

# 2024 Annual NAIC Update & Overview of the Principles Based Bond Definition

September 18, 2024



# Meet the speakers



**Samuel Jones**  
Director, SS&C



**Tricia Henderson**  
Director of Accounting  
Policy & Regulatory  
Liaison  
Gain Compliance



**Barbara Arnold**  
Vice President, SS&C

# 2024 NAIC Updates

September 18, 2024

Tricia Henderson





# 2024 Annual NAIC Updates - Notes

## Note 5 - Investments

- **New!** Note 5.S - *Aggregate Collateral Loans by Qualifying Investment Collateral* - This is a new table that will be data captured and included on the PDF (L/F, P, H, T)
  - The total of this note on Line 11, Column 1 should equal Schedule BA, Part 1, Column 12 (Book adjusted carrying value)
  - This update coincides with the Statutory Accounting Principles Working Group (SAPWG) disclosure on Collateral Loan Reporting (INT 23-28)
  - BWG items: 2024-09BWG Modified and 8/7/23 Editorial Changes



# 2024 Annual NAIC Updates - Notes

## Note 21 – Other Items

- **New!** Note 21.J - *Reporting Net Negative (Disallowed) Interest Maintenance Reserve (IMR)* - This is a series of new tables that will be data captured and included on the PDF (applicable to Life companies only)
  - BWG Items: 2023-13BWG Modified, 2024-07BWG and 8/7/24 Editorial Changes



# 2024 Annual NAIC Updates - Notes

## Note 24 - Retrospectively Rated Contracts & Contracts Subject to Redetermination

- The Affordable Care Act disclosures for the transitional reinsurance program and the risk corridors program will be **removed** from Note 24.E (L/H) and Note 24.F (P)
- The tables for Note 24.E(2)b and Note 24.E(2)c will be **removed** from the electronic filing and PDF (L/H) with the corresponding Note 24.F(2) tables removed for Property
- Note 24.E(3) and Note 24.F(3) will only include the roll-forward for Permanent ACA Risk Adjustment Program
- BWG Item: 2024-10BWG Modified, Corresponds with SAPWG Ref #2024-13 – Adopted Revisions to SSAP No. 107 – *Risk-Sharing Provisions of the Affordable Care Act*



# 2024 Annual NAIC Updates - Uniform Schedules

## General Interrogatories, Part 1

- Question 29.05 will be updated slightly in the vendor software and PDF to clarify that all investment advisors with discretion to make investment decisions, including sub-advisors should be disclosed in the interrogatory
- This adoption will also modify Question 17.5 in the Q1 2025 General Interrogatories, Part 1
- BWG Item: 2024-05BWG



# 2024 Annual NAIC Updates - Uniform Schedules

## General Interrogatories, Part 1

- Question 35 will be updated in the vendor software and PDF to clarify what should be disclosed in the interrogatory for private letter rating (PLR) securities
- The modified instructions should provide clarity in what should be reported in an effort to improve consistency in the reporting across companies
- BWG Item: 2024-03BWG Modified





# 2024 Annual NAIC Updates - Uniform Schedules

## General Interrogatories, Part 2

- The Health Test Language will be updated for each line of business to clarify and create better transparency in the calculation of the premium and reserve ratios within the health test
- BWG Item: 2023-14BWG Modified



# 2024 Annual NAIC Updates - Uniform Schedules

## Schedule BA

- This item does not change the Blank for Schedule BA, Parts 1 through 3, but provides updated instruction to identify that common and preferred stock residual interests should be reported on Schedule BA and not in Schedule D, Part 1, Section 1 (Preferred) or Section 2 (Common)
- BWG Item: 2024-01BWG, Corresponds with SAPWG Ref #2023-23 (Modifications to SSAP No. 30R – *Unaffiliated Common Stock* and SSAP No. 32R – *Preferred Stock*)



# 2024 Annual NAIC Updates – Life/Fraternal Blank

## General Interrogatories, Part 2

- **New!** A new interrogatory will be added for a company attestation regarding the admittance of net negative (disallowed) IMR and all subsequent interrogatories will be renumbered
- BWG Item: 2023-13BWG Modified, Corresponds with the SAPWG's disclosure on Net Negative (Disallowed) Interest Maintenance Reserve (INT 23-01)

### Preview:

9. Reporting entities admitting net negative (disallowed) interest maintenance reserve (IMR) attest to the following:
    - a. Fixed income investments generating IMR losses comply with the reporting entity's documented investment or liability management policies.
    - b. IMR losses for fixed income related derivatives are all in accordance with prudent and documented risk management procedures, in accordance with a reporting entity's derivative use plans and reflect symmetry with historical treatment in which unrealized derivative gains were reversed to IMR and amortized in lieu of being recognized as realized gains upon derivative termination.
    - c. Any deviation to (a) was either because of a temporary and transitory timing issue or related to a specific event, such as a reinsurance transaction, that mechanically made the cause of IMR losses not reflective of reinvestment activities.
    - d. Asset sales that were generating admitted negative IMR were not compelled by liquidity pressures (e.g. to fund significant cash outflows including, but not limited to excess withdrawals and collateral calls).
- Is the reporting entity admitting net negative (disallowed) IMR in accordance with these criteria?



