Coordination Between the Statutory Accounting Principles Working Group and the Valuation of Securities Task Force" in Part One; "NAIC Designation Categories" below; and "Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities" in Part Three.

© 2024 National Association of Insurance Commissioners

~~NAIC DESIGNATION CATEGORIES~~

~~25. Upon the determination of an NAIC Designation, the SVO produces NAIC Designation Categories, as described and defined in this Manual.~~

~~26. NAIC Designation Categories are a subset of NAIC Designations and are used by the VOS/TF to link the NAIC risk-based capital (RBC) framework adopted by the NAIC Capital Adequacy (E) Task Force to the VOS/TF's credit assessment process. The NAIC Capital Adequacy (E) Task Force assigns RBC factors to each NAIC Designation Category as shown below.~~

~~NAIC Designation~~	~~+~~	~~NAIC Designation Modifier~~	~~=~~	~~NAIC Designation Category~~
~~1~~		~~A~~		~~1.A~~
~~1~~		~~B~~		~~1.B~~
1		~~C~~		1.C
1		~~D~~		~~1.D~~
1		~~E~~		1.E
1		~~F~~		~~1.F~~
1		~~G~~		~~1.G~~
2		~~A~~		2.A
2		~~B~~		2.B
2		~~C~~		2.C
3		~~A~~		3.A
3		~~B~~		3.B
3		~~C~~		3.C
4		~~A~~		4.A
4		~~B~~		4.B
4		~~C~~		4.C
5		~~A~~		5.A
5		~~B~~		5.B
5		~~C~~		5.C
6				~~6~~

~~NAIC DESIGNATIONS RELATED TO SPECIAL REPORTING INSTRUCTION~~

~~27. An insurance company that self-assigns a 5GI must attest that securities receiving this designation meet all required qualifications by completing the appropriate general interrogatory in the statutory financial statements. If documentation necessary for the SVO to perform a full credit analysis for a security does not exist or if an NAIC CRP credit rating for an FE or PL security is not available, but the issuer is not current on contractual interest and principal payments, and/or if the insurer does not have an actual expectation of ultimate payment of all contracted interest and principal, the insurance company is required to self-assign this security an NAIC 6*.~~

~~28. NAIC 6* is assigned by an insurer to an obligation in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5GI are not met.~~

~~29. Securities with NAIC 5GI Designations are deemed to possess the credit characteristics of securities assigned an NAIC 5 Designation. A security assigned an NAIC 5GI Designation incurs the regulatory treatment associated with an NAIC 5 Designation.~~

~~30. Securities an insurance company previously assigned as NAIC 5GI are permitted to subsequently receive this designation if the requirements for an NAIC 5GI designation continue to be met.~~

~~31. Securities with NAIC 6* Designations are deemed to possess the credit characteristics of securities assigned an NAIC 6 Designation. Therefore, a security assigned an NAIC 6* Designation incurs the regulatory treatment associated with an NAIC 6 Designation.~~

~~32. Securities that are residual tranches or interests, as defined in *SSAP 43R – Loan-Backed and Structured Securities*, shall be reported on Schedule BA - Other Long-Term Invested Assets, without an NAIC Designation and are ineligible to be assigned an NAIC 5GI or NAIC 6* Designation.~~

~~**NOTE REGARDING RESIDUAL TRANCHES OR INTERESTS**: For 2021 year-end reporting only, residual tranches or interests previously reported on Schedule D-1: Long-Term Bonds shall be permitted to be reported on Schedule D-1 with an NAIC 6* Designation, however an NAIC 5GI is not permitted.~~

~~**NOTE**: The GI after the quality indicator 5 refers to General Interrogatory and distinguishes NAIC 5GI from an NAIC 5 Designation. The asterisk (*) after the quality indicator 6 distinguishes the NAIC 6* Designation from an NAIC 6 Designation.~~

© 2024 National Association of Insurance Commissioners

~~NAIC Designation Subscript S~~

~~Description of Other Non-Payment Risk~~

~~33. It may not be practical, desirable or possible to specifically define other non-payment risk given the assumption that it originates as a result of a contractual agreement or the presence of a structural element of a transaction that is agreed upon between the issuer and the insurer. Accordingly, what follows is intended as general guidance to insurers and others.~~

~~34. Most typically, other non-payment risk has been associated with contractual agreements between the insurer and the issuer in which the issuer is given some measure of financial flexibility not to make payments that otherwise would be assumed to be scheduled, given how the instrument has been denominated, or the insurer agrees to be exposed to a participatory risk.~~

~~35. Other non-payment risk differs from the type of issues encountered in credit risk. This is because typically, credit assessment is concerned with securities in which the parties create subordination by modifying the lender's priority of payment (e.g., senior unsecured versus junior subordinated) but in a context where the contract otherwise specifies that the failure to make payments on a schedules basis (defined in the contract) is an event of default (in the case of a bond) or triggers some other specific and identifiable lender remedy (in the case of other fixed income securities).~~

~~36. Using the broad concepts identified above, non-payment risk may be present when:~~

- ~~A reporting insurance company takes on a participatory risk in the transaction;~~

  ~~*Illustration – The contract promised payment of a dollar-denominated obligation in non-U.S. currency but does not require an exchange rate that would yield foreign currency sufficient to buy a defined principal amount of U.S. dollars. The other non-payment risk in this illustration consists of the reporting insurance company's acceptance of currency risk which may diminish the principal amount of the investment. Currency risk here is not related to the issuer's ability or willingness to pay and therefore is not appropriately reflected in the NAIC Designation of the issuer or captured by notching for credit risk.*~~

- ~~The contract governing the loan provides for a degree of permanence in the borrower's capital structure that is incompatible with notions of a loan that is expected to be repaid;~~

  ~~*Illustration – A loan stated to be perpetual and giving the issuer the right to miss interest or dividend payments otherwise said to be scheduled where the missed payments are not required to be paid on a subsequent date.*~~

  ~~*Illustration – An instrument denominated as a bond but lacking a maturity date, a mechanism to determine a maturity dates (e.g., a mandatory redemption) or that states a maturity equal to*~~

~~*or exceeding 40 years.*~~

© 2024 National Association of Insurance Commissioners

37. Agrees to an exposure that has the potential to result in a significant delay in payment of contractually promised interest and/or a return of principal in an amount less than the original investment.

Meaning of the Subscript S Symbol

38. An SVO determination that a specific security contains other non-payment risk is communicated by assigning the NAIC Designation subscript S to the specific CUSIP and applying the notching procedure described below. The subscript follows the NAIC Designation as follows: **NAIC 2S**.

39. The SVO shall assess securities for other non-payment risk:

- Routinely, for any security or financial product filed with the SVO.
- As part of the analysis of a security or financial product submitted to the SVO under the RTAS – Emerging Investment Vehicle process discussed in of this Manual.
- When requested to do so by any state insurance regulator acting pursuant to this Manual, and:

  When requested by the VOS/TF; or

  In support of any other NAIC group engaged in the analysis of investment risks in new securities.

NOTE: See "NAIC Designation Subscript S" in Part One.

© 2024 National Association of Insurance Commissioners

TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force
Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)
Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau

RE: Revised Amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the "P&P Manual") Authorizing the Procedures for the SVO's Discretion Over NAIC Designations Assigned Through the Filing Exemption Process

DATE: July 30, 2024

Summary: The Valuation of Securities (E) Task Force exposed the prior version of this amendment, dated June 4, 2024, for a 38-day comment period that ended on July 26, 2024. The following updates have been made to this prior version and reflect recommendations received from interested parties.

- Clarification that the process will be consistently applied to all CRPs.
- The term "authorized insurers" is defined.
- Clarification of the SVO's written summary of its analysis during the review phase.
- Including other authorized parties to discuss the security with the SVO.
- IAO shall communicate in writing its opinion of the appropriate NAIC Designation Category.
- The annual summary will be anonymized and will not disclose information on specific securities, CRPs or impacted insurers.
- The SVO will publish within 45 days of a security being removed from the Filing Exemption process an anonymized summary (without references specific to the security or CRP, to avoid disclosing confidential information).
- Impact to issuers that have multiple securities within the same debt class.

Recommendation: The SVO recommends adoption of this proposed amendment authorizing the procedures for the SVO's discretion over NAIC Designations assigned through the FE process with an effective date of January 1, 2026. The effective date can be amended, if needed, if additional time is needed to implement the applicable technological enhancements, as previously discussed. The proposed text changes to P&P Manual are shown in red-underline or ~~red-strikethrough~~ below with new text since the last exposure highlighted in yellow.

© 2024 National Association of Insurance Commissioners

PART ONE
POLICIES OF THE NAIC VALUATION OF SECURITIES (E) TASK FORCE

…

POLICIES APPLICABLE TO THE FILING EXEMPTION (FE) PROCESS

NOTE: The policies below provide the policy framework for "Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities" in Part Three and are related to "The Use of Credit Ratings of NRSROs in NAIC Processes" discussed above; "NAIC Policy on the Use of Credit Ratings of NRSROs" and the "Definition – Credit Ratings Eligible for Translation to NAIC Designations" in Part Two ("Eligible NAIC CRP Credit Ratings" excludes the use of any credit rating assigned to a security type where the NAIC has determined that the security type is not eligible to be reported on Schedule D or the it is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of the security or asset.)

Determinations

80. The VOS/TF is resolved that the benefit obtained from the use of credit ratings in state regulation of insurance (i.e. conservation of limited regulatory resources) must be balanced against the risk of blind reliance on credit ratings. To ensure the Task Force properly understands the composition and risk of the filing exempt securities population~~;~~, promote uniformity in the production of NAIC Designations, reduce reporting exceptions for filing exempt securities and increase the efficiency of this NAIC process, the SVO and SSG (hereafter, the IAO) is charged with administration of the filing exempt process defined in Part Three of this Manual.

Directives

81. The IAO shall:

- Recommend improvements to the production of NAIC Designations based on NRSRO credit ratings.
- Identify monitoring and communication procedures that enhance the possibility of regulatory intervention by the VOS/TF to respond to risks to insurer solvency posed by securities in the filing exempt population.
- Identify and develop correctives to the administrative, operational and system-based causes of reporting exemptions in the filing exempt process.
- Change the NAIC Designation equivalent calculated for filing exempt securities when necessary to correct errors or other anomaly that occur in the automated filing exempt process.

© 2024 National Association of Insurance Commissioners

- Develop a staff-administered reporting exceptions resolution process that incorporates state insurance regulator and insurance companies' participation.
- In furtherance of the above directives, exclude specific otherwise Eligible NAIC CRP Credit Ratings from the automated filing exemption process in accordance with the administrative procedures outlined in Part Two of this Manual, if a Sub-group of the Task Force agrees with the determination of the IAO Credit Committee that the resulting NAIC Designation equivalent does not provide a reasonable assessment of investment risk for regulatory purposes.

...

© 2024 National Association of Insurance Commissioners

PART TWO
OPERATIONAL AND ADMINISTRATIVE INSTRUCTIONS APPLICABLE TO THE SVO

© 2024 National Association of Insurance Commissioners

SVO ORGANIZATION

…

SVO Administrative Symbols

153. SVO administrative symbols convey information about a security or an administrative procedure instead of an opinion of credit quality. The administrative symbols in use by the SVO and their meanings are described below.

SVO Analytical Department Symbols

154. All SVO analytical departments use the following administrative symbols:

…

- **UR** means the NAIC Designation assigned pursuant to the filing exemption process is under review by the NAIC's Investment Analysis Office.
- **ER** means that one or more otherwise Eligible NAIC CRP Credit Ratings have been excluded from the filing exemption process when determining the NAIC Designation through the Eligible NAIC CRP Rating exclusion procedures in this Manual.

© 2024 National Association of Insurance Commissioners

PROCESS FOR EXCLUDING AN ELIGIBLE NAIC CRP RATING FROM FILING EXEMPTION FOR A SPECIFIC SECURITY

Overview

164. This section outlines the process by which a state insurance regulator or IAO staff can contest an NAIC Designation Category assigned through the filing exemption process which it thinks is not a reasonable assessment of investment risk of the security for regulatory purposes. The process in this section will be consistently applied to all CRPs, without favor to any individual CRP or class of CRPs, and is not expected to be used often. For purposes of this section, the term "authorized insurers" is defined as: Holders of the affected securities that agree to the confidentiality provisions required by the NAIC.

(Note: The guidance in this part is effective as of January 1, 2026, but this date may be amended if additional time is needed to implement the necessary NAIC technological enhancements to IAO systems.)

Request for Information

165. The IAO staff will bring to the attention of the Credit Committee any filing exemption-eligible security assigned an NAIC Designation Category equivalent through the automated filing exemption process as being a security under review if (i) a state insurance regulator notifies the IAO staff that it has determined the NAIC Designation Category equivalent may not be a reasonable assessment of investment risk of the security for regulatory purposes, or (ii) the IAO staff, in its opinion, determines that the NAIC Designation Category equivalent may not be a reasonable assessment of investment risk of the security for regulatory purposes. State insurance regulator notification pursuant to this section does not negate the authority of state insurance regulators under "States May Require a Filing of Exempt or Other Transactions" in Part One of this Manual.

© 2024 National Association of Insurance Commissioners

166. The Credit Committee will convene to determine if, in its opinion, the NAIC Designation Category assigned pursuant to the filing exemption process is a reasonable assessment of investment risk of the security for regulatory purposes. As part of its review, the Credit Committee may consider observable factors including, but not limited to (i) a comparison to peers rated by different CRPs, (ii) consistency of the security's yield at issuance or current market yield to securities with equivalently calculated NAIC Designations rated by different CRPs, (iii) the IAO's assessment of the security applying available methodologies, and (iv) any other factors it deems relevant. If the Credit Committee's opinion is that the assigned NAIC Designation Category is likely a reasonable assessment of investment risk of the security for regulatory purposes, no further action will be taken at that time. If the Credit Committee's opinion is that the assigned NAIC Designation Category is likely not a reasonable assessment of investment risk of the security for regulatory purposes, an information request will be initiated and the security will be put under review.

167. The IAO will notify insurance company holders of the security determined to be a Filing Exempt Security "Under Review" by issuing an information request and publishing a separate SVO Analytical Department Symbol of "UR" for under review in NAIC systems. The SVO Analytical Department Symbol of "UR" will not be reported on the statutory investment schedules. The purpose of the information request is to notify insurance company holders of the security to provide the IAO staff with sufficient information to perform a full analysis of the security. The information provided by insurers should be comparable to an Initial Filing, as described in this Manual, and must be accompanied by each insurer's internal analysis. Consistent with the informational deficiency instructions in this Manual, security information consistent with an Initial Filing should be provided to the IAO within 45 days unless an extension has been granted to the insurance company by the IAO, not to exceed 90 days in total from the date that the IAO issues an information request. The IAO may contact the insurance company's domiciliary chief financial regulator for assistance after the initial 45 days if there has been no meaningful response. If after 90 days additional information equivalent to an Initial Filing has not been provided to the IAO, the IAO may proceed with removal of the otherwise Eligible NAIC CRP Credit Rating(s) from the Filing Exempt process without convening the Sub-group of the Task Force, as described in this section.

For the avoidance of doubt, if an issuer has multiple securities within the same debt class (i.e. position in the capital stack) whose ratings are placed Under Review, for purposes of this process only, insurers must only provide requested information materials once. After a final determination is made regarding the CRP ratings for the affected securities, should the IAO's proposed NAIC Designation Category prevail, insurers would then need to file all securities/identifiers individually to receive an IAO-assigned NAIC Designation upon NAIC Designation renewal.

© 2024 National Association of Insurance Commissioners

Full Review

168. At any time during the information request submission period or during the IAO's subsequent analysis of the security, the insurance company holders of the security are encouraged to provide additional information to the IAO such as their internal analysis, presentations from the issuer, meetings with the issuer's management team and any other information that may be useful or persuasive in the analysis of the security. ~~The IAO will coordinate verbally and in writing with the authorized insurer(s) staff to discuss any questions or issues the IAO may have about the security and answer any question that the authorized insurer(s) staff may have about the IAO's analysis.~~ The IAO will provide a written summary of its analysis and its view of why it believes the CRP's risk assessment is an unreasonable assessment of investment risk for regulatory purposes to authorized insurers. It will also coordinate verbally and in writing with the authorized insurer(s) staff to discuss any questions or issues the IAO may have about the security and answer any question that the authorized insurer(s) staff may have about the IAO's analysis. The authorized insurer(s) staff may invite other authorized parties that have agreed to the confidentiality provisions required by the NAIC to these discussions with the IAO.

169. Upon satisfactory receipt of the information through the information request, the IAO will perform a full analysis of the security during which time the SVO Analytical Department Symbol "UR" will remain in place but this symbol will not be reported on the statutory investment schedules.

IAO Determination and Materiality Threshold

170. Upon completion of the IAO's analysis, the Credit Committee will reconvene to determine its own opinion of the NAIC Designation Category. The Credit Committee will then determine whether the NAIC Designation Category assigned through the automated filing exemption process is materially different from its own assessment of the security's risk.

171. The IAO will consider the materiality of the difference between the Eligible NAIC CRP Credit Rating used in the filing exempt process and the IAO's own assessment of the risk. The IAO may propose the removal of an otherwise Eligible NAIC CRP Credit Rating from the Filing Exemption process to a Task Force Sub-group only if the Credit Committee determines, based upon its review, that the Eligible NAIC CRP Credit Rating for the security is three (3) or more notches different than the IAO's assessment (e.g. NAIC Designation Category 1.G versus 2.C) (the "Materiality Threshold").

© 2024 National Association of Insurance Commissioners

Valuation of Securities (E) Task Force Oversight

172. The Credit Committee shall schedule a call with a VOS/TF Sub-Group (the composition of which shall be determined by the VOS/TF chair) to discuss and explain its analytical basis for any Eligible NAIC CRP Credit Rating being recommended for removal from Filing Exemption eligibility. The Credit Committee will use communication processes that maintain confidentiality and ~~notify~~ invite the domiciliary regulators of insurer holders of the security ~~of~~ to participate in the Sub-group meeting.

173. If the Credit Committee identifies that there is a recurring analytical pattern or concern, the IAO Director(s) will inform the VOS/TF chair and they will decide if an issue paper, referral, amendment to this Manual or some other action is needed to be introduced into Task Force proceedings and deliberation.

174. Insurance company staff, and other parties invited by the insurer, that are authorized to discuss the security and who have agreed to confidentiality provisions required by the NAIC, may present their analytical basis to maintain the Eligible NAIC CRP Credit Rating's eligibility for Filing Exemption to the joint meeting of the VOS/TF Sub-group and the Credit Committee. Prior to inviting insurers to discuss the security and CRP ratings in question, the IAO shall communicate in writing what it believes the NAIC Designation Category to be, citing the main considerations that form the basis of the IAO's proposed NAIC Designation Category. Any materials shared during, or in advance of, this meeting with the VOS/TF Sub-group and Credit Committee are considered highly confidential and may not be shared beyond those participants at the meeting that have been identified as having been authorized to receive such materials and have agreed to maintain their confidentiality.

175. At any time, the VOS/TF chair may direct the VOS/TF to review the described process to ensure it remains effective and efficient and to recommend revisions to any components.

Assignment of NAIC Designation Category

176. If the VOS/TF Sub-group disagrees with the Credit Committees' NAIC Designation Category opinion and determines that the NAIC Designation Category assigned pursuant to the Filing Exemption process *does not* meet the Materiality Threshold, the Eligible NAIC CRP Credit Rating shall remain eligible for Filing Exemption, the SVO Analytical Department Symbol "UR" will be deactivated, and no further action will be taken at that time. This determination shall not preclude the IAO from placing the same Eligible NAIC CRP Credit Rating under analytic review at a later date following a subsequent review should changing conditions warrant.

© 2024 National Association of Insurance Commissioners

177. If the VOS/TF Sub-group agrees with the Credit Committees' NAIC Designation Category opinion and determines that the NAIC Designation Category assigned pursuant to the Filing Exemption process *does* meet the Materiality Threshold, the IAO is authorized to block the otherwise Eligible NAIC CRP Credit Rating in NAIC systems to prevent that otherwise Eligible NAIC CRP Credit Rating from being used in the automated Filing Exempt Securities Process.

178. If an Eligible NAIC CRP Rating has been removed from Filing Exemption eligibility for a security according to this section and the security has other Eligible NAIC CRP Rating(s) which have not been removed or the security receives an additional Eligible NAIC CRP Rating at any time during or after this process, then the security can receive its NAIC Designation Category through the Filing Exemption process based on the Eligible NAIC CRP Rating(s) that have not been removed. If there is no alternate Eligible NAIC CRP Rating in NAIC systems, the Credit Committee's NAIC Designation Category will be entered into NAIC systems to assign an NAIC Designation Category to the security.

Reinstatement of Filing Exemption Eligibility

179. If an insurer would like the IAO to re-evaluate an Eligible NAIC CRP Credit Rating that was removed from Filing Exemption Eligibility for possible reinstatement in a subsequent filing year, it can follow the operational steps outlined in Appeals of SVO Determinations in this Manual to submit the request.

Reporting Securities Removed from Filing Exemption Eligibility

180. The IAO Director(s) will prepare an anonymized summary that does not disclose specific securities, CRPs or impacted insurers of the removed from Filing Exemption Eligibility actions taken over the prior calendar year.

181. Within 45 days of a security being removed from the Filing Exemption process, the IAO will also publish an anonymized summary (without references specific to the security, to avoid disclosing confidential information) of each unique situation encountered for the securities subject to removal from Filing Exemption Eligibility and publish it on an insurer accessible web location.

182. To facilitate transparency as to the SVO's application of discretion, the SVO Analytical Department Symbols "ER' will be added in NAIC Systems to securities with an excluded otherwise Eligible NAIC CRP Credit Rating(s). The SVO Analytical Department Symbols, "ER" *will be* reported on the insurer's statutory investment schedules for the effected security instead of SVO Administrative Symbols "FE" for filing exemption.

…

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2024/2024-08 Summer NM/04-SVO Discretion/2023-005.16a PP SVO Discretion - Revised v6.1.docx

© 2024 National Association of Insurance Commissioners

This page intentionally left blank.

© 2024 National Association of Insurance Commissioners

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Financial Regulation Standards and Accreditation (F) Committee Aug. 13, 2024, Minutes 10-2
Revisions to *Property and Casualty Insurance Guaranty Association Model Act* (#540) (Attachment One) 10-4

© 2024 National Association of Insurance Commissioners

Date: 8/19/24

Financial Regulation Standards and Accreditation (F) Committee
Chicago, Illinois
August 13, 2024

The Financial Regulation Standards and Accreditation (F) Committee met in Chicago, IL, Aug. 13, 2024. The following Committee members participated: Lori K. Wing-Heier, Chair (AK); Sharon P. Clark, Co-Vice Chair (KY); Andrew R. Stolfi, Co-Vice Chair (OR); Alan McClain represented by Leo Liu (AR); Andrew N. Mais represented by Jack Broccoli (CT); Kevin P. Beagan represented by Christopher Joyce (MA); Robert L. Carey represented by Vanessa Sullivan (ME); Eric Dunning (NE); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Elizabeth Kelleher Dwyer represented by John Tudino (RI); Michael Wise (SC); Larry D. Deiter represented by Johanna Nickelson (SD); Scott A. White represented by Greg Chew (VA); and Jeff Rude (WY).

1. Adopted its Spring National Meeting Minutes

Commissioner Rude made a motion, seconded by Broccoli, to adopt the Committee's March 16 minutes (*see NAIC Proceedings – Spring 2024, Financial Regulation Standards and Accreditation (F) Committee*). The motion passed unanimously.

Director Wing-Heier said the Committee also met Aug. 12 in regulator-to-regulator session pursuant to paragraph 7 (consideration of individual state insurance department's compliance with NAIC financial regulation standards) of the NAIC Policy Statement on Open Meetings. During this meeting, the Committee voted to award continued accreditation to Florida, Georgia, Montana, Pennsylvania, and Utah.

2. Adopted a Recommendation from the Receivership and Insolvency (E) Task Force Regarding Model #540

Director Wing-Heier stated that a memorandum had been previously received from the Receivership and Insolvency (E) Task Force regarding revisions to the *Property and Casualty Insurance Guaranty Association Model Act* (#540). These revisions, to be made acceptable but not required for accreditation, were exposed for a 30-day public comment period that ended April 19. No comments were received.

Commissioner Clark made a motion, seconded by Broccoli, to adopt the revisions to Model #540 (Attachment One). The motion passed unanimously.

3. Affirmed the GCC Accreditation Standard for RRGs

Director Wing-Heier said that at the 2023 Summer National Meeting, the Committee discussed and adopted the 2020 revisions to the *Insurance Holding Company System Regulatory Act* (#440) and the *Insurance Holding Company System Model Regulation* (#450), to be effective Jan. 1, 2026. These revisions implemented a group capital calculation (GCC) for the purpose of group solvency supervision and a liquidity stress test (LST) for macroprudential surveillance. Part of the discussion included input from the Risk Retention Group (E) Task Force that recommended that the GCC element apply to risk retention groups (RRGs) but that the LST should not be applicable since that applies to life insurers and RRGs are not permitted to write life products. There was no opposition to this recommendation; however, the Committee did not affirm this when it was adopted.

Commissioner Stolfi made a motion, seconded by Commissioner Clark, to affirm that the will of the Committee is that GCC applies to RRGs but not LST. The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

4. Exposed an Accreditation Manual Revision and Updates

Director Wing-Heier said the volunteer drafting group suggested revisions to the review team guidelines (RTGs) and self-evaluation guide (SEG) for the Committee's consideration. Sara Franson (NAIC) said that with the increasing use of contractors for analysis functions, the volunteer drafting group has proposed revisions that align the guidance concerning the use of contractors between analysis and exam. These revisions include incorporating the use of contractors within the count of qualified staff for analysis and that contractor supervision needs to document reviews.

Fischer made a motion, seconded by Broccoli, to expose the revisions to the RTGs and SEG for a 30-day public comment period ending Sept. 13.

5. Discussed a Referral to the Risk-Focused Surveillance (E) Working Group

Director Wing-Heier discussed a proposed referral to the Risk-Focused Surveillance (E) Working. Franson said the volunteer drafting group is seeking additional guidance on how to properly assess departmental oversight of contractors within examination and analysis functions. Currently, the RTGs include a process-oriented guideline for each area. The review teams often question whether there should be any additional guidelines or requirements for the person serving as the department's oversight of contractors. While the *Financial Condition Examiners Handbook* contains some guidance in this area, the volunteer drafting group is seeking guidance, clarification, and input for both the analysis and exam functions.

Commissioner Rude made a motion, seconded by Commissioner Clark, to send a referral to the Risk-Focused Surveillance (E) Working Group for additional guidance concerning the supervision of contractors.

Having no further business, the Financial Regulation Standards and Accreditation (F) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/F CMTE/2024Summer

© 2024 National Association of Insurance Commissioners

Attachment One
Financial Regulation Standards and Accreditation (F) Committee
8/13/24

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO: Director Lori K. Wing-Heier, Chair of Financial Regulation Standards and Accreditation (F) Committee

FROM: Director Dana Popish Severinghaus, Chair of Receivership and Insolvency (E) Task Force

DATE: February 29, 2024

RE: 2023 Amendments to the *Property and Casualty Insurance Guaranty Association Model Act* (#540)

In December 2023, the *Property and Casualty Insurance Guaranty Association Model Act* (#540) was amended to include the following updated provisions: 1) to preserve guaranty fund coverage for policyholders subject to insurance business transfers (IBT) and corporate divisions (CD) where the policyholder had guaranty fund coverage before the transaction; and 2) to clarify guaranty fund coverage of cyber security insurance.

The Receivership and Insolvency (E) Task Force recommends that the 2023 amendments to Model 540 be considered acceptable but not required, and therefore does not recommend any changes to the current Part A Accreditation standard #14—Guaranty Funds.

The current accreditation standards include Part A: Laws and Regulations standard #14 – Guaranty Funds.

- This standard requires a regulatory framework, such as that contained in the NAIC's model acts on the subject, to ensure the payment of policyholder obligations subject to appropriate restrictions and limitations when a company is deemed insolvent. The applicable models include the *Life and Health Insurance Guaranty Association Model Act* (#520) for life companies and the *Property and Casualty Insurance Guaranty Association Model Act* (#540) for property/casualty companies.

- For this standard in which a "regulatory framework" is required rather than specific elements of the models, the revisions do not necessitate an exposure period by the Committee to include them as part of the acceptable framework for accreditation. The inclusion of the revisions as acceptable within the framework would allow a state to either adopt the revisions or not adopt the revisions and still remain in compliance with the regulatory framework required by accreditation. Following this process, the model will be considered acceptable but not required when determining if a regulatory framework is in place in accordance with the accreditation standard.

If you have any questions, please contact NAIC staff, Jane Koenigsman (jkoenigsman@naic.org).

Washington, DC 1101 K Street, N.W., Suite 650, Washington, DC 20005 p | 202 471 3990

Kansas City 1100 Walnut Street, Suite 1500, Kansas City, MO 64106-2197 p | 816 842 3600

New York One New York Plaza, Suite 4210, New York, NY 10004 p | 212 398 9000

www.naic.org

© 2024 National Association of Insurance Commissioners

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

International Insurance Relations (G) Committee Aug. 13, 2024, Minutes 11-2
International Insurance Relations (G) Committee June 11, 2024, Minutes (Attachment One) 11-6
NAIC Comments on Draft Revisions to Supervisory Material Related to the Holistic Framework (Attachment One-A) 11-8
NAIC Comments on Proposed Changes to Reflect Climate Risk in Selected Insurance Core Principle (ICP) Guidance and Supporting Material (Attachment One-B) 11-16
NAIC Comments on Draft Application Paper on Supervising Diversity, Equity, and Inclusion (DE&I)—the Governance, Risk Management, and Culture Perspective (Attachment One-C) 11-20

© 2024 National Association of Insurance Commissioners

Draft: 8/22/24

International Insurance Relations (G) Committee
Chicago, Illinois
August 13, 2024

The International Insurance Relations (G) Committee met in Chicago, IL, Aug. 13, 2024. The following Committee members participated: Eric Dunning, Chair (NE); Dean L. Cameron, Co-Vice Chair (ID); Justin Zimmerman, Co-Vice Chair (NJ); Lori K. Wing-Heier (AK); Ricardo Lara represented by Mike Peterson (CA); Andrew N. Mais (CT); Michael Yaworsky (FL); John F. King (GA); Gordon I. Ito (HI); Vicki Schmidt (KS); Kevin P. Beagan (MA); Anita G. Fox (MI); Chlora Lindley-Myers (MO); Glen Mulready (OK); and Carter Lawrence (TN).

1. Adopted its June 11 and Spring National Meeting Minutes

The Committee met June 11 and discussed NAIC comments on the following International Association of Insurance Supervisors (IAIS) public consultations: 1) draft revisions to supervisory material related to the Holistic Framework for Systemic Risk in the Insurance Sector (Holistic Framework); 2) proposed changes to reflect climate risk in selected Insurance Core Principle (ICP) guidance and supporting material; and 3) a draft application paper on supervising diversity, equity, and inclusion (DE&I) from a governance, risk management, and culture perspective.

Director Lindley-Myers made a motion, seconded by Commissioner Mais, to adopt the Committee's June 11 (Attachment One) and March 16 (*see NAIC Proceedings – Spring 2024, International Insurance Relations (G) Committee*) minutes. The motion passed unanimously.

2. Heard an Update on International Activities on Resolution and Recovery

Director Dunning provided a summary of international activities related to resolution and recovery. He explained that this is a timely topic in light of the IAIS concluding a public consultation on proposed revisions to certain standards within ICPs 12 (Exit from the Market and Resolution) and 16 (Enterprise Risk Management for Solvency Purposes), which deal with resolution and recovery, and the Financial Stability Board (FSB) increasingly turning its attention to the implementation of resolution and recovery planning requirements across the financial sector.

In remarks to the Committee, Katie Wade (National Organization of Life and Health Insurance Guaranty Associations—NOLHGA) explained that the U.S. has a well-established guaranty system and a strong record of working with state insurance regulators; the NAIC and its members have been active in international conversation. She recounted that in December 2023, the IAIS published an issues paper on policyholder protection schemes (PPSs), which provides a better understanding of the role and functioning of PPSs and could be used as guidance for jurisdictions intending to implement a PPS. It presents neutral perspectives on time and funding while also describing the benefit of ex-post funding. The paper also emphasizes the importance of coordination between those entities involved in the resolution of an insurer and a PPS, and Wade referenced the Receivership Financial Analysis (E) Working Group as an example of such coordination. Wade also noted that the issues paper addresses moral hazard, saying there does not appear to be any evidence that a PPS has induced moral hazard.

Wade then noted that the IAIS consultations on ICPs 12 and 16 highlight the need for robust recovery and resolution planning for insurers, mandating regular assessments by supervisors and resolution authorities to determine which insurers require such plans. The proposed standards also emphasize recovery plans for systemically important insurers. While the NAIC and states have yet to incorporate mandatory recovery or resolution planning into model laws, they have developed a sample description of the U.S. receivership regime, adopted into key regulatory handbooks, to guide discussions with international supervisors. Wade said the U.S.

© 2024 National Association of Insurance Commissioners

resolution regime, with its effective state-level tools and policyholder protection, contrasts with the fragmented European Union (EU) approach, where national laws lead to inconsistent policyholder protection and incomplete resolution regimes. The EU's recent provisional agreement seeks to improve coordination and introduce resolution regime requirements, but broad-based policyholder protection schemes have not yet been adopted. She reiterated that the NAIC's coordinated efforts through model laws and collaborative exercises demonstrate a strong and structured approach to insurer resolution, with the guaranty system valuing its partnership with state insurance regulators in fostering effective cooperation.

Acting Commissioner Zimmerman asked Wade if she thought there was a need for further guidance for jurisdictions, specifically in establishing PPS. Wade said the new issues paper provides a good level of guidance and recognizes that given differences amongst jurisdictions, there should be flexibility in setting up PPSs rather than being more prescriptive.

Director Cameron asked Wade if she believes there is an appreciation or sufficient understanding internationally of the tools available and how jurisdictions may use them. Wade responded that the IAIS has the opportunity to improve understanding. She said NOLHGA regularly participates in a forum with international colleagues to share information. She noted that differences between systems will continue to exist and need to be understood and that the NAIC's involvement in these discussions and developments is important in this regard. Director Cameron agreed and asked if there is an overemphasis on resolution plans. Wade answered that emphasis on resolution and recovery plans is perhaps a result of some jurisdictions not having other tools available or a system as robust as the U.S.

Wake commented that one challenge with this issue is that the approach in the U.S. and the tools available differ from many other jurisdictions. As a member of the IAIS Resolution Working Group, he is cautiously optimistic about how work on recovery and resolution is heading. Wake believes that while it is helpful to understand other approaches, jurisdictions should be free to take an approach that works for them as long as they do not try to impose it on the rest of the world.

3. Heard an Update on the Activities of the IAIS

Director Dunning gave an update on IAIS activities, beginning with a review of recent committee meetings that took place in June.

On operational resilience, a public consultation will soon be underway on a set of outcomes-based objectives for insurers and supervisors to support sound operational resilience in the sector. Additionally, the IAIS launched a consultation on a draft application paper on the fair treatment of consumers in a DE&I context, as well as its fourth and final climate-related consultation package. Director Dunning noted the material from all four climate-related consultation packages will be integrated into a comprehensive package of supervisory and supporting material on climate risk supervision and will be an update to a 2021 IAIS climate risk application paper. He explained that any NAIC comments for these public consultations will be handled via the usual Committee approval process.

Director Dwyer provided an update on the insurance capital standard (ICS) and the comparability assessment for the aggregation method (AM). She explained that the IAIS is in the final stages of ICS development, including deciding whether the AM provides comparable outcomes. Director Dwyer stated that the purpose of the AM was to have an approach that would work for the U.S. and other jurisdictions (not to undermine the ICS) and that the IAIS incorporated the AM into the broader ICS project.

Director Dwyer explained that the AM builds on local regulatory capital approaches to develop group views on solvency and nuanced handling of business models. She noted that approaches to group capital have evolved

© 2024 National Association of Insurance Commissioners

outside of the IAIS as well, in covered agreements and reciprocal jurisdictional assessment; these provide examples of how different approaches can still be comparable. She further explained that the AM comparability assessment began in the third quarter of 2023, and additional data was collected this summer with analysis ongoing. She reported the assessment should be published in the fourth quarter of 2024.

Director Dwyer reiterated that the AM and the ICS are different, and the ICS does not work for the U.S. regime or market. While the AM is different, it is not the only jurisdictional approach that will deviate in form from the standard version of the ICS. She noted there is a path forward for a successful resolution of the comparability assessment and for the AM to be the U.S. implementation of the ICS.

4. Heard an Update on International Activities

Commissioner Zimmerman summarized recent international activities. Last month, the NAIC and the Bermuda Monetary Authority (BMA) held their annual bilateral meeting in Hamilton, Bermuda, to discuss strategic priorities on issues of mutual interest. Additionally, Commissioner Mais recently met virtually with the newly appointed chair of the Taiwan Financial Supervisory Commission.

Commissioner Zimmerman described how Commissioner Mais, Director Fox, and Commissioner Lara attended the Association of Insurance Supervisors of Latin America (ASSAL) Annual Conference May 7–9 in Montevideo, Uruguay, as well as a high-level meeting jointly held with the IAIS and the Financial Stability Institute (FSI).

Commissioner Zimmerman also noted that Director Wing-Heier participated on a panel, "Protecting People: The Future of Climate Insurance," at an Insurance Europe event in Helsinki, Finland, May 30.

Director Cameron described other international activities that took place recently, including the Organisation for Economic Co-operation and Development (OECD) Insurance and Private Pensions Committee meeting June 13 in Paris, France, during which Director Dunning reviewed the NAIC's recent work on developing insurer governance in the U.S. On June 14, Commissioner Lara joined an OECD roundtable on "Insurance for Wildfire Risk: Expanding Coverage and Supporting Risk Reduction," where he highlighted the *NAIC National Climate Resilience Strategy for Insurance* (Climate Resilience Strategy) and state insurance regulators' efforts to encourage resiliency as communities face wildfires and other climate perils.

Director Cameron concluded by noting that the next Sustainable Insurance Forum (SIF) meeting will take place in December in Cape Town, South Africa.

5. Discussed Other Matters

Berry provided an update to the Committee on her participation in the IAIS ICP 16 peer review process. She said the expert team prepared a survey for IAIS members, to which 67 jurisdictions responded. The expert team has submitted individual reports to each jurisdiction and is now in the process of reviewing responses and preparing an aggregate report. Berry noted the finalized report will be posted publicly on the IAIS website in the fourth quarter of 2024.

Makoto Okubo (Nippon Life Insurance Company) provided updates on work at the Asia-Pacific Economic Cooperation (APEC). He said the APEC's Business Advisory Council adopted a progress report for this year and submitted it to the finance ministers' process for approval. The report includes sections relevant to insurance, including natural disasters, accounting, and sustainable healthcare. There are sections on International Financial Reporting Standard (IFRS) 17 and the ICS, as well as recommended policy measures that incentivize insurance

© 2024 National Association of Insurance Commissioners

companies to have long-term, diverse investments. Okubo said the report is posted on the APEC website, and he recommended that members review it, as it mentions many topics the Committee covers.

Having no further business, the International Insurance Relations (G) Committee adjourned.

SharePoint/Member Meetings/G CMTE/National Meetings/2024/Chicago – Summer National Meeting/Minutes

© 2024 National Association of Insurance Commissioners

Attachment One
International Insurance Relations (G) Committee
8/13/24

Draft: 7/15/24

International Insurance Relations (G) Committee
Virtual Meeting
June 11, 2024

The International Insurance Relations (G) Committee met June 11, 2024. The following Committee members participated: Eric Dunning, Chair (NE); Dean L. Cameron, Co-Vice Chair (ID); Justin Zimmerman, Co-Vice Chair (NJ); Lori K. Wing-Heier (AK); Andrew N. Mais (CT); Michael Yaworsky represented by Ray Spudeck (FL); John F. King (GA); Kevin P. Beagan (MA); Anita G. Fox represented by Steve Mayhew (MI); Chlora Lindley-Myers (MO); Glen Mulready (OK); and Carter Lawrence (TN).

1. Discussed NAIC Comments on the Current IAIS Public Consultations

Director Cameron explained that the International Association of Insurance Supervisors (IAIS) is conducting public consultations on three different items. He said the proposed draft revisions to supervisory material related to the Holistic Framework for Systemic Risk in the Insurance Sector (Holistic Framework) in Insurance Core Principle (ICP) 12—*Exit from the Market and Resolution* and ICP 16—*Enterprise Risk Management for Solvency Purposes* stem from recommendations resulting from the IAIS's targeted jurisdictional assessment of the Holistic Framework and other relevant developments.

On the proposed changes to reflect climate risk in selected ICP guidance and supporting material, Director Cameron noted that this consultation focuses on ICP 15—*Investments* and ICP 16 and is the third in a series of climate risk-focused document consultations. He said the IAIS plans to carry out an additional consultation on climate risk-related material later this year.

Regarding the draft application paper on considering diversity, equity, and inclusion (DE&I) from a governance, risk management, and corporate culture perspective, Director Cameron explained that the paper was drafted by the IAIS Governance Working Group and highlights the significance of DE&I and illustrates practical considerations for it in the context of ICP 7—*Corporate Governance* and ICP 8—*Risk Management and Internal Controls*.

Director Cameron said the NAIC's initial draft comments are based on an internal review of the consultation documents by NAIC staff and comments from members of various NAIC groups. For the Holistic Framework, this was the Receivership and Insolvency (E) Task Force and the Group Solvency Issues (E) Working Group; for the Climate Risk Supervisory Guidance, this was the Climate and Resiliency (EX) Task Force; and for the DE&I Governance application paper, this was the Special (EX) Committee on Race and Insurance.

Ryan Workman (NAIC) provided an overview of the NAIC's comments on the consultation documents, noting that some were minor and editorial. For the Holistic Framework consultation, he emphasized that the NAIC is not in favor of possibly introducing a requirement or presumption that resolution plans are required to be in place for all internationally active insurance groups. Workman also noted that other comments focused on clarifying wording for the sake of consistency.

On the climate risk consultation, Workman explained that the comments focused on stressing the need for editorial consistency, with a review of the use of "should" and "may" throughout. Commissioner King said he appreciated the comment on how the wording should provide flexibility, as it shows the suggestions described in the draft document are not intended to be overly prescriptive.

© 2024 National Association of Insurance Commissioners

Steve Broadie (American Property Casualty Insurance Association—APCIA) noted in some of the proposed changes and in the draft guidance, the language is close to supporting the concept of double materiality. He noted that this suggests that supervisors are being given authority beyond their purview, becoming societal decision-makers in addition to their role as insurance supervisors. Broadie added that the APCIA intends to submit comments to the IAIS as part of the public consultation process and asked for the NAIC's consideration of those comments once available.

Workman then gave a review of draft comments on the DEI Governance application paper He explained the suggestion to add legal and privacy language surrounding the collection of data in order to recognize jurisdictional differences. He said the concept of groupthink needs further clarification, and the U.S.-focused example needs to be more factually accurate. Lastly, there was a comment asking for clarification on the language on environmental, social, and governance (ESG) ratings, emphasizing that the applicability of the concept should only be in areas where the ratings are utilized or required.

