

NAIC Bulletin

Highlights of the National Association
of Insurance Commissioners meeting

Spring 2023 update

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The National Association of Insurance Commissioners (NAIC) recently held its 2023 Spring National Meeting in a hybrid format from Louisville, Kentucky. Our publication highlights key issues that NAIC groups have addressed since the 2022 Fall National Meeting. We hope you find it informative, and we welcome your comments. Please contact your local EY professional for more information.

What you need to know

- ▶ The Statutory Accounting Principles (E) Working Group exposed an interpretation to provide a limited-time, optional exception to statutory accounting guidance that would allow reporting entities to recognize negative interest maintenance reserve as an admitted asset in the general account subject to certain conditions.
- ▶ The Statutory Accounting Principles (E) Working Group exposed revisions to the interpretation addressing the limited-time exception to statutory accounting guidance regarding the corporate alternative minimum tax provisions of the Inflation Reduction Act that would extend its expiration date to 1 July 2023.
- ▶ The Financial Condition (E) Committee adopted an amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* to require investments in collateralized loan obligations to be financially modeled to determine the NAIC designation for these securities, effective 1 January 2024.
- ▶ The Executive (EX) Committee appointed Andrew J. Beal, Chief Operating Officer and Chief Legal Officer, as the acting Chief Executive Officer of the NAIC, effective 30 April 2023.

Statutory accounting and risk-based capital developments

This section summarizes the actions taken by various NAIC groups affecting statutory accounting, annual statement reporting and risk-based capital (RBC) requirements since the 2022 Fall National Meeting.

Statutory Accounting Principles (E) Working Group

Appendix A in this publication summarizes the actions taken by the Statutory Accounting Principles (E) Working Group (SAPWG) to revise the statutory accounting and reporting guidance in the *Accounting Practices and Procedures Manual* (AP&P Manual) since the 2022 Fall National Meeting. It also includes the effective dates for adopted items and the deadlines for comments on exposed items.

Statutory accounting principles

SAPWG adopted revisions to SSAP No. 25, *Affiliates and Other Related Parties*, to clarify that any invested asset held by a reporting entity that is issued by an affiliated entity, or which includes the obligations of an affiliated entity, is an affiliated investment (Ref #2022-15).

SAPWG adopted revisions to SSAP No. 34, *Investment Income Due and Accrued*, to add disclosures to the annual statement blank to capture the gross, nonadmitted and admitted amounts for interest income due and accrued and the cumulative amount of paid-in-kind interest included in current principal balances (Ref #2022-17). SAPWG also directed the NAIC staff to submit a corresponding blanks proposal (Ref #2023-11BWG) to the Blanks (E) Working Group (BWG) to incorporate the new disclosure requirements into the annual statement blank for 2023 year-end reporting purposes.

SAPWG adopted revisions to SSAP No. 100R, *Fair Value*, to adopt the US GAAP guidance in Accounting Standards Update (ASU) 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, with modification for consistency with the language in the applicable statutory accounting guidance (Ref #2022-16). Items restricted as to sale would be captured as restricted assets in accordance with SSAP No. 1, *Accounting Policies, Risks & Uncertainties, and Other Disclosures*, and subject to admittance considerations under SSAP No. 4, *Assets and Nonadmitted Assets*.

SAPWG exposed additional revisions to Issue Paper No. 16X, *Updates to the Definition of a Liability*, to add an additional footnote to the definition of a liability in SSAP No. 5R, *Liabilities, Contingencies and Impairments of Assets*, that would indicate the guidance regarding the definition of a liability is applicable unless another authoritative SSAP guidance provides more topic-specific contradictory guidance and revise the relevant literature section of SSAP No. 5R to note the modification (Ref #2022-01).

SAPWG exposed additional revisions to SSAP No. 26R, *Bonds*; SSAP No. 43R, *Loan-Backed and Structured Securities*; SSAP No. 21R, *Other Admitted Assets*; and other SSAPs (e.g., SSAP No. 86, *Derivatives*, for replication (synthetic asset) transactions) that would incorporate the most recent feedback received from industry stakeholders into the statutory accounting guidance developed for the principles-based bond project (Ref #2019-21). The proposed revisions include:

- ▶ Adding a scope exclusion paragraph in SSAP No. 26R to exclude 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.
- ▶ Adding a scope exclusion in SSAP No. 26R to clarify that the accounting requirements for replication (synthetic asset) transactions are addressed in SSAP No. 86 and are not affected by the principles-based bond definition.
- ▶ Modifying the reference in SSAP No. 26R from “credit rating related” to “credit-quality related” to encompass the broader range of adjustments that align interests of debtholders and issuing entities (e.g., debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio, interest coverage ratio, debt service coverage ratio).
- ▶ Adding a new footnote in SSAP No. 26R to define an exception for nominal interest rate adjustments as too small to be considered when assessing an investment’s substance as a bond. The new footnote includes an example application and clarifies that any adjustments that cause an investment to meet the definition of a structured note would not be considered nominal.
- ▶ Incorporating accounting and reporting guidance in SSAP No. 26R for first loss positions, which would be reported on Schedule BA at the lower of amortized cost or fair value consistent with the treatment of residual tranches.

- ▶ Modifying the guidance in SSAP No. 26R and SSAP No. 43R to clarify that assessments to determine whether an investment qualifies for reporting as a bond on Schedule D-1 are required as of the origination date and to permit the use of current or acquisition information for the assessments at the time of transition.
- ▶ Modifying the guidance in SSAP No. 26R and SSAP No. 43R to clarify that the transition guidance will be effective 1 January 2025 on a prospective basis and reporting entities do not need to restate the prior year's information for 2025 year-end reporting purposes.
- ▶ Incorporating accounting and reporting guidance in SSAP No. 21R for debt securities that do not qualify as bonds pursuant to the principles-based bond definition in SSAP No. 26R.
- ▶ Incorporating accounting and reporting guidance in SSAP No. 21R for residual tranches or interests from securitization tranches, beneficial interests and loss positions.

SAPWG also exposed a proposal that would revise the reporting lines on Schedule BA to encompass debt securities that do not qualify as bonds under the revised guidance and to consolidate existing reporting lines. Once feedback is received, subsequent revisions will be drafted to incorporate the changes into other schedules of the annual statement blank, as appropriate.

SAPWG directed the NAIC staff to consider the development of statutory accounting guidance for the recognition of negative interest maintenance reserve (IMR), which occurs when the amount of unamortized interest-related losses realized from the sale of investments is greater than the amount of unamortized interest-related gains, with an intent to work on both an interim (i.e., 2023) and a long-term solution that would address the following (Ref #2022-19):

- ▶ Recommendation for a referral to be sent to the Life Actuarial (A) Task Force (LATF) for further consideration regarding the implications of negative IMR on asset adequacy testing, which would include a request to develop a template for reporting negative IMR within asset adequacy testing; consider the actual amount of negative IMR that is admitted to be used in asset adequacy testing; consider the cash flows within asset adequacy testing and the related documentation, as well as any liquidity stress test considerations; determine that excessive withdrawal considerations are consistent with actual data (e.g., sales of bonds because of excess withdrawals should not use the IMR process); and determine that any guardrails for assumptions in asset adequacy testing are reasonable and consistent with other guidelines
- ▶ Recommendation for a referral to be sent to the Capital Adequacy (E) Task Force (CATF) to consider eliminating any admitted net negative IMR from total adjusted capital in the RBC calculation and incorporating sensitivity testing with and without negative IMR
- ▶ Development of guidance that would allow for the admission of negative IMR up to 5% of surplus using the type of limitation calculation similar to that used for goodwill admittance, with a provision for a downward adjustment if the reporting entity's RBC ratio is less than 300%
- ▶ Review and update any annual statement instructions for excess withdrawals, related bonds gains and losses, and non-effective hedge gains and losses to clarify that those gains and losses would be recognized through the asset valuation reserve (AVR)
- ▶ Development of accounting and reporting guidance to require the use of a special surplus account or reporting line for net negative IMR
- ▶ Development of governance-related documentation to make sure sales of bonds are reinvested in other bonds
- ▶ Development of a disclosure requirement for quarterly and annual reporting

SAPWG directed the NAIC staff to continue to work with industry stakeholders and regulators on developing guidance for the reporting of the corporate alternative minimum tax (CAMT) for periods after the first quarter of 2023 (Ref #2023-04). The CAMT presents several accounting challenges that require input from regulators, including the treatment of tax sharing agreements, consideration regarding the CAMT deferred tax assets (DTAs) in the statutory valuation allowance and the treatment of CAMT DTAs in the admissibility calculation of SSAP No. 101, *Income Taxes*. Once developed, the guidance will replace the temporary guidance in INT 22-02: *Third Quarter 2022 through Second Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax* (INT 22-02).

