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CLIENT ALERT

NAIC Report: 2025 Summer National Meeting

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The 2025 Summer National Meeting (the "Summer National Meeting") of the National Association of Insurance Commissioners (the "NAIC") was held in Minneapolis, Minnesota from August 10 to August 13, 2025. In remarks at the meeting's opening session, NAIC President and North Dakota Insurance Commissioner Jon Godfread highlighted the work of the Risk-Based Capital Model Governance (EX) Task Force ("RBC (EX) Task Force") as one of the NAIC's most significant initiatives of the year, and discussed its goal to modernize RBC in light of a growing interest in alternative assets that presents opportunity for insurers but "raises the stakes" for how regulators oversee capital strength.

Commissioner Godfread also discussed Actuarial Guideline LV – Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties ("AG 55"), which Executive and Plenary adopted at the Summer National Meeting, as a critical component of the life insurance regulatory framework to address the movement of assets in offshore reinsurance transactions.

Other highlights from the Summer National Meeting include:

- The NAIC is taking steps to implement its *Framework for Regulation of Insurer Investments—A Holistic Review* (the "Investment Framework"), including by adopting a proposal to rename and restructure the work of the Valuation of Securities (E) Task Force ("VOSTF") and commencing work on a due diligence framework for the use of credit rating providers ("CRPs") in evaluating investment risk.

- The Statutory Accounting Principles (E) Working Group ("SAPWG") extended its interim IMR rule, *INT 23-01 Net Negative (Disallowed) Interest Maintenance Reserve*, until December 31, 2026.

- The Big Data and Artificial Intelligence (H) Working Group continues to consider the appropriate regulatory framework for governing the use of AI by insurers.

- The Financial Condition (E) Committee (the "(E) Committee") voted to form a Reciprocal Exchanges (E) Working Group to modify the HCA Models to clarify that fees charged to reciprocals by their attorneys-in-fact are subject to approval under the "fair and reasonable" standard.

The report below summarizes key activities at the Summer National Meeting, and certain interim developments leading up to the Summer National Meeting, that may be of interest to our clients in the insurance industry.

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Glossary

"AI" means artificial intelligence.

"AI Model Bulletin" means the NAIC's Model Bulletin on the Use of Artificial Intelligence Systems by Insurers.

"Certified Reinsurer" means a reinsurer that is domiciled in a "Qualified Jurisdiction" (meaning a non-U.S. jurisdiction listed on the NAIC list of "Qualified Jurisdictions" established pursuant to the NAIC Process for Evaluating Qualified and Reciprocal Jurisdictions) that is eligible for reduced reinsurance collateral pursuant to the 2019 amendments to the Credit for Reinsurance Models.

"CLO" means collateralized loan obligation.

"Credit for Reinsurance Models" means the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786).

"ETF" means exchange-traded funds.

"Executive and Plenary" means all of the U.S. state insurance commissioners in plenary session along with the NAIC's Executive (EX) Committee.

"HCA Models" means the NAIC Insurance Holding Company System Regulatory Act (#440) and the Insurance Holding Company System Model Regulation (#450)

"IAIS" means the International Association of Insurance Supervisors.

"IMR" means interest maintenance reserve.

"ORSA" means Own Risk and Solvency Assessment.

"ORSA Model Act" means the Risk Management and Own Risk and Solvency Model Act (#505)

"P&P Manual" means the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

"RBC" means risk-based capital.

"Reciprocal Jurisdiction Reinsurer" means a reinsurer that is domiciled in a "Reciprocal Jurisdiction" (meaning a non-U.S. jurisdiction listed on the NAIC list of "Reciprocal Jurisdictions" established pursuant to the NAIC Process for Evaluating Qualified and Reciprocal Jurisdictions) that is eligible to qualify for zero reinsurance collateral pursuant to the 2019 amendments to the Credit for Reinsurance Models.

"SEC" means the U.S. Securities and Exchange Commission.

"SSAP" means Statement of Statutory Accounting Principles.

"SVO" means the NAIC's Securities Valuation Office.

I. Financial Condition Regulation

A. Reinsurance Asset Adequacy Testing: NAIC Adopts AG 55

The NAIC's Executive and Plenary adopted AG 55 on August 13, 2025.

Insurance regulators have been evaluating the risk that domestic life insurers may enter into reinsurance transactions with offshore reinsurers that materially lower the total asset requirement (the sum of reserves and required capital) supporting asset-intensive business (i.e., long duration business that relies substantially on asset returns). To address this, the Life Actuarial (A) Task Force ("LATF") has worked over the past year to develop AG 55, which enhances the asset adequacy testing ("AAT") methodology for assets supporting life and annuity reinsurance transactions. LATF developed AG 55 with three main goals in mind:

1. to provide regulators with the information needed to review the solvency of U.S. life insurers;
2. to avoid conflict with the covered agreements, including with respect to Reciprocal Jurisdictions; and
3. to prevent duplication of work for reporting companies where there is immaterial risk.