Director Wing-Heier made a motion, seconded by Commissioner Mais, to approve the submission of the NAIC comments (Attachment One-A, Attachment One-B, and Attachment One-C). The motion passed unanimously.

Having no further business, the International Insurance Relations (G) Committee adjourned.

NAIC Support Staff Hub/Committees/G CMTE/National Meetings/2024 …

© 2024 National Association of Insurance Commissioners

Questions for public consultation on draft revisions to supervisory material related to the Holistic Framework in ICPs 12 and 16 and related ComFrame standards

Thank you for your interest in the public consultation on the proposed changes to reflect climate risk in selected ICP guidance material and supporting material. The Consultation Tool is available on the IAIS website.

Please do not submit this document to the IAIS. All responses to the Consultation Document must be made via the Consultation Tool to enable those responses to be considered.

© 2024 National Association of Insurance Commissioners

Consultation questions

ICP 12 (Exit from the Market and Resolution)	
1	General comments on proposed changes to ICP 12 and related ComFrame standards
2	Question related to ICP 12.3 and ICP 16.15: The ICPs establish the minimum requirements for effective insurance supervision and are expected to be implemented and applied in a proportionate manner. Do you favour the proposed proportionate application of certain recovery and resolution planning requirements to all insurers? Please explain and provide details of how proportionality should apply and/or where such planning should be deemed necessary. The IAIS may consider this feedback in the final versions of the ICP guidance or in the supporting material (application papers). U.S. state insurance supervisors agree that jurisdictions should have processes and procedures in place to ensure orderly resolution or recovery of any insurer should the circumstances arise. As not all insurers are the same, it is important for any such processes and procedures to be applied in a proportionate manner, in line with the ICPs' overarching principle of proportionality. For example, in the U.S. state-based insurance framework, all insurers must have effective systems of risk management and internal control, while more specific requirements are applied to insurers exceeding certain premium threshold limits (i.e., insurers writing more than $500 million in annual premiums) and may be required of other insurers below those limits at the discretion of the supervisory authority. We feel this approach appropriately accounts for proportionality in these areas. Certain requirements, like recovery or resolution plans, would not be appropriate for all insurers; accordingly, we agree that 12.4 and 16.16 take an appropriate approach to determining which insurers must have such plans in place.
3	Question related to CF 12.4.a: Recovery plans are required for all IAIGs. Resolution plans are required to be in place, at a minimum, for any insurer assessed to be systemically important or critical if it fails (regardless of their status as an IAIG). Due to their nature, scale and complexity, arguably there could be a presumption that all IAIGs should be subject to the requirement to have a resolution plan in place (unless deemed unnecessary by the supervisor or resolution authority), even if not assessed as systemically important. Are you in favour or against the possible introduction of a requirement, or presumption, that resolution plans are also required to be in place for all IAIGs? Please explain your opinions. U.S. state insurance supervisors are opposed to a presumption that all IAIGs should be required to maintain formal resolution plans based solely on their size and operations in multiple jurisdictions, which does not align with the IAIS Holistic Framework. Such requirements can be overly burdensome on both the IAIG and the supervisor when not warranted due to other criteria outlined in CF guidance 12.4.a (e.g., risk profile and risk management, level of substitutability, interconnectedness, impact of failure).
4	Comments on proposed changes to ICP 12.3 "Prepared for and used in" is not a parallel construction. The authority needs to be prepared for the possibility of resolution, while (some of) the procedures need to be used. (It is true that the procedures must be prepared before they can be used, but "developed" would be a better verb, and having procedures in place necessarily entails

	their development, which does not need to be mentioned.) Therefore, consider the following edit: **12.3 The supervisor and/or resolution authority has in place effective processes and procedures for use in preparing for and conducting the resolution as of insurers.**
5	Comments on proposed changes to ICP guidance 12.3.1 The aim of the processes and procedures includes making firms better prepared as well as making the jurisdiction better prepared – see 12.3.4, 12.3.5, and the final sentence of 12.3.3. Also, "processes and procedures" are plural. Therefore, consider the following edits: 12.3.1: Resolution processes and procedures are aimed at supporting the resolution preparedness of a jurisdiction and of insurers within that jurisdiction. They should entail the establishment of strategies ….
6	Comments on proposed changes to ICP guidance 12.3.2
7	Comments on proposed changes to ICP guidance 12.3.3
8	Comments on proposed changes to ICP guidance 12.3.4
9	Comments on proposed changes to ICP guidance 12.3.5
10	Comments on proposed changes to CF 12.3.a
11	Comments on proposed changes to CF 12.3.a.1
12	Comments on proposed changes to CF 12.3.a.2
13	Comments on proposed changes to CF 12.3.a.3
14	Comments on proposed changes to ICP 12.4 The syntax "to regularly assess for which insurers having a resolution plan is necessary" is difficult to follow, and the construction of the third bullet is not fully parallel. Consider the following nonsubstantive edits to the first and third bullets: • **has a process to regularly assess which insurers need to be subject to a resolution plan requirement, based on established criteria that consider the nature, scale and complexity of the insurer;** • **…** • **ensures that such resolution plans are in place, that the plans are regularly reviewed and where necessary updated, and that resolvability assessments are regularly undertaken.**
15	Comments on proposed changes to ICP guidance 12.4.1 Having guidance on factors that should be considered as part of the criteria in determining the necessity of a resolution plan or a recovery plan (in revised 16.16.2) is helpful. However, the same factors are listed in each section. While this makes some sense, a resolution plan and a recovery plan serve different purposes, so the consideration and analysis should not necessarily be the same. We therefore suggest adding a sentence either as part of 12.4.1 or as a new 12.4.2 to help emphasise this point: "When assessing the criteria to determine whether a resolution plan is necessary for an insurer, the supervisor and/or resolution authority should keep in mind the intended purpose and role of a resolution plan as well as other requirements and/or powers that may already be applicable." Also, for the reasons discussed in the comments on ICP guidance 12.4.1, consider one of the following edits to the introductory clause:

© 2024 National Association of Insurance Commissioners

	12.4.1 When developing the criteria for deciding which insurers will be subject to a resolution plan requirement, the supervisor and/or resolution authority should consider factors such as: or 12.4.1 The criteria to be used by the supervisor and/or resolution authority, when deciding which insurers will be subject to a resolution plan requirement, should address factors such as: Alternatively, replace "will be subject to a recovery plan requirement" with "must have recovery plans in place" or "will be required to have recovery plans in place", and consider whether it is appropriate to use the same language for resolution plans in ICP guidance 12.4.1.
16	Comments on proposed changes to ICP guidance 12.4.2
17	Comments on proposed changes to ICP guidance 12.4.3
18	Comments on proposed changes to ICP guidance 12.4.4
19	Comments on proposed changes to ICP guidance 12.4.5
20	Comments on proposed changes to ICP guidance 12.4.6
21	Comments on proposed changes to ICP guidance 12.4.9
22	Comments on proposed changes to CF 12.4.a
23	Comments on proposed changes to CF 12.4.a.1 Consistent with the suggested edits to ICP guidance 12.4.1, change to one of the following; and also consider streamlining what might be excess verbiage: CF 12.4.a.1 Factors to be considered in developing the criteria for assessing whether a resolution plan is needed are set out in Standard 12.4. or CF 12.4.a.1 Factors to be addressed by the criteria for assessing whether a resolution plan is needed are set out in Standard 12.4.
24	Comments on proposed changes to CF 12.4.b
25	Comments on proposed changes to ICP 12.8
26	Comments on proposed changes to ICP guidance 12.8.1 As currently drafted, the guidance distinguishes between jurisdictions where the goal should be effective and orderly resolution and jurisdictions where the goal merely needs to be orderly resolution. The reason for drawing this distinction is unclear. Consider the following edit: 12.8.1 The range of available resolution powers in a jurisdiction should allow the effective and orderly resolution of insurers, in a manner that protects policyholders and contributes to financial stability. Some powers may not be needed for all insurers but only, for example, for insurers that are of systemic importance or critical in failure in the jurisdiction. Therefore, in jurisdictions with more developed insurance markets and/or that include large, complex insurers, it is particularly important for legislation to provide a sufficiently wide range of resolution powers.
27	Comments on proposed changes to ICP guidance 12.8.2
28	Comments on proposed changes to ICP guidance 12.8.3
29	Comments on proposed changes to ICP guidance 12.8.4

© 2024 National Association of Insurance Commissioners

	This paragraph would be clearer if resolution powers were the subject of both of the first two sentences, which could then be combined into a single sentence as follows: 12.8.4 Some resolution powers are exercised with the aim to stabilise or restructure an insurer and avoid liquidation, while other resolution powers can be used in conjunction with liquidation. Creditors should have a right to compensation where they do not receive at a minimum what they would have received in a liquidation of the insurer under the applicable insolvency regime (NCWOL principle).
30	Comments on proposed changes to ICP guidance 12.8.6
31	Comments on proposed changes to CF 12.8.a
32	Comments on proposed changes to CF 12.8.b
33	Comments on proposed changes to CF 12.8.c
34	Comments on proposed changes to CF 12.8.d
35	Comments on proposed changes to CF 12.8.d.1
36	Comments on proposed changes to CF 12.8.d.2
37	Comments on proposed changes to CF 12.8.d.3
38	Comments on proposed changes to CF 12.8.e
39	Comments on proposed changes to CF 12.8.f
40	Comments on proposed changes to CF 12.8.g
41	Comments on proposed changes to CF 12.8.g.1 “IT” is not a defined abbreviation, so it should either be spelled out or replaced with “MIS”, which is used elsewhere in this section. MIS is arguably not quite the same as IT, but to the extent that it is slightly broader in scope, it is nonetheless essential.
42	Comments on proposed changes to CF 12.8.g.2
43	Comments on proposed changes to CF 12.8.g.3
44	Comments on proposed changes to CF 12.8.i
45	Comments on proposed changes to CF 12.8.i.1
46	Comments on proposed changes to CF 12.8.i.2 The divide between jurisdictions with judicial and administrative liquidation is not as sharply drawn as the current draft suggests. Consider one of the following clarifications: CF 12.8.i.2 The power to put the insurer into liquidation may be exercised in a variety of ways, such as (i) all or part of the insurance contracts are put into run-off; or (ii) the resolution authority passes on the authority to resolve the insurer to a judicial body or court of law, or requires court approval or supervision in order to conduct the liquidation (judicial liquidation). or CF 12.8.i.2 The power to put the insurer into liquidation may be exercised in a variety of ways, such as (i) all or part of the insurance contracts are put into run-off; or (ii) the resolution authority passes on the authority to resolve the insurer to a judicial body or court of law (judicial liquidation). In some jurisdictions with judicial liquidation, the resolution authority is appointed to act on behalf of the court.
ICP 16 (Enterprise Risk Management for Solvency Purposes)	

47	General comments on proposed changes to ICPs 16.6 and 16.9 and related ComFrame standards
48	Comments on proposed changes to ICP 16.6
49	Comments on proposed changes to ICP guidance 16.6.11 "Establishes" seems circular. Consider the following edit: 16.6.11 Counterparty risk appetite refers to the level of risk the insurer is willing to accept that a counterparty will be unable to meet its obligations as they fall due with a focus on the relevant risk limits. This may impact the insurer's financial position through, for example, reductions in fair value or impairment of investments, loss of reinsurance cover, open market exposures or the loss of securities that have been loaned.
50	Comments on proposed changes to ICP guidance 16.6.12 What the investment policy specifies should be "the" risk appetite that drives the insurer's decision. Consider the following edit: 16.6.12 In deciding whether it is necessary for the insurer to specify its counterparty risk appetite in its investment policy, the supervisor should take into account the size of the insurer's counterparty exposures, both in absolute terms and relative to the insurer's portfolio, according to the characteristics outlined in Guidance 16.6.4, as well as the complexity and form of these exposures. Particular attention should be paid to financial sector counterparties, as these counterparties may be more likely to contribute to the build-up of systemic risk. Attention should also be paid to off-balance sheet exposures or commitments, as these may be more likely to materialise during stress.
51	Comments on proposed changes to CF 16.6.b
52	Comments on proposed changes to ICP guidance 16.9.7 The descriptive mode "is documented" is not typical for guidance. Consider one of the following edits: 16.9.7 The contingency funding plan may, at the discretion of the supervisor, be either a standalone document or integrated fully and comprehensively into another document as part of other elements of the ERM. or 16.9.7 The contingency funding plan should be documented and, at the discretion of the supervisor, may be either a standalone document or integrated fully and comprehensively into another document as part of other elements of the ERM.
53	Comments on proposed changes to CF guidance 16.9.c.1
54	Comments on proposed changes to CF guidance 16.9.c.2
55	Comments on proposed changes to CF guidance 16.9.c.3
56	Comments on proposed changes to CF guidance 16.9.c.4
57	Comments on proposed changes to CF guidance 16.9.c.5
58	General comments on proposed changes to ICPs 16.15 and 16.16 and related ComFrame standards
59	Comments on proposed changes to ICP 16.15 While the revision to 16.15 makes sense given the revisions to 16.16, it seems there is potential overlap with 16.14 which addresses continuity analysis. The distinction

© 2024 National Association of Insurance Commissioners

	between this and what an insurer would do to evaluate in advance their specific risks and options in possible recovery scenarios is a bit unclear so suggest reviewing these two standards and ensure the distinction is clear and avoid overlap.
60	Comments on proposed changes to ICP guidance 16.15.1
61	Comments on proposed changes to ICP 16.16 The third bullet seems redundant. How can supervisors "require a recovery plan" while leaving it optional whether or not the plan is "in place"? If the phrase "in place" is necessary at all, consider the following edit: • **has a process to regularly assess which insurers are required to have a recovery plan in place, based on established criteria that consider the nature, scale and complexity of the insurer; and** • **requires, at a minimum, recovery plans to be in place for any insurer(s) assessed to be systemically important or critical if it fails.**
62	Comments on proposed changes to ICP guidance 16.16.1
63	Comments on proposed changes to ICP guidance 16.16.2 Having guidance on factors that should be considered as part of the criteria in determining the necessity of a recovery plan or a resolution plan (in revised 12.4.1) is helpful. However, the same factors are listed in each section. While this makes some sense, a recovery plan and a resolution plan serve different purposes, so the consideration and analysis should not necessarily be the same. We therefore suggest adding a sentence either as part of 16.16.2 or as a new 16.16.3 to help emphasize this point: "When assessing the criteria to determine whether a recovery plan is necessary for an insurer, the supervisor and/or resolution authority should keep in mind the intended purpose and role of a recovery plan as well as other requirements and/or powers that may already be applicable." Also, it is the authority, not the criteria, who considers the enumerated factors and makes the decision (although the criteria might simply be the enumerated factors. Consider one of the following edits to the introductory clause: 12.4.1 When developing the criteria for deciding which insurers will be subject to a resolution plan requirement, the supervisor and/or resolution authority should consider factors such as: or 12.4.1 The criteria to be used by the supervisor and/or resolution authority, when deciding which insurers will be subject to a resolution plan requirement, should address factors such as: Finally, edit the last bullet as follows: • the impact of the insurer's failure.
64	Comments on proposed changes to ICP guidance 16.16.3
65	Comments on proposed changes to ICP guidance 16.16.4
66	Comments on proposed changes to ICP guidance 16.16.5
67	Comments on proposed changes to ICP guidance 16.16.7
68	Comments on proposed changes to ICP guidance 16.16.8
69	Comments on proposed changes to CF 16.16.a

This page intentionally left blank.

© 2024 National Association of Insurance Commissioners

Questions for public consultation on proposed changes to reflect climate risk in selected ICP guidance and supporting material

Thank you for your interest in the public consultation on the proposed changes to reflect climate risk in selected ICP guidance material and supporting material. The Consultation Tool is available on the IAIS website.

Please do not submit this document to the IAIS. All responses to the Consultation Document must be made via the Consultation Tool to enable those responses to be considered.

© 2024 National Association of Insurance Commissioners

Consultation questions

ICP 15 (Investments) guidance material	
1	General comments on the proposed changes to reflect climate risk in ICP 15 (Investments) guidance material
2	Comments on proposed changes to ICP guidance 15.2.3 We question the practical applicability of rating adjustments and suggest this would be more appropriate as a "may" given there are various ways to consider this concern, such as on a qualitative basis on the assessment of the risk of the portfolio as a whole. Suggest: The insurer ~~should~~ may also consider the extent to which various external risks (such as climate change) have been factored into the ratings and over what time horizon, and make adjustment to the ratings where ~~necessary~~ appropriate.
3	Comments on new ICP guidance 15.2.6 First sentence, suggest replacing the word "effects" with "materiality" as it would be a more appropriate word choice given the context: "insurers should consider the potential ~~effects~~ materiality of climate change"
4	Comments on proposed changes to ICP guidance 15.3.1
5	Comments on proposed changes to ICP guidance 15.4.1
6	Comments on proposed changes to ICP guidance 15.4.2 Suggest adding the "prioritizes" to help supervisors better understand the criteria insurers are utilizing to prioritize their risks. The supervisor should assess how the insurer identifies, analyses, prioritizes, monitors, manages, controls, and reports risks arising from its investments. This assessment includes how the insurer considers varying time horizons (short, medium and long-term).
ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material	
7	General comments on the proposed changes to reflect climate risk in ICP 16 (Enterprise Risk Management for Solvency Purposes) guidance material
8	Comments on proposed changes to ICP guidance 16.1.1
9	Comments on proposed changes to ICP guidance 16.1.3
10	Comments on proposed changes to ICP guidance 16.1.6
11	Comments on proposed changes to ICP guidance 16.2.2
12	Comments on proposed changes to ICP guidance 16.2.16
13	Comments on proposed changes to ICP guidance 16.2.19
14	Comments on proposed changes to ICP guidance 16.6.6 Suggest this would be more appropriate as a "may" given the relevance and/or materiality of these different considerations could vary based on the individual insurer:

© 2024 National Association of Insurance Commissioners

	With respect to climate-related risks, insurers ~~should~~ may consider: longer term time horizons (although within the maturity profile of their investment portfolio); the impact of material climate-related risks on their investments, and the impact of their investments on the climate; and their customers' known preferences in relation to sustainability considerations, where relevant.
15	Comments on proposed changes to ICP guidance 16.12.1
16	Comments on proposed changes to ICP guidance 16.16.9
ICP 7 (Corporate Governance) supporting material	
17	General comments on the proposed changes to reflect climate risk in existing supporting material related to ICP 7 (Corporate Governance)
18	Comments on proposed changes to section 3.3 (The role of the Board)
19	Comments on proposed changes to section 3.5 (Duties related to remuneration)
ICP 8 (Risk Management and Internal Controls) supporting material	
20	General comments on the proposed changes to reflect climate risk in existing supporting material related to ICP 8 (Risk Management and Internal Controls)
21	Comments on proposed changes to section 4.1 (Integrating climate-related risks into the scope of the risk management system)
ICP 14 (Valuation) supporting material	
22	General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 14 (Valuation)
23	Comments on section on Valuation of assets
24	Comments on section on Impacts on types of valuations
25	Comments on section on Time horizons of the investment
26	Comments on section on Valuation of liabilities
ICP 15 (Investments) supporting material	
27	General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 15 (Investments)
28	Comments on section on Climate change factor for investment requirements
29	Comments on section on Investment of assets for the portfolio as a whole
30	Comments on section on Asset liability management
31	Comments on section on Risk assessment and management of investments
ICP 16 (Enterprise Risk Management for Solvency Purposes) supporting material	
32	General comments on the proposed additions to reflect climate risk in existing supporting material related to ICP 16 (Enterprise Risk Management for Solvency Purposes)
33	Comments on section on Risk identification and measurement
34	Comments on section on Risk concentrations
35	Comments on section on Corporate strategy and time horizons
36	Comments on section on Risk appetite and limits

© 2024 National Association of Insurance Commissioners

37	Comments on section on Asset liability management
38	Comments on section on Investment policy
39	Comments on section on ORSAs

© 2024 National Association of Insurance Commissioners

DRAFT NAIC COMMENTS – June 7, 2024

Questions for public consultation on draft application paper on supervising diversity, equity and inclusion: the governance, risk management and culture perspective

Thank you for your interest in the public consultation on draft application paper on supervising diversity, equity and inclusion: the governance, risk management and culture perspective. The Consultation Tool is available on the IAIS website.

Please do not submit this document to the IAIS. All responses to the Consultation Document must be made via the Consultation Tool to enable those responses to be considered.

© 2024 National Association of Insurance Commissioners

DRAFT NAIC COMMENTS – June 7, 2024

Consultation questions

1	General comments on the Application Paper
2	Comments on section 1 Introduction
3	Comments on section 1.1 Context and objective The acknowledgement in paragraph 6 is helpful and suggest adding another sentence to recognize potential legal limitations on data collection/use; suggest: The IAIS acknowledges that local circumstances, particularly the legal, cultural and historical context, will influence how DEI is considered and the actions taken by supervisors and insurers themselves, to enhance DEI within the sector. This application paper should therefore be read with this context in mind throughout. Additionally, the paper's discussion of use and/or collection of data recognises jurisdictional legal and privacy issues surrounding any demographic data.
4	Comments on Box 1 Interpretation of the terms diversity, equity and inclusion in this paper
5	Comments on section 1.2 Related work by the IAIS
6	Comments on section 1.3 Proportionality
7	Comments on section 2 Why DEI within an insurer matters to ICPs 7, 8 and corporate culture
8	Comments on Box 2 What is groupthink and why does it matter to insurers? The drafting could be read to suggest groupthink is an issue specific to the insurance sector and the description of what happened with AIG should be more accurate; suggest: ~~In the insurance sector specifically, g~~Groupthink has been cited as a factor in the failure of certain non-insurance areas of AIG during the financial crisis.
9	Comments on section 3 What should a supervisor look out for?
10	Comments on section 3.1 Relevant matters to look at
11	Comments on section 3.2 Warning signs an insurer might need to enhance its DEI efforts
12	Comments on Box 3 What is DEI-washing? For clarification, suggest the following revision: Subsequently, this can cause problems regarding ESG ratings, where utilised or required.
13	Comments on Box 4 Indicators of positive action on DEI at an insurer
14	Comments on section 4 What can a supervisor do in response?
15	Comments on section 4.1 Industry-wide approach

© 2024 National Association of Insurance Commissioners

DRAFT NAIC COMMENTS – June 7, 2024

16	Comments on section 4.1.1 Use of soft powers
17	Comments on section 4.1.2 Incorporating DEI themes into supervisory approaches
18	Comments on section 4.1.3 Develop requirements
19	Comments on section 4.2 Insurer-specific engagement
20	Comments on section 4.2.1 Understanding an insurer's approach to DEI
21	Comments on section 4.2.2 Undertake review work to examine DEI related arrangements and plans
22	Comments on Box 5 Collecting and using data as part of a DEI strategy
23	Comments on section 5 Conclusion

© 2024 National Association of Insurance Commissioners

INNOVATION, CYBERSECURITY, AND TECHNOLOGY (H) COMMITTEE

Innovation, Cybersecurity, and Technology (H) Committee Aug. 15, 2024, Minutes 12-2
Innovation, Cybersecurity, and Technology (H) Committee June 28, 2024, Minutes (Attachment One) 12-8
Big Data and Artificial Intelligence (H) Working Group July 29, 2024, Minutes (Attachment Two) 12-12
Cybersecurity (H) Working Group Aug. 14, 2024, Minutes (Attachment Three) 12-15
Cybersecurity (H) Working Group July 9, 2024, Minutes (Attachment Three-A) 12-19
Cybersecurity (H) Working Group May 20, 2024, Minutes (Attachment Three-A1) 12-21
Cybersecurity (H) Working Group March 27, 2024, Minutes (Attachment Three-A2) 12-24
E-Commerce (H) Working Group July 18, 2024, Minutes (Attachment Four) 12-26
E-Commerce (H) Working Group April 4, 2024, Minutes (Attachment Four-A) 12-29
E-Commerce (H) Working Group Workplan (Attachment Four-A1) 12-31
Adopted E-Commerce Modernization Guide (Attachment Four-A2) 12-33
Technology, Innovation, and InsurTech (H) Working Group Aug. 13, 2024, Minutes (Attachment Five) ... 12-44
Privacy Protections (H) Working Group Aug. 14, 2024, Minutes (Attachment Six) 12-46
Privacy Protections (H) Working Group July 10, 2024, Minutes (Attachment Six-A) 12-53
Privacy Protections (H) Working Group June 12, 2024, Minutes (Attachment Six-A1) 12-55
Privacy Protections (H) Working Group May 15, 2024, Minutes (Attachment Six-A1a) 12-61

© 2024 National Association of Insurance Commissioners

Draft: 8/28/24

Innovation, Cybersecurity, and Technology (H) Committee
Chicago, Illinois
August 15, 2024

The Innovation, Cybersecurity, and Technology (H) Committee met in Chicago, IL, Aug. 15, 2024. The following Committee members participated: Kevin Gaffney, Chair (VT); Michael Conway, Co-Vice Chair, represented by Kate Harris (CO); Chlora Lindley-Myers, Co-Vice Chair, and Cynthia Amann (MO); Ricardo Lara (CA); Karima M. Woods and Sharon Shipp (DC); Michael Yaworsky and Alexis Bakofsky (FL); Gordon I. Ito (HI); Doug Ommen (IA); Ann Gillespie and KC Stralka (IL); Joy Y. Hatchette and Kory Boone (MD); Troy Downing (MT); Jon Godfread represented by Colton Schulz (ND); Judith L. French represented by Matt Walsh (OH); Michael Humphreys (PA); and Alexander S. Adams Vega represented by Iris M. Calvente Galindez (PR). Also participating were: Lori K. Wing-Heier (AK); Weston Trexler (ID); Amy L. Beard (IN); Tom Travis (LA); Christian Citarella (NH); Elizabeth Kelleher Dwyer and Matt Gendron (RI); Cassie Brown (TX); Jon Pike (UT); and Scott A. White (VA).

1. Adopted its June 28 Minutes

The Committee met June 28 and took the following action: 1) adopted its Spring National Meeting minutes; 2) received an update on its workstreams; and 3) heard presentations from consumer representatives on consumer protection proposals and privacy protections.

Commissioner Gaffney noted a modification to the June 28 minutes, adding Anoush Brangaccio (FL) to the participant list.

Commissioner Lara made a motion, seconded by Commissioner Ommen, to adopt the Committee's June 28 minutes (Attachment One). The motion passed unanimously.

2. Adopted its Task Force and Working Group Reports

A. Third-Party Data and Models (H) Task Force

Bakofsky reported that the Task Force was established this year to address the growing concerns among commissioners regarding the use of third-party data and models to ensure that state insurance regulators can confidently assure consumers, stakeholders, and state governors of the fair use of data and models by insurers.

The Task Force's initial action was the formulation and adoption of a 2024–2025 work plan, which is bifurcated into two distinct phases. The first phase involves a thorough research step to evaluate existing regulatory frameworks, assess their applicability to regulating third-party data and models, and establish objectives for a future regulatory framework. Upon completing this phase, the second phase will focus on constructing the third-party regulatory framework. The Task Force is committed to conducting meticulous research and maintaining an open and transparent process to ensure well-informed and judicious decision-making.

On July 30, the Task Force heard presentations about national and state-centric U.S. risk-based regulatory approaches and presentations to provide insights into regulatory decision-making and the role of experts in assisting state insurance regulators. The Task Force is taking a blended approach that is national and market-wide in terms of the framework but flexible such that a state can focus on the risks and models applicable in that state. The next steps include engaging with the European Union (EU) to gain insights into Solvency II's risk-based approach and identifying and inviting speakers to inform the Task Force about relevant frameworks outside of insurance regulation that could be beneficial in this context.

© 2024 National Association of Insurance Commissioners

B. Big Data and Artificial Intelligence (H) Working Group

Commissioner Humphreys reported that the Working Group met July 29. The Working Group received an update on the health artificial intelligence (AI)/machine learning (ML) survey work, including piloting the survey with a few selected companies. The survey is intended to go live later this year, with plans to post the survey publicly no later than early October. The survey includes questions tailored to the use of AI in the operational functions of health insurers related to data usage, arrangements with third parties, and coordination with existing health provider governance standards. A selected group of companies that have completed the auto surveys have been targeted for follow-up regulator-only discussions to ask whether they have begun to use or have changed their use of AI/ML in their operations, including generative AI, since the auto survey was completed in 2021.

During that meeting, the Working Group also received a presentation from Dorothy Andrews (NAIC) on the Society of Actuary's (SOA's) research on inference methods, which covered several topics, including the Bayesian Improved First Name and Surname Geocoding (BIFSG) method and examples of results from using this method. The Working Group also discussed the underlying data used by the BIFSG method, its limitations, and concerns about accuracy.

C. Cybersecurity (H) Working Group

Amann reported that the Working Group met Aug. 14 and took the following action: 1) adopted its July 9 minutes, which included the following action: a) adopted its May 20, March 27, and Spring National Meeting minutes; b) heard a presentation from both the Federal Bureau of Investigations (FBI) and 10-8 LLC about how they approach cybersecurity and have helped companies prepare, respond to, and recover from cybersecurity events; and 2) heard "The State of the Cyber Insurance Market: Trends, Challenges, and Opportunities," a panel discussion moderated by Commissioner Godfread, consisting of representatives of an insurer, a reinsurer, and a broker, who provided insights on the dynamic nature of cyber coverage, how it is morphing, and how cyber products differ from the typical insurance product. The panel discussed the challenge of education and awareness among consumers, industry, and state insurance regulators and how the education curve and the pace of technology changes are not always aligning.

D. E-Commerce (H) Working Group

Commissioner Downing reported that the Working Group met July 18. During this meeting, the Working Group: 1) heard a presentation from Canopy Connect on open insurance; and 2) discussed adding language to NAIC model laws to protect consumers' rights to control the usage of their information and about the work of the Privacy Protections (H) Working Group.

The Working Group also met April 4 to discuss its 2024 work plan and adopt the E-Commerce Modernization Guide.

The Working Group plans to meet in to hear a presentation from Pennsylvania on its Key Smart Launch Program.

E. Privacy Protections (H) Working Group

Commissioner Beard reported that the Working Group met Aug. 14 and took the following action: 1) adopted its Spring National Meeting minutes; 2) heard an update from NAIC staff on federal privacy legislation; 3) heard a presentation from Consumers' Checkbook on legacy systems in the protection of consumers privacy; and 4) discussed its next steps, which included the announcement of a new chair draft revising Model #672. The chair draft was announced to Working Group members and interested state insurance regulators during the Aug. 5

© 2024 National Association of Insurance Commissioners

regulator-only call. The draft was distributed to Working Group members and interested state insurance regulators the same day to give time to review the draft prior to exposure following the Summer National Meeting. The draft will be exposed Aug. 19 for a 30-day public comment period ending Sept. 18, and the Working Group will send drafting group guidelines to start the drafting group process.

Commissioner Beard said the Working Group also met June 12. During this meeting, the Working Group took the following action: 1) heard comments from Working Group members, interested state insurance regulators, and interested parties on whether to revise the existing *Privacy of Consumer Financial and Health Information Regulation* (#672) or continue with the *Insurance Consumer Privacy Protections Model Law* (#674); and 2) discussed the comments and voted to move forward with revising Model #672, emphasizing to all interested parties that there would be sufficient time to discuss the specific privacy protections and core principles to be included in the amendments to Model #672 in the future.

During its July 10 meeting, the Working Group emphasized the importance of transparency throughout the process and that the discussion around core privacy principles and protections would be open and collaborative regardless of the framework used. On July 9, Working Group leadership met with 20 consumer representatives to hear comments providing insights on the issues most important to consumers.

F. Technology, Innovation, and InsurTech (H) Working Group

Director Dunning reported that the Working Group met Aug. 13 and took the following action: 1) heard a presentation from McKinsey & Company on the U.S. insurance markets, including challenges in that marketplace that the InsurTech community will be able to assist insurers with, and how InsurTechs may be able to assist policyholders with more product innovation, customer experience, and streamlining manual processes in the insurance value chain; and 2) heard presentations from ClearCover, Lemonade, and Next Insurance, which are all part of the InsurTech Coalition.

G. AI Systems Evaluation and Training Collaboration Forum

Commissioner Ommen reported that following the adoption of the bulletin concerning the use of AI systems, a small group of state insurance regulators has been meeting to discuss AI evaluations, anticipating that a public discussion will commence soon after the Summer National Meeting and recognizing that this work will involve collaboration with the Market Regulation and Consumer Affairs (D) Committee. The Accelerated Underwriting (A) Working Group has completed the development of a tool as well as a regulatory outline, which, along with the Casualty Actuarial Statistical (C) Task Force work products, are likely to serve as a useful foundation for the Collaboration Forum's work. Commissioner Ommen noted the importance of developing proposed charges and said he looks forward to public engagement in the discussions.

H. Data Call Collaboration Forum

Schultz reported that the Collaboration Forum started last year to discuss how to tackle technology and data that state insurance regulators have access to. The Collaboration Forum started with regulator-only discussions with NAIC staff, and it is anticipated to have more public discussions going forward as it develops charges. The work is in its early stages, and the Collaboration Forum looks forward to receiving public input.

I. SupTech Roundtable

Boone reported that the SupTech Roundtable was formed to review how technology can streamline and automate manual tasks in the workplace. Over the past few months, the group has been given demonstrations from Microsoft, Amazon, and Salesforce. During those demonstrations, the vendors showed their technologies and

© 2024 National Association of Insurance Commissioners

discussed the applicability of streamlining manual processes. For instance, Salesforce demonstrated its platform for case management, Slack, which could help state insurance regulators collaborate during a disaster response. Microsoft demonstrated its AI capabilities enabled in Word, PowerPoint, and Teams to summarize long documents and how to configure its AI bot to have different moods and limits on sources from which to pull data. This month, Google will provide a demonstration. Plans for future demonstrations include other big tech companies such as Adobe, Docusign, and Oracle. The SupTech Roundtable is looking into how to utilize AI overlaid into the System for Electronic Rates & Forms Filing (SERFF).

Amann made a motion, seconded by Commissioner Lara, to adopt the following reports: Third-Party Data and Models (H) Task Force; Big Data and Artificial Intelligence (H) Working Group (Attachment Two); Cybersecurity (H) Working Group (Attachment Three); E-Commerce (H) Working Group (Attachment Four); Technology, Innovation, and InsurTech (H) Working Group (Attachment Five); Privacy Protections (H) Working Group (Attachment Six); AI Systems Evaluation and Training Collaboration Forum; and Data Call Collaboration Forum. The motion passed unanimously.

3. Heard a Presentation on Federal Regulatory Actions Related to the Use of AI

Paige Waters (Locke Lord LLP) presented a review of federal tools for regulating AI. She identified the regulatory tools, compared the federal agency tools with insurance regulatory tools, and identified additional regulatory tools that insurance regulators may want to explore. She initially observed that based on current federal AI initiatives, state insurance regulators are utilizing most of the available AI regulatory concepts, but given the rapid development of AI, insurance regulators likely will benefit from monitoring federal AI initiatives. She stated that there is currently no comprehensive federal law that universally regulates AI, which has resulted in piecemeal regulation. Both the federal and insurance regulation agencies rely heavily on existing laws, use principles-based methodologies, and call for a balanced approach between promoting innovation and protecting consumers.

Federal agencies regulating financial services are further along in the development of AI regulation. Frequently used tools to help in the financial regulation of AI include written guidance, corporate governance policies, and internal controls. She noted that the U.S. Securities and Exchange Commission (SEC) is using AI red-teaming to determine flaws or vulnerabilities in the use of AI and using examinations to regulate AI. The Consumer Financial Protection Bureau (CFPB) and the Federal Trade Commission (FTC) have been involved in enforcement actions where they have levied penalties and fines against regulated entities for violations of their AI regulations. She stated that federal agencies use two additional tools: the requirements to avoid conflicts of interest and disclosures and model forms. Regulated entities must make disclosures to consumers using AI products and annual disclosures on the amount of resources they are dedicating to AI risk management and how far along they are in their compliance.

One area where federal agencies are doing something slightly different than state insurance regulators is in creating offices of technology within federal agencies, for example, the Financial Industry Regulatory Authority (FINRA), which provide subject matter expertise to the regulated entities. Both state insurance regulators and federal regulators are well-served by continuing to monitor new technological developments, new laws enacted, and case law in order to keep up with the most effective methods in regulating the industry.

Commissioner Gaffney asked about the overlap of explainability and disclosure, what key differences Waters sees between federal and insurance regulators, which of those differences insurance regulators should keep in front of, and how they should be reconciled. Waters replied that keeping up with the changes in regulatory actions will help prevent falling through the cracks.

© 2024 National Association of Insurance Commissioners

Commissioner Ommen commented that one area where the state insurance regulatory system takes action that the federal regulators do not is that under the Own Risk Solvency Assessment (ORSA), and more generally in financial analysis, state insurance regulators have routine exchanges with insurance companies and raise these issues as part of that interaction process. He asked whether Waters sees that at the federal level in her study. Waters responded that she believes the creation of the technological offices within federal agencies is designed to provide a forum for entities to voluntarily go to the regulators on compliance issues.

Commissioner Gaffney asked Waters about her perspective on executable testing requirements and metrics. Waters responded that testing is an area that many in the insurance industry have questions about. It is an easier conversation to the extent the industry has engaged its own data scientists to help them understand some of the testing requirements. While some of those testing requirements may have initially seemed onerous, the tests are not as onerous once data scientists are involved. The education and involvement of more technical expertise in those areas have helped.

4. Heard a Presentation on NIST AISIC Efforts to Develop a Framework for Governing AI

Dale Hall (Society of Actuaries—SOA) presented an overview of some of the research and activities the SOA has been focusing on regarding the development of a framework for governing AI. He noted that the SOA was selected earlier this year to be part of a U.S. group formed by the U.S. Department of Commerce (DOC) through the National Institute of Standards and Technology (NIST) called the AI Safety Institute Consortium (AISIC). Key AISIC initiatives include a working group focused on the capability evaluation of safe AI testing and auditing and a working group focused on safety and security. Hall noted that the SOA has ongoing interaction with the AISIC working groups and that the SOA provided comments on the implementation of a generative AI risk management framework. Hall concluded by stating that the U.S. actuarial profession is strongly engaged with the rapid evolution of AI, the actuarial profession has expertise in risk management and governance, there are professional development and education opportunities on the responsible use, building, and implementing AI models, and that the U.S. Actuarial Standards of Practice (ASOPs) and Code of Professional Conduct can provide additional guidance.

5. Heard a Presentation on IAA Efforts to Survey Global AI Governance Frameworks

Andrews reported on some of the findings from the International Actuarial Association's (IAA's) efforts to review AI governance frameworks from Australia, Canada, China, Europe, Singapore, the United Kingdom (UK), and the U.S. for similarities and differences and stated that the U.S. fares well compared to the other countries in regard to AI governance. She noted that Singapore does not significantly mention governance of third-party AI systems, and China does not significantly mention bias in its framework. She then focused on the EU AI Act because it is extensive, and reviewed the four levels of risk: 1) unacceptable risk (e.g., manipulation of human behavior/classification of people based on their social behavior); 2) high risk (e.g., recruitment); 3) limited risk (e.g., impersonation/chatbots); and 4) minimal or no risk (e.g., predictive maintenance). She discussed the sustainable development goals of the AI for Good Conference held May 30–31, which included promoting AI to advance health, climate, gender, inclusiveness, prosperity, sustainable infrastructure, and other global development priorities.

Andrews also discussed the launch of NIST's Assessing Risks and Impacts of AI (ARIA) program to assess the societal risks and impacts of AI systems, where the goal is to help organizations and individuals determine whether a given AI technology will be valid, reliable, safe, secure, private, and fair. ARIA helps to operationalize the NIST framework's risk management function by recommending that quantitative and qualitative techniques be used to analyze and monitor AI risks and impacts. ARIA will help assess risks and impacts by developing a new set of methodologies and metrics to quantify how well a system maintains safe functionality within societal contexts. NIST will be looking for external partners, and the NAIC will be on the list to learn more about what it is doing. Andrews mentioned the U.S. Department of the Treasury (Treasury Department's) request for information (RFI)

© 2024 National Association of Insurance Commissioners

on the uses, opportunities, and risks of AI in the financial services sector to better understand how AI is being used within financial services, as well as the opportunities and risks.
Andrews also discussed the bipartisan bill introduced by Rep. French Hill (R-AR) that proposes legislation to encourage financial firms to experiment with AI to develop products and services by providing some protection from regulation.

Commissioner Gaffney asked whether Andrews has seen disagreement or contention between countries. Andrews responded that the correlation versus causation issue would be significant, and model risk management to determine what constitutes algorithmic harm may not be fully flushed out.

Commissioner Gaffney asked whether Andrews had any further insights on NIST's ARIA program, particularly how it obtains protected class information to perform outcomes testing. Andrews responded that because the ARIA program is new, very little information about it is available online.

Having no further business, the Innovation, Cybersecurity, and Technology (H) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/H CMTE/2024_Summer/H-Minutes/Minutes-H-Cmte081524.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/11/24

Innovation, Cybersecurity, and Technology (H) Committee
Virtual Meeting
June 28, 2024

The Innovation, Cybersecurity, and Technology (H) Committee met June 28, 2024. The following Committee members participated: Kathleen A. Birrane, Chair (MD); Chlora Lindley-Myers, Co-Vice Chair, represented by Cynthia Amann (MO); Kevin Gaffney, Co-Vice Chair (VT); Ricardo Lara represented by Ken Allen (CA); Michael Conway (CO); Michael Yaworsky represented by Anoush Brangaccio (FL); Gordon I. Ito represented by Kathleen Nakasone (HI); Ann Gillespie represented by C.J. Metcalf (IL); Doug Ommen and Daniel Mathis (IA); Jon Godfread represented by Colton Schulz (ND); Judith L. French, Matt Walsh, and Rodney Beetch (OH); and Michael Humphreys (PA). Also participating were: Kris Hathaway (AR); Wanchin Chou (CT); and Jake Martin (MI).

1. Heard Opening Remarks

Commissioner Birrane provided opening remarks noting that this meeting was part of an ongoing commitment to engage with consumer representatives, allowing them to offer perspective on the important policy discussions taking place under the Innovation, Cybersecurity, and Technology (H) Committee.

Commissioner Birrane also announced that she would retire July 1 from the Maryland Insurance Administration (MIA) and return to private practice. She then announced the following leadership changes: 1) Commissioner Gaffney will move into the chair role for the Committee, and Commissioner Conway will return to the vice chair role; and 2) Commissioner Humphreys will move into the chair role, and Commissioner Gaffney will move into the vice chair role for the Big Data and Artificial Intelligence (H) Working Group.

Commissioner Birrane also shared that Karrol Kitt (Consumer Representative) passed away June 27. Peter Kochenburger (Southern University Law School) provided further comments to acknowledge Kitt's passing and expressed gratitude for her work and support.

2. Adopted its Spring National Meeting Minutes

Commissioner Gaffney made a motion, seconded by Commissioner Conway, to adopt the Committee's March 18 minutes (*see NAIC Proceedings – Spring 2024, Innovation, Cybersecurity, and Technology (H) Committee*). The motion passed unanimously.

