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NAIC 2022 Summer National Meeting Highlights

August 23, 2022

The National Association of Insurance Commissioners (the "NAIC") held its 2022 Summer National Meeting from August 9 to 13, 2022, in Portland, Oregon. In this update, we highlight meeting developments of particular interest to our insurance industry clients.

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Private Equity in Insurance

Regulatory Considerations Update

Many in the industry have been following for some time the progress of a document compiled by the **Financial Stability (E) Task Force** and the **Macroprudential (E) Working Group** entitled "Regulatory Considerations Applicable (But Not Exclusive) to Private Equity (PE) Owned Insurers" (the "Regulatory Considerations") that sets forth a list of areas of regulatory concern regarding activities overlapping with the increasing prominence of private equity in the insurance industry. The revised Regulatory Considerations were adopted at the task force/working group level on June 27, 2022, and in turn adopted with a few editorial changes by the **Financial Condition (E) Committee** on July 21, 2022 and by the **Executive (EX) Committee and Plenary** at the Summer National Meeting.

While the Financial Stability Task Force and the Macroprudential Working Group indicated that they intend to continue monitoring these items, the bulk of the Regulatory Considerations have been referred out to other groups at the NAIC for new work. For example:

- **Group Solvency Issues (E) Working Group**: Received referrals to do further analysis on (i) the evaluation of holding company structures and (ii) the current application of the definition and evaluation of control, taking into account contract terms such as for asset management services.

- **Risk-Focused Surveillance (E) Working Group**: Received referrals with respect to evaluation of (i) the terms of investment management agreements and (ii) the current alignment of incentives with owners focused on short-term results, including through a focus on investment management fees.

- **RBC Investment Risk and Evaluation (E) Working Group**: Received a referral with respect to the increasing presence in the market of privately structured securities in order to address related tail risk concerns not captured by reserves.

- **Valuation of Securities (E) Task Force**: Received referrals with respect to (i) evaluation of the terms of investment management agreements, (ii) the increasing presence in the market of privately structured securities and (iii) reliance by insurance regulators on rating agency reports.

- **Statutory Accounting Principles (E) Working Group**: Received referrals with respect to (i) related party-originated investments, including structured securities, and the possibility for potential conflicts and complicated fee structures, (ii) issues in identifying underlying affiliated investments and/or collateral within structured security investments, (iii) asset manager affiliates and disclaimers of affiliation avoiding current affiliate investment disclosure requirements and (iv) the increase in pension risk transfer business supported by complex investments and the need for appropriate disclosure thereof.

- **Examination Oversight (E) Task Force**: Received a referral with respect to issues in identifying underlying affiliated investments and/or collateral within structured security investments.

- **Life Actuarial (A) Task Force**: Received referrals with respect to (i) alignment of incentives with owners focused on short-term results, including through investment management fees, (ii) the increasing presence in the market of privately structured securities and (iii) the increase in pension risk transfer business supported by complex investments and related reserving considerations.

- Retained by **Financial Stability (E) Task Force** and the **Macroprudential (E) Working Group**: These groups will continue to consider a few of the points before referring them out to other groups, including (i) a concern with market conduct practices by less experienced acquirers and (ii) a concern with the structuring of offshore or complex reinsurance.

Notably, with respect to pension risk transfer business, the **Financial Stability (E) Task Force** and the **Macroprudential (E) Working Group** indicated that their eventual goal is to include disclosures about the investments supporting the pension risk transfer business in the notes to the applicable insurers' statutory financial statements. The NAIC staff has also begun engaging with the U.S. Department of Labor (the "DOL") to discuss whether additional DOL regulations should be applicable to pension risk transfer transactions.

In addition, to address the concern with the increasing use of offshore reinsurance or more complex reinsurance structures, the regulators on the **Macroprudential (E) Working Group** are in the process of having confidential discussions with industry participants in order to better understand the area and will subsequently consider whether further regulatory work is needed in this area.