SAPWG also directed the NAIC staff to draft revisions to statutory accounting guidance and a related issue paper that would expand the scope of SSAP No. 93, *Low-Income Housing Tax Credit Property Investments*, to capture all tax equity investments that qualify under specified criteria and provide general federal business tax credits or state premium tax credits, and SSAP No. 94R, *Transferrable and Non-Transferrable State Tax Credits*, to address items that should be captured in its scope and admittance provisions (Ref #2022-14). The revisions to SSAP No. 93 and SSAP No. 94R will consider the final Financial Accounting Standards Board (FASB) guidance on tax equity investments and feedback received on the previously exposed discussion document with NAIC staff questions on potential statutory accounting concepts for tax equity investments.

Interpretations of statutory accounting principles

SAPWG exposed INT 23-01T: *2023 Net Negative (Disallowed) Interest Maintenance Reserve* to prescribe a limited-time, optional exception to the statutory accounting guidance in SSAP No. 7, *Asset Valuation Reserve and Interest Maintenance Reserve*, and the annual statement instructions for the disallowance of negative IMR. The proposed interpretation would allow net negative IMR in the general account to be admitted up to 5% of adjusted capital and surplus, with restrictions on what is permitted to be captured in the net negative IMR balance that is eligible for admittance and requirements for the reporting and disclosure of the amount admitted.

SAPWG also exposed revisions to INT 22-02 to extend its expiration date to 1 July 2023. The proposed revisions will allow the interpretive guidance to be applied to the second quarter 2023 statutory-basis financial statements, without modifying its existing disclosure requirements.

Other matters

SAPWG adopted Issue Paper No. 16X, *Derivatives and Hedging*, to document the extent of the revisions to SSAP No. 86 that were adopted with the review of the US GAAP hedging guidance in ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, and ASU 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method* (Ref #2017-33). The issue paper addresses the adopted revisions to the documentation and assessment of hedge effectiveness, measurement method guidance for excluded components, and modified incorporation of the US GAAP portfolio layer method and the partial-term hedging method in SSAP No. 86.

SAPWG received a request from the American Academy of Actuaries (Academy) for clarification on an observed diversity in practice across issuers of long-term care (LTC) insurance with regard to how the guidance in *Actuarial Guideline LI – The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51), specifically the requirements for determining when additional reserves may be necessary, interacts with the existing guidance on reserve adequacy in SSAP No. 54R, *Individual and Group Accident and Health Contracts*, and Appendix A-010, *Minimum Reserve Standards for Individual and Group Health Insurance Contracts*. NAIC staff will work with Academy representatives and the applicable NAIC groups to develop an agenda item for future discussion.

Blanks (E) Working Group

Appendix B summarizes the actions taken by BWG since the 2022 Fall National Meeting.

Capital Adequacy (E) Task Force

CATF adopted revisions to the structure and related instructions for the calculation of the RBC charge for affiliated investments that were developed by the Life RBC (E) Working Group, Health RBC (E) Working Group, and Property and Casualty (P&C) RBC (E) Working Group for use in the respective RBC formulas (Ref #2022-09-CA). The revisions update the schedules for investments in subsidiary, controlled and affiliated (SCA) entities to incorporate details on directly owned entities, indirectly owned entities, investment subsidiaries, investments in upstream affiliates and investments in non-insurance entities. The revisions are intended to improve the calculation and provide consistency in the treatment of affiliated investments across insurance sectors.

CATF discussed the response from the Health RBC (E) Working Group on its request for input regarding runoff insurance companies. The Working Group indicated that it agrees with the recommendation from the P&C RBC (E) Working Group to monitor these companies through the state analysis and exam team functions. The Working Group determined that the underwriting risk (i.e., H2) component of the Health RBC formula sufficiently addresses runoff insurance companies when the RBC charge of a runoff company is

reduced as premiums are reduced. However, as premiums are reduced, the authorized control-level RBC requirement would also be reduced. The Working Group also developed a recommendation to identify characteristics of a runoff health insurance company, which include:

- ▶ No renewing of policies for at least 12 months
- ▶ No plans or intentions to write new direct or new assumed business
- ▶ No additional runoff blocks of business
- ▶ Separate reporting of reserves for the remaining runoff business

CATF expects further discussion regarding runoff insurance companies at the 2023 Summer National Meeting.

Appendix C summarizes the developments affecting RBC requirements for each of the insurance sectors based on actions taken by CATF and the various NAIC groups that report to it since the 2022 Fall National Meeting.

Life RBC (E) Working Group

The Life RBC (E) Working Group discussed its response to the request from CATF for input regarding runoff insurance companies. The Working Group determined that no changes to the Life RBC formula are necessary to address runoff insurance companies.

Health RBC (E) Working Group

The Health RBC (E) Working Group discussed the proposed revisions to the premiums and reserves ratio calculations in the health test language for all lines of business in Part 2 of the general interrogatories. The revisions were developed to clarify and provide better transparency in the calculation of the numerator and denominator of these ratios. The revisions align the source of the information used in the calculations and require them to be performed on a net basis. Further discussion is planned at a future meeting to be scheduled by the Working Group.

The Working Group also discussed the effect of the COVID-19 pandemic on health insurers and the potential inclusion of pandemic risk in the Health RBC formula. Further discussion is planned at a future meeting to be scheduled by the Working Group.

Property and Casualty RBC (E) Working Group

The P&C RBC (E) Working Group heard an update from the Academy on its project to recalibrate portions of the reserve and premium risk in the R4 and R5 components of the P&C RBC formula, including the development of updated risk factors, investment income adjustments and line of business diversification factors. The Academy presented the preliminary results of its work on investment income adjustments and requested feedback from the Working Group on the following:

- ▶ New present value methodology for investment income adjustments due to the increase in interest rates experienced in 2022
- ▶ Enhancement to align the time horizon for the investment income adjustment with the risk horizon for the investment portfolio
- ▶ Statistical safety level used in the P&C RBC formula
- ▶ Minimum risk charge and year-over-year capping approach in the P&C RBC formula

The Academy expects to complete its work in this area by mid-2023 and will provide the Working Group with a report on its analysis of line of business diversification factors at a future meeting to be scheduled by the Working Group.

RBC Investment Risk and Evaluation (E) Working Group

The RBC Investment Risk and Evaluation (E) Working Group (RBCIRE) heard an update from the Academy regarding its work to analyze and address collateralized loan obligation (CLO) investment structures in the RBC formulas. The Academy is focused on drafting a model specifications document detailing a bottom-up model for CLOs, including residual tranches for RBC purposes, and an RBC arbitrage document to describe the various definitions of RBC arbitrage. Further discussion is planned at a future meeting to be scheduled by RBCIRE.

Requirements for principle-based reserving

LATF continued its work to update the *Valuation Manual* (VM) and address issues related to the implementation of the principle-based reserving (PBR) framework for life and annuity products. The actions taken by LATF include revisions to the guidance in VM-20: *Requirements for Principle-Based Reserves for Life Products* and VM-21: *Requirements for Principle-Based Reserves for Variable Annuities*, which are summarized below.

Life and variable annuity products

Valuation Manual amendments

LATF adopted the following amendments to the 1 January 2023 *Valuation Manual* that will:

- ▶ Clarify the reporting requirements for PBR actuarial reports for business subject to a PBR valuation to distinguish between the roles of senior management and qualified actuaries and include scenario generation documentation (among other actuarial assumptions) in VM-31: *PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation*
- ▶ Clarify the requirements for universal life policies with non-material secondary guarantees to pass the exclusion test in VM-20 to exclude these policies from the deterministic reserve and stochastic reserve calculations
- ▶ Add requirements in VM-31 to disclose reporting discrepancies between the annual statement and the PBR actuarial report
- ▶ Clarify that the value of starting assets includes the allocated amount of pretax interest maintenance reserve in VM-21
- ▶ Clarify the treatment of hedge modeling with considerations regarding the assumed cost of borrowing and the treatment of risk factors other than stochastically modeled interest and equities in VM-20
- ▶ Clarify the intent and calculation of the VM-20 net premium reserve mortality adjustment, specifically when the anticipated mortality exceeds the prescribed mortality table
- ▶ Clarify the reporting and governance requirements for groups of contracts with reserves determined using the VM-21 alternative method to require the insurance company to develop a sub-report for the groups of contracts that are not subject to a PBR valuation to address the applicable requirements within Section 3 of VM-31

LATF exposed the following amendments to the *Valuation Manual* that will:

- ▶ Clarify the support necessary to prove compliance with the VM-31 reporting requirements that mortality experience rates are not to be lower than the mortality rates the company expects to emerge and achieve the objective of the requirement to evidence forward-looking expectations via a discussion of underwriting, distribution channel, pandemic changes and results of ongoing experience monitoring (among other assumptions)
- ▶ Add hedge modeling guidance specific to index credit hedging to VM-21 consistent with the guidance in VM-22: *Statutory Maximum Valuation Interest Rates for Income Annuities*

Non-variable annuity products

The VM-22 (A) Subgroup indicated that the VM-22 field test, which will be led jointly by the Academy, the American Council of Life Insurers (ACLI) and the NAIC, is now expected to begin in midyear 2024. The timing for the field test was delayed due to the dependence on the Economic Scenario Generator project and its revised timing. Accordingly, the earliest effective date for implementation of the framework will be 1 January 2026, with a three-year transition period for its implementation.