# 2024 Annual NAIC Updates – Life/Fraternal Blank

## General Interrogatories, Part 2

- **New!** A new interrogatory will be added to provide the data needed to complete the C-2 mortality risk in the Life Risk-Based Capital (RBC).
  - This will allow for direct pulls of information between the annual statement and LR025
  - All subsequent interrogatories will be renumbered
  - The Annual Statement Source column in the RBC page LR025 will be updated to indicate where the direct pull will occur
  - BWG Item: 2023-15BWG Modified



# 2024 Annual NAIC Updates – Life/Fraternal Blank

## **VM-20 Reserves Supplement**

- Clarifying language has been added to the instructions to include separate accounts where applicable
  - BWG Item: 2024-04BWG

## **Interest Maintenance Reserve and Asset Valuation Reserve**

- This item updates the instructions for IMR and AVR to include specific guidance for NAIC Designation Changes for Debt Securities (excluding LBASS), mortgage loans and preferred stocks
  - BWG Item: 2024-08BWG, Associated with SAPWG revisions in Ref #2023-15 and Ref #2023-29



# 2024 Annual NAIC Updates - Separate Account Blank

## General Interrogatories

- **New!** A new interrogatory will be added for a company attestation regarding the admittance of net negative (disallowed) IMR
- BWG Items: 2024-07BWG and 2023-13BWG Modified

## Preview:

9. Reporting entities admitting net negative (disallowed) interest maintenance reserve (IMR) attest to the following:
  - a. Fixed income investments generating IMR losses comply with the reporting entity's documented investment or liability management policies.
  - b. IMR losses for fixed income related derivatives are all in accordance with prudent and documented risk management procedures, in accordance with a reporting entity's derivative use plans and reflect symmetry with historical treatment in which unrealized derivative gains were reversed to IMR and amortized in lieu of being recognized as realized gains upon derivative termination.
  - c. Any deviation to (a) was either because of a temporary and transitory timing issue or related to a specific event, such as a reinsurance transaction, that mechanically made the cause of IMR losses not reflective of reinvestment activities.
  - d. Asset sales that were generating admitted negative IMR were not compelled by liquidity pressures (e.g. to fund significant cash outflows including, but not limited to excess withdrawals and collateral calls).

Is the reporting entity admitting net negative (disallowed) IMR in accordance with these criteria?



# 2024 Annual NAIC Updates - Property Blank

## **Underwriting and Investment Exhibit**

- Part 1 - Premiums Earned
- Part 1A - Recapitulation of All Premiums
- Part 1B - Premiums Written
- Part 2 - Losses Paid and Incurred
- Part 2A - Unpaid Losses and Loss Adjustment Expenses

A new line has been added to the Schedules for Pet Insurance, formerly included in Line 9 with Inland Marine.

- BWG Item: 2023-01 BWG Modified



# 2024 Annual NAIC Updates - Property Blank

## **Exhibit of Premiums and Losses (State Page)**

A new line has been added to the Schedules for Pet Insurance Plans, formerly included in Line 9 with Inland Marine

- BWG Item: 2023-01BWG Modified





# 2024 Annual NAIC Updates - Property Blank

## **Insurance Expense Exhibit, Parts II and III**

- A new line has been added to the Schedules for Pet Insurance, formerly included in Line 9 with Inland Marine.
- BWG Item: 2023-01BWG Modified



# 2024 Annual NAIC Updates - Property Blank

## Schedule P

- Pet Insurance is being removed from Inland Marine (Line of Business “I”) to a new line “U” in Parts 1 through 4 (2023-01BWG Modified)
- All parts of Schedule P will now show 10 years of data and a “prior” row for all lines of business (2023-16BWG Modified)
  - This modifies requirements for six lines of business that currently only show 2 years of data and a “prior” row
  - Parts I, J, K, L, S and T will be modified for this change



# 2024 Annual NAIC Updates - Property Blank

## Cybersecurity and Identity Theft Insurance Coverage Supplement (April Supp 550)

- The reference to Identity Theft is being removed from the supplement in the:
  - Name of the supplement and General Instructions
  - Part 1 Interrogatory questions
  - Part 2 and 3 (column 2 will be removed)
- All references to “tail policies” and the breakdown of claims-made and occurrence will be removed throughout the supplement
- **New!** Part 5 - Cybersecurity Coverage by State (this looks similar to Schedule T)
- BWG Item: 2023-05BWG Modified



# 2024 Annual NAIC Updates - Property Blank

## **Actuarial Opinion**

- The requirement to send qualification documentation to the Board of Directors has changed and only needs to be completed at the initial appointment and not annually thereafter (not a Blanks change, instructional only)
- BWG Item: 2024-06BWG



# Q1 2025 NAIC Updates

**The NAIC has adopted several blanks modifications in association with the Principles Based Bond Project, all effective January 1, 2025**

Changes to the investment schedules will include:

- Legal Entity Identifier (LEI) column will be removed
- Investments Involving Related Parties moves columns
- Foreign currency column moves to electronic only (EO)
- Categories and line numbers will change on Schedule BA, D, DL and E, Part 2
- Schedule D, Part 1B will be modified to separate the bonds by issuer credit obligations(ICO) versus asset-backed securities (ABS)



# Q1 2025 NAIC Updates

## **2023-06BWG Modified**

- This is the original item adopted for all of the quarterly (and 2025 Annual) schedules that have detailed bond categories or reference the detailed bond schedules
- Quarterly schedules impacted:
  - Schedule D, Part 1B (see details on the next page)
  - Schedule D, Parts 3 and 4
  - Schedule E, Part 2 (Note: all ABS securities have been removed)
  - Schedule DL, Parts 1 and 2
  - Quarterly Notes 1.C(6), 5.D, 5.F - 5.I, 20.A(1) and (2), 20.C, 20.D



# Q1 2025 NAIC Updates – Sch D, Part 1B

## SCHEDULE D – PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity  
During the Current Quarter for all Bonds and Preferred Stock by NAIC Designation

