25 January 2024

NAIC Bulletin

Highlights of the National Association of Insurance Commissioners meeting

Fall 2023 update

In this issue:

The National Association of Insurance Commissioners (NAIC) recently held its 2023 Fall National Meeting in a hybrid format from Orlando. Our publication highlights key issues that NAIC groups have addressed since the 2023 Summer 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 adopted an interpretation to prescribe the accounting and reporting requirements for reporting entities that have a reinsurance recoverable from Scottish Re, a US-domiciled life reinsurance company that is in liquidation.
- The VM-22 (A) Subgroup exposed the description and specifications for the field test of the draft principles-based reserving framework for non-variable annuities, which is targeted for July 2024.
- The NAIC Plenary adopted the *NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers*, which sets forth the regulatory expectations as to how insurers will govern the development, acquisition and use of certain artificial intelligence technologies.
- The NAIC elected its 2024 executive officers: Andrew N. Mais (Connecticut) as president, Jon Godfread (North Dakota) as president-elect, Scott A. White (Virginia) as vice president and Elizabeth Kelleher Dwyer (Rhode Island) as secretary-treasurer.

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 2023 Summer 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 2023 Summer 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 the annual statement instructions to remove guidance that permits the specific allocation of non-interest-related losses to the interest maintenance reserve (IMR) (Ref #2023-15). The revisions specify the criteria that would require realized gains and losses from mortgage loans to be included in the asset valuation reserve (AVR) and the conditions in which realized gains and losses from debt securities where an acute credit event (i.e., a known event that significantly negatively affects the price of a security) occurred between the date of purchase and date of sale would be excluded from the IMR. The revisions also clarify the intent of the guidance whereby non-interest-related losses are to be allocated to the AVR. These revisions are effective 1 January 2024.

SAPWG adopted revisions to SSAP No. 2R, *Cash, Cash Equivalents, Drafts and Short-Term Investments*, to further restrict the investments that are permitted for reporting as a cash equivalent or short-term investment (Ref #2023-17). The revisions are intended to capture certain investment types (e.g., collateral and non-collateral loans, surplus notes) on Schedule BA and to eliminate the ability to design investments specifically to qualify for short-term reporting. The guidance in SSAP No. 2R regarding related party investments and certificates of deposit has not been revised. These revisions are effective 1 January 2025.

SAPWG adopted revisions to SSAP No. 30R, *Unaffiliated Common Stock*, and SSAP No. 32R, *Preferred Stock*, to clarify that investments that are in-substance residual interests are to be reported on the dedicated reporting line for residual interests on Schedule BA (Ref #2023-23).

SAPWG adopted revisions to SSAP No. 54R, *Individual and Group Accident and Health Contracts*, to clarify that gross premium valuation (under Appendix A-010, *Minimum Reserve Standards for Individual and Group Health Insurance Contracts*) and cash flow testing (under *Actuarial Guideline LI — The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51)) are both required, if indicated, to determine when additional reserves for long-term care (LTC) insurance blocks of business are necessary (Ref #2023-22).

SAPWG adopted revisions to SSAP No. 21R, *Other Admitted Assets*, 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 (Ref #2022-11). The revisions specify that qualifying investments pledged as collateral that would be in the scope of SSAP No. 48, *Joint Ventures, Partnerships and Limited Liability Companies*, or SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities*, if held directly, require an audit. However, the fair value of the qualifying investment would be used to measure the adequacy of the pledged collateral, with any amount in excess of the permitted relationship of fair value of the pledged collateral to the collateral loan being recorded as a nonadmitted asset. Conforming revisions to SSAP No. 20, *Nonadmitted Assets*, were also adopted to provide consistency in the statutory accounting guidance for collateral loans.

SAPWG adopted revisions to SSAP No. 5R, *Liabilities, Contingencies and Impairments of Assets*; SSAP No. 92, *Postretirement Benefits Other Than Pensions*; SSAP No. 102, *Pensions*; and SSAP No. 103R, *Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to adopt the US GAAP guidance in Accounting Standards Update (ASU) 2016-19, *Technical Corrections and Improvements*, with modification for consistency with the language in the applicable statutory accounting guidance (Ref #2023-18). Revisions to SSAP No. 92 were also adopted to change the term "insurance contracts" to "insurance annuities" for consistency with SSAP No. 102 in referencing this term.

SAPWG also adopted revisions to SSAP No. 92 and SSAP No. 102 to remove the transition guidance that was included in the initial adoption of these SSAPs as it is past the 10-year effective period for transition (Ref #2023-21).

SAPWG re-exposed revisions to SSAP No. 21R to incorporate a new measurement method for residual interests as part of the bond project (Ref #2019-21). The proposed revisions would require the use of an "effective yield with a cap" method with the ability to elect a practical expedient for the use of the more conservative "cost recovery" method, with limitations on the ability of the reporting entity to change from the cost recovery method once it is elected. The proposed revisions also specify that temporary reductions in fair value are to be reported as an unrealized loss; provide guidance for the accounting and reporting of investments that no longer meet the definition of a residual interest; and update the other-than-temporary impairment (OTTI) guidance for investments in residual interests for consistency with the impairment guidance in SSAP No. 43R, *Loan-Backed and Structured Securities*. The updates to the

OTTI guidance would require these investments to be assessed for OTTI on an ongoing basis, with recognition of a realized loss equal to the difference between the book-adjusted carrying value and the present value of the expected cash flows for the investment when an OTTI is identified.

The NAIC staff will continue to update the issue paper detailing historical discussions and decisions reached on the guidance developed for the bond project.

SAPWG re-exposed revisions to SSAP No. 93, *Low-Income Housing Tax Credit Property Investments*, and SSAP No. 94R, *Transferable and Non-Transferable State Tax Credits*, that would expand the scope of the existing statutory accounting guidance for tax credits to address the accounting treatment to be applied to all federal and state tax credit programs and tax credit investment structures (Ref #2022-14).

- The proposed revisions to SSAP No. 93 include guidance to address the recognition and impairment of variable tax credits allocated to the reporting entity and a new disclosure requirement for tax credits allocated from tax credit investments and unused as of the end of the reporting period. An effective date of 1 January 2025 has been proposed, with prospective application of the guidance required.
- The proposed revisions to SSAP No. 94R would exclude awarded tax credits from its scope and require the reporting entity to disclose any commitment or contingent commitment to purchase tax credits. An effective date of 1 January 2025 has been proposed, with prospective application of the guidance required. Early adoption would be permitted.

Corresponding revisions to clarify the scope of SSAP No. 34, *Investment Income Due and Accrued*, and SSAP No. 48 regarding tax credits were also exposed. SAPWG also requested feedback from regulators and industry stakeholders on updates to the annual statement and RBC reporting categories for tax credit investments, which currently only address low-income housing tax credit property investments.

Interpretations of statutory accounting principles

SAPWG adopted INT 23-04: *Scottish Re Life Reinsurance Liquidation Questions* to prescribe the accounting and reporting requirements for reporting entities that have a reinsurance recoverable from Scottish Re, a US-domiciled life reinsurance company that is in liquidation. The interpretation requires insurance companies to follow the existing statutory accounting guidance for life reinsurance in SSAP No. 61R, *Life, Deposit-Type and Accident and Health Reinsurance*, with the following guidance on the admissibility of the types of reinsurance recoverable from Scottish Re:

- Reinsurance recoverable from Scottish Re for paid claims incurred prior to the reinsurance contract cancellation that are not in dispute would be admitted after impairment review.
- Reinsurance recoverable from Scottish Re for unpaid claims that are collateralized (i.e., secured) by assets held in a trust that complies with the requirements of Appendix A-785, *Credit for Reinsurance*, would be admitted to the extent that the amounts are not in dispute and that the collateral in the Appendix A-785 compliant trust is sufficient.

The interpretation requires all other reinsurance recoverable amounts to be nonadmitted until payment has been received. This includes amounts that are either in dispute or not secured by assets held in a trust that complies with the requirements of Appendix A-785.