The objective of AG 55 is to enhance reserve adequacy requirements for life insurance companies by requiring that AAT use cash-flow testing methodology that evaluates ceded reinsurance as an integral component of asset-intensive business.

1. Scope of AG 55

In developing AG 55, LATF focused on limiting its scope to the most impactful asset-intensive transactions. Accordingly, the cash-flow testing ("CFT") requirements under AG 55 apply to all life insurers with large, impactful asset-intensive reinsurance transactions that either meet certain size-based thresholds or result in significant reinsurance collectability risk (as determined by the cedent's appointed actuary), with a focus on affiliated treaties with effective dates falling within a certain time period.

AG 55 applies to all life insurers with asset-intensive transactions ceded to entities that are not required to submit a Valuation Manual-30 memorandum ("VM-30") to U.S. state regulators in transactions that either (i) are established after January 1, 2016 and exceed certain reserve amounts or (ii) result in significant reinsurance collectability risk, regardless of date. Ceding insurers should be aware that the AG 55 requirements may apply to a broad reach of in-force reinsurance agreements and should, accordingly, review any in-force treaties that could be implicated by the new AAT requirements.

2. Exemptions from Cash-Flow Testing

For transactions established January 1, 2016 through December 31, 2019 that are otherwise within the scope of AG 55, the ceding company's domestic regulator may grant an exemption from CFT for third-party reinsurance transactions if the following criteria are met: (i) the assuming company is not an affiliate or related party of the cedant and complies with threshold rules to show it is not significantly controlled by the cedant; (ii) risks that are identified are non-substantial such that the domestic regulator is able to reasonably conclude that if cash-flow testing was performed under AG 55, it would not result in any unmitigated cash flow deficiencies; and (iii) either an attribution analysis of any reserve decrease, or a supporting analysis explaining how the above risks are immaterial, is provided. Ceding insurers may also request to be exempt from the AG 55 CFT requirements if the insurance policies that are the subject of the reinsurance transaction are primarily comprised of business issued before 2010.

When determining if an insurer is exempted from CFT in accordance with AG 55, the domestic regulator must notify the NAIC's Valuation Analysis (E) Working Group ("VAWG") of any exemption request received and include supporting documentation stating that net risks are non-substantial and that the cedant does not exceed the thresholds for control of the assuming insurer.

3. Cash-Flow Testing

Generally, cash-flow testing the "Post-Reinsurance Reserve"—i.e., following a reinsurance transaction, the amount of reserves held by the ceding company, *plus* the amount of reserves held by the assuming company, *minus* the amount of reserves held by the assuming company supported with "Guideline Excluded Assets" (as set forth in AG 55, including non-admitted assets, letters of credit, credit linked notes, and others)—is most appropriate when asset intensive transactions pose higher risk. Less rigorous analysis may be appropriate if there is lower risk.

AG 55 is not prescriptive as to when additional reserves should be held, and leaves this determination to the appointed actuary. In forming its opinion, the appointed actuary is guided to consider the analysis required by AG 55, along with other relevant information. The appointed actuary should reflect in its actuarial opinion if it believes that additional reserves are required.

AG 55 also details certain CFT expectations, including the amount of assets inserted into the CFT model at the beginning of the projection, and projections using interest rate scenarios, such as the "New York 7," that should be performed with explanations of how to analyze and document key risks. AG 55 provides instruction for attribution analysis (which is preferred, but not mandatory if CFT is already being performed in accordance with AG 55), and considerations for aggregation, requiring separate CFT by counterparty and by significant product lines (with aggregation permitted for treaties within a counterparty).

4. "Similar Memorandum" Alternative

To help minimize duplicative work by reporting companies, AG 55 allows an insurer to submit a "Similar Memorandum" as an appropriate *alternative* to AG 55 CFT documentation in some instances. An insurer may be permitted to submit an actuarial report (that is not a VM-30 submission to a state), and any supplemental materials containing asset descriptions, assumption documentation, methodology, rationale for analysis of factors such as degree of rigor used in the analysis and materiality, criteria used to determine asset adequacy, and other elements described in the guideline. The Similar Memorandum may replace CFT documentation if (i) it is easily readable for review of the risks and analysis related to the scope of AG 55, and (ii) the cedant's domestic regulator finds, with VAWG's assistance, that it is able to determine whether the assets are adequate to support the liabilities under moderately adverse conditions.

5. AG 55 as "Disclosure-Only"

AG 55 is "disclosure-only," meaning that while the ceding insurer must disclose the results of its asset adequacy analysis to the regulator, there are no prescriptive requirements within AG 55 to post additional reserves to support ceded business, any assessment of which would fall within the discretion of the ceding insurer's appointed actuary.

It is important to note that following such disclosure, domestic regulators will continue to have the right to require additional reserves to be posted, or require CFT for individual treaties or counterparties as the regulator deems necessary to understand and evaluate risk. Therefore, while additional reserves may not be explicitly required under AG 55, in reality, if deemed insufficient by the appointed actuary, it is likely that additional reserves will be required to be posted at the direction of the regulator, imposing a burden on offshore reinsurers that may become obligated to hold greater reserves to support ceded business.