NAIC Designation	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
<del>BOND</del> ISSUER CREDIT								
OBLIGATIONS (ICO)	.....	.....	.....	.....	.....	.....	.....	.....
1. NAIC 1 (a).....	.....	.....	.....	.....	.....	.....	.....	.....
2. NAIC 2 (a).....	.....	.....	.....	.....	.....	.....	.....	.....
3. NAIC 3 (a).....	.....	.....	.....	.....	.....	.....	.....	.....
4. NAIC 4 (a).....	.....	.....	.....	.....	.....	.....	.....	.....
5. NAIC 5 (a).....	.....	.....	.....	.....	.....	.....	.....	.....
6. NAIC 6 (a).....	.....	.....	.....	.....	.....	.....	.....	.....
7. Total <del>Bonds</del> ICO								
ASSET-BACKED SECURITIES (ABS)	.....	.....	.....	.....	.....	.....	.....	.....
8. NAIC 1 (a).....	.....	.....	.....	.....	.....	.....	.....	.....
9. NAIC 2 (a).....	.....	.....	.....	.....	.....	.....	.....	.....
10. NAIC 3 (a).....	.....	.....	.....	.....	.....	.....	.....	.....
11. NAIC 4 (a).....	.....	.....	.....	.....	.....	.....	.....	.....
12. NAIC 5 (a).....	.....	.....	.....	.....	.....	.....	.....	.....
13. NAIC 6 (a)...	.....	.....	.....	.....	.....	.....	.....	.....
14. Total <del>Bonds</del> ABS								
PREFERRED STOCK								
<del>15</del> NAIC 1 .....	.....	.....	.....	.....	.....	.....	.....	.....
<del>16</del> NAIC 2 .....	.....	.....	.....	.....	.....	.....	.....	.....
<del>17</del> NAIC 3 .....	.....	.....	.....	.....	.....	.....	.....	.....
<del>18</del> NAIC 4 .....	.....	.....	.....	.....	.....	.....	.....	.....
<del>19</del> NAIC 5 .....	.....	.....	.....	.....	.....	.....	.....	.....
<del>20</del> NAIC 6 .....	.....	.....	.....	.....	.....	.....	.....	.....
21. Total Preferred Stock								
22. Total <del>Bonds</del> ICO, ABS, & Preferred Stock								

- (a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of short-term and cash equivalent bonds by NAIC designation:  
NAIC 1 \$.....; NAIC 2 \$.....; NAIC 3 \$.....; NAIC 4 \$.....; NAIC 5 \$.....; NAIC 6 \$.....



# Q1 2025 NAIC Updates

## **2023-07BWG Modified**

This item was adopted to make all of the investment schedules consistent with the changes to Schedule D. It renames the code column “Restricted Asset Code” and deletes the LEI column on the following quarterly schedules:

- Schedule A

- Schedule B

- Schedule BA

- Schedule E, Part 1





# Q1 2025 NAIC Updates

## 2023-12BWG Modified

This item updates the Schedule BA categories per the Bond Project and clarifies/streamlines reporting on Schedule BA for those assets that are captured in the scope of SSAP No. 21R – *Other Admitted Assets*

- Below is a small sample of the more significant category changes:

2024Q		2025Q	
Line Number	Category	Line Number	Category
0199999	Oil and Gas Production - Unaffiliated	0199999	Debt Securities That Do Not Qualify as Bonds: <b>Debt Securities That Do Not Reflect a Creditor Relationship in Substance</b> , NAIC Designation Assigned by the Securities Valuation Office (SVO), <b>Unaffiliated</b>
0299999	Oil and Gas Production - Affiliated	0299999	Debt Securities That Do Not Qualify as Bonds: <b>Debt Securities That Do Not Reflect a Creditor Relationship in Substance</b> , NAIC Designation Assigned by the Securities Valuation Office (SVO), <b>Affiliated</b>
0399999	Transportation Equipment - Unaffiliated	0399999	Debt Securities That Do Not Qualify as Bonds: <b>Debt Securities That Do Not Reflect a Creditor Relationship in Substance</b> , NAIC Designation <b>Not</b> Assigned by the Securities Valuation Office (SVO), <b>Unaffiliated</b>
0499999	Transportation Equipment - Affiliated	0499999	Debt Securities That Do Not Qualify as Bonds: <b>Debt Securities That Do Not Reflect a Creditor Relationship in Substance</b> , NAIC Designation <b>Not</b> Assigned by the Securities Valuation Office (SVO), <b>Affiliated</b>
0599999	Mineral Rights - Unaffiliated	0599999	Debt Securities That Do Not Qualify as Bonds: <b>Debt Securities That Lack Substantive Credit Enhancement</b> , NAIC Designation Assigned by the Securities Valuation Office (SVO), <b>Unaffiliated</b>
0699999	Mineral Rights - Affiliated	0699999	Debt Securities That Do Not Qualify as Bonds: <b>Debt Securities That Lack Substantive Credit Enhancement</b> , NAIC Designation Assigned by the Securities Valuation Office (SVO), <b>Affiliated</b>
0799999	Non-Registered Private Funds with Underlying Characteristics of: Bonds, NAIC Designation Assigned by the Securities Valuation Office (SVO), Unaffiliated	0799999	Debt Securities That Do Not Qualify as Bonds: <b>Debt Securities That Lack Substantive Credit Enhancement</b> , NAIC Designation <b>Not</b> Assigned by the Securities Valuation Office (SVO), <b>Unaffiliated</b>
0899999	Non-Registered Private Funds with Underlying Characteristics of: Bonds, NAIC Designation Assigned by the Securities Valuation Office (SVO), Affiliated	0899999	Debt Securities That Do Not Qualify as Bonds: <b>Debt Securities That Lack Substantive Credit Enhancement</b> , NAIC Designation <b>Not</b> Assigned by the Securities Valuation Office (SVO), <b>Affiliated</b>
0999999	Non-Registered Private Funds with Underlying Characteristics of: Bonds, NAIC Designation <b>Not</b> Assigned by the Securities Valuation Office (SVO), Unaffiliated	0999999	Debt Securities That Do Not Qualify as Bonds: <b>Solely to a Lack of Meaningful Cash Flows</b> , NAIC Designation Assigned by the Securities Valuation Office (SVO), <b>Unaffiliated</b>
1099999	Non-Registered Private Funds with Underlying Characteristics of: Bonds, NAIC Designation <b>Not</b> Assigned by the Securities Valuation Office (SVO), Affiliated	1099999	Debt Securities That Do Not Qualify as Bonds: <b>Solely to a Lack of Meaningful Cash Flows</b> , NAIC Designation Assigned by the Securities Valuation Office (SVO), <b>Affiliated</b>
1199999	Non-Registered Private Funds with Underlying Characteristics of: Mortgage Loans, Unaffiliated	1199999	Debt Securities That Do Not Qualify as Bonds: <b>Solely to a Lack of Meaningful Cash Flows</b> , NAIC Designation <b>Not</b> Assigned by the Securities Valuation Office (SVO), <b>Unaffiliated</b>
1299999	Non-Registered Private Funds with Underlying Characteristics of: Mortgage Loans, Affiliated	1299999	Debt Securities That Do Not Qualify as Bonds: <b>Solely to a Lack of Meaningful Cash Flows</b> , NAIC Designation <b>Not</b> Assigned by the Securities Valuation Office (SVO), <b>Affiliated</b>



