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Similar memorandum requirements under AG 55 – Summary and analysis

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Overview

Actuarial Guideline 55 (Reinsurance Asset Adequacy Testing, AG 55) is a newly adopted NAIC guideline focused on life insurers that engage in certain reserve-financing or “asset-intensive” reinsurance treaties, effective as of December 31, 2025 (on a disclosure basis). It aims to ensure that ceded reinsurance does not undermine reserve adequacy. Regulators became concerned that some offshore or affiliated reinsurance arrangements were materially reducing ceding companies’ reserves, potentially creating long-term solvency risks. AG 55 enhances oversight by requiring insurers to perform robust asset adequacy analysis on ceded blocks, treating the reinsured business as if it were still part of the insurer’s own asset-liability portfolio for testing purposes.

A key challenge addressed by AG 55 arises when the assuming reinsurer is not subject to U.S. regulation and therefore does not file a standard NAIC Actuarial Opinion and Memorandum under VM-30. VM-30 of the NAIC Valuation Manual contains U.S. actuarial opinion and memorandum requirements (including cash-flow testing for asset adequacy) for insurers. If a reinsurer doesn’t provide a VM-30 filing to any U.S. state, the ceding company’s regulator lacks the usual insight into the adequacy of reserves on the reinsured block. AG 55 introduces the concept of a Similar Memorandum, essentially an actuarial report prepared in lieu of a VM-30 memorandum, containing similar content and analysis. The Similar Memorandum is intended to give U.S. regulators a comparable level of detail and assurance about the reserves and supporting assets of the reinsured business, even if the risk now resides with a non-U.S. entity. In practice, the ceding company is expected to obtain such a memorandum from the assuming reinsurer (or develop it in collaboration with the reinsurer’s actuaries) and provide it to regulators.

AG 55 allows a well-prepared Similar Memorandum to serve as an alternative to full cash-flow testing by the ceding company in certain cases. Rather than having the ceding company appointed actuary perform cash-flow testing on the reinsured blocks, the regulator may accept a Similar Memorandum from the reinsurer as evidence that the assets backing the ceded liabilities are adequate under moderately adverse conditions. However, this acceptance is not automatic; the memorandum must be comprehensive and “easily readable” for the pertinent risks. U.S. regulators, often with assistance from the NAIC’s Valuation Analysis Working Group, will evaluate the Similar Memorandum. If they cannot confidently determine from the memo alone that assets are adequate to support the liabilities, they reserve the right to require additional testing or supplemental information from the ceding company.

Key components of a Similar Memorandum and their significance

KEY COMPONENTS (DETAILS BELOW)

1. Asset descriptions
2. Assumption documentation (reasonableness of key assumptions)
3. Methodology
4. Rationale for degree of rigor (analysis depth by block)
5. Materiality thresholds used
6. Asset adequacy criteria and key risk analysis
7. Changes from prior year’s analysis
8. Summary of results
9. Conclusions
10. Relevant aspects of Actuarial Guideline 53 (asset risk disclosure)
11. Scope of the memorandum
12. Qualified actuary and standards of practice

1. **ASSET DESCRIPTIONS**

   A clear description of the assets supporting the reinsured liabilities is required. This includes the types of assets, their credit quality, maturity profile, liquidity, and other pertinent characteristics. Regulators insist on this because the nature and quality of assets directly affect an insurer's ability to fulfill obligations. For asset-intensive treaties, there is concern that low-quality or illiquid assets might be used to back reserves. Detailing the assets provides transparency and allows regulators to flag potential issues (e.g., heavy reliance on low-quality bonds, exotic investments, or inter-company notes).