3. Received an Update on its Workstreams

Miguel Romero (NAIC) provided an update on the Committee's initiatives, which included progress and developments on the following workstreams:

A. AI Systems Evaluation and Training Collaboration Forum, where charges are in development anticipating the evaluation work proceeding under a new working group. This Collaboration Forum will broadly examine how state insurance regulators update market conduct processes for artificial intelligence (AI) systems.
B. Third-Party Data and Models (H) Task Force will have its next meeting July 10, with Commissioner Conway also acknowledging a meeting scheduled for July 30.

© 2024 National Association of Insurance Commissioners

C. Big Data and Artificial Intelligence (H) Working Group is in the process of developing the health AI/machine learning (ML) survey and AI training content for state insurance regulators and is actively monitoring and supporting the adoption of the NAIC Model Bulletin by the states. This Working Group will consider the next steps after bulletin adoption.
D. Privacy Protections (H) Working Group will hold its next meeting July 10 to continue discussion on the drafting direction and engage with stakeholders and consumer representatives to solicit input.

4. Heard Presentations from Consumer Representatives

A. Consumer Protection Proposals

Brendan Bridgeland (Center for Insurance Research—CIR) noted the importance of establishing testing and monitoring programs to mitigate the potential negative impact of unfair discrimination on protected classes. He addressed additional consumer concerns about broader risks of unfair discrimination that can be created by using multiple datasets to make underwriting or rating decisions that impact consumers, as the datasets may not have had sufficient testing. He raised a concern that risk factors might be applied more than once from the combination of the datasets. He highlighted the potential concern that just because data appears to correlate with the predicted risk of loss does not guarantee that a risk classification accurately and fairly measures a risk distinction between consumers. Bridgeland noted that risk classifications can overlap or prove to be duplicative proxies of another risk factor already incorporated elsewhere; the more data elements being used, the higher the likelihood there will be potentially duplicative or overlapping data. Bridgeland cited a historical case where individuals who were either very heavy or very lean in relation to their height were charged a higher risk premium when, in fact, it was subsequently determined by actuarial analysis that smoking was the contributing factor to higher mortality, not necessarily weight. However, factors for smoking and extreme weight deviations were both being applied, in effect twice for the same risk.

Bridgeland recommended that outcomes should be tested to ensure actuarial soundness and recommended a robust spot-check of the impact of outcomes on consumers. He emphasized the importance of transparency and noted that the criminal record history of consumers can be problematic. Bridgeland said that just because a data set appears to be correlated with predictions of loss does not guarantee that a particular risk classification accurately and fairly measures a distinction between two consumers. He further noted that the more disparate factors are used without considering the causation element, in particular, how those factors might interact and lead to a result or even interfere with each other in a manner that might lead to unfair discrimination.

Bridgeland highlighted the importance of transparency for consumers to trust the insurance industry. He noted that every time a consumer learns about a new industry practice affecting them, and they learn about it for the first time through a cancellation notice or a salacious media article, it harms the reputation of insurers and state insurance regulators.

Kochenburger added that consumers cannot evaluate this issue for themselves and that it is almost impossible to access their own information and how it is being used. These evaluations require an analysis of the pooled data on a systematic basis to identify bias. He noted that this could be done through litigation class action suits eventually but is not the preferred method.

B. Privacy Protections

Brenda Cude (Consumer Advocate) stated that the primary goal of privacy protections regulation is to control personal consumer data collection, processing, and transfer (i.e., the goal should be to strengthen existing protections regarding this information). She expressed concern that it is impractical for consumers to be counted

© 2024 National Association of Insurance Commissioners

on to protect themselves due to the constant monitoring of multiple organizations that constantly change their policies. Cude said most consumers lack the time and expertise required to exercise their privacy rights and do not have the ability to assess the risk from organizations that have access to their data. She noted that one academic study estimated that it would take a typical person 200 hours a year to read all the privacy notices relevant to them, assuming the notices were even readable. She noted the additional difficulty in assessing the increasing risk of data privacy in light of advancements in AI, which could cause a collective social problem. Cude said she expects regulation that emphasizes data minimization, clear expectations about the policies and procedures required to dispose of personal information when it no longer serves a business purpose, timely and transparent consumer notices, prohibitions on insurers discriminating against consumers who opt out of disclosing personal information, and an opt-in rather than opt-out approach. She concluded by stating that a privacy rights-based approach simply puts too much responsibility on individuals to solve a problem that is not an individual problem but rather one shared by all consumers.

Harry Ting (Health Care Consumer Advocate) stated that the passage of a new privacy model should be a priority of the NAIC. He brought to light that expecting consumers to read privacy policies, which are difficult to understand, in order to provide the consumer's choice to opt out of sharing personal information is not effective protection. He noted that the *Insurance Consumer Privacy Protection Model Act* (#674) states that "No licensee shall collect, process, or share a consumer's personal information in connection with any additional activity without first providing the consumer a clear and conspicuous notice that such information will not be collected, processed or shared unless the consumer opts in to such collection and use their personal information," and that such a provision must be included in the new privacy protection model. Additionally, Dr. Ting said that protected consumers must include not just current customers but also insurance applicants and past customers. He added that currently, many privacy policies claim to protect consumer privacy but use dark pattern techniques that make it difficult for consumers to do so, which is why the Working Group should create a template privacy policy for licensees. Dr. Ting said the U.S. Department of Health and Human Services (HSS) has used this approach for years to communicate with Medicare Advantage and Part D drug plan customers. He said the template should use the informational categories that California requires.

Dr. Ting, speaking for Erica Eversman (Automotive Education & Policy Institute—AEPI), continued by stating that third-party service providers must follow privacy policies when they are provided data and that without this requirement, personal information is not protected. He said providing undefined blanket statements about privacy protection policies that third-party service providers must follow is useless. Further, he stated that the model that the Privacy Protections (H) Working Group develops must require licensees to explicitly explain what privacy practices the third-party service providers must follow and should define those provisions accurately and with proper limitations. The new privacy protection model needs provisions requiring data minimization and deletion of information that is no longer needed.

Lucy Culp (Leukemia & Lymphoma Society—LLS) stated that the use of AI systems poses significant risks to consumers by reinforcing long-standing biases to consumers, and there is a need to ensure that the health AI/ ML survey addresses the ways that AI is used in health insurance by including more granular questions than those included in the life AI/ML survey. She recommends questions focused on the benefits and usage of AI and noted that the role of third parties is more pronounced than in life insurance. She further stated that there is a greater need to understand how underlying datasets are used, and more granular questions are needed to better understand how insurers are monitoring the quality of datasets aggregated by third-party providers because the way they are integrated could be problematic. Culp stated that consumer representatives should have the opportunity to review the survey in a testing/pilot phase. She said that a unique feature of health insurance is the interaction within the medical system and that insurers are increasingly relying on AI to supplement or supplant individual decision-making and the judgment of medical professionals and prior authorization or even levels of care assessment or other coverage determinations. She recommended following a similar procedure that the

© 2024 National Association of Insurance Commissioners

federal Centers for Medicare & Medicaid Services (CMS) has implemented, which is to prohibit Medicare Advantage plans from solely relying on the use of AI to make coverage determinations or terminate service. She recommended that the Committee and individual states consider this policy. Culp additionally noted that the HHS Office of Civil Rights (OCR) recognizes the important role of AI in health programs and activities in its recently finalized regulations, implementing Section 1557. In that new rule, the HHS OCR is requiring covered entities to make reasonable efforts to identify the use of AI tools and to mitigate the risk of discrimination resulting from how those tools are used.

Adam Fox (Colorado Consumer Health Initiative—CCHI) reiterated that there is a need to critically approach the issue of using AI. He expressed concerns regarding whether there are clear benefits to patient outcomes and whether privacy and concerns of potential bias and discrimination are adequately addressed. He noted that women and people of color may be biased against due to limited representation in data sets and that AI systems must be designed from the ground up in order to mitigate perpetuating and reinforcing inequalities to prevent unintended consequences and bias. Appropriate quality and representative data must be used, and the design of the algorithms and models must be suitable for intended use to prevent bias and discriminatory assumptions. He continued by stating that it is important to ensure the same level of governance and accountability applies to third-party vendor models that may be used in insurance practice. Fox said that carriers who effectively manage both coverage and providers or hospital systems through integrated health maintenance organizations (HMOs) may leverage additional applications of AI and algorithms in the provision of healthcare services and management of claims or utilization, which adds a layer of complexity to the already significant risks for discrimination and inappropriate denials of care.

Commissioner Birrane then solicited questions from members of the Committee and its Working Groups, to which Commissioner Gaffney expressed appreciation for the adoption of the Model Bulletin and looked forward to continuing to work with the consumer groups to ensure a good outcome to protect consumers. Commissioner Birrane pointed out that during the Committee's session at the Summer National Meeting in Chicago, there will be a panel presentation on the use of AI in health care.

Having no further business, the Innovation, Cybersecurity, and Technology (H) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/H Cmte/2024_Summer/H-Interim-Meeting062824/Minutes-H-Cmte_062824.docx

© 2024 National Association of Insurance Commissioners

Attachment Two
Innovation, Cybersecurity, and Technology (H) Committee
8/15/24

Draft: 8/26/24

Big Data and Artificial Intelligence (H) Working Group
Virtual Meeting
July 29, 2024

The Big Data and Artificial Intelligence (H) Working Group met July 29, 2024. The following Working Group members participated: Michael Humphreys, Chair and Shannen Logue (PA); Kevin Gaffney, Vice Chair and Mary Block (VT); Jimmy Gunn (AL); Alex Romero and Molly Nollette (AK); Tom Zuppan represented by Lori Munn (AZ); Ken Allen (CA); Michael Conway represented by Jason Lapham (CO); Andrew N. Mais represented by George Bradner (CT); Karima M. Woods (DC); Rebecca Smid (FL); Weston Trexler (ID); Erica Weyhenmeyer (IL); Amy L. Beard represented by Victoria Hastings (IN); Doug Ommen represented by Jared Kirby (IA); Tom Travis (LA); Sandra Darby (ME); Raymond Guzman (MD); Caleb Huntington (MA); Jeff Hayden and Jake Martin (MI); Jacqueline Olson and Phil Vigliaturo (MN); Cynthia Amann (MO); Connie Van Slyke (NE); Scott Kipper represented by Nick Stosic (NV); Christian Citarella (NH); Adrienne A. Harris represented by Kaitlin Asrow (NY); John Harrison represented by Tracy Biehn (NC); Jon Godfried represented by Colton Schulz (ND); Judith L. French represented by Matt Walsh (OH); Elizabeth Kelleher Dwyer (RI); Michael Wise (SC); Carter Lawrence represented by Emily Marsh (TN); J'ne Byckovski and Rachel Cloyd (TX); Scott A. White represented by Dan Bumpus (VA); Nathan Houdek represented by Lauren Van Buren (WI); and Bryan Stevens represented by Lela Ladd (WY).

1. Adopted its Spring National Meeting Minutes

Commissioner Gaffney made a motion, seconded by Superintendent Dwyer, to adopt the Committee's March 16 minutes (*see NAIC Proceedings – Spring 2024, Big Data and Artificial Intelligence (H) Working Group*). The motion passed unanimously.

2. Received an Update on the Working Group's Health Insurance AI/ML Survey Work

Commissioner Humphreys provided an update on the status in the development of the health insurance AI/ML surveys, which included tailoring the prior surveys' questions to health insurance, proceed with a pilot study, and issue the survey later this year. He reiterated that the purposes of the health AI/ML surveys are to understand how industry is using AI, how the use of AI is governed, and how the products and systems are being developed to guide future discussions on next steps. Commissioner Humphreys stated that the group has had some conversations with consumer representatives and are currently finalizing conversations with a handful of large major medical carriers that will participate in the pilot program to give feedback on the survey questions. By the Spring National Meeting the group will have the analysis and report complete for discussion at the group level and publicly.

Birny Birnbaum (CEJ) asked what the plan was for reissuing the surveys to receive updated responses. Commissioner Humphreys deferred this question to Shannen Logue (PA) to answer.

Josh Goldberg (HCSC) asked to confirm that the launch of the survey is planned for November 11 with a due date of January 15. Commissioner Humphreys confirmed.

Shannen Logue (PA) stated the group met with consumer representatives on May 13 to receive feedback and stated that the survey will be issued for public access on October 4. She stated that the health surveys will include questions relating to data usage, arrangements with third parties, coordination of governance with existing health provider governance standards, and will be tailored to the use of AI in operational functions of health insurers. She explained the group's intentions are to ensure that the questions align with the NAIC Model Bulletin.

© 2024 National Association of Insurance Commissioners

Regarding the auto surveys, the group will conduct regulator-only follow up discussions with selected personal auto carriers. Among those carriers, for those that initially responded that they do not currently use AI/ML in their operations, the group will follow up to ask whether they have begun to use AI or ML in which operations and in which capacity. For the selected carriers that originally responded they are currently using AI/ML, follow up questions will be asked about any changes in their use of AI/ML, whether they have begun to use generative AI, their degree of human involvement, efforts to identify and mitigate model drift, and their uses of third-party systems. The group anticipates completing the first round of follow up interviews by October 31 and anticipates repeating the surveys every two to three years.

Birnbaum asked whether the plan consists of following up with selected companies who provided anomalous responses between auto and home who indicated that they have certain uses or that they were engaged in using AI/ML. Logue confirmed that is correct. Birnbaum expressed that repeating the surveys on a regular schedule would result in more consistent responses.

Lucy Culp (Leukemia & Lymphoma Society) asked whether Other Health, like Short Term Plans Accepted Benefits, will be included in the surveys. Logue responded that the surveys will start with comprehensive major medical plans (individual, the small group, large group as well as student health), but then there could be a second round of surveys.

3. Received a Presentation on the Society of Actuaries' Research on Inference Methods

Dorothy Andrews (NAIC) covered several aspects of the Society of Actuaries (SOA) paper on inference methods, explained the theory of the BIFSG method, and included examples of the results of the method. Andrews discussed the underlying data used by the BIFSG method, its limitations, and concerns regarding its accuracy. She showed how the BIFSG method has been applied to a variety of studies and applications, including health care decision making, mortgage and non-mortgage lending patterns, academic research, taxation, and financial credit access issues. She explained a few of the performance metrics used, and introduced the concepts of the probabilistic and statistical types of inference methods. She clarified that the BIFSG method is a Bayesian probabilistic approach. She explained that the BISG only uses surnames, geo-location, and census bureau demographics data to estimate race, while the BIFSG additionally uses first names to estimate probabilities of race and ethnicity. The BIFSG method has been applied on data from mortgage applications and voter registration rolls and has shown improvement over the BISG method in accuracy and coverage. The BIFSG method was used to find that the incidence of missing race and ethnicity data is higher among non-Hispanic and Hispanic blacks than other groups.

Andrews then walked through the mechanics of how the probabilities are calculated in the BIFSG method using Bayesian theory, and provided the results of estimated probabilities of race for Miguel Romero (NAIC), Scott Sobel (NAIC), and herself. She explained why her estimated race was incorrect considering her first and last names and her location of residence. In that example, she provided insights into how bias can be embedded in reference/training data. She provided another example that referenced a study where the researchers found the BIFSG method overestimated the earned income tax credits take-up rate for whites, and underestimated the rate for blacks; it underestimated average tax rates for whites but was fairly accurate for blacks, Hispanics, and other groups; and it predicted higher audit rates for whites than non-whites, which is in conflict with actual audit rates. She clarified that the BIFSG method was designed to perform inference on a large group of people, not to infer the race at an individual level.

Sylvia Yee (DREDF) asked about whether the method would work well on people of mixed race. Andrews responded that the method may not be as accurate on people of mixed race, and for people who live in very diverse communities.

© 2024 National Association of Insurance Commissioners

Birnbaum commented that perfect is the enemy of good, in that there is a technology that has been used in regulatory applications that, while may not be perfect, may be fit for purpose to assess bias in AI applications and insurance applications. Further he stated that while there is always room for improvement, there is no reason for the NAIC not to endorse testing for racial bias using the BIFSG method.

Having no further business, Commissioner Humphreys adjourned the Big Data and Artificial Intelligence (H) Working Group meeting.

SharePoint/NAIC Support Staff Hub/Member Meetings//H CMTE/2024_Interim Meetings/Minutes-BDAIWG072924.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/28/24

Cybersecurity (H) Working Group
Chicago, Illinois
August 14, 2024

The Cybersecurity (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met in Chicago, IL, Aug. 14, 2024. The following Working Group members participated: Cynthia Amann, Chair (MO); Michael Peterson, Vice Chair, and Eric Lowe (VA); Bud Leiner (AZ); Chris Erwin (AR); Damon Diederich (CA); Wanchin Chou (CT); Tim Li (DE); Elizabeth Nunes and Matt Kilgallen (GA); Lance Hirano (HI); Daniel Mathis (IA); C.J. Metcalf (IL); Craig VanAalst (KS); Mary Kwei (MD); Jeff Hayden and Jake Martin (MI); Jacqueline Olson and T.J. Patton (MN); Tracy Biehn (NC); Jon Godfread and Colton Schulz (ND); Christian Citarella (NH); Nick Stosic (NV); Gille Ann Rabbin (NY); Matt Walsh (OH); Mike Humphreys and David Buono (PA); Andrea Davenport (WI); and Lela Ladd (WY). Also participating were Sheila Travis and Mark Fowler (AL).

1. Adopted its July 9 Minutes

The Working Group met July 9 (Attachment Three-A). During this meeting, the Working Group took the following action: 1) adopted its May 20, March 27, and Spring National Meeting minutes and 2) heard a presentation from the Federal Bureau of Investigation (FBI) and 10-8 LLC on their approach to cybersecurity incidents.

Chou made a motion, seconded by Schulz, to adopt the Working Group's July 9 (Attachment Three-A) minutes. The motion passed unanimously.

2. Heard a Panel Discussion on the State of the Cyber Insurance Market

Moderated by Commissioner Godfread (ND), the panel, titled "The State of the Cyber Insurance Market: Trends, Challenges, and Opportunities," featured three industry experts: Brent Rieth (Aon), Jamie Schibuk (Arch Insurance), and Shawn Ram (Coalition). Structured in four key areas, the discussion covered 1) market trends, 2) coverage, 3) risk management and claims, and 4) regulatory matters.

Starting with the state of the cyber insurance market, Commissioner Godfread asked Rieth to describe the market and how it has evolved over the past five years. Rieth explained the market evolves with the constant barrage of new and different risks, and insurance companies are trying to navigate developing products and how to do it in a sustainable way on a long-term basis. Addressing the second part of the question, Rieth mentioned how in 2019, the industry observed a significant volume increase of claims connected to ransomware activity where criminals, motivated by monetary gains, attacked companies through the encryption of data and systems, making it difficult for businesses to operate. From 2021 to 2022, the industry saw a dramatic change in how product was priced and an evolution in how it was structured, and in some instances, this meant higher retention levels. An evolution in policy wording around ransomware occurred, as insurance carriers looked to manage the accumulated losses from the 2019 era. Beginning in 2023 and throughout 2024, the pricing environment has increased in competition, as new entrants came into the marketplace, expanding buyer options. Coverage also continues to evolve specifically around the topic of war and the rigorous underwriting process, and how companies are reviewed has become more comprehensive.

Commissioner Godfread opened the question to the remaining panelists. Ram went further back in time back to 2012 which he referred to as the year of the breach in the cyber world, as Target, Home Depot, and other

© 2024 National Association of Insurance Commissioners

companies lost hundreds of millions of records. The nature of what cyber insurance was then and continues to be today is focused on the notion of data breach. From an underwriting standpoint, there is an understanding of the amount of records a company has, the resulting impact of a breach, and the cost to remediate. This evolved through more of a focus on business email compromise and security deficiencies, where attack vectors associated with email led to funds being transferred fraudulently to the proliferation of ransomware. Ram said to mitigate the trend of ransomware, the underwriting community emphasized the importance of two-factor authentication, the significance of segmented backups, and a variety of other security measures. The insurance industry helped aid companies around the world to improve their security to maintain insurability, specifically around ransomware, and as security improved, the interest in cyber increased.

Schibuk explained his observations of the shift in underwriting: the level of scrutiny and volume of questions increased. This sophistication in underwriting increased the understanding of what drives claims. He described the emergence of technology to conduct external and internal scans to give a better sense of security posture, which has led to insurers working with the insureds in a more consultative manner.

Referencing the panel's discussion of security package improvements, Amann mentioned reports of a Pakistan-based hacking group that used emojis instead of standard patch language to get around the standard patch security. It was described as "clever on the part of the hackers." Ram explained that Coalition uses a few hundred virtual machines across the world to mimic policyholder technology, reporting over 100 million attacks on these honeypot machines in the previous seven days and giving insights into the mechanisms the cyber actors are utilizing to infiltrate an organization. If there is a concentration of malware, Coalition can develop the decryption cable to help policyholders be prepared.

Commissioner Godfread explained that the cyber market penetration is limited compared to other commercial or personal lines. He asked Ram to explain his opinions on why there is limited penetration and to touch on the biggest impediments to future growth of the market. Ram explained that the Standard & Poor's 500 index (S&P 500) asset class in 1980 would have been focused on tangible property, such as boilers, machinery, and buildings. The same cohort of companies today would be almost exclusively focused on intangible assets, such as intellectual property and trade secrets. Describing the fourth industrial revolution, the digital transformation, Ram said the nature of insurance products has not evolved in the same fashion as asset classes. The nature of impediments revolves around education and a limited understanding of the industry around digital or cyber risk. Ram said this year has been interesting in the world of cyber risk in the United States. In February, Change Healthcare had two-thirds of pharmacists, clinics, and other health-care-related companies impacted by a particular piece of technology. CDK Global impacted 15,000 auto dealerships across North America. Many auto dealerships did not understand the nature of how one piece of software could take down their ability to sell cars and how that could be covered in a cyber insurance policy. He said breaches of this type can improve education among consumers because it helps them understand the risks they might be experiencing.

Accentuating the nuance of the small- and medium-sized entities (SME), he said there is a convergence of misunderstanding of what cyber insurance is and a misunderstanding of what adversaries do. SMEs often believe adversaries are focused on large companies, looking for revenue. Ram said while that may be the greatest impediment, the industry needs to provide education. Schibuk said when using the carrier perspective to look at the low market penetration rates today, projecting outgrowth over a five- to 10-year period results in a fairly sizable marketplace. As the industry grows, continuing to get reinsurers and third-party investors familiar with the cyber risk class will be important. Rieth explained that since cyber is a newer coverage for a lot of companies, it does take work to familiarize them with it and get into a position where they see enough value to purchase the coverage. It is important to consider both the pace at which the risks are changing and the pace at which the

© 2024 National Association of Insurance Commissioners

industry can change the product itself. There are some policies that can address systems failure or technology outage; however, it is not understood by every company purchasing, and in some instances, they just purchase the minimum.

Citarella asked the panel to discuss the extent to which the underwriting process is crafted to the needs of the individual and to what extent a loss cost comparison between policies is possible. Rieth described that while there is some level of off-the-shelf policies, there are also a lot of variances across carriers in terms of base level of coverage. This puts pressure on brokers and agents to have knowledge and review the variations in policy wordings and identify needs for improvements, which is not done consistently across segments or geographically if the company is larger.

Chou asked the panel to discuss how cryptocurrencies and artificial intelligence (AI) will affect cyberattack trends. Schibuk explained that the industry has seen threat actors using AI in their applications to scale their operations more efficiently, potentially allowing them to conduct more widespread attacks. Equally, leveraging AI on the defense side, Ram described how Coalition tracks adversarial activity, allowing AI to process the data to aid in developing defensive mechanisms. Regarding cryptocurrencies, Ram suggested that regulations will have an impact on trends, as more organizations refuse to accept the challenges in tracking the money.

Commissioner Godfread asked Ram to discuss some of the common exclusions and how the market is responding. Ram explained how the conflict in Russia and Ukraine has resulted in the war exclusion in cyber, materially impacting the belief of cyber coverage value to some larger companies. These larger companies believe they could be the victim of a nation-state attacker. Additionally, Ram explained there are common exclusions or lack of coverage for items such as funds transfer fraud liability, which can be impactful depending upon the type of company.

Commissioner Godfread asked Rieth to comment on Aon’s report of the lack of consistency in the market regarding exclusionary language. Rieth explained how the London marketplace responded to guidelines set by Lloyds of London with 43 variations of compliant wording of one exclusion. This introduced a learning curve for insurers to understand the language being proposed. It also highlighted the concern of accumulating risk that might arise from a nation-state attack.

Inquiring about a federal backstop, Amann asked if it would be viable for a catastrophic event to develop something like the Terrorism Risk Insurance Act (TRIA). Rieth said it would be important to continue to evaluate, working through the process of identifying the risk issues the insurance industry is concerned about. The solvency risk becomes a concern when the risk aggregation is so large. This should allow the insurance carriers to have a more appropriate conversation with reinsurers and the government to determine if a backstop mechanism is feasible.

Commissioner Godfread asked the panelists to give their perspectives on what regulators could do to support the marketplace. Schibuk summarized the discussion's theme as the product's evolution and the efforts that have gone into it. He said regulators should be open to innovation to drive the overall process and use data analysis to reduce risk for the policyholder. Ram suggested a degree of cognizance, being aware of how unique cyber is and how fundamentally different it is from most insurance coverages. The nature of the risks associated with homeowners insurance does not dramatically change within a policy period; however, with cyber, there can be dozens, if not hundreds, of technology updates on existing software during the same period. Ram said ongoing collaboration and regulatory support will help standardize and increase understanding of the product. Rieth said addressing the learning curve by helping to educate companies about the risk issues they face, and mitigation

© 2024 National Association of Insurance Commissioners

steps can add value to the partnerships with insurance companies. An ongoing dialogue between the regulatory and private sectors is critical.

Having no further business, the Cybersecurity (H) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/H CMTE/2024_Summer/WG-Cybersecurity/Minutes-CyberWG081424.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/1/24

Cybersecurity (H) Working Group
Virtual Meeting
July 9, 2024

The Cybersecurity (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met July 9, 2024. The following Working Group members participated: Cynthia Amann, Chair (MO); Michael Peterson, Vice Chair (VA); Julia Jette (AK): Mel Anderson (AR); Damon Diederich (CA); Wanchin Chou (CT); Daniel Mathis (IA); C.J. Metcalf (IL); Shane Mead (KS); Mary Kwei (MD); Jake Martin (MI); T.J. Patton (MN); Tracy Biehn (NC); Colton Schulz (ND); Gille Ann Rabbin (NY); Don Layson (OH); Jodi Frantz (PA); Andrea Davenport (WI); and Lela Ladd (WY).

1. Adopted its May 20, March 27, and Spring National Meeting Minutes

The Working Group met May 20 and took the following action: 1) received an update on the Cybersecurity Event Response Plan (CERP); and 2) heard a presentation from CyberCube on cyber risk. The Working Group also met March 27 to hear an update from the White House Office of the National Cyber Director (ONCD) related to cybersecurity and cyber insurance.

Schulz made a motion, seconded by Peterson, to adopt the Working Group's May 20 (Attachment Three-A1), March 27 (Attachment Three-A2), and March 17 (see *NAIC Proceedings – Spring 2024, Innovation, Cybersecurity, and Technology (H) Committee, Attachment Two*) minutes. The motion passed unanimously.

2. Heard a Presentation from the FBI and 10-8 LLC on Their Approach to Cybersecurity Incidents

Ignace Ertilus (Federal Bureau of Investigation—FBI) said the presentation title, "Changing Landscape," was chosen because cyber is always changing. Just when a threat such as fraud and phishing feels handled, a new technology comes about like artificial intelligence (AI) and completely changes the threat landscape. Cyber actors categorically fall into six definitions: 1) hacktivism; 2) crime; 3) insider; 4) espionage; 5) terrorism; and 6) warfare. Historically, there was a clear distinction between the different cyber actors. Now there appears to be more of a blend. North Korea has nation-state actors, but a lot of reporting out on North Korea suggests more actors' involvement with ransomware. This is where the actors can make money for the regime and is an example of where a nation-state actor can fit into multiple categories. The crime category actors are typically after personally identifiable information (PII), which can be used to sell on websites for others to commit tax fraud or identify theft.

Of the various types of attacks, the presentation focused on ransomware, business e-mail compromise, investment scams, and tech support. Ertilus said these four types of attacks accounted for the largest losses associated with reporting to the FBI's Internet Crime Complaint Center (IC3).

Ertilus said that ransomware is a form of malware that encrypts files on a victim's computer or server. Ransomware has been around for quite some time, but around 2018, its frequency increased. Expected targets of ransomware include state and local governments and industries that need immediate access to their data, such as the health care industry. Ransomware is a tool that cyber actors use, but they are exploiting some key vulnerabilities in systems to be able to execute ransomware files. Companies have to think about what those vulnerabilities could be for their own infrastructure. In 2023, the FBI's IC3 received more than 2,800 complaints identified as ransomware with adjusted losses of approximately $60 million. Separate studies have shown 50%–80% of victims that paid the ransom experienced a repeat ransomware attack by either the same or different

© 2024 National Association of Insurance Commissioners

actors. Ertilus discussed multiple defensive best practices, including regular data backup and integrity verification, regular scans, application whitelisting, and physical and logical separation of networks. Another defensive best practice is providing awareness and training, such as teaching people within the company not to click on everything sent to them.

Ertilus said that business e-mail compromise or account compromise is one of the most financially damaging online crimes. It exploits the fact that so many people rely on email to conduct both personal and professional business. These sophisticated scams are carried out by fraudsters compromising email accounts to conduct unauthorized transfer of funds. In a business email compromise (BEC) scam, criminals send an email message appearing to come from a known source making a legitimate request, such as a company CEO asking an assistant to make a quick purchase or wire transfer. Common preventative measures include using multifactor authentication (MFA) and reviewing hyperlinks for misspellings or domain names for typos. Some companies implement multi-tier authentication for fund transfers to avoid a single point of failure in their security.

Ertilus said that investment scams are the largest cause of loss of any crime type tracked by IC3. These deceptive practices induce investors to make purchases based on false information. Investment fraud rose 38% in 2023 to $4.57 billion. Investment fraud with reference to cryptocurrencies rose from $2.57 billion in 2022 to $3.96 billion in 2023, an increase of 53%. These scams can start with a simple text message from an unknown source, designed to entice targets with the promise of lucrative returns on their investments.

Cyberthreat actors are increasingly using tech support and government impersonation avenues to target victims. In order to increase the possibility of success, threat actors introduce a sense of urgency or fear. Two examples are: 1) claiming the victim has a critical error with their computer, requiring immediate attention; or 2) alleging the victim missed jury duty in a message appearing to come from the local sheriff. In such instances, victims are inclined to the respond to avoid future issues.

Gregory Crabb (10-8 LLC) discussed the company's "Mastering the Six Steps to Effective Threat Intelligence" program. The approach integrates threat intelligence into security strategy and focuses on understanding and countering an adversaries' tactics, techniques, and procedures. The six steps are: 1) identify and understand the threats; 2) define intelligence needs; 3) prioritize assets and services; 4) collect and analyze information; 5) make informed decisions and communicate effectively; and 6) continuously improve the threat intelligence program.

Crabb said the benefits of this six-step cybersecurity approach are observable in the organization being ready, responsive, and resilient. Using the six steps empowers an organization to effectively anticipate and counteract cyberthreats.

Chou requested additional information regarding the 10-8 cyber arena offering, expressing interest in the opportunity.

Miguel Romero (NAIC) reminded the Working Group of its work plan for the year. He said the Working Group plans to meet with experts and understand their perspectives to shape policy discussions, as well as hear presentations on federal updates and from AM Best.

Having no further business, the Cybersecurity (H) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/H CMTE/2024_Summer/WG-Cybersecurity/Minutes-CyberWG070924.docx

© 2024 National Association of Insurance Commissioners

Draft: 6/17/24

Cybersecurity (H) Working Group
Virtual Meeting
May 20, 2024

The Cybersecurity (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met May 20, 2024. The following Working Group members participated: Cynthia Amann, Chair (MO); Michael Peterson, Vice Chair (VA); Julia Jette (AK); Bud Leiner (AZ); Wanchin Chou (CT); Tim Li (DE); Tia Taylor (GA); Lance Hirano (HI); Daniel Mathis (IA); C.J. Metcalf (IL); Mary Kwei (MD); Jake Martin (MI); Bubba Aguirre (MN); Tracy Biehn (NC); Colton Schulz (ND); Christian Citarella (NH); Scott Kipper (NV); Gille Ann Rabbin (NY); Matt Walsh (OH); David Buono (PA); John Haworth (WA); Rebecca Rebholz (WI); and Lela Ladd (WY).

1. Heard an Update on the CERP

Peterson provided a brief update on the Cybersecurity Event Response Plan (CERP), which was adopted at the Spring National Meeting. To add background for those who need it, Peterson said the CERP is meant to assist states with implementing their own versions of the *Insurance Data Security Model Law* (#668). The long-term goal of the CERP is to act as a living document that can be updated over time to achieve convergence in the cybersecurity event response space.

Peterson discussed the difficulties included in various notification laws: Multiple departments require similar types of data to be included, but the reporting method and updating vary. The added complications are not helpful during an already stressful time. After multiple discussions, the direction is leaning toward a confidential repository at the NAIC. Additionally, similar solutions have been utilized for licensee filings of risk-based capital (RBC), Market Conduct Annual Statement (MCAS), as well as System for Electronic Rates & Forms Filing (SERFF) confidential and trade secrets filings. This type of repository would offer improved security, heightened awareness, and more confidential treatment.

Peterson stated there remains a lot of work to do, but the intent is to get a lot of agreement on this particular project and for it to be viewed as an improvement that will benefit supervisors and licensees alike.

2. Heard a Presentation from CyberCube on Cyber Risk

Amann introduced Rebecca Bole (CyberCube) and Jon Laux (CyberCube), emphasizing their cybersecurity and insurance expertise.

Bole offered the presentation as an opportunity for reflection on data, methods available, and what is being used in the insurance industry. Namely, she said she would discuss what is happening in the cyber risk landscape and how it is applied to insurance, focusing on the cyber risk the insurance industry takes.

CyberCube is a data analytics company seeking to provide analytics to quantify cyber risk for its clients. CyberCube partners with state insurance regulators, rating agencies, and government agencies to create frameworks for governance. Bole cited the company's active partnership with the U.S. Department of the Treasury (Treasury Department) as the Federal Insurance Office (FIO) seeks to understand catastrophic cyber risk in the U.S. economy to structure appropriate federal responses.

© 2024 National Association of Insurance Commissioners

Laux presented a brief, high-level overview of the state of the cyber market, adding additional context to describe cyber risk at a conceptual level, such as in property/casualty (P/C) and terrorism. Observations indicate cyber insurance is among the most volatile P/C lines of business.

When asked to talk about the data available for underwriting, Laux said the good and bad news is that cyber risk data is everywhere. He said everything digital is tracked in a way the physical world is not. This can be frightening from a privacy point of view, but from a data point of view, there is a lot to look at. Laux said that, broadly, many underwriters are trying to use a combination of external and internal network scans. Utilizing information, they can scan a network with tools from CyberCube, SecurityScorecard, or Bitsight. Scalable intelligence can be done to look at organizations in many of the same ways those with ill intent do. If those with ill intent can see that a particular technology vulnerability is open, that is the first step in exploiting it. While challenging, there are some places this can be done. In practice, a lot of the information is obtained through underwriting questionnaires to fill in the gaps.

Laux said an important and relevant question is whether we can use the data quickly and efficiently and make sense of what trends might be coming in. Detailed analysis can inform decision-making and quantify the importance of security signals. He said CyberCube carefully reviews 40 different information signals that indicate an organization's risk posture. Once digested, the organization is given a security score of 0–100. Laux pointed out the presence of things one might call "negative hygiene," sort of the equivalent of leaving your doors unlocked if you are in an unsafe neighborhood, and everything on the internet is potentially an unsafe neighborhood. Those are important because they are signals that, while indicative that things are problematic for the organization, can be avoided. For instance, ports can be closed, and software updates can be deployed to resolve the issue. Laux stated the level of accumulation risk has grown significantly for the industry. CyberCube sees a cutting edge around the point of underwriting, looking at the marginal risk of any given policy. An organization can look at a point of underwriting, what each policy they are considering bringing on to their books does to their overall tail exposure.

Without clear public sector direction from state insurance regulators or any other group, the markets have been grappling with the challenge of knowing when things have become too big. Similar to how terrorism was kicked out of property policies after the Sept. 11, 2001 terrorist attacks, insurers are afraid of something comparable happening in the digital space. Various approaches to addressing the question have been observed through exclusions, much like critical infrastructure is often excluded. Carriers are also evaluating widespread event triggers or limits, similar to how hurricane is done. Some insurers are exploring sub-limits to contain some of their tail risk. Mitigation potential can be further extended through active risk monitoring. Developing alerts and notifications or sending additional questions to a policyholder allows for assessing where their exposures are and knowing how they are adapting to these things.

Laux offered three final points: 1) cyber insurance requires adaptiveness and ongoing engagement with policyholders to improve resilience and reduce potential claim costs; 2) there is an abundance of data available to cyber insurers for underwriting and risk management; and 3) understanding an insurer's use of data, level of testing, and adaptability to change are important criteria for underwriting maturity.

Bruce Jenson (NAIC) asked about cyber catastrophe bond issuance, particularly whether CyberCube expects more activity in this space. Laux observed four catastrophe bonds issued before Jan. 1 of this year. CyberCube was the lead modeler for three and was also highly involved in the fourth. Laux said CyberCube does think the market could adopt this. This first issue cycle was just the beginning. He said that, in many ways, CyberCube hopes this becomes a robust cap bond support for cyberspace. Bole suggested that the injection of capital markets capital and due diligence into the cyber insurance and reinsurance market is a real test and, ultimately, validation of the market's maturity. There is a high level of due diligence in the transactions, not just modeling, but the coverage,

© 2024 National Association of Insurance Commissioners

definitions, and clarity of exposure the bonds take on. This capital source is a strong positive indicator of the growth of this market.

Peterson posed a series of questions. Firstly, he asked who the typical buyer of cyber insurance is. He then asked if most buyers are relatively sophisticated businesses or if they are individuals also purchasing cyber insurance. Lastly, Peterson asked whether we expect the current buyer demographic to continue into the future. Laux answered by saying the typical buyer is an American business. Recognizing the product's rapid growth in other parts of the world, the U.S. has had the deepest penetration for insurance buyers. He provided additional observations of the largest companies beginning to purchase cyber insurance policies as far back as 2004, when privacy laws were first put in place. He said today's market has expanded to include the small business world following the ransomware trends. Based on the NAIC's own data, Laux reflected on an area of continued development between companies buying standalone cyber insurance policies and companies purchasing an endorsement of some kind.

Regarding the current mix of buyers, Laux suggested it would not be surprising to see more small organizations buying standalone insurance coverage over time, where it is efficient for the company. Individuals purchasing cyber insurance are likely to continue to be high-net-worth individuals with concerns of having something to potentially lose.

Amann offered appreciation for Bole and Laux's expertise and extended an offer for them to return for a future presentation. She also suggested the audience should expect an email regarding the CERP and provide ideas and suggestions for other speakers to participate in the Working Group's charge to provide cybersecurity and cyber insurance education.

Having no further business, the Cybersecurity (H) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/H CMTE/2024_Summer/WG-Cybersecurity/Minutes-CyberWG052024.docx

© 2024 National Association of Insurance Commissioners

Draft: 4/16/24

Cybersecurity (H) Working Group
Virtual Meeting
March 27, 2024

The Cybersecurity (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met March 27, 2024. The following Working Group members participated: Cynthia Amann, Chair, and Brad Gerling (MO); Michael Peterson, Vice Chair (VA); Julia Jette (AK); Chris Erwin (AR); Bud Leiner (AZ); Damon Diederich (CA); Wanchin Chou (CT); Tim Li (DE); Elizabeth Nunes (GA); Daniel Mathis (IA); C.J. Metcalf (IL); Shane Mead (KS); Mary Kwei (MD); Jake Martin (MI); T.J. Patton (MN): Tracy Biehn (NC); Martin Swanson (NE); Colton Schulz (ND); Christian Citarella (NH); Nick Stosic (NV); Gille Ann Rabbin (NY); Don Layson and Matt Walsh (OH); David Buono (PA); John Haworth (WA); Andrea Davenport (WI); and Lela Ladd (WY).

1. Heard an Update on White House ONCD Activities Related to Cybersecurity and Cyber Insurance

Amann introduced Stephen Viña, Senior Advisor with the Office of the National Cyber Director (ONCD) of the White House. Viña noted that the ONCD helps monitor threats and coordinate responses.

Viña provided an overview of the ONCD's activities, including a briefing on the contents and intent of the National Cybersecurity Strategy.

Viña noted that the development of the National Cybersecurity Strategy included consultations with interagency and external stakeholders and built on previous strategies, including President Biden's work of the prior two years. The goal is to have a digital ecosystem that is more defensible and resilient.

Viña said the strategy represents a fundamental shift in rebalancing the responsibility to defend cyberspace and realigning incentives to favor long-term investments. The National Cybersecurity Strategy is organized around five pillars, which include: 1) defending critical infrastructure; 2) disrupting and dismantling threat actors 3) shaping market forces to drive security and resilience; 4) investing in a resilient future; and 5) forging international partnerships.

The ONCD published an implementation plan July 13, 2023, including 69 initiatives, each with a singular, responsible agency and a completion date. The expectation is that the implementation plan will be updated at least annually, with the ONCD reporting on the progress and effectiveness of the strategy.

Viña then provided an update on other initiatives, including discussions that the ONCD is engaging in to encourage harmonization of cybersecurity examination standards and the ONCD/U.S. Department of the Treasury (Treasury Department's) continued study of the possibility of a cyber insurance federal backstop. Related to the federal backstop, Viña that the Treasury Department had issued a request for input in 2023 and is currently studying responses, including considering what a federal backstop would cover, whether it would be mandatory, and what would trigger the backstop. Viña noted that the Treasury Department will host a Spring Symposium to continue the discussion and study of the matter.

Regarding ransomware, Viña noted that the ONCD has observed that ransomware incidents have gotten less common but more severe, indicating that threat actors are "big game hunting," seeking larger payouts for their activities. Ultimately, he said that the ONCD wants ransoms to be a last resort to avoid encouraging continued activity by threat actors.

© 2024 National Association of Insurance Commissioners

Lastly, Viña referred to the ongoing discussions regarding the Cyber Incident Reporting for Critical Infrastructure Act of 2022 (CIRCIA), which may impact insurers depending on the final determination of who is considered to be critical infrastructure.

Amann transitioned to the question-and-answer portion of the discussion, which began with a question from Chou. Chou asked about consumer perspectives on the ONCD'sr activity and consumer awareness of their use of data, particularly with regard to automobile monitoring/use of consumer data, including how to communicate with consumers. Viña noted that the ONCD was not going to work on communication with consumers as other agencies would address that via their own rulemaking process.

Romero asked about the timeline for the backstop discussions. Viña said the Treasury Department responded that its conference in the spring is the next meaningful milestone and suggested the Working Group connect with Steven Seize (Treasury Department) for additional information.