# Q1 2025 NAIC Updates

## 2024-02BWG Modified

This item removes categories from Schedule DA and Schedule E, Part 2 that should be reported on Schedule BA. It adds clarifying instructions on what should be included in the “Other” short-term and cash equivalent categories

- Revisions exclude all Schedule BA: Other long-term investments and mortgage loans
- This item corresponds with SAPWG Ref #2023-17 and reviews the guidance in SSAP No. 2R – *Cash, Cash Equivalents, Drafts and Short-Term Investments*



# Q1 2025 NAIC Updates

## 2024-11BWG Modified

This item updates the quarterly and annual instructions and blanks for the New Market Tax Credit (NMTC) changes.

- The following quarterly schedules will be modified:
  - Assets (instructions only)
  - Schedule BA Verification Between Years
  - Schedule BA, Part 3
- This item corresponds with SAPWG Ref #2022-14 for changes to SSAP No. 93 – *Low Income Housing Tax Credit Property Investments* and SSAP No. 94 – *Transferable and Non-Transferable State Tax Credits*



# Q1 2025 NAIC Updates

## **2024-12BWG Modified**

This item updates:

- Quarterly investment schedules for editorial items to the Bond Project originally referenced in adopted proposal 2023-06BWG Modified
- Quarterly Investment Schedule General Instructions for the changes that were adopted in the Annual Investment Schedule General Instructions



# 2025 Annual NAIC Updates

**The following NAIC adoptions impacting Q1 2025 will also impact the 2025 Annual Schedules:**

- 2023-06BWG Modified – Split Schedule D, part 1 into two sections: one for Issuer Credit Obligations and the other for Asset-Backed Securities. This also impacts Sch D, Part 5; Summary Investment Schedule; Summary by Country; Sch D, Part 1A and Sch DA, Part 1
- 2023-07BWG Modified
- 2023-12BWG Modified
- 2024-02BWG Modified
- 2024-11BWG Modified



# 2024 Annual Risk-Based Capital Updates

## 2023-12-CA (P,H)

Schedules have been modified to clarify that the line for “Market Value in Excess Affiliated Stocks” includes both preferred and common stocks

- Property
  - PR003 – Details for Affiliated Stocks
  - PR007 – Unaffiliated Preferred and Common Stock
  - PR031 – Calculation of Total Risk-Based Capital After Covariance (R2)
- Health
  - XR002 – Details for Affiliated Stocks
  - XR010 – Equity Assets
  - XR024 – Calculation of Total Risk-Based Capital After Covariance (H1)



# 2024 Annual Risk-Based Capital Updates

## 2024-08-CA (P,H)

This item removes the reference of “HO Component” and “RO Component” from the Column 12 label on XR002 and PR003, respectively. The references were determined to be misleading since only affiliate types 1, 2, 5 and 6 flow into HO and RO.

- Property
  - PR003 – Details for Affiliated Stocks
- Health
  - XR002 – Details for Affiliated Stocks



# 2024 Annual Risk-Based Capital Updates

## **2024-09-CA (L/F,P,H)**

This item is the annual investment income adjustment update to the underwriting risk factors for Comprehensive Medical, Medicare Supplement and Dental & Vision

- Life
  - LR020 – Underwriting Risk, Lines (10.1) and (10.2)
- Property
  - PR020 – Underwriting Risk – Premium Risk for Comp Medical, Med Supp and Dental & Vision, Lines (10.1) and (10.2)
- Health
  - XR013 – Underwriting Risk, Line (13)





# 2024 Annual Risk-Based Capital Updates

## **2024-13-CA (L/F,P,H)**

This item updates the Receivables for Securities factors based on a weighted average calculation of bonds, common, preferred and hybrid stocks. The Health factor remains unchanged.

- Life
  - LR010 – Asset Concentration Factor
  - LR012 – Miscellaneous Assets
- Property
  - PR009 – Miscellaneous Assets
  - PR011 – Asset Concentration



# 2024 Annual Risk-Based Capital Updates

## **2024-02-CA and 2024-18-CA (P,H)**

This item adds a separate line for Total Residual Tranches or Interests with an applicable 20% factor and rennumbers all subsequent lines.

- Property
  - PR008 – Other Long-Term Assets, Line (19)
  - PR030 – Calculation of Total RBC after Covariance
- Health
  - XR008 – Fixed Income Assets – Miscellaneous, Line (22)
  - XR024 – Calculation of Total RBC after Covariance



# 2024 Annual RBC Updates – Life/Fraternal

## 2024-15-L

This item updates Line (50), Column (1) of LR008 to be a company entered amount.

