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INSURANCE REGULATORY UPDATE

NAIC 2024 Fall Meeting Highlights

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At the 2024 National Association of Insurance Commissioners (NAIC) Fall National Meeting, held in Denver, CO November 15–19, the agenda was lighter than at recent National Meetings. Below, we provide several highlights from the five-day event.

Life Actuarial Task Force (LATF) Meetings

- The Valuation Manual (VM)-22, Requirements for Principle-Based Reserves (PBR) for Non-Variable Annuities, is on track for completion in mid-2025, with possible adoption on January 1, 2026.
- Generator of Economic Scenarios (GOES) field test and calibrations were discussed.
- The Society of Actuaries (SOA) reported on historic mortality improvements and proposed future mortality improvement factors.
- Amendment #2024-13, which clarifies the application of a negative interest maintenance reserve (IMR), has been re-exposed for 14 days until December 2 due to a typo in the previous version.
- An update report on Actuarial Guideline LIII (AG 53), a 2022 guideline on asset adequacy testing (AAT), focused on identifying outlier life insurers who assumed especially high net yields / net spreads on their assets, particularly long-dated assets. To be flagged, an allocation should significantly exceed a benchmark in rate of return, allocation or both. The report identified 14 such insurers from 2022 year-end reporting and a few more from 2023. The NAIC engaged with these companies to understand the rationale for their assumptions and to correct any unreasonable ones. The next steps would depend on outliers' cooperation with the NAIC. If aggressive asset assumptions aren't very widespread and insurers are generally cooperative in remediating them, the NAIC can continue dealing with outliers individually. If not, assumption guardrails may be needed. Another consideration is models' rigor: insurers' models must either explicitly capture the risks of high-yield assets or be conservative enough to guard against those risks.
- The draft of AAT for reinsurance continues to generate lively discussions. This workstream was launched in February 2024. The goal is to ensure, through cash-flow testing or other methods, that assets supporting reserves for ceded asset-intensive blocks of business remain adequate. The current scope of the proposal is narrow, limited in this early phase to the largest and most impactful treaties while focusing on affiliated transactions only—but the scope is expected to widen as the project progresses. Implementation is planned for year-end 2025, and will initially be disclosure-only. The proposal is exposed for comments until January 15, 2025.
- The Academy Life Practice Council reported on its activities, including work on correlations and C-3 RBC with the Life Risk-Based Capital Working Group. As was reported at the 2024 Summer National Meeting, the collateralized loan obligation (CLO) comparable attribute project continues to move along—with delays. All necessary data has finally been received; a report will come at the Spring 2025 National Meeting.

Statutory Accounting Principles Working Group (SAPWG) Meeting

- The working group adopted a Principles-Based Bond-Definition implementation Q&A document. The updated version incorporated several comment letters from the exposure period, and added specific new guidance on asset classes such as Single-Asset, Single-Borrower Commercial Mortgage Loan securitizations, Commercial Mortgage Backed Security Interest-Only strips and hybrid investments.
- The collateral loans reporting revisions proposal calling for more granular reporting of collateral loans on Schedule BA has been re-exposed without modifications to be in sync with the corresponding Blanks proposal.
- Repacs and Derivative Wrapper Investments: The bifurcation is dead...long live the disbursement/acquisition! This initiative wasn't supported by interested parties, so the NAIC rolled it back. The proposal is now to be modified to reflect credit-repack transactions as a sale of the bond to a special purpose vehicle (SPV), with a subsequent acquisition of the new instrument—bond plus derivative—from the SPV.
- Investment Subsidiary Classification: This concept agenda item is to clarify accounting and capital treatment of investment subsidiaries with no operational purposes other than holding assets for their parents. Currently, there's no such separate statutory concept in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*. Therefore, statutory accounting for investment subsidiaries needs to be established. Possible options:
  - Revisions to SSAP No.97 to directly address accounting guidance for investment subsidiaries

- Creating new—or modifying existing—investment schedules to reflect assets held in investment subsidiaries
- Revisions by CATF and related RBC workgroups to RBC calculations for such assets

