ACLI
Financial Security for Life

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

Re: ESG Field Study Specifications

Dear Messrs. Boerner and Barlow:

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

Section I

- A.1. Reserve and Capital Impact / A.2. Range of Results: To better measure the new ESG impact on reserves and capital and to capture the actual range of results, we suggest providing reserves and capital results both with floors (consistent with reporting) and without floors (such as CSV). This approach more fully reveals the impact from the change in the generator than provided by the floored results alone.
- A.5. Exclusion Testing and Reserve Components: We would like to request that Conning provide the breakdown and formulas used to create the SERT scenarios from a full scenario set. Particularly, we would like to see how Conning creates the variables (Treasury rates, Equity, and Bond Fund returns) based on the percentiles of the 1- and 20-year treasury rates and the equity performance.
- A.5. Exclusion Testing and Reserve Components: Optional field to show the NPR as a benchmark to compare against the other reserves.
- E. Survey questions: We believe there should be a free form question for the survey for companies to provide additional perspectives and information that could be relevant in the post-field test assessment. This information could include observations, unexpected results, etc. In order to group, these could be categorized as "capital/reserves," "product-specific issues," "attribution," and "other issues. Free form questions also allow for insights from alternative models/scenarios and allow identification of good properties in other models/scenarios for future iterations.
- E. Survey Questions: Additional survey question of "did your dominant PBR reserve change?". Also:

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

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    - To what extent did the field test runs capture the potential impact of the scenarios on results? Were there areas that could not be tested / assessed (e.g., due to the need for additional scenario sets, new or existing simplifications)?
    - What additional information / analysis or scenario refinements would your company recommend?
- F. Valuation Dates: The selected valuation dates may not be effective for understanding the impact of GEMS's formulaic equity/rate relationship since the short-term rates that drive the relationship are very similar at year-end 2020 and 2021 and only modestly higher on March 31, 2022. Other valuation dates (e.g., year-end 2019) or sensitivities based on shocks from the baseline valuation date would be needed to fully understand the impact of using this relationship.

<u>Section II</u>

- D. ESG Models and Scenarios: ACLI would suggest prioritizing one of the valuation dates for testing the two proposed treasury models. For other valuation date(s), prioritizing one of the two proposed Treasury models to reduce the expected work for companies. We would defer to Conning as to which of the floors (generalized fractional floor or shadow floor) would be preferable for field testing.
- E. Metrics / Output: We would like to better understand how the NAIC intends to evaluate the total impact of the new ESG, i.e., combined impact of changes in reserve and capital levels. Similar to VA Reform, we believe there should be a methodology developed to assess the combined impact on reserves and capital.

<u>Section III</u>

- We support inclusion of attribution and sensitivity tests in field testing but would prioritize the baseline results first. There should be a structure for the attribution, and we would like additional time to develop a recommendation around that approach. One suggested attribution analysis individual sensitivities for each initial market condition (e.g., +/- 50 bps parallel interest rate shock, key rate duration shocks, initial volatility shocks) and long term assumption that will be subject to automatic updates (e.g., interest rate MRP) as of the baseline valuation date so companies can better understand how the scenarios will behave. We also recommend the generation of a wider set of valuation date scenarios. Analysis of the scenario sets will provide insights into ESG behavior, and while companies are unlikely to be able to do full field testing runs, selective runs (e.g., using subsets of the business or illustrative models) may be possible. Other testing could include testing when guarantees are at different levels of moneyness and/or evolve over time (e.g., ORSA projection). (Given time constraints, these additional scenario sets could be discussed and generated concurrent to the field test and made available sometime during the testing.)

<u>Other</u>

- The results template should be released for exposure as soon as it is available.
- How is confidentiality being handled for the field study? Will companies be submitting to their domestic regulator?

We appreciate the consideration of our comments. Thank you.

cc: Reggie Mazyck, NAIC, Dave Fleming, NAIC