Other matters

SAPWG rejected ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, along with five other ASUs issued by the Financial Accounting Standards Board as not applicable to statutory accounting (Ref #2023-24). This rejection is effective 31 December 2023. With this rejection, SAPWG disposed of a prior agenda item that was developed to consider how these US GAAP concepts should be incorporated into statutory accounting guidance (Ref #2016-20).

SAPWG directed the NAIC staff to establish a long-term project to incorporate accounting guidance for the AVR and IMR from the annual statement instructions into SSAP No. 7, *Asset Valuation Reserve and Interest Maintenance Reserve*, with a corresponding issue paper to be prepared to detail the revisions from the annual statement instructions identified as part of this project (Ref #2023-14). The IMR Ad Hoc Technical Group will address the topics previously exposed by SAPWG during the 2023 Summer National Meeting and has requested feedback on the IMR guidance for derivatives and reinsurance for discussion at future meetings to be scheduled by the IMR ad hoc group.

SAPWG also directed the NAIC staff to submit a blanks proposal to the Blanks (E) Working Group (BWG) to revise the designated reporting lines for investments that are permitted for reporting as a cash equivalent or short-term investment and to draft an issue paper detailing the historical discussions and decisions reached on the revised guidance adopted in SSAP No. 2R (Ref #2023-17).

Blanks (E) Working Group

Appendix B summarizes the actions taken by BWG since the 2023 Summer National Meeting.

Capital Adequacy (E) Task Force

The Capital Adequacy (E) Task Force (CATF) received an update from the following subgroups of the Risk Evaluation Ad Hoc Group that was formed to evaluate various aspects of the RBC framework:

- The Asset Concentration Ad Hoc Subgroup continued its work to discuss concepts and issues related to asset concentrations and review NAIC data for potential asset concentration considerations. A flow chart has been developed for use in identifying unique assets that would need additional research to assess their risk and potential charge to be included in the RBC formula. Further discussion is expected at future meetings to be scheduled by this ad hoc subgroup.
- The RBC Purposes and Guidelines Ad Hoc Subgroup continued its work to develop clarifying edits to the RBC Preamble that are intended to emphasize the purpose and intended use of RBC. The proposed edits will be finalized at future meetings to be scheduled by this ad hoc subgroup prior to any consideration for adoption by CATF.
- The Geographic Concentration Ad Hoc Subgroup continued its work to collect in-depth technical information on how to enhance the RBC charge to provide state insurance regulators with an early warning signal regarding an insurer's insolvency. Meetings have been held with Florida and Louisiana regulators to gain a better understanding of how the regulators from those states monitor and manage the potential geographic concentration risk in their respective states, with an intent to engage rating agencies to understand how geographic concentration risk exposure of insurers is evaluated by these agencies.

CATF discussed the referral from SAPWG regarding its proposal to allow life reporting entities the ability to use existing Schedule BA reporting provisions for NAIC designations assigned by the NAIC Securities Valuation Office (SVO) in determining the RBC requirement for debt securities that do not qualify as bonds as a result of the bond project. CATF forwarded the SAPWG referral and the feedback provided by the American Council of Life Insurers (ACLI) that raised concerns with the potential effect on RBC charges for affiliated securities to the RBC Investment Risk and Evaluation (E) Working Group (RBCIRE) for further consideration.

CATF also discussed the referral from SAPWG to consider eliminating any admitted net negative IMR from total adjusted capital and incorporating sensitivity testing with and without negative IMR in the RBC calculation. CATF forwarded the SAPWG referral to the Life RBC (E) Working Group for further consideration as net negative IMR would only impact the Life RBC formula.

CATF discussed the possible structural changes to the RBC bond page in response to actions taken by BWG to split Schedule D, Part 1 in the annual statement blank into two sections: one for issuer credit obligations and the other for asset-backed securities (Ref #2023-06BWG MOD). CATF directed the NAIC staff to send a referral to RBCIRE on this topic.

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 2023 Summer National Meeting.

Life RBC (E) Working Group

The Life RBC (E) Working Group exposed an NAIC staff memorandum to provide explanation for the implementation of changes to mortality risk in the calculation of the insurance risk (i.e., C2) component of the Life RBC formula for 2023 year-end reporting. The memorandum indicates that the BWG proposal to include a new note to the financial statements to provide an annual statement source for amounts used in the Life RBC calculation for 2023 year-end reporting was withdrawn and references the alternative BWG proposal to use a new general interrogatory as the annual statement source for these amounts for 2024 year-end reporting (Ref #2023-15BWG).

The Working Group discussed the ACLI proposal to modify the treatment of repurchase agreements in the Life RBC formula and related instructions that was previously exposed. The industry proposal intends to align the current charge of 1.26% for conforming repurchase agreements with the charge for conforming securities lending programs of 0.2%. It includes the establishment of a "conforming program criteria" option for repurchase agreements through the general interrogatories, which will have clear operational and risk guidelines for repurchase agreements to be considered "conforming," with reporting enhancements that will allow regulators to validate that reported repurchase agreements meet the "conforming" definition. The Working Group did not receive any comments on the ACLI proposal and directed the NAIC staff to draft referrals to SAPWG and BWG requesting consideration of the proposal, with RBCIRE to review it for potential application across all of the RBC formulas. Further discussion on this proposal is planned at a future meeting to be scheduled by the Working Group.

Health RBC (E) Working Group

The Health RBC (E) Working Group heard a presentation from the American Academy of Actuaries (Academy) on the health care receivables factors included in the credit risk (i.e., H3) component in the Health RBC formula. The Academy proposed bifurcating the health care receivables factors into pharmaceutical rebate receivables and non-pharmaceutical rebate receivables (e.g., claim overpayment receivables, loans and advances to providers, capitation arrangement receivables, risk sharing receivables, other health care receivables), highlighting that the current factors vary based on the type of receivables. The Academy also proposed the use of a tiered health care receivables factor in the Health RBC formula that would improve collection ratios for all insurers regardless of the size of their health care receivables. The Working Group exposed the Academy's presentation to solicit feedback on its proposal for a tiered health care receivables factor.

The Working Group also received an update from the Academy on its work to analyze and review the underwriting risk (i.e., H2) component and managed care credit calculation in the Health RBC formula. The Academy continued to perform its analysis of historical data from annual health filings, with a focus on the H2 component by lines of business. The Academy expects to develop a draft analysis and findings for presentation to the Working Group by the end of 2024.

Property and Casualty RBC (E) Working Group

The Property and Casualty (P&C) RBC (E) Working Group received 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's report highlighted the indicated risk charges in the reserve and premium risks by lines of business and the changes in those risk charges, as well as the indicated changes in authorized control level RBC by the type of insurer (e.g., commercial, medical professional liability, workers compensation). The Academy also discussed the relative distribution of the insurers that would be impacted by the indicated changes in authorized control level RBC. Further discussion is planned at future meetings to be scheduled by the Working Group.

Catastrophe Risk (E) Subgroup

The Catastrophe Risk (E) Subgroup continued its work to evaluate the implications of convective storm risk on P&C insurance companies. The Subgroup exposed a proposal to include severe convective storm as one of the catastrophe perils in the Rcat component of the P&C RBC formula for informational purposes only (Ref #2023-15-CR). Comments are due by 30 January 2024. The review of convective storm risk by the Convective Storm Model Review Ad Hoc Group also continues to progress, with an in-depth technical study and impact analysis of the assumptions and limitations of different vendor models addressing severe convective storms targeted for completion by year-end 2024.

RBC Investment Risk and Evaluation (E) Working Group

RBCIRE received an update from the Academy regarding its work to analyze and address the risk charge for structured securities in the RBC formulas. The Academy incorporated feedback previously provided by RBCIRE and presented the following list of six revised candidate principles to be used in the determination of the asset risk (i.e., C1) factors for asset classes or securities within an asset class that require modeling:

- The purpose of RBC is to help regulators identify potentially weakly capitalized insurers; therefore, changes that have a small impact on RBC ratios may not justify a change to the RBC formula.

