

Asset-Intensive Reinsurance Ceded Offshore From U.S. Life Insurers (With Focus on Bermuda)

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Key Points

- The U.S. life insurance market has traditionally employed reinsurance as a strategic tool for effectively managing risk and capital. Lately, there has been a notable uptick in the amount of asset-intensive reinsurance (AIR) transferred from U.S.-based life insurance companies to entities based in Bermuda.
- Many factors motivate the cession of such business to Bermuda-based entities; this increased activity has drawn the attention of U.S. regulators who are charged with ensuring appropriate protection of U.S. life insurer policyholders and the life insurance industry.
- This issue brief provides a concise overview of the incentives, typical procedures, and pertinent actuarial directives tailored for U.S.-based actuaries engaged in reinsurance transactions specific to Bermuda.

The U.S. life insurance market has a long-established practice of using reinsurance to efficiently manage both risk and capital. Recently, there has been a significant increase in the volume of asset-intensive reinsurance (AIR) ceded by U.S.-domiciled life insurers to Bermuda-based entities. While there are many reasons motivating the cession of such business to Bermuda-based entities, this increased activity has drawn the attention of U.S. regulators who are charged with ensuring appropriate protection of U.S. life insurer policyholders and the life insurance industry.

This issue brief offers a summary of motivations, common practices, and relevant actuarial guidance for U.S.-based actuaries involved in these reinsurance transactions. The issue brief focuses solely on reinsurance to Bermuda-based entities to narrow the scope of this document; however, some of the considerations may also apply when ceding to other jurisdictions.

This issue brief is not intended to provide a comprehensive comparison between the U.S. and Bermudian regulatory regime; the interested actuary is encouraged to contact the Bermuda Monetary Authority (BMA) directly with questions if they are involved in a reinsurance transaction with a Bermuda company.



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Background

Over a period of decades, Bermuda has grown to become a global hub for reinsurance.¹ As of year-end 2021, Bermuda was the largest offshore reinsurance destination for U.S. life insurers, accounting for approximately one-third of total ceded life and annuity reserves from the U.S.²

While U.S.-based insurers have long utilized reinsurance for several reasons, the rapid increase in reinsurance activity over the past two years has, with increasing frequency, involved the use of offshore reinsurance entities, both affiliated and unaffiliated. Such reinsurance activity has focused on annuity and other asset-intensive lines of business.³

Bermuda has robust supervision and transparent exchange with the global regulatory community and regulatory colleges, similar to the experience with state regulators and the National Association of Insurance Commissioners (NAIC) in the U.S. The similarity offers cedants a potentially smoother engagement with their state regulators. BMA supervisory processes and reserving requirements incentivize good ALM discipline, offering cedants value as it aligns with a company's objective of monitoring reinsurer counterparty risk in fulfilling local regulatory requirements.

One reason U.S. life insurers cede AIR to Bermuda relates to differences in regulatory requirements. When analyzing reinsurance to Bermuda, it is important to distinctly note the difference between U.S. and Bermuda regulatory requirements. The Bermuda-based reserving and capital requirements are generally viewed as being economically based, whereas the U.S. based requirements are traditionally characterized as more formulaic and rules-based. The economic environment impacts the magnitude of the differences between the two jurisdictions.

¹ ["Minister Hayward International Business Update"](#); Government of Bermuda; April 7, 2022.

² ["U.S. Life Insurers' Bermuda Reinsurance Exposure"](#); Alirt Insurance Research; October 18, 2022.

³ ["Reinsurers Shift Massive \\$109B of Liabilities to Related Companies"](#); *Life Annuity Specialist*; September 7, 2022.

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Bermuda-based companies are required to produce a Bermudian statutory financial statement. Bermuda regulations allow for IFRS or GAAP standards that apply in the U.K., Canada, U.S., or other GAAP standards as approved by the BMA.^{4,5} In addition to the statutory statement, Bermuda regulations require companies to produce an Economic Balance Sheet (EBS) for solvency reporting. The EBS requires the calculation of technical provisions such as reserves, which explicitly differentiate a best estimate liability (BEL) and associated provision for risk, also known as the risk margin.

The BEL is a principles-based approach allowing for two different methods: a Standard Approach, using a discount rate based on a specified asset portfolio, and a Scenario Based Approach (SBA), an integrated projection of assets and liabilities over a range of economic scenarios⁶ with the resulting BEL being established using the largest liability across the considered scenarios. Use of the SBA is subject to significant restrictions with respect to the types of eligible assets, as well as caps on allowable yields/spreads. The risk margin is computed as the projected cost of capital, using either the Bermuda Solvency Capital Requirement (BSCR⁷) or the corresponding capital amount determined using the insurer's BMA-approved internal capital model(s).

As of the publication date of this issue brief, its authors were not aware of any Bermuda re/insurance company with asset-intensive business that had obtained BMA approval for an internal capital model or for an internal credit risk capital model, though some re/insurers were contemplating the possibility. An approved actuary⁸ is required to certify the technical provisions for Bermuda-based companies, much as the appointed actuary certifies reserves in the U.S.

In 2016, the European Union (EU) granted Bermuda Solvency II equivalence for commercial insurers via a delegated act, indicating that that the Bermuda regulatory regime achieves largely similar outcomes as Solvency II.⁹ Bermuda is also recognized as a reciprocal jurisdiction in the U.S. In 2019, changes to the NAIC Credit for Reinsurance Model Law and Credit for Reinsurance Model Regulation ([Model #785](#) and [Model #786](#)) were adopted, recognizing that a reinsurer with at least \$250 million of capital and surplus that is operating in a reciprocal jurisdiction (see Collateral Requirements section below) and maintains a minimum solvency or capital ratio, as defined by the NAIC, is qualified to provide statutory reserve credit to U.S. based insurers without the regulatory

⁴ ["Supervision and Regulation"](#); Bermuda Monetary Authority.

⁵ Companies are free to elect statutory accounting principles; however, more common elections include Generally Accepted Accounting Principles (GAAP), Canadian GAAP, Statutory Accounting Principles (SAP), or IFRS.

⁶ [Guidance Notes for Commercial Insurers and Insurance Groups' Statutory Reporting Regime](#); Bermuda Monetary Authority; November 30, 2016.

⁷ The BSCR capital requirement in Bermuda serves a similar purpose to the RBC capital requirements in the US.

⁸ In order to serve as an approved actuary for signing reserve opinions in Bermuda, the actuary must satisfy the "fit and proper" criteria of the [BMA](#).