Financial Stability Task Force (FSTF) Meeting

- A significant part of the agenda was dedicated to discussing the 2023 Liquidity Stress Testing (LST) results and laying out specifics of the upcoming 2024 LST. The LST Framework is intended to evaluate the impacts of a potential liquidity stress to the life insurance universe on broader financial markets—the so-called "outward" impacts. In other words, if many insurers must sell assets in a market-wide liquidity crunch, how much would this affect financial markets? The short answer is not at all. The longer answer: 25 life insurers (60% of the life industry by assets) submitted year-end 2023 LST results by June 30, 2024. These results consisted of five scenarios and three time horizons. The largest asset sales related to liquidity stress were from investment-grade public corporates, Treasuries and agencies. Yet this was a drop in the bucket for insurers, let alone the broader market. With that in mind, exposing the proposed 2024 LST document until December 17, 2024 was a non-event. Complete guidance will be issued in February 2025.
- The FSTF also received an update from the Valuation Analysis Working Group on AG 53, focusing on net-yield assumptions on complex assets, as well as reinsurance collectability. AG 53 requires additional disclosures about insurers' complex assets and their risks in order to discourage insurers from making aggressive yield assumptions to support their claims-paying ability. High assumed yields can't come without risks, which should be captured adequately. It's especially concerning when cash-flow testing models project growing allocations to risky assets over time. As for structured assets, reviews should be tailored at the tranche level. Payment-in-kind (PIK) assets are an area of focus also, since they may not generate cash flows when insurers need them. More documentation will be required next year for those assets. Finally, reinsurance is a concern for asset adequacy, especially if reserves are much lower than under US statutory standards. More discussions and changes are expected for AG 53 compliance.

Valuation of Securities Task Force (VOSTF) Meeting

- A proposed amendment to the Policies and Procedures (P&P) manual to update the list of CRPs and the NAIC's use of their credit ratings was adopted. This item was first discussed at the Summer National Meeting, followed by a 30-day comment period after which it was updated with additional clarifications and re-exposed until October 16. The issue at the center of the latest proposal iteration is the difference between ABS definitions used by the NAIC and SEC. The proposal spells out that the definitions of classes of credit ratings are the SEC's.
- Another (technical) update to the P&P manual has been adopted. References to Subscript-S for "Other Non-Payment Risk" were removed and references to investment risk replaced the term "credit risk" throughout.
- The task force received a report on the status of Private Letter Rating (PLR) rationale report filings for 2024. PLR securities are split into three groups based on issuance date: 1) before 2018, 2) from 2018–2021, and 3) on or after January 1, 2022. For the third category, if there's no rating rationale report, the SVO will treat them as non-filing exempt following the 30-day grace period and deactivate the designation. However, if the SVO discovers data issues, it may suspend deactivation until they're resolved.
- Finally, the SSG gave an update on the status of CLO modeling. The group selected preliminary probability distributions for scenarios, which will likely be unveiled at the Ad-Hoc Group meeting in the next few weeks. The SSG reiterated that the methodology for calibration would be to minimize the mean-square error between underlying RBC and the RBC of all tranches. The results will be posted in early Q1 2025. Separately, the SSG continues to work closely with the Academy and may adjust the model based on the Academy's findings.

Conclusion

We look forward to the implementation of the principles-based bond definition on January 1, 2025. We expect it to be like Y2K (for those of you old enough to remember): big headlines, tons of work going into it and eventually a smooth transition as all the preparations pay off.

Also, the CLO modeling project is entering its final phase in 2025. Expect more details to emerge in the coming weeks and months. It will also be interesting to learn the Academy's findings about the comparable attributes (to be reported at the Spring National Meeting) and how they may affect the SSG's approach.

Other impactful workstreams to watch: AAT for reinsurance; the Academy's work on covariance and C3 risk; the RBCIREWG's project to reconcile RBC treatment for funds and, of course, progress on the E-Committee's holistic investment framework—particularly the CRP due diligence RFP.

Have questions on this insight or anything insurance-related? Contact Dr. Mukhin.

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