International

As part of an update on the activities of the **International Association of Insurance Supervisors** (the "IAIS") (for further detail, see "International Insurance", below), NAIC staff noted that the IAIS has also formed a private equity workstream that plans to produce an internal briefing memo providing an update on the evolution of private equity in various jurisdictions. We will be monitoring this workstream for relevant updates.

Climate Risk

The issue of climate risk ran through the work of a number of groups at the NAIC during the Portland meeting, with some of the more notable developments outlined below.

At the joint meeting of the **Financial Stability (E) Task Force** and the **Macroprudential (E) Working Group**, the NAIC's representative to the Financial Stability Oversight Council ("FSOC") gave an update on developments at FSOC. Late last year, FSOC called on member agencies (including the NAIC) to address climate risk as an increasing threat to financial stability. In response to that charge, the NAIC is participating in several groups to enhance information-sharing on climate resiliency.

In addition, climate risk was a topic of discussion at the meeting of the **International Insurance Relations (G) Committee**, including with respect to the increased emphasis and cooperation among various regulators on climate risk mitigation and climate resiliency, including recent working group meetings of the Sustainable Insurance Forum discussing gaps in climate risk protection in various jurisdictions. The **International Insurance Relations (G) Committee** expects to publish a report on climate-risk issues before year-end 2022 in collaboration with the new Climate Risk Steering Group of the IAIS, which was formed to (i) examine standards for supervising climate risk and deliver supporting material to help members use these standards to do so, (ii) improve scenario analysis methods and (iii) use climate data to monitor the progress that the IAIS has made.

As discussed in further detail in "Property & Casualty Insurance—Other P&C Lines" below, there was increasing attention at the **Property and Casualty Insurance (C) Committee** on changing insurance needs with respect to flood and wildfire risk, where losses are expected to increase in connection with climate change. The **Climate and Resiliency (EX) Task Force** also received a presentation on wildfire-risk mitigation strategies and a report that, at a federal level, on August 2, 2022, the U.S. House of Representatives passed the Wildfire Response and Drought Resiliency Act, which would require the Federal Emergency Management Agency ("FEMA") and the U.S. Government Accountability Office (the "GAO") to study wildfire insurance coverage, including by looking at growing threats and insurer and regulatory responses.

The **Climate and Resiliency (EX) Task Force** has sent referrals to the applicable NAIC groups proposing modifications to the *Financial Analysis Handbook*, the *Financial Condition Examiners Handbook* and the *ORSA Guidance Manual* to better account for climate-related risks, and it plans to forward these referrals to the **Financial Condition (E) Committee**.

Insurance Accounting Treatment

Structured Securities

The **Risk-Based Capital Investment Risk and Evaluation (E) Working Group** (the "RBC Working Group") adopted an updated working group agenda and signaled plans to focus on what the NAIC perceives as opportunities for "RBC arbitrage" using structured securities. In describing the project, the RBC Working Group set forth two principal goals with the theme of transparency: (i) ensuring that insurers' annual statements provide a clear picture of the RBC charges attributable to each of an insurer's assets and (ii) ensuring that the RBC framework provides transparency with respect to the particular risks that regulators consider in evaluating RBC charges.

The RBC Working Group acknowledged plans to collaborate with the **Valuation of Securities (E) Task Force**, which is evaluating a modeling process for collateralized loan obligations ("CLOs") that would normalize RBC treatment across CLOs, including with respect to lower tranches of CLOs. Although details of the modeling process are not yet well defined, the RBC Working Group received a referral from the **Valuation of Securities (E) Task Force** to consider whether CLO risk charges should be reevaluated based on such models. In particular, NAIC staff noted that there will be discussions of whether different tranches of CLOs should properly be subject to different risk charges.

Commenters also discussed related efforts by the **Statutory Accounting Principles (E) Working Group** to contribute to the RBC framework through its updated bond definition proposal and proposed revisions to Schedule D-1 of insurance companies' statutory financial statements. The RBC Working Group noted that this work will assist regulators in evaluating RBC charges by providing more granular insight into the cash flows and related features of structured securities held on insurance company balance sheets.