⁹ The process of maintaining this equivalence is ongoing and in February 2023, the BMA proposed a set of changes, effective January 1, 2024, that would strengthen applicable standards for actuarial modeling and determination of best estimate liabilities as well as introducing the need for prior approval when using certain assets in the determination of the best estimate liabilities. The changes were further updated for stakeholder feedback and released in November 2023. Details can be found in this [explanatory memo](#) from the BMA.

requirement to provide collateral in support of ceded reserve amounts.

In contrast to the Bermuda reserving requirements, the NAIC's reserving requirements for annuities are based on the Commissioner's Annuity Reserve Valuation Method (CARVM), inclusive of VM-21, which provides further details on requirements for variable type annuities. CARVM for non-variable annuities requires the projection of all possible benefit streams available to the policyholder and a corresponding statutory reserve being established as the greatest present value across all benefit streams floored at the cash surrender value on the valuation date. For variable annuities, a more principle-based valuation framework is used that requires the projection of asset and liability cash flows across a range of economic scenarios using prudent estimate assumptions, each of which has an associated margin, subject to a cash surrender value floor and a potential Additional Standard Projection Amount.

U.S. regulators are charged with ensuring that policyholder benefits are protected and that U.S. insurers can fulfill their obligations to policyholders when they come due. The rapid increase in offshore reinsurance activity has raised questions as to whether such activity increases the risk to policyholders. More specifically, regulators want to better understand the potential exposure that U.S.-based insurers have to both offshore affiliated and unaffiliated counterparties. Regulators are concerned that U.S.-based insurers engaged in such transactions may be exposed to unexpected changes in the financial condition or control of their reinsurance counterparties leading to potential unrecoverability of reinsurance. The option to recapture is one method that may be available to protect the cedant from such exposure. In addition, concerns have been expressed regarding the increased ownership of, or other affiliation with, U.S. insurers and their offshore reinsurance counterparties by private equity firms, as well as the increased investment in less liquid and more complex assets.

These concerns have generated a range of regulatory activity, including:

- In late 2021,¹⁰ the NAIC's Macroprudential (E) Working Group (MWG) and Financial Stability (E) Task Force (FSTF) exposed for comment a set of Regulatory Considerations Applicable (But Not Exclusive) to Private Equity (PE) Owned Insurers (Considerations). Consideration 13 relates to the use of offshore reinsurance vehicles: "Insurers' use of offshore reinsurers (including captives) and complex affiliated sidecar vehicles to maximize capital efficiency and introduce complexities into the group structure."

¹⁰ [Regulatory Considerations Applicable \(But Not Exclusive\) to Private Equity \(PE\) Owned Insurers](#); NAIC; June 27, 2022.

- After the issuance of the Considerations, the NAIC's Life Actuarial (A) Task Force adopted [Actuarial Guideline LIII \(AG53\)](#), effective for year-end 2022. AG53 includes a range of requirements related to the Considerations, including increased disclosures related to reinsurance collectability and counterparty risk in the Actuarial Opinion Memorandum.
- In early 2023, the MWG conducted various meetings with stakeholders, including insurance industry representatives and international regulators, specifically Bermuda and Cayman Islands. An optional reinsurance comparison worksheet was developed for use by regulators when evaluating reinsurance transactions that involve an offshore jurisdiction. Exposed in March 2023 for a 30-day comment period, the worksheet was [referred to the Reinsurance Task Force](#) on March 31, 2023, for comments and feedback. After receiving comments, the MWG adopted the worksheet, effective June 5, 2023. It now serves as an optional tool for regulators to use in their review of offshore reinsurance transactions.

As with any reinsurance program, actuaries working for U.S.-based life insurers involved with AIR programs should understand the risks and benefits to their company when entering into such reinsurance arrangements. This understanding entails understanding the purpose of the reinsurance arrangement, the nature of their counterparty, the potential exposure they face to the counterparty, and the ability of the counterparty to fulfill their obligations under the terms of the reinsurance arrangement.

Motivations for Reinsuring U.S. Asset-Intensive Reinsurance to Bermuda-Based Reinsurers

Understanding the drivers of offshore reinsurance transactions can be helpful to actuaries in understanding the associated risks. U.S. life insurers cede AIR to Bermuda for a variety of reasons, including: (a) strong regulatory framework, as described above;; (b) reserving, hedging, capital, and accounting efficiencies; (c) investment flexibility; (d) localized expertise and innovation; and (e) tax efficiency. Items (b) through (e) are summarized below.

Reserving, Hedging, Capital, and Accounting Efficiencies

Depending on which U.S. accounting elections have been made by a reinsurer, such as modified GAAP, the specific type of AIR subject business, and the types of assets backing that business, Bermuda accounting requirements may result in reduced surplus strain relative to U.S. statutory requirements.

For a U.S. life insurer with one or more hedging programs, the insurer might cede AIR to Bermuda to create reserves that are economically consistent with asset market values and hedging programs. In comparison, U.S. liabilities have been traditionally held at book value. In this scenario, ceding AIR to Bermuda may create benefits for economic-based ALM/hedging strategies. An aspect that differs between the two reserving regimes is the U.S. requirement to contain reserve floors at the cash surrender value or at zero for contracts without surrender benefits.¹¹ In contrast, Bermuda-based companies are not constrained by such requirements and may hold negative reserves or capital on one business line to offset another, reflecting the company's view of diversification benefit between businesses.

As a result, numerous investors with alternative/complex asset management expertise, including private equity firms, have purchased or otherwise provided capital to reinsurers in Bermuda, which in aggregate has provided significant reinsurance capacity at attractive terms.

Reinsurance to Bermuda allows companies to diversify sources of capital and attract third-party capital by allowing third parties to underwrite a portion of a bigger balance sheet.

One form of accessing capital is commonly referred to as a sidecar, which is a reinsurer that co-underwrites reinsurance deals with one or more "affiliated" reinsurance groups, but where each "affiliated" reinsurance group owns a small minority, usually less than ten percent, of shares in the sidecar such that the sidecar is not consolidated with the groups for accounting purposes. The balance of the sidecar's shares are owned by one or more third-party investors. Sidecars¹² that underwrite AIR may engage one or more asset managers with alternative/complex asset management expertise, which may also be equity investors in the sidecar. To ensure that a sidecar is appropriately not consolidated with its "affiliated" reinsurance group, a sidecar typically underwrites the reinsurance deals it considers in a manner that is independent of the "affiliated" reinsurance group.

