

Date: 1/22/21

**GROUP CAPITAL CALCULATION (E) WORKING GROUP**

**Thursday, January 28, 2021**

**3:00 p.m. – 4:00 p.m. ET / 2:00 – 3:00 p.m. CT / 1:00 – 2:00 p.m. MT / Noon – 1:00 p.m. PT**  
**WebEx Call-in**

**ROLL CALL**

John Rehagen, Chair	Missouri	Justin Schrader	Nebraska
Kathy Belfi, Vice Chair	Connecticut	Dave Wolf	New Jersey
Susan Bernard	California	Bob Kasinow	New York
Philip Barlow	D.C.	Jackie Obusek	North Carolina
Ray Spudeck	Florida	Dale Bruggeman	Ohio
Carrie Mears	Iowa	Andrew R. Stolfi	Oregon
Kevin Fry	Illinois	Kim Rankin/Melissa Grenier	Pennsylvania
Roy Eft	Indiana	Trey Hancock/Rachel Jrade-Rice	Tennessee
Gary Anderson	Massachusetts	Mike Boerner/Doug Slape	Texas
Judy Weaver	Michigan	David Smith/Doug Stolte	Virginia
Kathleen Orth	Minnesota	Amy Malm	Wisconsin

NAIC Support Staff: Dan Daveline / Lou Felice

**AGENDA**

1. Present High-Level Analysis of 2019 Field Test Data in Adopted GCC Template—Lou Felice (*NAIC*) Attachment 1
2. Initial discussion of 2021 GCC Data Collection—John Rehagen (*MO*)
  - a. Excerpts of prior comments from interested parties Attachment 2
  - b. NAIC Staff notes on data collection Attachment 3
3. Other Matters Brought Before the Working Group
4. Adjournment

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**NAIC Group Capital Calculation  
2019 Field Test Data  
Comparison of Field Test Results with Adopted  
GCC Results**