Amann asked about the significance of legacy systems as a root cause for cybersecurity events and how to encourage better recognition of the security threat legacy systems can represent. Amann also suggested that better underwriting practices could encourage better risk hygiene to, in turn, prevent more security incidents from occurring. Viña acknowledged the importance of the legacy systems discussion and pointed to the ONCD's work encouraging long-term investments because, with legacy systems, manufacturer support has typically ended; thus, security updates are no longer available, leading to increasingly vulnerable infrastructure.

Viña also introduced Jeff Rob (ONCD) as a colleague who will engage in cyber insurance matters going forward.

2. Discussed Other Matters

Peterson provided a brief update, noting that now that the Cybersecurity Event Response Plan (CERP) has been adopted, the next discussion will be about taking cyber event notifications safely and securely.

Having no further business, the Cybersecurity (H) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/H CMTE/2024_Summer/WG-Cybersecurity/Minutes-CyberWG032724.docx

© 2024 National Association of Insurance Commissioners

Attachment Four
Innovation, Cybersecurity, and Technology (H) Committee
8/15/24

Draft: 08/08/24

E-Commerce (H) Working Group
Virtual Meeting
July 18, 2024

The E-Commerce (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met July 18, 2024. The following Working Group members participated: Judith L. French, Co-Chair (OH); George Bradner (CT); Johanna Nagel (IA); Craig VanAalst (KS); Tom Travis (LA); Cynthia Amann (MO); Martin Swanson (NE); Colton Schulz (ND); Elizabeth Kelleher Dwyer and Matt Gendron (RI) and Haelly Pease (SD). Also participating was Shannel Logue (PA).

1. Adopted Its April 4 Minutes

The Working Group met April 4 and took the following actions: 1) adopted its Nov. 20, 2023, minutes; 2) discussed its 2024 work plan; 3) adopted the E-Commerce Modernization Guide; and 4) discussed its next steps.

Swanson made a motion, seconded by Travis, to adopt the Working Group's April 4 minutes (Attachment Four-A). The motion passed unanimously.

2. Heard a Presentation from Canopy Connect on Open Insurance

Tolga Tezel (Canopy Connect) explained that Canopy Connect is an infrastructure for consumer authorized insurance data. Tezel explained that Canopy Connect helps businesses verify insurance information within seconds. Tezel explained that insurance information is exchanged manually between insurance and the businesses that need the insurance information and that Canopy Connect provides ways to modernize and expedite this information transfer.

Tezel provided an overview of traditional intake methods that companies use to gather consumer data. Those methods are forms, interrogation, prefill, and declarations pages. Tezel stated that it can take a consumer more than 30 minutes to fill out insurance forms and that there is an approximate 50% abandonment rate before a consumer receives a quote. Tezel explained that the interrogation process occurs when consumers are asked questions by insurance companies that they might not know the answer to, including questions like an insured's vehicle identification number (VIN), annual mileage, premiums, policy limits, and deductibles. Tezel explained that most consumers do not have this information readily available and might not know where to find this information. Tezel explained that Canopy Connect solves these issues.

Tezel stated that the way Canopy Connect's product works is similar to open banking. Canopy Connect provides businesses with a platform where insurance companies can send a consumer a link where the client can sign in, and the business receives the permissioned insurance data directly from the current carrier. This process takes about 20 seconds and makes it easier for the consumer to share their information with the business of their choosing. Tezel explained that more than 1 million insureds have taken control of the data using consumer-authorized infrastructure. Insurers that use Canopy Connect make it easier for consumers to share their information with their insurance company for the insurer to provide the customer with a competitive proposal and to educate the consumer on what products can better suit a customer's needs. Tezel stated that Canopy Connect can help mortgage lenders and other companies verify insurance for their employees or for consumers that that they are lending to.

© 2024 National Association of Insurance Commissioners

Tezel then touched on Section 1033 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and the precedent it has set with open banking and how that precedent should apply to insurance. The Dodd-Frank Act provides that a consumer financial services provider must make available to a consumer information in the control or possession of the provider concerning the consumer financial product or service that the consumer obtained from the provider. Tezel explained that Section 1033 helped the financial services industry provide consumers with enhanced control over their financial lives.

Tezel explained that consumers are missing the right to authorize access to their insurance information and that state insurance regulators, through the NAIC, should create models to allow this. Tezel explained that all of the NAIC data privacy models are missing consumer-authorized data access. Tezel suggested that state insurance regulators should take the language from Section 1033 and include it in a NAIC data privacy model. Tezel explained that adding this language to a NAIC data privacy model will promote responsible innovation in insurance.

Gendron asked Tezel if he had submitted comment letters to the Privacy Protections (H) Working Group with the draft language from Section 1033. Tezel responded that Canopy Connect sent comments after the comment period closed. Therefore, it has not sent comments formally. Gendron responded that there should be another opportunity to provide comments on the selected privacy model. He said that he has used an open banking platform and noted that he might not have been aware that the platform was going to sell his information, but he saw value in this discussion, and he is looking forward to seeing if Section 1033 language could be added to the data privacy model.

Schulz commented that in 2021, there was a proposal to have language similar to Section 1033 to allow consumers to easily share their information, but the domestic insurers blocked the legislation. Schulz explained further that adding the proposed language could have some pushback because insurers think that allowing consumer-authorized access to data could increase competition. Tezel said that he has had discussions with a few state insurance departments, and the general takeaways are that: 1) state insurance departments expect the treatment of insurance to be similar to banking; and 2) most consumers want the choice to authorize key financial data about themselves.

Logue commented that open insurance has been popular in Brazil and the United Kingdom. Logue stated that she can see how insurance companies would not like this because open insurance allows consumers to find out if they can get better rates or other plans. She said she is curious to see how open insurance is received in the future. Logue asked if open insurance had been mentioned during the open comment period for Section 1033. Tezel responded that he is unaware of the Consumer Financial Protection Bureau (CFPB) exploring open insurance and that he wouldn't expect the CFPB to do so because insurance is regulated at the state level. Tezel said that in talking with major insurance carriers, the general response to open insurance is either positive or neutral. Tezel stated that the adoption of Section 1033 that made it possible for consumers to share their data and that innovated the banking industry.

Miguel Romero (NAIC) reiterated Logue's point that open insurance is discussed internationally, and he wondered why it has not been spoken about in the United States. Romero stated that he worked with E-Commerce (H) Working group leadership to set up this presentation, but he sees this conversation being moved to the Privacy Protections (H) Working Group, but he thought this would be a good setting for an educational discussion. Romero asked if any consumer representatives had an opinion on the discussion.

Birny Birnbaum (Center for Economic Justice—CEJ) stated that open insurance is something that consumer representatives support because it empowers consumers and promotes more competitive insurance markets. Birnbaum also said that there are simple guardrails for protecting consumers' data by simply stating that the aggregators of the consumer data should be prohibited from reselling the data.

© 2024 National Association of Insurance Commissioners

Tezel responded and stated that Canopy Connect does not resell its customers' data, and that can be found in their privacy policy. Brendan Bridgeland (Center for Insurance Research—CIR) agreed with Birnbaum's comments and stated that consumers should be the owner of their data and that any other assumption is contrary to consumer interests. Bridgeland also added that similar language to Section 1033 should be added to the NAIC privacy model law.

Gendron responded to the consumer representative comments and stated that he is not sure that they could license data vendors in Rhode Island under its current statutes. Therefore, he does not know how states could enforce the prohibition of selling a consumer's data. Birnbaum responded stating that the NAIC is in the process of revising its privacy model law and that there is nothing in that model law or any model that limits a state from prohibiting a third party who collects data from selling the consumer's data. He said that just because data vendors are not licensed entities does not limit what state insurance regulators can do with the model law.

Schulz asked Tezel what kind of data Canopy Connect collects. Tezel responded that it collects consumer personal data that is connected with the products that they have purchased with their insurance provider. Norman Tan (Canopy Connect) added that the information that they receive is the information that is available on the declarations page like named insureds, premiums, policy limits, deductibles, and the effective dates of the policy. Tan further explained that a consumer could take their information from the declarations page of their insurance policy and share that, but Canopy Connect facilitates the transfer so that the information-sharing process is more secure.

Director Dwyer commented that this is a complicated issue and that it should be discussed in the Privacy Protections (H) Working Group. She followed up on Gendron's comment that when Rhode Island adopted the original NAIC privacy model law, Rhode Island adopted it as a regulation. Therefore, Rhode Island would have the authority from its legislature in order to prohibit a data vendor from reselling data.

3. Discussed its Next Steps

Director French said that the Working Group will have another meeting to receive presentations. She said that NAIC staff are currently working with Pennsylvania, which will present on its Key Smart Launch program.

Having no further business, the E-Commerce (H) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Member Meetings/H CMTE/2024_Summer/WG-E-Commerce/2024 0718Interim-Meeting/Minutes/Minutes-E-CommerceWG071824.docx

© 2024 National Association of Insurance Commissioners

Draft: 04/16/24

E-Commerce (H) Working Group
Virtual Meeting
April 4, 2024

The E-Commerce (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met April 4, 2024. The following Working Group members participated: Troy Downing, Co-Chair (MT); Judith L. French, Co-Chair (OH); Alex Romero (AK); Jully Pae (CA), George Bradner (CT); Craig VanAalst (KS); Chlora Lindley-Myers (MO); Martin Swanson (NE); Colton Shulz (ND); Travis Jordan (SD); and Charles Malone (WA).

1. Considered Adoption of Its Nov. 20, 2023, Minutes

Director Lindley-Myers made a motion, seconded by Schulz, to adopt the Working Group's Nov. 20, 2023, minutes (*see NAIC Proceedings – Fall 2023, Innovation, Cybersecurity, and Technology (H) Committee, Attachment Four*). The motion passed unanimously.

2. Discussed its 2024 Work Plan

Director French stated that the Working Group met March 5 in regulator-to-regulator session to discuss its work plan for the year (Attachment Four-A1). Director French stated that the work plan includes adopting the E-Commerce Modernization (Guide) and then making appropriate amendments as the Working Group meets throughout the year.

3. Adopted the Guide

Director French explained that the Guide was exposed for a 20-day regulator-only comment period that ended Feb. 6. The necessary changes were made, and the Guide was then exposed for a 30-day public comment period that ended March 14. Director French further explained that NAIC staff received one comment from the Insured Retirement Institute (IRI). Director French asked if anyone from IRI wanted to make any comments.

Sarah Wood (IRI) stated that she appreciates the work the Working Group has completed thus far and that the current Guide is helpful and provides a good summary of the information gathered during the survey. She stated that IRI members are unsure how states will use the Guide going forward. Wood stated that she would be interested in hearing from anyone who might have insight on that issue.

Miguel Romero (NAIC) responded that the Guide is a starting point for any state looking to update its regulatory framework. Romero further stated that the Guide can assist new state insurance regulators in finding efficiencies in their regulatory processes and provide a good starting point for further research.

Schulz stated that he agreed with Miguel Romero's comments about the Guide being a starting point and that the Guide takes industry comments and categorizes them based on how easy or difficult a particular e-commerce topic could be to resolve. Wood responded that it was good to hear that the Guide is considered a first step.

Schulz made a motion, seconded by Alex Romero, to adopt the E-Commerce Modernization Guide (Attachment Four-A2). The motion passed unanimously.

© 2024 National Association of Insurance Commissioners

4. Discussed its Next Steps

Director French explained that the Working Group will have another meeting to receive presentations. She said that NAIC staff are currently working on communicating with possible presenters and will send a meeting notice with further information once it is available.

Having no further business, the E-Commerce (H) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Member Meetings/H CMTE/2024_Summer/WG-E-Commerce/2024 0404Interim-Meeting/Minutes/Minutes-E-CommerceWG042024.docx

© 2024 National Association of Insurance Commissioners

2024 Adopted Charges and Workplan

E-Commerce (H) Working Group

Commissioner Troy Downing (MT), Co-Chair
Director Judith French (OH), Co-Chair

The **E-Commerce (H) Working Group** will:

A. Examine e-commerce laws and regulations to aid in identifying updates to the E-Commerce Modernization Guide.

The regulator only comment period ended on February 6, 2024. The open comment period ended on March 14, 2024.

Recommend:

- Expose the E-Commerce Modernization Guide for public comment after the regulator only comment period and adopt the Guide early in the year.
- Consider having a public meeting in March or April to discuss this proposed Workplan and adopt the Guide.
- Possibly adopt amendments as we meet with industry, regulator, and consumer representative to identify additions to the Guide.
- Explore the following topics:
  - Telemedicine
  - Rose of InsureTech
  - Telehealth
  - Privacy
  - EPayPolicy- a product designed for rapid routing, processing and reconciliation of paper check payments for the insurance industry.
  - Discuss Pennsylvania's electronic licensure process for insurance licensing forms.

B. This may include meeting with industry experts to understand industry trends that may impact laws and regulations

Possible Presentations Could Include:

- Sending an invitation to industry to see who would want to talk to the Working Group about the document and where the Working Group is headed.

© 2024 National Association of Insurance Commissioners

- Sending an invitation to present to Pennsylvania and a representative from Canopy Connect, (a digital infrastructure that offers easy permissioned sharing to businesses looking to streamline gathering data from consumers), so that the Working Group can hear a presentation on open insurance to understand what the trend is and how the trend may might require additional modernization or revisions to the regulatory framework as well as add consideration of commercial liens and it could touch on producer/agent topics as well.
- Engage with industry and consumer representatives to consider additional topics for addition to the modernization guide.

SharePoint/Member Meetings/H Cmte/2024 Summer/WG-E-Commerce/2024 0404Interim-Meetings/Materials/E-Commerce Working Group 2024 Workplan 3-25-2024.docx

© 2024 National Association of Insurance Commissioners

Draft: 4/4/2024

Adopted by the E-Commerce (H) Working Group, April 4, 2024

E-Commerce Modernization Guide

In 2021, the E-Commerce (H) Working Group sent a survey to the states asking what exceptions to state laws or regulations were implemented during the pandemic that allowed electronic commerce, electronic transactions, and electronic communications to take place when in-person methods were not possible. The survey also asked whether any of these exceptions had expired, had been rescinded or were made permanent either by legislation or through department action.

The Working Group also sent a survey to insurers and industry stakeholders asking them to identify any specific technologies, communications, transactions or any other forms and methods of electronic commerce that may currently impede their ability to conduct business electronically, in part because many of the exceptions to state law or regulation that were put in place during the pandemic may no longer be in effect.

After receiving and discussing the survey results, the Working Group organized the responses into a format best suited for consideration going forward. That format organizes the areas of concern into the following five broad categories: (1) e-signature; (2) e-notices; (3) policy issues; (4) claims; and (5) a general "other" category.

The purpose of this Guide is to memorialize the insights gained through that initial survey project and in subsequent engagement with industry representatives. Furthermore, this document hopes to advise regulators on e-commerce laws and regulations and provide uniform guidance on various e-commerce topics. When reviewing this Guide, please note that for opt-in/opt-out of electronic notifications and transactions, ERISA, UETA, and other relevant federal laws could preempt state laws in the life and health context.

Additional consideration may need to be given to the various contexts in which the regulatory requirements that follow are enacted. For instance, Departments using the guidance that follows may find it necessary to have differing requirements based on the type of consumer impacted (*i.e.*, individuals vs. businesses). Initially, this document was referred to as a framework, however, as the document has since evolved, it has been adopted as a guide.

© 2024 National Association of Insurance Commissioners

(1) E-SIGNATURE

The first category is e-signature. The Uniform Electronic Transactions Act (UETA) defines electronic signature or e-signature as "an electronic sound, symbol, or process attached to or logically associated with a record and executed or adopted by a person with the intent to sign the record." The topics in the e-signature category are wet signatures, remote online notarizations (e-notary or RON), and elimination or minimization of notarization requirements.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Wet Signatures	A wet signature is created when an individual physically marks a document, as opposed to e-signature, which happens electronically	Allow affirmative opt-out for e-signatures, make opt-in the default	No conscious decision made for e-signature by consumer	Add opt-in clauses to applications and policies to allow for e-signatures and e-notices	Employee training; may require amending existing state laws; consent to e-signature limited to per transaction

The NAIC's public comment process resulted in the following input:

- Overall, industry supports the use of e-signatures.
- The Center for Economic Justice (CEJ) does not believe opt-in should be the default due to the possibility that consumers could consent to terms and conditions that they might not be aware of.
- Northwestern Mutual suggested that concerns could be mitigated by ensuring the signer is provided access to the document during and following the e-signature event.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Remote Online Notarizations (E-Notary or RON)	A remote online notarization generally allows a signer to personally appear before the notary using audio-visual technology instead of being physically present in the same location as the notary	Remaining states should all adopt some form of RON	Could create doubt regarding signature authenticity	Issue bulletin(s) or change(s) in interpretation that RON meets notary requirements	Employee training; may require amending existing state laws; consent to e-signature limited to per transaction

The NAIC's public comment process resulted in the following input:

- The Center for Economic Justice suggests that such a change be paired with the condition that consumers are provided with clear disclosures regarding the safeguards and potential dangers of using RON.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Eliminate/Minimize Notarization Requirements	There is the potential to eliminate or minimize notarization requirements that may present unnecessary regulatory barriers	Statutory modifications and policy updates to clarify where notarization is still required	Notarizing signatures helps guarantee that the signature is authentic	Survey states asking whose statutes require notarization and why these are necessary	May require amending existing state laws; State legislature and/or Governor disagreeing with doing so

The NAIC's public comment process resulted in the following input:

- The CEJ emphasized the importance of specific guidelines for fraud detection and prevention to maintain the integrity of the notarization transaction and urged that consumers should be informed of these safeguards.

(2) E-NOTICES

The second category is e-notices. This category examines the electronic delivery of insurance documents, including the electronic delivery of notices (or e-notices). The topics in the e-notices category are wet signatures, lapse/termination notices, proof of delivery, and replacement questions (life insurance application).

The NAIC's public comment process resulted in general insight applicable to the discussion of E-Notices, broadly. The American Council for Life Insurers (ACLI) suggests Departments encourage consumers to proactively update e-mail addresses helping ensure consumers are timely updated on relevant matters from their insurers.

© 2024 National Association of Insurance Commissioners

The NAIC's public comment process resulted in the following input:

- The CEJ does not believe opting in should be the default due to the possibility consumers could consent to terms and conditions of which they might not be aware.
- The ACLI notes that there may be benefits to e-signatures, asserting that with proper controls, it is much harder to alter an e-document that has been e-signed after

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Wet Signatures	A wet signature is created when an individual physically marks a document, as opposed to e-signature which happens electronically	Allow affirmative opt-out for e-signatures, make opt-in the default	Many consumers still want applications, policies and correspondence on paper and will refuse opt-out	Amend UETA and/or insurance specific statutes, laws, rules, bulletins to allow a uniform, streamlined approach aligning state and federal laws related to e-signatures.	UETA much broader than just insurance; may require amending existing state laws

signature (as there are typically audit logs registering every change, certificates of completion, or similar processes and controls in place). As a result, if someone alters a document after e-signature, it is detectable. Conversely, if a paper document is altered after wet signature, there may not be evidence to prove when the document was altered and whether the signer agreed to the alteration.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Lapse/Termination Notices	This topic focuses on the electronic delivery of lapse/termination notices to policyholders	Make electronic communication equal to First class mail; modify UETA and state laws allowing for delivery electronically	Many consumers still want applications, policies and correspondence on paper and will refuse opt-out	Bulletin, regulation or statute to allow for e-delivery any time communication must be sent if valid client email is known.	UETA much broader than just insurance; may require amending existing federal E-SIGN and state laws

The NAIC's public comment process resulted in the following input:

- The ACLI stated that it may be appropriate to consider adding disclosures that inform insureds that they must keep insurers informed of their contact information as all correspondence will be sent electronically.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Proof of Delivery	This topic focuses on how an insurer may demonstrate the successful electronic delivery of an insurance document	Allow for presumption of delivery if email is not returned as undeliverable	Property and casualty statutes in many states are different and require different notices	Bulletin, regulation or statute to allow for e-delivery any time communication must be sent.	May require amending existing state laws; State legislature and/or Governor disagreeing with doing so

The NAIC's public comment process resulted in the following input:

- The ACLI believes that there should be a presumption of delivery if email is not returned as undeliverable and that that notion should be universal.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Replacement Questions (Life)	If a policyholder is contemplating purchasing a life insurance policy or annuity contract and discontinuing or changing an existing policy or contract, Model #613 requires the applicant to initial if he or she does not want notice read aloud	Revise replacement model, allow replacement questions and disclosures to be part of a digital application process	Model #613 requires producer to leave the original or copy of all sales materials at time of application; also requires electronic sales materials be provided in printed form no later than time of policy/contract delivery	Do all states have the most up-to-date model? Or does industry want the entire model revised?	NAIC must compile which version of the model each state has adopted; possible that few states have adopted updated model with others not realizing their version is outdated

The NAIC's public comment process resulted in the following input:

- The CEJ emphasizes the need for consumer protection in the digital application process. They recommend that consumers receive access to the exact text of the questions and answers for their review and documentation. Additionally, they express concern about potential misrepresentation and misinterpretation of information involved in the replacement decision, making regulatory oversight of digital interfaces essential.
- The ACLI noted that there might be an issue with the effect on census enrolled cases when there is no actual enrollment event and no application.
- The Insured Retirement Institute (IRI) supports modernization of model regulations for annuity-related disclosures and notices but believes that replacement questions could be addressed through a Model Bulletin or Guidance instead.

© 2024 National Association of Insurance Commissioners

(3) POLICIES

The third category is policies. This category focuses on the insurance policy. The topics in this category are state variations in policy requirements, regulations that include content or filing requirements of enrollment forms, re-delivery requirement of replacement notices in paper form if initially provided electronically, enrollment in employer group coverage, and UETA exclusion of delivery of notices of cancellation or termination of life insurance benefits.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
State Variations in Policy Requirements	The industry raised concerns that minor variations in insurance policy requirements limit its ability to do business online and require excessive expense to create unique code for each state	Make uniform requirements for issues such as replacement question language, fraud warnings and marketing disclosures that do not materially affect consumer protections		Encourage uniform adoption of NAIC model regulations	

The NAIC's public comment process resulted in the following input:

- Overall, industry supports the use of uniform policy requirements that would not limit its ability to do business online.
- The CEJ supports uniform disclosure requirements, but only if they include substantial and effective consumer protections.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Regulations that include content or filing requirements of enrollment forms	The industry raised this topic particularly as it relates to enrollment in employer group insurance coverages	Forms or applications may each have different legal requirements depending on the type of policy and/or state; need uniformity		Each electronic application must be approved prior to use by the Department; all changes must be approved	

The NAIC'S public comment process resulted in the following input:

- The CEJ suggests that the lack of enrollment form uniformity among the states should not be a high priority for the E-Commerce Working Group.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Re-delivery requirement of replacement notices in paper form if initially provided electronically	The industry raised concerns that some states require delivery of the replacement notice in paper form for life and annuity sales	This unnecessarily duplicates the effort required by the insurer; eliminate any state law requirement that requires paper delivery			May require amending existing state laws; consumers would have to affirmatively opt-out of electronic communications

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Enrollment in Employer Group Coverage	This topics centers on enrollment in employer group coverages, particularly as it relates to various employer policyholder and/or vendor electronic enrollment platforms		Product filings can be very complex; different state disclosure, signature or delivery requirements; age-based requirements		Complexity of filings; forms within a policy or contract may differ on what can/cannot be shared electronically; e-delivery requirements are difficult to implement due to state variations

The NAIC's public comment process resulted in the following input:

- The ACLI stated that policy delivery to an employer/group policyholders should be streamlined in terms of e-delivery and e-consent.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
UETA excludes delivery of notices of cancellation or termination of life insurance benefits	Similar to the lapse/termination notices topic in the e-notices category above, this topic focuses on the electronic delivery of notices of cancellation or termination of life insurance benefits	Identify which states still have these requirements; amend state law to remove exclusion			

The NAIC's public comment process resulted in the following input:

- The IRI supports e-delivery of documents as the default option, allowing consumers to opt-out of e-delivery if they prefer paper documents. They believe that this approach is aligned with increasing consumer expectations for electronic transactions and provides the tools regulators and insurers need in order to identify and deter fraud.
- The IRI expresses concern about the proposed differentiation between e-insurers and paper insurers, which may create unnecessary complexity and potential impediments to uniform modernization. They also stress that differentiation could provide some insurers with an unfair competitive advantage or cause confusion among consumers.

(4) CLAIMS

The fourth category is claims. This category focuses on insurance claims. The topics in the claims category are claims processing and minimize/modernize licensing requirements related to claims adjustment.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Claims Processing	After a policyholder reports a loss, the use of drones may help expedite the processing of the insurance claim	Allow for the use of drones		Express statutory or regulatory authority for the use of such technology	Concern for accuracy

The NAIC's public comment process resulted in the following input:

- The CEJ expressed concerns about the use of drones for claims processing, citing data privacy and digital rights issues. They believe insurers should obtain upfront consent from consumers for the use of data and include drone use provisions in policy forms, which would allow regulators to review and approve the terms of such use.
- The CEJ emphasized the need for clear guidelines and guardrails to ensure that the use of drones does not result in unfair terms or practices.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Minimize/Modernize licensing requirements related to claims adjustment	The industry raised the potential opportunity to minimize/modernize licensing requirements related to claims adjustment.			Amend statutes to allow digital adjustment of claims; eliminate licensing requirements or provide option for a business license (as opposed to individual licenses); allow online licensing courses; allow fingerprints submitted in one state to be valid in all states for a set amount of time	

The NAIC's public comment process resulted in the following input:

- The ACLI strongly supports the proposed industry solutions to modernize licensing requirements related to claims adjustment including allowing online licensing courses, utilizing fingerprints across multiple jurisdictions, and providing additional licensing options. They believe that these changes would help support diversity, equity, and inclusion initiatives within both the NAIC and the life insurance industry.
- The CEJ expressed reservations about the proposal to eliminate licensing requirements for adjusters. They believe that licensing adjusters is important for a variety of reasons and question whether the E-Commerce Working Group is the appropriate forum for discussing adjuster licensing proposals.

(5) OTHER

The fifth category is other. This category focuses on other topics that did not fit into any of the four categories above. The topic in the other category is different design element requirements for forms/documents and online materials.

Topic	Explanation of Topic	Industry Request	Concern With Industry Request	Possible Solutions	Possible Complications
Different design element requirements for forms/documents and online materials	The industry raised concerns regarding the various requirements across the states for forms/documents and online materials.	Various requirements across the states are difficult to implement	Document design/website/font size/formatting rules differ	NAIC should work with states to seek uniform standards; standards would allow companies to follow well-defined rules and departments to enforce violations	

The NAIC's public comment process resulted in the following input:

- The ACLI supports the Guide's proposed solution for addressing different design element requirements for forms/documents and online materials. They also emphasize the need to avoid duplicating the efforts of other NAIC workstreams and encourage the working group to remain focused on the core issues hindering e-commerce modernization.

SharePoint/NAIC Support Staff Hub/Committees/H Committee/2023_Fall/WG-E-Commerce/E-Commerce Guide 11-3-2023 (Clean).docx

Draft: 8/27/24

Technology, Innovation, and InsurTech (H) Working Group
Chicago, Illinois
August 13, 2024

The Technology, Innovation, and InsurTech (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met Aug. 13, 2024. The following Working Group members participated: Eric Dunning, Chair (NE); C.J. Metcalf, Co-Vice Chair (IL); Matt Walsh, Co-Vice Chair (OH); Lori K. Wing-Heier (AK); Mark Fowler (AL); Chris Erwin and Letty Hardee (AR); Lucy Jabourian (CA); George Bradner and Wanchin Chou (CT); Jason Lapham (CO); Karima M. Woods (DC); Tim Li (DE); Doug Ommen (IA); Dean L. Cameron and Weston Trexler (ID); Shawn Boggs (KY); Jackie Horigan (MA); Joy Y. Hatchette and Kory Boone (MD); Sandra Darby (ME); Chlora Lindley-Myers and Cynthia Amann (MO); Andy Case (MS); Brian Downs (OK); Mike Humphreys and Shanne Logue (PA); Colton Schulz (ND); Christian Citarella (NH); Cassie Brown and Mark Worman (TX); Eric Lowe (VA); Ned Gaines (WA); Erin K. Hunter (WV); and Bryan Stevens and Lela Ladd (WY). Also participating were: Remedio C. Mafnas (MP); Scott Kipper (NV); Adrienne A. Harris and Bhavna Agnihotri (NY); and Michael Wise (SC).

1. Adopted its Aug. 29, 2023, Minutes

Schulz made a motion, seconded by Commissioner Humphreys, to adopt the Working Group's Aug. 29, 2023, minutes (*see NAIC Proceedings – Fall 2023, Innovation, Cybersecurity, and Technology (H) Committee, Attachment Five*). The motion passed unanimously.

2. Heard a Presentation from McKinsey & Company on InsurTech Trends and Developments

Jason Ralph (McKinsey & Company) provided a presentation on InsurTech trends and developments. He noted that the insurance industry is stable and profitable, but it faces challenges in relevance and economic value compared to other industries. InsurTechs can play a role in reshaping profit pools, transforming customer expectations, and creating sustainable business models. There are four archetypes of InsurTechs: 1) headliners; 2) incumbents; 3) tech giants; and 4) lesser-knowns focused on back-office improvement.

Ralph said that InsurTechs primarily focus on marketing and distribution within the property/casualty (P/C) space. He said the insurance industry has struggled with reducing costs, but there is an opportunity for InsurTechs to simplify and automate processes. The InsurTech funding environment has changed, with a decline in venture capital investment, but there are still growth opportunities. InsurTechs can learn from big tech companies in terms of age, revenue growth, profitability, and market cap. InsurTechs can have a significant impact on sales, distribution, pricing, underwriting, claims, operations, customer service, and information technology (IT) through personalized marketing content, automation potential, and streamlining processes.

Horigan asked if the InsurTech business models that industry is seeing are sustainable given their pace of innovation. Ralph responded that technology companies have a proven track record of continually innovating and keeping the pace of innovation ongoing.

Logue asked what state insurance regulators need to do with third parties who are not necessarily insurance companies, particularly given their profit incentives and the customer lifetime value (CLTV) model, which focuses on the highest-price consumers. Ralph responded that understanding incentives and business models can help lead to beneficial discussion between regulators and companies.

© 2024 National Association of Insurance Commissioners

Schulz commented that he was excited to hear the discussion about generative (AI) helping with code generation as it may help address the ongoing legacy system issue that state insurance regulators have previously discussed.

Director Cameron asked about the spread of risks and whether InsurTechs risk segregating risk at such a granular level and lose some of the intention of insurance. Ralph said that industry has historically held this challenge as important and that he was confident that it would continue to be a foremost consideration.

3. Heard a Presentation from the InsurTech Coalition on its Work

The InsurTech Coalition—which includes Clearcover, Lemonade, and Next Insurance—supports public policy that enables innovation, including fostering an environment in which innovation can thrive responsibly. Jennifer Crutchfield (Clearcover) noted that the InsurTech Coalition membership collectively writes in every state offering commercial and personal lines coverage in addition to life insurance products. Scott Fischer (Lemonade) said that the InsurTech Coalition is driving discussions around innovation and responsibility in insurance. The Coalition's membership wants to help push the insurance industry to where state insurance regulators wish it to be. Rachel Jrade-Rice (NEXT Insurance) closed by expressing several key areas where regulators and tech-forward companies can collaborate: supporting emerging businesses, allowing new business methods, promoting market access, and supporting reasonable data privacy and security regulation.

Having no further business, the Technology, Innovation, and InsurTech (H) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/H CMTE/Summer_2024/WG_TII/Minutes-TIIWGWG081324.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/28/24

Privacy Protections (H) Working Group
Chicago, Illinois
August 14, 2024

The Privacy Protections (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met in Chicago, IL, Aug. 14, 2024. The following Working Group members participated: Amy L. Beard, Chair (IN); Erica Weyhenmeyer, Vice Chair (IL); Richard Fiore (AL); Lori K. Wing-Heier and Chelsy Maller (AK); Gio Espinosa and Catherine O'Neil (AZ); Damon Diederich and Jennifer Bender (CA); Doug Ommen and Johanna Nagel (IA); Robert Wake (ME): Van Dorsey (MD); Jeff Hayden (MI); T.J. Patton (MN); Cynthia Amann (MO); Martin Swanson (NE); Santana Edison (ND); Michael Humphreys and Gary Jones (PA); Patrick Smock (RI); Frank Marnell (SD); Katie Johnson (VA); Todd Dixon (WA); Lauren Van Buren, Timothy Cornelius, and Andrea Davenport (WI); and Bryan Stevens (WY). Also participating was Kevin Gaffney (VT).

1. Adopted its July 10 Minutes

Commissioner Beard said the Working Group met July 10. During its this meeting, the Working Group took the following action: 1) adopted its June 12 minutes and 2) discussed an approach for revising the *Privacy of Consumer Financial and Health Information Regulation* (#672).

The Working Group also met Aug. 5, in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss the Working Group's next steps.

Edison made a motion, seconded by Amann, to adopt the Working Group's July 10 (Attachment Six-A) minutes. The motion passed unanimously.

Beard provided a brief recap of the work done since the Spring National Meeting when the Working Group reformed. She said the Working Group held an open meeting in May, where a privacy expert from Husch Blackwell presented on federal and state privacy legislation, and the Working Group received the industry's draft, which uses Model #672 as a framework. She said public comments were requested and received on whether to continue work on the new Model #674 or to revise an existing NAIC privacy model while taking into consideration the option of utilizing the revised Model #672 provided by the industry.

During the Working Group's June 12 open call, Commissioner Beard said the Working Group heard from members, interested regulators, and interested parties; discussed their comments; and voted to move forward with revising Model #672. On July 9, Beard said Working Group leadership met with 20 NAIC Consumer Representatives to hear comments specific to consumer needs. She said the call was productive and provided insight into the issues that are most important to consumers. Beard said that during the July 10 open call, the importance of transparency throughout the process was emphasized, and leadership noted that regardless of the framework used, the discussion around core privacy principles and protections would be open and collaborative.

© 2024 National Association of Insurance Commissioners

2. Heard an Update on Federal Privacy Legislation

Shana Oppenheim (NAIC) said the American Privacy Rights Act of 2024 (APRA) would establish national consumer data privacy rights and set standards for data security. The bill also would require covered entities to be transparent about how they use consumer data and give consumers the right to access, correct, delete, and export their data, as well as opt out of targeted advertising and data transfers. The measure would set standards for data minimization that would allow companies to collect and use data only for necessary and limited purposes and prohibit the transfer of sensitive covered data to third parties without the consumer's affirmative express consent. The Federal Trade Commission (FTC), state attorneys general, and consumers could enforce violations of APRA.

Oppenheim said the House Committee on Energy and Commerce released APRA in April 2024 by Chair Rep. Cathy McMorris Rodgers (R-WA) and Senate Commerce Committee Chair Sen. Maria Cantwell (D-WA). She said an updated version of the bill was released 36 hours before the markup in late June and was abruptly canceled five minutes before the meeting after heavy pushback from top GOP leadership, tech lobbyists, and privacy advocates. She said no markup had been rescheduled so it was too early to know the timeline before the August recess and fall elections.

Oppenheim said some of the groups against it include: 1) law enforcement groups, which say giving individuals the right to request the deletion of their data from brokers could rob law enforcement of access to "common investigative research services and other investigative tools that are used successfully every day by local, state, and federal law enforcement agencies;" 2) the Interactive Advertising Bureau (IAB), representing 700 media companies, which said a) opt-in for sensitive covered data (ordinary browsing history) would be bad for targeted advertising, b) the exemption for small businesses was not practical because most of them use third-party online advertising to grow, c) preemption was not complete enough, and d) a private right of action would be bad; 3) United for Privacy, which said more preemption is necessary to create a uniform national privacy standard; 4) the Main Street Privacy Coalition (made up of 20 national trade associations), which is concerned with customer loyalty programs, common branding, and private right of action that would equate to a trial lawyer bonanza.

Oppenheim said APRA would apply to companies subject to the FTC Act, and even goes a step farther to reach nonprofit entities (covered entities). She said some small businesses (under $40 million in revenue and processing covered data of less than 200,000 individuals) would be exempt unless they generate revenue from sharing covered data with third parties. The APRA would cover all individuals and treat information about minors (defined as individuals under the age of 17) as sensitive covered data.

She also said covered data includes information that identifies or is linked or linkable to an individual or a device that is linked or linkable to one or more individuals. Oppenheim said this broad definition does not include de-identified data, employee information, publicly available information, inferences made exclusively from multiple independent sources of publicly available information (with certain conditions), or information in collecting a library, archive, or museum. She said sensitive covered data includes the same categories in state privacy laws, such as information revealing race, ethnicity, national origin, sex, government-issued identifiers (e.g., a social security number or driver's license number), information that describes an individual's past, present, and future health conditions and treatments, genetic information, financial account information, biometric information, or precise geolocation information. Oppenheim said the APRA considers private communications, account or device log-in credentials, information revealing sexual behavior, information regarding minors, images and recordings intended for private use or depicting the naked or undergarment-clad private area of an individual, an individual's viewing log video programming, information revealing an individual's online activities across websites, and other information the FTC determines to be sensitive covered data.

© 2024 National Association of Insurance Commissioners

Oppenheim said the APRA requires covered entities to provide consumers with rights about their covered data and how it may be processed. She said these rights include the right to access their covered data, the correction of their covered data, the deletion of their covered data, and the right to the portability of their covered data. Oppenheim said covered entities must have flexibility and agility in their data storage practices, allowing for deletion or correction and providing portability. For example, if an individual requests a copy of all their covered data collected, the covered data can be exported in an accessible manner to be shared with the individual. These rights apply even if that data is going to be shared with a competitor or made public (except for derived data if it would result in the release of trade secrets or other proprietary or confidential data). Oppenheim said the APRA allows consumers to opt out of covered data processing and covered data use, including opting out of targeted advertising, algorithmic decision-making, and covered data transfers. She said the opt-out process should be straightforward and transparent. Oppenheim said the APRA further directs the FTC to establish requirements and technical specifications for a centralized mechanism for opt-outs within two years of the APRA's enactment.

She said the previous version included that for covered entities using algorithmic decision-making, and the APRA requires a clear and conspicuous notice to individuals that provides meaningful information on how the algorithm makes or facilitates a consequential decision—i.e., decisions that affect an individual's housing, employment, education enrollment, health care, insurance, or credit opportunities. Oppenheim said the APRA emphasizes that covered data should be restricted to specific, expected uses. She said this mirrors the language used in the General Data Protection Regulation (GDPR) of the European Union (EU) regarding data minimization and requiring a clear purpose for data collection. Oppenheim said covered entities and their service providers should closely examine their data collection practices and avoid the "collect-everything-we-can-and-sort-it-out-later" mentality. All information collected and retained should have a clear, explicit, and specified purpose.

Oppenheim said covered entities with more than $250 million in revenue and that collect large amounts of covered data or sensitive covered data (large data holders) must conduct privacy impact assessments (PIAs), which evaluate the impact of proposed data processing on privacy, to consider the potential risks and benefits of data collection. She said the previous version said covered algorithms were a computational process that makes a decision or facilitates human decision-making by using covered data, are also subject to impact assessments, and large data holders are required to detail the steps taken to mitigate the risk of harm to the following: minors, housing, education, employment, health care, insurance, credit opportunities, public accommodations based on protected characteristics, or disparate impacts based on such characteristics or on political party affiliation. Additionally, it said these PIAs and covered algorithm impact assessments should be transparent and clearly articulated, with recommendations to manage, minimize, or eliminate privacy-related impacts on a community.

Oppenheim said covered entities and service providers are required to have one qualified employee to serve as a privacy or data security officer. She said large data holders would be required to have two officers—a privacy and a data security officer. The data security officer must be a designated, qualified employee who oversees the organization's data protection efforts and ensures compliance with the APRA's requirements regarding consumer privacy rights, data minimization, and cybersecurity measures. Oppenheim said large data holders that trigger this requirement would be required to annually certify to the FTC their internal controls for APRA compliance and the reporting structure for the data security officer and other certifying officers, including the company's CEO.

Oppenheim said the APRA would permit individuals to sue with a private right of action for violations of the APRA. She said the legislation would not allow for mandatory arbitration clauses if the case involves minors, substantial privacy harm ($10,000), or specific physical or mental harm. She also said an individual may seek actual damages, injunctive relief, declaratory relief, reasonable attorneys' fees, and litigation costs. Oppenheim said this provision

© 2024 National Association of Insurance Commissioners

could lead to class action lawsuits and is very controversial. She said in addition to individuals, the FTC or state attorney generals may also enforce the APRA. Oppenheim said non-sectoral state privacy laws are preempted by the APRA, which means laws that address specific subsections of privacy rights, including employment, education, breach notifications, banking, health, and other narrow laws, are not preempted, but privacy laws that generally address all categories of personal data and all rights to the data as provided in the APRA will be superseded by the APRA. She said this can help to simplify the U.S. data privacy framework, but not all state regulators are happy with this idea based on the APRA having broader or narrower protections in comparison to their own laws.

Oppenheim said new sections in APRA 2.0 include a new section on the Children's Online Privacy Protection Act (COPPA 2.0) under Title II, which differs to a certain degree from the COPPA 2.0 proposal currently before the Senate (e.g., removal of the revised "actual knowledge" standard and removal of applicability to teens over age 12 and under age 17). She said the revised APRA draft includes a new dedicated section on privacy by design that requires covered entities, service providers, and third parties to establish, implement, and maintain reasonable policies, practices, and procedures that identify, assess, and mitigate privacy risks related to their products and services during the design, development, and implementation stages, including risks to covered minors.

Oppenheim said as an exception to the general data minimization obligation, the revised APRA draft adds another permissible purpose for processing data for public or peer-reviewed scientific, historical, or statistical research projects. She said these research projects must be in the public interest and comply with all relevant laws and regulations. If the research involves transferring sensitive covered data, she said the revised APRA draft requires the affirmative express consent of the affected individuals. Oppenheim said the revised APRA draft expands obligations for data brokers by requiring them to include a mechanism for individuals to submit a "delete my data" request. She said this mechanism is like the California Delete Act in that it requires data brokers to delete all covered data related to an individual that they did not collect directly from that individual if the individual so requests. While the initial APRA draft required large data holders to conduct and report a covered algorithmic impact assessment to the FTC, if they used a covered algorithm posing a consequential risk of harm to individuals, the revised APRA requires such impact assessments for covered algorithms to make a "consequential decision." She said the revised draft also allows large data holders to use certified independent auditors to conduct the impact assessments, directs the reporting mechanism to the National Institute of Standards and Technology (NIST) instead of the FTC, and expands requirements related to algorithm design evaluations. Oppenheim said while the initial APRA draft allowed individuals to invoke an opt-out right against covered entities' use of a covered algorithm to make or facilitate a consequential decision, the revised draft now also allows individuals to request that consequential decisions be made by a human. Oppenheim said the revised APRA draft's definition section includes new terms, such as "contextual advertising" and "first-party advertising." She said the revised APRA draft also redefines certain terms, including "covered algorithm," "sensitive covered data," "small business," and "targeted advertising."

