NAIC National Association of Insurance Commissioners

GROUP CAPITAL CALCULATION (E) WORKING GROUP

Friday, October 30, 2020

1:00 p.m. – 2:30 p.m. ET / Noon – 1:30 p.m. CT / 11:00 a.m. – 12:30 p.m. MT / 10:00 a.m. – 11:30 a.m. PT

Working Group Members

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

AGENDA

1. Discuss Revisions to the GCC Instructions and Template - *Commissioner David Altmaier (FL)*

    a. Combined comment letters — Attachment 1
    b. Summary of comments and staff recommendations — Attachment 2
    c. Revised GCC instructions (latest revisions marked) — Attachment 3
    d. Summary of revisions to instructions — Attachment 4

2. Discuss Any Other Matters Brought Before the Working Group—*Commissioner David Altmaier (FL)*

3. Adjournment

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Mariana Gomez
Vice President & Associate General Counsel
marianagomez@acli.com

Gabrielle Griffith
Policy Analyst
gabriellegriffith@acli.com

October 15, 2020

Commissioner David Altmaier
Chair, NAIC Group Capital Calculation (E) Working Group
Florida Office of Insurance Regulation
Via-email with copy to lfelice@naic.org

Re: NAIC Group Capital Calculation ("E") Working Group 9/29/2020 Exposure of the NAIC's Group Capital Calculation Instructions Document

Dear Commissioner Altmaier:

The American Council of Life Insurers appreciates the opportunity to submit these comments on the NAIC Group Capital Calculation ("GCC") Working Group's proposed revisions to the GCC instructions and template. The 9/29 exposure requested feedback on a broad range of complex technical issues. While we attempted to provide as much feedback as we could during the exposure period, we believe that continual refinement and a holistic, quantitative analysis of how all of the GCC elements, including scalars, perform together is necessary.

Highlights from our letter

- **The calibration of the GCC and scalars for foreign insurance regimes should be 200% ACL RBC.**
- **Scalars are a critical component of an aggregation method like the GCC.**
- **The caps on senior and hybrid debt should be increased to avoid magnifying the impact of economic downturns.**
- **Additional quantitative analysis should be performed to evaluate how the GCC's elements perform together under different scenarios.**

While these are our members' top policy issues requiring attention within the GCC instructions and template, this letter also addresses several other important technical items requiring resolution before adoption and implementation of the GCC. We propose solutions to the issues identified in this letter but recognize that, in some cases, complete resolution will best be informed by the additional testing we have suggested.

1. The calibration of the GCC and scalars for foreign insurance regimes should be 200% ACL RBC.

We believe the GCC and scalars for non-U.S. insurance regimes should be calibrated to the 200% ACL RBC. The GCC ratio should use the same denominator that is commonly used to assess capitalization at the legal entity level. Using a different denominator to assess group capitalization levels potentially sets the stage for unfair dynamics among groups that are subject to the GCC, and those that are not.

The Working Group and NAIC staff have offered a few high-level comments on why calibrating the GCC at 300% may be appropriate; below we offer reactions to some of these comments:

- 300% has been used when aligning intervention points across regimes when determining if a jurisdiction is Reciprocal and in the Covered Agreements – ACLI does not believe the use of 300% to compare supervisory intervention points should suggest it be used as the denominator of the GCC ratio – i.e., calibration level. Like other elements of the GCC, we believe the calibration level should be consistent with current industry and supervisory practices.

- It may help with the efforts to have the Aggregation Method recognized as comparable by the IAIS – ACLI fully supports development of the Aggregation Method and believes the IAIS should recognize it as comparable. While we support the NAIC taking steps to secure this outcome, we believe the GCC must be designed in a manner that first and foremost ensures it is appropriate for the U.S. insurance market. We believe undermining years of industry and regulatory norms to potentially appease the perspectives of foreign supervisors would be inconsistent with this objective. Further, we do not believe it will in any way enhance the ability of the GCC to provide insight into risks, which should be a guiding factor for all decisions on design related elements.

- It would reinforce that the GCC is a tool rather than a standard – ACLI believes the way the NAIC and state regulators present the GCC and the way its role is explained in the instructions and financial analysis handbook are the appropriate channels for delivering this message to stakeholders.

2. Scalars are a critical component of an aggregation method, like the GCC.

We welcome the Working Group's decision to collect information regarding the "Excess Relative Ratio Approach" scalar in the sensitivity tab. Scalars are a critical component of an Aggregation Method approach, like the Group Capital Calculation, because they are necessary to equate the local capital requirement to an adjusted capital level that is comparable to U.S. levels.

While ACLI strongly believes that accurate scalars are needed to make the GCC results meaningful, given the importance of getting scalars done "right" instead of "done quickly," ACLI understands why the NAIC has chosen to use a temporary placeholder for scalars. The collection of scaled data in the sensitivity tab will hopefully allow for meaningful GCC results to be observed as the GCC model continues to be developed. We encourage the Working Group and NAIC to consider how scalars will be evaluated over the course of the coming year.

3. ACLI's comments on capital instruments

a. The caps on senior and hybrid debt should be increased to avoid magnifying the impact of economic downturns.

While the move to 75% is a positive step, we are concerned that the proposed individual debt caps on senior and hybrid debt will make it harder for regulators and groups to successfully navigate periods of stress unless they are similarly increased. For many groups, the increase to 75% will not help them in times of stress unless the individual debt caps are similarly increased.

We believe that the conservative limits (15% and 30%) on senior and hybrid debt will make it harder for companies to counteract periods of economic stress. Because the individual limit is directly tied to available capital levels, the amount of debt a group can receive credit for will naturally decline when available capital decreases. Unless the individual limits are increased, we think they are likely to create a procyclical effect that will magnify the impact of economic stresses on companies, regulators and consumers.

The individual debt cap limits (15% and 30%) have been justified because field testing results showed that about 75% of volunteers would receive full credit for capital instruments under those limits. However, we do not believe that figure justifies the caps because that percentage reflects a single "point in time" view that does not demonstrate the number of companies that would *actually* be impacted if the restrictions were imposed during periods of economic decline, when available capital levels tend to decrease at the same time the company's legal entity capital requirement rises. When this happens, companies need to be able to take action to counter the decline in capital resources and the corresponding decreases in capital ratios.

The inability of companies to counter periods of economic stress by raising capital by down streaming debt proceeds creates a procyclical effect that magnifies the impact of economic stresses on companies balance sheets. If the debt caps for senior and hybrid debt are going to be tied to available capital limits, they should be increased to avoid creating procyclical impacts that can make it harder for groups and regulators to navigate periods of economic stress. To avoid this, we urge the Working Group to increase the individual debt limits.

b. Call options should be removed (Paragraph 67, subparagraph a)

The GCC Instructions still require that the capital instrument has a fixed term of a minimum of 5 years at the date of issuance or refinance, including call options. The presence of call options should not prevent a capital instrument's inclusion as a qualifying instrument. Call options are a common feature of U.S. issued capital instruments and are often followed by a refinance of the instrument which supports its permanence and structural subordination. We strongly recommend removing the call option because including it would prevent most U.S. debt instruments from qualifying as structurally subordinated.

c. ACLI supports the NAIC's recommendation to eliminate the down-stream tracking requirement for senior debt (Input 3, Capital Instruments – paragraph 69)

ACLI agrees with the NAIC staff's recommendation to eliminate the down-stream tracking requirement for senior debt. As we noted in our previous letter, downstream tracking requirements are difficult to implement, especially if the debt has been refinanced by the parent or if the date of

the downstreaming does not align with the borrowing date. These concerns, and others, are why the ACLI agrees that eliminating the downstream tracking requirement for senior debt is a prudent approach.

4. **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.

