

## **FINANCIAL STABILITY (E) TASK FORCE**

Financial Stability (E) Task Force March 17, 2025, Minutes  
Macroprudential (E) Working Group Report (Attachment One)

Financial Stability (E) Task Force  
Virtual Meeting  
March 17, 2025

The Financial Stability (E) Task Force met March 17, 2025. The following Task Force members participated: Justin Zimmerman, Chair (NJ); Elizabeth Kelleher Dwyer, Vice Chair (RI); Mark Fowler represented by Todrick Burks (AL); Alan McClain represented by Chris Erwin (AR); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by Philip Barlow (DC); Doug Ommen represented by Kim Cross (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Melissa Gibson (LA); Michael T. Caljouw (MA); Marie Grant represented by Lynn Beckner (MD); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by John Rehagen (MO); Jon Godfread represented by Colton Schulz (ND); Eric Dunning represented by Tadd Wegner (NE); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dwight Radel (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); Michael Wise (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jamie Walker (TX); and Nathan Houdek (WI).

1. Heard Opening Remarks

Commissioner Zimmerman said materials for consideration and discussion for this meeting were emailed to Task Force members and are available on the NAIC website in the Committees section under the Financial Condition (E) Committee. Materials are also available on the member SharePoint site (formerly Member Connect).

2. Adopted its 2024 Fall National Meeting Minutes

Director Dwyer made a motion, seconded by Andersen, to adopt the Task Force's Nov. 17, 2024, minutes (*see NAIC Proceedings – Fall 2024, Financial Stability (E) Task Force*). The motion passed unanimously.

3. Heard an Update on the FSOC

Director Dwyer stated that the Financial Stability Oversight Council (FSOC) principals have met twice. In December 2024, the FSOC approved its annual report, which included an overview of regulatory enhancement state regulators made through the NAIC since the prior FSOC annual report in 2023.

Director Dwyer said the recommendations the FSOC made were relevant to insurance. The FSOC recommends that the Federal Insurance Office (FIO), the NAIC, and state insurance authorities collaborate with member agencies to assess the impact of structural changes in the insurance industry on systemic risk and financial stability. It encourages ongoing enhancements to supervisory frameworks addressing liquidity stress, counterparty risk, credit risk, and ratings migration, particularly amid economic stress or market disruptions. The FSOC stresses the importance of evaluating concentrations of risk associated with offshore entities and supports further examination of offshore reinsurance practices to mitigate regulatory arbitrage. It also advocates for improved disclosure of private market investments and offshore reinsurance in financial reporting and suggests possible enhancements to supervisory tools related to risk assessment. Lastly, the FSOC calls for continued monitoring of private credit growth in the life insurance sector.

Director Dwyer then noted that the FSOC's recommendations are not binding on the states or the NAIC but do align with much of the work underway through the committee process.

#### 4. Adopted the Report of the Macroprudential (E) Working Group

Kasinow said the Macroprudential (E) Working Group met Feb. 25 and Feb. 6 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) of the NAIC Policy Statement on Open Meetings. During its Feb. 25 meeting, the Working Group approved a work plan for the year, which includes an educational program for state regulators on various aspects of cross-border reinsurance, such as Schedule S reporting and accounting treatments, expected to launch by the end of April. During the Feb. 6 meeting, the Working Group discussed updates on the International Association of Insurance Supervisors (IAIS) Macroprudential Supervision Working Group (MSWG) Issues Paper on cross-border reinsurance and alternative assets, with Iowa leading the drafting efforts with the MSWG drafting team.

Kasinow mentioned that the Working Group's work plan will include reviewing the use of sidecars in the life insurance sector, creating a reinsurance dashboard, and examining retrocessions and reinsurance recapture provisions. Additionally, insights from international initiatives, such as the United Kingdom's (UK's) Prudential Regulation Authority (PRA) requirements on recapture, will inform the group's discussions, although there are no immediate plans to implement similar measures in the U.S.

The Working Group will also analyze how reinsurance capital charges are calculated, potentially leading to further discussions with the Risk-Based Capital Model Governance (EX) Task Force if needed. An overview of the 2024 *Global Insurance Market Report* (GIMAR), which compiles findings from the Global Monitoring Exercise (GME), was provided, highlighting collaborative efforts with members like Tony Quandt (NE).

Lastly, Kasinow reported on the NAIC consolidating the Excel reporting templates for liquidity stress testing to streamline data reporting and aggregation. The final templates will be posted on the NAIC website.

Rehagen made a motion, seconded by Radcliff, to adopt the report of the Macroprudential (E) Working Group (Attachment One). The motion passed unanimously.

#### 5. Received an Update from the Valuation Analysis (E) Working Group

Andersen spoke on *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53), adopted in 2022, which aims to ensure claims-paying ability by requiring disclosures on complex assets and their risks for life insurers. It promotes coordination between actuaries and investment teams to better address various risks. The third round of filings, due on April 1, will provide information on how life insurers model assets to support reserves.

The focus in reviewing these filings is on net yield assumptions and reinsurance collectability, particularly when insurers rely on overly optimistic returns for risky assets to demonstrate reserve adequacy. Efforts are being made to adjust these assumptions and assess reinsurance collectability using credit ratings, treaty safeguards, and stress testing.

Andersen then went over the recent reviews that led to the development of a guidance document, allowing more tailored reviews based on tranche-level allocations for structured assets. One key area of focus is the fair value of internally valued assets, which can impact asset adequacy analyses, especially when assets are expected to be sold to cover cash demands. The review also includes company-originated assets and payment-in-kind features, where cash flow generation may be inadequate.