The Subgroup continued its discussion of the draft PBR framework for non-variable annuity products. Specifically, the Subgroup determined that reserves gross of reinsurance should be used to determine eligibility for the small company exemption that will allow insurance companies to be exempt from the framework based on a threshold linked to prior-year fixed annuity reserves reported in the annual statement. The exception would not apply to products with guaranteed living benefits.

Macroprudential activities

Various NAIC groups continued their work on areas of the NAIC's Macroprudential Initiative to improve the ability of state insurance regulators to monitor and respond to financial and economic risks affecting the US insurance industry as a whole and individual insurance reporting entities.

Recovery and resolution

The Receivership and Insolvency (E) Task Force received an update on the development of amendments to the Property and Casualty Insurance Guaranty Association Model Act (Model #540) for restructuring mechanisms and continuity of guaranty fund coverage after insurance business transfers and corporate division transactions. The drafting group responsible for reviewing the feedback received has made progress in developing the revised content for the Model Act and will continue its work at future meetings.

The Task Force also adopted revisions to Chapter 3 ("Accounting and Financial Analysis"), Chapter 4 ("Investigation and Asset Recovery") and Chapter 5 ("Claims") of the *Receiver's Handbook for Insurance Company Insolvencies*. The Receiver's Handbook (E) Subgroup is reviewing the feedback received on the next two chapters and will develop revisions for consideration by the Task Force at a future meeting.

Private equity and other matters

The Macroprudential (E) Working Group (MWG) provided a status update on each of the 13 items in the *Regulatory Considerations Applicable (But Not Exclusive) to Private Equity (PE) Owned Insurers* document, which has been summarized below:

- ▶ Broader considerations exist around asset manager affiliates (not just PE owners) and disclaimers of affiliation avoiding current affiliate investment disclosures. The statutory accounting guidance adopted in SAPWG #2022-15 and SAPWG #2022-17, along with the exposure of additional revisions to the guidance developed for the principles-based bond project in SAPWG #2019-21 and the related blanks proposal (Ref #2023-06BWG), should address this issue.
- ▶ The material increases in privately structured securities (both by affiliated and nonaffiliated asset managers) introduce other sources of risk or increase traditional credit risk, such as complexity risk and illiquidity risk, and involve a lack of transparency. SAPWG indicated that the ongoing work detailed in SAPWG #2019-21 should address this issue, once adopted. The Valuation Securities (E) Task Force (VOSTF) sent a referral to several NAIC groups seeking feedback on the potential for the NAIC Securities Valuation Office (SVO) to invest in a platform for use in producing analytical risk metrics for bond investments.
- ▶ The level of reliance on rating agency ratings and their appropriateness for regulatory purposes (e.g., accuracy, consistency, comparability, applicability, interchangeability, transparency). The Financial Condition (E) Committee (E Committee) adopted an amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to include CLOs as a financially modeled security, effective 1 January 2024. An ad hoc group was formed by VOSTF to provide regulators and industry stakeholders with a better understanding of the NAIC's approach to modeling CLOs. VOSTF sent a referral to CATF with a proposed amendment to the P&P Manual that would define and add guidance for structured equity and funds and instructed the NAIC staff to draft a separate referral to be sent to SAPWG to review and consider the definition of structured equity and funds in the development of its residual tranche guidance. VOSTF also discussed the compilation of a list of proposed questions for NAIC credit rating providers that will be used in preliminary discussions with these providers to review the NAIC's credit assessment processes that are dependent upon credit ratings.
- ▶ 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 exposed a cross-border reinsurance comparison worksheet that would provide summarized details (e.g., counterparty name/rating, line of business and risks covered, book value and market value of assets pledged by reinsurer, value of reserves, amount of capital at risk) for reinsurance transactions at the treaty level. The worksheet is intended to be an optional tool for regulators to use when requesting information from ceding insurers to better understand the financial statement and solvency impacts of a reinsurance transaction.

No action has been taken on the following items since the 2022 Fall National Meeting:

- ▶ 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 or related-party agreements impacting the insurer's risks may be structured to avoid disclosure (i.e., not including the insurer as a party to the agreement).
- ▶ Control is presumed to exist where ownership is greater than or equal to 10%, but control and conflict of interest considerations may exist with less than 10% ownership.
- ▶ Regulators should understand the material terms of investment management agreements and whether they are arm's-length or could result in conflicts of interest, including the amount and types of investment management fees paid by the insurer; the termination provisions (i.e., how difficult or costly it would be for the insurer to terminate the agreement); and the degree of discretion or control of the investment manager over investment guidelines, allocation and decisions.
- ▶ Owners of insurers, regardless of type and structure, may be focused on short-term results, which may not align with the long-term nature of liabilities in life products.
- ▶ Operational, governance and market conduct practices may be 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.
- ▶ No uniform or widely accepted definition of PE exists, and there are challenges in maintaining a complete list of insurers' material relationships with PE firms. Regulators continue to believe that a PE definition is not necessary, as the considerations are activity-based and apply beyond PE owners.
- ▶ The lack of identification of investments (including structured securities) originated by related parties may create potential conflicts of interest 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.
- ▶ 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.
- ▶ The trend of life insurers in pension risk transfer (PRT) business and supporting such business with complex investments. Considerations have also been raised regarding the RBC treatment of PRT business.

The work to be performed in response to the above items includes in-process projects and other actions that have yet to be determined.

MWG also indicated that a counterparty credit risk exposure analysis would be performed to identify and assess the financial and economic risks (e.g., inflationary pressures on interest rates) currently affecting insurance company operations and enhance regulatory oversight of the related exposures to the identified risks.

Innovation, Cybersecurity, and Technology

The Innovation, Cybersecurity, and Technology (H) Committee (H Committee) and the Collaboration Forum on Algorithmic Bias continued its work to develop a model bulletin providing regulatory guidance regarding the use of big data and artificial intelligence (AI) decisional systems by insurers. This bulletin will be principles-based and include high-level standards to be applied to the general use of AI to support decision making, with a focus on governance requirements and the establishment of protocols for the use of AI by insurers. The H Committee intends to have a draft bulletin ready for exposure before the 2023 Summer National Meeting.

The actions taken by various NAIC groups that report to the H Committee since the 2022 Fall National Meeting are summarized below.

Big Data and AI (H) Working Group

The Big Data and AI (H) Working Group developed an AI and machine learning survey to understand how life insurance companies use these technologies in pricing and underwriting, marketing, and loss prevention. The survey will be issued to life insurance companies with more than \$250 million in premiums on all individual policies issued in 2021, insurance companies that have issued term policies on more than 10,000 lives, and specifically selected InsurTech companies. Responses are due by the end of May 2023.

The Working Group continued to review the feedback received on the document containing various questions that regulators can pose to insurance companies related to their use of models, the related data inputs into such models, and whether the model or data was developed internally or obtained from external sources. The Working Group intends to have a revised document available for review by the end of May 2023.

Privacy Protections (H) Working Group

The Privacy Protections (H) Working Group discussed the feedback received on the exposure draft of the new Consumer Privacy Protection Model Law (Model #674), which addresses data privacy protections for insurance consumers. The new model would enhance consumer protections and the corresponding obligations of entities licensed by state insurance departments. The Working Group will host a stakeholder drafting session to incorporate feedback into the provisions of the new model.

Executive Committee

The NAIC Plenary adopted:

- ▶ The *Regulatory Resources for Consumers on Personal Lines Pricing and Underwriting* document to provide state insurance regulators with information for consumer education
- ▶ The *NAIC Rate/Rule Filing Checklist* that is intended to be an optional tool for regulators to use when determining whether all required items have been completed by insurers as part of the filing process

The Executive (EX) Committee (EX Committee) approved the request from the Market Conduct Regulation and Consumer Affairs (D) Committee for NAIC model law development to amend the Unfair Trade Practices Act (Model #880). The amendments will define a health insurance lead generator, identify the marketing-related activities of health insurance lead generators that are unfair trade practices and provide state insurance regulators with the authority to regulate those activities in the health insurance marketplace.

The actions taken by various NAIC groups that report to the EX Committee since the 2022 Fall National Meeting are summarized below.