5. **Clarification of ACLI's previous comments regarding "in the aggregate for all such subsidiaries" – definition of financial entity (Paragraph 9)**

NAIC staff requested additional feedback on why the ACLI recommended inserting the phrase "in the aggregate for all such subsidiaries" in the definition of financial entity that addresses which entities should not be considered financial entities and as a result, do not have to be de-stacked. As amended, the section reads as follows:

> *"For purposes of this definition, a subsidiary or subsidiaries of an insurance company whose predominant purpose, **in the aggregate for all such subsidiaries** is to manage or hold investments or act as a broker / dealer for those investments on behalf of the insurance company and its affiliated insurance (greater than 90% of all such investment subsidiaries' the investment subsidiary's assets under management or held are owned by or for the benefit of these insurance affiliates) should NOT be considered a Financial Entity." (emphasis added)*

ACLI recommended adding "in the aggregate for all such subsidiaries" to address situations when there may be a fund/funds managed by an insurer subsidiary that have outside dollars that exceed 10% of the fund's investments, but on the whole in excess of 90% of the investments managed by the investment management function are on behalf of the insurance entities. In such a scenario, the individual funds should not be treated as "financial entities" because the administrative burden of destacking these individual funds as "financial entities" appears to outweigh the benefits of destacking them, given that the fund is already included within the insurer's RBC and subject to an RBC equity charge such that destacking such funds would be unlikely to have a material impact on the group capital measure.

The purpose of the language proposed by ACLI is to clarify this treatment and avoid unnecessary administrative burden.

6. **Preliminary feedback on the proposed treatment of non-insurance, financial entities not subject to a specified regulatory capital requirement (Paragraph 63).**

NAIC staff has proposed a new gradation of (non-insurance) financial entities according to the level of risk (low, medium, high), and has proposed corresponding GCC required capital treatment that varies according to whether the (non-insurance, non-bank) financial entity falls into a low risk, medium risk, or high risk bucket. The charges range from 3% charge based on annual revenue for

the low-risk bucket to a 15% charge based on revenue (high risk). The medium bucket is 6% x 3-year average revenue, which "represents Basel charged scaled to combined industry average RBC ratios at 300% ACL").

It may be reasonable to apply a gradation of financial entities according to level of risk and to determine the appropriate GCC required capital treatment according to that gradation. However, it is difficult for us to evaluate this proposal without a more complete understanding of what entities fall into which "risk" bucket. Additional guidance on this will be necessary to ensure that the capital requirement measures are determined consistently.

We also welcome further clarification on the treatment of entities that are subject to certain capital requirements, like those applied by FINRA or the SEC, are categorized in the GCC. We presume that such entities should be treated as subject to a regulatory capital requirement such that the GCC would apply that securities-related requirement in calculating required capital for the de-stacked entity pursuant to paragraph 62, however, this is not clear from the current language in paragraph 63 which seems to suggest such entities may be treated as not subject to a specified regulatory capital requirement. We request clarity.

On a related note, the framework for identifying "material risk" should also consider the applicable sectoral regulatory regime (in the case of a regulated entity) treats the financial entity. That factor is not currently reflected in paragraph 15.

7. **ACLI supports removing the reference to Schedule A and Schedule BA assets from the definition of affiliates (Part II, paragraph 18)**

NAIC staff has indicated that de-stacking of non-financial Schedule A and BA assets will not be required. The direction not to de-stack non-financial entities from an insurer's RBC seems to be a reasonable and practical conclusion at this time, as the existing RBC charge applied to equity values is a conservative treatment of such entities for purposes of a group-level capital measure. The decision not to de-stack non-financial Schedule A and BA assets raises two further questions: (1) whether separate treatment or reference to Sch. A and BA assets are still necessary in the definition of Affiliate and other portions of the Instructions, and (2) if so, whether excluding some entities from the definition of "affiliate" is the most effective way to accomplish this objective.

Regarding (1), if the only question relevant to whether a subsidiary of an insurer is to be de-stacked or not is whether that subsidiary is a "financial entity," it is not clear what purpose the Schedule A / BA reference serves. All Schedule A / BA entities are included within the insurer's RBC. And an entity will be de-stacked if it is a "financial entity" regardless of where the investment is scheduled.

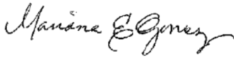
If, however, the NAIC determines to keep the references to Schedule A / BA entities, we would suggest that the NAIC consider a different approach than defining them out of the Affiliate definition in order to avoid confusion given that as subsidiaries of insurance companies these entities are "affiliates" by any common understanding of the term.

Conclusion

Thank you for your consideration of our comments. As always, we would be happy to discuss our comments with you or your staff, at your convenience.

Regards

Gabrielle Griffith



Mariana Gomez

October 15, 2020

Commissioner David Altmaier, Chair
Group Capital Calculation (E) Working Group
National Association of Insurance Commissioners

By e-mail to Lou Felice (LFelice@naic.org)

Re: Exposed GCC Instructions and Staff Revisions Summary

Dear Mr. Altmaier:

America's Health Insurance Plans (AHIP) appreciates the opportunity to comment on the Working Group's proposed revisions to the Group Capital Calculation (GCC) Instructions and the related Staff Revisions Summary.

To begin, we acknowledge the active engagement we have experienced over the past several months with the GCC Working Group and with NAIC staff. The process has been productive, and we believe has resulted in demonstrative improvement in the proposed GCC. We look forward to continuing the dialogue to assure a GCC that is appropriate for the U.S. insurance market and our system of state-based supervision.

AHIP would like to offer the following comments for your consideration as you work to finalize the GCC Instructions.

Treatment of Debt: The recent revisions increase the overall limit from 50% to 75% of Total Adjusted Carrying Value. However, the Proxy Allowance based on the maximum of the amount downstreamed (or paid-in capital and surplus) or 30%/15% of senior/hybrid debt has not been increased. We understand that the rationale for increasing the overall limit but not the proxy allowance was based on field testing data which showed that most insurance groups were limited by the overall limit. That is not the case for our largest members, who find the proxy calculation to be the primary constraint. For purposes of parity, we request the GCC Working Group also increase the proxy allowance to reduce the impact of the artificial restrictions created by the initially suggested limits.

Risk Charges for Non-Insurance, Non-Financial Entities: AHIP supports the proposed charges which are based on the predominant sectoral business of the group (life, property/casualty, or health) and which are based on the average post-tax post-covariance charge in each respective sector's Risk-Based Capital. This approach appropriately maintains a neutral stance for purposes of the risk charge whether the entity is under an RBC-filing insurer, or otherwise affiliated.

Definition of Financial Entities: We also applaud the revisions that have been made to better define financial entities. We do however have some suggestions to the underlined phrase below in the current draft of the Instructions:

> "In addition, other financial entities without a regulatory capital requirement include those which are predominantly engaged in activities that depending on the nature of the transaction and the specific circumstances, could create financial risks through products or transactions such as a mortgage, other credit offering, a derivative, and intra-group cross support mechanisms (as defined below).

We believe the intent of this sentence is to address transactions with external parties (the underlined text), as well as intra-group transactions between affiliates (the phrase regarding cross support mechanisms). However, the underlined phrase does not seem to distinguish between an entity that uses derivatives from one that issues them; or an entity that owes a mortgage or invests in mortgages from one that issues mortgages; or an entity that merely has a credit balance from one that offers credit in the marketplace. We would suggest the following:

> "In addition, other financial entities without a regulatory capital requirement include those which are predominantly engaged in activities that depending on the nature of the transaction and the specific circumstances, could create financial risks through the offering of products or transactions in the external marketplace in the external marketplace such as ~~a~~ mortgages, other credit offerings, or ~~a~~ derivatives, and intra-group cross support mechanisms (as defined below)."

Material Risk: AHIP concurs with the definition of material risk, however we have a suggestion with regard to the accompanying list of considerations. The list includes several which are noted as secondary considerations, i.e., "If primary considerations suggest exclusion may be reasonable, these can be used to further support exclusions." Our concern is that this distinction between primary and secondary considerations may be quickly lost on many users and regulatory analysts alike and, as a practical matter, some analysts may treat some of the secondary considerations as primary. That is particularly troubling in the case of the final listed secondary consideration which introduces the notion of a quantitative materiality threshold based on 5% of group-wide equity or revenue, notwithstanding that the GCC Working Group apparently could not agree on any particular measure to denote materiality of risk in the GCC. Thus, our suggestion is to delete this final secondary consideration from the Instructions.