Andersen then spoke on a new actuarial guideline that is being developed to address reinsurance activity that could reduce transparency regarding asset types and amounts supporting reserves. In cases where reinsurance reduces reserves, regulators are seeking better transparency and consistency in assumptions about net returns, mortality, longevity, and policyholder behavior.

The goal of the guideline is to provide U.S. regulators with the necessary tools to review reserves and solvency while avoiding conflicts with international agreements. It will be disclosure-only initially, but if significant concerns arise from the disclosures, further public discussions will be held to determine the appropriate next steps. The guideline is expected to be finalized by late May 2025, with filings for year-end 2025 due by April 1, 2026.

## 6. Heard an International Update

Tim Nauheimer (NAIC) reported on the IAIS publishing the GIMAR for December 2024, which is a key deliverable of the Global Monitoring Exercise (GME). The report covers two main components: individual insurer monitoring (IIM) and sector-wide monitoring (SWM), with an analysis of reinsurance and climate risk. Key findings from the 2024 report highlight two macroprudential themes: key risks in the macroeconomic environment and structural shifts in the life insurance sector. Specific areas under these themes include geopolitical risks, alternative asset allocation, and cross-border asset-intensive reinsurance.

Nauheimer discussed the plans for 2025. The IAIS launched the annual GME in March and held a workshop for supervisors and insurers. They are also conducting a triennial review of GME methodology, with public consultation expected in the second quarter. The IAIS plans to release a mid-year GIMAR update in the third quarter and a detailed GIMAR report, including a special edition on natural catastrophe protection gaps, in the fourth quarter.

Nauheimer then spoke on the IAIS MSWG, which finalized a draft issues paper on structural shifts in the life insurance sector. It has received parent committee approval for public consultation. Next, the IAIS Executive Committee will provide any input and consider approval for public consultation, which is expected before the end of this quarter.

Lastly, Nauheimer reported on the IAIS Climate Risk Steering Group's plans to publish an updated climate risk application paper in the coming month, with supplementary materials for members. The group will also continue collaborating with global partners, such as the Network for Greening the Financial System (NGFS) and Sustainable Insurance Forum (SIF), to address climate-related risks in the insurance sector.

Having no further business, the Financial Stability (E) Task Force adjourned.

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**MEMORANDUM**

TO: Members, Interested Regulators, and Interested Parties of the Financial Stability (E) Task Force

FROM: Robert Kasinow, Chair, Macroprudential (E) Working Group

DATE: March 17, 2025

RE: MWG Update

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The **Macroprudential (E) Working Group (MWG)** met in regulator only session on February 6 and February 25. The purpose of the Feb 6 meeting was to receive an update and ask for comments on the IAIS Macroprudential Supervision Working Group (MSWG) Issue Paper on Cross Border Reinsurance and Alternative Assets. Iowa, along with the NAIC, are members of the MSWG and Iowa has been leading the MSWG drafting team on the development of this paper. Carrie Mears of IA walked MWG members through the paper, highlighting key points. Many topics in the IAIS Issue Paper are in alignment with our domestic MWG initiatives.

On the February 25 call, MWG members approved a workplan for the year and received an overview of the IAIS GIMAR report. The MWG workplan for the year includes an education program for state regulators on Cross border reinsurance-including Schedule S reporting, Traditional, Modified Coinsurance and Funds Withheld reinsurance transaction structures. The program will also address the Accounting treatment of these transactions, including GAAP, Statutory and other jurisdictions solvency framework as deemed relevant. Lastly the education program will provide an overview of how RBC capital charges are derived from annual statement reporting for cross border reinsurance transactions. The NAIC will roll out the education program by the end of April.

The MWG workplan also includes reviewing the use of Sidecars in the life insurance sector, the creation of a reinsurance dashboard, retrocessions and reinsurance recapture provisions.

Our international involvement provides greater insight into other supervisors' initiatives such as the PRA's recent initiative on recapture. The PRA now requires insurers to demonstrate with a high level of confidence that they can withstand either a single recapture event, or multiple recapture events involving highly correlated counterparties. I'm not saying we are going to be implementing this in the U.S., but we are reviewing recapture provisions as part of our workplan.

I mentioned our education program will include a module on how reinsurance capital charges are calculated. Subsequent to our education program, the MWG and FSTF shall consider whether any further analysis of RBC is warranted. If any further work around RBC is deemed necessary, it would most likely result in a referral by the FSTF to the appropriate NAIC RBC task force or working group.

The Feb 26 call also included an overview of the 2024 GIMAR report that was published December 5, 2024. The report is the culmination of the Global Monitoring Exercise, including the Individual Insurer Monitoring and the Sector Wide Monitoring that Tim provides an update on regularly. Tony Quandt from

the state of Nebraska is also a member of the IAIS Macroprudential Monitoring Working Group (MMWG) and was involved in the GIMAR report development last year. Therefore, Tony walked MWG members through the report on the call. The report may be found on the IAIS website and the NAIC's website, FSTF page, documents section.

Lastly, as an FYI-the NAIC in coordination with industry, consolidated the Excel reporting templates for the Liquidity Stress Testing reporting. The purpose of the change was to make it easier for both insurers and the NAIC to report and aggregate the data. The templates along with the guidance Framework manual when final, will be posted to the NAIC's website under the FSTF webpage, Exposure Drafts section.