- Value will no longer pull directly from Schedule BA, Part 1 to allow for the exclusion of any collateral loan amounts that may have been reported elsewhere in the RBC formula
- Treatment allows for look-through treatment for those collateral loans secured by mortgages



# 2024 Annual RBC Updates – Life/Fraternal

## **2024-05-L and 2024-17-L**

This item adds a new line to LR009 – Schedule BA Mortgages for “Residential – All Other”

- Value will pull from the AVR Equity Component, Line 44 to Line (2) of LR009
- All subsequent lines in LR009 will be renumbered
- A pre-tax factor of 0.0068 has been assigned to this line



# 2024 Annual RBC Updates – Life/Fraternal

## 2024-04-L

The Calculation of Total Adjusted Capital (LR033) will be modified to include a new line (8) for “Carrying Value of Non-Admitted Insurance Affiliates”

- The value will need to be manually entered by the preparer and should include amounts applicable from LR044, Columns (5) and (7)
- The line description on Line (6) will be modified to “Asset Valuation Reserve”
- All subsequent lines in LR033 will be renumbered
- A factor of 1.000 has been assigned to this line



# 2024 Annual RBC Updates – Health

## 2023-11-H

XR013 – Underwriting Risk has been modified to include Medicare and Medicaid amounts in Column (1), Lines (4) and (10)

- The Annual Statement references on XR014 will also be updated to include Columns 8 and 9 of the Annual Statement, Page 7 (Analysis of Operations by Lines of Business) in addition to Columns 2 and 3
- By adding Medicare and Medicaid to Line (4) – Other Health Risk Revenue and Line (10) – Fee-for-Service Offset, consistent treatment will be created throughout Column (1) of XR013
- Column (1) contains Comprehensive (Hospital & Medical) Individual and Group business



# 2024 Annual RBC Updates – Health

## **2024-12-H Modified**

This item modifies the health care receivable factors on XR021 – Credit Risk – Other Receivables

- The values that pull from Exhibit 3, Column 7 of the Annual Statement to lines (26.1) through (26.6) of the RBC will now have a tiered factor applied to the amounts
- Pharmaceutical rebate receivables in Line (26.1) – a 20% factor will be applied to the first \$5M and a 3% charge applied to the remaining amount
- Lines (26.2) through (26.6) – the lines will be aggregated and then a factor of 40% applied to the first \$10M and a factor of 5% will be applied to the amounts in excess of \$10M



# 2024 Annual RBC Updates – Property

## 2023-14-P

This item removes Pet Insurance from Inland Marine and adds a new line for Pet Insurance to the following pages:

- PR035 – Underwriting and Investment Exhibit, Premiums Written
- PR038 – Medical Tabular Reserve Discount
- PR123 – **New!** Schedule P, Part 1U for Pet Insurance Plans
- PR223 – **New!** Schedule P, Part 2U for Pet Insurance Plans
- PR700 – Sch P, Part 7A, Section 1 – Primary Loss Sensitive Contracts
- PR701 – Sch P, Part 7B, Section 1 – Reinsurance Loss Sensitive Contracts





# 2024 Annual RBC Updates – Property

## **2024-01-P**

The Schedule P electronic only tables have been modified to include vendor links from the Annual Statement for all lines of business in Parts 1 and 2

- Coincides with the adoption to the Annual Statement requiring the short-tail lines to show ten years of data
- Impacts electronic tables PR111, PR112, PR113, PR114, PR122, PR211, PR212, PR213, PR214, PR221 and PR222
- Pages PR301 through PR306 (electronic only) have been removed from the filing



# 2024 Annual RBC Updates – Property

## 2024-14-P

This item is the annual update of the Line (1) industry underwriting factors

- PR017 – Underwriting Risk (Reserves), Industry Average Development
- PR018 – Underwriting Risk (Net Written Premiums), Industry Average Loss & Loss Adjustment Expense Ratio



# 2024 Annual RBC Updates – Property

## 2024-11-P

The underwriting risk factors for industry loss & loss adjustment expense and for the investment income adjustment are being modified for 2024

- PR017 – Underwriting Risk (Reserves)
  - Line (4) – Industry Loss & Expense
  - Line (8) – Adjustment for Investment Income
- PR018 – Underwriting Risk (Net Written Premiums)
  - Line (4) – Industry Losses & Loss Adjustment Expense Ratio
  - Line (7) – Adjustment for Investment Income
- Additional changes to the factors are already adopted for 2025



# 2024 Annual RBC Updates – Property

## 2024-10-P

PR019 – Health Premiums has been modified to update the Annual Statement source on Line (25) – Other Health to include “in part”

- The statement value from Schedule H, Part 1 will need to be manually entered, it will no longer pull from Column 25
- This change was implemented to eliminate a double-counting issue for those companies that have stop-loss premiums
- Stop-loss premium is expected to be entered on Line (9) of this schedule, but is reported in Column 25 of Schedule H



# 2024 Annual RBC Updates – Property

The Catastrophe Risk (E) Subgroup has adopted multiple proposals for modifications to the schedules that develop the Catastrophe Risk Charge (RCAT) in PR027

- 2023-13-CR, adopted 3/17/2024
- 2023-15-CR, adopted 3/17/2024
- 2023-17-CR, adopted 4/30/2024
- 2024-20-CR, adopted 8/2/2024



# 2024 Annual RBC Updates – Property Rcat

The following pages are now included in the Calculation of Catastrophe Risk Charge:

- PR027A, Calculation for Earthquake (no change)
- PR027B, Calculation for Hurricane – Worst Year in 1000 added to the Modeled Losses section, all other lines renumbered
- PR027BI, Disclosure of Climate Impact on Exposure for Hurricane – **New!**, informational only, disclosing impact on modeled losses for 2040
- PR027BII, Disclosure of Climate Impact on Exposure for Hurricane – **New!**, informational only, disclosing impact on modeled losses for 2050



# 2024 Annual RBC Updates – Property Rcat

Calculation of Catastrophe Risk Charge, continued:

- PR027BIII, Disclosure of Climate Impact on Exposure for Hurricane – **New!**, informational only, disclosing modeled losses with a 10% frequency adjustment
- PR027BIV, Disclosure of Climate Impact on Exposure for Hurricane – **New!**, informational only, disclosing modeled losses with a 50% frequency adjustment
- PR027C, Calculation for Wildfire – Worst Year in 1000 added to the Modeled Losses section, all other lines renumbered



# 2024 Annual RBC Updates – Property Rcat

Calculation of Catastrophe Risk Charge, continued:

- PR027CI, Disclosure of Climate Impact on Exposure for Wildfire – **New!**, informational only, disclosing impact on modeled losses for 2040
- PR027CII, Disclosure of Climate Impact on Exposure for Wildfire – **New!**, informational only, disclosing impact on modeled losses for 2050
- PR027CIII, Disclosure of Climate Impact on Exposure for Wildfire – **New!**, informational only, disclosing impact on modeled losses with a 10% frequency adjustment
- PR027CIV, Disclosure of Climate Impact on Exposure for Wildfire – **New!**, informational only, disclosing impact on modeled losses with a 50% frequency adjustment