**January 28, 2021**

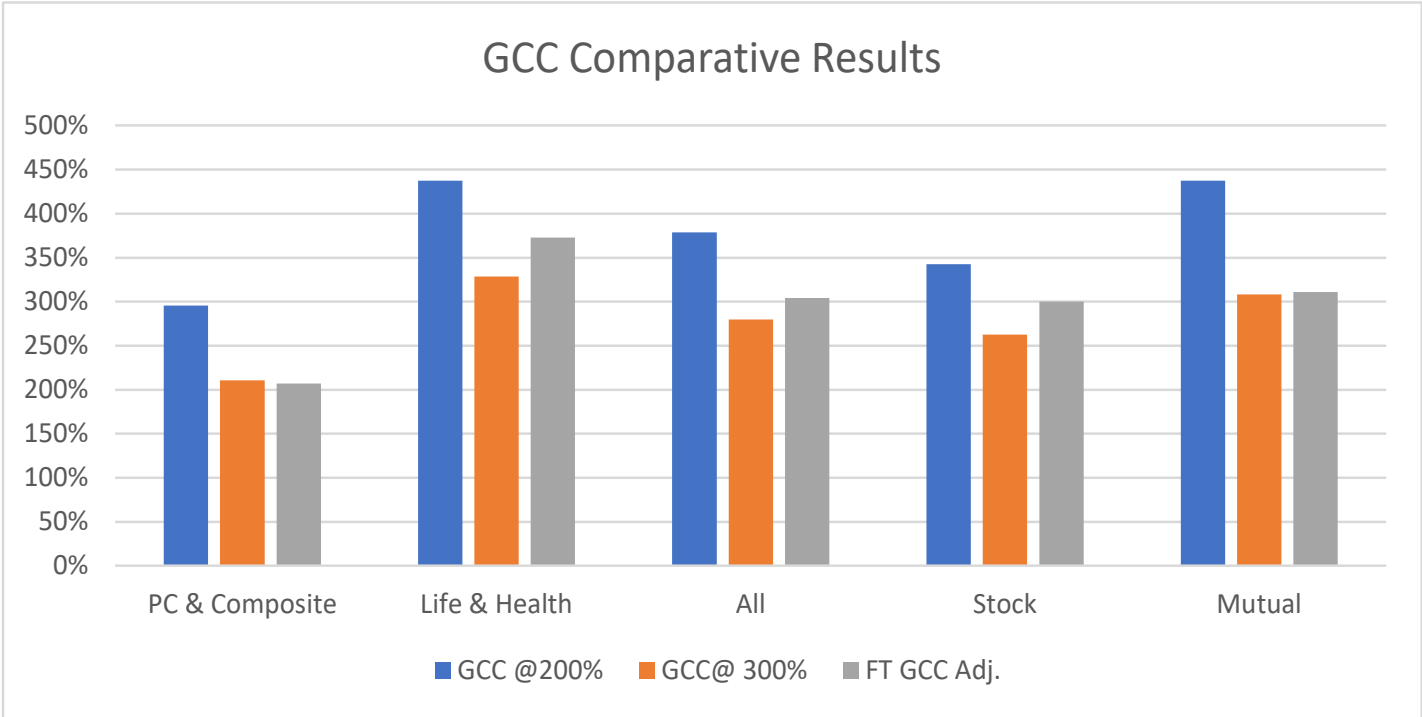
# Data Breakouts

- Data Excluded for 3 Volunteers
- Company Type Breakouts
  - Line of business
  - Mutual vs. stock
- Ratios Presented
  - Adjusted field test ratio (300% calibration)
  - Adopted GCC ratio (200% calibration)
  - Adopted GCC ratio sensitivity at 300% calibration
- Impact of XS Relative Ratio Scalars on Ratios
- Impact of Debt Allowance on Ratios
- Impact of Sensitivity Method on Non-financial Entities