Climate and Resiliency (EX) Task Force

The Climate and Resiliency (EX) Task Force heard an update from the Catastrophe Modeling Center of Excellence (COE) on its work to develop catastrophe model training and tools for state insurance regulators to address the use of commercial catastrophe models by insurance companies in rate-making processes, solvency functions and other insurance business decisions. The tools being developed include Peril Model Cards that provide a high-level summary of models by vendor; a compendium of regulatory interaction and requirements regarding catastrophe models; and a risk assessment by peril to inform research, market intelligence and legislative policy. The Catastrophe Modeling COE engaged with insurance departments, catastrophe modelers and organizations focused on resilience initiatives as part of its efforts to develop these resources for state insurance regulators.

The Task Force merged its Technology workstream and Innovation workstream into a single workstream.

Special (EX) Committee on Race and Insurance

The Special (EX) Committee on Race and Insurance (SCRI) heard an update on the work being performed by its various workstreams to identify issues related to race, diversity and inclusion in the insurance sector, and access to insurance products and practices in the insurance sector that potentially disadvantage people of color and historically underrepresented groups.

SCRI's P&C workstream continued to engage with the Collaboration Forum on Algorithmic Bias of the H Committee to understand and evaluate the potential for bias to exist in various operational areas (e.g., marketing, underwriting, rating and claims handling) of the P&C insurance market. The workstream also engaged with P&C insurers to understand their marketing practices and identify best practices to address unfair discrimination in the market.

SCRI's Life workstream heard a presentation on actions taken by insurance agents and advisors to increase diversity in marketing distribution and access to life insurance products. The workstream plans to engage with local organizations, government agencies and life insurers to launch a new initiative to develop resources to educate consumers about life insurance products, beginning with marketing, distribution and access to life insurance products.

SCRI's Health workstream continued to focus on examining provider network and benefit structures, as well as consumer engagement and education. The workstream heard presentations on understanding the best strategy to identify underserved communities and understanding how customers use health insurance products, with an intention to provide resources to state insurance regulators regarding the aforementioned presentations. The workstream plans to engage with the Health Insurance and Managed Care (B) Committee (B Committee) and the Big Data and AI (H) Working Group to understand the use of AI in the health insurance market.

Long-Term Care Insurance (EX) Task Force

The LTC Insurance (EX) Task Force adopted revisions to the *Checklist for Premium Increase Communications* document, which was developed to establish a consistent approach to drafting and reviewing policyholder communications related to LTC insurance reduced benefit options. Individual state insurance regulators can modify the checklist to address issues that are relevant to their jurisdiction, as it represents guidance and does not carry the weight of law or impose any legal liability.

The Task Force heard a report on LTC insurance industry trends that could affect the solvency of LTC insurance companies and reserves. The Task Force indicated that it will continue to monitor the effect of cost-of-care inflation, shifts in care from facilities to home care, increases in home care daily costs and other factors on reserve valuations performed in accordance with AG 51.

Life Insurance and Annuities

The NAIC Plenary 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). The revisions are effective for policies sold on or after 1 May 2023 and represent a quick fix to revise AG 49-A to address the current regulatory concern that some insurance companies are illustrating uncapped volatility-controlled policies better than capped S&P 500 policies.

The NAIC Plenary adopted *Actuarial Guideline LIV – Nonforfeiture Requirements for Index-Linked Variable Annuity Products* (AG 54) developed by the Index-Linked Variable Annuity (ILVA) (A) Subgroup to clarify how the Standard Nonforfeiture Law for Individual Deferred Annuities (Model #805) and the Variable Annuity Model Regulation (Model #250) apply to ILVA products. The actuarial guideline is effective for all ILVA products issued on or after 1 July 2024.

The actions taken by various NAIC groups that report to the Life Insurance and Annuities (A) Committee since the 2022 Fall National Meeting are summarized below.

Life Actuarial (A) Task Force

LATF exposed an amendment to VM-50: *Experience Reporting Requirements* and VM-51: *Experience Reporting Formats* that would reduce the time lag in the collection of mortality experience data from insurance companies. For the 2024 reporting (i.e., calendar) year, companies that are required to submit mortality data will need to submit two calendar years of data. For reporting years after 2024, companies that are required to submit mortality data will only submit one calendar year of data.

LATF reviewed the results of the VM-21 and C3 Phase II field test of the Economic Scenario Generator to understand its implications on reserve and capital calculations, evaluate the effect of hedging programs across the scenario sets, and inform regulator decision making on the modeled

results. The field test yielded a wide range of adjustments to reserves and capital levels across the participating companies. As a result, LATF plans to individually review company results further and will work with industry stakeholders to develop implementation plans for the reserve and capital framework. LATF will also work with representatives from the Academy and others to determine stylized facts and acceptance criteria prior to initiating a second field test.

LATF also exposed proposed charges for the formation of an Economic Scenarios (E/A) Subgroup and created various drafting groups to support different aspects (e.g., governance and technical issues) of this project.

Accelerated Underwriting (A) Working Group

The Accelerated Underwriting (A) Working Group exposed a draft *Accelerated Underwriting Regulatory Guidance* document for regulators to use when reviewing the accelerated underwriting programs of life insurance companies to determine whether the programs are fair and transparent and comply with insurance regulations. The Working Group anticipates that the results of the life insurance survey conducted by the Big Data and AI (H) Working Group will lead to the development of additional guidance regarding accelerated underwriting in life insurance.

The Working Group sent a referral to the Market Conduct Examination Guidelines (D) Working Group with suggested additions to the *Market Regulation Handbook* that address the use of big data, AI and machine learning to underwrite life insurance.

Health Insurance and Managed Care

The actions taken by various NAIC groups that report to the B Committee since the 2022 Fall National Meeting are summarized below.

Long-Term Care Actuarial (B) Working Group

The LTC Actuarial (B) Working Group exposed a request for suggested improvements (e.g., additions to or streamlining of content) to the primary and supplemental information checklists included in Appendix B to the *Long-Term Care Insurance Multistate Rate Review Framework* document.

The Working Group also exposed a request for feedback on potential issues with the application of the Minnesota and Texas actuarial approaches described in the *Long-Term Care Insurance Multistate Rate Review Framework* document. Specifically, the feedback provided should address the types of cases where improvements to these approaches may lead to more consistent results in line with goals (e.g., balancing fairness to consumers with helping to prevent further financial distress to insurers).

Accident and Sickness Insurance Minimum Standards (B) Subgroup

The Accident and Sickness Insurance Minimum Standards (B) Subgroup continued its work to develop revisions to the Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act (Model #171). The Subgroup discussed the feedback received on Section 7F related to prohibited policy revisions and Section 8A related to supplementary and short-term health minimum standards for benefits, with a plan to review other sections of Model #171, including revisiting the proposed new subsection of Section 8 addressing short-term, limited-duration health insurance coverage and Section 9 related to required disclosure provisions. The Subgroup intends to expose a revised draft of Model #171 by the end of 2023.

Property and Casualty Insurance

The P&C Insurance (C) Committee (C Committee) adopted revisions to the Nonadmitted Insurance Model Act (Model #870) to modernize and align its provisions with the federal Nonadmitted and Reinsurance Reform Act of 2010.

The actions taken by various NAIC groups that report to the C Committee since the 2022 Fall National Meeting are summarized below.

Casualty Actuarial and Statistical (C) Task Force

The Casualty Actuarial and Statistical (C) Task Force adopted a proposal to eliminate the NAIC Expense Constant Supplement forms for workers' compensation and other lines of business.

The Task Force also discussed the implementation of a communication plan to inform state insurance regulators of the NAIC Loss Cost Multiplier (LCM) forms and instructions for all lines of P&C insurance that were adopted at the 2022 Fall National Meeting. The plan includes a recommendation for state insurance regulators to consider making similar changes to the forms used by their state or implement the LCM forms that were recently adopted by the Task Force.

Actuarial Opinion (C) Working Group

The Actuarial Opinion (C) Working Group discussed its draft response to a referral from the Financial Analysis (E) Working Group (FAWG) regarding the use of predictive models in reserving. The type of model that prompted the referral is a case reserving model using predictive analytics to establish ultimate case reserves for open claims based on the specifics of each open claim. The Working Group compiled a list of potential questions that regulators could ask during a review of any type of predictive model with a focus on evaluating management's understanding and use of the model, rather than obtaining a deeply technical understanding of the model mechanism. It was also suggested that FAWG leverage model questions the Big Data and AI (H) Working Group is developing as an alternative or a complement to the questions the Working Group identified.

Cannabis Insurance (C) Working Group

The Cannabis Insurance (C) Working Group exposed the *Understanding the Market for Cannabis Insurance 2.0* white paper, which addresses the following topics:

- ▶ Understanding cannabis concepts and terms
- ▶ Expansion of states legalizing cannabis
- ▶ Recent federal legislative activities
- ▶ Current regulatory, licensing and educational landscape for cannabis business
- ▶ Evolution of operating and organizational structures for cannabis businesses
- ▶ Insurance needs of the cannabis market and current insurance coverage availability
- ▶ Market considerations for commercial cannabis insurance
- ▶ Emerging issues, such as cannabis product innovation and on-site consumption lounges

Comments are due by 26 May 2023. The Working Group expects to adopt the white paper by the 2023 Summer National Meeting.

