NAIC Reciprocal Exchanges (E) Working Group Advances Proposed Amendments to Model 440 and Model 450

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On July 22, 2026, the NAIC Reciprocal Exchanges (E) Working Group met virtually to discuss proposed amendments to the Insurance Holding Company System Regulatory Act (Model #440) and the Insurance Holding Company System Model Regulation (Model #450). Formed in November 2025 under the Financial Condition (E) Committee and chaired by Bradley Trim (FL), with David Wolf (NJ) serving as Vice Chair, the Working Group's charge is to clarify that fees charged by the Attorney-in-Fact ("AIF") to reciprocal exchanges are subject to fair and reasonable standards, subject to commissioner approval, and under no circumstances should exceed the cost of such services plus a reasonable profit. These proposed amendments respond to an increase in the number of newly formed reciprocal exchanges and regulatory concerns identified by the Risk Focused Surveillance Group regarding qualification of an AIF as an affiliate under the holding company framework.

A link to the meeting materials is here.

Proposed Changes to Model 440 (Insurance Holding Company System Regulatory Act)

Section 1 (Definitions): The proposed amendments add "including attorney-in-fact contracts" to the definition of "control," with a new drafting note clarifying that control includes control by an AIF where a party can direct the management, policies, or business operations of an entity—including reciprocal exchanges. A second proposed drafting note under the "Insurer" definition confirms that reciprocal insurers (exchange indemnity contracts, inter-insurance exchanges) are included.

Section 5 (Standards and Management of an Insurer Within an Insurance Holding Company System): A proposed drafting note under the existing "reasonable" fees requirement states that charges include amounts charged by an AIF, and that such amounts should under no circumstances exceed the cost of services plus a reasonable profit. The proposed amendments would also add "including attorney-in-fact agreements" to the management agreement prior notice provisions for affiliate agreements.

Proposed Changes to Model 450 (Insurance Holding Company System Model Regulation)

The proposed amendments add "service agreements" and "attorney-in-fact agreements" parentheticals to Section 19 (Transactions Subject to Prior Notice) and Form D, Item 6 (Management Agreements, Service Agreements and Cost-Sharing Arrangements) for consistency with the Model 440 revisions to clarify applicability of the model law. A related drafting note—mirroring the Model 440 language—clarifies that attorney-in-fact agreements include powers of attorney and related agreements established to provide services to a reciprocal exchange at a specific cost.

Notable Discussion Points

Working Group members inquired about the addition of service agreements to both sub-items under Form D, Item 6. NAIC staff confirmed that the proposed revisions are for consistency—service agreements already appear in the section title but were absent from the body text. Working Group members also commented on whether tax sharing agreements should be addressed in the proposed amendments; NAIC staff responded that tax allocation agreements have a separate line in Model 450 (Item 5) and fall outside the Working Group's current charge, though stakeholders may raise the issue during the comment period.

On a motion by Ohio, seconded by Pennsylvania, the Working Group voted unanimously to expose both sets of revisions for a **30-day public comment period closing Friday, August 21, 2026.**

What to Watch

- The definitional changes clarifying that AIF agreements constitute "control" could bring more reciprocal exchange structures within the holding company regulatory framework, triggering prior notice requirements.
- Reciprocal exchanges should proactively review fee arrangements and service agreements for compliance with the cost-plus, reasonable-profit standard.
- The 30-day comment period (closing August 21, 2026) presents an opportunity for industry stakeholders to provide input.