Investment Flexibility

The BMA's regulation of the invested assets of its insurers is different than the approaches used in the U.S. Most states impose some or all the investment limitations specified in the NAIC's [Investment of Insurers Model Act \(Defined Limits Version\)](#). Bermuda has a more principle-based regulatory environment, in which asset risk management requirements are set out in the [Insurance Code of Conduct](#). Bermuda describes standard asset types, limits, and capital charges that companies may employ without additional approval, but it also considers applications for other asset types or different limits on an

¹¹ Updated Bermuda reserving requirements are described in this July 28, 2023, [BMA consultation paper](#).

¹² [This article](#) provides an extensive discussion of this topic.

individual company basis. Thus, some U.S. life insurers cede AIR to a Bermuda affiliate to allow the insurance group to increase investment flexibility. This is particularly common with privately sourced assets, asset-backed securities (collateralized loan obligations, in particular), and other complex assets. Likewise, the additional investment flexibility may enable Bermuda reinsurers to offer more competitive terms on third-party AIR ceded by U.S. insurers than U.S. reinsurers. However, while Bermuda does not apply strict limits to asset classes, it does have risk-based charges that go as high as 35% for unrated assets and certain equities. Bermuda also applies capital add-ons, should a company be more highly weighted toward alternative investments. Additionally, the BMA requires detailed investment reporting and stress testing of market risks.

Localized Expertise and Innovation

Should an insurance group want to implement innovative financing or risk management strategies, such as insurance-linked securitization (ILS), sidecars, or enterprise hedge programs, Bermuda offers a centralized source of expertise through local regulators and legal, tax, accounting, and other advisers.

Tax Efficiency

It should be noted that the tax aspects of business ceded to Bermuda could change in the near future, due to anticipated changes to the global minimum tax and/or Bermuda corporate tax requirements.¹³ Given the current differences in tax requirements between Bermuda and the U.S., the use of a Bermuda-based reinsurer can result in more attractive reinsurance terms to the cedant.

Specific considerations regarding tax differences include:

- **Reinsurer is an unaffiliated Bermudian taxpayer:** If a U.S. life insurer cedes profitable AIR to an unaffiliated Bermuda reinsurer that is a Bermudian taxpayer, some or all the profits earned by the reinsurer would be taxed at a Bermudian corporate tax rate of 0%, rather than at the current U.S. marginal tax rate of 21%. This enables more favorable pricing of reinsurance terms. However, such tax savings may be substantially offset by an excise tax, currently 1% of reinsurance considerations. The realized value of taxes paid by the reinsurer, and the resulting benefit to pricing, will depend on the specific liabilities being ceded and the structure of the reinsurance deal.
- **Reinsurer is a 953(d) taxpayer:** There are no material tax incentives for a U.S. life insurer to cede AIR to a Bermuda reinsurer taxed as a 953(d) entity versus a comparable U.S. reinsurer, as such a reinsurer is subject to U.S. tax rules.

¹³ Discussions are underway at the Organisation for Economic Co-operation and Development (OECD) to impose a global minimum tax ("GMT") in order to reduce the competitive advantages of jurisdictions with low corporate income tax rates. Current discussions are that the GMT rate would be 15%, the definition of taxable income would be standardized and thus will not align perfectly with the current definition in the U.S., and the effective date would be for tax years ending on or after December 31, 2024. On August 8, 2023, the Bermuda Ministry of Finance exposed for comment by September 8 a [consultation paper](#) that proposes a 15% corporate income tax, with certain tax credits which support Bermuda's economic goals and maintains Bermuda's global attractiveness. Some parties estimate that after reflecting such tax credits the effective corporate tax rate would be about 12.5%.

- **Reinsurer is an affiliated Bermudian taxpayer:** Since the January 1, 2018, effective date of the Base Erosion Anti-Abuse Tax (BEAT¹⁴), there have been strong disincentives for a U.S. life insurer to cede AIR to a Bermuda or other non-U.S. affiliate that is not a U.S. taxpayer. BEAT serves as a minimum tax that can outweigh the benefit of the difference in corporate income tax rates.

There are additional proposed changes in Bermuda corporate tax requirements that may impact the incentives described above.

Actuarial Guidance for U.S.-based Actuaries

The following summary of actuarial guidance is provided for U.S.-based actuaries who are responsible for assessing reserve and capital adequacy associated in the context of AIR. While this issue brief focuses on the considerations for the appointed actuary, the considerations also apply to actuaries performing inforce management or enterprise risk management.

Asset Adequacy Testing Considerations

The cedant's appointed actuary is responsible for opining on the adequacy of reserves. This responsibility is undiminished by the presence of AIR programs. As stated in the Valuation Manual,¹⁵ "[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." Therefore, consideration of reserve adequacy, such as the adequacy of all business even when reinsured, is of primary concern for an appointed actuary.

The cedant's responsibility to the policyholder is not reduced by any amounts it may have ceded to reinsurers. The appointed actuary may perform analyses, review analyses performed by the reinsurer, and perform due diligence on the reinsurance counterparty to gain comfort with reserve adequacy. This due diligence may include reviews of the counterparty's asset adequacy testing (AAT), balance sheet, recent rating reviews, investment strategies, risk management practices, the robustness of the reinsurer's stress testing, and any other risk analysis performed by the reinsurer. There is no prescribed

¹⁴ This [IRS publication](#) summarizes BEAT, as does [this document](#) from the Society of Actuaries.

¹⁵ [2023 Edition—Valuation Manual](#).

methodology that the appointed actuary must use to perform AAT. However, the appointed actuary must consider the requirements of applicable actuarial standards of practice (ASOP), regardless of whether the business is reinsured or not.

In selecting an appropriate AAT approach, considerations would typically include the nature of the underlying business, the reinsurance context, the availability of information to perform analysis, and how the results of the AAT will be used to inform the appointed actuary's opinion regarding reserve adequacy. Considerations regarding selection of an appropriate AAT approach are detailed further below.