Title Insurance (C) Task Force

The Title Insurance (C) Task Force determined that additional questions will be included in the *Survey of State Insurance Laws Regarding Title Data and Title Matters* before it is administered. Questions will be added to the following sections: data reporting, policy rate and regulation, procedural regulation, and insurer-agent relationship. A new category and questions for title opinion letters will also be added to the survey.

Financial Condition

The E Committee adopted an amendment to the P&P Manual to include CLOs as a financially modeled security. The amendment was developed by VOSTF in response to concerns raised by the NAIC Investment Analysis Office in its issue paper on the risk of structured securities and feedback received from industry stakeholders. With the adoption of this amendment, financially modeled CLOs will no longer be eligible to use credit rating provider ratings to determine an NAIC designation, effective 1 January 2024.

The actions taken by various NAIC groups that report to the E Committee since the 2022 Fall National Meeting are summarized below.

Information Technology (IT) Examination (E) Working Group

The IT Examination (E) Working Group discussed a referral received from the Cybersecurity (H) Working Group to consider updating cybersecurity guidance based on certain cybersecurity performance goals. The Working Group formed a drafting group to perform a gap analysis on the existing guidance within Exhibit C: Evaluation of Controls in Information Technology (IT) of the *Financial Condition Examination Handbook* to determine if it sufficiently addresses cybersecurity risks or whether it should be updated to better prioritize cybersecurity risks.

Mortgage Guaranty Insurance (E) Working Group

The Mortgage Guaranty Insurance (E) Working Group discussed the feedback received on its proposed amendments to the Mortgage Guaranty Insurance Model Act (Model #630) and exposed an updated draft of the revised Model #630. The E Committee approved an extension for the Working Group to complete its work by the 2023 Fall National Meeting.

Restructuring Mechanisms (E) Working Group

The Restructuring Mechanisms (E) Working Group exposed revisions to the foundational principles and best practices addressing insurance business transfers and corporate division laws for restructuring insurance companies. The proposed revisions incorporate feedback received related to the topics of independent expert and guaranty associations discussed at a previous meeting. The Working Group also continued its discussion of the feedback received on the remaining topics of no worse off, due process, analysis/approval and runoff. Further discussion is planned at a future meeting to be scheduled by the Working Group.

The E Committee approved the merger of the membership and charges of the Restructuring Mechanisms (E) Subgroup into the Working Group.

Reinsurance (E) Task Force

The Reinsurance (E) Task Force received an update from the Reinsurance FAWG on its review of certified reinsurers and reciprocal jurisdiction reinsurers that have been certified for passporting. The [list of passported reinsurers](#) is available on the NAIC website.

Risk-Focused Surveillance (E) Working Group

The Risk-Focused Surveillance (E) Working Group exposed amendments to the *Financial Analysis Handbook and Financial Condition Examiners Handbook* to provide additional guidance for regulators when reviewing service agreements between insurance companies and their affiliates, specifically those with market-based reimbursement provisions for services performed. The Working Group also requested feedback on whether and how guidance addressing cost-plus reimbursement rates for affiliated service contracts should be developed.

Valuation of Securities (E) Task Force

VOSTF continued its work to amend the P&P Manual to clarify the instructions, modify various administrative procedures and improve the compilation function of the NAIC SVO.

VOSTF adopted a non-substantive technical amendment to the P&P Manual that would update the NAIC 5GI designation reference to NAIC 5.B GI and clarify that an NAIC 5GI designation is equivalent to an NAIC 5.B designation category.

VOSTF exposed an amendment to Part Two of the P&P Manual that would update the Notice for Credit Deterioration guidelines for the List of Qualified US Financial Institutions maintained by the NAIC SVO. The proposed amendment would update the guidelines for the removal of a financial institution from the List of Qualified US Financial Institutions to include actions either announced or taken by the financial institution's primary regulator(s). VOSTF also directed the NAIC staff to send the proposed amendment to the Reinsurance (E) Task Force for consideration of how the updated guidelines will affect letters of credit supporting reinsurance transactions.

VOSTF discussed the feedback received on its proposed amendment to the P&P Manual that would define and add guidance for structured equity and funds. The proposed amendment would address the process for the assignment of an NAIC designation and category to such investments that is appropriate

for the risk and eliminate the potential for RBC arbitrage but would not change how the investment is classified for reporting by the reporting insurance company. VOSTF referred the proposed amendment to CATF and directed the NAIC staff to perform the following:

- ▶ Draft a referral to be sent to SAPWG to review and consider the definition of structured equity and funds in the development of its residual tranche guidance
- ▶ Draft an amendment to the P&P Manual outlining recommended procedural steps for reviewing filing-exempt investment securities for which concerns exist about the assigned NAIC designation and steps that insurers could take to clarify and rebut the NAIC SVO's concerns about the proposed NAIC designation

VOSTF discussed the CLO modeling methodology (excluding scenarios and probabilities) project that is based on the results of the annual CLO stress tests performed by the NAIC Structured Securities Group, with assumptions over the mechanics of the modeling process and cash flow. An ad hoc group was established to provide regulators and industry stakeholders a better understanding of the NAIC's approach to modeling CLOs. The short-term goals of the ad hoc group include demonstrating the quantitative impact of prepay/discount purchases on CLO transactions and completing the tie-out of cash flows on hypothetical scenarios under the methodology. Further discussion is planned at a future meeting to be scheduled by the ad hoc group.

VOSTF also discussed a list of proposed questions for NAIC credit rating providers, with recommendations to be sent to NAIC SVO staff. The feedback received will be used in preliminary discussions with these providers to review the NAIC's credit assessment processes that are dependent upon credit ratings. VOSTF indicated that the final list will be published once all questions have been compiled.

VOSTF sent a referral to several NAIC groups (i.e., E Committee, MWG, CATF, RBCIRE, LATF, SAPWG, Financial Stability (E) Task Force, FAWG and Valuation Analysis (E) Working Group) seeking feedback on the potential for the NAIC SVO to invest in a risk analytic platform for investments. Such a platform would provide the SVO staff with capabilities to calculate analytical information using market data sources and investment models, including analytic values (e.g., market yield, market price, purchase yield) for any investment reported on Schedule D, along with additional measures, such as key rate duration, sensitivity to interest rate volatility, and principal and interest cash flow projections for any security or portfolio using different interest rates. The referral also requests that these groups provide feedback on the investment analytical measures and projects that would be most helpful to support the work performed by the respective groups, how the data collected by the SVO staff via the new capabilities would be used, and whether there are other investment data or projection capabilities available through market data sources and investment models that would be beneficial for the respective groups. Responses are due to VOSTF by 15 May 2023.

Financial Regulation Standards and Accreditation

The Financial Regulation Standards and Accreditation (F) Committee (F Committee) adopted the revisions that were made to various NAIC publications (i.e., AP&P Manual, P&P Manual, annual statement blanks and instructions, RBC formulas and instructions for life and P&C insurers, *Financial Condition Examiners Handbook*, and *Valuation Manual*) during 2022 that are required for accreditation purposes. All revisions were deemed insignificant.

The F Committee discussed the feedback received on the 2020 revisions to the Insurance Holding Company System Regulatory Act (Model #440) and related Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (Model #450) that were exposed at the 2021 Summer National Meeting. The revisions incorporate the group capital calculation and liquidity stress test requirements for the purpose of group solvency supervision and macroprudential surveillance, respectively, as significant elements of Part A: Laws and Regulations of the accreditation standards. These revisions will be considered for adoption into the accreditation standards at the 2022 Summer National Meeting, effective 1 January 2026.

The F Committee also discussed LATF's response to the potential duplicative accreditation requirements related to the Statements of Actuarial Opinion, appointed actuary and adequacy reserves in the Actual Opinion and Memorandum Regulation (Model #822) and in the *Valuation Manual*. Both Model #822 and the *Valuation Manual* are currently required for accreditation under Part A: Laws and Regulations

Standard #9: Liabilities and Reserves. LATF recommended that Model #822 be removed from this accreditation standard, as it is duplicative with the accreditation requirements in the *Valuation Manual*, specifically VM-30: *Actuarial Opinion and Memorandum Requirements*. The F Committee accepted LATF's recommendation.

International Insurance Relations

The International Insurance Relations (G) Committee (G Committee) heard a presentation on a report published by the Global Federation of Insurance Associations that examines the drivers of the most relevant protection gaps in insurance markets and provides an overview of the potential actions that could help reduce each of the gaps. The report highlights four primary risk categories that are drivers of the gaps: natural catastrophes, cyber, pensions, and health. It also indicates that certain protection gaps may be more prevalent in certain countries, based on the respective insurance markets in place. Education and consumer literacy were highlighted as most important in responding to wide protection gaps. The G Committee emphasized that both domestic and international activities to address protection gaps are important for state insurance regulators and the larger insurance sector.