# 2024 Annual RBC Updates – Property Rcat

Calculation of Catastrophe Risk Charge, continued:

- PR027D, Calculation of Catastrophe Risk Charge for **Convective Storm** – **New!**, informational only
- PR027, Calculation of Catastrophe Risk Charge – Modified to include the revised line numbers for Hurricane and Wildfire risks, to include a new line for Convective Storm risk and to update the calculation on the Informational Purposes Only line (5a)
- PR027INT, Interrogatory to Support Exemption from Completing PR027 – Modified to include the exemption criteria for Convective Storms



# 2024 Annual RBC Updates – Property Rcat

Calculation of Catastrophe Risk Charge, continued:

- PR027INTA, Interrogatory on Catastrophe Risk Reinsurance Program – **New!**
  - This interrogatory is intended to be completed by all P&C RBC filers that are exposed to natural catastrophe perils, and is not limited to earthquake, hurricane and wildfire or the associated exemptions
  - Insurance entities that participate in group reinsurance programs may respond to the interrogatory at the group level
- PR100 and PR101-PR123 will be modified to include informational only columns 24III, 28III, 24IV and 28IV for inclusion of U.S. and non-U.S. net losses paid and loss incurred data for Convective Storms



# Sources

- 2024 NAIC Annual and Q2025 Updates are based on the 7/26/2024 NAIC Release of the Blanks and Instructions
- 2024 RBC Updates are based on the 7/15/2024 NAIC release (8/12/2024 for Property) of the Blanks and Instructions
- NAIC BWG and Capital Adequacy (E) Task Force references have been confirmed to those posted on the NAIC website as of 8/13/2024 on the “Documents” tab of the respective committee website



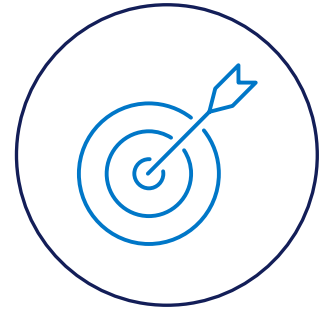
# Financial Regulation

## Principles Based Bond Definition

Barbara Arnold, Vice President, SS&C Technologies, Inc.



# Today's Principles Based Bond Definition Content



**Review of Principles Based Bond Definition**



**Reporting Classifications Old versus New**



**Key Criteria Identifying Issuer Obligations versus Asset Backed Securities**



**Key Terminology for the Classification Process**

# Review of Principles Based Bond Definition



Changing dynamics called for a new approach, the path to the Principles Based Bond Definition began in 2019

## Drivers Behind the Change

### Economic Drivers

- Low interest rates increased need for yield
- Higher yields found in more complex securities...new structures emerge in response to changing economic conditions
- Principles based approach allows new structures to be more easily adapted

### The RBC Perspective

- Regulators need to understand insurers risk profile
- Natural desire for insurers to classify securities for most advantageous RBC charges
- Framework needed to level set parameters for increased consistency in categorization

“A bond shall be defined as any security representing a creditor relationship, whereby there is a fixed schedule for one or more future payments, and which qualifies as either an issuer credit obligation or an asset-backed security...”

*SSAP 26R As Modified*

# What is the Principles Based Bond Definition

## Bond Definition Caveats

- Consider instrument in substance versus just its legal form
- Analysis should consider all other investments the reporting entity owns in the investee
- A security that in-substance possesses equity-like characteristics or represents an ownership interest does not represent a creditor relationship

## Applying the Principles

- Contrast to “accounting” thinking where the emphasis is on the repayment structure solely for the purpose of calculating investment income for an individual security
- The new principles require a more in-depth analysis of both “who” and “how” the bond or ABS debt will be repaid



# Impacts of the Changes in Guidance

## By The Numbers

**3**

SSAPs Revised

**8**

New Data Elements

**17**

SSAPs with Reference Revisions

**41**

Reports Changing

**68 vs 99**

Major Reporting Categories (D, DA, E2 and BA)

## Types of Changes

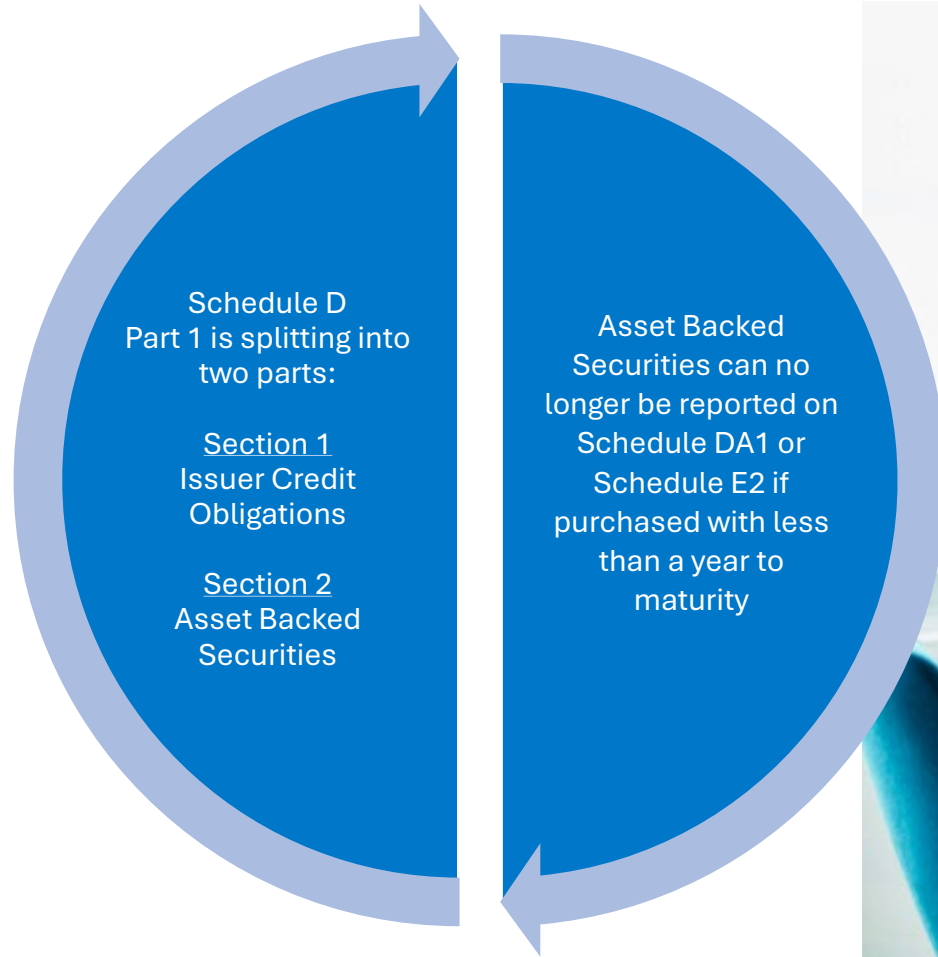
- New and Changed Data Elements
- New and Changed Reports
- New Valuation for Debt Securities That Do Not Qualify as Bonds
- Workflow for Initial and Ongoing Category Assignments and Data Capture
- Reporting Treatments for Assets Moving to Schedule BA