AAT Approaches for Ceded Business

ASOP No. 22, [*Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Other Liabilities*](#), states that when performing AAT, the actuary should determine whether additional assets are needed to support the reserves and other liabilities being tested under moderately adverse conditions. ASOP No. 22 also provides guidance for AAT. Per ASOP No. 22, “[t]he actuary should use professional judgment in choosing an appropriate [AAT approach].” The choice of approach should be based on an assessment of the sensitivity of cash flows to assumptions, degree of conservatism in the reserves, immateriality of liability cash flow variations and duration of liabilities and assets. Examples of AAT approaches that are specifically identified in ASOP No. 22 (section 3.1.1) include:

- “Cash flow testing is generally appropriate where cash flows vary under different economic scenarios.”
- “Gross Premium Reserve Test—A gross premium reserve test may be appropriate when the testing would emphasize the sensitivity of cash flows arising from liabilities under moderately adverse conditions.
- “Demonstration of Conservatism—A demonstration of conservatism may be appropriate when the degree of conservatism in the reserves and other liabilities is so great that liability cash flows are covered under moderately adverse conditions.”
- “Demonstration of Immaterial Variation—A demonstration that the risks are not subject to material variation may be appropriate when the cash flow risks have been limited by product design and the investment strategy.”
- “Risk Theory Techniques—Analysis using risk theory techniques may be appropriate when the risks inherent in products with short-duration liabilities are supported by short-duration assets. Such techniques can be used to measure cash flows for risks that are subject to large fluctuations that arise infrequently since the cash flows arising from liabilities can rarely be matched to the cash flows arising from assets under moderately adverse conditions.”
- “Loss Ratio Methods—Loss ratio methods may be appropriate when cash flows are of short duration.”

ASOP No. 22 also states, “The actuary should consider reflecting reinsurance ceded cash flows in the asset adequacy analysis regardless of whether the analysis is performed for a direct writing company or a reinsurer. In deciding whether and how to reflect the reinsurance ceded cash flows, the actuary should solicit information from management regarding the extent of reinsurance, the associated cash flows, their collectability, any disputes with reinsurers, and practices regarding provisions for reinsurance ceded. The actuary’s consideration of reinsurance ceded does not imply an opinion on the financial condition of any reinsurer.”

ASOP No. 7, [Analysis of Life, Health, or Property/Casualty Insurer Cash Flows](#), provides guidance on how an actuary should perform cash flow testing. In addition, the American Academy of Actuaries’ [AAT practice note](#) also explicates current practice, as described further below.

ASOP No. 11, [Treatment of Reinsurance or Similar Risk Transfer Programs Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports](#), states that “the actuary should take into account counterparty risks that could impact the financial report.” Financial report is defined as a “report that conveys the performance or experience of an assuming entity or ceding entity at a specific point in time or over an accounting or measurement period.” One such report, as noted in ASOP No. 11, is the asset adequacy analysis report.

There are additional considerations associated with performing AAT for the ceded business, particularly when focused on cash flow testing (which, per ASOP No. 22, is “generally appropriate where cash flows vary under different economic scenarios”) as well as assessing counterparty credit worthiness (which is an important consideration as described in ASOP No. 11).

Leveraging the Reinsurer’s SBA

If available, the cedant’s appointed actuary may consider the results of the reinsurer SBA. The SBA results may be helpful to the appointed actuary as an input to their asset adequacy assessment. The SBA involves a projection of cash flows under different economic and other scenarios and may provide information to allow the cedant’s appointed actuary to evaluate whether the assets supporting reserves are adequate under moderately adverse conditions. If the SBA results do not provide sufficient information, the appointed actuary may decide to request additional analysis to supplement the SBA in order to meet the requirements of the Valuation Manual and ASOP’s when developing the asset adequacy opinion. Some adjustments may be necessary, as the SBA highlights the worst-case scenario and caps returns on certain assets while excluding other assets altogether.

According to ASOP No. 22:

“If the actuary uses cash flows from other financial calculations (for example, principle-based reserve or capital models) in the asset adequacy analysis, the actuary should take into account any differences between the cash flows in the financial calculations and the asset adequacy analysis due to items such as the following:

- a. starting assets;
- b. assumptions, including margins;
- c. sensitivities;
- d. any interim shortfalls in accumulated cash flows;
- e. any requirements for the aggregation of results that are specified by applicable law;
- f. distribution of surplus; and
- g. taxes.

If the actuary uses cash flows from other financial calculations, the actuary should confirm that the assumptions underlying these cash flows are appropriate for an asset adequacy analysis under moderately adverse conditions.”

Performing Traditional Cash Flow Testing

The cedant’s appointed actuary may choose to perform traditional U.S. cash flow testing analysis, in which reserves are assessed via a projection of the statutory balance sheet and income statement under a range of economic and other scenarios. If cash flow testing of the ceded reserves is performed to assess the potential exposure to a reinsurance counterparty, there are a number of considerations that arise. These include assessing whether analysis currently performed on retained portions of the ceded risks can be leveraged to reliably extend and apply to ceded amounts. This approach is typically feasible for an affiliate reinsurer, because the cedant’s appointed actuary would typically have access to the information needed to perform the analysis.

Sometimes the cedant’s appointed actuary cannot gain the necessary insight into the counterparty beyond the quality of the business they cede. Even in circumstances in which the reinsurance arrangement is coinsurance funds withheld or modified coinsurance where there are specific assets held by the cedant, the cedant will often lack insight into other business assumed by the reinsurer. Nonetheless, the ceding company may want to consider negotiating reporting requirements within the terms of the reinsurance treaty that grant access to sufficient reinsurer information in order for the ceding company appointed actuary to meet the requirements for the actuarial opinion. Such information is likely to extend beyond asset-related information. A possible resource for the actuary may be the cedant’s own risk and solvency assessment (ORSA) Report or other enterprise risk management analysis that involves projection of cash flows under stress.

Evaluating Counterparty Risk

Evaluation of the reinsurer counterparty risk is an important consideration for the appointed actuary regardless of which AAT method is used. In addition, some actuaries might view the reinsurance receivable as the asset that is to be tested for adequacy rather than the underlying invested assets, in which case evaluation of counterparty risk, in and of itself, could be the method used for AAT. In evaluating the reinsurance counterparty risk, considerations include the counterparty's credit rating, default probability and recovery assumptions, and specifics of the reinsurance program, such as trust, funds withheld, or modco provisions. Information regarding counterparty risk and associated risk assessment and risk mitigation may be available in the cedant's ORSA report or other enterprise risk management documentation.

ASOP No. 11 outlines several considerations when evaluating counterparty risk, as well as provides guidance on the potential for establishing additional reserves if recoverability of claims from the counterparty is in doubt.

Specifically, ASOP No. 11 states:

“When preparing values related to a reinsurance program in a financial report, the actuary should take into account the purposes of the financial report, factoring in the applicable accounting and regulatory requirements or guidance, as well as the terms and conditions of the reinsurance program and its associated risks. Examples of risks associated with the reinsurance program include but are not limited to counterparty risk, lack of reinsurance program controls, untimely payments, volatility of experience refunds, nonguaranteed reinsurance elements, nonguaranteed elements of the policies being reinsured, the structure of the reinsurance agreement, and investment philosophy.”