Discussing next steps, the RBC Working Group noted that addressing the "RBC arbitrage" issue is a priority for the NAIC, with a focus in the short term on CLOs. However, NAIC staff also noted that they "want to be cognizant of the broader universe of structured assets, not just CLOs."

Asset Adequacy Testing

In addition, the **Life Insurance and Annuities (A) Committee** and later the **Executive (EX) Committee and Plenary** adopted a new version of Actuarial Guideline LIII ("AG53") with respect to asset adequacy testing for life insurers, effective for asset adequacy analysis reported on December 31, 2022 financial statements and thereafter. AG53 will apply only to life insurers with (a) over $5 billion of general account actuarial reserves and non-unitized separate account assets or (b) over $100 million of such reserves and assets and over 5% of supporting assets selected for asset adequacy analysis that meet the definition set forth in AG53 for "Projected High Net Yield Assets."

AG53 now specifies enhanced requirements for insurer investments in "complex assets," including structured securities, asset-backed securities and CLOs, as well as assets originated by an insurance company or its affiliates or related entities, highlighting concerns similar to those discussed by the NAIC's various private equity-related workstreams. AG53 requires life insurers to confirm reserve adequacy and claims-paying ability in conditions adverse to complex asset classes and elaborates on elements that life insurers should consider in establishing margins on asset-related assumptions and valuations for these classes. AG53 also requires sensitivity testing for investments in these complex asset classes and requires additional documentation of investment fee income relationships with affiliates of, or entities otherwise "close to," the insurance company, with such documentation, sensitivity test results and attribution analysis to be included in the insurer's annual actuarial memorandum required by section VM-30 of the NAIC Valuation Manual.

Related Party Investments

In a similar vein, the **Accounting Practices and Procedures (E) Task Force** adopted revisions to the Statements of Statutory Accounting Principles (the "SSAPs") and the investment schedules that are intended to address the risk associated with related party investments, noting that the revisions will permit regulators to understand potential credit exposure to related parties and any related party relationships that exist in the origination and servicing of investments. Such revisions include updates to SSAP 25 (Affiliates and Other Related Parties) and SSAP 43R (Loan-Backed and Structured Securities, which will be renamed to refer to Asset-Backed Securities), and new reporting codes on investment schedules B (Mortgage Loans), D (Long-Term Bonds), DB (Derivatives), BA (Other Long Term Invested Assets), DA (Short Term Investments), E2 (Cash Equivalents) and DL (Securities Lending Collateral Assets). These revisions, which were previously adopted by the **Blanks (E) Working Group** and the **Statutory Accounting Principles (E) Working Group**, will be effective December 31, 2022 (subject to any state-specific variations in adopting them or the timing thereof).

Bond Treatment

The **Statutory Accounting Principles (E) Working Group** ("SAPWG") exposed incremental revisions to the principles-based bond definition, together with accompanying revisions to SSAPs 26R and 43R and the associated bond definition proposal issue paper. These updates further clarify the attributes that an asset must have to qualify for bond treatment and reporting on Schedule D-1 of an insurer's statutory financial statements. Notably, the updates include a revision to a key component of the definition of "asset backed security" ("ABS"). To meet the revised definition of "ABS," the issuer must have pre-determined and contractual principal and interest payments. In contrast, the previous definition of "ABS" had limited this requirement to securities that are backed by <u>equity</u> assets. Similarly, the revised issue paper adds guidance on the application of the bond principles to feeder-fund structures. The guidance notes that no feeder structure will automatically qualify for, or be automatically disqualified from, bond treatment. Rather, in classifying a feeder structure, regulators will assess the certainty of cash flows that inure to the ultimate holder of the ABS. A feeder structure with irregular cash flows would be more likely to receive equity treatment under the revised guidance. The revised bond treatment proposal was exposed for public comment until October 7, 2022.