- Emerging investment risks create concerns for regulators, and existing regulatory tools can be considered alongside RBC for addressing these newer risks, but RBC needs to be considered when there are material solvency issues.
- C1 requirements should reflect the impact of risk on statutory surplus. Changes in accounting treatment will affect RBC.
- C1 requirements on a given tranche should align with that tranche's risk, to the extent practical.
- C1 requirements on asset-backed securities should treat the collateral as a dynamic pool of assets, incorporating future trading activities that are reasonable and vary appropriately by economic scenario.
- Each C1 factor is based on the asset class's risk profile. However, the risk profile for asset-backed securities differs from the risk profile for bonds. Therefore, C1 requirements for asset-backed securities should be calibrated to different risk measures where appropriate.

RBCIRE approved the six revised candidate principles for use in developing RBC factors and directed the Academy to continue its work on this topic.

Requirements for principle-based reserving

The Valuation Analysis (E) Working Group (VAWG) recently completed a review of the reserve supplements and principle-based reserving (PBR) actuarial reports, covering life insurance and variable annuities, that were filed by insurers for calendar year-end 2022. VAWG summarized its findings in its 2022 PBR Review Report available on the NAIC website to provide general feedback that will assist insurers with future PBR valuations and filings and aid state insurance regulators in their PBR reviews.

The Life Actuarial (A) Task Force (LATF) continued its work to update the *Valuation Manual* (VM) and address issues related to the implementation of the 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*, along with the development of the reserving requirements for non-variable annuities, which are summarized below.

Life and variable annuity products

LATF adopted an amendment to the 1 January 2024 version of the *Valuation Manual* that will require specific considerations for the historical mortality improvement (HMI) factors adopted by LATF and published by the Society of Actuaries (SOA) on its website to be incorporated into the HMI assumption for VM-20 developed by the insurance company.

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

- Remove references to RBC in VM-20 and VM-21 that are inconsistent with the purpose, scope and intended use of RBC, which align with improvements made in the related sections of the draft VM-22 framework.
- Require the discount rate used in stochastic reserve calculations for VM-20 to be the net asset earned rate on additional assets rather than 105% of the scenario-specific 1 Year US Treasury rate to align to the C3 Phase II required discount rate.

LATF also re-exposed an amendment to the *Valuation Manual* that will clarify the definition of equity-like instruments and equity return assumptions for asset adequacy testing in VM-30: *Actuarial Opinion and Memorandum Requirements*. Comments are due by 29 January 2024.

Non-variable annuity products

LATF exposed revisions to VM-31: *PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation* and VM-M: *Appendix M — Mortality Tables* to allow for the use of international mortality tables for relevant business and add the "1994 Group Annuity Reserving Table" and the "1983 Table a" as mortality tables that are eligible for use in future VM-22 reserve and nonforfeiture valuations. Comments are due by 29 January 2024.

The VM-22 (A) Subgroup also exposed revisions to VM-31, along with a VM-22 PBR Supplemental Blank and corresponding revisions to VM-G: *Appendix G — Corporate Governance Guidance for Principle-Based Reserves*, that address the disclosure requirements being developed as part of the draft PBR framework for non-variable annuity products. Comments are due by 14 February 2024.

The Subgroup discussed the feedback received on the previously exposed draft requirements for the standard projection amount (SPA), which were focused on the structure and methodology of the SPA as opposed to specific assumptions. Various aspects of the SPA requirements were considered, including aggregation, deterministic reserving, the dynamic lapse formula and limits on investment spread in the SPA calculation. The SOA will continue to develop mortality and policyholder behavior assumptions for use in the SPA for consideration by the Subgroup at a future meeting. Separately, the Subgroup requested feedback on the appropriateness of the NAIC Drafting Group and Academy dynamic lapse proposals, including whether there are elements of either that would be suitable for the SPA calculation and whether any elements of the New York SCL formula lend themselves well to either of the proposed methodologies. Comments are due by 31 January 2024.

The Subgroup also exposed the field test description and specifications for the draft VM-22 framework. The performance of the field test is targeted for July 2024, using the most up-to-date scenarios from the proposed generator of economic scenarios (GOES), with results to be presented to the Subgroup by early February 2025. The Subgroup indicated that the key outstanding items to be resolved from the field test are the stochastic exclusion ratio test threshold, reinvestment guardrail mix and the effect of proposed SPA assumptions. Comments are due by 31 January 2024.

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.

Liquidity assessment and capital stress testing

The Financial Stability (E) Task Force received a report on the results of the year-end data submitted by life insurance groups in their liquidity stress testing (LST) filings for 2022. Overall, insurers demonstrated their ability to manage actual and projected cash flow deficits based on various stress scenarios for three different time horizons (i.e., one month, three months and one year), with any deficits projected in the various scenarios reported as satisfied with cash on hand and, in some cases, an insignificant amount of asset sales.

The Task Force adopted the 2023 LST framework modified to address considerations, rather than requirements, for the performance of the 2023 LST. While not required for 2023 LST filings, insurers should consider including all cash flows related to assets and liabilities that may be grouped with general account assets in a liquidation regardless of separate account classification as insulated or non-insulated, explicit or implicit guarantee, unitized or non-unitized. Separately, insurers should consider incorporating appropriately stressed interest rates in their 2023 LST filings in response to the significant increase in inflation and interest rates that occurred in 2022.

Recovery and resolution

The NAIC Plenary adopted amendments to the Property and Casualty Insurance Guaranty Association Model Act (Model #540), which were developed by the Receivership and Insolvency (E) Task Force to address continuity of guaranty fund coverage for policies subject to restructuring mechanisms, specifically insurance business transfers and corporate division transactions, along with revisions to clarify guaranty fund coverage for cybersecurity insurance.

The Receivership and Insolvency (E) Task Force adopted a template for describing the US receivership regime that is intended for use by lead state insurance regulators to provide consistency in discussions with international regulators and assist in developing resolution plans for internationally active insurance groups (IAIGs). The Task Force referred the template to the Financial Analysis (E) Working Group (FAWG) for consideration of its inclusion in the *Troubled Insurance Company Handbook* (a regulator-only publication).

The Task Force also adopted revisions to all chapters and certain exhibits included in the *Receiver's Handbook for Insurance Company Insolvencies*, which were developed by the Receiver's Handbook (E) Subgroup, and disbanded the Subgroup once it completed its charges.

Private equity and other matters

The Macroprudential (E) Working Group intends to provide a status report on the following 13 items in the *Regulatory Considerations Applicable (But Not Exclusive) to Private Equity (PE) Owned Insurers* document at the 2024 Spring National Meeting:

- Holding company structures
- Ownership and control
- Investment management agreements
- Owners of insurers with short-term focus and/or unwilling to support a troubled insurer
- Operational, governance and market conduct practices
- Definition of private equity
- Identifying related party-originated investments (including structured securities)
- Identifying underlying affiliated/related party investments and/or collateral in structured securities
- Asset manager affiliates and disclaimers of affiliation
- Privately structured securities
- Reliance on rating agencies
- Pension risk transfer business supported by complex investments
- Offshore/complex reinsurance

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

Innovation, Cybersecurity, and Technology

The NAIC Plenary adopted the *NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers*, which was developed by the Innovation, Cybersecurity, and Technology (H) Committee (H Committee). The NAIC model bulletin sets forth the regulatory expectations as to how insurers will govern the development, acquisition and use of certain artificial intelligence (AI) technologies and the type of information and documentation that might be requested during an investigation or examination of any insurer regarding its use of such AI technologies and AI systems. Its provisions were clarified based on feedback received to align the risk assessment process to the degree of risk of consumer harm and apply flexibility on the use of third-party-provided AI data and models. However, insurers retained the obligation of compliance with the requirements of existing state laws and regulations, including unfair trade practices and unfair discrimination, when decisions or actions affecting consumers are made or supported by advanced analytical and computational technologies, including AI systems.