6. Effective Date of AG 55

AG 55 will be effective for asset adequacy analysis of the reserves reported in the December 31, 2025 annual statement and all subsequent annual statements. The first reports will be due from insurers with in-scope transactions by April 1, 2026. After reviewing the first year of disclosures, the NAIC will consider the appropriateness of the "disclosure-only" approach.

7. NAIC Continues to Focus on Offshore Life Reinsurance Matters

Outside of the adoption from AG 55, the NAIC is continuing to consider topics related to offshore reinsurance arrangements. For example, the Macroprudential (E) Working Group is refining its reinsurance comparison worksheet (currently available on the working group's website **here**) and holding regulator-only discussions on cross-border reinsurance. The Reinsurance (E) Task Force (the "Reinsurance Task Force") also continues to explore and address regulator concerns with various offshore life reinsurance topics, and VAWG is in its third year of *Actuarial Guideline LIII* reviews, including with a focus on any impact to covered agreements.

B. Reinsurance Collateral Reduction

The Reinsurance Financial Analysis (E) Working Group ("ReFAWG") continues to assist states with reviewing reinsurance collateral reduction applications to determine whether an applicant meets the requirements to be recognized as a Certified Reinsurer and/or a Reciprocal Jurisdiction Reinsurer. As of August 11, 2025, ReFAWG had approved 101 Reciprocal Jurisdiction Reinsurers and 42 Certified Reinsurers and 49 states had "passported" at least one Reciprocal Jurisdiction Reinsurer (i.e., through the process giving states discretion to defer to the collateral reduction status of a reinsurer in another state). Although not required by law, the Reinsurance Task Force continues to recommend submission of reinsurance collateral reduction applications to ReFAWG to ensure a uniform review process. The NAIC's complete list of Certified and Reciprocal Jurisdiction Reinsurers is available **here**.

C. RBC (EX) Task Force Considers Input on Principles for RBC Governance Framework

As previously reported **here**, the NAIC formed the RBC (EX) Task Force earlier this year to develop a set of guiding principles ("RBC Principles") that will provide a "strategic foundation" for future revisions to the RBC framework. On July 3, 2025, the task force exposed for comment a memorandum (currently available **here**) requesting feedback on draft RBC Principles that cover six topics: (i) appropriate RBC uses; (ii) objectivity of RBC charges; (iii) consistency with statutory accounting; (iv) evaluation of emerging risks; (v) changes to RBC calculations and the goal of "equal capital for equal risk"; and (vi) governance standards for RBC calculations.

The memorandum also requests input on technical matters pertaining to the RBC formula, such as the data and analysis needed to support setting capital factors, as well as broader considerations, such as how to treat emerging risks and new asset types with no existing capital framework.

The NAIC hired Bridgeway Analytics to gather feedback on the draft RBC Principles and assist on this work. At the Summer National Meeting, Bridgeway Analytics noted that 60% of commenters, including both regulators and industry, objected to the draft RBC Principles' reference to "secondary uses" of RBC. Specifically, the draft states that RBC calculations "should acknowledge their impact on product availability" and are "a component of assessing capital adequacy for insurance groups." Some interested parties argued that RBC should be used strictly as a regulatory tool for identifying weakly capitalized insurers, and not considered as a proxy for product availability or group-wide capital.

The task force noted that the RBC Principles are "very much in draft form" and will be amended in response to the interested party feedback, with a goal of adoption by year-end 2025. The task force intends for the RBC Principles to be part of an overall RBC governance framework with quantitative guidelines for RBC calculations and model governance standards to provide a process for adjustments to RBC, along with case studies for additional guidance.

The task force is also charged with completing "a comprehensive gap analysis and consistency assessment to identify and inventory gaps" in the RBC framework. An initial gap analysis focusing on life RBC investments, and a

broader plan for other components of RBC (including property & casualty and health), are also targeted for completion by year-end 2025.

D. Insurer Investments

1. Investment Framework Updates

a. NAIC Creates New Investment-Focused Task Force and Working Groups

In August 2023, the (E) Committee exposed the Investment Framework (currently available **here**), highlighting areas where the insurance regulatory framework can be enhanced to modernize oversight of insurers' investments. In connection with ongoing work on the Investment Framework, on which we previously reported in more detail **here**, on July 28, 2025 the (E) Committee adopted a **proposal** to rename VOSTF as the "**Invested Assets (E) Task Force**." The renamed Invested Assets (E) Task Force will be comprised of insurance commissioners, focus on understanding investment products and risks they may pose to insurers, and oversee three new working groups staffed with deputy-level financial, actuarial and investment regulatory experts:

(i) The **Investment Analysis (E) Working Group** is "intended to be the primary group under which modernized investment services for the U.S. system are achieved." It will meet mainly in regulator-only sessions to monitor risks associated with all types of investment assets and oversee improvements to NAIC investment databases and systems.