2. **ASSUMPTION DOCUMENTATION (REASONABLENESS OF KEY ASSUMPTIONS)**

   This section requires full documentation of all actuarial assumptions used in the analysis, with an indication that key assumptions are set to a reasonable, prudent level. This means outlining assumptions for interest rates (investment returns), credit defaults, policyholder behavior (lapses, withdrawals), mortality, expenses, etc., and explaining the rationale for each. The memorandum must demonstrate that assumptions are not overly optimistic—VM-30's standard is that an actuary reviewing the memo could conclude the assumptions are reasonable and provide for "moderate adverse conditions." This element is crucial because cash-flow testing results are only as reliable as the assumptions behind them. Requiring thorough assumption documentation prevents a reinsurer from using overly rosy assumptions (e.g., extremely high investment yields or high lapse rates for universal life with secondary guarantees business) to make the reinsured business appear better funded than it truly is. It forces explicit justification of assumptions, allowing regulators to challenge any that seem inconsistent with industry norms or economic reality. U.S. regulators expect assumptions to include some margin for adversity—for instance, slightly higher mortality or lower investment returns than best estimate—to ensure the analysis captures adverse scenarios.

3. **METHODOLOGY**

   Outlining methodology typically means explaining the modeling approach (e.g., deterministic cash-flow projection, stochastic simulations, duration analysis) and the scope of scenarios run. It also covers how assets and liabilities are projected and interact. The methodology discussion is important because regulators want to see that appropriate actuarial techniques were applied. If, for example, the block has significant interest-sensitive features, robust scenario testing (varying interest rate paths, equity returns, etc.) is expected. If only a simplistic single scenario were used, that would likely be deemed insufficient. By documenting the methodology, the actuary demonstrates that the analysis is robust.

4. **RATIONALE FOR DEGREE OF RIGOR (ANALYSIS DEPTH BY BLOCK)**

   This component asks for an explanation of how and why the actuary chose different levels of rigor for different segments of the business. In many actuarial memoranda, not every policy is tested in equal detail—actuaries might group policies or use sampling, and they often apply more intensive analysis to the most material or risky blocks while using simpler approaches for smaller, less risky blocks. AG 55 expects the Similar Memorandum to justify these choices. The regulatory purpose of this item is to ensure the actuary hasn't skipped or undersold any portion of the business that could be significant. It enforces transparency in how the actuary balanced efficiency versus thoroughness. In most cases, in reflection of the concerns around asset-intensive business, a rigorous methodology like cash-flow testing would be expected. If a regulator sees that a potentially significant risk was analyzed in a less rigorous way, they may question it or require additional testing.

5. **MATERIALITY THRESHOLDS USED**

   This component asks for a statement of the materiality criteria or thresholds that guided the scope of the analysis. For example, an actuary might declare that any block constituting more than 5% of the total reserve (or any risk factor that could impact surplus by more than a certain dollar amount) was considered material and analyzed with full rigor. By disclosing these thresholds, the actuary provides regulators insight into what was considered significant. This matters because regulators may have a different view on materiality: what a company views as a small risk, a regulator might view as important for policyholder protection or systemic risk. If the thresholds are set too high, a regulator might worry that some risks were not tested.

6. ASSET ADEQUACY CRITERIA AND KEY RISK ANALYSIS

The memorandum must spell out the criteria used to determine asset adequacy and state whether those criteria are met. The actuary should define what "passing" the asset adequacy test means. Common criteria might include: no scenario (of those tested) produces a negative ending surplus, or the present value of assets exceeds that of liabilities under moderately adverse conditions with an adequate margin, etc. The memo then needs to clearly state if the analysis showed these criteria were satisfied (or quantify any shortfall if not).

The actuary should highlight how key risks are modeled and accounted for—such as reinvestment risk, disintermediation risk, asset default risk, and other relevant risks. AG 55 explicitly calls for showing these risks "in an easy-to-review manner" —for example, providing a table or graph of results under various interest-rate scenarios to illustrate the impact of those risks. At present, it is unknown what circumstances would lead to the need for additional reserves for two reasons. First, transaction-based cash-flow testing is different than company-wide cash-flow testing, so it may lead to more of a dialog rather than an "automatic" that negative results should lead to additional reserves. Second, AG 55 is initially disclosure-only, so NAIC-coordinated activity would not likely lead to a requirement of additional reserves (although the domestic state maintains that right).