The H Committee indicated its intention to form a new group in 2024 to address regulation for the use of third-party data and models by insurers in AI technologies.

The H Committee also adopted the request from the Privacy Protections (H) Working Group to extend the deadline for completion of the new Insurance Consumer Privacy Protection Model Law (Model #674) to 31 December 2024. The Working Group continued to collaborate with industry stakeholders who provided feedback on the second exposure draft of Model #674, with an intention to expose a revised draft in early 2024.

The actions taken by various NAIC groups that report to the H Committee since the 2023 Summer National Meeting are summarized below.

Big Data and AI (H) Working Group

The Big Data and AI (H) Working Group received a report on the responses to the AI and machine learning survey distributed to life insurance companies with more than $250 million in nationwide premiums in 2021 that issued term policies covering at least 10,000 lives in 2021, as well as certain InsurTech companies. Based on the survey results, 58% of companies currently use, plan to use or plan to explore AI and machine learning, as defined by the survey, which is significantly less than the planned usage of AI and machine learning by P&C insurance companies that write automobile (88%) and homeowner (70%) coverages. The respondents indicated that they primarily use AI and machine learning to augment or automate decision-making in their marketing or pricing and underwriting processes, respectively. The respondents also indicated that the majority of their governance programs include components that align with NAIC principles.

Cybersecurity (H) Working Group

The Cybersecurity (H) Working Group discussed the feedback received on the components of the Cybersecurity Event Response Plan, which is being developed to support state insurance regulators in their response following notification or otherwise becoming aware of a cybersecurity event at a regulated insurance entity. The guidance follows the definitions and sections included in the Insurance Data Security Model Law (Model #668). However, since cybersecurity laws and regulations vary from state to state, the response plan does not specifically address which events must be reported. The Working Group indicated that several states will participate in a pilot program and provide feedback to be discussed at a future meeting.

Executive Committee

The NAIC Plenary adopted:

- The 2020 amendments 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 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, effective 1 January 2026. The revisions to the accreditation standards for insurance holding company systems were adopted by the Financial Regulation Standards and Accreditation (F) Committee at the 2023 Summer National Meeting.
- The Voluntary Market Regulation Certification Program, which was adopted by the Market Regulation and Consumer Affairs (D) Committee (D Committee) to establish minimum standards that promote sound practices relating to the market conduct examination, market analysis and related activities performed for insurance consumer protection.
- The market conduct pet insurance data call and related definitions, which were developed by the Market Conduct Annual Statement (MCAS) Blanks (D) Working Group for the 2024 reporting period.

The Executive (EX) Committee (EX Committee) received an update on model law development efforts for the Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act (Model #171). The Accident and Sickness Insurance Minimum Standards (B) Subgroup exposed a revised draft of Model #171 incorporating feedback from industry stakeholders. The Subgroup will review and discuss the feedback received on the revised draft at future meetings to be scheduled by the Subgroup.

The actions taken by various NAIC groups that report to the EX Committee since the 2023 Summer National Meeting are summarized below.

Climate and Resiliency (EX) Task Force

The Climate and Resiliency (EX) Task Force received an update on the work being performed by its Solvency workstream on the development of a regulatory approach to climate scenario analysis. The workstream identified that commercial catastrophe modelers have developed "Climate Conditioned Catalog" versions of their industry catastrophe models that consider adjusted frequency and severity of claims for certain time horizons. These catalogs are generally only available to insurance companies for hurricanes, wildfires and floods. However, as the existing P&C RBC formula includes "hurricane" and "wildfire" as risk perils, the workstream believes the NAIC should consider requiring an insurer to disclose information related to its climate scenario analysis in its RBC filings to provide regulators with an ability to better understand the quantitative impact of climate change on insurer solvency. The workstream directed the NAIC staff to submit an RBC proposal to the Catastrophe Risk (E) Subgroup for potential exposure before 31 January 2024. Separately, the workstream intends to conduct a pilot program involving a small number of states requesting their domiciliary insurers to submit similar climate scenario analysis information for regulatory analysis.

The Task Force adopted the National Climate Resilience Strategy document that identifies how insurance regulators collaborate to address climate resilience at the state level, highlights the accomplishments and diversity in state approaches, and provides clear goals and objectives related to climate resilience with a focus on state authority and jurisdiction. The strategy document includes five major actions for insurance regulators to take in addressing and strengthening climate resilience:

- Identify and coordinate how to identify and measure protection gaps and set priorities for reducing the identified gaps.
- Create a blueprint for expanding options related to flood insurance (e.g., new strategies on innovative products, risk assessment tools, risk communication, risk mitigation programs that can help close protection gaps).
- Combine data from the upcoming P&C climate risk data call with additional resources to understand how insurance companies are reacting to climate risks.
- Create and coordinate new resilience tools to assist insurance regulators in developing or refining state-level incentives for climate risk mitigation.
- Incorporate recommendations from the Solvency workstream on the development of a regulatory approach and related tools for climate scenario analysis.

The Task Force also requested feedback from industry stakeholders on the strategy document, which will be considered prior to its adoption by the EX Committee.

Special (EX) Committee on Race and Insurance

The Special (EX) Committee on Race and Insurance (SCRI) received 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 focus on understanding and evaluating the potential for bias to exist in various areas (e.g., marketing, access to insurance, underwriting, rating and claims handling) of the P&C insurance market. The workstream engaged with P&C industry representatives to understand underwriting and rating and claims handling and fraud practices, which will assist regulators in considering potential algorithmic bias and industry leading practices in these areas.

SCRI's Life workstream continued to focus on marketing, distribution and access to life insurance products in minority communities, including the role played by financial literacy. The workstream collaborated with the NAIC Diversity, Equity, and Inclusion (DE&I) team and state diversity leaders to develop a resource guide of information that state insurance regulators can leverage to improve access to and understanding of life insurance products in underserved communities.

SCRI's Health workstream continued to focus on examining provider network and benefit structures, as well as consumer engagement and regulator education on benefit design relating to preventive care and mental health coverage. The workstream heard presentations addressing health disparities through essential health benefits and the potential for individual states to use the Section 1332 waiver provision of the federal Affordable Care Act beyond reinsurance programs to address issues such as obesity and social determinants of health. The workstream also continued its work to create a collaborative workspace on its NAIC Connect webpage to provide a platform for its members to share information on removing barriers to health insurance for historically disadvantaged communities, health equity and other related topics.

Life Insurance and Annuities

The NAIC Plenary adopted the 2024 Generally Recognized Expense Tables (GRETs) that were developed by the SOA Research Institute for use in individual life insurance sales illustrations. The methodology for calculating the recommended GRET factors for 2024 is consistent with the methodology applied in prior years.

The actions taken by various NAIC groups that report to the Life Insurance and Annuities (A) Committee since the 2023 Summer National Meeting are summarized below.

Life Actuarial (A) Task Force

LATF adopted the HMI and future mortality improvement (FMI) factors and the related HMI and FMI scale that were developed by the Academy and the SOA for use in 2023 reserve valuations. The historical and future averaging periods used to develop the HMI factors continue to be 10 years and 20 years, respectively. The development of the recommended factors for the FMI scale follows the same approach that was applied in 2022, incorporating mortality deterioration in the initial years to account for the effects of COVID-19 and grading to a level of long-term mortality improvement at projection year 10, with no additional mortality improvement at projection year 20.

LATF adopted an updated version of its *Actuarial Guideline LIII — Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53) templates that are required for use in AG 53 filings submitted for 2023 year-end reporting purposes. The templates include additional sections to highlight the projected asset portfolio allocation and provide regulators with transparency into an insurance company's nontraditional assets.

LATF discussed the feedback received on the previously exposed comprehensive set of interest rate acceptance criteria for GOES and re-exposed an updated set of targeting criteria and evaluation statistics. Comments are due by 31 January 2024. The GOES (E/A) Subgroup intends to present model office testing results and expose scenario sets that are currently being developed at the 2024 Spring National Meeting.