Definition of Cross Support Mechanism*s*: The current draft of the Instructions now provides a definition of this term on page 9 which includes citing some examples, but the term is also used on page 8 with just one example mentioned. To avoid confusion, we recommend that wherever the term is used in the Instructions that it not be further defined or illustrated, rather to include a reference to the definition (as is done on pages 6 and 10). The definition on page 9 is as follows:

> "For purposes of evaluating material risk, these may include corporate guarantees, capital maintenance agreements (regulatory or ratings based), letters of credit, intercompany

> indebtedness, bond repurchase agreements, securities lending or other agreements or transactions that create a financial interdependence or link between entities in the group."

With regard to the reference to intercompany indebtedness (receivable /payable), such arrangements may exist with most if not all affiliates in the ordinary course of business. However, they would only pose material risk in rare situations. To assure that all readers view this in the appropriate context, we would recommend referring to the definition of material risk, as follows:

> "For purposes of evaluating material risk (see definition at paragraph 15), these may include corporate guarantees, capital maintenance agreements (regulatory or ratings based), letters of credit, intercompany indebtedness, bond repurchase agreements, securities lending or other agreements or transactions that create a financial interdependence or link between entities in the group."

Maintenance of the GCC: While not a current topic covered by the Instructions or the Staff Revisions Summary, AHIP is curious about the way the GCC, once implemented, will be maintained. What group will oversee that, what data will it have at its disposal, what protections will exist over that data, and what processes will there be for stakeholder engagement (etc.)? We recognize that implementation itself is sometime off in the future and issues around maintenance may be secondary at the current moment. However, we want to let you know that it is a matter on the minds of our members and who would be interested in hearing the GCC Working Group's thoughts about that at an appropriate time.

Clarity of the Instructions: As a general matter, our members have found the Instructions to be a "difficult read." We appreciate all the hard work and sheer volume of material that has gone into the current draft, that it benefits from the input of many, and has supported a transparent exposure process that has covered multiple iterations. Once things have settled down from the initial development of the GCC, we would recommend a substantial editing process take place to make the Instructions more concise, better organized, and clearer to all. This could be a joint project with industry, and if the GCC Working Group would support that approach, AHIP would be glad to participate.

On a more specific note about clarity, there is one issue that has caused some confusion recently among our members which pertains to the way in which the final GCC ratio is expressed. In the template, the final ratio is the percentage achieved of the 300% ACL Trend Test calibration level. For example, if a group had capital resources of $400 and calculated capital of $100, that would imply a ratio of 4:1 or 400%, but it is actually reported in the template as 133% (the group has achieved 1 1/3 X the 300% target calibration level). Whether the relevant point of comparison in this case is 133% or 400% makes a sizeable difference in any conversation about the GCC results.

* * * * * * * * *

Again, we thank you for this ongoing climate of cooperation, patience, and collaboration. We look forward to continuing to work with you as we all begin to see the light at the end of the tunnel.

Sincerely,

America's Health Insurance Plans
Bob Ridgeway
Bridgeway@AHIP.org
501-333-2621

Cc: Tom Finnell

Stephen W. Broadie
Vice President, Financial & Counsel

October 19, 2020

Commissioner David Altmaier, Chair
Group Capital Calculation (E) Working Group
National Association of Insurance Commissioners

Re: Proposed Revisions to the Group Capital Calculation Instructions

Dear Commissioner Altmaier:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on the Group Capital Calculation (E) Working Group's revised draft Group Capital Calculation (GCC) Instructions. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe. ACPIA thanks the Working Group and NAIC staff for their continued efforts to advance this important project, and for the consideration you have already given our earlier comments.

Materiality Criteria

APCIA appreciates that the revised GCC Instructions include more detailed and principle-based guidance for determining whether a non-insurance entity poses material risk for purposes of the GCC's Scope of Application. This new guidance is important because it will allow companies and their lead-state regulators to identify entities that do not pose material risk and therefore can be excluded from the Scope of Application, with consistency across groups and states.

However, we remain concerned that the "secondary considerations" in paragraph 15 include a reference to a materiality threshold of 5% of the broader group-wide equity or revenue. We strongly believe that strict or formulaic quantitative measures are an insufficient proxy for materiality. Instead, an individualized materiality assessment must be made based on the unique circumstances of the relevant entity and group. Although the "secondary considerations" are couched as factors that can be used to determine that material risk does not exist, we are nonetheless concerned that 5% will be used as a de facto threshold in lieu of the individualized materiality analysis that is otherwise contemplated in the proposed Instructions. This is particularly concerning because field testing has shown that a rigid materiality threshold is not easily determinable, and because there is no data to show how or why a 5% threshold would be an efficacious proxy for materiality.

Therefore, APCIA recommends deleting the bullet point regarding the 5% materiality threshold. It is worth noting that the two other "secondary considerations" are implicit in the "primary considerations" and do not need to be restated. As a result, the Working Group should consider deleting the other two "secondary considerations" in addition to the 5% materiality threshold.

In the alternative, if the 5% threshold remains in the Instructions as a secondary consideration, it should be caveated to prevent unwarranted reliance on a threshold with no grounding in data. We would suggest the following revision:

> Whether the entity (or grouping of similar entities) comprises less than either 5% of the broader group-wide equity or broader groupwide revenue. This 5% threshold, however, is only one consideration, and, if the subject entity's revenue or equity exceeds 5% of the corresponding group-wide amount, this would not prevent exclusion if other considerations when viewed holistically support a conclusion that the non-financial/non-insurance affiliate(s) do not present material risk to a group's ability, to pay policyholder claims or make other policy related payments.

Debt Instruments

Make-Whole Provisions

Paragraph 67 of the proposed Instructions provides criteria for qualifying senior debt and hybrid debt instruments as additional capital. APCIA is concerned that the criteria, as currently drafted, could be read to inadvertently disqualify instruments that include standard "make-whole" provisions. These provisions, which we are told are present in most U.S. debt instruments, allow issuers to retire (for purposes of refinancing, usually) a debt instrument with a payment that is typically equal to the net present value of future payments required by the instrument. We understand that make-whole provisions are rarely exercised by issuers of debt, particularly in the recent interest rate environment where rates cannot get much lower, because the benefit of calling an instrument and refinancing is minimal. Any exercise of a make whole provision would also be subject to the requirement of subparagraph b. below, in instances where the debt is structurally subordinated.

To ensure instruments with these standard provisions are not disqualified by the GCC, we recommend the following revision to paragraph 67:

> …For purposes of qualifying for recognition as additional capital, both of the following criteria must be met:
>
> a. The instrument has a fixed term (a minimum of five years at the date of issue or refinance, including any call options with the exception of standard make-whole provisions).
>
> b. Supervisory approval is required for any extraordinary dividend or distribution from any insurance subsidiary to fund the repurchase or redemption of the instrument. There shall be no expectation, either implied or through the terms of the instrument, that such approval will be granted without supervisory review.

Hybrid Debt

As noted above, paragraph 67 of the proposed Instructions provides criteria for qualifying senior debt and hybrid debt instruments as additional capital. The Instructions do not currently define the term "hybrid debt". For clarity regarding the meaning of "hybrid debt" in the Instructions, we suggest the following modification to the second bullet of paragraph 67:

> Subordinated Senior Debt (and Hybrid Debt, e.g., debt issuances that receive an amount of equity credit from rating agencies) issued – The outstanding value will be reported in Column 8. Recognition for structurally subordinated debt will be allowed to increase available capital…

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.

We look forward to discussing our comments with you and the Working Group.