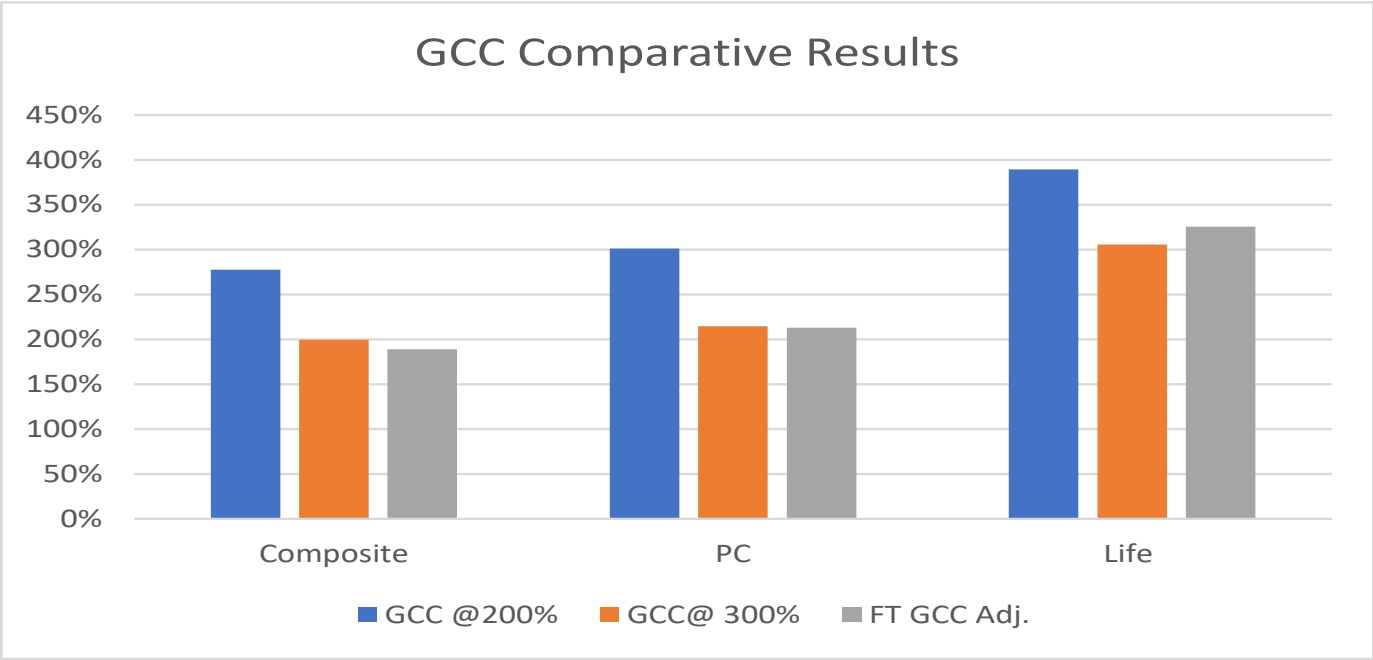
# Inputs

- Field Test Presented With the Following Adjustments
  - Included entities only
  - Debt included at 30% / 15% for senior and hybrid Debt
  - Debt limited to 100% of available capital and 100% of debt
  - Base capital charges
  - Foreign insurers unscaled
- No changes to entity categorization from Field Test to Adopted GCC
- Adopted GCC (Unscaled Foreign insurer and Bank Capital Requirements Held Constant at all Calibration Levels)
  - Asset managers assumed at high risk
  - Other financial entities assumed at medium risk
  - Alternative GCC Results with asset managers assumed at medium risk shown separately