The G Committee also received an update on the following activities of the International Association of Insurance Supervisors (IAIS) and the forums and other groups within the IAIS:

- ▶ The final criteria to assess whether the aggregation method (AM) provides comparable outcomes to the insurance capital standard (ICS) developed by the IAIS has been approved.
- ▶ The IAIS is entering the fourth year of the five-year monitoring period for the ICS. The IAIS expects to complete its data collection activities for the ICS and AM by 31 August 2023.
- ▶ The Financial Inclusion Forum is considering updating the 2012 IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets.
- ▶ The FinTech Forum is reviewing AI and machine learning guidance from supervisory authorities and will explore the need for the IAIS to develop global guidance for the insurance sector.
- ▶ The upcoming public consultation from the Climate Risk Steering Group will address the addition of new text to the IAIS Insurance Core Principles Introduction, work related to climate risk and governance, and the IAIS plan to address climate more broadly.

The G Committee approved the comments that the NAIC submitted to the IAIS on the following documents:

- ▶ Issue Paper on Insurance Sector Operational Resilience, which identifies issues affecting operational resilience in the insurance sector (e.g., cyber resilience, third-party outsourcing, business continuity management) and provides examples of how supervisors are approaching these developments while considering lessons learned during the COVID-19 pandemic
- ▶ Review of the Individual Insurer Monitoring Assessment Methodology, which was released for public consultation to gather input for the next three-year cycle of its application and determine whether the holistic framework for systemic risk in the insurance sector developed by the IAIS remains current as risks and the sector continue to evolve

Any new documents released by the IAIS for public consultation will be reviewed by the NAIC staff and discussed at future G Committee meetings before the respective deadlines for submission.

Stay tuned

The NAIC's 2023 Summer National Meeting is scheduled for 12-16 August in Seattle, Washington. [A schedule of interim NAIC group meetings](#) is available on the NAIC website.

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Appendix A – Statutory Accounting Principles Working Group

This chart summarizes actions taken by SAPWG since the 2022 Fall National Meeting. Comments on exposed items are due by 9 June 2023, unless otherwise noted. [More information on SAPWG exposed items](#) is available on the NAIC website.

Topic/issue	Status	Discussion	Effective date
New SSAP or New SAP Concepts in an Existing SSAP¹			
SSAP No. 26R and SSAP No. 43R – Bond Project (Ref #2019-21)	Exposed Exposed to 30 June 2023	Exposed additional revisions to SSAP No. 26R, SSAP No. 43R, SSAP No. 21R and other SSAPs (e.g., SSAP No. 86 for replication (synthetic asset) transactions) that would incorporate the most recent feedback received from industry stakeholders into the statutory accounting guidance developed for the principles-based bond project. Exposed a proposal that would revise the reporting lines on Schedule BA to encompass debt securities that do not qualify as bonds under the revised guidance and to consolidate existing reporting lines. Once feedback is received, subsequent revisions will be drafted to incorporate the changes into other schedules of the annual statement blank (e.g., AVR) as appropriate.	TBD
SSAP No. 93 – New Market Tax Credits (Ref #2022-14)	Further analysis needed	Directed the NAIC staff to draft revisions to statutory accounting guidance and a related issue paper that would expand the scope of SSAP No. 93 to capture all tax equity investments that qualify under specified criteria and provide general federal business tax credits or state premium tax credits, and SSAP No. 94R to address items that should be captured in its scope and admittance provisions. NAIC staff indicated the revisions to SSAP No. 93 and SSAP No. 94R will consider the final FASB guidance on tax equity investments and feedback received on the previously exposed discussion document with NAIC staff questions on potential statutory accounting concepts for tax equity investments.	TBD
SSAP No. 7 – Interest Maintenance Reserve (Ref #2022-19)	Further analysis needed	Directed the NAIC staff to consider the development of statutory accounting guidance for the recognition of negative IMR with an intent to work on both an interim (i.e., 2023) and a long-term solution that would address the following: <ul style="list-style-type: none"> ▶ Recommendation for a referral to be sent to LATF for further consideration regarding the implications of negative IMR on asset adequacy testing ▶ Recommendation for a referral to be sent to CATF to consider eliminating any admitted net negative IMR from total adjusted capital in the RBC calculation and incorporating sensitivity testing with and without negative IMR ▶ Development of guidance that would allow for the admission of negative IMR up to 5% of surplus using the type of limitation calculation similar to that used for goodwill admittance, with a provision for a downward adjustment if the reporting entity's RBC ratio is less than 300% ▶ Review and update any annual statement instructions for excess withdrawals, related bond gains and losses and non-effective hedge gains and losses to clarify that those gains and losses would be recognized through the AVR ▶ Development of accounting and reporting guidance to require the use of a special surplus account or reporting line for net negative IMR ▶ Development of governance-related documentation to make sure sales of bonds are reinvested in other bonds ▶ Development of a disclosure requirement for quarterly and annual reporting 	TBD
SAP Clarification²			
SSAP No. 86 – Derivatives and Hedging (Ref #2017-33)	Adopted	Adopted Issue Paper No. 16X, <i>Derivatives and Hedging</i> , to document the extent of the revisions to SSAP No. 86 that were adopted with the review of the US GAAP hedging guidance in ASU 2017-12 (Ref #2021-20) and ASU 2022-01 (Ref #2022-09).	Immediately
SSAP No. 107 – State ACA Reinsurance Programs (Ref #2021-09)	Deferred*	Previously directed the NAIC staff to continue developing revisions to the statutory accounting guidance in SSAP No. 107, <i>Risk-Sharing Provisions of the Affordable Care Act</i> , to clarify that state-based reinsurance programs being run under Section 1332 waivers should follow the hybrid accounting approach provided by SSAP No. 107 if they operate in a similar manner to the Affordable Care Act (ACA) transitional reinsurance program. Specifically, revisions are needed to address the diversity in which state-based reinsurance programs operate as identified in feedback received.	TBD

¹ The terms “substantive” and “nonsubstantive” in these headings have been replaced with “New SSAP or New SAP Concepts in an Existing SSAP” or “SAP Clarification,” respectively, when referencing the different types of revisions to statutory accounting guidance. The terms used in previously adopted SSAPs, issue papers and agenda items have been retained, with the new terms to be used prospectively when considering future revisions to statutory accounting guidance.

² Ibid.

* No action was taken on this topic/issue since the 2022 Fall National Meeting.