(ii) The **Securities Valuation Office and Structured Securities (E) Working Group** will be similar to the current VOSTF and will make recommendations regarding the scope of securities to be filed with the SVO and/or modeled by the Structured Securities Group, and oversee private letter rating submission and review processes.

(iii) The **Credit Rating Provider (E) Working Group** will implement the CRP due diligence framework, discussed directly below.

Interested party feedback generally supported these changes as representing an improved approach to regulatory oversight of investments, while also calling, however, for additional commitments around transparency in the new task force's operations.

The above changes will become effective January 1, 2026.

b. Development of CRP Due Diligence Framework Underway

The NAIC has hired PwC to design and implement a due diligence framework for the use of CRPs in evaluating investment risk. The project is intended to support the Investment Framework's goal of reducing or eliminating the SVO's "blind reliance" on CRPs for assigning NAIC Designations to filing-exempt securities. PwC will also work with

the NAIC to implement the 2024 amendment to the P&P Manual that gives SVO discretion to challenge CRP ratings in the filing-exempt process, as described **here**. NAIC staff reported that the framework may address both qualifications for CRPs and quantitative requirements related to their methods.

2. Work Continues on RBC Treatment of CLOs and Other Structured Securities

VOSTF has proposed to delay by one year the deadline for finalizing an NAIC methodology to financially model insurers' CLO investments. Pursuant to a 2023 amendment to the P&P Manual (described in detail **here**) the new methodology is currently required to be in place by year-end 2025. While the group developing the methodology reported to VOSTF that it is "operationally and technically" ready to meet that deadline, VOSTF proposed the delay to allow for coordination with concurrent projects, namely, (i) efforts to address long-term RBC treatment of CLOs and other asset-backed securities at the Risk-Based Capital Investment Risk and Evaluation ("E") Working Group ("RBCIRE"); and (ii) the RBC (EX) Task Force's work to develop RBC Principles and identify gaps in the RBC framework, discussed above. NAIC staff will draft a P&P Manual amendment to effectuate the extension until year-end 2026.

RBCIRE, which did not meet at the Summer National Meeting, will meet on September 8, 2025 to hear an update from the American Academy of Actuaries about its ongoing analysis of RBC treatment of CLOs.

3. Other RBC Matters

a. Capital Adequacy (E) Task Force Aims to Finalize RBC Preamble Revisions on Appropriate Uses of RBC

The Capital Adequacy (E) Task Force continues to consider proposed revisions to the preamble to the RBC blanks to clarify the purposes of RBC (agenda item #2024-16-CA). As currently drafted, the revisions emphasize that RBC should be limited to identifying potentially weakly capitalized companies to facilitate regulatory action and oversight, and that other uses of RBC are inappropriate (e.g., to compare or rank insurers). At the Summer National Meeting, the task force noted that there is not yet a consensus on the proposal since certain stakeholders see value in broader uses of RBC. The task force will continue to accept interested party feedback and plans to schedule a meeting in October 2025 to finalize the preamble revisions.

b. Proposal on RBC Treatment for Bond Funds Exposed for Comment

In response to an interested party proposal that SEC-registered bond mutual funds should receive similar RBC treatment to bond ETFs and private bond funds that qualify for a bond RBC charge determined using the SVO's "weighted average rating factor" methodology, on June 23, 2025, RBCIRE exposed for comment a proposal to align the bond fund charges in the life RBC formula (Proposal 2025-12-IRE). Currently, these mutual funds receive a 30% equity RBC charge, whereas the proposed methodology would put them on a similar RBC footing to analogous

ETFs and private bond funds. Concurrent with the exposure, RBCIRE referred the proposal to the relevant working groups to consider adapting for the property and casualty and health RBC formulas.

4. New Parameters for Private Rating Letter Rationale Reports

As we reported **here**, insurance companies seeking filing exemption for privately rated securities are required to file a private rating letter rationale report with the SVO. At the Summer National Meeting, VOSTF adopted two P&P Manual amendments that provide the following, additional parameters for such reports:

- A grace period of 90 days from any annual rating update or any rating change for a new or updated rationale report to be filed. If the report is not filed within that time, the security would be ineligible for filing exemption until the SVO receives the report.
- A requirement that the report content “shall be no less comprehensive” than a report for a similar publicly rated security and shall “always include sufficient analytical content to enable an independent party to form a reasonable opinion of the basis for the CRP’s assessment of investment risk.” The SVO has received some rationale reports that do not meet this standard and believes this clarification is needed. Before adoption, the amendment was revised to allow filers to cure reports deemed analytically deficient.

VOSTF also exposed for comment until September 12, 2025 a P&P Manual amendment providing a 30-day grace period after a CRP renews a private letter rating for insurers to provide an annual rating update to the SVO. VOSTF members agreed on this grace period at the Fall 2024 NAIC meeting, and have now formally proposed it for inclusion in the P&P Manual.