In addition, the **Valuation of Securities (E) Task Force** exposed for a 30-day comment period (ending September 12, 2022) an SVO staff memorandum that proposes adding additional market-data fields and related descriptions to the annual statement instructions for all bonds reported on Schedule D, Part 1, in order to gather information to enable the SVO to evaluate the accuracy and significance of fixed-income security risk ratings. Industry participants voiced concerns about the difficulty of administration of these data fields and the appropriateness of using investment risk to evaluate ratings agencies. We will continue to monitor this area for further updates.

Life & Annuity Insurance

Accelerated Underwriting

The **Life Insurance and Annuities (A) Committee** also heard an update from the **Accelerated Underwriting (A) Working Group**, which continues to collaborate on efforts to provide guidance to regulators regarding accelerated underwriting standards for life insurers and noted, in particular, the need for guidance around the use of artificial intelligence and machine learning. In addition, consumer advocates at the meeting emphasized their position that insurers using such new technologies should be required by regulators to do so in line with general consumer-protection principles. The **Accelerated Underwriting (A) Working Group** plans to meet next in October 2022.

Annuity Suitability

The **Life Insurance and Annuities (A) Committee** also discussed and adopted the report of the **Annuity Suitability (A) Working Group**. The report noted the **Annuity Suitability (A) Working Group**'s efforts to draft proposed FAQs regarding a safe harbor in the revised Suitability in Annuity Transactions Model Regulation for "certain [annuity] recommendations and sales" and annuity recommendations made in compliance with "comparable standards". The FAQ document being drafted by the **Annuity Suitability (A) Working Group** will include a number of details about how insurance regulators intend to apply the safe harbor, including when producers would be considered to be acting as "financial professionals" under the safe harbor, which suitability standards would qualify as "comparable" and what responsibilities insurers would have under the safe harbor with respect to monitoring of producers, in each case taking into account comments received from various interest groups during public exposure. We will continue to monitor and provide updates on the final version of this FAQ document.

Liquidity Stress Test

As part of the **Macroprudential (E) Working Group's** annual Liquidity Stress Test process, NAIC has begun reviewing 2021 liquidity stress test results. At a high level, the results reviewed so far indicate that while the amount of assets projected to be sold by U.S. insurers during a stress scenario increased as compared to the 2020 liquidity stress test results, such asset sales would still not be significant to the broader financial markets.

The **Macroprudential (E) Working Group** also indicated that they have formed a new study group focused on separate accounts, which is expected to include a representative of the American Council of Life Insurers and will next meet in September 2022. This study group's focus will be on distinguishing insulated separate account products that are subject to existing SEC stress testing requirements from those that are not subject to such requirements and, if warranted, introducing an appropriate liquidity stress test mechanism for the latter.

Property & Casualty Insurance

Flood Insurance

The **Property and Casualty Insurance (C) Committee** discussed different proposals for the reauthorization of the National Flood Insurance Program ("NFIP") made recently by FEMA. In connection with the reauthorization of NFIP, FEMA recently sent Congress a set of 17 legislative proposals focused on reauthorizing NFIP for 10 years and improving its financial framework. However, the proposal from Congress reauthorizes NFIP only for one year. Notably, the NAIC expressed support for one component of FEMA's proposal whereby if a policyholder leaves NFIP for the private insurance market and then requests to rejoin NFIP, they would be readmitted into the program. The GAO is in the process of examining the private flood insurance market, and we would expect the results of the GAO's study to be weighed by Congress as part of its review of FEMA's proposals for modification of NFIP.

Cybersecurity

The **IAIS** indicated that it plans to perform a deep-dive analysis into cybersecurity data received from its members in order to assess (i) the cyber resilience of the insurance industry and (ii) how to measure cyber risk accumulation and develop additional cyber coverage in the market.