# Reporting Classifications

## Old versus New



## Reporting Classifications – Fast Facts



# Schedule D Part 1 → Part 1 Section 1 Issuer Obligations

## Schedule D Part 1

- U.S. Governments
- All Other Governments
- U.S. States, Territories & Possessions
- U.S. Political Subdivisions
- U.S. Special Revenue and Special Assessment
- Industrial and Miscellaneous (Unaffiliated)
- Hybrid Securities
- Parent, Subsidiaries and Affiliates
- SVO Identified Funds
- Unaffiliated Bank Loans
- Unaffiliated Certificates of Deposit

## New Schedule D Part 1 Section 1

- U.S. Government Obligations (Exempt from RBC)
- Other U.S. Government Securities (Not Exempt from RBC)
- Non-U.S. Sovereign Jurisdiction Securities
- Municipal Bonds – General Obligations
- Municipal Bonds – Special Revenue
- Project Finance Bonds Unaffiliated / Affiliated
- Corporate Bonds Unaffiliated / Affiliated
- Mandatory Convertible Bonds Unaffiliated / Affiliated
- Single Entity Backed Obligations Unaffiliated / Affiliated
- SVO Identified Bond ETFs Fair Value / Systemic Value
- Bonds Issued From SEC Registered Funds (Closed End/REITS)
- Bank Loans Issued (Acquired) Unaffiliated / Affiliated
- Mortgage Loans -- Credit Tenant Loans Unaffiliated / Affiliated
- Certificates of Deposit Unaffiliated / Affiliated
- Other Issuer Credit Obligations Unaffiliated / Affiliated

# Schedule D Part 1 → Part 1 Section 2 Asset Backed Securities

## Schedule D Part 1

- U.S. Governments
- All Other Governments
- U.S. States, Territories & Possessions
- U.S. Political Subdivisions
- U.S. Special Revenue and Special Assessment
- Industrial and Miscellaneous (Unaffiliated)
- Hybrid Securities
- Parent, Subsidiaries and Affiliates
- SVO Identified Funds
- Unaffiliated Bank Loans
- Unaffiliated Certificates of Deposit

## New Schedule D Part 1 Section 2

- Financial Asset-Backed Securities Self-Liquidating
  - Agency RMBS – Guaranteed Exempt / Not Exempt
  - Agency CMBS – Guaranteed Exempt / Not Exempt
  - Non-Agency RMBS Unaffiliated / Affiliated
  - Non-Agency CMBS Unaffiliated / Affiliated
  - Non-Agency CLOs, CBOs, CDOs Unaffiliated / Affiliated
  - Other Financial Asset-Backed Unaffiliated / Affiliated
- Financial Asset-Backed Securities Not Self-Liquidating
  - Equity Backed Securities Unaffiliated / Affiliated
  - Other Financial Asset-Backed Unaffiliated / Affiliated
- Non-Financial Asset-Backed Securities – Full Analysis
  - Lease-Backed Securities Unaffiliated / Affiliated
  - Other Non-Financial Asset-Backed Securities Practical Expedient Unaffiliated / Affiliated

# New Categories Added to Schedule BA



## Schedule BA

### Debt Securities That Do Not Qualify as Bonds

- Debt Securities That Do Not Reflect a Creditor Relationship in Substance
  - NAIC Designation Assigned by the SVO (Unaffiliated / Affiliated)
  - NAIC Designation Not Assigned by the SVO (Unaffiliated / Affiliated)
- Debt Securities That Lack Substantive Credit Enhancement
  - NAIC Designation Assigned by the SVO (Unaffiliated / Affiliated)
  - NAIC Designation Not Assigned by the SVO (Unaffiliated / Affiliated)
- Debt Securities That Do Not Qualify as Bonds Solely to a Lack of Meaningful Cash Flows
  - NAIC Designation Assigned by the SVO (Unaffiliated / Affiliated)
  - NAIC Designation Not Assigned by the SVO (Unaffiliated / Affiliated)

# Key Criteria:

Issuer Creditor Obligations vs  
Asset Backed Securities



“A bond shall be defined as any security representing a creditor relationship, whereby there is a fixed schedule for one or more future payments, and which qualifies as either an issuer credit obligation or an asset-backed security...”

