

Draft: 8/3/21

Group Capital Calculation (E) Working Group
Virtual Meeting (*in lieu of meeting at the 2021 Summer National Meeting*)
July 26, 2021

The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met July 26, 2021. The following Working Group members participated: John Rehagen, Chair (MO); Kathy Belfi, Vice Chair (CT); Susan Bernard (CA); Philip Barlow (DC); Ray Spudeck and Virginia Christy (FL); Carrie Mears (IA); Susan Berry (IL); Roy Eft (IN); Christopher Joyce (MA); Judy Weaver and Steve Mayhew (MI); Barbara Carey (MN); Jessica Price (NC); Justin Schrader (NE); David Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman (OH); Greg Lathrop (OR); Kimberly Rankin (PA); Hui Wattanaskolpant (TN); Amy Garcia (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI). Also participating was: Tom Botsko (OH).

1. Adopted its May 27, May 17, April 27, and March 10 Minutes

During its May 27, May 17, April 27, and March 10 meetings, the Working Group took the following action: 1) adopted a revised template for use in the 2021 group capital calculation (GCC) trial implementation, including changes to gather data on a stress scenario; 2) adopted clarifying edits to the GCC instructions that will be used for the 2021 GCC trial implementation; and 3) exposed proposed changes to the *Financial Analysis Handbook* (Handbook) for the GCC.

Mr. Eft made a motion, seconded by Mr. Schrader, to adopt the Working Group's May 27 (Attachment Two-A), May 17 (Attachment Two-B), April 27 (Attachment Two-C), and March 10 (*see NAIC Proceedings – Spring 2021, Financial Condition (E) Committee, Attachment Two*) minutes. The motion passed unanimously.

2. Exposed Draft Maintenance Documents

Mr. Rehagen suggested that the Working Group develop certain maintenance documents related to the GCC and directed participants to draft documents that could meet such needs. He described how these documents would allow the same kind of process as used by other groups, which is to allow anyone (state insurance regulator, industry, consumer, etc.) that wants to present proposed changes to the GCC to do so by first completing a form. He noted that the specific forms developed involved NAIC staff basically taking similar forms for risk-based capital (RBC) forms and updating them for what would be needed for the GCC.

Mr. Rehagen suggested that the main purpose of these forms is to establish some rules so that everyone understands the timeline for when changes need to be adopted by the Working Group to be effective that year. He noted that initially, the forms use the same dates as used for RBC, which means that any change to the template must be adopted by April 30, and all other changes need to be adopted by June 30.

The Working Group agreed to expose GCC maintenance documents for a 60-day public comment period ending Sept. 24.

3. Exposed a Draft Referral to the Capital Adequacy (E) Task Force

Mr. Rehagen directed participants to a draft referral to the Capital Adequacy (E) Task Force. He described that the main purpose of the referral is to make the RBC working groups aware of differences between the GCC and RBC and whether RBC working groups believe making changes to RBC for consistency would be appropriate.

Dan Daveline (NAIC) provided more details regarding differences between the GCC and RBC as documented in the draft memorandum. He described how in developing the GCC, most of the discussions were revolved around the treatment of non-insurance and non-financial related entities to achieve consistency between the GCC and RBC. Specifically, the desire by all parties is for the same GCC treatment, whether entities are owned by an insurer or by a sister company. Mr. Daveline noted that in the end, the GCC adopted a factor that mirrored the result within the RBC post-covariance factor. He stated that because of that, there were fewer differences between the GCC and RBC than what was originally envisioned, but he noted how NAIC staff still believe it is appropriate to present a list of such items to the extent that RBC working groups want to consider changes for consistency purposes. He described how there are three types of entities for consideration, but ultimately, the question is whether the RBC working groups want to modify their formulas to be more consistent with the GCC.

Mr. Daveline described that the first item on the list deals with how the GCC treats insurance companies, most of which are foreign insurance companies. The GCC brings in the minimum capital required by the regulator for a foreign insurance company. This is to show respect for the authority of that regulator, as state insurance regulators would like to receive a reciprocal response on the U.S. basis, but also because this is the most relevant measure of capital at risk. Mr. Daveline noted that the second item on the list is similar in terms of the GCC treatment, but it pertains to other regulated entities such as banks. The last item on the list shows how the GCC treats other financial entities such as asset managers, investment advisors, and other financial entities. In the GCC, a factor is applied to their average revenues, while in RBC, a different factor is applied to the book/adjusted carrying value (BACV) for these entities. Mr. Daveline pointed out that as has been argued in the past, the RBC approach of using BACV as the base instead of average revenue may make more sense since RBC pertains to directly owned subsidiaries where the BACV may be the most relevant measure.

Mariana Gomez-Vock (American Council of Life Insurers—ACLI) noted support for a memo that summarizes the differences between the GCC and RBC. However, the ACLI expressed concern regarding whether the RBC groups should modify the RBC formulas to be more consistent with the GCC when a trial implementation of the GCC has not yet been completed. Specifically, she noted that the GCC approach for investment advisors and asset managers is new and has never been tested before. Therefore, she suggested removing the last sentence in the second paragraph of the memo so that the adoption of the GCC approach would not be proposed for considerations by the RBC working groups. Mr. Daveline stated that it is not going to be problematic to have this sentence stricken if the Working Group agreed. Mr. Eft agreed with striking this sentence, and the Working Group is not opposed; therefore, it was stricken as requested.

Mr. Botsko, chair of the Capital Adequacy (E) Task Force, stated his appreciation for the groups responsible for the GCC and RBC sharing information on a regular basis. Acknowledging many parallels between the two, he considered it extremely important to be consistent with each other as much as possible. Except for those items with different approaches where appropriate, both groups should take into consideration those items that could be changed by either the GCC or RBC and determine whether their formulas are appropriate.

Lou Felice (NAIC) recommended identifying categories in RBC that are different from the GCC and having an actual structure of formulas ready for those areas that could be changed for consistency purposes.

The Working Group agreed to expose the draft referral document for a 90-day public comment period ending Oct. 25.

4. Discussed Other Matters

The trial implementation is approaching its deadline at the end of the week. NAIC staff can be reached for questions. The draft Handbook guidance is being exposed for comment. Once comments are received, there will likely be another call. NAIC staff may make additional edits based on comments, run them by the state insurance regulators or the drafting group, and re-expose them again.

Having no further business, the Group Capital Calculation (E) Working Group adjourned.

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