The structure of the reinsurance agreement could give rise to risks such as non-performance or legal risk. The actuary may wish to consult the company's legal counsel. The investment philosophy could give rise to new asset types/risks or increased concentration risk. The actuary may wish to consult the company's asset manager.

Cedants may reinsure liabilities for several reasons, as previously discussed. However, reinsurance is only as valuable as the ability to collect claims from a reinsurer when a loss event occurs. Per ASOP No. 7, section 3.8, “The actuary should consider whether reinsurance receivables will be collectible when due, and any terms, conditions, or other aspects that may be reasonably expected to have a material impact on cash flow analysis.” ASOP No. 11 further requires that “[t]he actuary should consider establishing additional liabilities, reserves, or allocation of capital based upon the terms and conditions of the

reinsurance program.” The American Academy of Actuaries’ reinsurance reserve credit [practice note](#) suggests performing a sensitivity test that calculates a cedant’s exposure to the reinsurer as the amount of financial loss that is likely to occur if the reinsurer cannot pay any claims over a period of time. An actuary may assess the creditworthiness of the reinsurer by reviewing the reinsurer’s financials, reviewing the reinsurer’s rating, relying on statements from the reinsurer as well as assessing adequacy of treaty provisions that mitigate counterparty risk. The nature of the assessment will depend on the type of reinsurance used, such as coinsurance, modified coinsurance, or funds withheld.

Examples of reinsurance treaty provisions that reduce counterparty risk exposure include:

- Requiring the reinsurer to hold collateral (see Collateral Requirements section below), even if it is not regulatorily required for the cedant to receive reserve credit (e.g., the reinsurer is in a reciprocal jurisdiction).
- Reinsurance treaties may provide investment guidelines that place limits on the types and quality of securities that the reinsurer can hold on its balance sheet or that the cedant can hold as funds withheld. Such guidelines serve to clarify the exposure that the cedant has to specific asset types.
- Reinsurance treaties may outline provisions where a cedant may recapture ceded business from the reinsurer. Recapture provisions that serve to reduce counterparty risk may include enhanced recapture rights following changes in reinsurer capital or financial ratios, reinsurer downgrade, change in control, and insolvency.

There are also capital considerations regarding counterparty risk. In 2011, the NAIC amended Model #785 to provide a Concentration Risk requirement for reinsurance transactions. Under the amendments, an insurer must notify its domestic regulator within 30 days if:

- Reinsurance recoverables from any single reinsurer (or group of affiliated reinsurers) exceed 50% of the insurer’s last reported surplus to policyholders.
- The insurer has ceded to any single reinsurer (or group of affiliated reinsurers) more than 20% of the insurer’s gross written premium in the prior calendar year.

At any time, the insurer determines it is likely to exceed these limits.

The notice must demonstrate the insurer is safely managing its reinsurance exposure.

Collateral Requirements (Regulatory and Treaty)

Collateral requirements are a risk mitigation tool used in both on- and offshore reinsurance transactions to increase the security of the cedant. Collateral requirements are often negotiated at the time of treaty inception to reduce the likelihood of a cedant being adversely affected in the event of a decline in reinsurer creditworthiness, reinsurer

default, or in the event of a dispute. Collateral requirements are typically in the form of cash, trust agreement, letters of credit, or other financial instruments that are held by a trusted third party for the benefit of the cedant. The collateral is used to secure the obligations of the reinsurer. The collateral requirement is typically set at a level that is sufficient to cover the expected losses that the reinsurer would be liable for or, alternately, to a more prudent level. For example, an offshore reinsurer may maintain a trust agreement to secure its obligations under a reinsurance treaty to the cedant with assets backing at least minimum U.S. statutory liabilities that the offshore reinsurer assumes.

The most common forms of collateral are:

- **Funds Withheld:** Payables due to the reinsurer that the cedant does not pay to the reinsurer but rather withholds and retains the associated assets on its balance sheet.
- **Collateral Trust:** A tri-party arrangement between the cedant, the reinsurer and a bank. The reinsurer deposits cash and/or securities in a bank trust that the cedant can access under certain conditions.
- **Letter of Credit (LOC):** A bank guarantee put up by the reinsurer where the cedant is the “guaranteed party.” Under certain conditions, the bank would render payment to the cedant up to the amount stated in the LOC.

When establishing collateral requirements, the cedant evaluates investment guidelines for any assets to be held in trust.

State insurance regulators have historically required unauthorized reinsurers to hold 100% collateral within the U.S. for the risks they assume from U.S. insurers. In 2011, the NAIC adopted revisions to Model #785 and Model #786 that reduce the prior reinsurance collateral requirements for certain non-U.S.-licensed reinsurers that are determined to be certified reinsurers. The revisions allowed foreign reinsurers to post less than 100% collateral for U.S. claims, provided the reinsurer is evaluated and certified based on criteria that include financial strength, timely claims payment history, and the requirement that a reinsurer be domiciled and licensed in a qualified jurisdiction. The revisions ensured that collateral requirements were reduced in a consistent manner commensurate with the financial strength of the reinsurer and the quality of the regulatory regime that oversees it.

Coinsurance agreements may be designed to have the cedant hold assets (funds withheld) supporting part or all of the coinsurance reserve credit. In such a case, the cedant would set up a funds withheld liability. The funds withheld assets held by the cedant would be required under the NAIC Accounting Practices and Procedures Manual Appendix A-791 (which is also covered in the NAIC [Model #791](#) to be legally segregated when the

business ceded contains significant asset related risk (subject to exceptions identified in Appendix A-791). Although it generally would not be out of compliance with Appendix A-791 for the reinsurance agreement to require that the funds withheld assets be fully utilized for the payment of claims prior to the use of any other assets owned by the reinsurer, the cedant may want the reinsurance agreement to impose a floor on the amount of funds withheld assets as a means of added protection against the risk that the reinsurer may not be able to meet all of its future obligations. If either is applicable and the AIR relates to life insurance business, the requirements of [Actuarial Guideline XLVIII](#) or the [NAIC Term and Universal Life Insurance Reserve Financing Model Regulation](#) should be considered in the decision on whether to require that the cedant maintain a minimum level of assets as funds withheld.

As noted earlier, the NAIC adopted further revisions in 2019 to the *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786). The revisions eliminate reinsurance collateral requirements if certain conditions are met, including for certain reciprocal jurisdiction reinsurers. A company that has a head office or is domiciled in a reciprocal jurisdiction can become a reciprocal jurisdiction reinsurer if it meets the standards in Model #785 and Model #786. This status will allow the cedant to obtain reserve credit, even if the reinsurer does not post collateral.¹⁶

Despite the protective benefits of collateral requirements, risks remain. These risks include:

- (a) the value of the collateral may be less than the expected reinsurer obligations, either due to a decline in the value of the collateral or an increase in the expected liabilities above the level of required funding;
- (b) the collateral may be invested in illiquid securities and not fully accessible when needed; and
- (c) the creditworthiness of the counterparty may deteriorate, reducing the likelihood that the counterparty satisfies its obligations to fund the collateral account.