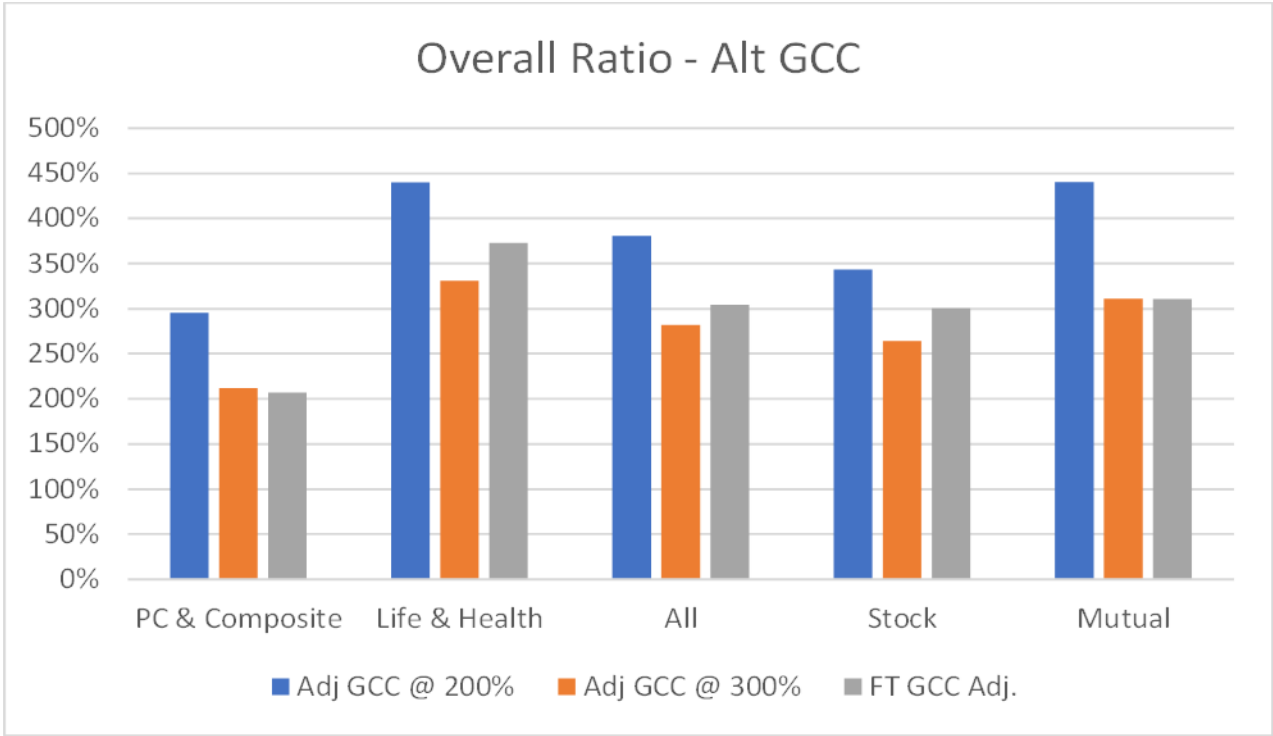
# Overall Ratios



# Overall Ratios - LOB

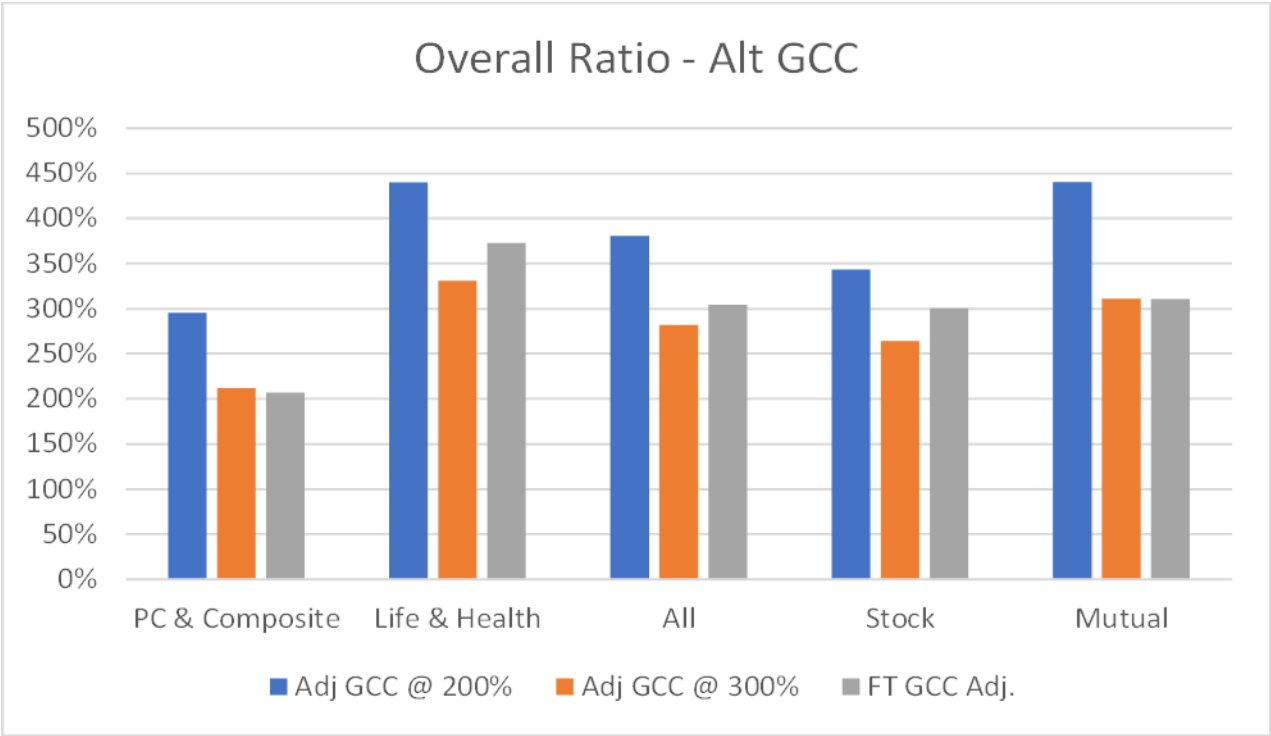


# Overall Ratios – Asset Managers