



October 19, 2026

Kevin Clark
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Re: [Reinsurance Collateral for Business Valued under Principles-Based Reserving \(SSAP No. 61, Paragraph 50\)](#)

Dear Chair Clark:

On behalf of the American Academy of Actuaries'¹ Reinsurance Working Group (RWG), we appreciate the opportunity to provide comments to the Statutory Accounting Principles (E) Working Group (SAPWG) regarding the referral from the Life Actuarial (A) Task Force (LATF) on reinsurance collateral for business valued under principles-based reserving (PBR), and the proposed revisions to paragraph 50 of SSAP No. 61. The RWG recognizes the importance of this issue and appreciates the Working Group's consideration of public comments as it works to respond to the referral.

The proposed change touches several NAIC groups. SAPWG owns the accounting guidance, LATF owns the reserve calculations in the Valuation Manual, and the Reinsurance (E) Task Force owns the Credit for Reinsurance Model Law (Model Law #785) and Model Regulation (Model Regulation #786), which paragraph 50 tracks. Changing the SSAP alone would risk an inconsistency between statutory accounting and the credit-for-reinsurance law, and a measure that depends on a PBR calculation should be coupled with a definition of the calculation itself.

RWG considers RBC implications as separate from this referral and they are not discussed in this letter.

We have the following comments:

Comment 1—Identification of the Problem

Credit for reinsurance lets a cedent reduce its reserves for liabilities it has ceded. That benefit is only as good as the reinsurer's ability to pay. A state regulator's ability to examine or regulate an unlicensed reinsurer may be limited, so the collateral requirement ensures that assets supporting

¹The 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 60 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.

the credit are available and under the cedent's control. As we understand the history, collateral was sized to the credit taken.

The RWG agrees that current collateral requirements may not be appropriate as a measurement of a cedent's potential loss on reinsurer default under PBR requirements when the reserve credit for each reinsurance agreement is an allocation of reserves the cedent has calculated on an aggregate basis. The following example is provided to illustrate this issue.

Assume a company has two blocks of policies that are valued under PBR. All of the company's other business is valued under pre-PBR rules. Reserves for Blocks A and B would be \$40 million and \$30 million respectively if calculated separately, but when calculated on an aggregate basis are \$63 million due to offsetting risks (this is the benefit of aggregation). The allocation of the \$63 million results in \$36 million reserves for Block A and \$27 million for Block B. If actual experience emerges similar to that assumed in the standalone calculation for Block A, then \$40 million would be needed to pay claims, but we assume that under that experience only \$23 million would be needed to pay claims for Block B policies. Losses in Block A would be covered by gains in Block B since the \$63 million in reserves is available to pay claims for both Blocks. In this case, the calculation of reserves on an aggregate basis makes sense since gains from one Block would be available to cover losses from the other Block.

Now assume that Block A is ceded under coinsurance to Reinsurer X and Block B is ceded under coinsurance to Reinsurer Y (both are unauthorized companies and require collateral for reserve credit). The pre-reinsurance reserves would be \$63 million as they would still reflect the benefit of aggregation. However, if actual experience emerges similar to that assumed in the standalone calculation for Block A, then the collateral of \$36 million would be short by \$4 million to cover all the Block A policy claims. In the case of Block B, only \$23 million of the \$27 million collateral would be needed to pay all the Block B policy claims. The problem is that the \$4 million of excess collateral for Block B would belong to Reinsurer Y and would not be available to cover the \$4 million loss of Block A. In this situation the pre-reinsurance reserves are calculated on an aggregate basis to reflect offsetting risks, but gains from one Block are not available to cover losses from the other Block. The ceding company is therefore exposed to \$4 million of losses with respect to the reinsurance of Block A in the scenario above or, in the opposite scenario, \$3 million with respect to the reinsurance of Block B, due to the collateral being less than the pre-reinsurance reserves for Blocks A and B calculated on a standalone basis.

The proposed change to SSAP 61 Paragraph 50 to calculate reserves valued under PBR on a standalone treaty basis would be one way of addressing the collateral concern.