In cases where the value of the collateral may no longer be sufficient to cover the collateral funding requirements, the counterparty may be required to post additional collateral, known as a collateral call, to bring the total collateral up to the required level. Collateral calls may be triggered by a downgrade in the credit rating of the counterparty or the collateral itself. The specific impact on the collateral requirement will depend on the terms and provisions in the reinsurance agreement.

¹⁶ ["Reinsurance"](#); NAIC's Center for Insurance Policy and Research; January 31, 2024.

It is important to note that implementing these provisions comes with certain costs and considerations. For instance, if collateral requirements are increased across the board as a preventive measure, it may create a collateral call that the reinsurer may struggle to meet, potentially leading to defaulting on these requirements. This highlights the delicate balance between protecting the ceding insurer's interests and avoiding higher costs or actions that inadvertently exacerbate the financial challenges faced by the reinsurer.

Ultimately, the specific provisions and their potential negative effects need to be carefully evaluated and balanced to ensure that the ceding insurer can manage risks effectively while minimizing unintended consequences.

Aggregation

According to ASOP No. 22:

“When performing an asset adequacy analysis, the actuary may aggregate reserves and other liabilities for multiple blocks of business if the assets or cash flows from the blocks are available to support the reserves and other liabilities of the aggregated blocks of business. When performing this aggregation, 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.”

Based on this guidance, it is important for the appointed actuary to understand how the assets held under a reinsurance agreement may or may not be used to support other business (either by the cedant or by the reinsurer). If the assets associated with ceded business cannot be used in support of the cash flows of other direct written business, then aggregation of those blocks for the cedant's AAT would not be appropriate, per ASOP No. 22. Similarly, if the assets associated with the ceded business cannot be used in support of the cash flows of other reinsured business, the aggregation of the ceded business with other business in the reinsurer's AAT would not be appropriate under ASOP No. 22.

The BMA has requirements on fungibility and separate identification of assets supporting a given block of business. In short, Bermuda requirements do not allow aggregation unless this exists in practice and can be demonstrated to be the case under both normal and adverse scenarios.

Recapture/Termination Provisions

While a reinsurer's ability to terminate a reinsurance agreement on inforce business subject to Appendix A-791 of the NAIC Accounting Practices and Procedures Manual is limited to situations involving nonpayment of amounts due by the cedant, it is fairly common for a reinsurance agreement to contain a provision allowing the cedant to recapture the ceded business, such as voluntarily terminating the reinsurance agreement. Such provisions allow the cedant the opportunity to recapture business and prospectively realize the future profits of that business. In making the decision on whether and when to recapture, the cedant would weigh its expectation of future profits with the cost of the recapture, including capital implications. States may limit the allowable cost to current and prior years' losses, as specified in Appendix A-791 Accounting Requirement 2C (also [Model #791 Item 4.A.3](#)).

Section 3.8 of ASOP No. 11 identifies the following risks that should be reflected in the actuary's financial reports:

- a. the impact of the potential termination of reinsurance programs on the obligations of the counterparties, including post-termination obligations;
- b. how the following factors affect the risk of termination including:
 - 1. the terms and conditions of the reinsurance program;
 - 2. the regulatory and financial reporting regime governing the financial report;
 - 3. the known business practices of the counterparties; and
 - 4. the current and potential internal and external environments faced by the counterparties.

Examples of potential termination events include but are not limited to the following:

- i. reinsurance agreements that end prior to underlying risk terminating;
- ii. termination due to regulatory intervention;
- iii. termination due to inability of a ceding entity to pay reinsurance premiums;
- iv. termination due to an assuming entity exercising rights to change the reinsurance agreement;
- v. recapture or commutation specified or permitted by the reinsurance agreement;
- vi. termination due to the financial difficulties of an assuming entity;
- vii. partial termination of reinsurance agreement due to a partial recapture;
- viii. partial termination of reinsurance agreements due to a ceding entity losing its license; and
- ix. termination due to inability of service providers to perform as specified in their agreement.

The actuary should consider performing scenario testing to quantify the impact of a potential termination of a reinsurance program on a financial report.”

Experience Refunds

It is not uncommon for a reinsurance agreement to contain an experience refund provision, where the reinsurer shares reinsurance profits from the ceded business with the cedant. This experience refund provision may sometimes have a limited duration and, unless extended or renegotiated, would expire on the date specified in the reinsurance agreement. The appointed actuary typically evaluates whether a scenario-specific assumption is appropriate to use in AAT, such as when a treaty continues with no experience refund after expiration date; the treaty is renegotiated to extend the experience refund provision; or the treaty is recaptured. The appointed actuary may also consider the assumed economic environment in the scenario being modeled, as well as the projected performance of the ceded business. Some states may limit the choice of acceptable assumptions.

Data and Other Limitations

As described previously, the cedant’s appointed actuary may have access to actuarial modeling capabilities and related data to enable a direct assessment of reserve adequacy. For example, this is often the case when the AIR is transacted on a funds withheld basis. In such cases, the cedant’s appointed actuary could perform an assessment of reserve adequacy using cash flow testing techniques, if they deemed such an exercise appropriate. Similarly, in circumstances where the AIR is transacted with an affiliate reinsurer, the cedant’s appointed actuary may have access to specific reserve adequacy analysis and testing performed by the affiliate and may choose to rely on the results of this testing directly.

In other circumstances, such as divested businesses, a practical constraint on the cedant’s appointed actuary is often the availability of data or models to perform a reserve adequacy analysis. Examples of how such constraints may manifest themselves include:

- The business is ceded on a coinsurance basis and the cedant’s appointed actuary does not have access to the specific assets supporting the ceded liabilities.
- The business is ceded on a coinsurance basis and the reinsurer does not manage and assess reserve adequacy for the ceded liabilities on a treaty-by-treaty basis.
- The cedant’s appointed actuary has access to the results of the reinsurer reserve adequacy testing for ceded liabilities. However, such testing is performed using reinsurer models and assumptions which are not disclosed or provided to the cedant, making it difficult for the cedant’s appointed actuary to rely on the results and conclusions of such analysis.