7. CHANGES FROM PRIOR YEAR'S ANALYSIS

This is a summary of any changes in assumptions, methods, or outcomes since the prior year's analysis. Regulators want to see year-over-year continuity and understand trends. For instance, if in last year's analysis the actuary held a certain assumption or identified a small deficiency, what's different now? This component matters because trends can be as illuminating as point-in-time results. A regulator could learn that the risk profile is deteriorating (e.g., perhaps this year's moderately adverse scenario showed a deficiency whereas last year's did not, due to more aggressive asset investments or a change in asset mix). Conversely, it might show improvements (e.g., the reinsurer added capital or de-risked the portfolio). Coupled with the narrative previously described, a table showing the impact of changes from the prior year will better assist regulators to understand the implications of the changes.

8. SUMMARY OF RESULTS

This component asks for a clear summary of the cash-flow testing results and outcomes for the reinsured block. This typically includes key metrics or findings—for example, the minimum surplus under the worst-case scenario, the amount of any additional reserve that may have been needed under the tested scenarios, or confirmation that no additional reserve was required. It might also summarize base-case versus adverse-case results, etc. The value of a concise summary is that it allows both company management and regulators to quickly grasp the bottom line. Regulators often review many companies and transactions; a well-structured summary highlights whether the treaty produced any red flags (e.g., cash-flow shortfalls under certain stresses) or if everything appears sound.

9. CONCLUSIONS

In a formal VM-30 actuarial memorandum, the appointed actuary typically concludes whether the reserves are adequate under the tested scenarios (often tying directly into the Actuarial Opinion). Similarly, the Similar Memorandum should include a definitive conclusion: for example: "In my professional opinion, the assets supporting the reinsured block are sufficient to meet the liabilities under moderately adverse conditions, and no additional statutory reserves are needed," or conversely, "An additional reserve of $X would be required to cover deficiencies under the tested scenarios." For regulators, the conclusion is a focal point—effectively the answer to whether the reinsurance arrangement might be leading to reserve inadequacy and/or undermining solvency.

If the conclusion is that reserves are not adequate, the domestic regulator may intervene (for instance, by requiring the ceding company to hold more reserves).

10. RELEVANT ASPECTS OF ACTUARIAL GUIDELINE 53 (ASSET RISK DISCLOSURE)

Inclusion of any analysis or documentation required by NAIC Actuarial Guideline 53 (AG 53) may be pertinent to the reinsured block. AG 53 is aimed at improving transparency around insurers' asset portfolios and risk exposures, especially focusing on high-yield investments and complex assets. It requires additional disclosures and analysis in the context of asset adequacy testing, for example, capping overly optimistic investment return assumptions and examining reinsurance recoverability under stress. AG 55 explicitly calls for the Similar Memorandum to cover “relevant aspects” of AG 53, including indicating whether high-yield assets are modeled with a reasonable reflection of their risk. If the reinsurer’s asset portfolio includes higher-risk investments (e.g., lower-quality bonds, equities, or other high-yield assets), the memorandum should show that the analysis accounted for the additional risk. This component extends the AG 53 notion of “do not rely on high yields without acknowledging high risk” to the reinsurance context. This protects against scenarios where a reinsurer could appear solvent due to high asset returns, but in reality, be vulnerable.

11. SCOPE OF THE MEMORANDUM

This component states the scope of analysis (i.e., what exactly the Similar Memorandum covers). Does it cover the assuming company’s entire book of business, the specific ceding company’s reinsured block, or a particular reinsurance treaty in isolation? Scope can also describe whether the analysis was done on a stand-alone basis for the ceded liabilities or in aggregation with other business. For instance, if the analysis is performed on a companywide basis for the assuming reinsurer, the results show the adequacy of the reinsurer’s overall assets versus liabilities, which can be comforting if the reinsurer is well-capitalized, but it might dilute focus on the specific ceded block. If the analysis is treaty-specific, it directly shows the economics of that single transaction but might not capture diversification or additional support the reinsurer has outside the treaty. The Similar Memorandum should delineate the scope so regulators can decide if further inquiry is needed.