*SSAP 26R As Modified*

## First Things First

- Instrument meets the definition of a bond as defined by U.S. GAAP under Topics 320 and 860
- Collateralized by assets with contractual cash flows
- Principal and Interest does NOT vary more than a nominal amount based on a non-debt variable
- No other characteristics of Equity or Ownership Interest
- When collateralized by equity instruments further assessments must be made (rebuttable presumption)
  - Diversification
  - Liquidity
  - Overcollateralization
  - Timing of distributions/paydowns
  - Capitalization of interest
  - Other covenants
  - Reliance on ongoing sponsor commitments



“An issuer credit obligation is a bond, for which the general creditworthiness of an operating entity or entities through direct or indirect recourse, is the primary source of repayment...

An operating entity may be any sort of business entity, not-for-profit organization, governmental unit, or other provider of goods or services, but not a natural person or ABS Issuer”

*SSAP 26R As Modified*

## Identifying an Issuer Credit Obligation

- Creditor relationship in substance
- Issued by a business or government
- Issuer is NOT an ABS Issuer
- Pre-determined principal and interest payments
- Fixed rate or variable rate interest securities with nominal rate adjustments (rate changes that do not impact yield by more than 10%)
- Principal repayment not at risk by factors other than borrower’s ability to pay

### Pre-Qualified “Types”

- Certificates of Deposit (fixed payments, maturity at acquisition > 1 year)
- Bank Loans
- Debt instruments in a certified capital company (CAPCO)
- SVO-Identified Bond ETFs
- SVO Identified Credit Tenant Loans

“An asset-backed security is a bond issued by an entity (an “ABS Issuer”) created for the primary purpose of raising debt capital backed by financial assets or cash generating non-financial assets owned by the ABS Issuer, for which the primary source of repayment is derived from the cash flows associated with the underlying defined collateral rather than the cash flows of an operating entity...”

*SSAP 26R As Modified*

## Identifying an Asset Backed Security

- Creditor relationship in substance
- Issued by an “ABS Issuer” or a government agency issuing mortgage-referenced securities to transfer mortgage risk
- Backed by financial assets, cash generating non-financial assets
- Repaid by meaningful cash flows associated with underlying collateral versus cash flows of the operating entity
- Holder is in different economic position resulting in substantive credit enhancement (guarantees), subordination or overcollateralization
- First loss position(s) have contractual payments
- Collateral represents more than a single asset

# Key Terminology for the Classification Process



New categories introduced on the Schedule D Part 1 Section 1 further delineate what would most likely have been previously classified under *Special Revenue and Assessment* or *Industrial and Miscellaneous*

# New Categories Schedule D Part 1 Section 1

## **Project Finance Bonds Issued by Operating Entities**

Non-municipal bonds that finances a single asset or operation where the cash flows from the project will repay the debt

## **Single Entity Backed Obligations**

Issuer Credit Obligations backed by a single operating entity which is not backed by a corporation, government, or project finance structure such as Equipment Trust Certificates, expected cash flows at origination would fund all interest payments and at least 95% of the repayment of principal

## **Credit Tenant Loans**

Mortgage Loans in scope of SSAP 37 that have been filed with the SVO – commercial real estate financing for a property with a long-term lease with a nationally recognized tenant with a high credit rating

## **Other Issuer Credit Obligations**

Report securities that are accounted for under SSAP 26R that do not meet the criteria for other reporting categories, this would include investments in certified capital companies (CAPCO)

New categories introduced on the Schedule D Part 1 Section 2 help to break out investments according to decision criteria under the new Principles Based guidance

## New Categories Schedule D Part 1 Section 2

### **Financial Asset-Backed Securities – Self-Liquidating**

Asset-Backed Securities where the contractual cash flows of the underlying collateral repay the interest and principal of the security, and the repayment is not dependent on other performance factors

### **Financial Asset-Backed Securities – Not Self-Liquidating**

This category is further broken out between Equity-Backed Securities and Other Financial Asset-Backed – these structures do NOT have terms where the underlying collateral has contractual principal and interest to repay the debt

### **Non-Financial Asset-Backed Securities (Practical Expedient)**

This category is further broken out between Lease-Backed Transactions and Other Non-Financial Asset-Backed – these are instruments that are expected to generate meaningful cash flows to repay the bond

### **Non-Financial Asset-Backed Securities (Full Analysis)**

Captures Lease-Backed Transactions and Other Non-Financial Asset-Backed that meet the criteria for reporting under SSAP 43R but do not meet the requirements of the Practical Expedient

New categories introduced on the Schedule BA Part 1 capture debt securities that do not qualify as bonds

## New Categories BA Part 1

### **Debt Securities that Do Not Reflect a Creditor Relationship in Substance**

Under the application of Principles Based Bond guidance if the debt security does not pass the assessment for the instrument representing a Creditor Relationship in Substance

### **Debt Securities that Lack Substantive Credit Enhancement**

Under the application of Principles Based Bond guidance if the debt security passes the assessment for the instrument representing a Creditor Relationship in Substance but lacks substantive credit enhancement in the terms of the security

### **Debit Securities that do NOT Qualify as Bonds that Lack Meaningful Cash Flows**

Under the application of Principles Based Bond guidance if the debt security passes the assessment for the instrument representing a Creditor Relationship in Substance but lacks meaningful cash flows even if the security has substantive credit enhancements

# NAIC Resources

## Changes to Guidance

Accounting Guidance	Blanks and Instructions	Pending Approval
<u>SSAP No. 26 – Bonds</u>	<u>Schedule D-1 and Related Reporting Changes (2023-06BWG Modified)</u>	<u>Editorial Items for Quarterly Investment Schedules</u>
<u>SSAP No. 43 – Asset Backed Securities</u>	<u>Other Investment Schedule Updates (2023-07BWG Modified)</u>	<u>SSAP 26R Debt Securities Issued by Funds</u>
<u>Other SSAPs Impacted by Bond Definition</u>	<u>Schedule BA Reporting Changes (2023-12BWG Modified)</u>	<u>SSAP 26R Bond Definition Q&amp;A</u>
<u>SSAP No. 21R – Other Admitted Assets</u>	<u>Schedule DA Part 1 / Schedule E Part 2 (2024-02BWG)</u>	
<u>Issue Paper – Adopted August 2024</u>		



**THANK YOU.**

