To:   Director John M. Huff (MO)
Chair, Financial Regulation Standards and Accreditation (F) Committee

From:   NAIC Staff

Date:  February 24, 2015

Re:  Revisions to Part A Preamble Regarding Captive Life/Health Reinsurers

At the 2014 Spring National Meeting, NAIC staff prepared proposed revisions of the preambles to Part A and Part B of the NAIC Accreditation Program Manual that (1) clarified that a multi-state reinsurer that assumes business written in any state other than its state of domicile constitutes multi-state business, and would subject such a multi-state reinsurer to the accreditation standards; (2) exempted from the accreditation standards those traditional captive insurers owned by non-insurance entities for the management of their own risk; (3) did not limit the application of the revisions to XXX/AXXX reserves, but also recognized that these revisions would potentially be impacted by the recommendations to the Principle-Based Reserving Implementation (EX) Task Force; and (4) the revisions would be given prospective-only effect, and would not have an effect on in-force business.

Based on the comments that were received, NAIC staff was then directed to prepare revised preambles that would provide that certain captive insurers, special purpose vehicles and other entities assuming insurance business would be subject to the general accreditation standards, but the application would be limited to only the following lines of reinsurance business: (1) XXX/AXXX policies (which are now defined under Actuarial Guideline XLVIII (AG 48) to apply to those policies that are required to be valued under Sections 6 or 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (Model #830)); (2) variable annuities valued under Actuarial Guideline XLIII—CARVM for Variable Annuities (AG 43); and (3) long-term care insurance valued under the NAIC Health Insurance Reserves Model Regulation (Model #10). It was also the consensus opinion that it would be necessary to prepare new and completely revised preambles in order to provide both clarity and accuracy to the proposed revisions.

Attached please find a draft of a completely revised Preamble for Part A prepared by NAIC staff. Please note the following items in the draft:

- The Preamble no longer refers to “Traditional” insurers. Instead, we have divided the Preamble into three sections: 1) life/health & property/casualty insurers that are not RRG captives; 2) captive reinsurers; and 3) other types of insurers.

- The Part A standards would only apply to captive reinsurers that assume the following business: 1) XXX/AXXX; 2) variable annuities; and 3) long term care. If a captive reinsurer complies with the NAIC’s XXX/AXXX Captive Reinsurance Framework and AG 48 (as adopted by the NAIC), then it will be deemed to meet the Part A standards. No effective dates have yet been determined for variable annuity and long term care business.

- We have not as yet drafted revisions to the preamble to Part B: Regulatory Practices and Procedures; however, they will also need to be revised to make them consistent with any changes ultimately adopted to the Part A preamble.

Attachment