12. QUALIFIED ACTUARY AND STANDARDS OF PRACTICE

This provides a statement that the report was prepared by a qualified actuary and that it complies with relevant Actuarial Standards of Practice (ASOPs). In the U.S. context, a qualified actuary typically means someone who meets specific qualification standards (e.g., a fellow or associate of the SOA, and a member of the American Academy of Actuaries, with appropriate experience for signing statutory opinions). The memorandum should be signed by such an actuary, and it should note adherence to applicable ASOPs (such as ASOP No. 22 on asset adequacy analysis, ASOP No. 7 on cash-flow analysis, ASOP No. 11 on treatment of reinsurance, etc.).

Adapting AG 55 reinsurance analysis to U.S. standards

Many of the reinsurance arrangements targeted by AG 55 involve non-U.S. reinsurers (such as companies in Bermuda or the Cayman Islands) or captives. The non-U.S. jurisdictions have their own regulatory and actuarial frameworks, which can differ—potentially significantly—from U.S. statutory accounting and VM-30 requirements.

Actuaries dealing with such cross-border treaties or captives need to align their documentation and analysis to U.S. expectations in order to produce an acceptable Similar Memorandum. Below are key considerations and guidance for adapting actuarial analyses to meet the AG 55 Similar Memorandum standards.

KEY CONSIDERATIONS (DETAILS BELOW)

1. Understand the framework differences
2. Incorporate NAIC definitions and standards
3. Expand on moderate adversity in testing
4. Address high-yield asset risk per U.S. guidance
5. Enhance documentation and clarity
6. Collaborate across borders

1. **UNDERSTAND THE FRAMEWORK DIFFERENCES**

   First, recognize the differences in regulatory frameworks. For example, Bermuda's regime is built around an economic balance sheet and risk-based capital (the Bermuda Solvency Capital Requirement), rather than U.S. statutory reserves. Bermuda insurers produce an actuarial opinion on their technical provisions and typically a financial condition report, but the assumptions and scenarios used may differ from U.S. cash-flow testing. Some jurisdictions may allow more reliance on market-based risk mitigants (such as letters of credit or contingent assets) or emphasize collateral not backed by allowed assets and may not require rigorous cash-flow adequacy testing at all for certain classes of insurer. An analysis done in a non-U.S. jurisdiction might show that the reinsurer is solvent under certain stress scenarios, but it might not explicitly state that reserves are adequate under "moderately adverse conditions." To align with U.S. expectations, the actuary may need to bridge this conceptual gap by reframing or supplementing the analysis to explicitly cover potential U.S. concerns.

2. **INCORPORATE NAIC DEFINITIONS AND STANDARDS**

   Adaptation of the report to use NAIC-consistent terminology and metrics may be necessary. Terms like pre-reinsurance reserve (the U.S. statutory reserve before the deal) and post-reinsurance reserve are part of AG 55's language, as is the concept of reserve decrease due to the treaty. A non-U.S. analysis might not use these specific terms, but for a Similar Memorandum it is prudent to adopt them. For example, if a non-U.S. reinsurer is holding reserves on a different basis, the memorandum should still calculate what the U.S. statutory reserve would have been without the deal and compare it to the combined post-reinsurance reserves held by both ceding and assuming companies. Similarly, if a captive framework treats certain assets differently (say, counting a letter of credit or parental guarantee as an asset), the Similar Memorandum should identify those as excluded assets per AG 55 definitions and ensure the cash-flow testing excludes their effect under the AG 55-defined mandatory run.

3. **EXPAND ON MODERATE ADVERSITY IN TESTING**

   Actuaries may need to explicitly introduce the moderately adverse conditions standard into their analysis if it was not present originally. Bermuda's capital stress scenarios, for example, might be calibrated to extremely remote events (1-in-200-year solvency stresses), which is a far more extreme test than the NAIC's moderately adverse threshold (more akin to a 1-in-10 or 1-in-20 scenario in practice). While Bermuda's regime focuses on extreme solvency covering reserves and capital, U.S. regulators may want to see that even under less extreme (but still adverse) conditions, the reinsurer wouldn't run out of assets relative to its reserves. Also, it is possible that disintermediation may not be stressed robustly enough for individual deferred annuities in certain jurisdictions, such that considerations may need to be made for both the dynamic lapses and the scenarios considered. In these cases, the Similar Memorandum might need to include additional scenario testing or reinterpret existing testing to fit the moderate adversity concept.