Such constraints should be considered by the cedant's appointed actuary when determining how best to satisfy their professional obligations. For example, agreement between cedant and reinsurer could be addressed as part of the treaty negotiation process, with clear treaty terms outlining any modeling and data-related obligations of each party to the agreement.

Subsequent Retrocession (Out of Bermuda)

Retrocession is common in the reinsurance industry, where insurers transfer some of their risk to reinsurers who in turn may transfer some of that risk to retrocessionaires. Offshore reinsurers, by definition, are subject to different regulatory regimes than their U.S.-based cedants. If an offshore reinsurer has affiliates that are regulated by different jurisdictions, then subsequent retrocession to such affiliates may result in complicated reinsurance arrangements that involve multiple parties and layers of coverage. This can lead to a complex web of risk analysis. The BMA is very sensitive to this risk and will block transactions that are intended to flow a significant part of the risk to another jurisdiction. In any arrangement involving retrocession, the BMA routinely reaches out to the home regulator of the cedant to make sure that it fully understands the entire arrangement and is comfortable with it.

U.S.-based cedants evaluate whether such retrocession would occur when entering a reinsurance arrangement. The U.S.-based insurer may seek to negotiate certain treaty terms and conditions with its reinsurer to require disclosure of any future cession of their business. In addition to disclosure, the U.S.-based insurer could seek to limit the offshore reinsurer's ability to cede the risk assumed to other counterparties. By doing so, the U.S.-based insurer aims to maintain control over where its business will be subsequently ceded, safeguarding its interests and minimizing potential uncertainties.

It is unusual for the presence or absence of a retrocessionaire to be shared with the cedant unless disclosure is specifically contemplated in the treaty terms. This lack of information can put the cedant in a challenging situation. The cedant has transferred risk to a reinsurer but may have no visibility or control over what happens to that risk afterward. While the cedant's direct contractual relationship is with the reinsurer, concerns may remain related to the retrocessionaire's performance, financial stability, and reliance on other parties. Companies may manage this by:

1. Insolvency Considerations: The cedant can ensure that the reinsurance agreement explicitly states that the reinsurer's obligations remain intact and unaffected in the event of insolvency of its retrocessionaires. By including such a provision, the cedant can confirm that the reinsurer's responsibilities and commitments remain unchanged, regardless of the financial status or insolvency of its retrocessionaires.

Further, an insolvency clause may be included in the reinsurance agreement ensuring that, in the event of the reinsurer's insolvency, the cedant will still be able to recover the reinsurance proceeds directly from the reinsurer's estate.

2. Disclosure Requirements: The cedant can ensure that the reinsurance agreement include a requirement for disclosure of retrocessions.
3. Relationship Management: Maintaining a strong relationship with the reinsurer is extremely important. This may involve regular communication and meetings to discuss performance and any changes in the business. While the reinsurer might not share specifics about any retrocessionaires, it might be willing to share general information about how it manages retrocession relationships.
4. Risk Diversification: To mitigate the risk of any one reinsurer, and by extension, its retrocessionaire, failing, the cedant can diversify its reinsurance relationships. This may involve having multiple reinsurance agreements with different companies or splitting reinsurance across different types of reinsurance, such as proportional or non-proportional.

It's important to note that this issue is not exclusive to AIR. This recognition encourages discussions and efforts toward enhancing transparency and disclosure practices across the reinsurance sector.

Addressing Inadequacy

If the AAT suggests that an asset adequacy reserve is required, it is the responsibility of the direct writer of the business to ensure that asset adequacy requirements are met, as per the Valuation Manual.

Conclusion

The considerations above are based on 2023 practices and guidance, which are known as of February 2024. Others are likely to emerge over time to address reserve adequacy and risk management associated with business ceded to offshore entities. While the discussion within this issue brief is primarily focused on reinsurance of AIR to Bermuda, some of the concepts may be helpful to actuaries evaluating offshore reinsurance for other types of business and to other jurisdictions.

The American Academy of Actuaries appreciates the input provided by the Bermuda Monetary Authority on the regulatory regime for Bermuda long-term commercial insurers.

Appendix: References to Guidance for Actuaries (binding and nonbinding)

Guidance for the actuary on asset adequacy testing and other risk analysis is already in place and is found in binding guidance/requirements and nonbinding best practices. Binding guidance includes the relevant ASOPs. (Note: The Academy's Applicability Guidelines cites the following ASOPs for asset adequacy testing: 2, 5, 7, 11, 15, 18, 21, 25, 38, 40, 42, 52, and 56. Note also that all areas are subject to ASOP Nos. 1, 23, and 41). Also binding are the regulatory requirements such as the Statutory Statement of Accounting Practices (SSAPs) (including SSAP 61R and Appendix a-785, 786, 787, and 791), actuarial guidelines (including AG 48), regulations (such as Model Life and Health Reinsurance Agreements), Standard Valuation Law, Valuation Manual, and aspects of the Dodd-Frank Act.

Items summarized below are not meant as a substitute for the actuary reading the documents in full. In addition, the actuary should be aware of emerging issues that could impact their work on asset adequacy testing.

Actuarial Standards of Practice

ASOPs discussed below mention reinsurance aspects of asset adequacy testing, but that does not mean that these are the only ASOPs the actuary should consult for such an assignment.

ASOP No. 7, *Analysis of Life, Health, or Property/Casualty Insurer Cash Flows*

The scope of this ASOP includes reserve adequacy. The level of analysis section instructs the actuary to consider material risks and options in cash flows along with a sensitivity test appropriate for the purpose of the analysis. Guidance is provided about asset and liability risks that may impact cash flow analysis. The only specific guidance on reinsurance directs the actuary to evaluate those aspects of reinsurance "that may be reasonably expected to have a material impact on the cash flow analysis" which includes "the risk of insolvency or other nonperformance by providers of services, including reinsurers and other counter-parties."

ASOP No. 11, *Treatment of Reinsurance or Similar Risk Transfer Programs Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports*

This ASOP's scope includes guidance on preparing financial reports that include reinsurance or similar risk transfer mechanisms for life insurance, annuities, and health benefit plans. It provides guidance on the portion of the business that has been reinsured/retroceded and the impact of reinsurance on the business that has been fully retained. It

requires that the actuary consider such issues as counterparty risk, termination risk, and the need for additional liabilities due to the characteristics of the reinsurance program.

ASOP No. 22, Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Other Liabilities

The scope of this ASOP includes guidance to the actuary when providing a statement of actuarial opinion based on an asset adequacy analysis when prepared according to U.S.-based laws and regulations. It directs the actuary to seek management input “regarding the extent of reinsurance, the associated cash flows, their collectability, any disputes with reinsurers, and practices regarding provisions for reinsurance ceded.”