LATF reported that it has become aware of requests made by some insurance companies for exceptions to the *Valuation Manual* requirements that could affect reserve or capital calculations. LATF and/or VAWG will hold initial discussions on this matter in regulator-to-regulator sessions.

Health Insurance and Managed Care

The Health Insurance and Managed Care (B) Committee (B Committee) adopted the *Guide to Understanding Pharmacy Benefit Manager and Associated Stakeholder Regulation* white paper, which is intended to be an informational resource to state insurance regulators on topics that include the pharmaceutical drug pricing ecosystem; enforcement; interaction of federal and state laws regulating pharmacy benefit manager business practices; functional issues in areas such as formulary design, rebates, pricing and network adequacy; and state laws applicable to the drug supply chain.

The actions taken by various NAIC groups that report to the B Committee since the 2023 Summer National Meeting are summarized below.

Health Actuarial (B) Task Force

The Health Actuarial (B) Task Force (HATF) received a referral from the B Committee to initiate discussions with the Centers for Medicare & Medicaid Services (CMS) regarding the implications of the calculation of the risk adjustment receivable (payable) on the current or prospective financial solvency position of smaller insurance companies and new health insurers entering the exchanges and experiencing significant growth, including whether state insurance regulators identify a need for changes to the calculation. HATF will provide an update on its CMS outreach at a future meeting.

HATF also received a referral from the B Committee to understand the implications of the cost-sharing reduction subsidy on plan options and costs to consumers (e.g., elimination of enhanced subsidies in 2026). HATF indicated that it will issue a report of its findings at the 2024 Spring National Meeting.

Long-Term Care Actuarial (B) Working Group

The LTC Actuarial (B) Working Group adopted revisions to AG 51 to clarify that asset adequacy testing is required for products in its scope as long as the AG 51 filing requirement criteria are met, regardless of the type of annual statement blank filed.

The Working Group continued its discussion on the development of a single actuarial approach to multistate LTC rate increase reviews in the *Long-Term Care Insurance Multistate Rate Review Framework* in consideration of key issues related to premium rate increases, specifically for older-age policyholders (i.e., when rate increases will no longer apply) and the potential for a maximum cap on lifetime rate increases. The Working Group will continue to work with industry stakeholders as it attempts to develop a methodology that will resolve these key issues and can be uniformly applied in the rate review process. Further discussion is expected at future meetings to be scheduled by the Working Group.

Property and Casualty Insurance

The P&C Insurance (C) Committee (C Committee) received an update on the work being performed by a drafting group of regulators to determine what data would be needed to answer specific regulatory questions in the P&C climate risk data call. The drafting group focused its efforts on questions related to the homeowner insurance market, such as what factors are driving affordability and availability challenges and how limits, deductibles and coverages in policies are changing, as well as cost changes in geographic areas. For each of these questions, the drafting group created formulas and metrics and developed data elements underlying those metrics that include premiums and policies, with and without certain coverages; non-renewals and cancellations; claims and losses; deductibles, grouped by type of deductible (e.g., flat dollar or percentage) and by peril type; and mitigation discounts. A data template was also created to request five years of data at a ZIP code level by homeowner policy type. The drafting group intends to improve upon the definitions and include examples of how to file the data under specific circumstances.

The C Committee also reported that state insurance regulators are continuing to engage with the Federal Insurance Office (FIO) of the US Treasury on how the NAIC and the FIO can collaborate to share data and lessen the burden placed on industry from having to respond to separate data calls.

The actions taken by various NAIC groups that report to the C Committee since the 2023 Summer National Meeting are summarized below.

Casualty Actuarial and Statistical (C) Task Force

The Casualty Actuarial and Statistical (C) Task Force (CASTF) sponsored a blanks proposal to modify Schedule P of the P&C annual statement blank to present 10 years of accident-year data and a "prior" row for all lines of business beginning in 2024 (Ref #2023-16BWG). The proposed revisions are intended to provide consistency with the reporting requirements of the P&C RBC formula and to allow insurers to efficiently reconcile the data reported on the Schedule P summary and exhibits.

CASTF received an update from the NAIC Rate Model Review team on its work to create a list of documentation required by the NAIC to complete a full-scope rate model review. The review team presented CASTF with an initial draft of a checklist that includes a potential list of the rate filing documentation needed from insurers before a rate review request is submitted to the NAIC and suggested that regulators evaluate the information provided by insurers and obtain any additional items on the checklist before submitting a rate review request.

Actuarial Opinion (C) Working Group

The Actuarial Opinion (C) Working Group adopted the *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year 2023* (2023 Regulatory Guidance). The 2023 Regulatory Guidance was revised to eliminate guidance on COVID-19 and to provide guidance on steps to take when a material error is identified.

The Working Group exposed revisions to the *2024 P&C Actuarial Opinion Instructions*, which would require an appointed actuary to only provide qualification documentation upon initial appointment and eliminate the requirement for an appointed actuary to provide such documentation annually thereafter.

The Working Group also exposed revisions to the *2024 Title Actuarial Opinion Instructions*, which would align these instructions with the revised content proposed for the *2024 P&C Actuarial Opinion Instructions*. The proposed revisions also clarify the definition of a qualified actuary for title insurance.

Market Regulation and Consumer Affairs

The D Committee adopted revisions the Unfair Trade Practices Act (Model #880) intended to 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 revisions also clarify that the lead generator is prohibited from engaging in unfair trade practices as set forth in Model #880.

The D Committee also adopted revisions to Chapter 23 of the *Market Regulation Handbook* to integrate guidance addressing annuity suitability based on the amendments to the Suitability in Annuity Transactions Model Regulation (Model #275) that were adopted in 2020. Model #275 requires producers to act in the best interest of consumers when making a sale or recommendation of an annuity and requires insurers to maintain a system of supervision. It also includes corrective action that may be required of the insurer, producer or agency in the event of noncompliance. The revisions include four new supplemental checklists to be used by the examiner to support the regulatory assessment of compliance with the standards of Model #275.

The D Committee updated the MCAS revision process to allow additional time for the MCAS Blanks (D) Working Group to review, discuss and consider market conduct reporting data calls and definitions for new lines of business, substantial additions or changes to existing lines of business. Drafts of MCAS revisions will be provided to the Working Group by 1 April of each year.

The actions taken by various NAIC groups that report to the D Committee since the 2023 Summer National Meeting are summarized below.

Market Conduct Annual Statement Blanks (D) Working Group

The MCAS Blanks (D) Working Group approved 31 May as the uniform MCAS filing deadline for the other health and short-term, limited duration (STLD) lines of business, which aligns with the filing deadline for health lines of business. The 31 May deadline is effective for STLD filings for the 2023 data year and for other health filings for the 2024 data year.

Financial Condition

The Financial Condition (E) Committee (E Committee) adopted the recommendation of the Mutual Recognition of Jurisdictions (E) Working Group for Bermuda, France, Germany, Ireland, Japan, Switzerland and the United Kingdom to retain their status on the NAIC List of Qualified Jurisdictions and for Bermuda, Japan and Switzerland to retain their status on the NAIC List of Reciprocal Jurisdictions for 2024. An annual due diligence review of these reciprocal jurisdictions is required because they are not subject to an in-force covered agreement with the US.

The E Committee heard oral feedback from industry stakeholders on the previously exposed draft of the *Framework for Regulation of Insurer Investments* document that provides background information on recent NAIC initiatives and ongoing projects to address gaps in the regulatory framework for insurer investments. The E Committee will begin its review and analysis of the written feedback received on specific recommendations included in the document in 2024.

The actions taken by various NAIC groups that report to the E Committee since the 2023 Summer National Meeting are summarized below.