4. **ADDRESS HIGH-YIELD ASSET RISK PER U.S. GUIDANCE**

   If the reinsurer's investment portfolio includes assets that U.S. regulators consider high-risk or high-yield, ensure the treatment of those assets in the analysis meets U.S. scrutiny. For example, another jurisdiction's rules might allow an insurer to hold sub-investment-grade assets (e.g., BB- or lower-rated bonds) but simply impose a higher capital charge for them. In a U.S. asset adequacy analysis, the actuary should demonstrate that any high-yield assets are not propping up the positive results unrealistically. This could mean showing an alternative scenario where those assets default at a higher rate, or noting that returns on any asset above a certain quality threshold are capped or paired with heightened default assumptions. This approach is consistent with AG 53's intent of reducing reliance on stretch-for-yield strategies.

5. ENHANCE DOCUMENTATION AND CLARITY

Non-U.S. actuarial reports might be more principles-based and less granular in documentation, depending on the regime. U.S. regulators, by contrast, are accustomed to very detailed actuarial memoranda (often dozens of pages of narrative plus exhibits). To meet U.S. expectations, actuaries should enhance the documentation in areas U.S. reviewers will care about. This means writing out the rationale for decisions in more detail (as outlined in the components above). It is important to recognize that the Similar Memorandum may be reviewed by regulators or analytical actuaries at the NAIC who were not involved in the original deal and are not familiar with the company. The document needs to stand on its own and be easily understood.

6. COLLABORATE ACROSS BORDERS

Preparing a Similar Memorandum is expected to require cooperation between the ceding company's appointed actuary and the assuming company's actuarial team. The ceding company's appointed actuary ultimately must sign off that their annual reserve opinion is informed by adequate analysis of the reinsured portion, and to do this they need sufficient information from the reinsurer. It would be very helpful to engage the reinsurer's actuaries early in the process—share the list of AG 55 required elements and U.S. expectations, and ensure the reinsurer is prepared either to provide their internal analysis or to perform additional testing to fill any gaps. For example, a non-U.S. reinsurer might not typically run the New York 7 interest rate scenarios or produce cash-flow projections in the exact format U.S. regulators expect, but if the ceding actuary communicates the need, the reinsurer can run those scenarios specifically for this purpose.

Final thoughts and how to get prepared

By taking these steps, actuaries for non-U.S. treaties will produce a Similar Memorandum that stands up to U.S. regulatory scrutiny. The goal is to achieve as little difference as possible (aside from accounting basis) between what a U.S. regulator would see from a domestic company's memorandum and the analysis provided for the offshore reinsured business. Achieving that alignment is crucial because it directly impacts the regulator's willingness to grant reserve credit and forego additional testing. If the documentation is well-aligned and comprehensive, U.S. regulators are far more likely to be comfortable that the reinsurance transaction is not masking a problem or creating an undue risk.

Based on our experience with VM-30, multi-jurisdiction reinsurance, and regulator expectations, here are some examples of areas you should be considering:

- Review reasonableness of key assumptions.
- Assess the asset adequacy criteria used.
- Review how the framework differences are addressed.
- Discuss AG 55 implications with your domiciliary regulator.
- Consider how AG 53 may need to be leveraged for AG 55.
- Assess modeling and documentation needs associated with AG 55.

This is the second paper in a series of papers we have planned to send out throughout the year to keep you informed about the progress and implementation of AG 55. Our original paper provided an overview and the background on AG 55.

Our goal is to ensure you have the necessary information and support to comply with the new requirements effectively.

If you have any questions about the content of this report, the authors can be reached at yan.fridman@milliman.com or bill.sayre@milliman.com.

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