Comment 2—Other Changes That May Be Needed for Consistency

If this change to SSAP 61 Paragraph 50 is made, LATF should consider revisions to the Valuation Manual to define the standalone calculation and to determine whether items such as application of exclusion tests to carved-out business and the segmentation of assets need to be covered. The Reinsurance Task Force should consider whether such a change will require any changes to any NAIC model laws or regulations, such as Model Law #785 and Model Regulation #786. Changing

the SSAP alone would risk an inconsistency between statutory accounting and the credit-for-reinsurance law, and a measure that depends on a PBR calculation should be coupled with a definition of the calculation itself.

Comment 3—Other Options/Considerations

Under the proposed change to SSAP 61 Paragraph 50, under the above example, the collateral for the treaties covering Blocks A and B would need to be increased by \$4 million and \$3 million respectively to obtain full reserve credit. One option would be for the ceding company to instead set up a liability for the collateral shortfall, as is typically reported on line 24.02 of page 3 of the statutory Annual Statement. However, for the above example, the additional reserve could be based on the greater of the collateral shortfalls rather than the sum; i.e., it would be \$4 million rather than \$7 million. The rationale is that under moderately adverse conditions there would not be a shortfall for both blocks with respect to their counteracting risks.

Another consideration is that in some cases the concern may not exist. Using the above example, if only Block A was ceded, then a shortfall in the collateral would be offset by the gains of Block B, which would belong to the ceding company. The collateral concern may primarily exist when business ceded under a treaty that requires collateral for recognition of reserve credit contains risks that differ from those of business ceded to other reinsurers.

Another item that should be considered is the situation where aggregation makes the reserve higher than the stand-alone reserve

Paragraph 50 states that the liability offsets credit taken. As drafted, the net liability for an under-collateralized treaty is the standalone reserve less collateral. In situations where the standalone reserve is less than the aggregate reserve, we suggest the required collateral be the greater of the standalone and aggregate reserves on the portion of the business being reinsured. In addition, we suggest that any liability set up for a collateral shortfall should take into account offsetting risks; e.g., if collateral of 36 and 27 would have supported the Block A and Block B business, a liability for the shortfall of 4 rather than 7 may have been appropriate for the above example.

The draft also does not address how items b and c (claim recoverables, commissions and allowances) interact with the standalone figure, including possible double counting.

Other ways of addressing collateral requirements under PBR may be reasonable, and with additional time the RWG could explore them.

Other Items for the Working Group's Consideration

In addition to the specific comments above, we would ask the Working Group to consider the following implementation issues, which we believe are material to a workable outcome regardless of which approach is adopted:

1. Effective date and transition. A change that requires a newly defined calculation should be accompanied by an explicit transition period rather than a cliff-edge effective date, so that companies and reinsurers have time to build and audit the required models.
2. Coordination with the Reinsurance (E) Task Force. Any change to the collateral base should be coordinated with Model #785/#786, and the Working Group should state whether the base for certified-reinsurer collateral percentages (Secure-1 through Vulnerable-6) changes as well, so that the framework remains internally consistent.
3. Interaction with existing frameworks. The new requirement should be reconciled with AG 48, Model #787, AG 55 and the reduced-collateral treatment available to reciprocal-jurisdiction reinsurers, so that business already subject to primary security requirements is not inadvertently captured twice.
4. Scope and grandfathering. The memo does not specify whether the charge applies to treaties already in force. We would ask for an explicit statement on scope, since retroactive application to legacy blocks priced without this change in collateral requirements would be a significant change in economics for existing treaties.
5. Ongoing governance. The standalone reserve depends on assumptions and margins that will change over time. The Working Group should specify how and when the requirement will be reviewed so that it does not become stale.

The RWG appreciates the opportunity to share these comments and is available for continued conversation with SAPWG and other stakeholders. If you have any questions or would like to discuss these comments further, please contact Marie Fabienne Amisial, the Academy's policy project manager, life (amisial@actuary.org).

Sincerely,

Jeremy Starr, MAAA, FSA
Chairperson, Reinsurance Working Group
Risk Management and Financial Reporting Council