Sincerely,

Stephen W. Broadie

Commissioner David Altmaier, Chair
NAIC Group Capital Calculation Working Group
National Association of Insurance Commissioners
[via-email: LFelice@naic.org]

October 15, 2020

Re: Comments on Group Capital Calculation Working Group's GCC Instructions Document

Dear Commissioner Altmaier:

Our Coalition ("we"), which consists of American International Group, Inc., Global Atlantic Financial Group, Hannover Life Reassurance Company of America, Liberty Mutual Insurance Group, MetLife, Inc., Principal Financial Group, Protective Life Corporation, Prudential Financial, Inc., Reinsurance Group of America, Incorporated, Transatlantic Reinsurance Company, thank the Group Capital Calculation Working Group ("Working Group") for the opportunity to provide input on key elements of the GCC. We strongly support the development of the Group Capital Calculation ("GCC") as a tool to enhance state regulators' ability to protect policyholders and insurance markets. We also strongly support the Working Group's decision to "*build on existing legal entity capital requirements where they exist rather than developing replacement / additional standards*." As the Working Group has rightfully noted, such an approach strikes an ideal balance of "*satisfying regulatory needs while at the same time having the advantages of being less burdensome and costly to regulators and industry and respecting other jurisdictions' existing capital regimes*."

During the public call the Working Group held on September 29, you noted that development of the first iteration of the GCC is approaching the "fatal flaws" stage. With the fatal flaws stage on the horizon, our Coalition felt the need to collectively express the following shared perspectives:

- We view the proposal to "calibrate the GCC" using 300% Authorized Control Level ("ACL") Risk Based Capital ("RBC") – i.e., to use 300% ACL RBC as the denominator of the ratio – as a fatal flaw.
- We believe 2021 should serve as a period of study and analysis to ensure the various design elements come together in a coherent manner and enable the GCC to accomplish its objective of providing state regulators a "*panoramic, transparent view of the interconnectedness, business activities, and underlying capital support for an insurance group*."

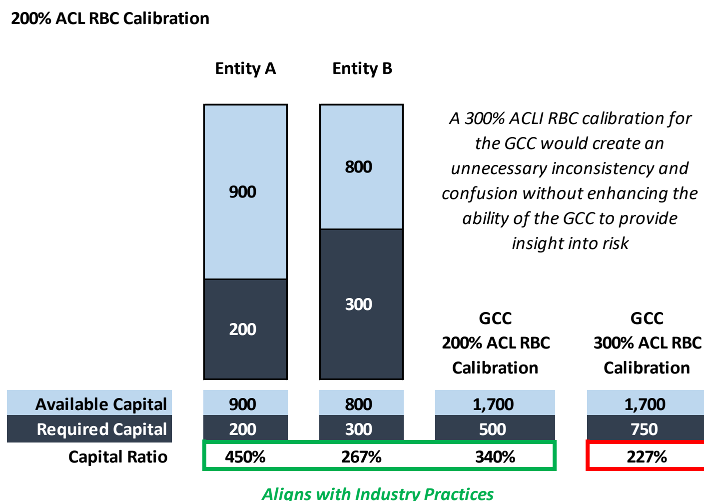
<u>Calibration of the GCC</u>

We believe the GCC should be calibrated using 200% ACL RBC in order to adhere to the considerations the Working Group has advised are guiding its efforts – i.e. develop a tool that provides state regulators greater insight into insurance groups in a manner that leverages and respects existing capital frameworks and practices and is less burdensome and costly. Calibrating the GCC at 300% ACL RBC would be inconsistent with longstanding industry norms for reporting and discussing solvency which use 200% ACL RBC. Further, it would also be inconsistent with state regulatory requirements for reporting and assessing capital adequacy and risks. State regulatory requirements for solvency reporting are based on 100% ACL RBC (i.e., what is filed in the Annual Statement).

Establishing an entirely new basis for reporting insurer solvency will create confusion and burden:

- Reporting processes (internal and external) would need to adapt to accommodate the inconsistency;

- Significant stakeholder education would be necessary to mitigate the confusion created by inconsistent reporting basis between entity and group level ratios, between companies that are and are not subject to the GCC, etc.;
- Market forces could lead to the establishment of 300% ACL RBC as a new basis for reporting and assessing the financial strength of insurers, and in doing so, impact existing capital management practices and expectations;
- It would create confusion over how state regulators assess and take action for solvency purposes – the ladders of intervention are anchored to 100% ACL RBC; and
- It would create a wider inconsistency between the aggregation based group capital framework developed by state regulators and the Federal Reserve Board.



More broadly, we do not believe the proposal to use 300% ACL RBC for calibration purposes would strengthen the ability of the GCC, or is necessary, to accomplish its objective of delivering state regulators transparency into insurance groups and protecting policyholders. Rather, we believe this decision would serve to undermine the time-tested practices of state regulators and the industry.

During the public call the Working Group held on September 29, NAIC staff had shared potential justifications for calibrating the GCC at 300% ACL RBC, which were mostly related to international considerations rather than the ability of the tool to accomplish its regulatory objective. In the annex to this letter, we provide our perspectives on these justifications.

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.

We again thank the Working Group for seeking stakeholder input on key elements of the GCC and would welcome the opportunity to discuss the information included in this response should the Working Group or NAIC staff engaged in the GCC project wish to do so.

Sincerely,

American International Group, Inc.
Global Atlantic Financial Group
Hannover Life Reassurance Company of America
Liberty Mutual Insurance Group
MetLife, Inc.
Principal Financial Group
Protective Life Corporation
Prudential Financial, Inc.
Reinsurance Group of America, Incorporated
Transatlantic Reinsurance Company

Annex
Perspectives on NAIC Staff Comments on GCC Calibration

During the public call the Working Group held on September 29, NAIC staff had shared a few potential justifications for calibrating the GCC at 300% ACL RBC, which were mostly related to international considerations rather than the ability of the tool to accomplish its regulatory objective. Below we offer our perspectives on why we believe the NAIC justifications are not sufficient or appropriate grounds for calibrating the GCC at 300% ACL RBC.

- **Calibrating to 300% ACL RBC would reinforce that the GCC is an analytical tool rather than a standard or requirement**

  Coalition Perspective

  We support the intent to reinforce the point that the GCC is an analytical tool as opposed to a standard however, we do not believe establishing a distinct calibration level is an effective or appropriate means for doing so and further that the point would be lost on most stakeholders. Rather than serving to reinforce the "tool versus standard" point, we believe establishing a new basis for solvency reporting in the U.S. would only serve as a source of confusion over how state based insurance supervision works by adding further complexity to the system. We believe framing of the GCC as a tool should be explicit in the GCC Instructions, the guidance to be included in the Financial Analysis Handbook, and other communications by the NAIC and state regulators.

- **300% ACL RBC has been used as a reference point in the Credit for Reinsurance Models and the Covered Agreements with the EU and UK**

  Coalition Perspective

  The Credit for Reinsurance Models and Covered Agreements establish a relationship between supervisory intervention points in different jurisdictions – specifically that the ability to apply the Trend Test at 300% ACL RBC, and subsequent actions that could be taken, aligns with the supervisor actions that may be pursed at 100% Solvency Capital Requirement ("SCR") under Solvency II or 200% Solvency Margin Ratio ("SMR") for Japan, etc. While these initiatives established relationships between intervention levels, they do not call for, or warrant, establishing a distinct calibration level for the GCC. Rather, we believe the initiatives reinforce the existing ladders of intervention approach that guides how state regulators assess insurer solvency and is anchored to a 100% ACL RBC calibration. As noted above, we believe establishing a distinct calibration basis for the GCC would only serve as a source of confusion over how state based insurance supervision works by adding further complexity system – including the inconsistency introduced between the GCC the Credit for Reinsurance Models and Covered Agreements.

  More broadly, we believe it may be appropriate to consider the relationships the Credit for Reinsurance Models and Covered Agreements established when establishing scalars between the respective regimes that are encompassed by the various agreements.

- **300% ACL calibration may help with efforts to advance the Aggregation Method ("AM") at the global level**

  Coalition Perspective

  We fully support the effort to advance the Aggregation Method at the global level and believe that, as the world's largest insurance market, the International Association of Insurance Supervisors (IAIS) must recognize and accept the U.S. state based approach to assessing group capital adequacy. While the GCC and AM are related, we believe

they must be developed separately given differences in how they will be applied and their different time horizons for development.

