Conference Call

LIFE RISK-BASED CAPITAL (E) WORKING GROUP
Friday, May 8, 2015
1:00 PM ET / 12:00 PM CT / 11:00 AM MT / 10:00 AM PT

ROLL CALL

Mark Birdsall, Chair  Kansas
Kerry Krantz, Vice Chair  Florida
Steve Ostlund  Alabama
Perry Kupferman  California
Michael Colburn  Connecticut
Philip Barlow  District of Columbia
Fred Andersen  Minnesota
William Leung  Missouri
Felix Schirripa  New Jersey
William Carmello  New York
Frank Stone  Oklahoma
Mike Boerner  Texas

AGENDA

1. Discuss Referral to Principle-Based Reserving Implementation (EX) Task Force  Attachment 1
2. Discuss Draft Instructional Language for Primary Security Adjustment  Attachment 2
3. Discuss Draft Instructional Language Addressing AG 48 Sunset  Attachment 3
4. Discuss Remaining Changes to Instructions Needed
5. Any Other Matters Brought Before the Working Group
6. Adjournment
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To: Superintendent Joseph Torti, III, and Commissioner Julie Mix McPeak, Co-Chairs  
Principle-Based Reserving Implementation (EX) Task Force  

From: Mark Birdsall, Chair of the Life Risk-Based Capital (E) Working Group  

Date: April 29, 2015  

Re: XXX/AXXX Public Disclosure  

In the course of developing the risk-based capital components of the NAIC’s new framework for the regulation of XXX and AXXX captive reinsurance transactions, the Life Risk-Based Capital Working Group has received comments from two interested parties recommending public disclosure, in a ceding life insurer’s annual statutory financial statements, of the total adjusted capital and risk-based capital of each of the insurer’s XXX and AXXX captives that engage in transactions. The proposed disclosure would encompass only those captives engaging in transactions subject to AG 48. No disclosure would be required in relation to captives engaging in transactions that are exempted from AG 48. The purpose of the disclosure would be to reduce potential incentives for the continued use of these captives after implementation of principle-based reserves. In the form proposed, disclosure would be required irrespective of whether an insurer is required to calculate or hold a risk-based capital cushion in relation to a particular captive.

The development of a disclosure requirement of this kind is outside the scope of the working group’s charges. We therefore are referring this proposal to the Principle-Based Reserving Implementation (EX) Task Force for consideration.

cc: Kris DeFrain, Todd Sells
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Include Reflect the values as of the current annual statement date of the Primary Security received by or on behalf of the reporting entity as defined in D. above, and any additional Primary Security received by the reporting entity after the as of date of the current annual statement as collateral to cover the difference. Also include any amounts addressing the remediation options defined in AG 48, Section 3.(i):

1. Add additional Primary Security on or before March 1 of the year in which the actuarial opinion is being filed in an amount that would have caused the Primary Security held by or on behalf of the ceding insurer, as security under the reinsurance contract, on a funds withheld, Trust, or modified coinsurance basis, to equal or exceed the Required Level of Primary Security on the valuation date; or

2. Establish a liability equal to the difference between the Primary Security held pursuant to AG 48, Section 6.A.1(i) and the Required Level of Primary Security.
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8. Sunset Provision

This Actuarial Guideline shall cease to apply as to ceding insurers domiciled in a jurisdiction that has in effect, as of January 1st of the calendar year immediately preceding the year in which the actuarial opinion is to be filed, a law and regulation substantially similar to the amendment to the Credit for Reinsurance Model Law and new Model Regulation adopted by the NAIC pursuant to Recommendation #5 of the June 2014 Rector Report.

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The following is draft instruction to be added as the first line of the instructions for LR027 Interest Rate Risk and Market Risk (Qualified Opinion), LR036 XXX/AXXX Reinsurance Primary Security Shortfall by Cession and LR037 XXX/AXXX Reinsurance Consolidated Exhibit:

The following instructions for the [insert name of schedule or exhibit] will remain effective independent of the status of AG 48 in a particular state or jurisdiction.