Financial Analysis Solvency Tools (E) Working Group

The Financial Analysis Solvency Tools (E) Working Group adopted the following revisions to the *Financial Analysis Handbook*:

- Revisions to incorporate risks addressing the potential effect of climate change and energy transition on invested assets within the credit, market and liquidity risk categories for all insurers
- Revisions to provide considerations for exempting risk retention groups from the group capital calculation
- Revisions to improve efficiency in quarterly and/or annual risk assessment documentation
- Revisions to clarify the role and expectations of the financial analyst in the examination process

- Revisions to include a reference to the memorandum of understanding (MOU) template, an optional tool for sharing information with guaranty funds on troubled P&C insurance companies that are in pre-receivership situations
- Revisions to include a footnote referencing the additional guidance in the *Receiver's Handbook for Insurance Company Insolvencies* and the *Troubled Insurance Company Handbook* available for use by the crisis management group established by the group-wide supervisor, with the objective of enhancing preparedness for, and facilitating the recovery and resolution of, an IAIG
- Revisions to change two life Insurance Regulatory Information System (IRIS) ratios to conform with revisions made to the life annual statement blank for 2023 year-end reporting purposes

Financial Examiners Handbook (E) Technical Group

The Financial Examiners Handbook (E) Technical Group adopted revisions to the *Financial Condition Examiners Handbook* that include:

- Revisions to Exhibit D — Planning Meeting with the Analyst and related guidance for status reports to incorporate the role of a financial analyst in an examination and requirements for the inclusion of significant changes to the planned examination approach in examination status reports
- Revisions to update the information requested at the onset of an exam to gain an understanding of the insurance company's exposure to, and management of, climate change risks, along with updates to various repositories to incorporate climate change risks for the examiner to consider in the investment, underwriting and reinsurance activities of the insurance companies
- Revisions to incorporate additional guidance on strategic and operational risks faced by health insurers (e.g., failure to maintain adequate CMS star ratings, failure to properly identify and code member health status, failure to plan for variation in membership levels, challenges in provider contracting)

Reinsurance (E) Task Force

The Reinsurance (E) Task Force adopted revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers* to provide additional guidance on the process for passporting certified and reciprocal jurisdiction reinsurers. The Task Force also received an update from the Reinsurance FAWG on its review of foreign reinsurers for passporting. The Reinsurance FAWG has approved 70 reciprocal jurisdiction reinsurers and 42 certified reinsurers for passporting as of October 2023. The **list of passported reinsurers** is available on the NAIC website.

The Task Force submitted a referral to the P&C RBC (E) Working Group to include new disclosures for catastrophe reinsurance programs in the P&C RBC formula in response to recent catastrophe-related insolvencies and the increasing cost of catastrophe reinsurance coverage. The P&C RBC (E) Working Group exposed revisions to the P&C RBC formula in response to this referral (Ref #2023-13-CR). Comments are due by 30 January 2024.

Valuation of Securities (E) Task Force

The Valuation of Securities (E) Task Force (VOSTF) continued its work to amend the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to clarify the instructions, modify various administrative procedures and improve the compilation function of the NAIC SVO.

VOSTF exposed a revised amendment to the P&P Manual that would update the definition of an NAIC designation; consolidate the explanations and definitions of an NAIC designation currently included in separate parts of the P&P Manual into Part One; and clarify the meaning of an NAIC designation, including its use, purpose and risks addressed. The revised amendment incorporates the following actionable feedback provided by industry stakeholders on the previously exposed draft:

- Development of a concise definition of an NAIC designation addressing (1) credit quality, (2) any inconsistencies with the existing regulatory assumption that a fixed income instrument requires scheduled payments of interest and full repayment of principal on a certain date, and (3) loss given default and/or "tail" risk, where appropriate for any given investment
- Removal of all references to subscript "S" and the application of subscript "S" to securities for other than non-payment risks

VOSTF also exposed a revised amendment to the P&P Manual that would authorize the procedures for the NAIC SVO to have discretion over NAIC designations assigned through the filing-exempt process. The revised amendment incorporates actionable feedback provided by industry stakeholders on the previously exposed draft and establishes the process for the NAIC SVO to follow when challenging an NAIC designation assigned from a credit rating provider. The NAIC SVO would be required to have complete information on a security before making an assessment on an NAIC designation assigned from a credit rating provider and limit the NAIC SVO's discretion over an NAIC designation to the specific credit rating provider's rating under review. VOSTF would also be involved in the NAIC SVO's assessment process and provide transparency into the NAIC SVO's process as insurers are encouraged to have discussions with the NAIC SVO during its assessment.

VOSTF exposed an amendment to Part Three of the P&P Manual to incorporate a practical expedient to determine the issue date (i.e., date of legal closing) for private letter (PL) rating filings. The proposed amendment is intended to fill in the gap whereby the NAIC SVO staff has been unable to independently identify the issue date of a PL rated security to determine the requirement to provide a PL rating rationale report. It would allow the NAIC SVO staff to assume that, for any security subject to the PL rating guidance that was acquired on or after 1 January 2022, the issue date for such security was on or after 1 January 2022.

Comments on all exposed amendments are due by 26 January 2024.

VOSTF discussed the status of the collateralized loan obligation (CLO) modeling methodology 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. The CLO Ad Hoc Group continued its work to illustrate the scenarios and probabilities under the CLO modeling methodology, proposing 10 scenarios and the cash flow results for each scenario. Feedback has been requested from industry stakeholders on the probabilities for each of the proposed scenarios and the related cash flow results.

VOSTF also received notification from the NAIC SVO that it will defer the deactivation of PL ratings that missed a required PL rating rationale report until year-end 2024. Insurers have been requested to submit those reports to rely on the related NAIC designation assigned to the security.

International Insurance Relations

The International Insurance Relations (G) Committee (G Committee) received an update on the following activities of the International Association of Insurance Supervisors (IAIS):

- In October 2023, the IAIS began its assessment of whether the Aggregation Method (AM) developed for the US system of state-based insurance regulation provides comparable outcomes to the Insurance Capital Standard (ICS). A document describing the provisional AM for use in the comparability assessment was released in September 2023 and is **available on the NAIC website**. The final decision on comparability will be made in the fourth quarter of 2024.
- The IAIS published a report on the role of insurance supervisors in addressing natural catastrophe protection gaps and released draft application papers on climate risk market conduct issues and scenario analysis in the insurance sector for public consultation.
- Two IAIS working groups are developing DE&I application papers, which are expected to be released for public consultation in the first quarter of 2024.

The G Committee approved the comments that the NAIC submitted to the IAIS on its proposed revisions to the following Insurance Core Principles (ICPs):

- ICP 14, *Valuation*, which covers supervisory requirements for the valuation of assets and liabilities for solvency purposes
- ICP 17, *Capital Adequacy*, which addresses regulatory capital resources and requirements

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

Stay tuned

The NAIC's 2024 Spring National Meeting is scheduled for 15–18 March in Phoenix. A **schedule of interim NAIC group meetings** is available on the NAIC website.