E. Statutory Accounting Updates

1. Interest Maintenance Reserve

As we reported **here** after the 2023 Fall National Meeting, in July 2023, SAPWG adopted *INT 23-01T Net Negative (Disallowed) Interest Maintenance Reserve* (“INT 23-01”) as a limited time, optional interpretation of statutory accounting principles to permit reporting entities to admit net negative IMR of up to 10% of their adjusted general account capital and surplus, subject to certain restrictions as well as reporting and disclosure requirements. At that time, with INT 23-01 in place as an interim solution, SAPWG also established a broader project dedicated to developing a long-term solution for the treatment of net negative IMR, by incorporating accounting guidance for the asset valuation reserve (“AVR”) and IMR in *SSAP No. 7–Asset Valuation Reserve and Interest Maintenance Reserve* (“SSAP No. 7”), making corresponding revisions where needed to the annual statement instructions, and producing an issue paper to detail the project. SAPWG also formed an IMR Ad Hoc Group in 2023 that includes SAPWG members along with actuarial and investment industry representatives. The group meets regularly to discuss IMR-related topics, which have included the ultimate purpose of IMR in the statutory accounting framework,

IMR considerations for specific items such as derivatives and separate account transfers, and, most recently, IMR in reinsurance transactions.

With this background, key developments related to IMR from the Summer National Meeting are described below.

a. Extension of INT 23-01: Net Negative (Disallowed) IMR Through 2026

SAPWG adopted revisions to INT 23-01 extending the effective date through December 31, 2026, with automatic nullification on January 1, 2027. The revisions also (i) require completion of data-captured template disclosures to admit net negative IMR; (ii) require net negative IMR to be captured in the principle-based reserving calculation or AAT/CFT pursuant to VM-20 (with a requirement to prepare a reconciliation to ensure that reserves are not overstated); (iii) clarify that the adjusted capital and surplus calculation is based on prior filed financials, with an additional cap to limit admittance to 10% of current unadjusted capital and surplus; and (iv) provide clarification on the derivative disclosure roll-forward and to ensure that the amount disclosed for “net negative disallowed IMR” reflects the total.

b. Removal of Hypothetical IMR

SAPWG directed NAIC staff to remove from the broader IMR project the concept of hypothetical IMR, which is the IMR balance and future amortization that would result if the remaining assets associated with a block of liabilities were sold. This direction follows an informal consensus by the IMR Ad Hoc Group that the practical limitations of applying the concept outweigh any potential benefit of retaining it and SAPWG’s March 2025 exposure of a memorandum recommending its removal, as we reported **here**. Unless directed otherwise, this removal will occur with other revisions to incorporate IMR and AVR guidance in SSAP No. 7 and will have an effective date consistent with the broader SSAP No. 7 changes.

c. New Working “IMR” Definition

SAPWG also directed NAIC staff to use a new definition of IMR that characterizes it as a valuation adjustment (rather than treating it as either an asset or liability, as under the current definition) in forthcoming revisions to SSAP No. 7 and in the IMR issue paper. In full, this definition provides that:

> IMR is a valuation adjustment to maintain consistency between insurance liabilities (the assumptions for which are often unchanged from origin), and the assets needed to support them (where the assumptions can essentially be revisited any time there are fixed income realizations).
>
> IMR intends to defer and amortizes the recognition of realized gains or losses where investment activity essentially unlock unrealized gains/losses for either assets or liabilities. IMR is not intended to defer realized gains and losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls).

This definition intends to reflect the broad focus of IMR, and may be considered further during future exposures of the issue paper and revised SSAP No. 7.

d. Update on IMR Ad Hoc Group

In recent months, the IMR Ad Hoc Group has focused on when and how to consider positive and negative IMR in the collateral requirement for reinsurance credit, and, with the ability to admit net negative IMR, for companies to prove that proceeds from sales of fixed-income investments have only been used to reinvest in fixed-income securities (and not for operations or to acquire equity investments). These discussions are expected to lead to new SAPWG agenda items on these topics.

2. Other Statutory Accounting Matters

a. Action Deferred on Risk Transfer Analysis of Combination Reinsurance Contracts

The Accounting Practices and Procedures (E) Task Force adopted revisions to *SSAP No. 61–Life, Deposit-Type and Accident and Health Reinsurance* ("SSAP No. 61"), regarding reporting requirements for combination reinsurance contracts, to be effective immediately for new or newly amended agreements, and on December 31, 2026 for existing agreements to allow time for industry and regulator assessment. However, the (E) Committee deferred adoption of these revisions to discuss further the treatment of existing agreements.