at Medium Risk

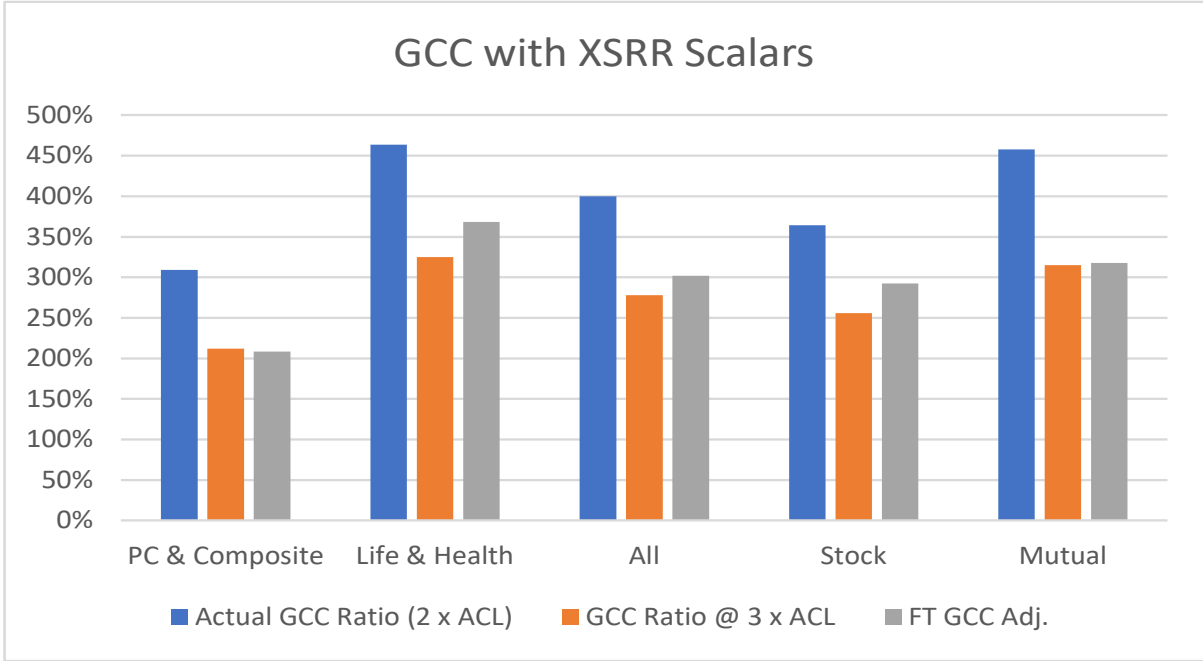




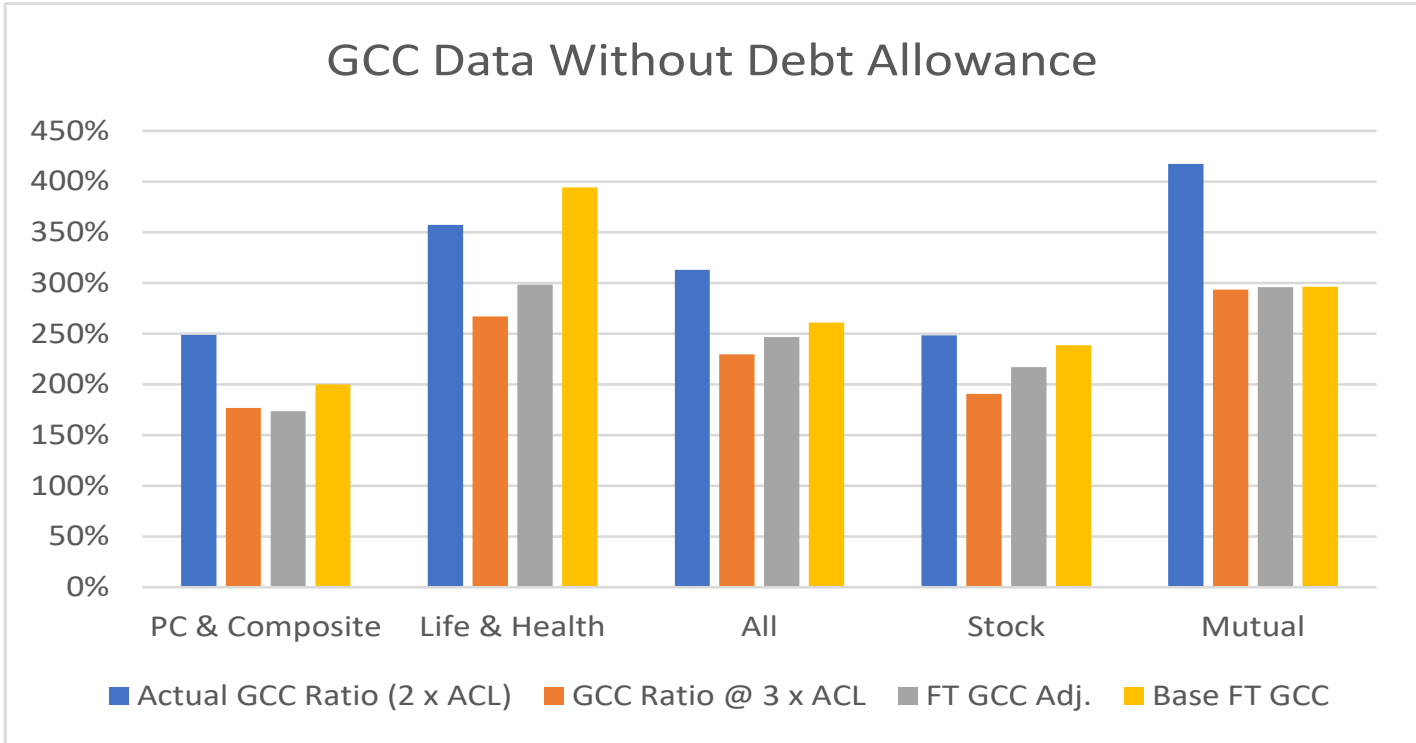
# Overall Ratios – Asset Managers at Medium Risk - LOB