Appendix A — Statutory Accounting Principles Working Group

This chart summarizes actions taken by SAPWG since the 2023 Summer National Meeting. Comments on exposed items are due by 9 February 2024, 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 SSAP[1]			
SSAP No. 26R and SSAP No. 43R — Bond Project **(Ref #2019-21)**	Re-exposed to 22 January 2024	Re-exposed revisions to SSAP No. 21R to incorporate a new measurement method for residual interests. The proposed revisions would require the use of an "effective yield with a cap" method with the ability to elect a practical expedient for the use of the more conservative "cost recovery" method, with limitations on the ability of the reporting entity to change from the cost recovery method once it is elected. The proposed revisions also specify that temporary reductions in fair value are to be reported as an unrealized loss; provide guidance for the accounting and reporting of investments that no longer meet the definition of a residual interest; and update the other-than-temporary impairment guidance for investments in residual interests for consistency with the impairment guidance in SSAP No. 43R.	TBD
	Further analysis needed	Directed the NAIC staff to continue updating the issue paper detailing the historical discussions and decisions reached on the guidance developed for the bond project.	
New Market Tax Credits **(Ref #2022-14)**	Re-exposed	Re-exposed revisions to SSAP No. 93 and SSAP No. 94R that would expand the scope of the existing statutory accounting guidance for tax credits to address the accounting treatment to be applied to all federal and state tax credit programs and tax credit investment structures. The proposed revisions to SSAP No. 93 include guidance to address the recognition and impairment of variable tax credits allocated to the reporting entity, while the proposed revisions to SSAP No. 94R would exclude awarded tax credits from its scope. Corresponding revisions to clarify the scope of SSAP No. 34 and SSAP No. 48 regarding tax credits were also exposed. SAPWG also requested feedback from regulators and industry stakeholders on updates to the annual statement and RBC reporting categories for tax credit investments, which currently only address low-income housing tax credit property investments.	TBD
SSAP No. 7 — Interest Maintenance Reserve **(Ref #2022-19)**	Deferred*	Previously directed the NAIC staff to consider the following topics as part of a long-term project to develop statutory accounting guidance for the recognition of net negative IMR as an admitted asset: ▸ 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 noneffective 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 address the reinvestment of proceeds from sales of bonds in other bonds ▸ Development of a disclosure requirement for quarterly and annual reporting The adoption of INT 23-01: *Net Negative (Disallowed) Interest Maintenance Reserve* in August 2023 prescribes a limited-time, optional exception to the statutory accounting guidance in SSAP No. 7 and the annual statement instructions for the disallowance of net negative IMR. The interpretive guidance will be automatically nullified on 1 January 2026.	TBD
SSAP No. 7 — AVR and IMR **(Ref #2023-14)**	Further analysis needed	Directed the NAIC staff to establish a long-term project to incorporate accounting guidance for the AVR and IMR from the annual statement instructions into SSAP No. 7 with any revisions from the annual statement instructions identified as part of this project to be captured as a new SAP concept with a corresponding issue paper to detail the revisions.	TBD

1 The terms "New SSAP or New SAP Concepts in an Existing SSAP" and "SAP Clarification" reference the different types of revisions to statutory accounting guidance. The terms used in previously adopted SSAPs, issue papers and agenda items (i.e., "substantive" and "nonsubstantive") 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 2023 Summer National Meeting.

Topic/issue	Status	Discussion	Effective date
IMR/AVR Specific Allocations **(Ref #2023-15)**	Adopted	Adopted revisions to the annual statement instructions to remove guidance that permits the specific allocation of non-interest-related losses to the IMR. The revisions specify the criteria that would require realized gains and losses from mortgage loans to be included in the AVR and the conditions in which realized gains and losses from debt securities where an acute credit event (i.e., a known event that significantly negatively affects the price of a security) occurred between the date of purchase and date of sale would be excluded from the IMR. The revisions also clarify the intent of the guidance whereby non-interest-related losses are to be allocated to the AVR.	1 January 2024
Short-Term Investments **(Ref #2023-17)**	Adopted BWG proposal	Adopted revisions to SSAP No. 2R to further restrict the investments that are permitted for reporting as a cash equivalent or short-term investment. The revisions are intended to capture certain investment types (e.g., collateral and non-collateral loans, surplus notes) on Schedule BA and to eliminate the ability to design investments specifically to qualify for short-term reporting. The guidance in SSAP No. 2R regarding related party investments and certificates of deposit has not been revised. Directed the NAIC staff to sponsor a corresponding blanks proposal to revise the designated reporting lines for these investments and draft an issue paper detailing the historical discussions and decisions reached on the revised guidance.	1 January 2025
SAP Clarification[2]			
SSAP No. 21R — Collateral for Loans **(Ref #2022-11)**	Adopted	Adopted 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 revisions specify that qualifying investments pledged as collateral that would be in the scope of SSAP No. 48 or SSAP No. 97, if held directly, require an audit. However, the fair value of the qualifying investment would be used to measure the adequacy of the pledged collateral, with any amount in excess of the permitted relationship of fair value of the pledged collateral to the collateral loan being recorded as a nonadmitted asset. Conforming revisions to SSAP No. 20 were also adopted to provide consistency in the statutory accounting guidance for collateral loans.	Immediately
INT 03-02: **Modification to an Existing Intercompany Pooling Arrangement** **(Ref #2022-12)**	Further analysis needed	Directed the NAIC staff to continue to work with industry stakeholders on the development of proposed guidance to address the recognition of assets transferred between pool participants when an existing intercompany pooling arrangement is modified.	TBD
Review Annual Statement Instructions for Accounting Guidance **(Ref #2023-01)**	Deferred*	Previously directed the NAIC staff to review the annual 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).	TBD
New C2 Mortality Risk Note **(Ref #2023-03)**	Disposed	Disposed of the proposed revisions to statutory accounting guidance that would have required disclosure of information to support the calculation of the net amount at risk for the categories included in the C2 mortality risk component of the Life RBC formula, noting that a replacement proposal for a new general interrogatory has been exposed by BWG (Ref #2023-15BWG).	N/A
Schedule BA Reporting Categories **(Ref #2023-16)**	Re-exposed to 22 January 2024	Re-exposed revisions to Schedule BA to incorporate more detailed definitions for investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets.	TBD
ASU 2016-19, Technical Corrections and Improvements **(Ref #2023-18)**	Adopted	Adopted revisions to SSAP No. 5R, SSAP No. 92, SSAP No. 102 and SSAP No. 103R to adopt the US GAAP guidance in ASU 2016-19 with modification for consistency with the language in the applicable statutory accounting guidance. Revisions to SSAP No. 92 were also adopted to change the term "insurance contracts" to "insurance annuities" for consistency with SSAP No. 102 in referencing this term.	Immediately
Removal of Transition Guidance from SSAP No. 92 and SSAP No. 102 **(Ref #2023-21)**	Adopted	Adopted revisions to SSAP No. 92 and SSAP No. 102 to remove the transition guidance that was included in the initial adoption of these SSAPs as it is past the 10-year effective period for transition.	Immediately
Actuarial Guideline 51 and Appendix A-010 Interaction **(Ref #2023-22)**	Adopted	Adopted revisions to SSAP No. 54R to clarify that gross premium valuation (under Appendix A-010) and cash flow testing (under AG 51) are both required, if indicated, to determine when additional reserves for LTC insurance blocks of business are necessary.	Immediately
Residuals in Preferred Stock and Common Stock **(Ref #2023-23)**	Adopted	Adopted revisions to SSAP No. 30R and SSAP No. 32R to clarify that investments that are in-substance residual interests are to be reported on the dedicated reporting line for residual interests on Schedule BA.	31 December 2023

Topic/issue	Status	Discussion	Effective date
Collateral Loan Reporting **(Ref #2023-28)**	Exposed to 22 January 2024 BWG proposal	Exposed revisions to SSAP No. 21R to require collateral loans to be reported based on the type of qualifying investment that secures the loan. The proposed revisions would also require disclosure of the total amount of collateral loans and the amount admitted and nonadmitted by qualifying investment type. Directed the NAIC staff to sponsor a corresponding blanks proposal to revise the reporting lines on Schedule BA to separate collateral loans by the type of collateral that secures the loan and incorporate a new disclosure for aggregate collateral loans by type of qualifying investment collateral.	TBD
IMR/AVR Preferred Stock **(Ref #2023-29)**	Exposed	Exposed revisions to the annual statement instructions to clarify that realized gains and losses on perpetual preferred stock, regardless of NAIC designation, would be excluded from the IMR. New guidance has been proposed that corresponds to the statutory accounting and reporting differences for redeemable and perpetual preferred stock, with all perpetual preferred stock, including SVO-identified preferred stock exchange-traded funds, being treated as an equity instrument following the same concepts that exist for the reporting of realized gains and losses from common stock in the AVR. Modifications to the IMR/AVR reporting guidance for redeemable preferred stock have not been proposed.	TBD
Admissibility Requirements of Investments in Downstream Holding Companies **(Ref #2023-30)**	Exposed	Exposed revisions to SSAP No. 97 to clarify and align the existing guidance on the application of the "look-through" methodology that allows for the admittance of audited investments in subsidiary, controlled or affiliated entities owned by an unaudited downstream noninsurance holding company.	TBD
Model 630 Mortgage Guaranty Insurance **(Ref #2023-31)**	Exposed	Exposed an intent to review the amendments to the Mortgage Guaranty Insurance Model Act (Model #630) for incorporation into SSAP No. 58, *Mortgage Guaranty Insurance*, and Appendix A-630, *Mortgage Guaranty Insurance*, as applicable. Feedback has been requested from regulators and industry stakeholders on the effective date for the potential revisions to SSAP No. 58 and Appendix A-630.	TBD
INT 23-04: Scottish Re Life Reinsurance Liquidation Questions	Adopted	Adopted interpretive guidance to prescribe the accounting and reporting requirements for reporting entities that have a reinsurance recoverable from Scottish Re, a US-domiciled life reinsurance company that is in liquidation. The interpretation requires insurance companies to follow the existing statutory accounting guidance for life reinsurance in SSAP No. 61R, with any unpaid claims or other amounts that are either in dispute or not collateralized by assets held in a trust that complies with the requirements of Appendix A-785 to be nonadmitted.	31 December 2023
Bond Definition — Debt Securities Issued by Funds **(Ref #2024-01)**	Exposed	Exposed revisions to the version of SSAP No. 26R, *Bonds*, that will incorporate the principles-based bond definition to clarify that debt securities issued by funds that represent operating entities are to be accounted for and reported as issuer credit obligations. These revisions would be in effect pursuant to the effective date of the revised SSAP No. 26R guidance, which is 1 January 2025.	TBD