Because the act is intended to establish a uniform national data privacy and data security standard, Oppenheim said it would preempt state law. However, she said the act also enumerates extensive exceptions that would preserve provisions of state laws related to employee privacy, student privacy, data breach notifications, and health privacy. Oppenheim said the APRA would also preserve several rights to statutory damages under state law. For example, in civil actions brought for violations related to biometric and genetic information in Illinois, the act would preserve relief set forth in the Illinois Biometric Information Privacy Act (BIPA) and Genetic Information Privacy Act (GIPA). Oppenheim said the act would also preserve statutory damages for security breaches under the California Consumer Privacy Act (CCPA) as amended by the California Privacy Rights Act (CPRA). She said these rights would be preserved as the statutes read on Jan. 1, 2024. Like the American Data Privacy and Protection Act (ADPPA), she also said APRA would preempt comprehensive state data privacy laws, except for an enumerated

list of current state laws, including consumer protection laws of general applicability and laws addressing employee privacy, student privacy, and data breach notification. Oppenheim said APRA would also broadly exempt "any data subject to" and in compliance with the requirements of Title V of the Gramm-Leach-Bliley Act (15 U.S.C. 6801 et seq.) (GLBA); however, APRA does not specify whether state GLBA laws would likewise be preempted. As a result, for some entities, she said APRA may create a new layer of compliance requirements, requiring those entities already subject to state-implemented GLBA privacy regimes to also be subject to oversight by the FTC.

3. Heard a Presentation from Consumers' Checkbook on Legacy Systems and the Protection of Consumers' Privacy

Eric Ellsworth (Consumers' Checkbook) said he is the director of health data strategy and that he has 25 years of experience in data science and software/IT management. As such, he developed, deployed, and decommissioned IT systems under privacy regulations. As the Health Insurance Portability and Accountability Act of 1996 (HIPAA) chief security officer in a clinical laboratory, he created and oversaw the organization's HIPAA program. Ellsworth said he advocates for transparency and simplification of the consumer experience. He said insurers are at considerable risk of data breaches because they are high-value targets with lots of data and money. According to the 2022 Black Kite Cyber Insurance Report, more than 50% of the largest insurance carriers are three times more likely to experience breaches than the best-protected organizations. Ellsworth said potential losses and disruptions include an average ransomware cost of $4.65 million; regulatory fines; customer lawsuits; operational paralysis of 22 days for ransomware, which typically takes longer to fix and restore systems; premium increases to pay for company costs; and damage to the company's brand. He said insurer insolvency can damage entire markets as one company's practices can affect customers of many other companies.

Ellsworth said data privacy and cybersecurity are different but linked. He said cybersecurity means protecting information assets from intrusion. It is like having a fence, guards, and alarms around a warehouse. These items do not control what goods are stored or where they are shipped. He said data privacy is putting controls on how data is stored, used, and transmitted. He said deletion requests mean "to destroy all items from supplier A," while opt-out means"don't send supplier B's gray pants to Canada." Ellsworth said a company can have sufficient cybersecurity measures but no control over data flows, but that protecting consumers' privacy requires both. He said consumer privacy rights require controlling data flows, which answers where a consumer's data is stored, where it is being sent, and when a consumer exercises these rights, how the company will find their data and fulfill the request. This leads to legacy systems and legacy data. He said legacy systems are software that is outdated but still operational. It is no longer actively being maintained, upgraded, or supported, and there is no personnel with active knowledge of how the system works or what is in it. Many are still used for core business functions and often serve as only a way to access old records.

Ellsworth said legacy data is data that is stored in old systems via email, spreadsheets, hard drives, old servers, or with third-party providers. He said it is a default state of affairs where nobody has a full picture of what or where the data is. He said legacy systems are highly vulnerable and pose ever-increasing challenges to meeting privacy and security requirements. Ellsworth said delays in fixing or replacing legacy systems would increase costs, be more time-consuming, provide less support, be harder to find talent, and make purchasing cyber insurance difficult or more expensive. He said regulators and insurers should be accounting for costs and risks around legacy systems regardless of whether insurers can replace them now.

Ellsworth said insurers may not be able to get rid of all legacy systems, but they need to put into place organizational controls typically required to obtain cyber insurance to ensure that they collect, store, and use data

in ways that protect privacy and ensure the ability to delete, modify, and account for data upon request. He said examples of control processes are maintaining inventory of which systems contain which data; training on how data can and cannot be used; approving IT systems and storage for sensitive consumer data (e.g., "secure folders"); and requiring approvals for new uses or transmissions of data. He said legacy systems can be assessed for risks, costs to keep and replace, and effects on consumers' rights to delete or opt out of data sharing within these organizational controls. Ellsworth said HIPAA is America's earliest and most broadly implemented privacy law with many of its conceptual parallels to the current model and in the CCPA. He said adopting HIPAA took work but was doable. Ellsworth said covered entities became accountable for safeguarding private information both in their own organizations and when sharing with third parties (business associates) and underwent organizational process and culture changes to bring control to their collection, use, and sharing of data. He also said health insurers were not bankrupted. Now, health insurers are rightfully concerned about uncontrolled disclosures and are upset by federal rules permitting app developers to access data without a business associate agreement.

Ellsworth said his recommendations for organizational controls are that: 1) the model law explicitly requires insurers to institute organizational controls around the collection, storage, and use of data with executive or board-level accountability mechanisms; 2) regulatory oversight of these processes use a risk-based model to allow insurers latitude while ensuring protection of consumers' privacy with legacy system risks being addressed within these assessments, and financial risks arising from legacy system vulnerabilities be considered; and 3) regulators leverage other work in assessing quality of insurers' privacy and security controls, such as cyber insurance assessments, HIPAA, and/or CCPA controls and documentation.

He said his recommendations for third-party service providers are that: 1) the model law imposes requirements on insurers in diligence and contracting with third parties; 2) obligates insurers to assess the capability of the third party to comply with contractual terms required under this model law; and 3) requires insurers to control and audit their accounts and set up with third-party service providers.

Ellsworth said his recommendations for timelines for deletions and modifications are that: 1) when a consumer requests deletion or modification of data, that data be deleted or de-identified within 45 days of receipt of request, and if additional time is needed, allow 45 more days to delete, provided the licensee explains to their state regulator why additional time is needed and the consumer is notified; and 2) state privacy laws setting these timelines mimic those in California, Colorado, Connecticut, Utah, or Virginia. He said additional recommendations are that: 1) if licensees demonstrate that full deletion is not possible, licensees should make best efforts to restrict access to and use of the data on legacy systems by masking or encrypting data so it is not readable; putting strict access controls in place so data is not accessible for use; and creating a "restriction list" to flag data that should not be used, even if is not deleted; and 2) apply administrative sanctions or financial penalties, where licensees do not show good faith efforts to comply.

4. Discussed its Next Steps

Commissioner Beard reminded the Working Group that its charges for 2024 are to update Model #672 in a transparent manner that is feasible and adaptable so states can implement it. She said a chair draft revising Model #672 was distributed to Working Group members and interested regulators for their review in advance of the Summer National Meeting. She said the chair draft is intended to serve as a starting place for the drafting group to begin their work, and it is not designed to represent any agreement or position of the Working Group. Beard said the chair draft includes pertinent information and principles pulled from the *NAIC Insurance Information and Privacy Protection Model Act* (#670), draft Model #672 Plus, draft Model #674, and state comprehensive privacy laws. She also said the chair draft focuses on four key privacy principles and believes the language and principles

will be familiar to everyone from previous drafts and conversations: third-party arrangements; right to access, correct and delete; sale of personal information; and handling of sensitive personal information. Once again, Beard said she wanted to stress that the chair draft is meant to be a starting point for discussion, and none of the language has been finalized, so comments and discussion are welcomed and encouraged, as the group looks forward to seeing how the draft evolves to create consensus among Working Group members, interested regulators, and interested parties.

Commissioner Beard said the chair draft would be exposed to the public for a 30-day comment period following the Summer National Meeting. She said Lois Alexander (NAIC) would include an invitation for drafting group volunteers and guidelines for drafting group participation in the exposure draft email. Commissioner Beard said Weyhenmeyer would lead the drafting group, which will be open to regulators and interested parties. She said the guidelines for drafting group participation are intended to set expectations for drafting group members and promote productive drafting conversations. She said the Working Group will continue to hold open and regulator-only sessions, as needed, to determine the best privacy regime and draft a model law that reflects that. She said the Working Group also wanted to ensure that everyone understands the next steps in this process and their respective roles and responsibilities. Beard said the Working Group wants to hear from all parties and encouraged their participation by submitting comments and redlines during public comment periods and engaging with the drafting group.

Weyhenmeyer said comments will be requested on third-party arrangements only during the first 30-day exposure period.

Harry Ting (Healthcare Consumer Advocate) said he submitted comments prior to the Summer National Meeting and asked if they could be distributed now. Commissioner Beard said the comments would be considered with the other comments received during the exposure period. Silvia Yee (Disability Rights, Education, & Defense Fund) said regulators are the heroes in the consumer data privacy arena, as they have the power and authority to help humanity or not. She also said she would be happy to help the Working Group in any way she can.

Having no further business, the Privacy Protections (H) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/H Cmte/ 2024 Summer/Privacy/Minutes/Minutes-PrivacyWG081424.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/28/24

Privacy Protections (H) Working Group
Virtual Meeting
July 10, 2024

The Privacy Protections (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met July 10, 2024. The following Working Group members participated: Amy L. Beard, Chair, and Victoria Hastings (IN); Erica Weyhenmeyer, Vice Chair (IL); Sarah Bailey (AK); Richard Fiore (AL); Catherine O'Neil and Lori Dreaver Munn (AZ); Damon Diederich and Jennifer Bender (CA); Johanna Nagel and Jordan Esbrook (IA); Rasheda Chairs, Kelli Hudson, Kathryn Callahan, and Van Dorsey (MD); Stacy Bergendahl (ME); Jeff Hayden, Renee Campbell, Joseph Garcia, and Danielle Torres (MI); T.J. Patton (MN); Chlora Lindley-Myers, Cynthia Amann, and Jo LeDuc (MO); Santana Edison and Colton Schultz (ND); Teresa Green (OK); Martin Swanson and Connie Van Slyke (NE); Raven Collins (OR); Gary Jones, Richard Hendrickson, and Jodi Frantz (PA); Patrick Smock, Matt Gendron, and Raymond Santilli (RI); Lisa Harmon (SD); Scott A. White, Katie Johnson, and Garth Shipman (VA); Amy Teshera (WA); Timothy Cornelius, Lauren Van Buren, and Barbara Belling (WI). Also participating were Rebecca Smid and Anoush Brangaccio (FL); Tracy Biehn (NC); Matthew Walsh (OH); Tanji J. Northrup and Shelley Wiseman (UT); and Mary Block (VT).

1. Adopted its June 12 Minutes

Commissioner Beard said the Working Group met June 12 and took the following action: 1) adopted its May 15 minutes; 2) heard comments from interested parties on its path forward; and 3) adopted its plan to move forward with the existing *Privacy of Consumer Financial and Health Information Regulation* (#672).

Swanson made a motion, seconded by Amann, to adopt the Working Group's June 12 minutes (Attachment Six-A1). The motion passed unanimously.

2. Heard an Update on Federal Privacy Legislation

Commissioner Beard said that Shana Oppenheim's (NAIC) update on federal privacy legislation was postponed due to a meeting with the U.S. Department of the Treasury running over time. She said Oppenheim would give the update during the next Working Group meeting.

3. Discussed an Approach for Revising Model #672

Commissioner Beard said the goal of the Working Group discussion was to determine how the Working Group would move forward with revising Model #672. She said there were a couple of agendas, but she wanted to set the landscape by saying there would be no vote today because the meeting is to consider Model #672 and #672+. She emphasized that it is not necessarily the vehicle that is important but rather how the group wants to open this process up. It is more about the content and what protections the Working Group wants to implement in the model. That is why the Working Group is having so many calls and discussions. It is to ensure everyone has enough time to consider draft Model #672+.

She said the quick-look document, which compares core principles, and the drafting outlines breaking the model into groupings for efficient discussion were posted to the Working Group's website. The Working Group would pull pertinent information and principles from other NAIC privacy models, such as the *NAIC Insurance Information and Privacy Protection Model Act* (#670), state comprehensive privacy laws, and other resources emphasizing transparency and collaboration.

© 2024 National Association of Insurance Commissioners

Weyhenmeyer asked for Working Group members to volunteer to join a subject matter expert (SME) drafting group. Commissioner Beard said to watch for an email from Lois Alexander (NAIC), as she would be reaching out to Working Group members to invite them to volunteer in the drafting process. Additional materials, information regarding next steps in the drafting group process, and additional correspondence would be distributed before the next meeting to outline the plan and its process.

Diederich asked if there would be a vote at the Summer National Meeting on whether to use Model #672 or Model #672+ as the starting point for drafting revisions or if the Working Group would be moving straight into the process, pursuing SME group meetings, and begin drafting on that basis. Commissioner Beard said the Working Group would be moving straight into the Working Group process and diving into what protections the Working Group thinks should be included in the revisions to Model #672, as was voted on during its last meeting, which will allow the Working Group to consider which Model #672+ protections to include in its path forward.

Dr. Harry Ting (Healthcare Consumer Advocate) said the NAIC consumer representatives wanted to comment on using Model #672 versus Model #672+ as the starting point for the revisions. Peter Kochenburger (Southern University Law Center) said the consumer representatives believed that starting with draft Model #672+, which is an industry draft, sends the wrong message. He said any draft used as an initial starting point sets the tone of the draft throughout the process, which is true in any document drafted. The choice of an initial draft structures the conversation and deviating from it going forward becomes harder. He said that, particularly for a consumer protection model, it is not a good image for regulators to start with the regulated entities' preferred language. Peter Kochenburger (Southern University Law Center) said he felt regulators would do a good job of balancing changes recommended by all stakeholders, but that he and other lawyers prefer to write the first draft as it reflects their goals most effectively.

Commissioner Beard emphasized that the Working Group voted on the last call to move forward with Model #672 and that draft Model #672+ is out there for consideration. She also emphasized that the vehicle does not matter as much as the content.

Dr. Ting said the consumer representatives hoped the Working Group would also look at the privacy principles shared with the Working Group and interested parties developed by the Working Group last year. He said the consumer representatives strongly support those principles and hoped those principles would be used in drafting the model. Dr. Ting asked that the Working Group first seek agreement on those principles or, if changes need to be made, at least recognize them in advance so the Working Group can produce language that is clear on whether these principles are being followed. He also said the consumer representatives suggested using exposure draft *Insurance Consumer Privacy Protection Model Law* (#674) as of 7/11/23, Version 1.2, as well as draft Model #672+ because some of the provisions in draft Model #674 that consumer representatives feel are important are not in Model #672 or Model #672+. Adverse underwriting decisions are needed to help consumers who do not understand why they are being turned down for certain insurance coverage. Commissioner Beard noted that with all comments considered, transparency and collaboration are at the heart of the process.

4. Discussed Other Matters

Commissioner Beard reminded attendees that the Working Group's next meeting would be at the Summer National Meeting in Chicago, IL, on Wednesday, Aug. 14, at 2:30 p.m.

Having no further business, the Privacy Protections (H) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/H Committee/Working Groups/Privacy/2024/Summer/July 10 Minutes/Minutes-PrivacyWG071024.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/8/24

Privacy Protections (H) Working Group
Virtual Meeting
June 12, 2024

The Privacy Protections (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met June 12, 2024. The following Working Group members participated: Amy L. Beard, Chair (IN); Erica Weyhenmeyer, Vice Chair (IL); Chelsy Maller (AK); Richard Fiore (AL); Gio Espinosa, Catherine O'Neil, and Lori Munn (AZ); Damon Diederich and Jennifer Bender (CA); Kristin Fabian and Anthony Franchini (CT); Doug Ommen, Johanna Nagel, and Jordan Esbrook (IA); Van Dorsey and Katheryn Callahan (MD); Stacy Bergendahl, Robert Wake, and Sandra Darby (ME); Jeff Hayden, Chad Arnold, Renee Campbell, Joseph Garcia, Joe Keith, and Danielle Torres (MI); Cynthia Amann and Jo LeDuc (MO); Santana Edison and Colton Schultz (ND); Martin Swanson and Connie Van Slyke (NE); Raven Collins (OR); Gary Jones, Richard Hendrickson, and Jodi Frantz (PA); Patrick Smock, Matt Gendron, and Raymond Santilli (RI); Frank Marnell and Larry D. Deiter (SD); Katie Johnson and James Young (VA); Todd Dixon, John Haworth, and Amy Teshera (WA); Timothy Cornelius, Lauren Van Buren, and Barbara Belling (WI); and Bryan Stevens (WY). Also participating were Rebecca Smid (FL); Paula Shamburger (GA); Adam Flores and Ruth Stewart (IL); Victoria Hastings (IN); Ron Kreiter (KY); Tanji Northrup and Shelley Wiseman (UT); and Kevin Gaffney and Mary Block (VT).

1. Adopted its May 15 Minutes

Commissioner Beard said the Working Group met May 15 and took the following action: 1) adopted its 2023 Fall National Meeting minutes; 2) heard a presentation from Husch Blackwell on federal and state privacy legislative efforts; and 3) received an industry privacy draft.

Kreiter made a motion, seconded by Van Buren, to adopt the Working Group's May 15 minutes (Attachment Six-A1a). The motion passed unanimously.

2. Heard and Discussed Comments Received from Interested Parties on its Path Forward

Commissioner Beard said that at the end of its May 15 meeting, the Working Group received a draft update of the *Privacy of Consumer Financial and Health Information Regulation Model Regulation* (#672) from industry. She said this draft was distributed to Working Group members, state insurance regulators, and other interested parties immediately following the meeting. She said this draft was also posted to the Working Group's public web page along with a quick look tool prepared by NAIC legal staff comparing the new draft *Insurance Consumer Privacy Protection Model Law* (#674), *NAIC Insurance Information and Privacy Protection Model Act* (#670), Model #672, and the industry's update to Model #672. The industry draft and quick look tool were publicly exposed for a two-week comment period that ended May 30, requesting comments specific to whether the Working Group should continue drafting the new Model #674 or revise an existing model. Commissioner Beard had asked that all comments be submitted in writing and that comments refer only to the Working Group's path forward.

Commissioner Beard said Lois Alexander (NAIC) summarized and compiled the comments, which were distributed and posted May 31. The compilation notes that the Working Group received 21 written comments. Commissioner Beard said the Working Group would like to give those who wanted to speak about their comments the opportunity to do so; however, she said that given the number of comments received, she asked that each speaker limit their comments to three minutes and focus on their key points aimed toward the path forward.

© 2024 National Association of Insurance Commissioners

Marnell said South Dakota supports setting aside Model #674 and the Working Group taking up Model #672 as a starting point.

Swanson said Nebraska agreed with what Marnell said, and they reiterated that today.

Diederich said given the overarching movement in the privacy space and what the federal government is doing right now, he is concerned about departing from the draft the Working Group has been working on to develop an entirely new model law from a decades-old model just as it was nearing completion and already included many of the comments noted during the latest two-week comment period that ended May 30. He also said that updating the old Model #672 would be very laborious and time-consuming, which is why the previous Working Group had decided to draft a new model. Diederich said he felt this should be kept in mind and that the rest of the comments in his letters speak for themselves.

Cornelius said Wisconsin would support moving forward with revisions to the draft Model #672; however, there are concerns. He said the Working Group needs to figure out the scope, and if it is not going to be revising Model #674, then Wisconsin would support Model #672 because there appears to be a consensus for it, and the Working Group needs to start working on a draft.

Harry Ting (Healthcare Consumer Advocate) said he would like to make a few comments relevant to the decision before the Working Group. He said the Cambridge Dictionary defines privacy as an individual's right to keep personal matters and relationships secret. He said the task before the Working Group is to protect his privacy. Dr. Ting said that he is not protected under the current law. He said he is no longer able to respond to most emails, texts, or phone calls unless he recognizes the sender because every day, individuals with ill intent get ahold of his personal information and use it to find ways to steal his money. Dr. Ting said he needs that protection because companies are manipulating him to let them use his information for their own purposes, even though he does not understand exactly what they are collecting or how they will use it, and most make it exceedingly difficult for him to protect his personal information. He said there is one thing consumer representatives agree on, which is that asking consumers to read and understand privacy policies and then decide whether to opt out to protect their personal information is not protecting them.

Dr. Ting said the protection of personal data from those who should not have access to it and the ability of individuals to determine who can access their personal information is of the utmost importance. He said consumers cannot protect their personal data from those who should not have access to it, determine who can have access to it, nor respond because consumers are never given the opportunity to decide via an opt-in as so many companies and third parties utilize an opt-out privacy policy that allows them to find ways to sell personal data and steal money.

Dr. Ting said many of his fellow NAIC consumer representatives have also made it clear that having to read pages of tiny print in a privacy notice to implement an opt-out is exceedingly difficult, even for an experienced insurance consumer advocate like himself. Dr. Ting said that the current models are inadequate and that NAIC consumer representatives prefer the new Model #674. He said Model #672 provides only for opt-out, which is difficult for consumers to understand and puts the responsibility for data privacy on consumers as they must read through volumes of information and figure out complex wording to select that they do not want data shared or sold when access to desired information is denied. Dr. Ting said the new Model #674 requires an opt-in, which provides much better consumer protection by putting the responsibility on insurers and third parties to obtain consent from insurance consumers prior to selling or sharing the consumer's personal data. He also said Model #672 provides no protection after data has been shared, but the new Model #674 does. Dr. Ting recommended that the Working Group create a template for states to include in the new model as a consent notice that insurers would be required

to use to obtain a consumer's opt-in prior to selling or sharing the consumer's data with affiliates or third-party providers. He said a sample template was included with the consumer representatives' comments.

Ken Klein (California Western School of Law) said his comments align with Dr. Ting's. He said many websites currently use pop-up privacy statements that require a consumer to accept the privacy terms or not be able to access the information needed, which is an example of opt-out being used as a default that serves the insurance industry's needs. Klein said the issue is where two interests are in conflict. One is a business interest, which is the opt-out that industry wants, and the other is the opt-in, which is in the privacy interest and is what consumers need. He said one cannot have it both ways, so the choice before the Working Group is which interest they will choose as the default. Klein asked the Working Group members to support the new Model #674 and its opt-in provision, which serves consumers and should be the default because consumers simply will not engage in opt-out; therefore, it is up to state insurance regulators to protect consumers' privacy by requiring opt-in within the model itself.

Silvia Yee (Disability Rights Education and Defense Fund—DREDF) said she and many other consumer representatives who put their comments in the chat feature agreed with Dr. Ting and Klein when they asked that the Working Group support the new draft Model #674 already in progress because she supports opt-in as the best privacy policy. Yee stated that she has sometimes opened a privacy window and has tried to follow the steps to opt out of having her personal information shared and sold for marketing purposes to third-party providers. She said that as an educated person and attorney experienced in insurance and consumer privacy issues, even she finds it increasingly difficult, especially as she is getting older, to keep up with the hundreds of distinct types of privacy selections that consumers must navigate today. Yee said she suspects she is not alone in that experience. She said it is not easy to understand what a consumer needs to do to protect their privacy, and even if they want to partially protect their privacy or give up some of it, there is no nuanced way to do it. Yee said for industry members who believe consumers can be educated so they understand how to opt out, industry could use those training talents to educate consumers on how to opt in because it is good for consumers to understand. She said consumers would also like to understand why this group was working cooperatively to draft a new model with consumer privacy protection, then abruptly make a last-minute change to suggest something else.

Erica Eversman (Automotive Education & Policy Institute) said she had grave concerns about the privacy protections in the existing Model #672, especially in the automotive insurance industry, because auto repair shops require consumers in need of accident repairs to sign a privacy notice relinquishing personal data that indicates the auto shop network absolutely complies with the Gramm-Leach-Bliley Act (GLBA). She said consumers do not understand the privacy notification requirements and safeguards under the GLBA, which are not explained in the notice from auto shop providers. However, consumers who refuse to sign these notices are refused service by the auto repair shop. Eversman argued that unlike the health insurance industry, which has the Health Insurance Portability and Affordability Act of 1996 (HIPAA) with specific notices written in clear, understandable language that is required to be used by all health care providers in order to access consumers' personal medical information, the existing privacy Model #672 does not provide the same level of protection; or any level of protection unless the consumer goes through the complex, confusing opt-out process, which varies greatly from company to company. Therefore, she said the new Model #674 provides a far better foundation for actual consumer protections, as it requires opt-in, which is essential to ensuring consumers of non-health insurance are at least as protected as health insurance consumers.

Commissioner Beard reminded participants that the Working Group is taking comments today regarding whether its focus should be on continuing to draft the new Model #674 or on revising the existing Model #672. She said there will be many opportunities for all parties to provide comments on specific privacy principles.

© 2024 National Association of Insurance Commissioners

Randi Chapman (Blue Cross Blue Shield Association—BCBSA) said BCBSA is fully aligned with the joint industry comments submitted and fully supports moving forward with Model #672 with the so-called "Plus" concept that would include the added consumer protections as opposed to starting with a new model.

Wes Bissett (Independent Insurance Agents & Brokers of America—IIABA) said the group should have received a joint comment letter submitted by a dozen or so trade associations previously referenced by Chapman, which is in the meeting materials. He said the letter suggested starting from Model #672 as a universal framework for these privacy laws. Bissett said it was entirely natural for the NAIC to want to review its model recommendation, especially since 20 states have adopted state comprehensive privacy laws with an eye toward bolstering existing models in support of those individual state privacy laws. He said the joint industry group would support the Working Group revising the existing Model #672 because it has been implemented in every state and is ubiquitous, so it makes sense to start from there. Bissett said, as an analogy, that if we were to revise the Constitution, we would also consider amendments that are added to it. He said we do not urge states to ratify the Constitution but rather encourage them to write a new one. Bissett said that we add amendments wherever appropriate, which is what the IIABA suggests the Working Group should do here. He said, as we heard from David Stauss (Husch Blackwell) a few weeks ago, there are some common issues that states have focused on, such as consumer request rights, data minimalization, the role and treatment of third-party service providers, and how sensitive personal information is handled. Bissett said there are only a small handful of issues that can be addressed appropriately by adding those to Model #672 without throwing out the framework that all states have adopted. He said the BCBSA urges the Working Group to support revising Model #672 with whatever changes the Working Group adopts to include the issues in the comprehensive privacy laws already enacted by individual states that will ensure interstate consistency in the Working Group's final product.

Eric Ellsworth (Consumers' Checkbook) said he thinks Model #674 provides a much more robust framework. He said that if you look at the quick look document in the meeting materials, it starts by asserting several rights that Model #672 does not have. Ellsworth said there was a lengthy process in drafting Model #674 of discussing why those rights are important to consumers, so going back to Model #672 is fundamentally about restarting that debate. He said he did not see any reason other than a technicality that has changed that debate in terms of why consumers need these protections. Ellsworth said that, as other consumer representatives had referenced, there have been ever-increasing cybersecurity, and data use reasons that have indicated the need for these protections as a foundation for the law. He said the other thing he wanted to point out is that, in practice, some of the debates came down to what degree insurers might have to be responsible for the actions of third parties, which is a foundational requirement he believes is not addressed in Model #672. Ellsworth said the other item is the type of protections available under HIPAA, which were the subject of debates and a point of critical contention for Model #674 as well, and that he did not see any reason why those debates should just be abandoned when they were just getting to the fundamental issues of protecting consumers in favor of going back to a weaker law.

Bonnie Burns (Consultant to Consumer Groups) said she supports the comments of all the other consumer representatives and the arduous work that had gone into drafting Model #674 and supports continuing work on that document.

Chris Petersen (Coalition of Health Carriers—Coalition) said the Coalition supports Model #672 as the vehicle because it has been adopted in all states and would serve as a base and foundation for state legislatures as they attempt to adopt it. He also said it reflects some of the Coalition's key principles, such as its belief that there needs to be a HIPAA safe harbor going forward in any model and that any fixes need to be well thought out. Petersen said the group believes Model #672 is working, so if changes are needed, they should be made from it. He said a lot of the issues being discussed today are not privacy issues and are not issues that insurance licensees can address. Petersen said hacking and cybersecurity are not privacy issues. He said if one clicks on a website and it is not an insurance licensee's website, it is not a department of insurance (DOI) issue; therefore, the DOI has no

© 2024 National Association of Insurance Commissioners

authority over it. Petersen said some arguments are being made for a comprehensive privacy law, but they are not arguments for an insurance privacy law. He said the Working Group needs to stay focused on the issue, which started when industry asked for a gap analysis to determine what the state insurance privacy issues are that DOIs can do something about. Petersen said it is too late to do that now, but if the Working Group keeps that in mind, they will realize that Model #672 is the preferred option.

Michael DeLong (Consumer Federation of America—CFA) said he echoed the comments of the other consumer representatives who said that Model #674 does a better job of protecting consumer privacy in that an opt-in consent for people to collect their information is better. He also said he would like to emphasize that a lot of times, people talk about the importance of consumer education when, in fact, they are trying to find a way to push the burden of privacy protection onto consumers rather than to protect consumers' privacy and safeguard their data.

Kristin Abbott (American Property Casualty Insurance Association—APCIA) said that, as others have mentioned, in the industry letter that APCIA submitted with 12 other organizations, she recommended that the Working Group revise Model #672. She said the organizations are eager to work with state insurance regulators and other interested parties to address the concerns being raised and how they can be incorporated into the Model #672 framework.

Amy Killelea (Consumer Advocate) said she supports all the other consumer representatives' points. In addition, she said she strongly believes that Model #674 is the best option. She also noted that the process itself is concerning and that the foundation of producing a protective law or model through an independent process does support the development of the new Model #674.

Cate Paolino (National Association of Mutual Insurance Companies—NAMIC) said one point that has not been made yet is what the implementation process would look like if Model #672 and Model #674 both existed in some states. She said it would require quite different platforms and questions about definitions and cause massive confusion from a compliance perspective. Paolino said building on that and clearly differentiating from the baseline of Model #672 would allow for less disruption and easier rollout from a compliance perspective, as companies are working to remain in compliance in states that have Model #672 through the process of the states that may choose to enhance with additional components that might be in Model #672 Plus.

Weyhenmeyer said the Working Group found itself in a spot last year where many of the members felt like Model #674 was not something that would be easily adopted in their states. She said that since that is the point of a model, members wanted to make sure it would be something that could be signed onto and adopted in most states, as well as be consistent with not only what is needed in the marketplace but also protect consumers. Weyhenmeyer said regardless of the direction the Working Group goes in, comments will be taken into consideration. She said the Working Group just wants to ensure that whatever is in place can be implemented in all states.

3. Adopted its Plan to Move Forward with the Existing Model #672

Commissioner Beard said the Working Group had reviewed all the comments, heard from those who wished to present, and considered additional questions and discussions as a group during this meeting. She said it appeared the majority agreed that the path forward should be to revise the existing Model #672; therefore, it was time for the Working Group to consider adoption of the path forward.

Marnell made a motion to revise Model #672.

Diederich called a point of order. He said the agenda did not indicate that the Working Group would conduct a vote during this call and wondered if the Working Group could proceed without it being scheduled. Weyhenmeyer said the third agenda item was "Consider Adoption of its Path Forward by Roll Call Vote." Diederich said the agenda attached to the meeting invite did not include this item. Weyhenmeyer said the agenda posted to the public website and call calendar included the vote as the third item. Diederich said the May 15 version did not have this item. Alexander said the revised version posted to the public website June 5 did include the roll call item. Diederich retracted the point of order.

Marnell made a motion, seconded by Stevens, that the Working Group set aside the new Model #674, take up Model #672 as the basis for the updated model, and begin work on it as quickly as possible.

Commissioner Beard said the Working Group should do a roll call vote for the sake of transparency and clarity. Alexander called and recorded the vote.

The motion passed by roll call vote, with seven yeses (Iowa, Illinois, Nebraska, North Dakota, Rhode Island, South Dakota, and Wyoming); three yeses, with Maine's caveat that the wording changes promised will be made (Kentucky, Maine, and Wisconsin); six nays (Alaska, California, Maryland, Missouri, Virginia, and Washington); and three abstaining (Alaska, Michigan, and Pennsylvania).

Lucy Culp (Leukemia and Lymphoma Society—LLS) asked if the vote was to start with the existing Model #672 or the industry draft. Commissioner Beard said it was to move forward with Model #672.

Commissioner Beard said the motion passed, and the path forward will be to revise the existing Model #672.

Commissioner Beard reminded attendees that the Working Group's next meeting would be in mid-July.

Having no further business, the Privacy Protections (H) Working Group adjourned.

SharePoint/ NAIC Support Staff Hub/Committees/H Cmte/ 2024 Summer/Privacy/Minutes/Minutes-PrivacyWG061224.docx

© 2024 National Association of Insurance Commissioners

Draft: 6/3/24

Privacy Protections (H) Working Group
Virtual Meeting
May 15, 2024

The Privacy Protections (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met May 15, 2024. The following Working Group members participated: Amy L. Beard, Chair (IN); Erica Weyhenmeyer, Vice Chair (IL); Chelsy Maller (AK); Catherine O'Neil (AZ); Jennifer Bender (CA); Kristin Fabian (CT); Jordan Esbrook and Johanna Nagel (IA); Ron Kreiter (KY); Van Dorsey (MD); Stacy Bergendahl (ME); Jeff Hayden (MI); Cynthia Amann (MO); Santana Edison (ND); Martin Swanson (NE); Teresa Green (OK); Raven Collins (OR); Gary Jones and Richard Hendrickson (PA); Patrick Smock (RI); Frank Marnell (SD); Katie Johnson (VA); John Haworth and Amy Teshera (WA); and Bryan Stevens (WY).

1. Adopted its 2023 Fall National Meeting Minutes

Beard said the Working Group met March 8 in regulator-to-regulator session, pursuant to paragraph 3, specific companies, entities, or individuals, and paragraph 8, consideration of strategic planning issues relating to regulatory, of the NAIC Policy Statement on Open Meetings. During this call, the Working Group received a brief presentation from NAIC staff on the history of NAIC privacy models, a review of the Privacy Protections (H) Working Group's work over the past several years, and an update on the state privacy law landscape.

Kreiter made a motion, seconded by Smock, to adopt the Working Group's 2023 Fall National Meeting minutes (*refer to NAIC Proceedings – Fall 2023, Innovation, Cybersecurity, and Technology (H) Committee, Attachment Six*). The motion passed unanimously.

2. Heard a Presentation from Husch Blackwell on Federal and State Privacy Legislative Efforts

During the 2024 leadership transition, Beard said the Working Group paused its work on the *Insurance Consumer Privacy Protections Model Law* (#674), but the public continued to show strong interest in privacy-related discussions. Therefore, she said the Working Group would continue to hold open calls as necessary, as well as regulator-only sessions to determine the best privacy regime to move forward and draft a new model law or revision that reflects it. Beard said the Working Group is beginning the meeting with a subject matter expert (SME) who will enhance issues the Working Group will discuss moving forward. She also said that after taking a moment to refresh and recharge earlier this year, the Working Group is pleased to kick off its work in 2024 with a presentation on federal and state privacy legislative activities by one of the premier privacy experts in America.

David Stauss (Husch Blackwell) discussed state privacy laws, focusing on consumer data privacy laws, biometric privacy laws, and children's privacy laws. He said California was the first state to pass a consumer data privacy law (California Consumer Privacy Act of 2018—CCPA). He said some states adopted their own state-specific laws shortly thereafter using the Washington Privacy Act model as a framework even though Washington has not yet adopted it. Stauss said there are variations in the types of consumer rights provided by different state laws and that states have added additional provisions to their existing general data privacy laws, such as biometric data collection regulations.

Stauss described the various state privacy bills and laws, including those related to children's privacy, consumer health data, data brokers, and algorithmic discrimination. He said different states have passed or are in the process of passing their own privacy laws, creating a complex landscape of state laws and regulations with various definitions and requirements. He said the foundational principles of these laws include privacy policies

© 2024 National Association of Insurance Commissioners

consumer rights to access, delete, correct, and report their data, as well as opt-out rights for targeted advertising and profiling.

Stauss discussed the concept of universal opt-out mechanisms in privacy law, which allows individuals to easily opt out of targeted advertising cookies on websites. He said these laws mention the development of a protocol called the global privacy control signal test, which sends a signal to websites indicating that the user has opted out of targeted advertising cookies.

Stauss highlighted the emergence of employee data regulations in states such as California and Colorado, indicating that more states may follow suit in applying privacy rights to employee data. He discussed a draft bill that has not yet been introduced and said that it is uncertain whether this bill will be passed. He said there are other bills related to children's privacy and online safety that are also being considered.

3. Discussed Other Matters

Kristin Abbott (American Property Casualty Insurance Association—APCIA) said she would like to introduce a model approach to the Working Group that was drafted by a coalition of industry trade associations over the past two years using the Privacy of Consumer Financial and Health Information Regulation (#672) as a framework. The coalition believes the approach contains key concerns that the Working Group and other stakeholders have. Cate Paolino (National Association of Mutual Insurance Companies—NAMIC) said this draft focuses on key concepts, including data minimization, consumer access and deletion of data, and limited exemptions for companies with less than 35,000 customers.

Chris Petersen (Arbor Strategies) said the coalition of health carriers that he represents also participated in producing the industry model draft. He asked for it to include a safe harbor for the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) and asked the Working Group to look at adverse consequences. He said every state has passed some type of privacy law, and Model #672 already had many core privacy principles in it, so they built upon that foundation.

Weyhenmeyer said that following this meeting, the industry draft would be distributed to Working Group members, interested regulators, and interested parties (including consumer representatives) and would be posted to the Working Group's public web page. She said a new core privacy issues quick look tool would also be posted for public review. Weyhenmeyer said a notice would be sent following the call announcing a two-week comment period that would end May 30. She asked that all comments be submitted in writing and that the comments only refer to the plan for moving forward.

Swanson said he welcomes the effort to create something more acceptable to most states.

Tolga Tezer (Canopy Connect) asked if he could submit comments on the last exposure draft of Model #674. Beard said the comment period on that model expired, and the Working Group was accepting comments on the plan to move forward now.

Beard reminded attendees about the upcoming regulator-only call on June 6 and the next open call in mid-June.

Having no further business, the Privacy Protections (H) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/H Committee/Working Groups/Privacy/2024/Summer/Minutes-PrivacyWG051524.docx

© 2024 National Association of Insurance Commissioners

THIRD-PARTY DATA AND MODELS (H) TASK FORCE

Third-Party Data and Models (H) Task Force Aug. 13, 2024, Minutes 12-64
Third-Party Data and Models (H) Task Force July 30, 2024, Minutes (Attachment One) 12-67
Third-Party Data and Models (H) Task Force July 19, 2024, Minutes (Attachment Two) 12-71
Third-Party Data and Models (H) Task Force July 10, 2024, Minutes (Attachment Three) 12-72
Third-Party Data and Models (H) Task Force Work Plan Exposure (Attachment Three-A) 12-75

© 2024 National Association of Insurance Commissioners

Draft: 8/22/2024

Third-Party Data and Models (H) Task Force
Chicago, Illinois
August 13, 2024

The Third-Party Data and Models (H) Task Force met in Chicago, IL, Aug. 13. The following Task Force members participated: Michael Conway, Chair (CO); Michael Yaworsky, Vice Chair (FL); Lori K. Wing-Heier represented by Chelsy Maller (AK); Barbara D. Richardson (AZ); Ricardo Lara represented by Esteban Mendoza and Ken Allen (CA); Andrew N. Mais represented by George Bradner and Wanchin Chou (CT); Gordon I. Ito (HI); Doug Ommen represented by Jordan Esbrook (IA); Dean L. Cameron represented by Weston Trexler (ID); Ann Gillespie represented by Erica Weyhenmeyer (IL); Vicki Schmidt represented by Julie Holmes (KS); Timothy J. Temple represented by Tom Travis (LA); Kevin P. Beagan represented by Jackie Horigan (MA); Joy Y. Hatchette represented by Nour Benchaaboun (MD); Robert L. Carey represented by Sandra Darby (ME); Grace Arnold represented by Phil Vigliaturo (MN); Chlora Lindley-Myers represented by Cynthia Amann (MO); Jon Godfread represented by Colton Schulz (ND); D.J. Bettencourt represented by Christian Citarella (NH); Scott Kipper represented by Brandon Rocchio and Gennady Stolyarov (NV); Adrienne A. Harris represented by Wayne Longmore (NY); Judith L. French represented by Tom Botsko and Matt Walsh (OH); Michael Humphreys represented by Jodi Frantz (PA); Elizabeth Kelleher Dwyer represented by Matt Gendron (RI); Michael Wise represented by Melissa Manning (SC); Cassie Brown represented by J'ne Byckovski, Rachel Hemphill, and Miriam Fisk (TX); Kevin Gaffney and Rosemary Raszka (VT); and Nathan Houdek represented by Andrea Davenport and Amy Malm (WI).

1. Adopted its July 30, July 19, July 10, and Spring National Meeting Minutes

Commissioner Conway said the Task Force met July 30 and July 10. The Task Force also conducted an e-vote that concluded July 19 to adopt its 2024–2025 work plan.

Commissioner Richardson made a motion, seconded by Trexler, to adopt the Task Force's July 30 (Attachment One); July 19 (Attachment Two); July 10 (Attachment Three); and Spring National Meeting (*see NAIC Proceedings – Spring 2024, Third-Party Data and Models (H) Task Force*) minutes. The motion passed unanimously.

2. Heard Presentations on Regulatory Decision-Making and the Use of Experts

Commissioner Conway stated the presentations are a continuation of the Task Force's discussion about potential risk-based approaches. Conway expressed his desire to hear industry and consumer perspectives, in addition to the regulatory perspectives heard thus far, and invited those who want to present to the Task Force to contact him.

A. Financial: Multistate Exams, Group Exams, and Audits

Malm presented on financial multistate exams, group exams, and audits. She said state coordination includes exams that are led by the domestic state. A coordination framework is in place for group exams. She contrasted that to market conduct exams, which are typically led by each licensed state and some coordination, where deemed appropriate.

She said in a financial group exam, a lead state is selected based on numerous parameters, such as premium volume or location. Other states participate if their legal entity is part of the group. The group exams are found to be efficient by state insurance regulators and insurers. She said regulators rely on experts to audit insurance companies. Insurers, with some exemptions for small companies, are required to have an independent audit. She said the auditor's report is used in financial exams too.

© 2024 National Association of Insurance Commissioners

B. Financial: P/C RBC CAT Approvals

Botsko and Chou presented on property/casualty (P/C) risk-based capital (RBC) catastrophe (CAT) approvals. Chou said recent updates in P/C RBC includes earthquake and hurricane charges. Wildfire and severe connective storms models are evolving, and use of a flood model is being discussed. The Property and Casualty Risk-Based Capital (E) Working Group will evaluate third-party CAT models and decide which will be allowed for use for P/C RBC. Models allowed to be used are documented in the RBC instructions. An insurer can also use its own independent catastrophe model if approved by the domestic regulator. The RBC instructions provide some guidance for the domestic regulator in deciding whether to approve an insurer's own model. Chou said each peril's model is typically initially implemented in RBC for information only, analyzed, and then adopted for use in the RBC formula in a subsequent year.

Amann said the Catastrophe Model Primer will be considered for adoption at the Fall National Meeting. It contains information for nontechnical readers on the development of CAT models and how CAT models are being used.