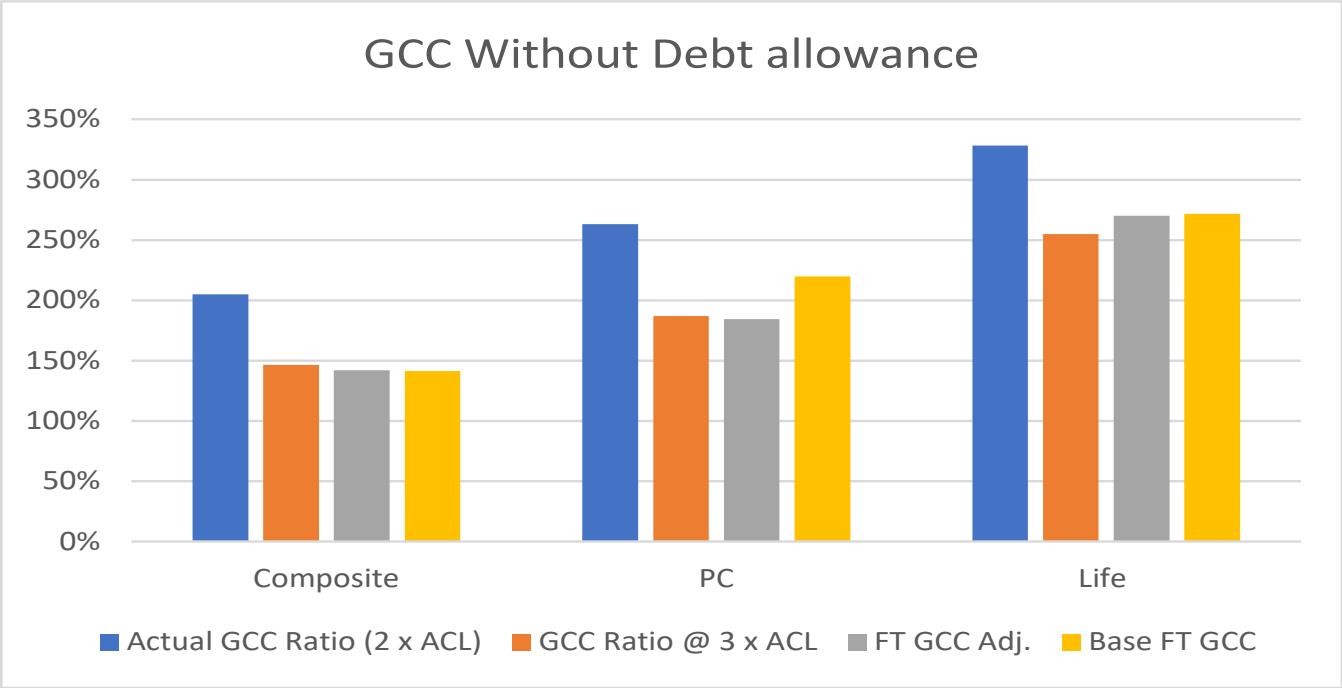
# Overall Ratios w/ XS Relative Ratio Scalar