SAPWG developed the revisions based on a VAWG referral, which noted that interdependent contract features regarding risk transfer for combination reinsurance agreements were being evaluated separately rather than in the aggregate. The referral described, for example, that where a treaty includes coinsurance and yearly renewable term ("YRT") with an aggregate experience refund and the inability to independently recapture the separate types of reinsurance, it is not adequate to separately review the coinsurance and YRT pieces of the transaction for risk transfer. It also described VAWG regulators' observation that bifurcated risk transfer analysis resulted in some companies reporting an overstated reserve credit. SAPWG adopted revisions to Appendix-791 QA to explicitly require that interdependent features for combined reinsurance contracts be considered together. SAPWG rejected requests from interested parties and two states to grandfather existing contracts made prior to January 2022 from this requirement, as SAPWG views the revisions as a clarification because current guidance does not provide for bifurcated analysis.

b. Residential Mortgage Loans Held in Statutory Trusts

SAPWG exposed until October 17, 2025 two items of interest to insurers holding mortgage loans through statutory trusts and generally holding assets, including mortgage loans through investment subsidiaries:

- An updated draft of *Ref #2024-21—Investment Subsidiaries* ("Ref #2024-21"), which would remove references to investment subsidiaries from annual statement blanks (with the intention for the references to also be removed from RBC Instructions); and
- *Ref #2025-13—Residential Mortgage Loans Held in Statutory Trusts* ("Ref #2025-13"), which would expand the scope of *SSAP No. 37-Mortgage* ("SSAP No. 37") to include qualifying investment trusts holding residential mortgage loans to be reported on Schedule B – Mortgage.

Both proposals arose out of regulator concerns relating to the increased reporting of assets under the investment subsidiaries line on annual statement blanks and inconsistent accounting and RBC treatment for those assets. Because industry comments on Ref #2024-21 noted that a significant portion of the increase in their use in reporting resulted from insurers' holding residential mortgages through statutory trusts, which avoided the need for the insurer to obtain lending licenses in each state, action on Ref #2024-21 was deferred pending development for rules relating to the use of statutory trusts to hold mortgages (Ref #2025-13). The revisions proposed in Ref #2025-13 would permit residential mortgages eligible under SSAP No. 37 held through qualifying statutory trusts to be treated as Schedule B mortgages. The exposures solicited specific feedback regarding (i) whether individual or aggregated loan reporting of such mortgages is preferred, (ii) whether additional columns should be added to Schedule B for mortgages held in a qualifying trust, and (iii) how foreclosed assets held in statutory trusts should be reported. Additional revisions are likely to be circulated prior to adoption.

c. New Disclosures of Private Securities Exposed for Comment

SAPWG exposed a new disclosure to identify private placement securities in the investment schedules and an aggregate disclosure that details key investment information by security type (Ref #2025-19). The exposure intends to better identify and distinguish between different types of private placement securities. It is open for comment until September 19, 2025 and has a proposed effective date of December 31, 2026.

d. Debt Security and Residual Interest Disclosures

Ref #2025-20—Debt Disclosures, also exposed by SAPWG with a proposed effective date of December 31, 2026, proposes consistent disclosures for certain reporting elements across SSAPs that are considered debt securities, i.e., bond securities under *SSAP No. 26–Bonds* and *SSAP No. 43–Asset- Backed Securities*, and non-bond debt securities and residuals under *SSAP No. 21–Other Admitted Assets*. Key revisions include expanding the existing disclosure on bond sale proceeds and the resulting realized gain or loss, clarifying that impaired securities are captured and expanding annual statement instructions and template disclosure for bifurcated other-than-temporary

impairment to include non-bond debt securities and residual interests that follow the allowable earned-yield method. For residuals, the edits also propose disclosure of the company's measurement method.

e. Revised Reporting of Funds Withheld Modco Assets and Reinsurer Affiliated Assets

On May 22, 2025, SAPWG adopted revised annual statement reporting schedules for life insurers to require reporting entities to identify assets that are subject to a funds withheld or modified coinsurance (modco) arrangement in connection with reinsurance. For consistency with RBC instructions, the schedule clarifies that it is only required for contracts supported by funds withheld or modco assets where there is transfer of investment risk. SAPWG will later assess whether to expand the 2026 version of the schedule to also include the funds withheld or modco assets which do not result in investment risk transfer. The revisions also require a ceding company to follow procedures outlined in the Life RBC Instructions for modco or funds withheld agreements where there is a lag in information regarding the ceding company's assets.

Also on May 22, SAPWG adopted revisions to *SSAP No. 1–Accounting Policies, Risks & Uncertainties, and Other Disclosures*, which expand restricted asset reporting to capture information on modco and funds withheld assets that are related to or affiliated with the reinsurer for disclosure in all quarterly and annual financial statements. The revisions are meant to capture everything affiliated with the reinsurer and the entire restricted asset disclosure will be required in all quarterly and annual financial statements. This update will be effective for year-end 2025, with initial quarterly reporting required in the first quarter of 2026.

II. Innovation, Technology and Privacy Developments

A. Discussions on AI Model Law or Regulatory Framework

The Big Data and Artificial Intelligence (H) Working Group (the "Big Data and AI Working Group") heard from parties that submitted written comments, currently available **here**, on its **request for information** on the possibility of an NAIC model law specific to the use of AI in the insurance industry. Many commenters, including certain state insurance departments and industry representatives, view a model law as premature, suggesting instead that the NAIC should focus on encouraging more states to adopt the AI Model Bulletin (adopted in 24 jurisdictions as of the Summer National Meeting), that existing law is sufficient to effectively regulate the industry's use of AI, and that model law consideration may be appropriate if enforcement of the AI Model Bulletin leads to a perceived gap in existing law.