Topic/issue	Status	Discussion	Effective date
SSAP No. 5R – Conceptual Framework Updates – Liabilities (Ref #2022-01)	Exposed	Exposed additional revisions to Issue Paper No. 16X, <i>Updates to the Definition of a Liability</i> , to add an additional footnote to the definition of a liability in SSAP No. 5R that would indicate the guidance regarding the definition of a liability is applicable unless another authoritative SSAP provides more topic-specific contradictory guidance and revise the relevant literature section of SSAP No. 5R to note the modification.	TBD
SSAP No. 21R – Collateral for Loans (Ref #2022-11)	Re-exposed	Re-exposed revisions to SSAP No. 21R to clarify that an asset pledged as collateral in a collateral loan must qualify as an admitted invested asset for the collateral loan to be admitted. The proposed revisions clarify that, for qualifying investments in a joint venture, partnership or limited liability company, and investments in SCA entities that would be in the scope of SSAP No. 48, <i>Joint Ventures, Partnerships and Limited Liability Companies</i> , or SSAP No. 97, <i>Investments in Subsidiary, Controlled and Affiliated Entities</i> , and are pledged as a collateral in a collateral loan, only the proportionate net audited equity value of the qualifying investment would support the admissibility of invested asset for the collateral loan. The excess of the collateral loan over the net audited equity value of the qualifying investment would be nonadmitted.	TBD
INT 03-02: Modification to an Existing Intercompany Pooling Arrangement (Ref #2022-12)	Re-exposed	Re-exposed an intent to nullify INT 03-02 effective 31 December 2023, as it is inconsistent with the guidance in SSAP No. 25 for the recognition of economic and noneconomic transactions between related parties.	TBD
SSAP No. 25 – Affiliate Reporting Clarification (Ref #2022-15)	Adopted	Adopted revisions to SSAP No. 25 to clarify that any invested asset held by a reporting entity that is issued by an affiliated entity, or which includes the obligations of an affiliated entity, is an affiliated investment.	Immediately
SSAP No. 100R – ASU 2022-03, Fair Value Measurement of Restricted Securities (Ref #2022-16)	Adopted	Adopted revisions to SSAP No. 100R to adopt the US GAAP guidance in ASU 2022-03 with modification for consistency with the language in the applicable statutory accounting guidance. Items restricted as to sale would be captured as restricted assets in accordance with SSAP No. 1 and subject to admittance considerations under SSAP No. 4.	Immediately
SSAP No. 34 – Interest Income Disclosure Update (Ref #2022-17)	Adopted BWG proposal	Adopted revisions to SSAP No. 34 to add disclosures to the annual statement blank to capture the gross, nonadmitted and admitted amounts for interest income due and accrued and the cumulative amount of paid-in-kind interest included in current principal balances. Directed the NAIC staff to submit a corresponding blanks proposal (Ref #2023-11BWG) to incorporate the new disclosure requirements into the annual statement blank for 2023 year-end reporting purposes.	31 December 2023
Review Annual Statement Instructions for Accounting Guidance (Ref #2023-01)	Exposed	Exposed a proposed project to review the annual and quarterly statement instructions to determine whether accounting guidance is properly incorporated within the SSAPs (e.g., measurement, valuation, admittance or nonadmittance, and when assets and liabilities should be recognized or derecognized within the statutory financial statements). Regulator and industry feedback has also been requested in situations in which guidance in the annual statement instructions should be captured within an SSAP.	TBD
SSAP No. 43R – CLO Financial Modeling (Ref #2023-02)	Exposed	Exposed revisions to SSAP No. 43R that would add CLOs to the financial modeling guidance and clarify that CLOs are not captured as legacy securities. The proposed revisions align the financial modeling guidance summarized in SSAP No. 43R with the guidance adopted for the P&P Manual in February 2023.	TBD
New C2 Mortality Risk Note (Ref #2023-03)	Exposed to 5 May 2023	Exposed revisions to SSAP No. 51R, <i>Life Contracts</i> ; SSAP No. 59, <i>Credit Life and Accident and Health Insurance Contracts</i> ; and SSAP No. 61R, <i>Life, Deposit-Type and Accident and Health Reinsurance</i> , to include new disclosures that would provide detail to support the calculation of the net amount at risk for the categories included in the C2 mortality risk charges of the Life RBC formula. A corresponding proposal to update the life/fraternal annual statement blank for 2023 year-end reporting purposes was simultaneously exposed by BWG (Ref #2023-09BWG).	TBD
Corporate Alternative Minimum Tax Guidance (Ref #2023-04)	Further analysis needed	Directed the NAIC staff to continue to work with industry stakeholders and regulators on developing guidance for the reporting of the CAMT.	TBD
ASU 2022-06, Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848 (Ref #2023-05)	Exposed	Exposed revisions to INT 20-01: <i>ASUs 2020-04 & 2021-01 – Reference Rate Reform</i> to extend the expiration date of the interpretive guidance to 31 December 2024.	TBD
Additional Updates on ASU 2021-10, Government Assistance (Ref #2023-06)	Exposed	Exposed revisions to SSAP No. 24, <i>Discontinued Operations and Unusual or Infrequent Items</i> , to clarify the intent of the previously adopted disclosures from ASU 2021-10, <i>Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance</i> , that require unusual or infrequent government assistance transactions to be identified as such, with a description of the terms and provisions of the assistance received. The proposed revisions also specify the rejection of the US GAAP guidance for the grant and contribution model in ASU 2021-10 for statutory accounting.	TBD

Topic/issue	Status	Discussion	Effective date
ASU 2019-08, Codification Improvements to Topic 718 and Topic 606 (Ref #2023-07)	Exposed	Exposed revisions to SSAP No. 95, <i>Nonmonetary Transactions</i> , and SSAP No. 104R, <i>Share-Based Payments</i> , to adopt the US GAAP guidance in ASU 2019-08, <i>Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements – Share-Based Consideration Payable to a Customer</i> , with modification to address share-based consideration payable to customers for statutory accounting. The proposed revisions also update SSAP No. 47, <i>Uninsured Plans</i> , to reject the Topic 606 guidance included in ASU 2019-08.	TBD
Various SSAPs – Editorial Update (Ref #2023-11EP)	Exposed to 5 May 2023	Exposed various editorial revisions to the AP&P Manual (e.g., streamline references to the P&P Manual, provide consistent use of the “%” sign throughout the SSAPs and modify a disclosure category in SSAP No. 86 from “intrinsic value” to “volatility value”).	TBD
INT 22-02: Third Quarter 2022 through Second Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax	Exposed to 5 May 2023	Exposed revisions to INT 22-02 to extend its expiration date to 1 July 2023. The proposed revisions will allow the interpretive guidance to be applied to the second quarter 2023 statutory-basis financial statements, without modifying its existing disclosure requirements.	TBD
INT 23-01T: Net Negative (Disallowed) IMR (Ref #2022-19)	Exposed	Exposed interpretive guidance to prescribe a limited-time, optional exception to the statutory accounting guidance in SSAP No. 7 and the annual statement instructions for the disallowance of negative IMR. The proposed interpretation would allow net negative IMR in the general account to be admitted up to 5% of adjusted capital and surplus, with restrictions on what is permitted to be captured in the net negative IMR balance that is eligible for admittance and requirements for the reporting and disclosure of the amount admitted.	TBD

US GAAP guidance rejected or exposed for rejection/disposal

Rejected as not applicable to statutory accounting:

- ▶ ASU 2022-04, *Liabilities – Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations* (Ref #2022-18)

Exposed to reject as not applicable to statutory accounting:

- ▶ ASU 2019-07, *Codification Updates to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates* (Ref #2023-08)
- ▶ ASU 2020-09, *Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762* (Ref #2023-09)
- ▶ ASU 2022-05, *Financial Services – Insurance (Topic 944): Transition for Sold Contracts* (Ref #2023-10)

SAPWG agenda items from prior years with an extended period of no action taken

Substantive listing:

- ▶ ASU 2016-13, *Credit Losses* (Ref #2016-20)
- ▶ SSAP No. 41R – Amortization and Accretion Surplus Notes (Ref #2017-12)
- ▶ Derivatives Hedging Fixed Indexed Products (Ref #2020-36)

Nonsubstantive listing:

- ▶ SSAP No. 26R and SSAP No. 43R – Measurement Method for NAIC 5 Designations (Ref #2015-17)
- ▶ Aging and Revenue Recognition of Multi-Peril Crop Policies (Ref #2015-33)
- ▶ Appendix C Introduction (Ref #2016-42)
- ▶ SSAP No. 61R – Reinsurance Credit (Ref #2017-28)
- ▶ SSAP No. 41R – Surplus Note Accounting (Ref #2018-07)
- ▶ SSAP No. 68 and SSAP No. 97 – ASU 2014-17, *Business Combinations – Pushdown Accounting* (Ref #2019-12)
- ▶ SSAP No. 68 and SSAP No. 97 – Attribution of Goodwill (Ref #2019-14)
- ▶ SSAP No. 51R, SSAP No. 53, SSAP No. 54R and SSAP No. 59 – Expanded MGA and TPA Disclosures (Ref #2019-36)
- ▶ SSAP No. 62R – Retroactive Reinsurance Exception (Ref #2019-49)
- ▶ SSAP No. 53, SSAP No. 54R and SSAP No. 66 – Premium Refunds and Other Adjustments (Ref #2020-30)

Appendix B – Blanks Working Group

This chart summarizes actions taken by BWG since the 2022 Fall National Meeting. [More information on BWG exposed items](#) is available on the NAIC website.