Decisions on the design of the GCC should be guided by the objective of making sure it is appropriate for the U.S. market and will meet the needs of U.S. stakeholders – regulators, policyholders, insurers, etc. Where they exist, the time-tested frameworks and practices state regulators and U.S. insurers employ should serve as the foundation of the GCC. Deviations from these practices should be avoided unless there is a clear and objective rationale for how an alternative approach will better enable the GCC to provide state regulators insight into risks within insurance groups and protect policyholders. We believe it would be inappropriate to base GCC design decisions – especially for core elements – on what "could" help advance AM comparability discussions:

- *Catering the design of the GCC to appease the views of foreign jurisdictions could result in a framework that does not best suit the U.S. insurance market; and*
- *There are no assurances that decisions made today regarding the design of the GCC will secure support for the AM from non-U.S. IAIS members, many of whom continue to be skeptical of the AM.*

The design of the GCC should inform the NAIC's work on the AM, which will continue after adoption and implementation of the GCC. Given that the AM is intended to serve as a framework that jurisdictions around the world could embrace, we recognize that collaboration and negotiations with these markets could result in a final AM that includes some differences from the GCC. However, the scope of such differences is impossible to predict at present and therefore consideration of the extent to which they would require tweaks to how the GCC has been implemented should be deferred until there is more clarity and certainty.

More broadly, it is important to reiterate that while items such as the Covered Agreements and Credit for Reinsurance Models have established relationships between intervention levels, they do not call for, or warrant, establishing a distinct calibration level for the GCC or AM. With respect to assessing comparability of the AM to the alternative approaches, the focus should be the ability of the tool to provide decision-useful insight into risks and protect policyholders as opposed to attempting to quantitatively align results to flawed benchmarks such as best efforts field test ratios or the intervention level assigned to the Market Adjusted Valuation (MAV) approach.

Commissioner David Altmaier, Chair
NAIC Group Capital Calculation Working Group
National Association of Insurance Commissioners
[via-email: LFelice@naic.org]

October 20, 2020

Re: Comments on Proposed Group Capital Calculation (GCC) Instructions

Dear Commissioner Altmaier,

The North American CRO Council (CRO Council) is a professional association of Chief Risk Officers (CROs) from leading insurers based in the United States, Canada, and Bermuda. Member CROs currently represent 32 of the largest Life and Property and Casualty (P&C) insurers in North America. The CRO Council seeks to develop and promote leading practices in risk management throughout the insurance industry and provide thought leadership and direction on the advancement of risk-based solvency and liquidity assessments.

The CRO Council supports the NAIC's decision to leverage existing solvency frameworks as the basis for its GCC framework. By leveraging existing solvency frameworks, the GCC will benefit from their proven ability to capture the unique risks across various lines of insurance and jurisdictional market specificities. More broadly, leveraging existing solvency frameworks will ensure continuity across existing supervisory tools, including those that are of greatest import to the CRO community.

Notwithstanding its basis in existing jurisdictional capital regimes, the GCC is an innovative – and therefore unprecedented – metric for assessing an insurance group's capital position. As CROs, we believe it is essential for any group capital metric to be designed and implemented in a manner that coherently assesses the interactive components of the underlying methodology, as well as the metric's quantitative impact and behavior across scenarios.

We recognize that the NAIC has been working diligently to finalize the GCC in advance of important international milestones in the recognition of US modalities for assessing risks at the group level. We commend the NAIC for both its high degree of transparency in developing the GCC methodology, as well as the care and deliberation it's taken in evaluating each of the component methodological issues. At this juncture, there are, rightly, several open issues that the NAIC is still considering, including treatment of senior debt, scalars, and calibration. As we approach a critical stage in the finalization of the GCC methodology, it is vital to ensure that the ongoing resolution of these and other methodology issues are also evaluated and tested collectively, to ensure that GCC provides a coherent and meaningful group measure.

In this vein, the CRO Council is concerned with the proposal to introduce a new regulatory tool for analyzing an insurer's capital adequacy and risks by calibrating the GCC at a level that is inconsistent with existing regulatory and industry practices even if a group's GCC would remain

confidential. We believe that, rather than better enabling the GCC to provide insight into risks, such a move would create risks. For example:

- It could undermine the market's perception of the solvency levels insurers are subject to at the entity level and stakeholders would be left to decipher why state regulators feel the need to assess risk at the group level in a manner than is different than the system they have developed for supervising the same risks at the entity level. Given the increased prominence of group capital assessments since the great financial crisis, we believe the GCC will receive broad interest and uptake by the stakeholder community and in turn, the disconnect will become a point of focus.

- Even though the GCC will serve as an analytical tool and results will remain confidential, introducing a new calibration level could undermine the market's perception of the capital adequacy of the sector. Stakeholders may interpret the move to increase the level of required capital regulators focus on for assessing capital adequacy and risks at the group level as an effort to promote more prudent capital levels across the sector, despite no change in the economics of the risks they are exposed to. This in turn could give rise to an unlevel playing field and arbitrage between insurers that are subject to the GCC, and the related heightened capital expectations it could create, and those that are not.

- It could result in misinterpretations. Stakeholders would be forced to learn a new scale for assessing risks despite no change in the underlying risk exposures.

When it comes to supervisory assessments of risks, regulatory clarity is vital for policyholders and the insurers that are subject to the assessment and tools. Actions that create uncertainty should be avoided unless they are anchored to a strong risk-based rationale. Thus, we strongly encourage the NAIC to calibrate the GCC at a level that is consistent with existing regulatory and industry tools and conventions.

The issue of calibration is inextricably linked with other facets of the GCC's overarching design and methodology, including the development of scalars. The treatment of scalars is, appropriately, the subject of ongoing in-depth study. By contrast, the choice of a target calibration - a decision with potentially more significant consequences than scalars – is being decided in fairly short order and with substantially less consideration of its interplay with the rest of the GCC framework or potential unintended consequences that may arise.

In addition, we note that the current debt limit structure could cause the GCC ratio to be more volatile than RBC ratios in recessionary environments. During times of stress, when solvency capital declines, the amount of admissible debt is expected to be reduced using the current guidelines. This would lead to a larger reduction in available capital in the GCC than under an RBC assessment and consequently a larger decline in the GCC ratio. Furthermore, the GCC debt limits would disincentivize insurers to raise capital through debt issuances during times of stress because only a fraction of the debt would be treated as capital under the GCC. We believe the heightened volatility and potential influence on capital management during times of stress are unintended consequences that should be remediated by raising the debt admissibility limits.

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.

Sincerely,

Alessandrea C. Quane

Chair of North American CRO Council

October 15, 2020

Lou Felice
Solvency and Capital Policy Advisor
National Association of Insurance Commissioners

Dear Mr. Felice,

Global Atlantic appreciates the opportunity to comment on the revised draft of the GCC instructions exposed for comment on September 29. Similar to our comment letter dated July 17, 2020 (which is attached) we are providing comments on the following issues:

Capital Calibration
We continue to have concerns with the current proposed approach of using the trend test level of 300% ACL as the capital calibration level. 300% ACL is inconsistent with the 200% ACL (or 100% CAL) calibration level widely used in the insurance industry for RBC. We believe this will lead to confusion and misunderstandings with comparing RBC to GCC, potentially undermining the current RBC standard. We request that the NAIC adopt a 200% ACL calibration level for the GCC.

Downstream Tracking of Debt
We support eliminating downstream tracking and replacing it with a simple comparison to paid-in capital and surplus. This appears to be the direction the NAIC is heading, and we support that direction.

Scalar Methodology
We support the Excess Relative Ratio approach for scaling available capital and required capital for non-U.S. entities for the reasons outlined in our July 17 letter. Since the GCC WG wants additional time to analyze various approaches to determine scalars before making a final decision, we don't have a concern with using no adjustment for scalars as a placeholder, and including the impact of the Excess Relative Ratio impact as a sensitivity test.

Scalar Formulation
As explained in our July 17 letter, we believe transparency of how the scalars are calculated is critical, regardless of which scaling methodology is selected.

Again, thanks for allowing us to provide our comments on the revised GCC instructions.