The Big Data and AI Working Group Chair Michael Humphreys (PA) indicated that the group will continue to consider next steps on this topic, emphasizing that the request for information was intended to solicit feedback on the "idea" of a model law and that no decision has yet been reached.

B. AI Systems Evaluation Tool

On July 7, 2025, the Big Data and AI Working Group exposed for comment until September 5, 2025 an **AI Systems Evaluation Tool** (the "AI Evaluation Tool") to provide a standardized, efficient way for regulators to collect information about as insurer's use of AI during an examination or investigation. The tool is optional, can be tailored as the context requires, and consists of four exhibits, each with questions to ask in an examination or investigation:

- **Exhibit A: Quantify Regulated Entity's Use of AI Systems.** Requests information related to AI systems in use, their use cases, any consumer complaints that have resulted from their use, and processes for tracking and addressing any such complaints.

- **Exhibit B: AI Systems Governance Risk Assessment Framework.** Requests information on the insurer's AI governance policy and procedures, including related to the adoption, ethical use, training, testing and maintenance of AI systems; data protection protocols; "human in the loop" criteria; and processes for verifying/onboarding external data or AI systems.

- **Exhibit C: AI Systems High-Risk Model Details**. Requests information on AI systems that the insurer identifies as "high-risk."

- **Exhibit D: AI Systems Model Data Details**. Requests information on data used to develop the model.

The Big Data and AI Working Group will continue detailed discussions of the AI Evaluation Tool, and intends for select states to pilot the tool in examinations.

C. Third-Party Data and Predictive Models

The Third-Party Data and Models (H) Working Group is charged with developing a framework for the regulatory oversight of third-party data and predictive models. As an initial step, it will define "Third-Party Data and Models Vendor" for use in such a framework, before moving on to the framework itself. At the Summer National Meeting, the working group discussed a draft definition of "third-party vendor," distinctions between data vendors and model vendors, and potentially limiting the focus of third-party work to specific insurer operations with enhanced risk (such as underwriting, claims processing, and fraud detection). The working group plans to expose a revised definition of Third-Party Data and Models Vendor for additional review and comment after the Summer National Meeting.

D. Work Continues on Consumer Privacy Model

The Privacy Protections (H) Working Group continues to review and propose updates to each section of the Privacy of Consumer Financial and Health Information Regulation Model Law (#672) ("Model 672"), as reported **here**. The Working Group met on August 1, 2025 to discuss comments received on Article V of Model 672, which addresses limits on disclosures of nonpublic personal information and restricts the ability of a licensee and its affiliates to disclose nonpublic information about a consumer to a nonaffiliated third party. Comments generally urged that

privacy standards for the insurance industry not be overly restrictive, especially with regard to a proposed "opt-in" disclosure standard which they suggested may put the insurance industry at a disadvantage compared to the rest of the financial services industry. Similarly, the comments encouraged the working group to consider the applicability of existing privacy laws (e.g., the Gramm-Leach-Bliley Act and the California Consumer Privacy Act) as precedent. An exposure of the full Model 672 is expected once each section of the model has been updated, with a current goal to complete work by the Fall 2025 National Meeting.

E. Developments in Cybersecurity Regulation

In response to an August 2024 referral from the NAIC's Chief Financial Regulator Forum observing a lack of clear expectations for compliance testing and reporting under the *Insurance Data Security Model Law* (#668) ("Model 668"), in July 2025 the Cybersecurity (H) Working Group exposed a draft compliance and enforcement guide. The guide aims to provide practical tools for regulators to use to assess Model 668 compliance, with an emphasis on a gap analysis to reduce redundancy between Model 668 compliance and financial solvency and market conduct examinations. The working group indicated that it will wait to adopt the compliance guide until a future meeting to allow for additional interested party review.

III. Other Topics of General Interest

A. New Working Groups to Focus on Reciprocal Exchanges and Risk Retention Groups

The Financial Condition (E) Committee agreed to form a Reciprocal Exchanges (E) Working Group to be charged with modifying the HCA Models "to clarify that regardless of definitions of control and affiliation," fees charged to a reciprocal by its attorney-in-fact "are subject to fair and reasonable standards and subject to approval by the Commissioner and under no circumstances should they exceed the cost of such services plus a modest profit." This initiative arose out of regulator discussions in 2024 about the recent increase in reciprocal exchanges (approximately 37% since 2019) and regulators' observation that many new exchanges seemed unfamiliar with the HCA Model requirements and states' authority to assess the fairness and reasonableness of attorney-in-fact management fees.

The (E) Committee also adopted a proposal to reorganize the Risk Retention Group (E) Task Force as the Risk Retention Group (E) Working Group. The working group will have the same charges as the previous task force, but will be smaller, comprised of (no more than 12) regulators from key states where risk retention groups are domiciled or writing business, and will meet mainly in regulator-only sessions to focus on individual companies and best practices used by states in similar situations.