According to a presentation at the meeting of the **Property and Casualty Insurance (C) Committee**, there was a large increase in direct written cyber premium in the United States in 2021, up from $2.7 billion in 2020 to $4.8 billion. If alien surplus data were added to the 2021 direct written cyber-premium figure, it would total over $6 billion. There was a steep corresponding increase in claims volume in 2021. The majority of the U.S. cyber-insurance market was written by just 15 insurers in both 2020 and 2021, although there was a fair amount of variance between 2020 and 2021.

Premiums in the U.S. cyber-insurance market increased 34.3% in the fourth quarter of 2021, due in part to historical underpricing and an increase in the frequency and severity of cyberattacks. There was a simultaneous decrease in underwriting capacity and implementation of stricter underwriting requirements in the market. In addition, the 2021 U.S. cyber-insurance market saw reduced limits, higher deductibles, more restrictive terms and sub-limits for malware.

The NAIC staff indicated that it will have a few potential suggestions for consideration by the **Property and Casualty (C) Committee**, which they will distribute in writing. We will continue to monitor for these suggestions.

Other P&C Lines

The **Property and Casualty Insurance (C) Committee** also discussed increasing levels of Congressional attention on both wildfire insurance and cannabis insurance lines. The U.S. House of Representatives recently passed a bill outlining a cost-sharing proposal for wildfire damage, and the GAO is also expected to engage shortly on the topic of wildfire risks, their interaction with the homeowners' insurance market and the regulatory response to rising rates and exclusions for such risks.

The U.S. House of Representatives passed the Safe Banking Act, a bill providing for a cannabis safe harbor, for the seventh time. If legislative trends continue in the direction of decriminalization of cannabis, we would expect a growing market appetite for insurance for cannabis-industry businesses.

Finally, while attention on business interruption insurance has faded a bit since the beginning of the COVID-19 pandemic, the **Property and Casualty Insurance (C) Committee** did note that the GAO is in the process of examining the impacts of business interruption insurance during the pandemic. We will continue to monitor for any updates on the GAO's analysis.

International Insurance

IAIS Activities

As part of the implementation by the IAIS of the holistic framework begun in 2019, the IAIS's jurisdictional review panel is continuing to review individual jurisdictions' assessment reports, including that of the United States. In September 2022, the IAIS expects to hold discussions with a number of jurisdictions as part of its global monitoring exercise, with a focus on potential financial stability issues and best practices for mitigating any such risks, and will incorporate its findings into a market report to be published towards the end of 2022. Later this year, the IAIS is expected to report to the Federal Stability Board as to the status of implementation of the holistic framework in the United States and whether further work on its implementation will be needed.

On a prospective basis, the IAIS indicated that it expects to spend the rest of 2022 focused on diversity, equity and inclusion matters; operational resilience (including with respect to third party outsourcing and IT risk, artificial intelligence and machine learning); and climate concerns, and it will then produce its 2023-2024 roadmap after consideration of these issues.

In addition, the Financial Stability Board suspended using the designation of global systemically important insurers ("GSIIs") and is in the process of evaluating what changes will be implemented to the GSII framework. We will continue monitoring this area for updates.

Insurance Capital Standards

At its meeting, the **International Insurance Relations (G) Committee** heard a presentation of the conclusions of a committee of the Federal Reserve Board on the impact of the IAIS's insurance capital standard ("ICS") — which applies to internationally active insurance groups — on U.S. insurers, policyholders and markets, particularly long-duration life insurance and retirement products. At a high level, the Federal Reserve Board's study observed that the ICS requirements on discounting produce unduly conservative results and require the allocation of insurers' liabilities into categories that are not consistent with U.S. insurers' typical asset-liability matching practices. Moreover, ICS does not recognize dynamic hedging programs, causing problems from a risk-mitigation perspective. The Federal Reserve Board's study concluded that these issues make it highly likely for ICS to produce inappropriate signals to regulators and financial markets.