US GAAP guidance rejected or exposed for rejection/disposal

Rejected as not applicable to statutory accounting:

- ASU 2018-09, *Codification Improvements* (Ref #2023-19)
- ASU 2020-10, *Codification Improvements* (Ref #2023-20)
- ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*; ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments — Credit Losses*; ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*; ASU 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) — Effective Date*; ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments — Credit Losses*; and ASU 2020-03, *Codification Improvements to Financial Instruments* (Ref #2023-24)

Exposed to reject as not applicable to statutory accounting:

- ASU 2023-03, *Presentation of Financial Statements (Topic 205), Income Statement — Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation — Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 — General Revision of Regulation S-X: Income or Loss Applicable to Common Stock* (Ref #2023-25)
- ASU 2023-04, *Liabilities (Topic 405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121* (Ref #2023-27)

SAPWG agenda items from prior years with an extended period of no action taken
Substantive listing: - 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) - SSAP No. 107 — State ACA Reinsurance Programs (Ref #2021-09)

Appendix B — Blanks Working Group

This chart summarizes actions taken by BWG since the 2023 Summer National Meeting. Comments on exposed items are due by 22 January 2024. **More information on BWG exposed items** is available on the NAIC website.

Adopted items	Statement type(s)[1]	Filing(s)	Effective date
2023-06BWG MOD: Modifies Schedule D, Part 1 by splitting it into two sections: one for issuer credit obligations and the other for asset-backed securities. Other parts of the annual statement blank that reference this information will also be updated in response to actions taken by SAPWG relating to the bond project (SAPWG #2019-21).	L/F, P/C, H, T, SA	Annual and Quarterly	First quarter 2025
2023-07BWG MOD: Updates the code column and deletes the Legal Entity Identifier column for various investment schedules (i.e., Schedules A, B, BA, D Part 2, D Part 6 and E Part 1), with revisions to the code column, code characteristics and related instructions to address restricted assets, foreign securities and situations when an asset is bifurcated between the insulated and non-insulated separate account filing, for consistency with the updates to Schedule D, Part 1.	L/F, P/C, H, T, SA	Annual and Quarterly	First quarter 2025
Re-exposed items	**Statement type(s)[1]**	**Filing(s)**	**Proposed effective date**
2023-05BWG MOD: 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 from data collection, and the interrogatory question regarding tail policies.	P/C	Annual	Annual 2024
2023-12BWG MOD: Modifies Schedule BA to provide categories for debt securities that do not qualify as bonds under SSAP No. 26R or SSAP No. 43R and are captured in scope of SSAP No. 21R and clarify the reporting of investments on Schedule BA in response to actions taken by SAPWG relating to the bond project (SAPWG #2019-21).	L/F, P/C, H, T, SA	Annual and Quarterly	First quarter 2025
Exposed Items	**Statement type(s)[1]**	**Filing(s)**	**Proposed effective date**
2023-13BWG: Adds new instructions and an illustration to Note 5 – Investments for the reporting of net negative IMR and a new general interrogatory for a company attestation as it relates to the admittance of net negative IMR in response to the adoption of INT 23-01 by SAPWG.	L/F, P/C, H, T	Annual and Quarterly	Annual 2024
2023-14BWG: Clarifies the calculation of the premium and reserve ratios in the Health Statement Test and provides illustrative examples for when the test is passed or failed.	L/F, P/C, H	Annual	Annual 2024
2023-15BWG: Adds a new general interrogatory to provide the net amounts at risk for certain categories that are used in the C2 mortality risk component in the Life RBC formula. This agenda item replaces #2023-09BWG, which was withdrawn.	L/F	Annual	Annual 2024
2023-16BWG: Modifies Schedule P to present 10 years of accident-year data and a "prior" row for all lines of business.	P/C	Annual	Annual 2024

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

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 2023 Summer National Meeting.

Topic/issue	NAIC group	Status	Discussion	Effective date
All RBC				
Market Value Excess Affiliated Stocks (Ref #2023-12-CA)	Capital Adequacy Task Force	Adopted	Adopted revisions to clarify that both common and preferred stocks are included in the calculation of Market Value in Excess of Stocks for affiliated investments on pages XR010 and XR024 of the Health RBC formula and pages PR007 and PR031 of the P&C RBC formula.	2024
Life RBC				
Comfort Trusts (Ref #2023-08-L)	Life RBC Working Group	Further analysis needed*	Discussed the feedback received on proposed revisions to the instructions for LR016 in the Life RBC formula 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).	TBD
Health RBC				
XR014 Fee-for-Service and Other Risk Revenue Medicare & Medicaid (Ref #2023-11-H)	Capital Adequacy Task Force	Adopted	Adopted revisions to include and provide consistent treatment of Medicare and Medicaid amounts throughout Column (1), Line (4) — Other Health Risk Revenue and Line (10) — Fee for Service Offset on pages XR013 and XR014 in the Health RBC formula.	2024
P&C RBC				
Disclosures for Catastrophe Reinsurance Program (Ref #2023-13-CR)	Catastrophe Risk Subgroup	Comments due by 30 January 2024	Exposed revisions to include a series of questions in the catastrophe risk interrogatories on PR027 of the P&C RBC formula to collect additional information from insurers on the structure of their catastrophe reinsurance program.	2024
Pet Insurance (Ref #2023-14-P)	P&C RBC Working Group	Comments due by 30 January 2024	Exposed revisions to remove pet insurance from the Inland Marine line of business and add it as a new line of business on pages PR035, PR038, PR123, PR223, PR307, PR700 and PR701 of the P&C RBC formula for consistency with the line of business categories in the P&C annual statement blank. However, the charges for the new Pet Insurance line of business in the R4 and R5 components of the P&C RBC formula will remain the same as the charges for the Inland Marine line of business.	2024
Convective Storm for Informational Purposes Only Structure (Ref #2023-15-CR)	Catastrophe Risk Subgroup	Comments due by 30 January 2024	Exposed revisions to include severe convective storm as one of the catastrophe perils in the Rcat component of the P&C RBC formula for informational purposes only.	2024
2023 Catastrophe Events Lists (Ref #2023-16-CR)	Capital Adequacy Task Force	Adopted	Adopted the 2023 US and non-US catastrophe events lists that identify catastrophic events occurring through 31 October 2023. New events that occur after the development of these lists will be separately identified and exposed for inclusion in updated lists applicable to 2023 year-end reporting.	2023

* No action was taken on this topic/issue since the 2023 Summer National Meeting.