Sincerely,

Lauren Scott
Head of Regulatory and Government Affairs
Global Atlantic Financial Group

Attachment

July 17, 2020

Lou Felice
Solvency and Capital Policy Advisor
National Association of Insurance Commissioners

Dear Mr. Felice,

Global Atlantic appreciates the opportunity to comment on the exposure draft of the revised GCC instructions and the revised GCC. Our comments address concerns with the following:

- Capital calibration
- Downstream tracking of debt
- Scalar methodology
- Scalar governance

We also seek guidance on whether GAAP equity values should include or exclude OCI when GAAP is used as the accounting method to determine the carrying value of an entity.

Capital Calibration

We have concerns with the current proposed approach of using the trend test level of 300% ACL as the capital calibration level. First of all, 300% ACL is inconsistent with the 200% ACL (or 100% CAL) calibration level widely used in the insurance industry for RBC. We believe this will lead to confusion and misunderstandings with comparing RBC to GCC, potentially undermining the current RBC standard. RBC ratios are typically in 350% to 450% range, but the GCC ratio will be much lower. For example, if the underlying RBC ratios of the companies in the group average 450% RBC, the resulting group capital ratio will be ~300%.

In addition, we believe the insurance industry's current reporting of two capital calibration levels, (100% ACL and 200% ACL or 100% CAL) results in confusion and frequent misinterpretation of reported ratios; adding a third calibration level for the GCC of 300% ACL will compound the problem. We believe this will lead to additional confusion and misunderstanding by users of financial information, including the regulatory, rating agency, and banking communities.

We strongly request that the NAIC adopt a 200% ACL calibration level for the GCC.

Downstream Tracking of Debt

The current instructions rely on downstream tracking in order to count debt proceeds as part of available capital. While downstreaming theory makes sense, the tracking method required is unclear and cumbersome. Developing criteria for downstream tracking will be difficult.

We are in favor of a proposal to eliminate downstream tracking logic and replacing it with a simple comparison to capital and surplus

- Much more reliable and efficient test for a company like Global Atlantic where the holding company is only 10 years old whereas the insurance companies have much longer histories.
- GA's Q419 financial supplement reports additional paid-in capital of $2,451mm, which is sufficient to cover anticipated leverage levels; parent paid-in capital should be used for the metric to ensure consistency (many insurance companies have been acquired over time and paid-in capital could be quite inconsistent with that of the parent which is providing the financing)
- Approach avoids complications that could result from debt that has been refinanced by the parent as there would be no contribution of amount issued with contributed capital of insurance company

Scalar Methodology

We support the Excess Relative Ratio Approach for scaling Non-U.S. capital ratios to U.S. RBC. This method utilizes two anchor points for scaling:

1. The respective industry average capital ratio
2. The regulatory interventation level.

The alternative scaling approach, the Pure Relative Ratio, relies solely on the industry average capital ratio to translate a Non-U.S. capital ratio to U.S. RBC. It does not take in to account the regulatory intervention level. Since the Pure Relative Ratio approach adjusts required capital only, available capital is not adjusted, resulting in excess capital being distored. Since the Excess Relative Ratio approach adjusts both available capital and require captial, excess capital is not affected.

Thus, the Pure Relative Ratio lacks a mechanism to ensure that a non-U.S. firm at the regulatory intervention level within it's respective country will be at the U.S. RBC intervention level once scaled. This is a material fault. Again, we support the Excess Relative Ratio Approach, and its ability to align regulatory intervention levels across jurisdictions.

Scalar Formulation

Transparency of how the scalars are calculated will be critical, regardless of which scaling methodology is selected. In order to appropriately manage capital under the group framework, firms must have a thorough understanding of how scalars behave. Many Non-U.S. countries rely on market-value based capital ratios, which have potential to behave differently than the book-value based RBC measure.

We believe the following themes should define the scalars:

Consistency – scalars should be calculated and applied consistently across all non-U.S. regimes.

Specificity – scalars should be discretely computed and applied amongst life, property casualty and health insurance companies.

Stability – the results of applying scalars to Non-U.S. capital ratios should not be volatile; for example, converting to U.S. RBC should not yield a significant headwind in one year, and a significant tailwind in the following year.

Additionally, we believe answers to the following questions are critical for firms to understand the impact of the scalars:

1. How is the country average computed? Is the concept of country average based on equal weighting each firm? Alternatively, is it size weighted, such that a large provider in Country Y may dominate the average of Country Y?

2. How frequently will the scalars be updated?

3. Will scalars derived from Year 20XX be applied to 20XX actual results, or will timing of filings and data availabilty create a lag?

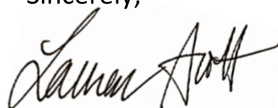
4. Will scalars take in to consideration only a single year, or alternatively, will a rolling average mechanism be utilized?

GAAP Equity

The GCC instructions are silent on whether OCI should be included or excluded when GAAP equity is used as the carrying value of an entity. Companies typically report GAAP equity less OCI to lessen the amount of volatility that can arise when including market value adjustments of assets. Excluding OCI is also consistent with statutory accouting rules that generally do not reflect the market value of assets. We suggest that the GCC instructions include guidance on whether or not OCI should included or excluding when reporting GAAP equity. Otherwise there could be inconsistencies in how companies report GAAP equity amounts.

Again, thanks for allowing us to provide our comments on the revised GCC instructions.

Sincerely,



Lauren Scott
Head of Regulatory and Government Affairs
Global Atlantic Financial Group

Dale Porfilio, FCAS, MAAA
Genworth Corporate Chief Actuary
Genworth Financial, Inc.

6620 West Broad Street
Richmond, VA 23230
USA
(804) 662-2464 direct
(904) 608-1457 mobile
dale.porfilio@genworth.com
genworth.com

October 15, 2020

Commissioner David Altmaier
Chair, NAIC Group Capital Calculation (E) Working Group
Florida Office of Insurance Regulation

RE: **Company Confidential** Group Capital Calculation Scalars for Mortgage Insurance

Dear Commissioner Altmaier:

Genworth Financial, Inc. (Genworth) is thankful for the opportunity to comment on the NAIC's instructions and template for the Group Capital Calculation (GCC). Genworth is a Fortune 500 insurance holding company committed to helping families achieve the dream of homeownership and address the financial challenges of aging through its leadership positions in mortgage insurance (MI) and long-term care (LTC) insurance. Headquartered in Richmond, Virginia, Genworth traces its roots back to 1871 and became a public company in 2004. For more information, visit genworth.com.

Genworth has preliminarily completed the NAIC's GCC template (version dated July 6, 2020) for the first time using year-end 2019 data, and we are now trying to discern how regulators may interpret the results. Our primary insight is that Genworth's unique product mix may not be adequately captured by the industrywide GCC template. Genworth's GCC ratio is primarily influenced by our US Life Insurance (USLI) operating business and our two MI operating businesses.

The USLI business is dominated by our LTC block, alongside significant but smaller runoff blocks of Life Insurance and Annuity products. Like the rest of the LTC industry, Genworth's LTC block has financial challenges which caused the RBC ratio in our USLI flagship insurance company, Genworth Life Insurance Company (GLIC), to be 213% Company Action Level (CAL) at year-end 2019. The GCC ratio for our USLI business would have been below the 175% target at year-end 2019, as expected given the RBC was below 350% CAL.

Regarding our MI operating businesses, Genworth owns 100% of its US platform (USMI) and its flagship insurance company Genworth Mortgage Insurance Corporation. In Australia, Genworth owns 52% of the publicly traded Genworth Mortgage Insurance Australia Limited (GMA) which in turn owns 100% of its flagship legal entity Genworth Financial Mortgage Insurance Pty Limited. Genworth also has a MI business in Mexico, but it is not material to the GCC. Both of our material MI platforms have very strong capital positions relative to their respective MI capital standards. While each of their preliminary GCC ratios are above 175%, they are not nearly as far above as we expected given their strong financial strength. This leads us to consider if the US and Australia MI businesses' capital ratios may be undervalued in the GCC template.