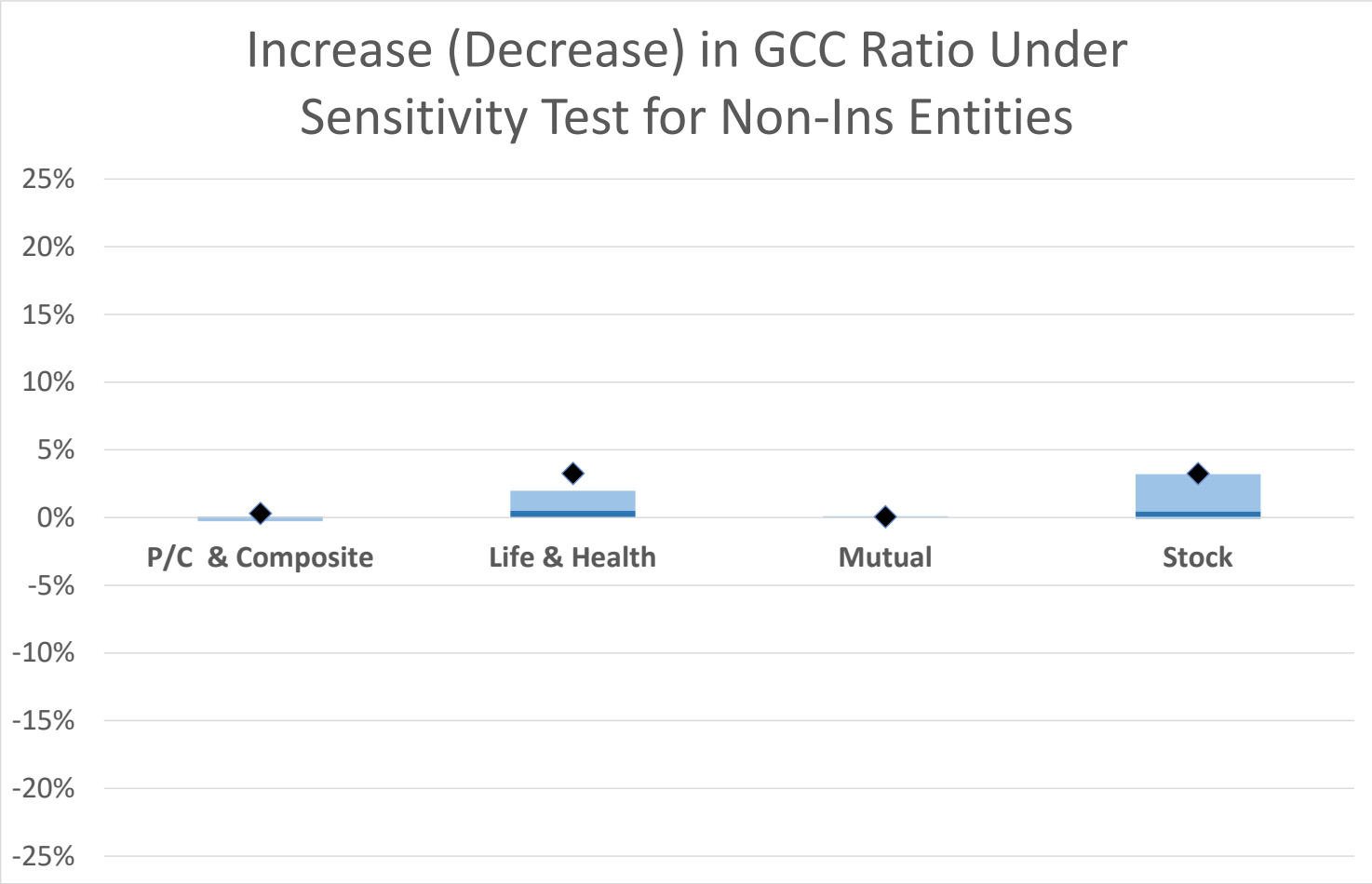
# Overall Ratios w/o Debt Allowance



# Overall Ratios w/o Debt Allowance - LOB



# Impact of Sensitivity Analysis on Nonfinancial Entities



# Analysis Observations

- Issues With Analysis
  - Filed test categorization of other financial and non-financial entities may not align with current categorization in adopted GCC
  - Risk levels selected in adopted GCC for asset managers and other financial entities without capital requirements may not align with actual risk level determined by filer.
  - Potential inconsistency or misalignment between included and excluded entities
  - Additional scalar options may emerge
  - Limited de-stacking for mutual groups in adopted GCC
- Additional data collection is Recommended
  - To be discussed by GCC WG

## **SAMPLING OF PAST IP COMMENTS RELATED TO 2021 DATA COLLECTION**

### **ACLI Comment:**

Additional quantitative analysis should be performed to evaluate how the GCC's elements perform together under different scenarios.