B. International Updates

1. Implementation of the Insurance Capital Standard and the U.S. Aggregation Method

The IAIS concluded in December 2024 that the Aggregation Method ("AM"), which forms the basis of the U.S. group capital calculation tool ("GCC"), provides "a basis of implementation" of the IAIS's insurance capital standard ("ICS") in the United States. The NAIC's Aggregation Method Implementation (G) Working Group is now charged with coordinating the implementation of the ICS in the United States, through the AM. Whereas a provisional AM was considered for purposes of the IAIS comparability assessment, this implementation process is expected to result in a "Final AM."

At the Summer National Meeting, the working group approved a recommendation for an excessive relative ratio ("ERR") approach to scalars (i.e., adjustment factors in the AM used to compare capital requirements in different jurisdictions) to be used in the Final AM (the provisional AM used for the IAIS comparability assessment, by contrast, used an unscaled approach). The working group also determined that the ERR approach should be calibrated to an intervention level of 200% of RBC authorized control level. This ERR approach is the same as the scalar methodology that is used in the GCC, and the working group agreed that it will best address the issues of interest rate changes and timing of supervisory intervention flagged by the IAIS.

The working group aims to have a draft of the Final AM in the second quarter of 2026, before the IAIS begins to assess implementation of the ICS by member jurisdictions in as early as 2027.

2. IAIS Activities

The IAIS has recently published three application papers, which provide advice, illustrations, recommendations or examples of good practice to insurance supervisors:

- The Application Paper on the Supervision of Artificial Intelligence. This paper, available **here**, focuses on best practices for supervising AI used by insurers, with a focus on both consumer protection and prudential soundness.

- The Application Paper on Fair Treatment of a Wide Range of Consumers. This paper, available **here**, supports the implementation of the Insurance Core Principle 19 (Conduct of Business) and focuses on ensuring that a wide range of consumers have access to the insurance products they need.

- The Application Paper on the Supervision of Climate-Related Risks in the Insurance Sector. This paper, available **here**, aims to support efforts to integrate climate-related risks into supervision of the insurance sector and to promote a globally consistent approach to addressing climate-related risks.

The IAIS is also addressing comments on a draft issues paper on structural shifts in the insurance sector, which emphasizes in particular the life insurance sector's increasing allocation to alternative assets and the rising adoption of cross-border asset-intensive reinsurance. The paper is targeted for publication in the fourth quarter of 2025.

C. NAIC Focus on Funding Agreement-Backed Note Programs

The NAIC's Macroprudential (E) Working Group met on July 21, 2025 to begin what will be an ongoing discussion between the NAIC and industry about funding agreements and funding agreement-backed note ("FABN") programs. Working Group Chair Bob Kasinow (NY) explained that the topic is before the working group following a significant increase in FABN activity, as observed by the Financial Stability Oversight Council and the Federal Reserve Board. During the meeting, NAIC staff gave an educational presentation, which noted that while the NAIC does not believe FABN activity poses any outsized risk for individual insurers or the industry in the aggregate, it does not currently receive the reporting necessary to quantify and monitor FABN activity. Discussions on this topic are expected to continue at the working group, which seeks input from regulators, industry and interested parties on various questions presented during the meeting about FABN activity.

D. Climate Risk and Resiliency

At the Summer National Meeting, the Property and Casualty Insurance (C) Committee (the "P&C Committee") adopted the NAIC Catastrophe Modeling Primer, drafted to provide regulators with non-mandatory guidelines regarding probabilistic catastrophe models. Primer topics include the evolution of catastrophe modeling; what catastrophe models are, how they work, and their key components and metrics; and related regulatory interactions.

The Climate and Resiliency (EX) Task Force anticipates completing its *Disaster Preparedness Handbook* and *Natural Catastrophe Risk Dashboard* by the 2025 Fall National Meeting. The handbook will provide guidelines on pre-disaster public education and post-disaster regulator responses, data on the impact of past disasters, common questions from the public grouped by peril, and state-specific case studies. The dashboard will capture national metrics to better understand catastrophes and protection gaps.

E. Updated Draft of ORSA Guidance Manual

On July 29, 2025, the Group Solvency Issues (E) Working Group and the ORSA (E) Subgroup adopted proposed updates to the ORSA Guidance Manual. The updates include: (i) that captive insurers are within the scope of the ORSA Summary Report; (ii) that the lead state may request information on international premium volume to assess the applicability of the insurance group exemption outlined in the ORSA Model Act; (iii) that the group's ability to service existing debt should be considered when assessing group-wide capital adequacy; and (iv) guidance on when insurers/groups should file their first ORSA Summary Report after exceeding the premium thresholds outlined in the ORSA Model Act. We expect the Financial Condition (E) Committee to consider the proposed additions before they are formally implemented into the ORSA Guidance Manual.

If you have any questions regarding this client alert, please contact the following attorneys or the Willkie attorney with whom you regularly work.

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