C. Financial: Life and P/C Statements of Actuarial Opinion

Citarella, Hemphill, and Fisk presented on life and P/C Statements of Actuarial Opinion (SAOs), specifically about the use of the insurers' Appointed Actuaries as experts to aid state insurance regulators in their review of specific annual statement data. The definition of Appointed Actuary varies by line of business and is documented in the *Valuation Manual* for life and in the annual statement instructions for P/C. Actuarial task forces adopt required disclosures and statements. For life insurance, the state insurance commissioner has the power to require certain methods and assumptions or can require a company to use another actuary for its Appointed Actuary. For P/C, the commissioner can encourage the company to do so.

The Appointed Actuary is subject to professional actuarial standards of practice. Credentialed actuaries are subject to the Actuarial Board for Counseling and Discipline (ABCD). An actuary reported to the ABCD for not complying with standards or a code of conduct can face counseling on appropriate practice or the suspension or revocation of the actuary's credentials.

D. Market Conduct: Advisory Organizations and Multistate Exams

Weyhenmeyer presented on market conduct for P/C advisory organizations and multistate exams. She said the Advisory Organization (D) Working Group is focused on market conduct examination of licensed national advisory organizations. Exams are on a five-year schedule and are generally performed following the Advisory Organizations Chapter in the *Market Regulation Handbook*.

The state of domicile typically takes on the role of the managing lead state. Other states have the ability to sign on as one of the lead states and help with the work. Remaining states can agree to participate, although the participating states do not take an active role in the examination process. At the end of the exam, the managing lead state and other lead states complete a report. The report is sent to all participating states, who can then voice comments or concerns. The participating states can then certify the final report, and they do tend to certify these reports in practice. Once all certifications are received, the managing lead state notifies the company, and each state posts the report to its website.

Differences between advisory organization exams and multistate exams conducted through the Market Actions (D) Working Group include the following: 1) multistate exams are not scheduled periodically but rather arise when an issue is identified; 2) a state insurance regulator who believes an issue impacts multiple jurisdictions will submit a Request for Review (RFR) to the Working Group; 3) if the Working Group votes to examine an issue, then a

© 2024 National Association of Insurance Commissioners

volunteer state will be the managing lead state that will communicate with the company and coordinate the exam. The managing lead state does not need to be the domiciliary state nor the state that produced the RFR. Other states can sign on as supporting lead states or as participating states.

Commissioner Conway said the Task Force could decide to address the regulation of third-party models in a variety of different ways, predicated on the decisions to have a risk-based approach and the regulatory capacity for the departments, as well as the NAIC as a whole. He added that any decision should also be as efficient as possible for the third-party modeling companies and insurers using third-party models. He said following the decision about the general framework, the Task Force will build the regulatory framework.

Having no further business, the Third-Party Data and Models (H) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/H CMTE/2024_Summer/TF-3rdParty/081324 Min 3rdParty.docx

© 2024 National Association of Insurance Commissioners

Draft: 8/9/24

Third-Party Data and Models (H) Task Force
Virtual Meeting
July 30, 2024

The Third-Party Data and Models (H) Task Force met July 30, 2024. The following Task Force members participated: Michael Conway, Chair, and Jason Lapham (CO); Michael Yaworsky, Vice Chair, represented by Virginia Christy (FL); Mark Fowler represented by Charles Hale (AL); Lori K. Wing-Heier represented by Alex Romero (AK); Barbara D. Richardson (AZ); Ricardo Lara represented by Ken Allen (CA); Andrew N. Mais represented by Wanchin Chou and Jack Broccoli (CT); Gordon I. Ito represented by Lance Hirano (HI); Doug Ommen represented by Travis Grassel (IA); Dean L. Cameron (ID); Ann Gillespie represented by Erica Weyhenmeyer (IL); Vicki Schmidt represented by Julie Holmes (KS); Timothy J. Temple represented by Tom Travis (LA); Kevin P. Beagan represented by Caleb Huntington (MA); Joy Y. Hachette represented by Mary Kwei (MD); Robert L. Carey represented by Sandra Darby (ME); Grace Arnold represented by Phil Vigliaturo (MN); Chlora Lindley-Myers, Cynthia Amann, and Jo DeLuc (MO); Jon Godfread represented by Colton Schulz and Mike Andring (ND); D.J. Bettencourt represented by Christian Citarella (NH); Scott Kipper represented by Gennady Stolyarov II (NV); Adrienne A. Harris represented by Katilin Asrow (NY); Judith L. French represented by Matt Walsh (OH); Michael Humphreys represented by Shannen Logue (PA); Elizabeth Kelleher Dwyer represented by Matt Gendron (RI); Michael Wise represented by Andreea Savu (SC); Cassie Brown represented by J'ne Byckovski (TX); Kevin Gaffney represented by Rosemary Raszka (VT); and Nathan Houdek represented by Monica Hale and Rebecca Rebholz (WI).

1. Heard Opening Comments

Commissioner Conway said the Task Force will ultimately decide whether to create a method to regulate third-party data and models. If the decision is to move forward, the Task Force will then need to decide whether to use a risk-based approach and, if so, decide what type of risk-based approach to use. He said the Task Force will hear three presentations of different risk-based approaches, one implemented nationwide and two that are more state-specific.

2. Heard a Presentation on the National Financial Solvency Approach with Deference to Domestic State

Broccoli presented an overview of the risk-focused surveillance approach to solvency monitoring, which is required for financial examinations given it is an accreditation standard. He said the approach is to identify and assess insurance risk profiles and develop a surveillance plan that focuses on the riskiest areas. He said the process is self-directed and customized as opposed to a checklist process. The approach requires a thorough understanding of the company's business plan, governance, oversight, and risk profile.

Regulatory resources are allocated based on a company priority rating that will impact the nature and scope of solvency monitoring. Priority One is considered a troubled insurer and would require more depth in regulatory oversight in monitoring than Priority Four. Broccoli said more depth could include more frequent on-site or off-site analysis.

Broccoli said the assessment includes evaluating the likelihood of a risk occurring (i.e., probability of the likelihood that a risk will occur or would prevent a process or activity). Risk is evaluated to be high moderate, high, moderate low, or low. With an objective to capture the likelihood of misstatement or a process failure, the regulator would consider transaction type, experience with the company, staff expertise, competency or experience, complexity of the transaction, exposure to fraud, and the current business environment. Additional risk assessment guidance involves consideration of the magnitude of a risk impact or materiality (e.g., dollar impact of risk in terms of

© 2024 National Association of Insurance Commissioners

surplus, qualitative factors, reputation, share value, transaction volume) assessed as threatening, severe, moderate, or immaterial. Overall, the regulators want to make sure the insurer has an effective program where risk is identified and mitigated through controls. Chou added Connecticut regulators developed benchmarks by risk to compare companies.

Broccoli said some larger companies are required to file their Own Risk and Solvency Assessment (ORSA) with their domestic regulator. The ORSA allows an understanding of an insurer's risks, risk management, and solvency situation under stressed and expected conditions. The goal is to provide a group-level perspective on risk and capital. Typically, department or consulting actuaries assess the insurer's economic capital model.

Broccoli said that if a similar approach would be used for third-party models, modifications may need to be made to the assessment factors and levels to account for differences in area of focus.

3. Heard a Presentation on the NAIC/State-Specific Market Conduct Approach

LeDuc said the NAIC market conduct standardized framework aims to increase efficiency, effectiveness, uniformity, and collaboration among states. She said the NAIC market analysis work improves the ability of insurance departments to identify potential market conduct issues by small and large insurers that might impact consumers and consumer protection. Unlike the national regulatory solvency approach, domestic deference to another state does not generally get applied in the market conduct approach. Some states do not conduct market examinations.

LeDuc said the market analysis process begins with the baseline analysis, then potentially moves to a level 1 review, and then potentially moves to a level 2 review. Baseline analysis compares companies that comprise the market and prioritizes companies for more detailed reviews based on various factors; a level 1 review identifies potential reasons why a company may have risen to the top of the prioritization list; and a level 2 review involves a highly detailed examination of a company's operations and may lead to further regulatory action. In level 2, data includes more information than what is used in level 1. Examples of level 2 analysis include evaluating individual complaints; evaluating other states' market conduct actions on the company; reviewing rate, form, rules, and underwriting manual filings; using third-party data sources, such as those produced by A.M. Best or Moody's and litigation records; and conducting internet searches. She said she would recommend any review of third-party contracts take place in level 2. Following a level 2 review, the decision may be to: 1) take no immediate action, which might mean all issues and concerns were resolved or addressed and/or the regulator will evaluate more information and trends and review the insurer in the following year; or 2) move the identified issues found during the analysis process to the "continuum of market actions," which is a broad array of potential actions.

LeDuc said centralized market conduct tools are described in the NAIC *Market Regulation Handbook*. She said a general and common framework allows market analysts to rely on and learn from each other. She said analysis includes data from the financial annual statement, the complaint database system, the Regulatory Information Retrieval System (RIRS), the market actions tracking system, and the Market Conduct Annual Statement (MCAS). A market prioritization tool is used to identify companies that appear to need a more detailed review by ranking and using weights. The market analyst then decides whether to move a company to the level 1 review.

Regarding regulatory resources, market analysis uses a risk-based approach that allows focus on key concerns and, therefore, lets states appropriately apply resources to higher-risk areas. In addition to lower costs, by identifying issues up front, there tends to be a lighter touch than what would have been employed via a comprehensive or targeted market conduct examination.

© 2024 National Association of Insurance Commissioners

The market conduct approach relies on judgment decisions throughout the process, whether made by the analyst, supervisor, or other decision-maker. Market conduct regulators are encouraged to select the most appropriate, cost-efficient, timely, and least intrusive option. Consideration is given to the immediacy of concern, the likelihood or severity of potential harm to consumers, and the potential scope of the issue or issues. LeDuc said that Missouri market conduct regulators will, when the decision is leaning toward the examination side of the continuum, consider: 1) the company's history in being proactive and responsive; 2) compliance actions already taken; 3) actions in progress by other jurisdictions; and 4) the likelihood that the issues may be adversely affecting other jurisdictions' actions or decisions.

4. Heard a Presentation on Colorado's 'Trust but Verify' Approach

Lapham presented Colorado's "trust but verify" approach used in Colorado Senate Bill 21-169 ("SB21-169") and Colorado Insurance Regulation 10-1-1 addressing governance and risk management requirements for insurers using external consumer data and information sources and predictive models. He said that, broadly, SB21-169 is intended to protect Colorado consumers from insurance practices that result in unfairly discriminatory outcomes on the basis of a series of protected classes that are enumerated in SB21-169. He said the focus is on outcomes and is not primarily concerned with individual factors or model variables. SB21-169 is broadly applicable to most types of insurance including life, auto, homeowners, and health. He said "insurance practices" include underwriting, pricing, utilization management, reimbursement methodologies, and claims management which has led to multiple work streams for implementing SB21-169 to address the differences across lines of insurance and insurance practices. Insurers are required to 1) establish a risk management framework around the use of external consumer data and the predictive models that leverage external consumer data and 2) conduct quantitative testing related to the outcomes resulting from the use of those external consumer data and models. Regulators will evaluate whether outcomes are leading to unfairly discriminatory impacts on consumers and appropriateness of any remediation carried out by insurers to address those unfairly discriminatory impacts.

The Division's initial focus beginning in early 2022 was on the life insurance industry. A survey was conducted to evaluate the status of the life insurance industry with respect to building governance or risk management frameworks. Survey results showed a wide range of insurer preparedness, sophistication, and maturity around the use of external consumer data and predictive models. Based on the responses by carriers with fairly robust risk management and governance frameworks as well as other sources of best practices regarding the use of AI and machine learning tool, Regulation 10-1-1 requirements include the following: 1) multidisciplinary cross-functional teams on governance and to address risk management concerns; 2) clearly defined roles within the organization related to the use of the related tools; 3) establish senior management accountability and board oversight; 4) set a high level of importance on documentation and decisions made; 5) documentation includes the following: decisions that are made, data used, how models are used, what models are used, when models are decommissioned, roles and responsibilities for the life cycle of the tools, a process for selecting third-party predictive models and the vendors that supply data, plans for where any noncompliance is occurring, etc.; and 6) must have a documented means for assessing and prioritizing risk.

Related to third-party products, the regulation makes clear that insurers are responsible for ensuring the requirements are met including the production of any documents or information the Division deems necessary to ensure compliance.

The requirements are somewhat flexible, but the regulation includes some items that are required to be documented. Lapham referred to the approach with regular insurer submissions and attestations as "trust but verify."

© 2024 National Association of Insurance Commissioners

5. Heard the Task Force Chair's Comments

Commissioner Conway thanked the presenters and remarked that all three approaches show built-in flexibility. He said Colorado's approach probably has the most flexibility.

Commissioner Conway suggested members evaluate whether a blended approach might be useful, perhaps where domestic regulators work collectively at the NAIC to implement a nationwide and market-wide approach to identify risk. He added that he does not anticipate any accreditation standard arising out of the Task Force's work. He said an approach for third parties may need to be more focused on individual state interests and the risks in those individual states. He said the focus on specific models (e.g., hurricane models) will vary by state.

Having no further business, the Third-Party Data and Models (H) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/H CMTE/2024_Summer/TF-3rdParty/073024 Minutes 3rd Party.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/19/24

Third-Party Data and Models (H) Task Force
E-Vote
July 19, 2024

The Third-Party Data and Models (H) Task Force conducted an e-vote that concluded July 19, 2024. The following Task Force members participated: Michael Conway, Chair (CO); Mark Fowler (AL); Lori K. Wing-Heier (AK); Barbara D. Richardson (AZ); Ricardo Lara represented by Esteban Mendoza (CA); Andrew N. Mais (CT); Dean L. Cameron (ID); Ann Gillespie (IL); Vicki Schmidt represented by Julie Holmes (KS); Kevin P. Beagan represented by Jackie Horigan (MA); Joy Y. Hachette represented by Mary Kwei (MD); Robert L. Carey represented by Sandra Darby (ME); Grace Arnold represented by Phil Vigliaturo (MN); Jon Godfread represented by Colton Schulz (ND); D.J. Bettencourt represented by Christian Citarella (NH); Adrienne A. Harris represented by Kaitlin Asrow (NY); Judith L. French represented by Matt Walsh (OH); Elizabeth Kelleher Dwyer (RI); and Kevin Gaffney (VT).

1. Adopted its 2024-2025 Work Plan

The Task Force conducted an e-vote to consider adoption of its 2024-2025 work plan. The motion passed unanimously.

Having no further business, the Third-Party Data and Models (H) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/H CMTE/2024_Summer/3rdTF/071924 evote min.docx

© 2024 National Association of Insurance Commissioners

Draft: 7/24/2024

Third-Party Data and Models (H) Task Force
Virtual Meeting
July 10, 2024

The Third-Party Data and Models (H) Task Force met July 10, 2024. The following Task Force members participated: Michael Conway, Chair (CO); Michael Yaworsky, Vice Chair (FL); Mark Fowler and Charles Hale (AL); Lori K. Wing-Heier represented by Chad Bennett (AK); Barbara D. Richardson (AZ); Ricardo Lara represented by Kara Voss (CA); Andrew N. Mais represented by Wanchin Chou (CT); Gordon I. Ito represented by Lance Hirano (HI); Doug Ommen (IA); Dean L. Cameron represented by Shannon Hohl (ID); Ann Gillespie represented by Shannon Whalen (IL); Vicki Schmidt represented by Craig VanAalst (KS); Timothy J. Temple represented by Tom Travis (LA); Kevin P. Beagan represented by Jackie Horigan (MA); Joy Y. Hachette represented by Kelli Dominique Hudson (MD); Robert L. Carey represented by Sandra Darby (ME); Grace Arnold represented by Phil Vigliaturo (MN); Chlora Lindley-Myers and Cynthia Amann (MO); Jon Godfread represented by Tyler Erickson (ND); D.J. Bettencourt represented by Christian Citarella (NH); Scott Kipper represented by Gennady Stolyarov II (NV); Adrienne A. Harris represented by Sumit Sud (NY); Judith L. French represented by Matt Walsh (OH); Michael Humphreys (PA); Elizabeth Kelleher Dwyer (RI); Michael Wise represented by Melissa Manning (SC); Cassie Brown represented by J'ne Byckovski (TX); Kevin Gaffney (VT); and Nathan Houdek (WI).

1. Discussed its 2024–2025 Work Plan and Charges

Commissioner Conway commented on the intent and importance of the Task Force's work plan and charges. He discussed concerns about the impact of third-party models in the insurance market, emphasizing the need for fair usage, transparency, and addressing specific risks, while also considering innovation, operationalization, and resource constraints in developing models to promote regulatory consistency.

Commissioner Conway stated there has been a growing concern among commissioners about the use of third-party models. He said insurance regulators need to be able to tell consumers, bosses, and governors that data and models are being used fairly by insurers. He said insurance regulators cannot always do that when third parties are involved. In homeowners insurance, predictive models are being used for pricing and are having a large impact on affordability and availability. He said if one uses a method of trust, but verify, a problem is that regulators cannot verify that what third parties are saying is, in fact, the case. Third parties are having a growing impact on the insurance market which means this problem is a growing concern. He said this is why the Task Force was created.

Commissioner Conway said the Task Force's work plan was exposed for a 30-day comment period, which ended May 6. He said numerous comments were received (Attachment Three-A). He said the comments focused more on the work itself rather than on the work plan content.

Commissioner Conway said three themes in the written comments were: 1) how broadly the ultimate framework is going to reach, 2) whether the Task Force will choose a risk-based approach, and 3) whether the Task Force will do work openly and transparently. He said, first, the Task Force is committed to having an open and transparent conversation about where the work is going. He said that, as is typical, there will be conversations that will need to be held in a regulator-to-regulator setting, and the Task Force will bring those issues to the forefront in open session and allow time for interested party feedback.

© 2024 National Association of Insurance Commissioners

Commissioner Conway said the breadth of the framework and whether to apply a risk-based approach will be part of the conversations and are inherently built into the questions that are in the work plan. He added that these will be topics in the next two meetings, as the Task Force will hear presentations on risk-based frameworks and how these frameworks may include regulators working together and/or with experts to make decisions.

Peter Kochenburger (Southern University Law Center) said significant changes have occurred over the last 30 years, making it more difficult to keep stakeholders up to date. He said insurance regulators need jurisdiction over third parties or at least some way to evaluate data and models to guide insurers and third parties.

J.P. Wieske (American InsurTech Council) noted that transparency is appreciated. He said there are scope and other issues that may end up attaching because of the basis of the third-party data. Wieske said data has been used throughout the life of the insurance industry and insurers have pulled external data for many years. He thinks there are frameworks that could continue to be used throughout this process.

Bob Ridgeway (America's Health Insurance Plans—AHIP) commented that existing federal laws, particularly the Health Insurance Portability and Accountability Act of 1996 (HIPAA), need to be considered throughout this project.

Lindsey Klarkowski (National Association of Mutual Insurance Companies—NAMIC) suggested that the Task Force: 1) identify the challenge to be solved to avoid creating a solution disjointed from the needs of the market; 2) examine existing state law and any potential applicability to third-party vendors to know what existing law says and might cover; and 3) ensure consistency with other NAIC committees.

Earnest Collins (Regulatory Compliance & Examinations Consultants—RCE) said there are two third-party models to test unfairness going into effect in 2024 . He expressed a desire to discuss these models at another time.

David Heppen (Risk & Regulatory Consulting—RRC) suggested using a risk-based approach and weighing the cost and benefits of different approaches. He said the Task Force should discuss some states' regulatory reviews of catastrophe models because those state insurance regulators could share insights on costs and benefits. He suggested creating a specific list of risks that this group is trying to mitigate and what aspects of those risks are being addressed. He recognized this might happen naturally.

Brian Bayerle (American Council of Life Insurers—ACLI) said the Task Force has a difficult task of producing guidance on third-party vendors while maintaining innovation and not negatively impacting smaller entities. He said ACLI supports the work plan.

Eric Ellsworth (Consumers' Checkbook/Center for the Study of Services) said when a model is built to attempt to make human decisions, accountability questions arise. He posed the question of who is responsible for the outcome of the model and said there are operational, managerial, and authority challenges. He suggested that when conceptualizing consumer outcomes, in addition to analyzing rating or underwriting decisions, the Task Force should analyze the operational experience of the consumer in trying to interact with the insurer or the third party.

Amann mentioned that the Catastrophe Insurance (C) Working Group is writing a catastrophe primer (formerly known as the *Catastrophe Modeling Handbook*). She said it could be useful to expand the catastrophe framework to cover third-party vendors.

Commissioner Fowler and Hale raised the following situations, asking if Section B of the work plan is broad enough to encompass them: 1) Third parties may be new to the regulator and not have a known reputation. 2) Output

© 2024 National Association of Insurance Commissioners

provided by a third-party model is used as input into an insurer's model. 3) One third-party vendor files rate models directly in the System for Electronic Rates & Forms Filing (SERFF) while another third party never submits a filing directly, rather, the insurer submits the third-party's model for approval for use by that individual insurer. Hale said the latter produces logistic problems. Commissioner Conway responded that Section B of the work plan may be broad enough to encompass those questions. He added that the intention was to keep the questions at a high level and then add questions or new items as they arise, especially as the framework is developed in 2025. He asked Commissioner Fowler to assess Section B after the meeting and submit any proposed modifications if more detail is needed.

Chou said insurers often spend 18 months in the development of one model, using an army of data scientists. He said the models are more complex and much more difficult to explain to stakeholders than what existed 30 years ago. He said the Task Force needs to evaluate the talent and resources available to the state. He said for rate models, states can rely on the NAIC Rate Model Review team for some assistance, but the resources still do not come close to the insurers' resources. He said the other issue is a need for consistency. He said catastrophe models are usually high severity, low frequency, and use simulation, while other rating models use more homogenous data and are low severity, high frequency. He summarized that modeling many years ago was simpler (e.g., Excel file), and the state had the resources for proper review; now, the modeling is much more complex, yet state resources (except for the addition of the NAIC rate model review team) have not changed.

Commissioner Conway said the Task Force will consider adoption of the work plan via e-vote after allowing some time for Commissioner Fowler to decide whether to submit any proposed changes.

Having no further business, the Third-Party Data and Models (H) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/H CMTE/2024_Summer/TF-3rdParty/Minutes_3rdPartyDMTF 7.10.24.docx

© 2024 National Association of Insurance Commissioners

04/05/24

THIRD-PARTY DATA AND MODELS (H) TASK FORCE
2024 Charges and Work Plan

2024 Adopted Charges

The following charges were adopted by Plenary at the 2023 Fall National Meeting:

1. The **Third-Party Data and Models (H) Task Force** will:
   A. Develop and propose a framework for the regulatory oversight of third-party data and predictive models.
   B. Monitor and report on state, federal, and international activities related to governmental oversight and regulation of third-party data and model vendors and their products and services. Provide recommendations to the Innovation, Cybersecurity, and Technology (H) Committee regarding responses to such activities.

Background for the Work Plan

At the 2023 Fall National Meeting, the NAIC adopted the **NAIC Model Bulletin: Use of Artificial intelligence systems by insurers.** The bulletin explains the regulators' expectations for governance around the development, acquisition, and use of certain AI technologies and advises insurers "of the type of information and documentation that the Department may request during an investigation or examination of any Insurer regarding its use of such technologies and AI Systems." Third-party sections of the bulletin are included in this document as Attachment A.

This bulletin lists and explains the applicable current laws and regulations that underlay the Bulletin and point to the NAIC's 2020 Principles[1] of Artificial Intelligence as an appropriate source of guidance for Insurers as they develop and use AI systems. Under these current laws, there is a framework around the regulation of third-party data and models.

The goal of this Task Force is to develop and propose an optimal regulatory framework for the regulatory oversight of third-party data and predictive models. The proposed regulatory framework may require new or modification of adopted model laws or regulations in 2025.

Throughout the year, the Third-Party Data and Models (H) Task Force will coordinate with other Innovation, Cybersecurity, and Technology (H) Committee activities and forums and place emphasis on transparency during the process.

[1] The principles emphasize the importance of the fairness and ethical use of AI; accountability; compliance with state laws and regulations; transparency; and a safe, secure, fair, and robust system.

© 2024 National Association of Insurance Commissioners

2024 Work Plan

In 2024, the focus for the Task Force will be on research to determine the framework for regulatory oversight of third-party data and predictive models, including those utilizing artificial intelligence. The framework will be clear that insurers are ultimately responsible for ensuring that insurance laws and regulations continue to be complied with while using data and models from third-party vendors.

Project Steps

2024: Explore and decide on a general concept for a framework for regulatory oversight of third-party data and models, including those utilizing artificial intelligence.

A. Evaluate existing frameworks and discuss whether existing frameworks might be useable for the regulation of third-party data and models.

- What are the current issues that insurance departments have regulating insurers that use third-party data and models in rating, underwriting, marketing, and handling claims?
- Is a framework scalable?
- Would regulators have the bandwidth?
- Does the existing framework apply to any particular line of business or company use?
- What are the reasons that third-party vendors are reluctant to get licensed as advisory or rating organizations?
- Determine how third-party vendors/models are being utilized and consider categorizing models by type [e.g., claims handling models, rate models (by hazard/peril, auto models), and underwriting models]. Consider where regulators are already evaluating models.

B. Discuss goals for a future third-party framework.

- What is the appropriate level, standard, or minimum threshold an insurer should be held to when using third-party data, models, or AI?
- What is the appropriate level of regulation for AI risks that result from using third parties?
- Should licensing, certification, SOC-type reports, third-party warranties in contracts be used?
- Should the framework be the same for all lines of business and company uses/insurance practices or be proportionate to the potential for the greatest impact on consumers?

© 2024 National Association of Insurance Commissioners

- How do we ensure the framework does not unnecessarily discourage innovation?
- What should be the result when an insurer cannot get contractual terms or information they need from a third-party vendor?
- Can the framework include a mechanism for the review and approval of models prior to use by insurers?
- Is the framework sufficiently flexible to enable adaption over time without necessarily requiring revising or amending the framework.
- Is the regulatory oversight framework sufficiently commensurate to risk?

2025: Build the third-party regulatory framework.

2024 Meeting Plans

- **March-Sept.:** Invite speakers to present frameworks currently used (FL Hurricane Commission, RBC, Rate/Underwriting regulatory reviews) and views from multiple perspectives (e.g., international regulators, other industries, consultants and lawyers working on the implementation and governance surrounding the use of third-party data and models, third-party vendors, consumers). Throughout the months, discuss goals for the third-party regulatory framework and aspects of existing frameworks that should be discussed or considered.
- **October-November**: Discuss potential frameworks.
- **Fall National Meeting:** Finalize the general idea for a framework for regulatory oversight of third-party data and models so drafting can begin in 2025.

© 2024 National Association of Insurance Commissioners

Attachment A

Third-Party Excerpts from the Adopted

NAIC MODEL BULLETIN: USE OF ARTIFICIAL INTELLIGENCE SYSTEMS BY INSURERS[2]

SECTION 3: REGULATORY GUIDANCE AND EXPECTATIONS

AIS Program Guidelines

(An AIS Program is an insurer's "written program...for the responsible use of AI Systems that make, or support decisions related to regulated insurance practices. The AIS Program should be designed to mitigate the risk of Adverse Consumer Outcomes, including, at a minimum, the statutory provisions set forth in Section 1 of this bulletin.")

4.0 Third-Party AI Systems and Data

Each AIS Program should address the Insurer's process for acquiring, using, or relying on (i) third-party data to develop AI Systems; and (ii) AI Systems developed by a third party, which may include, as appropriate, the establishment of standards, policies, procedures, and protocols relating to the following considerations:

4.1 Due diligence and the methods employed by the Insurer to assess the third party and its data or AI Systems acquired from the third party to ensure that decisions made or supported from such AI Systems that could lead to Adverse Consumer Outcomes will meet the legal standards imposed on the Insurer itself.

4.2 Where appropriate and available, the inclusion of terms in contracts with third parties that:

a) Provide audit rights and/or entitle the Insurer to receive audit reports by qualified auditing entities.

b) Require the third party to cooperate with the Insurer with regard to regulatory inquiries and investigations related to the Insurer's use of the third-party's product or services.

4.3 The performance of contractual rights regarding audits and/or other activities to confirm the third-party's compliance with contractual and, where applicable, regulatory requirements.

SECTION 4: REGULATORY OVERSIGHT AND EXAMINATION CONSIDERATIONS

2. Third-Party AI Systems and Data

In addition, if the investigation or examination concerns data, Predictive Models, or AI Systems collected or developed in whole or in part by third parties, the Insurer should

[2] https://content.naic.org/sites/default/files/inline-files/2023-12-4%20Model%20Bulletin_Adopted_0.pdf

© 2024 National Association of Insurance Commissioners

also expect the Department to request the following additional types of information and documentation.

2.1 Due diligence conducted on third parties and their data, models, or AI Systems.

2.2 Contracts with third-party AI System, model, or data vendors, including terms relating to representations, warranties, data security and privacy, data sourcing, intellectual property rights, confidentiality and disclosures, and/or cooperation with regulators.

2.3 Audits and/or confirmation processes performed regarding third-party compliance with contractual and, where applicable, regulatory obligations.

2.4 Documentation pertaining to validation, testing, and auditing, including evaluation of Model Drift.

© 2024 National Association of Insurance Commissioners

May 6, 2024

Michael Conway, Commissioner
Chair, Third Party Data and Models (H) Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64105

Re: 2024 Work Plan Exposure Draft

Commissioner Conway:

The American InsurTech Council (AITC) is an independent advocacy organization dedicated to advancing the public interest through the development of ethical, technology-driven innovation in insurance. We appreciate the effort that Task Members undertook to develop the 2024 Work Plan Exposure Draft (Work Plan). We particularly appreciate the opportunity for interested parties to provide comments on the project approach described in the Work Plan.

Understanding third party data and predictive models is among the most important elements of the NAIC's effort to develop a comprehensive regulatory framework related to insurer use of AI. Third-party vendors play a pivotal role in the development of digital innovation that clearly benefit consumers. There is a significant public interest in ensuring the regulatory framework is balanced, i.e., it provides essential consumer protections while encouraging continued innovation.

As we see it, the task is to develop a regulatory framework that achieves the following objectives:

- Is consistent with existing principles of insurance and insurance regulation.
- Recognizes that much of the data at issue is already subject to federal and/or state laws outside of state insurance laws.
- Ensures an appropriate level of transparency involving insurer use of AI that will enable regulators to assess compliance with applicable current statutes and regulations identified in the NAIC Model Bulletin: Use of Artificial Intelligence by Insurers.
- Provides clear guidance to insurers regarding their responsibilities for the use of data and models sourced from third-party vendors.
- Provides third-party vendors with clear guidance regarding regulator expectations and requirements concerning their AI Systems.

© 2024 National Association of Insurance Commissioners

- Protects the intellectual property rights of third-party vendors.
- Encourages continued innovation and development of insurer use of AI that benefits insurance consumers and the public.

Comments on the Project Approach

AITC agrees generally with the project approach described in the Work Plan. It makes sense to begin with an effort (i) to identify any comparable existing frameworks; followed by (ii) an evaluation of those frameworks to determine their applicability, in whole or in part, to development of a regulatory framework for third-party data and models.

Clarification is needed, however, concerning the *exact problem* the Task Force seeks to solve. In other words, what problem or problems exist that can only be addressed by a regulatory framework for third party data and predictive models? More specifically, what problems or industry failures involving third-party data or predictive models have been identified that can only be addressed by a regulatory framework? A clear statement of these objectives would bring focus to the Task Force's efforts, possibly narrow the scope of the project, and help to prevent scope creep.

AITC's additional recommendations for the Work Plan include: (i) ensure an open and transparent process, (ii) ensure opportunities for interested parties to provide meaningful input, and (iii) a timetable that allows for the time needed to accomplish items (i) and (ii).

1. Transparency

The Task Force's work must be conducted through an open, collaborative process that provides interested parties with meaningful opportunities to participate and provide input. Transparency is essential for a number of reasons, not the least of which is the importance of obtaining buy – in from third parties, including third party vendors who are liklely to be significantly impacted. Although the Work Plan suggests that the Task Force intends to invite selected outside third parties to provide input there is no mention of whether those sessions will regulator-only or open to interested parties. Adding a meeting schedule to the Work Plan and a statement identifying which sessions will be open interested parties would be extremely helpful for planning and other purposes.

2. Opportunities for Interested Party Participation

We support the Task Force inviting speakers to present information about existing frameworks. However, the Work Plan should state who will select the invitees, and whether there will be an opportunity for interested parties to provide recommendations for guest speakers. Further, the Work Plan should state that interested parties can submit their own framework recommendations. While the guest speakers will no doubt make a meaningful contribution, including a process for input and recommendations from interested parties would ensure that the Task Force has the opportunity to consider the widest range of potential framework-options.

© 2024 National Association of Insurance Commissioners

We also note that the Work Plan does not provide for a comment period regarding any recommendations. Perhaps a comment period is contemplated as a part of "[d]iscuss potential frameworks" in the October – November timeframe. If so this should be clarified. If no comment period is contemplated, this is glaring omission and would be a significant departure from customary practice at the NAIC, which is intended to ensure an open, deliberative process and thoughtful consideration of the issues.

3. Timetable

The draft work plan allows for just six months to decide upon a "general idea for a framework" in time for NAIC Fall Annual Meeting. Given the amount of work, the wide range of issues, the complexities involved, and the need for an open process that includes opportunity for public comment on draft recommendations, this seems extremely ambituous if not unrealistic. Rather than adhere to an arbitrary deadline, we think a better approach (and one likely to *save* time in the end) would be to take the time needed to build consensus around a sound approach.

Finally, we note that only four weeks has been allotted to "discuss potential frameworks." We read this as providing no opportunity for interested parties or even other regulators to review the Task Force recommendation with sufficient time to provide thoughtful comments. An exposure and comment period consistent with NAIC practice and procedure should be added to the timetable.

Thank you again for the opportunity to address our comments.

Respectfully Submitted,



Scott R. Harrison
Co-Founder, American InsurTech Council
sharrison@americaninsurtech.com



BlueCross BlueShield Association

750 9th Street, NW
Washington, DC 20001
www.bcbs.com

May 9, 2024

Commissioner Michael Conway, Chair
Third-Party Data and Models (H) Task Force
National Association of Insurance Commissioners
444 North Capitol Street NW, Suite 700
Washington, DC, 20001

Submitted via email at ssobel@naic.org; kdefrain@naic.org

RE: Third-Party Data and Models (H) Task Force Work Plan

Dear Commissioner Conway:

The Blue Cross Blue Shield Association (BCBSA) appreciates the opportunity to provide comments on the National Association of Insurance Commissioners (NAIC) Third Party Data and Models (H) Task Force's work plan.

BCBSA is a national federation of independent, community-based and locally operated Blue Cross and Blue Shield (BCBS) companies (Plans) that collectively cover, serve and support 1 in 3 Americans in every ZIP code across all 50 states and Puerto Rico. BCBS Plans contract with 96% of hospitals and 95% of doctors across the country and serve those who are covered through Medicare, Medicaid, an employer, or purchase coverage on their own.

BCBSA believes everyone should have access to affordable, high-quality health care, no matter who you are or where you live. BCBSA's commitment to the health of our nation includes continuing to improve the way we gain insights on diverse health factors through the appropriate use of new and emerging technologies, and to provide innovative solutions and services to support Blue Plans and their members.

BCBS companies are collaborating to enable the safe, ethical and responsible use of artificial intelligence (AI) to protect each of our 118 million Blue members in every zip code in America. Proactive steps include systemwide commitments around the adoption of industry-recognized AI governance practices, including

© 2024 National Association of Insurance Commissioners

the adoption of risk-based evaluations, senior management oversight and compliance with applicable privacy and security laws.

In addition, we appreciate that much of the work on AI, and predictive models generally, is being done by third parties – either through the development of the models themselves or through use of the data these entities possess. While we have concerns with how this work will align with ongoing public policy and private efforts to adapt to this new environment, BCBSA offers the following recommendations in response to the task force's work plan on third-party data and model use:

- **The task force must carefully consider the scope and breadth of the framework.** Definitions form the scope of public policies and are critical to ensuring there is a clear understanding of what and who is being regulated and to what extent. BCBSA notes that the definition of "third party" from the "NAIC Model Bulletin: Use of Artificial Intelligence by Insurers" (model bulletin) is limited to AI provided by an organization other than the insurer, while the definition of "predictive model" is far broader and could encompass a wide array of insurer activities that already have longstanding, effective regulatory infrastructures. Both terms are present in the task force's work plan. BCBSA urges the NAIC to limit the work plan scope in a manner that aligns with the model bulletin's definition of "third party" to prevent potential unintended consequences. If a broader definition were to be used, it would significantly complicate how the requirements should be approached. We strongly support efforts to address potential bias and discrimination in health care and are concerned that an overly broad scope in regulation, or particularly in legislation, may stifle the ability for insurers to implement programs that address these longstanding challenges.

- **Specific to AI systems (AIS), which we recommend as the focus of this framework, the task force should recognize the distinct roles of AIS developers and those who deploy AIS developed by other entities**. Developers and deployers are responsible for different aspects of how AIS impacts consumers and different perspectives on the AIS being deployed, so should have different responsibilities. Public policies will more effectively address these consumer impacts through differentiated requirements. For example, disclosures to consumers can only be achieved by deployers since they hold the relationships with the consumers. Meanwhile, intellectual property rights require developers to be accountable for tasks that entail access to source codes since deployers will not have access.

- **The framework should align to existing Federal requirements to achieve regulatory harmony.** Achieving regulatory harmony requires addressing intersections with existing Federal laws and regulations as many of the policy issues raised by AI are not novel. Most notably, the Health Insurance Portability and Accountability Act already effectively governs issues related to privacy and disclosures for both Covered Entities, as well as third parties that conduct business on behalf of regulated entities – known as Business Associates**.** There are also potential issues related to intellectual property rights and trade secrets protections covered by Federal rules that should be carefully considered. This alignment will prevent conflicting approaches, which help to ensure that requirements complement — not complicate — advances in technology.

© 2024 National Association of Insurance Commissioners

- **The framework should also align to existing NAIC models and other widely accepted frameworks.** The draft work plan touches on a wide array of issues, including cybersecurity, privacy, AI, and insurance rate regulation. Many of these issues are already covered by existing NAIC model laws and bulletins. The framework should align to these existing model laws and bulletins, such as the Insurance Data Security Model Law's requirements related to Oversight of Third-Party Service Provider Arrangements. It is vital that this framework does not undo or undermine the successful work that other NAIC committees have conducted and completed. The work plan should also seek to harmonize the task force's approach and align to widely accepted frameworks, such as the National Institute of Standards and Technology Artificial Intelligence Risk Management Framework, which has been subject to extensive industry input. Consistency will reduce burdens on all stakeholders and, more importantly, support adherence to requirements and responsible adoption.

***

Thank you again for your leadership on these important policy priorities. We appreciate your consideration of our comments. If you have additional questions or comments, please contact Randi Chapman, Managing Director, State Affairs at randi.chapman@bcbsa.com.

Sincerely,



Clay S. McClure

Third Party Models Task Force

National Association of Insurance Commissioners

Attention: Kris Defrain

May 14, 2024

RE: Comments on 2024 Charges and Work Plan

The undersigned Consumer Representatives applaud the formation of the Third Party Data and Models Task Force, and appreciate the thoughtful work plan that has been put forward. We especially commend the consideration of different regulatory approaches for different uses of models within insurance.

We anticipate that the Task Force will find and review a variety of existing principles, definitions and frameworks for oversight of predictive models (sometimes referred to as "predictive AI", as distinct from "generative AI"). While a good framework is of value in determining how to regulate the development and use of these models, we also believe that the effectiveness of many regulations in preventing harms to consumers depends on careful examination of the details of how models are developed, put into operation at insurers, and overseen by management. As noted in a recent Politico op-ed, state laws and regulations intended to prevent AI and models from harming consumers can in practice codify damaging practices and effects of these models.

Such detailed concerns span the life cycle of model development (such as data quality issues, effectiveness of processes for linking distinct datasets, strong controls over which data is used in which model and related version controls, etc.), operationalization (whether suitable uses are clearly defined and carried through in operation, escalation and recourse processes for model outputs, etc.), the management oversight of how models are used (such as employee training, performance measures, etc.), and processes for addressing problems that arise in the use of models (human overrides, escalation, correction of incorrect of improper data or results, etc.).

The Task Force work plan raises consideration of insurance department capacity related to oversight of models and vendors. We support robust discussion of this issue, as resource limitations can affect the areas and depth of oversight DOIs are able to exercise over model developers and/or insurers. We note that federal agencies such as FDA have suggested that they may need outside assistance to effectively oversee AI. State insurance regulators may wish to consider arrangements that allow them to leverage shared or external resources, within or outside the state, to address critical details of regulation.

The following issue areas reflect some considerations we feel are important for this Task Force to address in selecting and applying a regulatory framework for state insurance department oversight of third party models.

© 2024 National Association of Insurance Commissioners

Model Development and Suitability for Intended Uses

1- Does the data used to create these models provide an accurate, fair, and equitable representation of consumers, properties, or scenarios about which it is to be used?
   a. For health insurance, what analysis has been done of the robustness and relevance of underlying data for different patient subpopulations?
   b. Are there procedures in model development and deployment to address subgroups where the data is insufficient to produce robust conclusions (e.g., patients with rare diseases, demographic groups where the data is known to have errors or biases, etc.)?
2- Have the datasets used to develop the model undergone documented profiling of data quality? Are limitations in conclusions arising from data quality problems clearly identified in resultant models?
3- How are limitations in the model expressed to clients (i.e., insurers) and to regulators?
4- Are model sales teams trained to clearly represent the limitations of the model?
5- When an insurer contracts with a third party modeler, are the intended uses and excluded uses well delineated within the contract?
6- What quality control procedures exist in model development to avoid problems of mistaken identity of beneficiaries, properties, or other insured entities?
   a. Identities of individuals in medical records, as well as other administrative datasets are known to suffer from data quality issues.
   b. Large scale linkage of datasets is known to have limitations in accuracy, particularly when the datasets to be linked have data quality problems.
   c. We believe the processes by which datasets are assembled for use in modeling merit close oversight.

Operationalization

When third party models are operationalized by insurers, how are the following considerations managed?

7- Integration with internal processes and systems
   a. How well do systems integrations needed to operationalize the model function in practice?
   b. Do processes and software systems developed to put models are put into operation define and test use cases in which data or inputs upon which the model relies are not available – and thus must be handled “offline” or as an “override”?
   c. Has someone created processes to deal with cases where the integration does not work (e.g., consumers with information in “non-standard” databases, legacy systems, etc.)?

8- Bypassing or overriding model results
   a. Are processes and software systems set up to permit bypassing model results?
   b. Are there well defined criteria to test whether these “override” use cases are functioning and a consumer does not get stranded?

9- Transparency
   a. Can the insurers explain the rules which are being employed for coverage decisions (sometimes called “ascertainable standards”)?

© 2024 National Association of Insurance Commissioners

b. Can scores or decisions made by models by traced back to well-defined characteristics of the insured person or property, or the claim/loss?
c. Can decisions made by the models be clearly explained to consumers?