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For the MI industry in the United States, we understand the NAIC intends to use the new MI capital regime, which may address our concern. For now, USMI manages capital levels using the NAIC's risk-to-capital metric (25:1 standard) and the Fannie Mae and Freddie Mac's (collectively, the GSEs) Private Mortgage Insurer Eligibility Requirements (PMIERs). At year-end 2019, USMI had an RTC of 12.5:1 and PMIERs ratio of 138%, with its preliminary GCC at 203%. While the RTC and PMIERs metrics are very strong relative to the regulatory standards, the GCC ratio of 203% is only slightly above the NAIC's stated action level of 175%.

As an interim solution until the NAIC's new MI capital regime is finalized, we propose the NAIC consider adding a MI-specific scalar below 1.00 within the GCC template calibrated from the NAIC's existing Risk-to-Capital (RTC) standard. A GCC scalar of 0.50 would be equivalent to the NAIC calibrating the GCC to their current MI RTC requirement of 25:1. The GSEs require a minimum RTC of 18:1 within PMIERs, which indicates a GCC scalar in the range of 0.65-0.70 could be appropriate. Genworth would consider either scalar to be more reflective of USMI's strong capital position within the NAIC's new GCC paradigm. Table 1 below demonstrates the effect of the scalars relative to the NAIC's RTC metric.

Table 1 (USMI)

	Base (Scaled at Trend Test Level)			
Scaling % (Calc 1)	**Available Capital**	**Scaled Capital Calculation**	**GCC Ratio**	**RTC**
100%	3,642,278	1,797,955	203%	12.5
75%	3,642,278	1,349,841	270%	16.6
69%	3,642,278	1,248,580	292%	18.0
60%	3,642,278	1,078,773	338%	20.8
50%	3,642,278	901,728	404%	24.9

GMA is Genworth's only business in Australia. Per the GCC template as of July 6, 2020, GMA receives the overall country scalar of 0.74 which was calibrated to apply to all product lines. (We understand this country scalar may be revised in the final GCC template.) GMA had a capital ratio of 191% on the Australian Prudential Regulation Authority's Prescribed Capital Amount (PCA) metric at year end 2019, which is then scaled to 259% in the GCC template. The 191% PCA was well above the business' targeted operating range of 132-144% and therefore may not be indicative of future levels. Table 2 below shows the GCC outcomes under different scalars (including the 100% shown in the GCC template released October 12, 2020) if the business operated closer to its targeted PCA range.

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Table 2 (GMA)

GCC Ratio	GMA Prescribed Capital Amount (PCA)			
Scaling % (Calc 1)	**191%**	**144%**	**138%**	**132%**
100%	191%	144%	138%	132%
74%	259%	195%	187%	179%
70%	273%	206%	197%	189%
60%	318%	240%	230%	220%
50%	382%	288%	276%	264%

While the Australian scalar of 0.74 in the GCC template seems more appropriate for GMA than the current 1.00 for USMI, a comparable scalar in the range of 0.50-0.70 would better reflect the strong capital positions and capital requirements of both the US and Australian MI businesses. We recognize the GCC paradigm is still in development and MI is a comparatively small product line within the broader global insurance marketplace.

Given the sensitivities around individual companies preliminary GCC results, we ask that you treat this correspondence as confidential. Genworth would be happy to work with the NAIC as you consider appropriate GCC scalars for the MI industry.

Sincerely,

Dale Porfilio

Dale Porfilio, FCAS, MAAA
Genworth Corporate Chief Actuary

CC: Dan Daveline
Lou Felice
Ned Tyrrell

CONFIDENTIAL

State Farm
Corporate Headquarters
1 State Farm Plaza
Bloomington, IL 61710-0001

Charles M. Feinen
Corporate Headquarters
Corporate Law, A-3
PH (309) 766-3516 Fax (309) 766-5850
chuck.feinen.jnze@statefarm.com

October 15, 2020

Via Electronic Delivery

Commissioner David Altmaier
Florida Office of Insurance Regulation
Attention: Mr. Lou Felice
J. Edwin Larson Building
200 E. Gaines Street, Room 101A
Tallahassee, Florida 32399

RE: Draft Instructions from the Chair of the Group Capital Calculation (E) Working Group to the Chair of the Group Solvency Issues (E) Working Group

Commissioner Altmaier:

State Farm Mutual® Automobile Insurance Company and its affiliates ("State Farm"), appreciate the additional opportunity to submit comments concerning the Draft Instructions from the Group Capital Calculation (E) Working Group (the "Working Group"). State Farm also appreciates the cooperative approach and transparency the Working Group has utilized throughout the development process of the Group Capital Calculation (GCC) and the tremendous amount of patience that NAIC Staff have practiced.

State Farm's understanding is that the GCC provides an evaluation tool for domestic regulators to consider along with various other risk information already being provided by groups, such as the Own Risk Solvency Assessment ("ORSA") Report filing, and appreciates the draft's explanation of this purpose as noted in paragraphs 2 and 3. Specifically, to provide regulators an analytical tool to identify risks within the group that may impact the individual insurance entity ability to keep its promises to its policyholders. The following comments and concerns focus on this stated purpose and try to provide clarity consistent with that stated purpose throughout the Draft Instructions.

In various locations the Draft Instructions appear to veer from the clarity of this purpose due to word choice and lack of specificity. As an example of this in looking at paragraph 2 the draft provides:

State Farm
Corporate Headquarters
1 State Farm Plaza
Bloomington, IL 61710-0001

> In this regard, the tool assists regulators in holistically understanding the financial condition of non-insurance entities, how capital is distributed across an entire group, and whether and to what degree insurance companies may be supporting ~~bsidizing~~ the operations of non-
>
> insurance entities, potentially ~~undermining~~ adversely impacting the insurance company's financial condition ~~and/~~or placing upward pressure on premiums to the detriment of insurance policyholders. This calculation provides an additional analytical view ~~early warning signal~~ to regulators so they can begin working with a group ~~company~~ to resolve any concerns in a manner that will ensure that policyholders will be protected.

State Farm believes that the intent of these sentences is that once the regulator identify risks to an insurance entity within the group, the regulator will work with the impacted insurance entity to address those risks. However, the draft uses "group" in the last sentence which confuses the purpose. In order to match the prior sentence statement of purpose, to clarify the last sentence and to be consistent with the authority given state regulators, "group" should be replaced with "that insurance company". State Farm's position is that the GCC as an aggregation of individual legal entities' capital does not create "group capital" or that there is now group capital that is fungible/available to be used to pay policyholder claims.

Additionally, and to this point that there is no group capital and individual legal insurance entity capital is not fungible, the group also does not issue the policy of insurance. In paragraph 15 concerning material risk, the draft provides:

> Risk emanating from a non-insurance / non-financial entity not owned by an insurer that is of a magnitude that would adversely impact a group's ability, to pay policyholder claims or make other policy related payments (e.g. policy loan requests or annuity distributions).

The "group" does not pay policyholder claims. Rather it is an individual legal insurance entity that is in the group that is licensed, whose policy form and rates were approved by a state regulator, which pays its policyholder claim. Here, the suggested change is that "…impact an insurer's ability within the group to…" should replace "...impact a group's ability…" in order to clarify the material risk definition and be consistent with current state based regulation. This clarification between "group" versus "insurer" should be carried out throughout the bulleted "Primary Considerations" portion of this paragraph.

Finally, in one location there seems to be outright inconsistency with the stated purpose of the GCC and comments recently made that the GCC is not creating a group capital standard with intervention points. In paragraph 36 the following highlighted statement appears:

> Except as noted in on the Inventory tab, equity method investments that are accounted for based upon SSAP. No. 48 (Joint Ventures, Partnerships, and Limited Liability Companies)

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State Farm
Corporate Headquarters
1 State Farm Plaza
Bloomington, IL 61710-0001

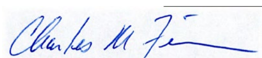
> are not required to be de-stacked (separately listed) in Schedule 1, i.e. their value would be included in amounts reported by the parent insurer within the calculation. The basis for this approach is predicated on the purpose of the entire group capital calculation which is to produce an expected level of capital and a corresponding actual level of available capital.
>
> The available capital for such Joint Ventures, Partnerships, and Limited Liability Companies is already considered in Schedule 1 but its inclusion in its parent's financial statements amounts and can thus be excluded from an inventory (not separately listed) since the parent already receives a corresponding capital charge within its RBC.