ASOP No. 54, Pricing of Life Insurance and Annuity Products

The scope of this ASOP includes guidance to the actuary when initially developing or for changes related to future sales of life and annuity products. While the standard does not apply to the pricing of reinsurance contracts, it does discuss how the impact of reinsurance should be reflected in the pricing of a direct product based on its risk mitigation features.

ASOP No. 57, Statements of Actuarial Opinion Not Based on an Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Related Actuarial Items

The scope of this ASOP includes guidance for actuaries preparing an actuarial opinion for actuarial items within the Blue Book to comply with applicable law, but not based on asset adequacy analysis. It refers the reader to ASOP No. 11 and requires the actuary to determine whether there need to be any provisions for residual or contingent obligations in the case of a fully ceded block of business.

Academy Practice Notes

[Credit for Life Reinsurance in US Statutory Financial Statements](#)

This practice note aims to provide information on practices by U.S. actuaries during 2017–2018 regarding statutory credit for reinsurance. Specific practices covered include credit for reinsurance issues involving: “Regulation XXX,” asset adequacy analysis, certified reinsurers, Dodd-Frank, principle-based reserves, *Actuarial Guideline XLVIII*, Credit for Reinsurance Model Law, counterparty risk, and the Reserve Financing Model Regulation.

[Asset Adequacy Analysis](#)

The purpose of this practice note is to provide information on practices by U.S. actuaries before this note's issuance in 2017 regarding asset adequacy analysis in the context of the Standard Valuation Law. There are several places where the impact of reinsurance is discussed, such as the basis for allocation of assets, reinsurance in modeling, the treatment of modified coinsurance, the level of detail in the actuarial memo, including the method to recognize the impact of reinsurance in the regulatory asset adequacy issues summary, and documentation of whether reinsurance cash flows were included in the models.

[Life Principle-Based Reserves \(PBR\) under VM-20](#)

The purpose of this practice note is to provide information on practices by U.S. actuaries before this note's issuance in 2020 regarding valuing policies using VM-20 requirements. There are several places where the impact of reinsurance is discussed, such as the determination of reserve credits at the treaty level, situations when calculations are net of reinsurance and when they are gross of reinsurance, treatment of YRT reinsurance in calculating the Stochastic Exclusion Ratio Test, when reinsurance experience data can be used as the basis for setting mortality assumptions, NGRE, the explanation of "knowledgeable counterparties" provision, when a reinsurance agreement should be reflected in the calculation of the minimum reserve, and reliance on calculations of other parties.

Regulatory Guidance

[Statement of Statutory Accounting Principles \(SSAP\) 61R](#)

This SSAP describes the forms of reinsurance and how they should be accounted for. If an agreement meets the SSAP's requirements for risk transfer, then reinsurance accounting is used, as specified therein; if it fails to meet the requirements, deposit accounting is used.

Appendix [785](#) and [786](#)

These appendices to the SSAPs detail the requirements that reinsurance agreements with nondomestic reinsurers must meet to allow the cedant to take statutory credit for the reinsurance agreement.

[Appendix 787](#)

This appendix outlines the requirements for a reinsurance arrangement covering level term and universal life policies to be treated as reinsurance for statutory accounting purposes (note that this appendix is nearly identical to AG 48).

[Appendix 791](#)

This appendix takes certain sections of the Model Life and Health Reinsurance Agreement Regulation and incorporates additional regulatory guidance on what the regulation intended. The model and appendix outline conditions determining whether the risk has been passed from a statutory perspective.

[Valuation Manual—Chapter 30](#)

Describes all the requirements for what needs to be contained in the Actuarial Opinion and Memorandum. Similar to ASOP No. 11, it sets out when and how reinsurance arrangements are to be considered in a company's financial reports.

[ORSA Guidance Manual](#)

Provides guidance to an insurer or insurance group regarding reporting on its own risk and solvency assessment (ORSA) as outlined within the Form B—Insurance Holding Company System Annual Registration Statement of the NAIC's Insurance Holding Company System Regulatory Regulation (#450). Includes commentary on evaluation of plausible adverse scenarios and evaluation of counterparty risk.

Emerging Issues

There is a growing list of NAIC emerging issues that are not actuarial but which might directly or indirectly affect the calculation of statutory reserves and/or risk-based capital (RBC), and the performance of AAT. Below are links to various pages within the NAIC's website that may be helpful to actuaries:

NAIC Committee	Task Force	Working Group or Subgroup	Link	Topic and/or potential impact
Executive (EX) Committee	Climate and Resiliency Task Force		https://content.naic.org/cmte_ex_climate_resiliency_tf.htm	Rationale for company's approach with regard to reflecting climate risk
Financial Condition (E) Committee			https://content.naic.org/cmte_e.htm	Exploring a potential new "Framework for Insurer Investment Regulation"
"	Accounting Practices and Procedures Task Force	Statutory Accounting Principles Working Group	https://content.naic.org/cmte_e_app_sapwg.htm	An updated "SSAP 26R" on what is defined as a bond
"	"	"	"	An updated "SSAP 43R" on what defines an "asset-backed security"
"	"	"	"	An updated "SSAP 21R", which would clarify when assets should be classified as bonds versus equity
"	"	"	"	Other topics affecting the classification, annual statement location, and accounting for various types of derivative programs and structured assets

"	"	Blanks Working Group	https://content.naic.org/cmte_e_app_blanks.htm	Implementation of changes to statutory annual statement blanks and annual statement instructions
"	Capital Adequacy Task Force	Life Risk-Based Capital Working Group	https://content.naic.org/cmte_e_lrbc.htm	Various items on the group's publicized Working Agenda
"	"	Risk-Based Capital Investment Risk and Evaluation Working Group	https://content.naic.org/cmte_e_rbcire.htm	RBC for residual tranches of structured securities, and for other tranches of CLOs and other types of structured securities
"	Financial Stability Task Force	Macroprudential Working Group	https://content.naic.org/cmte_e_mwg.htm	Work streams related to complex assets and reinsurance
"	Reinsurance Issues Task Force		https://content.naic.org/cmte_e_reinsurance.htm	States' Implementation of the Term and Universal Life Insurance Reserve Financing Model Regulation (#787)
"	Valuation of Securities Task Force		https://content.naic.org/cmte_e_vos.htm	An evolving list of topics that includes non-bond debt securities, the definition of an NAIC Designation, P&P Manual amendments; Modeling of CLOs and other structured securities

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.