To: Director Jillian Froment  
Chair, Life Insurance and Annuities (A) Committee  

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

Date: 2/27/20  
Re: Recommendation to NAIC Staff to Issue a Request for Proposal for an Economic Scenario Generator

The Life Actuarial (A) Task Force has made a recommendation to NAIC staff to issue a Request for Proposal (RFP) for an Economic Scenario Generator (ESG). The purpose of this memorandum is to provide information on this initiative. Funding is not being requested at this time since the cost is unknown.

Background and History

The American Academy of Actuaries (Academy) has developed ESGs over a decade ago which are currently used by the life insurance industry in calculations of life and annuity reserves and capital. An ESG is a complex mathematical model that simulates economic variables such as interest rate and equity returns under a large number of scenarios.

Beginning in early 2017, the Academy notified the Life Actuarial (A) Task Force (LATF) that it did not have the resources to maintain the ESGs, except in their current form until a suitable replacement can be found. Since the NAIC does not currently have the resources or expertise to develop and maintain an ESG, a third-party ESG vendor is needed for these functions. In an open meeting held on 7/16/19, LATF and the Life RBC Working Group (LRBC WG) requested that NAIC staff begin the RFP process. A group consisting of regulators, NAIC staff, Academy and ACLI representatives, and other industry subject matter experts was then formed to draft the Scope of Work section of the RFP.

RFP Deliverables

The RFP will solicit proposals from vendors to provide, maintain, and support an ESG producing real-world interest and equity scenarios to be prescribed for use in calculations of life and annuity Statutory reserves according to the Valuation Manual (VM-20, VM-21) and capital under the NAIC RBC requirements (C3 Phase 1, C3 Phase 2).

The chosen vendor will deliver an ESG and supporting tools that meet requirements set by regulators, along with robust documentation and training materials. On an ongoing basis, the vendor will produce the scenarios, support end users of the ESG, research changes considered by LATF and the LRBC WG and implement those that are adopted. Initially, the vendor will need to meet with LATF and the LRBC WG to discuss existing ESG features and parameters, as well as potential modifications desired by regulators. The vendor will customize the ESG with these modifications, and then support a field test (by providing scenarios) to determine potential industry reserve and capital impacts.