The process for developing and refining the GCC merits additional consideration. We urge the Working Group to commit to performing additional quantitative analysis of how the elements of the GCC perform holistically, under different scenarios. It is likely that some elements may interact with each other and it would be useful to understand how they will interact under different economic stresses. It would also be helpful if the Working Group would articulate a clear and transparent process for future revisions to the GCC elements and instructions.

### **APCIA Comment:**

#### **Next Steps**

APCIA appreciates that the NAIC is moving with the appropriate speed to develop the GCC and help incorporate it into state law within the timeframe established in the US-EU Covered Agreement. At the same time, we believe there is sufficient time to complete further field testing before the GCC Instructions are finalized. Many elements of the GCC are intertwined and therefore, it is important to understand how the GCC will operate holistically prior to implementation. For example, calibration of the GCC ratio remains an open issue. Members have questioned the proposed calibration of 300% ACL because it is inconsistent with entity-level reporting. We believe further analysis is necessary to determine what calibration level is appropriate, with due consideration given to the totality of the GCC framework, and we remain engaged with our members on this issue. Furthermore, the Working Group should also consider whether the debt limit structure should be modified to account for any unintended volatility in GCC ratios during times of stress. We are confident that field testing and the consideration of remaining open issues can be completed with sufficient time to implement the GCC in accordance with the Covered Agreement.

### **Coalition Comment:**

#### *Using 2021 as a period of study and analysis*

While development of the GCC has been informed by a generous amount of public consultation and dialogue, quantitative study has been relatively limited (2 baseline exercises and 1 field test). In addition, consideration of the various design decisions has not been performed on the framework as a whole. We believe these factors raise the importance of using 2021 to perform a holistic review of the framework that is approved later this year to ensure the various design elements come together in a coherent manner and allow it to accomplish its regulatory objective. We believe this review should also include consideration of how the framework would perform in times of stress and any potential unintended consequences it could give rise to, including the potential for the proposed debt limit structure to create procyclicality. Following this analysis, the Working Group, in consultation with the industry, should implement any modifications determined to be necessary before approving a final version of the GCC.

**North American CRO Comment:**

Finally, the CRO Council recommends that the NAIC perform additional voluntary GCC data calls and coherent analysis of its final methodological decisions prior to adopting and implementing a final version in late 2021. This work, which should include consideration of the framework's ability to deliver appropriate risk insights during stress events, would help to ensure the final product is fit for purpose and credible to end users.



## CONSIDERATIONS FOR 2021 GCC DATA COLLECTION

## Purpose:

- Evaluate changes incorporated into the adopted GCC Template and Instructions
  - GCC Ratio and other analytics-based data
- Consider Stress Scenarios
- Evaluate potential scalar options from Academy work performed for G Committee
- Inform IAIS Work on the ICS

## Data and Timing:

- 2019 Data for consistency in results
  - Most available and audited data
- 2020 Data
  - Latest data but may require later data collection
- March or June 2020 data cutoff
  - Balance sheet data reflect highest level of stress of COVID-19 Pandemic
  - Income Statement Data will need to be annualized or adjusted
  - Most related to GCC ratio rather than other analytic data

## Testing Methodology Options:

- Renew Field Test confidentiality agreements with lead-States for existing volunteers
  - NAIC gets data from lead-States and assists in review
  - Can analyze data over time
- Renew Field Test confidentiality agreements with lead-States for expanded list of volunteers
  - NAIC gets data from lead-States and assists in review
  - Expands profile of Groups for evaluation and future lead-State decision making
- Lead-state data call and review with ORSA Team style review
  - NAIC staff only sees data on a case by case basis
  - Still requires confidentiality
- Lead-state data call and review
  - NAIC gets no data but is available to provide clarity and answer questions on the template and instructions
  - Provide most expansive data collection
  - Can run in parallel with other methods described above

## Related Considerations:

- Evaluate potential for increased consistency between GCC capital calculations and RBC
- Review and Validation
  - Likely related to the analysis guidance that is under development
- Future Maintenance of the GCC
  - Likely similar to RBC (TBD)