As a result of its study, the Federal Reserve Board committee proposed revisions to ICS that (i) more closely align the categorization of insurer liabilities with typical asset-liability matching practices for long-duration products, (ii) refine ICS's liability discounting construction to better align with asset and liability valuation and (iii) replace flat spreads with tenor-specific design recognizing granular asset type within a given rating. The Federal Reserve Board committee estimates that these changes would produce a 17% increase in capital resources over the current formulation of ICS. We will continue monitoring these proposed revisions as they are considered by IAIS.

Other Developments

Model Law Development

The **Financial Regulation Standards (F) Committee** received updates on the status of the adoption by NAIC jurisdictions of the Credit for Reinsurance Model Law (#785) and Regulation (#786) and the Term and Universal Life Insurance Reserve Financing Model

Regulation (#787), each of which has been adopted as an accreditation standard and becomes effective September 1, 2022, with enforcement to begin January 1, 2023.

The 2019 amendments to the Credit for Reinsurance Model Law and Regulation lay out the framework for insurers to take credit for reinsurance ceded to a reciprocal jurisdiction reinsurer. The **Financial Regulation Standards (F) Committee** advised states to adopt the revisions to these models in "close to identical form" and consistent with the Covered Agreements in order to avoid preemption under Dodd Frank. As of August 2, 2022, 56 jurisdictions have adopted the model law, 50 jurisdictions have adopted the model regulation and three jurisdictions are pending adoption of the model regulation.

The Term and Universal Life Insurance Reserve Financing Model Regulation establishes national standards for reserve financing arrangements for term and universal life policies with secondary guarantees. As of August 2, 2022, 20 jurisdictions have adopted the model regulation, with 7 jurisdictions pending adoption.

The progress of a number of other model laws was discussed at the **Executive (EX) Committee**. At a high level, the **Executive (EX) Committee** expressed a desire, going forward, to focus on model laws that have a high degree of support among the states and so are expected to be widely implemented, in contrast to a number of currently existing model laws that generally have not been implemented.

For example, current Model Laws #670 (*NAIC Insurance Information and Privacy Protection Model Act*) and #672 (*Privacy of Consumer Financial and Health Information Regulation*) are not currently widely adopted. The NAIC is currently working on amendments to both in order to make adjustments that will make such model laws more popular among jurisdictions.

With respect to other model laws currently in development, the **Mortgage Guaranty Insurance (E) Working Group** received an extension until the 2023 Spring National Meeting from the **Executive (EX) Committee** to complete amendments to the Mortgage Guaranty Insurance Model Act (Model #360). In addition, the **Surplus Lines (C) Task Force** appointed a drafting group to work on amendments to the Nonadmitted Insurance Model Act (Model #870) that will seek to modernize the model and bring it into alignment with the federal Nonadmitted and Reinsurance Reform Act. The drafting group met four times in 2021 and met with regulators twice in 2022.

Receivership Law

The **Receivership Law (E) Working Group** continued its discussions of a draft memorandum of understanding between state insurance regulators, receivers and guaranty funds for enhancing pre-liquidation coordination and communication and discussed additional proposals by the National Conference of Insurance Guaranty Funds. The memorandum of understanding was exposed for public comment until September 1, 2022. Additional guidance and best practices on pre-receivership coordination are expected to be incorporated into the NAIC Receivership Handbook in the future.

Privacy Protections

The **Privacy Protections (H) Working Group** received an update on the status of privacy legislation at the state and federal levels. Currently, five states (CA, CO, CT, UT, and VA) have passed comprehensive privacy laws and six jurisdictions (D.C., MA, MI, NJ, OH, and PA) have a privacy law pending.

