ACLI
Financial Security for Life

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May 16, 2022

Mike Boerner
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Philip Barlow
Chair, NAIC Life Risk-Based Capital (E) Working Group (Life RBC)

Re: ESG Field Study Exposures

Dear Messrs. Boerner and Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit comments on the ESG Field Testing exposures (Exposures). We have the following comments:

User Group

ACLI suggests a participant user group start as soon as possible to assist with technical questions related to the field test. Some of the questions may be scenario related, but many others may be clarification of the modeling runs or consistent ways for companies to address actuarial (liability) model limitations (e.g., AXIS, Prophet, Poly). A number of very technical and practical questions have come up already, e.g., several items which are specific to certain aspects of VM-20. We believe that regular participant calls (both group calls and calls with individual companies) should start as soon as possible and continue throughout the field test, coordinated by the NAIC. This will help to provide a forum for raising and resolving questions quickly to enable companies to participate effectively in the field test.

Feedback by Section:

Confidentiality

We'd like to better understand the role of the domestic regulator and other regulators in receiving and reviewing results. We would recommend that domestic regulators be directly involved in receiving and reviewing their companies' submissions. In addition, we would like clarification about who will be handling the iterative results discussions that are common in field testing.

Section I.A. Background

We believe the document would be stronger if the field test were positioned as neutral rather than appearing to presuppose a specific outcome. For this reason, we suggest that the comment in Section I.A. be edited to read:

"Based on preliminary AAA model office testing, the implementation of the new ESG may materially increase life and annuity reserves and capital. The purpose of the ESG field test is to assess the impacts and appropriateness for….".

Section II. A. Summary of Field Test Runs
Some companies may have resource constraints that prevent the completion of all requested runs, we would encourage regulators accepting whatever results companies are able to provide to get the most company participation in the field study.

Section II. B. Required and Optional Quantitative Results
Part of the purpose of field test is to identify any anomalous behavior in the scenario sets. While 12/31/2019 is higher than 12/31/2021, we think a more severe test would be appropriate. We would suggest for runs 2a, 2b, 3, and 4, to increase the 12/31/2019 yield curve by 200bps.

We support making the SERT a required VM-20 test but note that VM-20 allows companies to run the SERT tests within 12 months of the valuation date, meaning that not all companies will have used a 12/31/2021 model for 2021 year-end testing. We would request providing the necessary off-cycle scenario sets or other guidance around how to approach off-cycle SERT runs.

Section II. C. Number of Scenarios
ACLI suggests that companies be allowed to use a smaller subset of scenarios than were used for reporting, as long as they are representative of the larger set and are used consistently across all field test runs, in order to reduce runtime and resource strain. While we recognize this may introduce some concern about convergence of any given set of results, the comparability of the results across the various requested sensitivities should remain applicable, allowing the generators to be adequately evaluated. In addition, the revised Baseline results using the smaller scenario set can be compared to report results to provide an indication of the impact of the smaller set.

Section II. D. Scenario Sets
In addition to providing the scenario files, parameters, and distribution statistics, we also recommend providing the actual, targeted (based on the flooring methodology), and fitted initial yield curves.

We also recommend providing scenario statistics for each of the scenario subsets to understand potential operational implications of scenario differences on use of subsets. (e.g., whether the new scenarios may require the use of larger subsets in order to capture extreme scenarios that impact on reserve / capital CTEs).

Section II.I. Fund Mapping
We agree with maintaining maximum alignment with the model used to produce reported results in order to isolate the impact of the new scenario generator. However, fund mapping is a model input that is often tailored to the scenario generator being evaluated, and we recommend allowing this input to be updated with an accompanying survey question disclosing the approach and rationale for the update. For example, some companies may be using a proprietary generator that produces index returns that are not available in the new scenario sets and a fund remapping could be necessary to align projected fund returns with the new scenario information, and disallowing this could create model misalignment with the scenarios, resulting in less helpful field test results.

Appendix Economic Scenario Generator (ESG) Field Test Qualitative Survey IV. All products
To understand the range of results, it might be necessary to collect more information about inforce characteristics (e.g., product / benefit mix, ITM of guarantees / current vs. guaranteed rate differences, age of the business, etc.) and hedging strategy (e.g., targets, modeling). We would also like to understand any analysis planned to provide more insight into the range of results.

Requests for additional data:
We would like to request additional scenario sets which could be used to better understand the proposed ESG and calibrations and perhaps suggest areas for further testing and analysis. These scenario sets could be made available during the field test.

- Year-end 2020 scenarios since interest rate targets have been expressed based on 12/31/2021 conditions.
- Unfloored scenarios corresponding to Runs #1a and #2a to better understand underlying interest rate model dynamics
- Scenario sets for different dates (e.g.,) and controlled sensitivities (e.g., parallel +/-[50] bps rate shock, non-parallel and/or key rate duration-type shocks, initial volatility shock, MRP change) to better understand how scenarios will behave as market conditions change.
- Providing all scenario sets, whether required or optional, sooner rather than later would be much appreciated as resources begin to become scarce in 3Q due to preparation for year-end.

We appreciate the consideration of our comments. Thank you.

cc: Reggie Mazyck, NAIC, Dave Fleming, NAIC, Scott O'Neal, NAIC