Adopted items	Statement type(s) ¹	Filing(s)	Effective date
2022-14BWG MOD: Modifies Exhibit 1, Parts 1 and 2, and Exhibit 8, Parts 1 and 2, to include the line of business detail reported on the Analysis of Operations by Lines of Business pages.	L/F	Annual and Quarterly	Annual 2023
2022-15BWG: Modifies Schedule H, Part 5 to remove the 5% of premiums filing exemption.	L/F, P/C	Annual	Annual 2023
2022-16BWG: Removes portions of the Supplemental Health Care Exhibit (i.e., Part 3 and the Expense Allocation Report) to eliminate duplication and information that is not regularly used by regulators as part of the annual statement.	L/F, P/C, H	Annual	Annual 2023
2022-18BWG: Provides instructional corrections on the handling of exchange-traded funds and NAIC SVO-identified funds within the IMR and the AVR.	L/F, SA	Annual	Annual 2023
2022-20BWG: Modifies the Health annual and quarterly statement blanks and the Health annual statement blank pages that are filed as a supplement by Life and Fraternal insurance companies to change the order of presentation for the vision and dental lines of business to be consistent with all other statement types.	L/F, H	Annual and Quarterly	Annual 2023
Exposed items	Statement type(s) ¹	Filing(s)	Proposed effective date
2022-17BWG MOD: Adds a new disclosure paragraph and illustration for Note 8 – Derivative Instruments, along with new electronic-only columns and related instructions to Schedule DB, Part A and Part B for both Section 1 and Section 2, to address derivatives with excluded components in response to actions taken by SAPWG (SAPWG #2021-20).	L/F, P/C, H, T	Annual and Quarterly	Annual 2023
2023-01BWG: Modifies the Property and Casualty annual and quarterly statement blanks to separate pet insurance from the Inland Marine line of business by adding a new line of business for pet insurance plans to the Appendix for Property and Casualty Lines of Business and the Underwriting and Investment Exhibit, Exhibit of Premiums and Losses (State Page), and Insurance Expense Exhibit, along with a new section to Schedule P, Parts 1 through 4, specific to pet insurance.	P/C	Annual and Quarterly	First quarter 2024
2023-02BWG: Adds an exhibit to identify premiums that are reportable for Market Conduct Annual Statement (MCAS) purposes and support the accurate identification of required MCAS filing submissions.	L/F, P/C, H	Annual	Annual 2023
2023-03BWG: Removes the life cross-checks to Exhibit 6 for Columns 2, 6 and 10 on the Accident and Health Policy Experience Exhibit, as the information in these columns is presented on a direct basis and Exhibit 6 is presented on an assumed basis.	L/F, P/C, H	Annual	Annual 2023
2023-04BWG: Adds a contact for the appointed actuary and qualified actuary to the Jurat electronic-only section so that these individuals can address actuarial questions that arise.	L/F, P/C, H, T	Annual and Quarterly	Annual 2023
2023-05BWG: Modifies the Cybersecurity Insurance Coverage Supplement to aid in the collection of better cyber insurance data by removing the reference to identity theft insurance from the General Instructions, the interrogatory questions from Part 1 that pertain to identity theft insurance and the column for identity theft insurance from Parts 2 and 3, the claims-made and occurrence breakdown and the first-party and third-party breakdown from data collection, and the interrogatory question regarding tail policies.	P/C	Annual	Annual 2023
2023-06BWG: Modifies Schedule D, Part 1 by splitting it into two sections: one for Issuer Credit Obligations and the other for Asset-Backed Securities (ABS). Other parts of the annual and quarterly statement blanks that reference this information will also be updated in response to the actions taken by SAPWG relating to the bond project (SAPWG #2019-21). Comments are due by 30 June 2023.	L/F, P/C, H, T, SA	Annual and Quarterly	First quarter 2025
2023-07BWG: Updates the code column and deletes the Legal Entity Identifier (LEI) column for various investment schedules (i.e., Schedules A, B, BA, D Part 2, D Part 6, and E Part 1) for consistency with the proposed updates to Schedule D, Part 1.	L/F, P/C, H, T, SA	Annual and Quarterly	First quarter 2025
2023-08BWG: Adds additional instructions to clarify that mutual insurance companies should be included on Schedule Y, Part 3.	L/F, P/C, H, T	Annual	Annual 2023

¹ L/F = Life and Fraternal; P/C = Property and Casualty; H = Health; T = Title; SA = Separate Accounts.

Exposed items	Statement type(s) ¹	Filing(s)	Proposed effective date
2023-09BWG: Adds a new disclosure (i.e., Note 37 – Life Insurance Net Amount at Risk by Product Characteristics) to the annual statement blank to create a direct link to a financial statement source for the net amounts at risk for the categories included the C2 worksheet of the Life RBC formula in response to actions taken by SAG (SAPWG #2023-03).	L/F	Annual	Annual 2023
2023-10BWG: Updates the three primary issue periods on the Long-Term Care Experience Reporting Form 2 as these issue periods are fixed and are not supposed to change each year.	L/F, P/C, H	Annual	Annual 2023
2023-11BWG: Adds instructions and an illustration for the additional information to be disclosed for interest in Note 7 – Investment Income in response to actions taken by SAPWG (SAPWG #2022-17).	L/F, P/C, H, T	Annual	Annual 2023

Appendix C – Risk-based capital developments

This chart summarizes developments that affect RBC requirements for each of the insurance sectors based on actions taken by CATF and the various NAIC groups that report to it since the 2022 Fall National Meeting.

Topic/issue	NAIC group	Status	Discussion	Effective date
All RBC				
Revised Affiliated Investment Structure and Instructions (Ref #2022-09-CA)	Capital Adequacy Task Force	Adopted	Adopted revisions to the structure and related instructions for the calculation of the RBC charge for affiliated investments in each of the RBC formulas to improve the calculation and provide consistency in the treatment of affiliated investments across insurance sectors.	2023
Health Premiums and Underwriting Risk Premium References (Ref #2022-13-CA)	Capital Adequacy Task Force	Adopted	Adopted revisions to modify the line references in the Health Premiums and Underwriting Risk – Premium Risk for Comprehensive Medical, Medicare Supplement and Dental & Vision on pages LR019, LR020, PR019 and PR020 for consistency with the line of business categories used in Schedule H, Part 1 of the annual statement blank.	2023
Underwriting Risk Factors – Investment Income Adjustment (Ref #2022-16-CA)	Capital Adequacy Task Force	Comments due by 27 May 2023	Discussed the annual update of the underwriting factors for Comprehensive Medical, Medicare Supplement and Dental & Vision on pages XR013, LR019, LR020, PR019 and PR020 resulting from the change in the investment income adjustment from 0.5% to 5.0%.	2023
Stop Loss Instructions (Ref #2023-01-CA)	Capital Adequacy Task Force	Comments due by 27 May 2023	Exposed revisions to clarify the instructions for stop loss premiums in the Underwriting Risk – Experience Fluctuation Risk, Other Underwriting Risk and Stop Loss Interrogatories pages (XR013, XR015-XR017, LR019, LR023, LR024 and PR019-PR026) in each of the RBC formulas.	2023
Life RBC				
Residual Tranche Structure Change (Ref #2023-03-IRE)	Capital Adequacy Task Force	Adopted	Adopted a structural change to the Life RBC formula to isolate residual tranches reported on Schedule BA and the asset valuation reserve, with the resulting factor to be determined.	2023
Sensitivity Test (Ref #2023-04-IRE)	Capital Adequacy Task Force	Adopted	Adopted revisions to the Life RBC formula to include residual tranches in the sensitivity testing exhibits, with the resulting factor to be determined. The revisions are intended to assist regulators in evaluating the regulatory capital implications for a reporting entity with investments in residual tranches.	2023
Removal of Dual Trend Test (Ref #2023-05-L)	Capital Adequacy Task Force	Adopted	Adopted revisions to the Risk-Based Capital Level of Action worksheet to remove the dual presentation of the trend test as all states have adopted the higher 300% threshold to determine whether regulatory action (at the company action level RBC) is required.	2023
C2 Mortality Structure Change (Ref #2023-06-L)	Capital Adequacy Task Force	Adopted	Adopted revisions to the mortality factors used in the calculation of the insurance risk (i.e., C2) component of the Life RBC formula. The revisions assign factors to group permanent life and individual permanent life for categories with and without pricing flexibility, with instructional updates to address the treatment of group permanent life policies on LR025, LR026, LR030 and LR031.	2023
CM6 and CM7 Mortgage Structure Change (Ref #2023-07-L)	Capital Adequacy Task Force	Adopted	Adopted revisions to align the CM6 and CM7 Life RBC factors for non-performing commercial and farm mortgages with the factors for Schedule A and Schedule BA investments in real estate that were adjusted in 2021 and adopt the same formula for the calculation of the RBC charge for non-performing and performing residential, commercial and farm mortgages.	2023
Comfort Trusts (Ref #2023-08-L)	Life RBC Working Group	Comments due by 29 May 2023	Exposed revisions to the instructions for LR016 that would allow a reporting entity to avoid an overstatement of credit risk on a reinsurance transaction that provides collateral in the form of a custody control account (i.e., custodied collateral).	2023
Residual Tranche Factor (Ref #2023-09-IRE)	RBCIRE Working Group	Comments due by 12 May 2023	Exposed revisions that would apply a base factor of 0.45 to investments in residual tranches in the Life RBC formula.	2023
Sensitivity Test Factor (Ref #2023-10-IRE)	RBCIRE Working Group	Comments due by 12 May 2023	Exposed revisions that would apply a factor of 0.10 to the sensitivity test for investments in residual tranches in the Life RBC formula.	2023

Health RBC				
Trend Test Instructions (Ref #2022-14-H)	Capital Adequacy Task Force	Adopted	Adopted revisions to page XR027 to remove the informational-only reference to the health trend test.	2023
Page XR008 Renumbering (Ref #2022-15-H)	Capital Adequacy Task Force	Adopted	Adopted revisions to renumber the lines on page XR008, which carry over from the bond page (XR007), to allow for easier updates in the future for adjustments to the information presented in the Health RBC formula for bonds.	2023
P&C RBC				
Underwriting Risk Line 1 Factors (Ref #2023-02-P)	Capital Adequacy Task Force	Adopted	Adopted the annual update of the industry underwriting factors for premiums and reserves in PR017 and PR018 of the P&C RBC formula.	2023