At the federal level, the American Data Privacy and Protection Act (the "ADPPA") was reported out on July 20, 2022 by the House Committee on Energy and Commerce by a 53-2 vote. The ADPPA is now eligible for a vote of the full U.S. House of Representatives. If passed by Congress, the ADPPA would preempt most state privacy regulation and create a private right of action for violations of the act or a regulation promulgated under the ADPPA that is available starting two years after the ADPPA's effective date. The ADPPA limits lawsuits to federal courts. The ADPPA also includes carve outs for certain state laws, rules, regulations, or requirements, including Illinois's Biometric Information Privacy Act (740 ICLS 14 et seq.), Illinois's Genetic Information Privacy Act (410 ILCS 513 et seq.), and the private right of action provided under the California Consumer Act (the "CCPA") / California Privacy Rights Act (the "CPRA"). The ADPPA expressly authorizes the California Privacy Protection Agency established under the CPRA to enforce the ADPPA "in the same manner, it would otherwise enforce the [CCPA]." The current ADPPA also exempts from its privacy requirements any covered entities that are required to comply with, and are in compliance with the data privacy requirements of, certain federal laws, including the Health Insurance Portability and Accountability Act (HIPAA), the Health Information Technology for Economic and Clinical Health Act (HITECH), the Gramm-Leach-Bliley Act (GLBA), the Fair Credit Reporting Act (FCRA) and the Family Educational Rights and Privacy Act (FERPA). Similarly, the ADPPA exempts from its data security requirements any covered entity that is required to comply with, and is in compliance with, the information security requirements of certain federal laws, including the GLBA, HIPAA, HITECH and the Social Security Act (SSA). These exemptions are limited solely and exclusively to the data subject to the requirements of those federal laws and regulations.

The **Privacy Protections (H) Working Group** also discussed updates on its ongoing white paper and model law development projects. The **Privacy Protections (H) Working Group** administered a survey to interested parties to gather information on how those parties think about consumer data ownership and use and, based on the responses to that survey, is on track to expose a draft white paper on the topic in December 2022. In addition, as discussed above, a new model law to consolidate and replace two existing model laws, *NAIC Insurance Information and Privacy Protection Model Act* (#670) and *Privacy of Customer Financial and Health information Regulation* (#672) is being developed, and a draft is expected to be exposed for comment in late 2022 or early 2023.

Cryptocurrency

As discussed by the **Financial Stability (E) Task Force** and the **Macroprudential (E) Working Group**, the NAIC is beginning to focus on cryptocurrency and other digital assets and the potential risks that these assets pose to the broader financial system. Working groups underneath the **Financial Stability (E) Task Force** are in the process of preparing a report on monitoring and analyzing the risks to insurers posed by alternative digital assets and the potential impacts of state regulation of such assets on insurers.

Federal Reserve Insurance Supervisory Framework

The **Financial Condition (E) Committee** heard a presentation from the Federal Reserve on its proposed Insurance Supervisory Framework, which was exposed for comment from January 28, 2022 to May 5, 2022 and describes the Fed's proposed approach to supervising depository institution holding companies that are significantly engaged in insurance. The framework is built around three key ideas: proportional supervision based on the risk and complexity of the entity; supervisory ratings to help assess entities; and cooperation with existing regulatory frameworks (including state insurance regulators). Each holding company group is expected to be categorized as complex or noncomplex depending on a variety of factors, including whether the group holds in excess of $100 billion of assets and whether it conducts significant international activities. Ratings will be applied to three categories (capital management, liquidity management and governance and controls), and groups will be given one of four ratings, which from best to worst will be: broadly meets expectations; conditionally meets expectations; deficient-1 and deficient-2. Deficient-1 will entail a confidential review of deficiencies, while deficient-2 will carry a presumption of some sort of enforcement action or public enforcement component. The framework also includes specific discussion of how the Federal Reserve's supervisory teams will coordinate with state insurance regulators to minimize regulatory burden and leverage existing tools, including by disclosing examination plans and seeking participation from state insurance regulators. The Federal Reserve expects to issue final guidance on the framework soon.

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Please do not hesitate to contact us with any questions.

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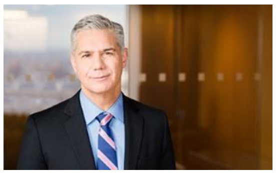

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