10- Clear recourse and escalation paths

a. How can a consumer who has a problem with a model's results obtain recourse for this problem? For example, if a consumer has been mis-identified by a model or data, how can that consumer remove the erroneous data or challenge model results?
b. Will the insurer and the third party model provider work together to resolve consumer problems once a complaint or issue is raised so that the consumer is not left to resolve issues on multiple fronts on their own? Is the Insurer ultimately responsible for correcting problems?
c. When an issue involves knowledge or intellectual property held by the third party modeler/vendor, are there established processes and trained personnel for the consumer to cross from the insurer to the third party modeler? Are these processes regularly tested?
d. Are there time standards for resolution of problems?

11- Consumer rights to data correction, alteration, and deletion

a. Do both the insurer and the third party model provider have mechanisms for consumers to submit corrections to their data?
b. If a consumer wishes to exercise his or her rights around deletion of data, is there a mechanism to remove data from third party models?
c. Can a consumer not wishing to have his or her data used also opt out from the applicability of models derived from this data?

12- Version control

a. Does model development use appropriate version control techniques? Traditional software version control systems (e.g., Github) do not suffice for control of datasets; additional version control mechanisms are needed to ensure that old versions of model results can be reproduced and examined (i.e., full and distinct version control of data, associated cleanup/transformation steps, and model generation, also called "data lineage")
b. Can both the model developer and insurer track and identify the specific version of a model used where the results are employed (e.g., in underwriting, claims decisions, etc.)?
c. In cases where the model incorporates either outside datasets (e.g., through data linkage) or uses data from an insurer client, is this outside data subject to rigorous version control?
d. Do version control procedures in both modeling and deployment incorporate data that consumers have corrected, stricken, etc.?

While we recognize that regulators may not have capacity to address all of these issues directly, due their potential for adverse impacts on consumers we believe they merit consideration as part of the development of regulatory frameworks.

We welcome questions or any other opportunities to be helpful the Task Force in this work.

Signees

Eric Ellsworth

Adam Fox

Brenda Cude

Kara Nett Hinkley

Bonnie Burns

Silvia Yee

Brendan Bridgeland

Peter Kochenburger

© 2024 National Association of Insurance Commissioners



May 1, 2024

Commissioner Mike Conway, Chair
Third-Party Data and Models (H) Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

By Email to Kris DeFrain, kdefrain@naic.org.

Re: Third Party Data and Models (H) Task Force - Proposed Work Plan

Dear Commissioner Conway:

On behalf of the members of Americas Health Insurers Plans (AHIP), we appreciate the opportunity to provide comments to the Third-Party Data and Models (H) Task Force's Proposed Work Plan.

As regulators begin their work in this area, it is critical to be mindful of the broad and extensive requirements imposed on Covered Entities and Business Associates pertaining to privacy, data security, data minimization, and other issues by the Rules issued by the United States Department of Health and Human Services, Parts 160 and 164 of Title 45 of the Code of Federal Regulations, under the Health Insurance Portability and Accountability Act of 1996 (Public Law 104-191, HIPAA), and the Health Information Technology for Economic and Clinical Health Act (Public Law 111-5, HITECH).

For issues pertaining to vendor oversight, regulators should refer to language in the NAIC Insurance Data Security Model Law, #668, in Section 4.F, "Oversight of Third-Party Service Provider Arrangements". Additionally, further discussions and standards development are needed regarding the respective responsibilities and information sharing of developers and deployers.

For issues regarding AI risk management, we urge regulators to align their efforts with the NIST AI Risk Management framework.

Due to the rapidly advancing technology and the highly competitive nature of AI development, it is essential to consider and protect intellectual property rights, trade secrets, and confidential

© 2024 National Association of Insurance Commissioners

information. Similarly, we are always mindful that the need to protect consumers from abuses must be balanced with the need to encourage advancements and engaging vendors in order to reap all the possible benefits of this promising AI technology.

Thank you for the opportunity to provide these suggestions and comments. We look forward to further discussing these matters with you.

Sincerely,

Bob Ridgeway
Bridgeway@ahip.org
501-333-2621

AHIP is the national association whose members provide health care coverage, services, and solutions to hundreds of millions of Americans every day. We are committed to market-based solutions and public-private partnerships that make health care better and coverage more affordable and accessible for everyone by promoting, among other things, effective and efficient examination processes by state insurance regulators.

© 2024 National Association of Insurance Commissioners

NAMIC
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

317.875.5250 | [F] 317.879.8408
3601 Vincennes Road, Indianapolis, Indiana 46268

202.628.1558 | [F] 202.628.1601
20 F Street N.W., Suite 510 | Washington, D.C. 20001

May 3, 2024

Commissioner Michael Conway (CO), Chair
NAIC Third-Party Data and Models (H) Task Force
c/o Kris DeFrain, NAIC Director, Research and Actuarial Services
Via email kdefrain@naic.org

Re: NAMIC Comments on the Third-Party Data and Models (H) Task Force 2024 Charges and Work Plan

Dear Chair Conway, Vice-Chairs, and Members of the Committee:

On behalf of the National Association of Mutual Insurance Companies (NAMIC)[1], we would like to thank the NAIC Third-Party Data and Models (H) Task Force for requesting and accepting comments on its 2024 Charges and Work Plan. NAMIC is supportive overall of the exposed Work Plan's direction, and believes if the Work Plan is adhered to in conjunction with a transparent and collaborative process with the industry, the Task Force can reach an outcome that benefits all stakeholders. Pursuant to that goal, NAMIC provides below general substantive comments and recommended points of emphasis on the exposed Work Plan.

SUBSTANTIVE COMMENTS

Identify the Challenge to be Solved

The Work Plan opens in Project Step A with a directive to evaluate the current issues insurance departments have regulating insurers that use third-party data and models in insurance processes. Since the Task Force's creation, such issues or challenges have not been made explicit, and the lack of identifying these issues creates question as to the direction of a "framework for regulatory oversight of third-party data and predictive models."[2] NAMIC encourages the Task Force to begin its work with publicly identifying these issues or challenges. Where concrete challenges are identified, they may guide the direction of the Task Force's work so as to avoid creating a solution disjointed from any needs of the market. The Task Force

[1] The National Association of Mutual Insurance Companies consists of nearly 1,500 member companies, including seven of the top 10 property/casualty insurers in the United States. The association supports local and regional mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC member companies write $391 billion in annual premiums and represent 68 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets. Through its advocacy programs NAMIC promotes public policy solutions that benefit member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

[2] *See* NAIC Third-Party Data Models (H) Task Force 2024 Charges and Work Plan, https://content.naic.org/sites/default/files/2024-charges-and-work-plan-exposure-040524.pdf.

© 2024 National Association of Insurance Commissioners



should be specific about the identified challenges, and what a new model law or amendments to existing law or regulations are trying to solve.

Examine Existing State Law and Applicability to Third Party Vendors

Project Step A of the Work Plan includes a directive to "[e]valuate existing frameworks and discuss whether existing frameworks might be useable for the regulation of third-party data and models." NAMIC agrees that knowing what existing law says and covers should be the primary consideration in developing regulatory policy. For instance, relative to the property casualty sector, models that impact pricing are already filed with departments, and undergo a highly scrupulous review process. Relatedly, NAMIC encourages the Task Force to explore and evaluate the different types of third-party data and model vendors that exist, and how insurers use them. The Work Plan poses the question of why third-party vendors are reluctant to get licensed as advisory or rating organizations. One of the reasons for this is very likely that, depending on the service that the third party provides and how insurers work with them, the third party does not meet the definition of an advisory or rating organization. Categorizing all third parties into neatly defined existing boxes is likely not tenable. Additionally, states lack uniformity in how advisory and rating organizations are defined. Achieving a more accurate characterization of what different types of third parties exist, and subsequently striving for consistency, clarity, and appropriate applicability will enhance the Work Plan's effectiveness.

Provide a Transparent Process with Industry Involvement

NAMIC fully supports the Work Plan's commitment to transparency throughout the process. The focus of the Task Force is regulation of a third party with whom insurers have formed a contractual relationship. As such, the industry and its third-party vendors must not only have clear lines of sight into the Task Force's work, but also pose a critical participation role in these policy discussions. The industry has much to provide in the way of education to the Task Force on how third-party relationships are negotiated, leveraged, the types of data and models that are used, and how these relationships benefit the industry and consumers alike.

Avoid Overly Burdensome Requirements and Ensure Consistency Across Committees

The current draft of the Work Plan includes a goal to ensure that any resulting framework does not unnecessarily discourage innovation. NAMIC believes this goal to be an integral part of the Task Force's work. No matter the size of the company, as technology and model capabilities advance, and third parties become more specialized in their respective data or model areas of expertise, partnerships between insurers and third parties are more likely to grow and are more likely to create increased benefit for consumers. It is therefore essential to consider such consumer benefit and not unnecessarily discourage innovation in this space.

Further, NAMIC encourages the Task Force to publicly engage with other NAIC Committees and Working Groups that may be addressing similar topics. For example, the NAIC Accelerated Underwriting (A) Working Group (AUWG) has restarted its work on a Market Referral to the Market Conduct Examination Guidelines (D) Working Group. In the most recent exposure draft of



this work[3], the AUWG recommends that a new standard be included in Chapter 23 – Conducting the Life and Annuity Examination related to a life insurer's use of big data, artificial intelligence, and machine learning to underwrite life insurance. In the suggested standards, the AUWG highlights the need for addressing review of documents like policy rates and forms, accelerated underwriting models and/or summaries of those models, information about source data used, and testing or auditing policies. While the AUWG's work is specific to life insurance, NAMIC believes it important and beneficial for the industry and consumers alike to have consistency across committees when potentially addressing enforcement mechanisms relative to data and model use – especially relative to ensuring that innovation is not stifled thorough any such requirements.

IN SUMMARY

We close by again thanking the Task Force for allowing NAMIC to submit comments to engage on this extremely important discussion regarding third party vendors, and we urge you to continue offering additional iterative opportunities for robust, transparent conversations throughout the education process and any potential drafting processes. NAMIC endeavors through these comments to express its overall support for the Work Plan and to highlight areas that the Task Force should especially direct its focus. NAMIC looks forward to continuing our work with the Task Force to arrive at solutions that protect and stabilize the insurance marketplace while fostering growth and innovation that benefit all stakeholders.

Sincerely,

Lindsey Klarkowski
Director of Data Science & AI/ML Policy
NAMIC

[3] *See* AUWG Referral to Market Conduct Examination Guidelines (D) Working Group exposure draft, https://content.naic.org/sites/default/files/inline-files/Market%20Reg%20Referral%201-11-23.docx.

Comments on Third-Party Data and Models (H) Task Force 2024 Charges and Work Plan

I am Earnest Collins, Owner and Managing Member of Regulatory Compliance & Examination Consultants LLC. I have been an interested party in the Innovation, Cybersecurity, and Technology (H) Committee for over ten years and was an interested regulator for over twenty years.

I want to comment on the Third-Party Data and Models (H) Task Force 2024 Charges and Work Plan.

Project Steps

Evaluate existing frameworks and discuss whether existing frameworks for regulatory oversight of third-party data and models, including those utilized in artificial intelligence.

- Algorithm transparency in machine learning is becoming increasingly important in insurance, finance, and health care. Explainable AI (XAI) made significant strides in 2024, particularly in enhancing insurance company compliance and regulation. Its implementation is critical, but fosters trust transparency, accuracy, and accountability. It's important to note that there is often a tradeoff between these dimensions when choosing machine learning models and algorithms. Therefore, frameworks around algorithm transparency in machine learning that aim to make the decision-making process of AI models clear and understandable should be discussed when evaluating the model.

- *Artificial Intelligence Risk 4 Management Framework: 5 Generative Artificial Intelligence 6 Profile is a framework that should be considered.*

Discuss goals for a future third-party framework.

- Request Model Cards, which provide details about the machine learning model's construction, architecture, and training data.
- Contract service level agreements (SLA)should be provided.
- Frameworks should comply with current global AI regulations, e.g., 2024 Biden Harris Administration in the United States, EU AI Act
- Data is one of the most important dimensions in these predictive models; therefore, regulatory oversight should be focused on data governance frameworks. *Artificial Intelligence Risk 4 Management Framework: 5 Generative Artificial Intelligence 6 Profile is a framework that should be considered.*

© 2024 National Association of Insurance Commissioners

rrc risk&regulatory CONSULTING
20 BATTERSON PARK ROAD | SUITE 380 | FARMINGTON, CT 06032 | 855.246.0815 | WWW.RISKREG.COM

National Association of Insurance Commissioners
Third-Party Data and Models (H) Task Force
Attn: Kris DeFrain

RE: THIRD-PARTY DATA AND MODELS (H) TASK FORCE 2024 Charges and Work Plan

Dear Ms. DeFrain:

We applaud the Innovation Cybersecurity and Technology Committee for establishing the Third-Party Data and Models Task Force (Task Force). The draft 2024 Charges and Work Plan is thorough and includes important aspects to consider, such as:

a) Existing regulatory frameworks;
b) Current regulation of third-party data and models;
c) Differences across lines of business and company uses; and
d) Ensuring the framework does not unnecessarily discourage innovation.

We recommend that, in addition to the considerations included in this work plan, that the Task Force pay particular attention to weighing costs and benefits to future alternative regulatory approaches. To this end, we recommend that the Task Force understand the potential risks to policyholders under frameworks with less regulation while also understanding the costs and time associated with additional regulation. For example, currently some states engage in more review of catastrophe models than others – it may be instructive for the Task Force to hear from lessons learned (from regulators, carriers, and third-party vendors) regarding the costs and benefits of the differences in the level of review of these models.

We also recommend that the Task Force develop a list of specific risks associated with the use of third-party data and models. While the development of a list of risks may be implied by the work plan item, "What are the current issues that insurance departments have regulating insurers that use third-party data and models in rating, underwriting, marketing, and handling claims?", we recommend explicitly stating that the Task Force will develop a comprehensive list of risks. We believe that such a list will be a useful reference point for any regulatory proposals that emerge from this group's efforts.

We appreciate the opportunity to provide these comments and look forward to participate in future dialogue on this topic.

Sincerely,

David Heppen, FCAS, MAAA
Partner
dave.heppen@riskreg.com
610.247.8019

Lauren Cavanaugh, FCAS, MAAA
Director
lauren.cavanaugh@riskreg.com
609.255.9778

© 2024 National Association of Insurance Commissioners

Brian Bayerle
Chief Life Actuary
202-624-2169
BrianBayerle@acli.com

Colin Masterson
Policy Analyst
202-624-2463
ColinMasterson@acli.com

April 26, 2024

Commissioner Michael Conway
Chair, NAIC Third-Party Data and Models (H) Task Force

Re: 2024 Charges and Work Plan

Dear Commissioner Conway:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the NAIC Third-Part Data and Models (H) Task Force's exposure of its 2024 Charges and Work Plan. ACLI broadly supports the charges and work plan of this group, and we look forward to working with the Task Force on addressing these charges in a way that enables companies to innovate to meet consumer demands while expanding access to insurance and financial security for all.

Sincerely,

B Bayerli Colin Masterson

cc: Kris DeFrain, NAIC

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.
acli.com

Milliman

2261 Market Street
Suite 5485
San Francisco, CA 94114

Tel +1 415 403 1333
Fax +1 415 403 1334

milliman.com

May 10, 2024

SUBMITTED VIA ELECTRONIC MAIL

Kris DeFrain, Director
Research & Actuarial Services
National Association of Insurance Commissioners (NAIC)

kdefrain@naic.org

Re: Comment Letter: Third-Party Data and Models (H) Task Force: 2024 Charges and Workplan

The undersigned consultants from Milliman, Inc. and its subsidiary Milliman Appleseed LLC appreciate the ability to participate and comment on the *2024 Charges and Workplan* adopted by the NAIC Third-Party Data and Models (H) Task Force (hereinafter referred to as Task Force). Milliman is an independent actuarial consulting firm, and Milliman Appleseed is an advisory organization licensed to submit loss costs, rating factors, and risk scores with state insurance regulators across the U.S. (hereinafter and collectively referred to as Milliman).

We believe that there is a significant role for collective regulatory review and combining resources to effectively increase transparency and consumer protection under current and new or modification of adopted model laws and regulations. We support the Task Force's goal to *develop and propose an optimal regulatory framework for the oversight of third-party data and predictive models*, and offer our support and expertise to help research, evaluate, and determine an optimal framework for regulatory oversight of third-party data and predictive models, including the use of artificial intelligence. Milliman has worked with legislators, regulators, insurers, and the actuarial community throughout the U.S. to help create standards and education concerning model review, including working with the Catastrophe Modeling Primer Drafting Group of Catastrophe Insurance (C) Working Group and serving as the insurance industry representative on the California Office of the State Fire Marshal Risk Modeling Advisory Workgroup. To that end, we welcome the opportunity to assist the Task Force in any way possible in its research and design efforts to achieve an optimal regulatory framework.

By way of example, we are including several links and attachments to documents to accompany this letter that highlight Milliman's expertise and collaboration with various legislative and regulatory stakeholders. These groundbreaking projects have demonstrated our commitment to enabling regulators and the actuarial community to leverage new techniques responsibly and effectively in the insurance context. While it is not our desire to overwhelm the Task Force with a detailed menu of Milliman's expertise, we believe that the following list and attachments serve as examples of the type of work that could benefit the Task Force in achieving its goals under the 2024 Charges and Work Plan:

© 2024 National Association of Insurance Commissioners

Milliman

- White Paper: ***Statistical Methods for Imputing Race and Ethnicity***, Society of Actuaries Research Institute (April 2024)
- White Paper: ***Catastrophe Models for Wildfire Mitigation: Quantifying Credits and Benefits to Homeowners and Communities***, Casualty Actuarial Society (2022)
- Article: ***Taking Catastrophe Models Out of the Black Box***, Milliman (July 2022)
- White Paper: ***Interpretable Machine Learning for Insurance | SOA***, Society of Actuaries (April 2021)
- Attachment A - (Presentation): ***Market Trust and Market Stability***, RAA Catastrophe Risk Management Conference (February 2024)
- Attachment B - (Presentation): ***Fairness and Transparency in Machine Learning***, 2023 Auto Insurance Report Conference (April 2023)

We are excited to participate in this process and support the goals of the Task Force to research and evaluate key components regarding third-party data and models. We gladly offer our expertise and look forward to working with the Task Force as it executes its 2024 Charges and Work Plan.

Respectfully submitted,

Nancy Watkins, FCAS, MAAA
Principal & Consulting Actuary

Peggy Brinkmann, FCAS, MAAA, CSPA
Principal & Consulting Actuary

Matt Chamberlain, FCAS, MAAA, CSPA
Principal & Consulting Actuary

Oyango A. Snell, Esq., CAE
Government Relations Consultant

© 2024 National Association of Insurance Commissioners

Attachment A

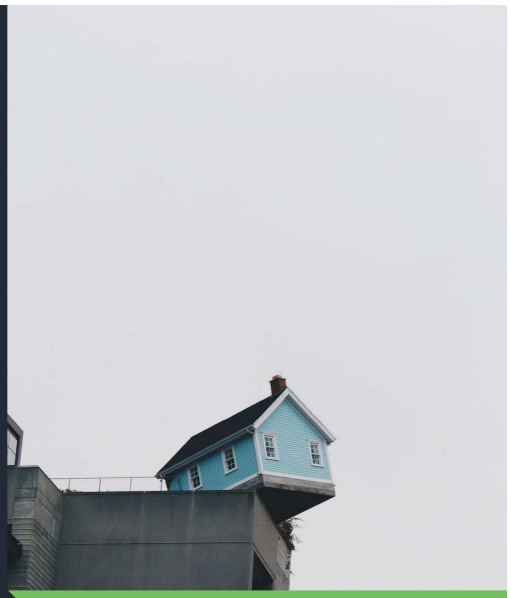
Market Trust and Market Stability, RAA Catastrophe Risk Management Conference (February 2024)

© 2024 National Association of Insurance Commissioners

Model trust and market stability

RAA Cat Risk Management Conference
Orlando, FL

Nancy P. Watkins, FCAS, MAAA
FEBRUARY 29, 2024



Milliman

Agenda

- Role of catastrophe models in sustainable insurance markets
- Real and perceived model gaps
- What should we do? 4 ideas and 2 examples

Milliman

2


Catastrophe models and sustainable insurance
Milliman

What constitutes a sustainable insurance market?

And how do cat models contribute?

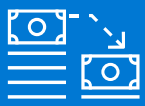
Availability

- Insurer can manage and measure the risk
- Insurer can charge premiums that represent the cost of risk transfer



Affordability

- Policyholders are willing to pay the price offered to transfer the risk
- Policyholders are able to pay the premium



Reliability

- Insurer will be able to pay claims
- System will be stable over the long term



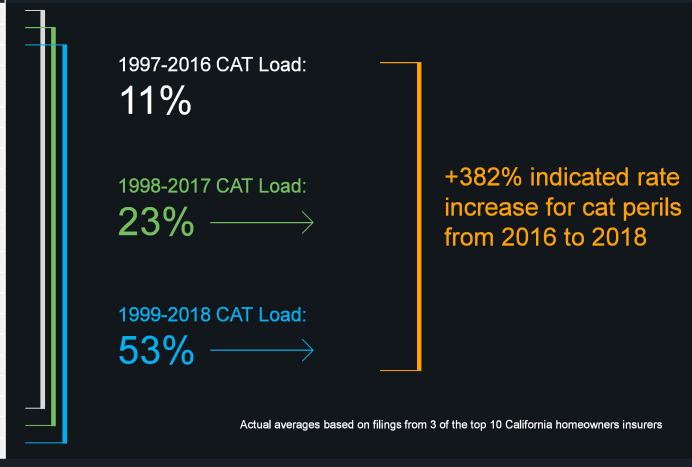
Milliman

4

Historical data vs. models: illustrating effect on affordability

Inclusion of 2017 and 2018 wildfires in CA HO rate formula increased average catastrophe load indication by almost 5x

Year	Non-cat loss	Cat loss	Cat/non-cat ratio
1997	101	5	5%
1998	123	14	11%
1999	131	7	5%
2000	179	-0	0%
2001	216		1%
2002	236	8	3%
2003	159	78	49%
2004	183	5	3%
2005	197	12	6%
2006	230	7	3%
2007	251	120	48%
2008	320	75	23%
2009	334	3	1%
2010	332	3	1%
2011	396	17	4%
2012	345	2	1%
2013	386	0	0%
2014	350	22	6%
2015	394	145	37%
2016	403	14	4%
2017		1,243	260%
2018	390	2,395	614%



Milliman

5

How can mistrust in catastrophe models impact the market?

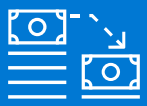
Unavailable

- Conservatism and uncertainty in risk measurement and management
- Reduced risk appetite
- Inability to charge true cost of risk



Unaffordable

- Reduced competition
- Restricted coverage
- Potential disconnect between premiums and risk



Unreliable

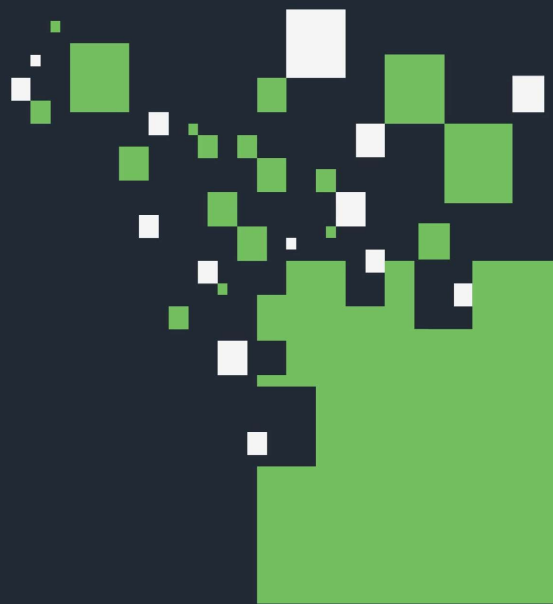
- Unpredictable environment
- Reinsurance challenges
- Solvency concerns



Milliman

6

Real and perceived model gaps

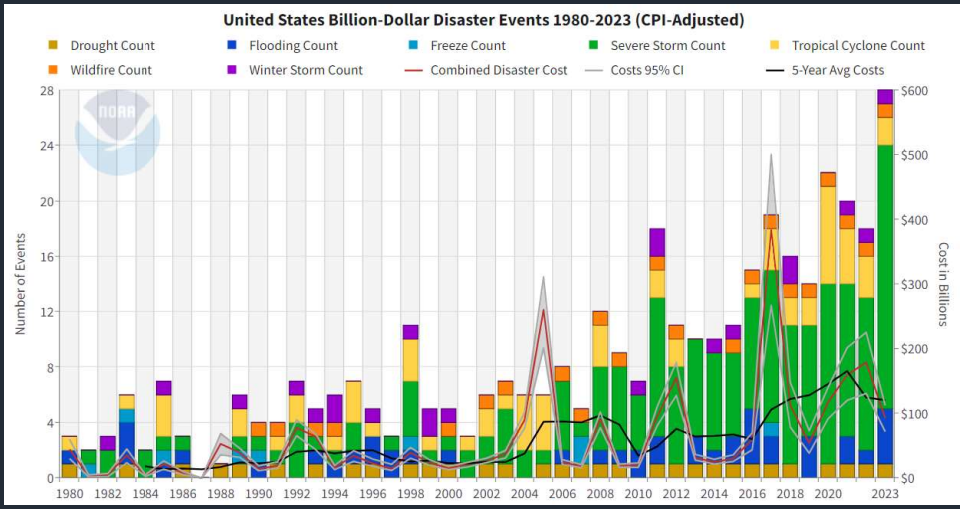


Milliman

© 2024 National Association of Insurance Commissioners

Change in the importance of secondary perils

Becoming more important – not just tail events



Smith, Adam B. (2020). U.S. Billion-dollar Weather and Climate Disasters, 1980 - present (NCEI Accession 0209268). NOAA National Centers for Environmental Information. Dataset. https://doi.org/10.25921/stkw-7w73. Accessed 02.20.2024

Milliman

8

Real model gaps exist, especially for secondary perils

Variety of issues may diminish user confidence

- Lack of convergence
- Insufficient historical events/data for validation
- Perceived under- or overstatement of risk
- Poor visibility of current conditions
- Consideration of important risk factors
- Inability to model mitigation efforts



Milliman

9

Widely perceived model gaps

…and when it comes to trust, perception is real

Black boxes

Biased

Drastically increase premiums

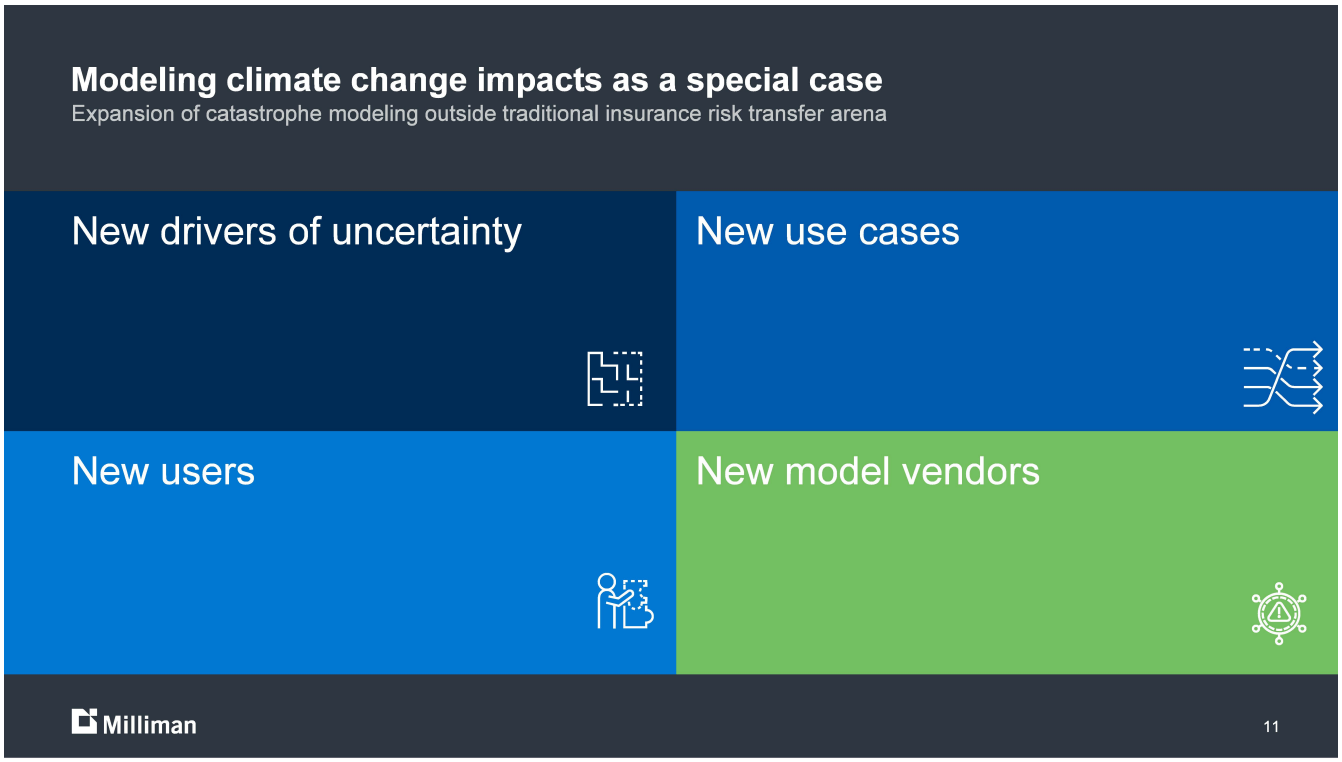
Undermine regulatory oversight

Model disagreement ➔ they can't be trusted



Milliman

10


Modeling climate change impacts as a special case
Expansion of catastrophe modeling outside traditional insurance risk transfer arena
New drivers of uncertainty
New use cases
New users
New model vendors
Milliman
11

What happens when the trust gap isn't bridged?

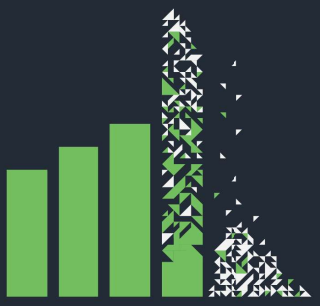
Typical policy responses and potential unintended outcomes in an insurance crisis

Responses

- Prohibition/restrictions on:
  - Use of models in pricing
  - Premium increases
  - Non-renewals, underwriting
- New mechanisms to dispute models/pricing
- Mandated discounts
- Requiring model IP to be published
- Public cat models
- Data calls
- Expansion of government-backed insurance and reinsurance

Potential outcomes

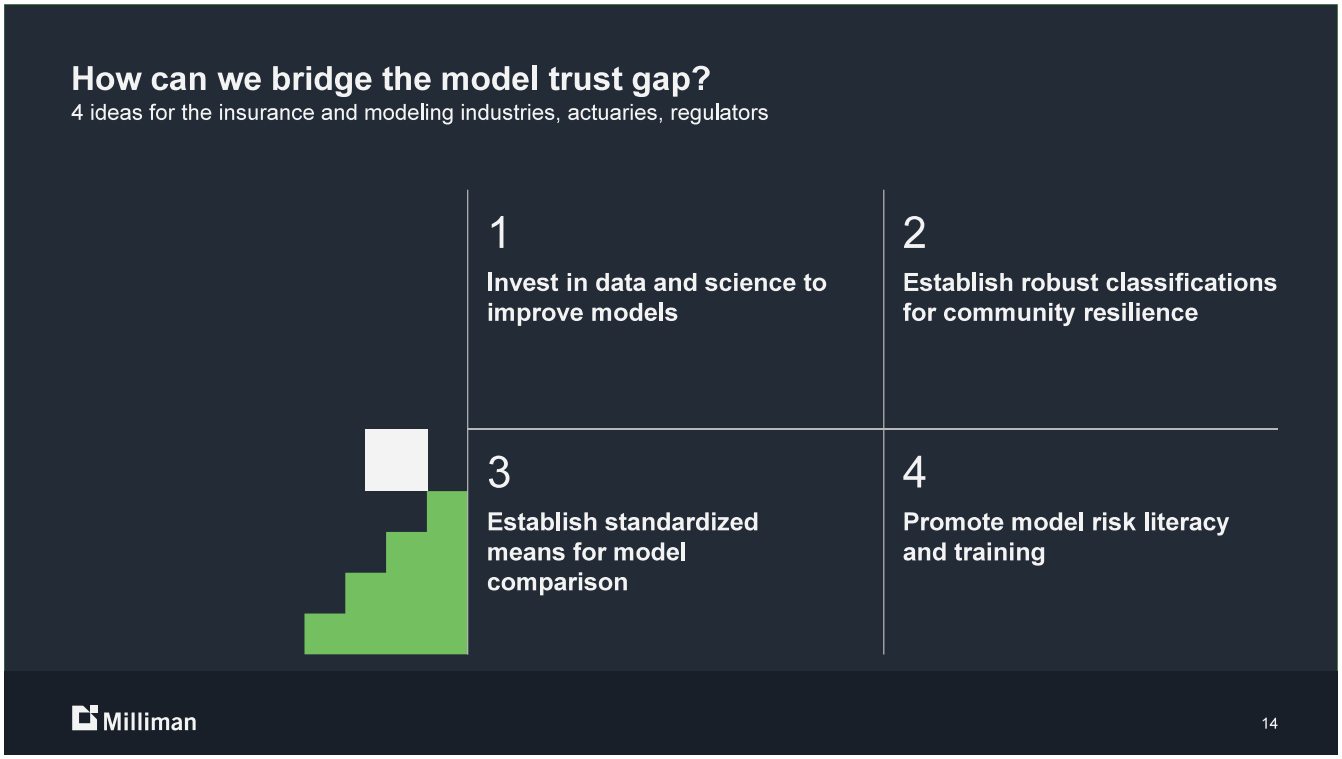
- Subsidies for high-risk policies
- Delays in addressing root causes of risk
- Consumer confusion
- Lack of incentive or information to mitigate
- Premium erosion
- Increased expense without concurrent benefit
- Reduced demand for and investment in modeling
- Threats to insurer solvency
- Accelerated market withdrawal
- Possible market collapse



Milliman

12


What should we do?
Milliman


How can we bridge the model trust gap?
4 ideas for the insurance and modeling industries, actuaries, regulators
1
Invest in data and science to improve models
2
Establish robust classifications for community resilience
3
Establish standardized means for model comparison
4
Promote model risk literacy and training
Milliman
14

Example 1

Wildfire community risk mitigation

Milliman

What will increase reinsurance capacity in wildfire-exposed areas?

Input from reinsurance industry executive

- *If a goal of mitigation efforts is to help stabilize the insurance market and/or to help limit insurance premiums, the mitigation work plans need to be communicated and the mitigation spending must result in actual risk reduction to insured structures.*
- *Unless insurers are aware of effective risk reduction, they will not be able to take it into account as they evaluate risk and their willingness to take on risk at a given price.*
- *Transparency in goals and actual mitigation projects planning/"completion" and maintenance is essential.*

Milliman

16

September 2022 convening: Wildfire Knowledge Alignment Work Group

Fire management professionals, fire scientists, actuaries, cat modelers, IBHS, CDI

Purpose: To better understand the impacts of defensible space, home hardening, defensive action, and location on wildfire risk while identifying gaps in the current data and science.

Difficulties estimating wildfire risk:

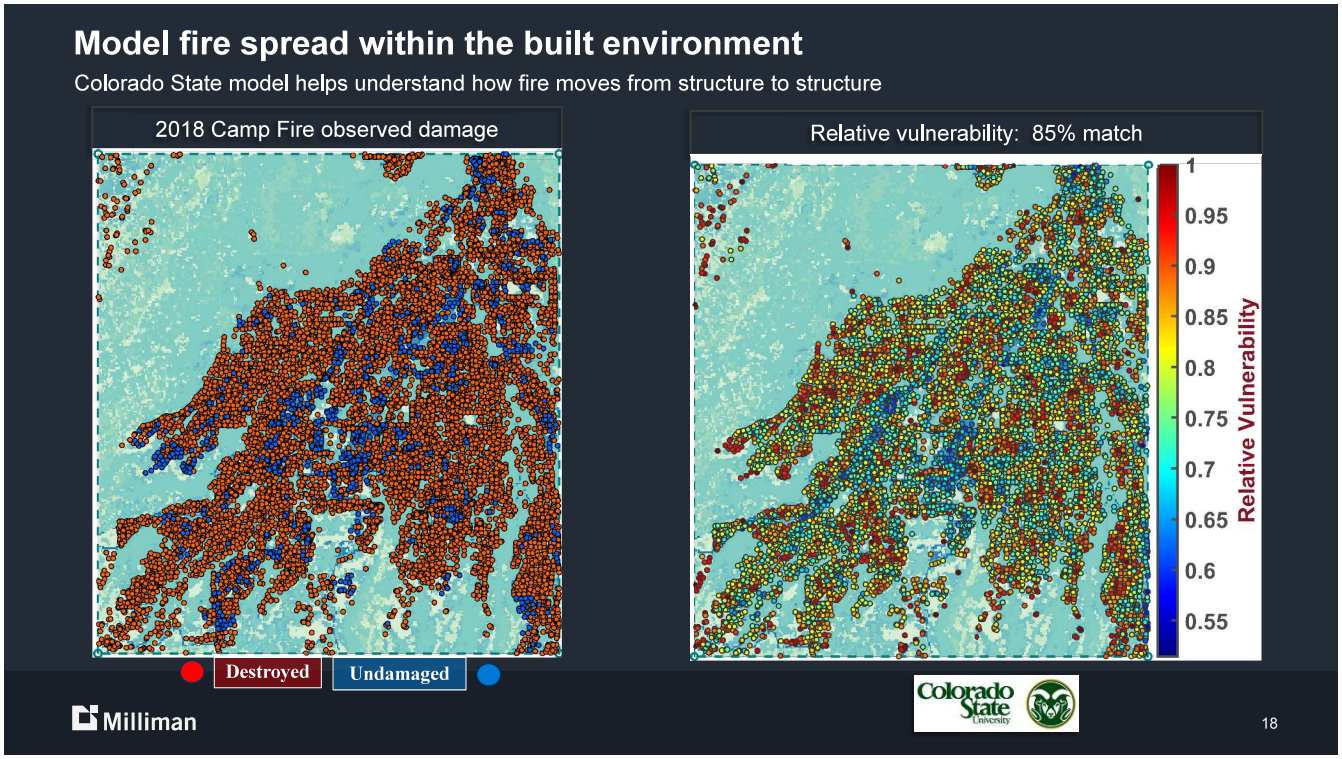
- Insufficient understanding of fire spread in the built environment
- No measurement of strength/effectiveness of fire suppression
- Lack of agreement on the mitigations that matter
- Lack of info on mitigation across a community
- Barriers to social acceptance and implementation at scale



Milliman

HOOVER INSTITUTION Stanford | Doerr School of Sustainability

17


Model fire spread within the built environment
Colorado State model helps understand how fire moves from structure to structure
2018 Camp Fire observed damage
Destroyed
Undamaged
Relative vulnerability: 85% match
1
0.95
0.9
0.85
0.8
0.75
0.7
0.65
0.6
0.55
Relative Vulnerability
Milliman
Colorado State University
18

Evaluate wildfire suppression ability with WUI Fire Protection Score

Pilot underway with WFCA to measure the ability of a community's fire protection agency to prevent urban conflagrations



- Collect uniform data from fire fighting agencies and their battalions
- Assess command and operational staff, equipment, training, and community risk reduction activities
- Score communities based on surrounding battalion resources and travel times

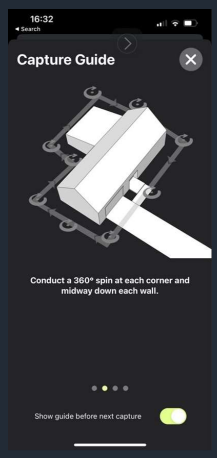
			Ability			Capacity		
Variable	Source	Item Detail	Vegetation to Vegetation	Vegetation to Structure	Structure to Structure	Vegetation to Vegetation	Vegetation to Structure	Structure to Structure
Type 1 Fire Engine	3.2	6 Type 1 Fire Engines	1.00	1.00	1.00	6.00	6.00	6.00
Type 2 Fire Engine	3.3	6 Type 2 Fire Engines	1.00	1.00	1.00	6.00	6.00	6.00
Type 3 Fire Engine	3.4	4 Type 3 Fire Engines	1.25	0.75	0.75	4.00	4.00	4.00
Type 4 Fire Engine	3.5	6 Type 4 Fire Engines	1.50	0.75	0.75	6.00	6.00	6.00
Type 5 Fire Engine	3.6	6 Type 5 Fire Engines	1.75	0.50	0.50	6.00	6.00	6.00
Type 6 Fire Engine	3.7	4 Type 6 Fire Engines	2.00	0.25	0.25	4.00	4.00	4.00
Type 7 Fire Engine	3.8	6 Type 7 Fire Engines	2.25	0.25	0.25	6.00	6.00	6.00
Type 1 Dozer	3.9	2 Type 1 Dozers	2.00	2.00		1.00	1.00	
Type 2 Dozer	3.10	2 Type 2 Dozers	1.75	1.75		1.00	1.00	
Type 3 Dozer	3.11	0 Type 3 Dozers	0.00	0.00		0.00	0.00	
Type 4 Dozer	3.12	0 Type 4 Dozers	0.00	0.00		0.00	0.00	
Support Type 1 Water Tender	3.13	1 Support Type 1 Water Tender	0.50	0.50	0.50	5.00	5.00	5.00
Support Type 2 Water Tender	3.14	0 Support Type 2 Water Tenders	0.00	0.00	0.00	0.00	0.00	0.00
Support Type 3 Water Tender	3.15	1 Support Type 3 Water Tender	0.50	0.50	0.50	1.00	1.00	1.00
Tactical Type 1 Water Tender	3.16	0 Tactical Type 1 Water Tenders	0.00	0.00	0.00	0.00	0.00	0.00
Tactical Type 2 Water Tender	3.17	0 Tactical Type 2 Water Tenders	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Portable Radio	3.18	Yes	1.00	2.00	1.00			
Radio - Interoperability - Auto Aid	3.19	Programmable w/ Auto-Aid Mobile	1.30	1.30	0.70			
Radio - Interoperability - Cross Group Scan	3.19	Interoperability with Cross Group Scan				3.00	3.00	3.00
Crew Size - Type 1 IHC	3.20	18 - 22 Type 1 IHC Crew Members	4.00	4.00	4.00	5.00	5.00	5.00
Crew Size - Type 2 IA	3.21	24- 26 Type 2 IA Crew Members	2.00	2.00	2.00	15.00	15.00	15.00
Crew Size - Type 2	3.22	21- 23 Type 2 Crew Members	1.00	1.00	1.00	10.00	10.00	10.00
Basic Training	3.23	(Page 10)	0.25	0.20	0.20			
Supervisory Training	3.24	(Page 11)	2.56	2.56	2.36			
Risk Reduction Programs	3.25	(Page 12)	4.00	4.00	4.00			
Self Component Rating			**31.61**	**26.31**	**20.76**	**79.00**	**79.00**	**77.00**

