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Co-Chairs of the Restructuring Mechanisms (E) Working Group
July 10, 2024

Comments on the NAIC Exposure Draft: Best Practices Procedures for IBT/Corporate Divisions

Risk & Regulatory Consulting LLC (RRC) applauds the Working Group for its work related to the topic of Insurance Business Transfers (IBTs) and Corporate Divisions (CDs) and appreciate the opportunity to provide our comments. We provide the following comments for the Working Group's consideration as it develops best practices for the review of IBTs and CDs.

1. Pages 3 - 9: We assume the lists under Section I – Insurer Information, Section II – Transactional Design are both lists of things to be provided by the applicant. As written, the document identifies Section I as minimum documentation provided by the applicant, but is unclear what Section II is. We recommend clarifying that Section II is a list of minimum documentation to be provided by the applicant, if that is the Working Group's intent.
2. Section II, Lists 1 and 2: We recommend adding the following to the lists of items to include for the proposed IBT/CD:
 - a. identification of the policies subject to the IBT/CD
 - b. an exhibit similar to Schedule P Part 2 showing how management's reserve estimates have changed over time for the business to be transferred/divided, on both a gross and net of reinsurance basis
 - c. An exhibit showing how the Appointed Actuary's (or other internal/third party actuary who has reviewed the subject business) estimates have changed over time for the business to be transferred/divided, on both a gross and net of reinsurance basis
 - d. Add "including claims handling" to "administration of policies" item in 1(r) and 2(m)
3. Page 8, Item 4(b): We assume item 4(b) is only applicable in the cases where the parent is offering continued financial support. We recommend item 4(b) be combined with item 4(a) or otherwise clarified as to when it is applicable.
4. Pg 11, Item 4(a): We recommend that the regulator consider requesting and reviewing other capital metrics (e.g., Best's Capital Adequacy Ratio (BCAR) or the company's own measure of economic capital for the business to be transferred/divided) in addition to RBC.
5. Pg 11, Item 4(b)(i): We recommend the Working Group consider that some liabilities (such as asbestos, environmental, and other latent liabilities) are highly volatile and may not lend themselves to traditional methods of estimating percentiles for reserve stress testing. The standards as presented may not be practicable in all situations. Regulators could consider focusing on stressing the reserves in a deterministic manner rather than attempting to quantify the 99.5% Value at Risk (VaR) for a one year period, the 97% VaR for a five year period, or the Conditional Tail Expectation of 90 or higher where these metrics may be difficult to estimate and/or potentially misleading.
6. Page 11, Item 4(b)(v) is blank.
7. Pages 11-12, Item 4: If the proposed transaction includes on-going operations for non-life business, we recommend the review include an understanding of the basis for the projected liabilities associated with the ongoing business. This review should include pricing assumptions such as rate change history, loss

trends, and on-going expenses. The independent expert should assess the potential need for a premium deficiency reserve as well as the adequacy of pricing for ongoing business.

8. Page 15, Item 3(c): We recommend generalizing this item to consider all forms of reinsurance rather than focusing only on stop loss and excess of loss.
9. Page 16, Item 5: We recommend the analysis of assets include an understanding of the asset allocation strategy and reinvestment strategy, including descriptions of how those strategies will change over time.
10. Page 20, Item 1(b): We recommend generalizing this item to consider all material reinsurance agreements rather than focusing only on stop loss.
11. Page 20, Item 3(h): If changes are made based on comment #5 above, we recommend updating this item for consistency.
12. Page 20, Item 3(i): We recommend generalizing this item to consider all material reinsurance agreements rather than focusing only on stop loss.

Thank you for the opportunity to comment on this important document. We can be reached at the contact information below if any members of the Working Group have questions.

Sincerely,



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