

FINANCIAL STABILITY (EX) TASK FORCE

Financial Stability (EX) Task Force Oct. 13, 2020, Minutes

Draft Pending Adoption

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Financial Stability (EX) Task Force
Conference Call (*in lieu of meeting at the 2020 Fall National Meeting*)
October 13, 2020

The Financial Stability (EX) Task Force met via conference call Oct. 13, 2020. The following Task Force members participated: Marlene Caride, Chair (NJ); Eric A. Cioppa, Vice Chair (ME); Alan McClain (AR); Ricardo Lara represented by Kim Hudson (CA); Andrew N. Mais represented by Kathy Belfi (CT); David Altmaier (FL); Doug Ommen represented by Carrie Mears (IA); Robert H. Muriel represented by Vincent Tsang (IL); Gary Anderson (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Bruce R. Ramge represented by Justin Schrader (NE); Linda A. Lacewell represented by Martha Lees (NY); Jessica K. Altman represented by Melissa Greiner (PA); and Kent Sullivan represented by Jamie Walker (TX).

1. Adopted its Summer National Meeting Minutes

The minutes indicate the Task Force met Aug. 5 and took the following actions: 1) adopted its Feb. 26 and 2019 Fall National Meeting minutes; 2) heard an update on Financial Stability Oversight Council (FSOC) developments; 3) received an update from the Liquidity Assessment (EX) Subgroup on progress achieving its deliverables related to Liquidity Stress Testing (LST); 4) received an update from the Receivership and Insolvency (E) Task Force on its work to address the Financial Stability (EX) Task Force's referral letter to undertake analysis relevant to the Macroprudential Initiative (MPI); 5) heard an update on collateralized loan obligation (CLO) stress tests; 6) heard an update on the International Association of Insurance Supervisors (IAIS); 7) heard an update on the London Interbank Offered Rate (LIBOR); and 8) discussed exposure comments for the draft revisions to the *Insurance Holding Company System Regulatory Act* (#440).

Commissioner Altmaier made a motion, seconded by Mr. Schrader, to adopt the Task Force's Aug. 5 minutes (*see NAIC Proceedings – Summer 2020, Financial Stability (EX) Task Force*). The motion passed unanimously.

2. Considered Adoption of its 2021 Proposed Charges

Commissioner Caride said that the 2021 proposed charges for the Task Force are the same as the current 2020 charges, but the proposed charges for the Liquidity Assessment (EX) Subgroup have been modified. She added that charges related to liquidity risk data and the development of the LST Framework are essentially the same as the 2020 charges except for eliminating reference to work already completed, such as the scope criteria. She noted that the new charge that was added this year pivoted from the LST Framework to instead address data needs specific to the pandemic and the related economic impact. Commissioner Caride concluded that the charge related to the pandemic will continue since the end to the pandemic and its related economic impact are unknown.

Ms. Belfi made a motion, seconded by Commissioner Altmaier, to adopt the 2021 proposed charges for the Task Force and the Liquidity Assessment (EX) Subgroup (*see NAIC Proceedings – Summer 2020, Financial Stability (EX) Task Force*). The motion passed unanimously.

3. Considered Adoption of Revisions to Model #440

Commissioner Caride noted that the 30-day comment period for proposed revisions to Model #440 ended Oct. 5 with one written comment from the American Council of Life Insurers (ACLI). She said the ACLI comments included some minor editorial changes that did not change the intent of the regulatory provisions and thus were incorporated into the new draft. She clarified that the edits from the Group Capital Calculation (E) Working Group included in Model #440 are not up for discussion and consideration by the Task Force. She said once all changes have been finalized, the Task Force will send them to the Financial Condition (E) Committee for incorporation with the Group Capital Calculation Working Group changes once those are finalized.

The Task Force received several comments on the conference call, which are summarized below:

- David Leifer (ACLI) requested that the LST data be limited to macroprudential uses and inclusion of a specific time limit on the retention of the LST data. Commissioner Caride asked Mr. Schrader to address these concerns. He said the Subgroup has consistently and repeatedly responded to this concept of limiting the LST to macroprudential uses.

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While the primary purpose of the LST data is for macroprudential uses, there will also be some value for micro-prudential uses by domiciliary and lead state regulators analyzing legal entity insurers and their groups. He explained the need for many years of LST data since the macroprudential uses will include time series analyses but was unable to specify a certain amount of years needed since the Task Force has yet to work with any LST data. He suggested there should be no limit for now, while acknowledging this concept could be revisited in the future when the Task Force has more experience with analyzing the LST data. Several other Task Force members joined Commissioner Caride in expressing support for both of Mr. Schrader's positions, and none expressed any concerns or opposition.

- Ms. Belfi questioned the ACLI's request to change the phrase "assets and liabilities" to "exposure bases" in the definition of Scope Criteria. Mr. Leifer explained it was to provide a more flexible term. Mr. Schrader indicated support for this change as there may be some items used in the Scope Criteria that are not technically the asset or liabilities balance, and Joe Engelhard (Metlife) gave a detailed example of potential future exposure for derivatives. After discussion, no Task Force members objected to considering this change as the first amendment to the previously exposed revisions to Model #440.
- Ms. Walker expressed the need to specify the owner of the LST data in the proposed revisions to Model #440. She agreed with naming the lead state as the owner of the LST data. After discussion, no Task force members objected to considering this change as the second amendment to the previously exposed revisions to Model #440.
- Mr. Tsang raised concerns with the phrase "in conjunction with the lead state and the Task Force" in Section 4.L.(3) since this did not clarify the entity with the final authority if disagreement existed. Mr. Rehagen suggested "in conjunction" should be changed to "in consultation" to address this concern and indicated this language would be consistent with similar situations in other model laws. After discussion, no Task Force members objected to this change as the third amendment to the previously exposed revisions to Model #440.

Commissioner Caride requested that the Task Force vote on each amendment separately:

Ms. Belfi made a motion, seconded by Ms. Mears, to adopt the first amendment to the proposed revisions to Model #440. The motion passed unanimously.

Mr. Schrader made a motion, seconded by Ms. Walker, to adopt the second amendment to the proposed revisions to Model #440. The motion passed unanimously.

Mr. Rehagen made a motion, seconded by Mr. Tsang, to adopt the third amendment to the proposed revisions to Model #440. The motion passed unanimously.

Mr. Schrader made a motion, seconded by Mr. Tsang, to adopt the previously exposed revisions to Model #440 highlighted in green and yellow, as modified by the three adopted amendments. The motion passed unanimously.

4. Received an Update from the Liquidity Assessment (EX) Subgroup on Progress in Achieving its Deliverables Related to Liquidity Stress Testing

Mr. Schrader reported that the Subgroup and Study Group have received data from Phase I and Phase II of the data collection plan. He summarized that Phase I was a request for qualitative data based on first quarterly financials, and Phase II was a request for qualitative and quantitative data based on second quarterly financials. He said the Study Group and lead state insurance regulators of the affected groups have been briefed on aggregate summaries of the results, and detailed results have been provided as well. He said overall, insurers reported the ability to withstand liquidity demands during the pandemic using available liquidity sources on hand. He added that in the second quarter, most insurers continued to report that their existing liquidity stress testing is more punitive than the current stresses caused by COVID-19, and current stresses were well within risk appetite ranges.

Having no further business, the Financial Stability (EX) Task Force adjourned.

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