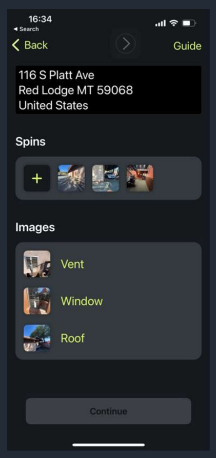
Milliman

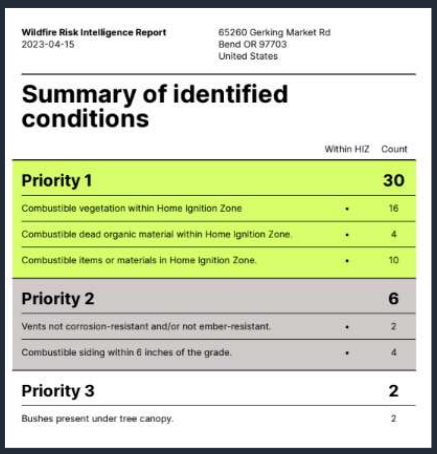
19

Capture key mitigation data at the parcel level

Technology can decrease cost and expand utility of on-the-ground inspections







Wildfire Risk Intelligence Report
2023-04-15

65260 Gerking Market Rd
Bend OR 97703
United States

Summary of identified conditions

	Within HIZ	Count
Priority 1		**30**
Combustible vegetation within Home Ignition Zone	•	16
Combustible dead organic material within Home Ignition Zone.	•	4
Combustible items or materials in Home Ignition Zone.	•	10
Priority 2		**6**
Vents not corrosion-resistant and/or not ember-resistant.	•	2
Combustible siding within 6 inches of the grade.	•	4
Priority 3		**2**
Bushes present under tree canopy.		2



Combustible vegetation within Home Ignition Zone

Priority 1

Remove vegetation from Home Ignition Zone

Overview Map

PYREZO

Milliman

20

Enable data capture at scale across the community

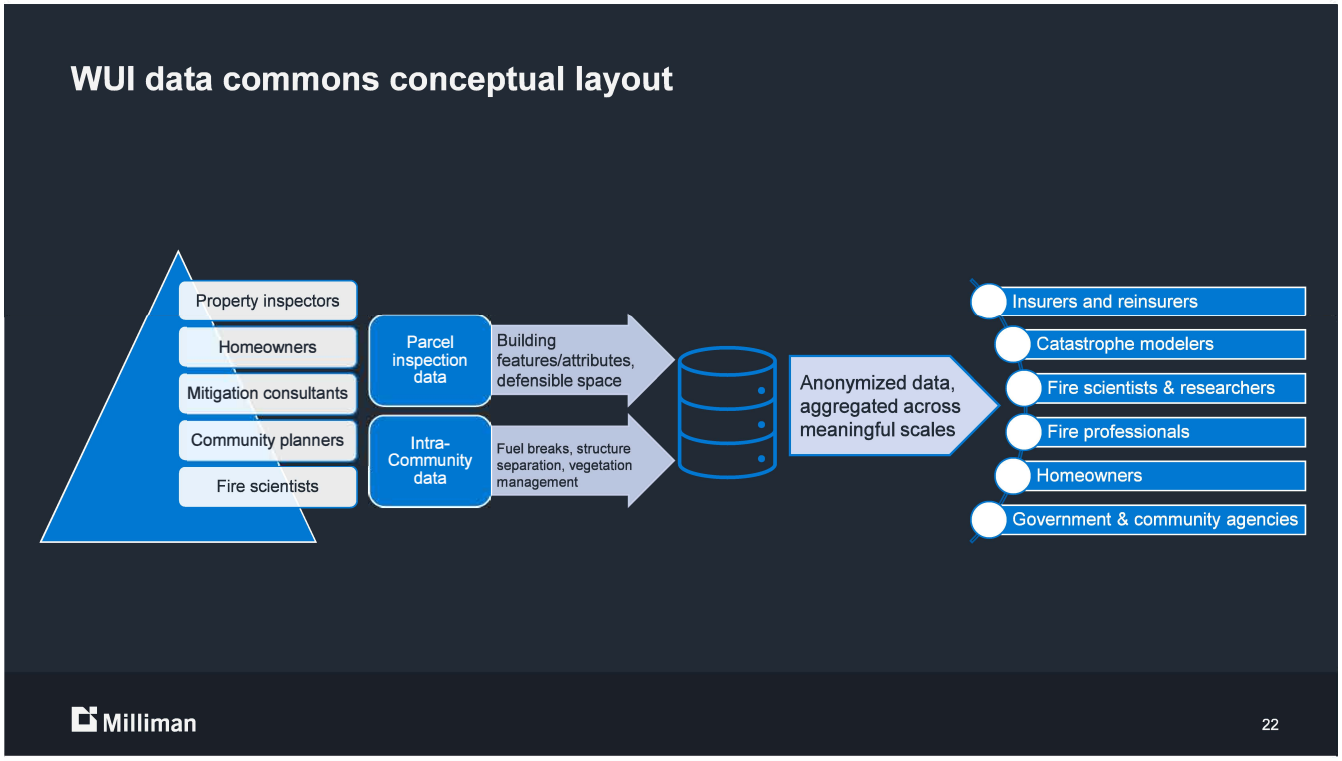
The case for establishing a wildfire data commons

- Correlation of risk in community results in need for:
  - Community data to assess risk
  - Collective action to reduce risk
- Lack of recognition of mitigation actions undermines trust in cat models and insurers

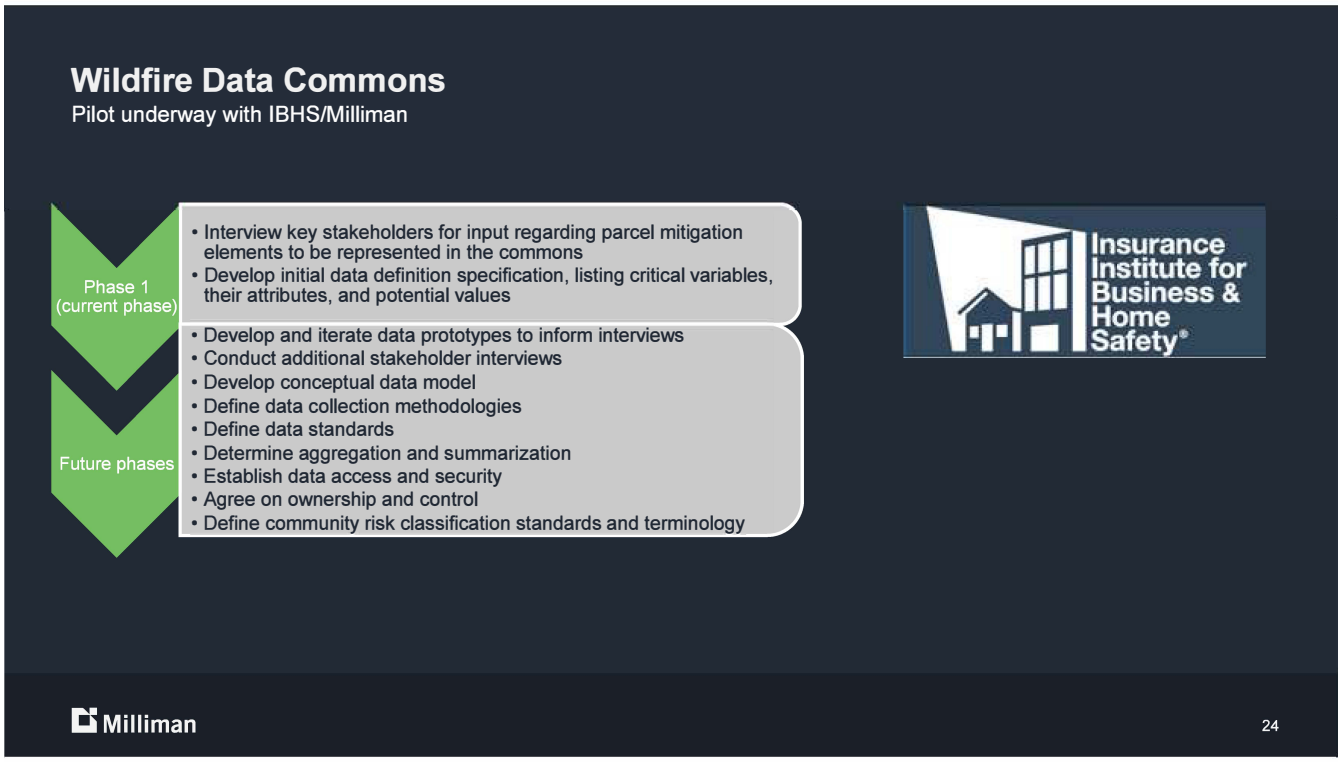


Milliman

21


WUI data commons conceptual layout
Property inspectors
Homeowners
Mitigation consultants
Community planners
Fire scientists
Parcel inspection data
Intra-Community data
Building features/attributes, defensible space
Fuel breaks, structure separation, vegetation management
Anonymized data, aggregated across meaningful scales
Insurers and reinsurers
Catastrophe modelers
Fire scientists & researchers
Fire professionals
Homeowners
Government & community agencies
Milliman
22


WUI data commons
Desired key attributes
Consistent
Similar data collected across different platforms, geographic areas and time periods
Cost-beneficial
Cost to collect the data is reasonable vs. value for users
Current
Collected frequently enough to capture quickly changing conditions
Accurate
Auditable and verifiable
Secure
Database architecture will have robust measures to restrict use and access
Aggregatable
Will allow for views of risk at various geographic scales, to maximize usefulness by all parties
Milliman
23


Wildfire Data Commons
Pilot underway with IBHS/Milliman
Phase 1 (current phase)
• Interview key stakeholders for input regarding parcel mitigation elements to be represented in the commons
• Develop initial data definition specification, listing critical variables, their attributes, and potential values
Future phases
• Develop and iterate data prototypes to inform interviews
• Conduct additional stakeholder interviews
• Develop conceptual data model
• Define data collection methodologies
• Define data standards
• Determine aggregation and summarization
• Establish data access and security
• Agree on ownership and control
• Define community risk classification standards and terminology
Insurance Institute for Business & Home Safety®
Milliman
24

Example 2

Enhanced catastrophe model testing, transparency, training



Milliman

Catastrophe model treatment in rate review process

Regulatory practices vary widely among states, perils

Two levels of model review:

#1 Suitability for a given purpose

#2 Usage within a rate filing



Approved models based on scientific and technical review of catastrophe models

(a few other states piggyback on these reviews)



Questionnaires and case-by-case model validation



Approved models based on periodic reviews by outside experts



No model reviews

Prohibition on models

Milliman

26

Challenges for regulators, model users

Why are traditional procedures falling short?

- Rapidly increasing costs to insure and reinsure catastrophic risk
- Proliferation and complexity of models/scores for different perils
- No standardized output or disclosures for public comparison
- Insufficient expertise and/or resources for comprehensive review
- Calls for mitigation discounts
- Use of models for RBC, climate disclosure

Milliman

27

What would enhanced catastrophe model testing look like?

Could be done ad hoc or could establish a collective testing facility

Multi-disciplinary oversight panel

- Voluntary participation by state insurance regulators
- Other governmental agencies?
- Other stakeholders?

Third-party experts chosen by panel

- Cross-disciplinary expert team would depend on nature of model

Scope

- Countrywide model review + state-specific questions
- Independent, centralized, rigorous process
- Model IP protection

Comprehensive deliverables

- Standardized modeler disclosures
- Expert reports
- Model performance assessments
- State-specific output

Milliman

28

Additional support for informed cat model usage

Need for all stakeholders to be better equipped & more confident



State filing requirements

- Accepted models for rate filings
- Streamlined checklist supporting model choice and use within filing
- Reduced duplication, effort, cost, time for insurers and regulators

Model training

- More rigorous training on model validation and use
- Attention to new users and use cases
- Scholarships for regulatory actuaries
- Evolve from “how to run the model” to “how to make decisions in the face of uncertainty”

Model standards and disclosures

- Need to expand outside Florida
- Standardized inputs, outputs, disclosures available to public
- Will need to be informed and embraced by model-building community

Milliman

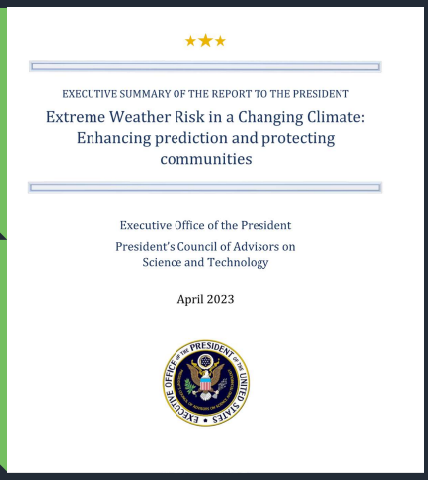
29


Critical elements
Minimum requirements for success
1
Widespread buy-in among regulators, insurers, modelers
2
Cost and time efficiency
3
Flexibility to allow innovation and multiple perspectives
Milliman
30

Related recommendations from federal government

Selected excerpts from President's Council of Advisors on Science and Technology report

"While a burgeoning industry is beginning to provide climate risk information, much of this is of questionable quality, either because it has not been transparently skill-scored to show that it can predict past events, or because it relies on methods that have been shown by the academic literature to have significant bias."



★★★

EXECUTIVE SUMMARY OF THE REPORT TO THE PRESIDENT

Extreme Weather Risk in a Changing Climate: Enhancing prediction and protecting communities

Executive Office of the President

President's Council of Advisors on Science and Technology

April 2023

- Inventory and release federal data to develop and test weather-hazard and hazard-loss models
- Develop guidelines for measuring the accuracy of weather-hazard and hazard-loss models
- Fund research on risk-assessment modeling systems to quantify the likelihood and economic costs of extreme weather events

https://www.whitehouse.gov/wp-content/uploads/2023/04/PCAST_Extreme-Weather-Report_April2023_Letter-ExecSumm.pdf

Milliman

31

Q&A



Milliman

© 2024 National Association of Insurance Commissioners

Milliman

Thank you

Nancy Watkins
nancy.watkins@milliman.com



Attachment B

Fairness and Transparency in Machine Learning, 2023 Auto Insurance Report Conference (April 2023)

Beyond GLMs

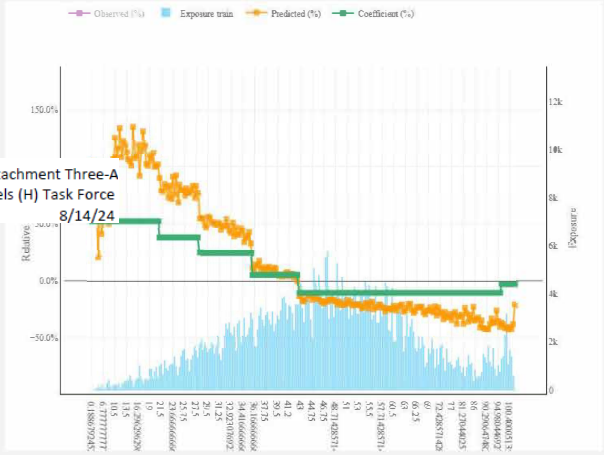
Getting more accuracy with interpretability

Milliman

1

Approach 1: Automated GLMs/Generalized Additive Models (GAMs)

- Use machine learning to automate the generation of traditional GAMs and GLMs
- Advantages compared to traditional GLM:
  - Faster model build time
  - Higher predictive power
- Advantages compared to GBM:
  - Works well on smaller datasets
  - Glass-box models (inherently interpretable)



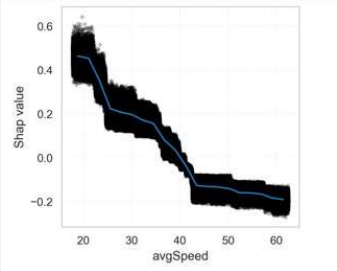
Attachment Three-A
Third-Party Data and Models (H) Task Force
8/14/24

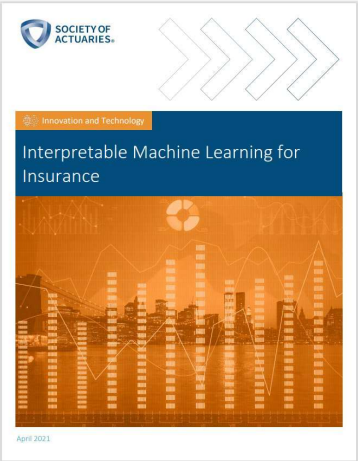
© 2024 National Association of Insurance Commissioners

Approach 2: Machine Learning Model Explainers

Post-model techniques to provide insights into variable importance, relationship between predictor variables and model output, and interaction effects

Work with all types of models (GBM, NN, etc.)





See also: NAIC Guidance for reviewing Random Forests

Milliman

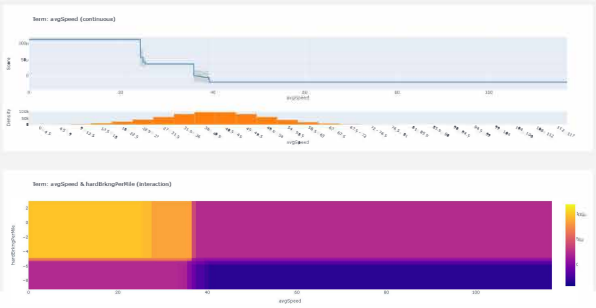
3

Approach 3: GA2M/Explainable Boosting Machines

GAMs that use GBMs for the splines

How it works:

- **Iteratively trains sequence of trees on one feature at a time**
- **Summarize trees by feature to get exact relationship of predictors to output**

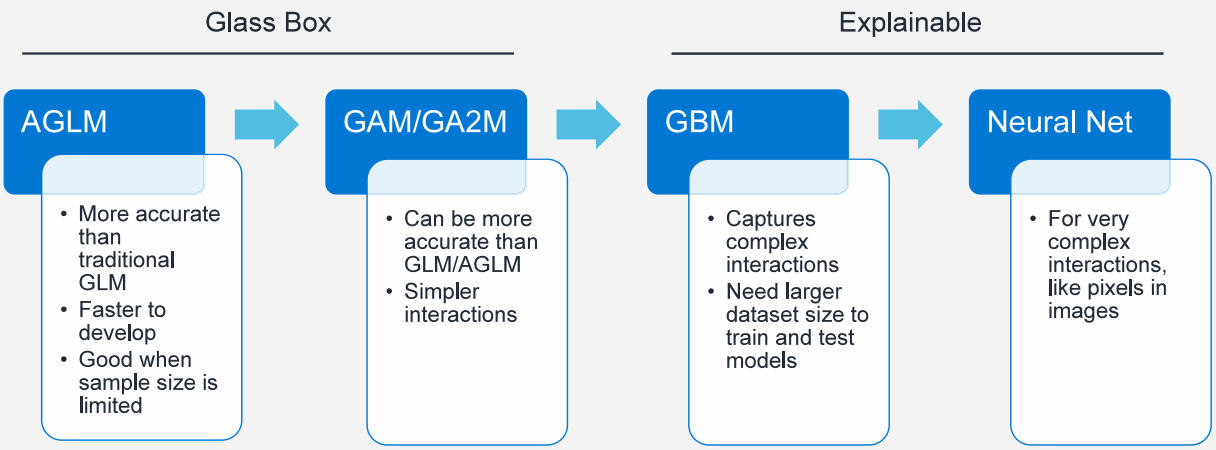




Milliman

4

Summary



Consider the size of dataset, complexity of effects, and the intended use of the model

Milliman

5

This page intentionally left blank.

© 2024 National Association of Insurance Commissioners

NAIC/CONSUMER LIAISON COMMITTEE

NAIC/Consumer Liaison Committee Aug. 12, 2024, Minutes 13-2
NAIC/American Indian and Alaska Native Liaison Committee Aug. 14, 2024, Minutes (Attachment One) 13-7

© 2024 National Association of Insurance Commissioners

Draft: 8/26/24

NAIC/Consumer Liaison Committee
Chicago, Illinois
August 12, 2024

The NAIC/Consumer Liaison Committee met in Chicago, IL, Aug. 12, 2024. The following Liaison Committee members participated: Grace Arnold, Chair (MN); Lori K. Wing-Heier (AK); Mark Fowler (AL); Alan McClain (AR); Ricardo Lara (CA); Andrew N. Mais represented by Kurt Swan (CT); Trinidad Navarro represented by Susan Jenette (DE); Dean L. Cameron represented by Shannon Hohl (ID); Vicki Schmidt (KS); Joy A. Hatchette represented by Nour Benchaaboun (MD); Anita G. Fox represented by Renee Campbell (MI); Chlora Lindley-Myers represented by Jo LeDuc (MO); Mike Chaney represented by Ryan Blakeney (MS); Mike Causey represented by Angela Hatchell (NC); Jon Godfread represented by John Arnold (ND); Eric Dunning represented by Martin Swanson (NE); Justin Zimmerman (NJ); Scott Kipper represented by Todd Rich (NV); Judith L. French represented by Jana Jarrett (OH); Glenn Mulready represented by Ashley Scott (OK); Andrew R. Stolfi represented by Cassie Soucy (OR); Cassie Brown represented by Randall Evans (TX); Jon Pike (UT); Scott A. White represented by Zuhairah Tillinghast (VA); Mike Kreidler (WA); and Nathan Houdek represented by Sarah Smith (WI).

1. Heard Opening Remarks

Brenda Cude (University of Georgia) said Karroll Kitt (University of Texas), who passed away on June 27th, was an NAIC Consumer Representatives since 1999. The Committee paused for a moment of silence to remember Kitt and her contributions as an NAIC Consumer Representative.

2. Adopted its Spring National Meeting Minutes

Commissioner Conway made a motion, seconded by Commissioner Lara, to adopt the Committee's March 15 minutes (*see NAIC Proceedings – Spring 2024 NAIC/Consumer Liaison Committee*). The motion passed unanimously.

3. Heard a Report from the Consumer Participation Board of Trustees

Commissioner Arnold said the Board of Trustees: (a) discussed the automation of the consumer representative application process for 2025; (b) adopted amendments to the Consumer Participation Plan of Operation regarding qualifications for an applicant to be appointed as a consumer representative and the process for a consumer representative changing their post-appointment status from an individual consumer representative to a consumer representative with an organization; and (c) reviewed two requests for actions from NAIC Consumer Representatives. The first request seeks additional NAIC action on readability and the second request seeks additional NAIC action on the regulation of prior authorizations.

4. Heard a Presentation on Insurance Obstacles to Mental Health and Substance Use Disorder Care

Jennifer Snow (National Alliance on Mental Illness—NAMI) said the United States is facing a mental health crisis, as indicated by rising rates of depression, suicide, and drug overdose. Federal surveys consistently show that about one-third of Americans aged 12 and older have a mental health or substance use disorder at any given time. Given its high prevalence, Snow said policymakers have been focusing on access to mental healthcare for decades. The federal Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008 (MHPAEA) requires health plans that cover mental health and substance use disorder benefits to do so no more restrictively than they cover medical and surgical benefits. Snow said quantitative barriers to mental healthcare, such as cost-sharing levels and visit limits are relatively straightforward to assess, while non-quantitative treatment limitations

© 2024 National Association of Insurance Commissioners

such as prior authorization, provider reimbursement rates, and formulary design, are more complex. Snow said recent federal legislation requires plans to provide comparative analysis for these non-quantitative limitations, but that enforcement is challenging.

Joe Feldman (Cover My Mental Health) said 9% of cancer patients and 13% of people with cardiovascular disease do not receive treatment; whereas 50% of people needing mental health treatment and 75% of people needing substance use disorder treatment do not receive treatment. Feldman said many people think insurance will not cover the costs of mental health or substance use disorder. Feldman said insurers face little accountability regarding network adequacy and that inadequate networks would not be permitted for medical and surgical treatment. Feldman said out-of-network care leads to delays, additional costs, and challenges in finding providers. Feldman said unacceptable provider reimbursement rates, troublesome insurer oversight, and the burden of joining networks drive mental healthcare providers to accept only private pay clients, which disadvantages consumers who cannot afford treatment.

Deb Steinberg (Legal Action Center—LAC) said state regulators should use the following strategies to enhance access to mental health and substance use disorder care: 1) enforce meaningful compliance with parity laws; 2) establish quantitative network adequacy standards with robust consumer protections; 3) standardize and eliminate unnecessary utilization management practices; 4) support community-based consumer assistance programs; 5) enforce network adequacy standards; 6) enforce balance billing protections; and 7) support standardized coverage criteria and patient placement tools used by plans. Steinberg said proactive enforcement of the MHPAEA is crucial since regulators have access to resources and data that consumers do not.

5. Heard a Presentation on the Impact of the Enhanced Premium Tax Credit on Uninsurance, Premiums, and State Innovation

Claire Heyison (Center for Budget and Policy Priorities—CBPP) said the expiration of enhanced premium tax credits will negatively impact states' efforts to improve health care affordability. Heyison said 19 states have reinsurance programs to lower premiums in the individual market. These programs create federal savings and generate state revenue under the enhanced tax credits.

Laura Colbert (Georgians for a Healthy Future) said 10 states provide extra state-funded premiums or cost-sharing assistance. If the tax credits expire, states may reduce these initiatives, raising costs for enrollees and potentially increasing the uninsured rate. Colbert said that if insurers have doubts about the extension of the tax credits, then premiums might rise, which will deter consumers from returning to the marketplace.

6. Heard a Presentation on Important Changes to Essential Health Benefits in the Notice of Benefit and Payment Parameters 2025

Adam Fox (Colorado Consumer Health Initiative) said the Affordable Care Act's (ACA's) essential health benefits (EHBs) aim to provide comprehensive coverage. Fox said states can define EHBs through a benchmarking process. For changes to be effective in 2027, new benchmark selections must be submitted by May 7, 2025. Wayne Turner (National Health Law Program) said a significant update allows states to incorporate adult dental services into their EHB plans. Turner said research links oral health to conditions such as diabetes, cardiovascular disease, pneumonia, Alzheimer's, and some cancers, emphasizing why separating oral from physical and mental health coverages is not beneficial. Fox said states have flexibility in how they implement this benefit. The U.S. Department of Health and Human Services (HHS) allows states to add adult dental services without monetary caps but within existing categories. Fox said other high-value services can also be added to EHBs to address health disparities and inequities.

© 2024 National Association of Insurance Commissioners

Turner said there are other significant changes in the benefit payment parameters rule. When prescription drugs are offered above the regulatory minimum, those additional drugs are also considered EHBs. This means cost-sharing protections apply. Fox said there have been instances where health plans tried to impose annual lifetime caps or ignored EHB cost-sharing protections by labeling certain drugs as non-EHB.

7. Heard a Presentation from LICAC on the Misuse of Indexed Life and Annuity Policy Illustrations

Richard Weber (Life Insurance Consumer Advocacy Center—LICAC) said he is handling several consumer complaints and litigation cases about the misuse of indexed life and annuity policy illustrations. The illustrations, not the policies themselves, are at issue. Weber provided an example of where actual policy credits fell short because illustrations only showed growth and failed to show the impact of debt or zero returns. Weber said such illustrations can be deceptive regardless of their intent. Weber said another case involved an arrangement with a registered representative encouraging large upfront premium financing for an employee-employer split dollar plan.

Weber said illustrations never present zero percent returns in current value projections and that values always seem to grow. Customers do not realize the effect of zero returns, an essential aspect of indexed universal life policies. Weber said there are also issues with cap or participation rates. Using stochastic analysis, Weber said he examined the likelihood that $265,000 per year could be withdrawn for 20 years while maintaining a policy and paying off the initial premium loan. Weber said there was a 94% chance of failure within this period, mainly before reaching average life expectancy.

Weber presented a flexible premium fixed index deferred annuity model illustration, which reflected impractical crediting rates and a $250,000 deposit growing to nearly $7 million in 25 years—a 14.25% annual compound return.

Weber said the problem is with the illustrations, not the product. A new illustration paradigm is needed because consumers view the most favorable illustrated results as future projections.

8. Heard a Presentation on Readability Standards in State Insurance Laws

Cude said readability laws mandate consumer documents to meet certain readability standards. Referencing a recent article by Professor Blasie, Cude said 47 states, Washington, D.C., and the federal government had 240 readability laws for insurance in 2023. Professor Blasie categorized these laws into five types: 1) score-based (syllables, words, sentences); 2) feature standards (frequent headings, no double negatives); 3) general plain language use; 4) hybrid standards combining objective scores and features; and 5) subjective readability left to state agency discretion.

Cude said roughly 200 scores exist, typically calculated similarly by counting words, syllables, and sentences. Cude said scores often translate to grade levels. The Flesch-Kincaid score is common and denotes eighth grade as easy understanding, and kindergarten level as simple understanding. Superior readability scores should aim for a 60-70 Flesch-Kincaid score.

Cude recommended the NAIC review and revise its models for readability standards; use Flesch-Kincaid scores for clarity and simplicity, collect data on existing state laws and enforcement practices, and encourage widespread adoption of plainly written consumer-facing documents.

Silvia Yee (Disability Rights Education & Defense Fund—DREDF) recommended the NAIC reference plain/easy English resources from the Centre for Inclusive Design. Yee said supportive decision-making allows adults with

© 2024 National Association of Insurance Commissioners

cognitive disabilities to maintain decision-making capacity with plain language documents aiding their autonomy. Yee offered to provide additional background materials upon request for any Committee members.

In response to Eric Ellsworth's (Consumers' Checkbook) question regarding clarity of language used on websites and mobile device applications, Cude said some mobile device applications diagnose readability issues without resolving them while some do both. Cude said some websites offer various readability formulas that provide diagnostic insights into where issues may lie. In response to a question about whether state readability laws apply to policy documents or consumer disclosures, Cude said state laws generally pertain specifically to either policies or disclosures.

9. Heard a Presentation on Whether Plaintiff's Attorneys Are the Cause of Rising Premiums

Kenneth S. Klein (California Western School of Law) said the insurance industry attributes the rise in insurance premiums to a lawsuit crisis driven by plaintiffs' lawyers. Klein said his research shows there is no litigation crisis.

Klein said insurance defense attorneys often have inherent advantages in civil litigation due to time and resources and that a plaintiff attorney bringing numerous frivolous lawsuits will not be successful. Klein said that even if more lawsuits are being brought and won, this does not signify a failing system unless there is proof the cases lack merit. Klein said regulating by lawsuits makes it harder to file or win benefits from insurance companies for those who pay premiums without suffering harm, but disadvantages victims whose cases might be dismissed.

Klein reviewed 28 years of data on federal civil case filings and, according to the Administrative Office of the U.S. federal Courts (AO), tort and personal injury filings show a slight rise, except during 2020. Klein said long periods of flat or declining filings have not correlated with steady or reduced premiums, which suggests there is no direct relationship between filings and insurance premiums. Klein said he examined case outcomes to track average federal civil case verdicts from 1996-2023. Klein said the data reflects long-term stability with recent increases, but median data smooths out anomalies, confirming that recent spikes reflect specific outlier cases.

Klein said his review of state court data focused on Florida, which is often cited as epicenter of the alleged lawsuit crisis. Data from the National Center for State Courts (NCSC) reveals that overall civil case filings in Florida (2012-2022) have decreased, with tort filings showing a minor, steady rise. In Florida, Klein said most outliers involve punitive damages in commercial trucking cases, unaffected by damage caps and irrelevant to insurers' obligations.

Klein said homeowners' affordability indices across jurisdictions indicate no direct correlation between litigation rates and insurance costs. In Florida and Louisiana, Klein said affordability seemed linked to both claim frequency and litigation costs. When isolating states, Klein said affordability strongly correlated with catastrophe experience rather than litigation. In Louisiana, despite similar lawsuits numbers as neighboring states, Klein said higher bodily injury rates might explain high auto insurance premiums. For homeowners' insurance, Klein said hurricane impacts complicate comparisons. Klein said data does not support a litigation crisis that is impacting premiums.

10. Heard a Presentation on Combatting Post-Disaster Fraud

Amy Bach (United Policyholders—UP) said roof coverage curtailment conflicts with Fannie Mae's replacement value requirements, which creates a risk of broader economic implications. Bach said the use of artificial intelligence (AI) could help insurers better detect fraud. Bach said states should consider rejecting policies that only provide roof coverage for actual cash value (ACV) and should require insurers to clearly state deductibles in dollar amounts at the point of sale. If ACV-only roof provisions are permitted, Bach said policyholders should receive a premium discount for ACV-only policies.

© 2024 National Association of Insurance Commissioners

Brent Walker (Coalition Against Insurance Fraud—CAIF) said predatory contractors often exploit vulnerable homeowners after disasters, leading to financial loss and poor-quality repairs. Walker said there is a need for effective information dissemination and offered to maintain ongoing collaboration with state insurance regulators to create educational toolkits to protect consumers from fraud after a catastrophe.

11. Heard a Presentation on the Progress and Challenges in U.S. Insurance Sector Disclosures in Navigating Climate Risks

Jaclyn de Medicci Bruneau (Ceres Accelerator for Sustainable Capital Markets) discussed integrating climate risk into insurance and highlighted efforts to encourage industry-wide financial disclosures through initiatives such as the task force on climate-related disclosures (TFCD) created by the Financial Stability Board (FSB). Bruneau said her organization, in collaboration with the California Department of Insurance, released its second annual report based on the latest cycle of the climate risk disclosure survey. Bruneau said the results included 516 insurance groups and that her organization made the results available to regulators, insurers, and stakeholders through an interactive dashboard sortable by state, carrier, line of business, company size, and TFCD recommendation.

Bruneau said transparency and disclosure are key to addressing climate risk but must be supplemented by ensuring information is digestible for informed decision-making. Bruneau said the results showed carriers strongest in risk management reporting, followed by strategy and governance. Bruneau said climate risk is immediate, and the industry must accelerate efforts to integrate it into business strategies. Bruneau said all carriers, regardless of size or business line, must address climate risk and said regulators should strengthen reporting and enforcement, develop best practices, support metric and target development, facilitate industry-wide collaboration, and advance stress testing for climate scenarios.

Having no further business, the NAIC/Consumer Liaison Committee adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Consumer Liaison/ 2024 Summer/Consumer_08 Min

© 2024 National Association of Insurance Commissioners

Draft: 8/26/24

NAIC/American Indian and Alaska Native Liaison Committee
Chicago, Illinois
August 14, 2024

The NAIC/American Indian and Alaska Native Liaison Committee met in Chicago, IL, Aug. 14, 2024. The following Liaison Committee members participated: Glen Mulready, Chair (OK); Lori K. Wing-Heier (AK); Barbara D. Richardson (AZ); Dean L. Cameron represented by Shannon Hohl (ID); Grace Arnold represented by Peter Brickwedde (MN); Chlora Lindley-Myers represented by Jo LeDuc (MO); Scott Kipper represented by Nick Stosic (NV); Mike Causey represented by Angela Hatchell (NC); Jon Godfread represented by John Arnold (ND); Andrew R. Stolfi represented by Alex Cheng (OR); Larry D. Deiter represented by Frank Marnell and Tony Dorschner (SD); Jon Pike represented by Ryan Jubber (UT); Mike Kreidler represented by Todd Dixon (WA); Nathan Houdek represented by Andrea Davenport (WI); and Jeff Rude (WY).

1. Adopted its Spring National Meeting Minutes

Cabinet Executive Officer Richardson made a motion, seconded by Commissioner Rude, to adopt the Liaison Committee's March 17 minutes (*see NAIC Proceedings – Spring 2024, NAIC/Consumer Liaison Committee, Attachment One*). The motion passed unanimously.

2. Heard a Presentation on the AIMES Alliance

Robert M. Dorrell (Blue Cross Blue Shield of Oklahoma—BCBSOK) introduced Spencer Davis (Leavitt Partners) and noted that the AIMES Alliance is managed by Leavitt Partners. The Alliance brings together voices from all sectors to collaboratively drive solutions forward that will bring graduate medical education (GME) to Tribal communities. He said there are numerous founding members that include health plans, associations, universities, health systems and tribes.

Davis said that despite the billions of dollars put toward training physicians, hardly any money goes to Tribal medical facilities even though they could benefit the most from improved staffing. He said American Indians and Alaska Natives (AI/ANs) suffer from some of the highest rates of avoidable deaths from preventable and treatable causes. For example, from 2020–2021, the U.S. rate of deaths before age 75 from preventable causes per 100,000 population was 231.9. For AI/AN individuals, however, that rate was more than double the national rate, at 478.9. In one state, the rate of preventable deaths was more than 4.5 times the national rate, at 1,394 deaths from preventable causes per 100,000 population. He also said the mission of the AIMES Alliance is to advance AI/AN access to care, reduce physician shortages, and expand opportunities for training physicians to benefit communities by collaboratively advancing federal and Tribal solutions that expand GME in Tribal communities. The AIMES Alliance is working to accomplish its mission through communications, outreach, and policy development. Davis said the AIMES Alliance envisions an environment where urban and rural Tribal members benefit from access to fully staffed medical facilities filled with physicians who provide high-quality and culturally appropriate care and invest in the communities they serve. He said the Alliance also envisions a medical education and training environment where allopathic and osteopathic physicians have extensive opportunities to benefit communities and further their education and training in urban and rural Indian Health Service (IHS), Tribal-administered, and other Indigenous clinics and facilities.

© 2024 National Association of Insurance Commissioners

appropriate care and invest in the communities they serve. He said the Alliance also envisions a medical education and training environment where allopathic and osteopathic physicians have extensive opportunities to benefit communities and further their education and training in urban and rural Indian Health Service (IHS), Tribal-administered, and other Indigenous clinics and facilities.

Davis said Dr. Donald Warne leads the AIMES Alliance as its convener and is currently serving as co-director of the Johns Hopkins Center for Indigenous Health. Davis said Warne is an acclaimed physician, one of the world's preeminent scholars in Indigenous health, health education, policy, and equity, as well as a member of the Oglala Lakota Tribe from Pine Ridge, South Dakota. He said Warne will also serve as Johns Hopkins University's new Provost Fellow for Indigenous Health Policy. Davis said that because Warne comes from a long line of traditional healers and medicine men and is a celebrated researcher of chronic health inequities, he is also an educational leader. Warne created the first Indigenous health-focused Master of Public Health (MPH) and Doctor of Philosophy (PhD) programs in the U.S. or Canada at North Dakota State University and the University of North Dakota, respectively. He said Warne previously served at the University of North Dakota as a professor of Family and Community Medicine and associate dean of diversity, equity, and inclusion (DE&I), as well as director of the Indians into Medicine and Public Health programs at the University of North Dakota School of Medicine and Health Sciences.

Davis said Dr. Michael Toedt serves as the AIMES Alliance's senior advisor and is the founder and chief executive officer (CEO) of Toedt Health Solutions. He said Toedt is a North Carolina-licensed and board-certified family physician and the former chief medical officer (CMO) of the IHS, as well as their chief medical informatics officer (CMIO). Davis said Toedt is a retired rear admiral with over 30 years of experience as a physician executive, public health expert, health information and technology expert, and flag officer in the U.S. Public Health Service Commissioned Corps. Davis said that Toedt, as a Uniformed Services University of the Health Sciences graduate, has first-hand experience serving in IHS, Tribal, U.S. Department of Defense (DoD), and U.S. Department of Veterans Affairs (VA) health care facilities. He has served on numerous U.S. Department of Health and Human Services (HHS) committees. He said Toedt has extensive experience working with local, regional, Tribal, state, and federal governments, emphasizing eliminating health inequity and improving health outcomes for vulnerable and underserved populations.

Davis said GME is the period of training performed after medical school where physicians gain specific skills and experiences in a particular medical specialty (residency) or subspecialty (fellowship). He said GME is primarily funded by four federal programs and agencies (Medicare, the Health Resources and Services Administration (HRSA), the VA, and the DoD) and one joint federal-state program (Medicaid). Davis said GME residents and fellows in Tribal medical facilities create an ecosystem of sustainable, high-quality care locally, reducing the need for travel, long waits, and paying for high-cost locum tenens positions (a locum, or locum tenens, is a person who temporarily fulfills the duties of another; the term is especially used for physicians. For example, a locum tenens physician is a physician who works in the place of the regular physician). He said physicians invested in the community are more likely to provide consistent, accessible, and culturally appropriate care to Tribal members. Davis said that while IHS-operated medical facilities are frequently viewed by non-Tribal individuals as the most visible medical care provider in Indian Country, IHS is only part of the greater system that provides medical care to AI/ANs. This system is referred to as the I/T/U in reference to the three categories of participating facilities: IHS, Tribal-operated, and Urban Indian Organizations (UIOs).

Director Wing-Heier asked what the AIMES Alliance is doing in Alaska. Davis said it reached out to several programs in Alaska but was told that due to funding restrictions, the organizations were not able to participate. Director Wing-Heier asked Davis to call her so she could help arrange a meeting, as funding is not the problem currently. She said the Alaska Division of Insurance (DOI) would be a better resource for AIMES at this time. Marnell asked Davis if the AIMES Alliance was able to utilize student loan forgiveness to attract new physicians. Davis said he had heard nothing about expanding in this area. Cabinet Executive Officer Richardson said Arizona has many

© 2024 National Association of Insurance Commissioners

Tribes, but the AIMES Alliance map had none listed in Arizona. Davis said the map listed the organizations' headquarters locations, so they reached out to Arizona through their home office in Minnesota and had good conversations with the University of Arizona. Commissioner Mulready said Oklahoma was a notable example of the launch phase and asked where the AIMES Alliance is heading next. Davis said it was investigating how to use this program to benefit Tribal organizations. He said that historically, Oklahoma had incredible leaders in this space and that they meet monthly about how to take all these ideas forward. He said they are now in implementation mode for four major categories and plan to accelerate over the coming year.

Commissioner Mulready introduced Bill Snyder (Leavitt Partners) and asked about funding, specifically, what meaningful contributions from non-Tribal organizations meant. Davis said the AIMES Alliance has no set dues but encourages participation. He said the Bush Foundation has a focused Commonwealth Fund with listening sessions regarding funding. He also said the AIMES Alliance did not want to place any undue burden of funding on membership entry. Commissioner Mulready said there was a lack of physicians; and that U.S. Representative Tom Cole (R-OK) is the Chair of Appropriations and is a tribal member who could be very helpful in securing funding. He also asked why the AIMES Alliance was not pursuing physician assistants (PAs). Davis said that the AIMES Alliance is trying to be as specific as possible to get the biggest bang for its buck. It is not saying no to PAs but not saying yes yet.

3. Heard Updates from States on Native Community Outreach

Director Wing-Heier said health care accessibility is a huge challenge in Anchorage and other rural areas, as the cost is excessive, and the governor is working with HHS and the DOI on potential solutions.

Dixon said Washington is publishing a 12-page document that provides insurers with a handbook to meet the requirements of federal Tribal rules about networks, care, medical practice, etc. He suggested it might be a good topic for a future NAIC meeting.

Commissioner Mulready said members have not heard from agents/producers who are actively engaged in the tribal communities at this Liaison Committee but would like to in the future.

Having no further business, the NAIC/American Indian and Alaska Native Liaison Committee adjourned.

SharePoint/NAIC Support Staff Hub/Committees/Consumer/AIAN/2024 Summer/Minutes_SNM_AIAN CMTE

© 2024 National Association of Insurance Commissioners