Not only is this statement contrary to the stated purpose in paragraphs 2 and 3 and more recent comments on the GCC purpose of not establishing required capital or intervention points, it is violative of the state based regulatory system. As noted previously, the GCC is simply an aggregation of individual legal entities' capital within a group, it does not create capital that is held by the group, it doesn't make the capital held by the legal entities used in the calculation now fungible or available, and it does not change the state based regulatory structure. State Farm does not have a suggestion to correct this sentence and simply suggest it be deleted.

Again, State Farm appreciates all of the Working Group's work on the GCC and the efforts of the NAIC staff.

State Farm would be happy to discuss these requests for clarification and others not noted in these comments if that would be desirable, please feel free to contact me.

Sincerely,



Chuck Feinen
State Farm Mutual Automobile Insurance Company

UNITEDHEALTH GROUP

Corporate Finance – Actuarial Services Division
185 Asylum Street, CityPlace I ● Hartford, CT 06103

October 15, 2020

Hon. David Altmaier
Commissioner
Florida Office of Insurance Regulation
Chair, Group Capital Calculation Working Group
The Larson Building
200 East Gaines Street
Tallahassee, FL 32399-0305

Via electronic mail to Lou Felice

Re: Comments on GCC Instructions

Dear Commissioner Altmaier:

We write today on behalf of UnitedHealth Group, one of the nation's largest managed care and healthcare services companies, which, through its UnitedHealthcare business platform, administers and provides healthcare benefits to more than 48 million medical members across the U.S. and South America. UnitedHealth Group's Optum business segments provide health services, including pharmacy services, health care delivery, population health management, collaborative care delivery, information technology, and health care financial services to 92 million individuals with more than 100,000 clinical professionals in physician practices and other health care facilities nationwide. We thank you for the opportunity to provide comments on the revised draft version of the Group Capital Calculation ("GCC") instructions that was exposed for comment on September 29, 2020.

We would like, first, to address the extent to which the revisions have resolved the key concerns stated in our July 20, 2020 comment letter on the previous version of the instructions and template; second, to note some new concerns that have arisen in connection with these revisions; and third, to revisit some of the additional concerns that we raised in the July 20 letter. To open each comment, we will reference both the relevant paragraph in the latest revision of the instructions and the corresponding paragraph in the previous version, as cited in the July 20 letter.

Key Concerns (from the 7/20/20 comment letter)

Key Concern #1: Calibration Level

VI.59 and VI.60 (previously VI.57 and VI.58): We appreciate the opportunity to again express our concerns about the calibration level of the GCC. We continue to believe that there is no sound justification for calibrating the GCC to 150% of the Risk-Based Capital Company Action Level (RBC CAL).

On your Working Group's September 29, 2020, conference call, it was suggested that a high calibration level for the GCC is appropriate because it is intended as an analytical tool, rather than a capital requirement. That is to say, it is appropriate to trigger additional analysis of a group at a higher capital level than the level that would trigger regulatory intervention for any specific insurance entity within the group. We disagree with this rationale for two reasons.

First, the level at which review is triggered should be addressed in the Financial Analysis Handbook, rather than in the structure of the GCC itself. This is how the matter is handled for RBC, with the Handbook calling for additional review at a level well above CAL. To build that additional conservatism into the GCC would almost certainly lead to misinterpretation of the GCC ratio, through the natural inference that a ratio below 100% is automatically "bad." Such misinterpretation should be avoided by addressing the review trigger point in the Handbook, not through conservatism in the GCC itself.

Second, it has not been established that a calibration at 150% of CAL is appropriate even for review. As we discussed at length in our July 20 comment letter, even 100% of CAL may be excessive, at least for large groups, because of the benefits arising from the diversity of businesses in such large, heterogeneous groups. Such considerations likewise can be more easily addressed by guidance in the Handbook than by attempting, without sufficient discussion, to establish a permanent benchmark within the structure of the GCC. If the GCC itself is too conservative, the Handbook review threshold might have to be something less than 100% of the GCC, which might also be confusing.

Therefore, we strongly recommend that the GCC be calibrated to 100% of CAL. Any desired conservatism in the use of the GCC is best addressed in the Financial Analysis Handbook.

IV.42 (previously V.A.40): As noted in our July 20 letter, we have in the past provided mathematical demonstrations of a problem with the approach that was then being used to calculate "scalars" [sic] for alien insurers. Subsequent to the September 29 conference call, we sent materials to NAIC staff providing additional details of that analysis. We have applied the same analysis to the Excess Relative Ratio approach that is currently being considered, and that approach also fails the test. Again, the problem is that the approach does not explicitly take into account the level of reserves that is being held by alien companies, versus the level being held by U.S. companies. Any method that fails to incorporate the total assets held for both reserves and capital will not produce a correct result.

Key Concern #2: Definition of "Financial Entity"

II.9 (previously IV.22): Our concerns about the definition of "Financial Entity" have mostly been addressed by the significant narrowing of the definition that has occurred. We have one remaining concern, regarding the final sentence of the definition, which is:

> In addition, other financial entities without a regulatory capital requirement include those which are predominantly engaged in activities that depending on the nature of the transaction and the specific circumstances, could create financial risks through products or transactions such as a mortgage, other credit offering, a derivative, and intra-group cross support mechanisms (as defined below).

Intra-group cross support mechanisms are appropriately considered when deciding whether a particular entity should be within the scope of the GCC, but they should not be considered when determining whether an entity is a "Financial Entity." The risk charges that will apply to Financial Entities will be

appropriate for the types of activities that such entities are engaged in. The existence of a cross-support mechanism does not mean that the operations of the entity are as risky, with the same potential for large losses, as those of true Financial Entities.

This is particularly a concern because the current definition of “Cross Support Mechanism” (as we discuss below under “New Concerns,” paragraph II.20) could pull in a wide variety of interaffiliate relationships. Attributing a higher degree of risks to such relationships would penalize integrated groups relative to groups that have similar relationships with non-affiliates, whereas, as we pointed out in our July 20 letter, the interaffiliate relationships are actually likely to present less risk because of greater regulatory oversight.

In light of the foregoing, we recommend that “intra-group cross support mechanisms” be deleted from that final sentence.

Key Concern #3: Intangible Assets

VI.81 (previously VI.83): We continue to question the rationale for singling out intangible assets for special consideration, to the exclusion of other assets that might be considered illiquid (such as real estate, plant and equipment, and airplanes). NAIC staff, in response to our concerns, has stated, “staff believes that there is some value in quantifying the extent that group capital is comprised of illiquid non-physical assets.” However, there has been no explanation of why “non-physical” illiquid assets are more of a concern than “physical” illiquid assets. Apparently, there is some concern beyond illiquidity, but what that may be has never been explicitly stated. Our comments on this point in the July 20 letter explained in detail why any particular concern about intangible assets, in contrast to illiquid physical assets, is unwarranted. The singling out of intangible assets implies an unsupported derogation of such assets.

We note that NAIC staff also stated, “It is not intended that the value of intangibles allowed under GAAP, SAP or another accounting basis should be excluded.” However, the only foreseeable use of this information will be to recalculate the GCC excluding intangible assets. Again, the implication is that intangible assets represent a problem that is somehow distinct from mere illiquidity.

Accordingly, we again request that intangible assets not be subject to special reporting that is deemed unnecessary for other illiquid assets.

Key concern #4: Use of the GCC

I.A.2 (the same previously): Most, but not all, of our concerns about this paragraph have been addressed by the revisions. We still question the emphasis on whether “insurance companies may be supporting the operations of noninsurance entities, potentially adversely impacting the insurance company’s financial condition.” We reiterate our comment from the July 20 letter, that whether or not all or any of the insurance companies in a group are “supporting” other operations within the group is not relevant to the insurance company’s financial condition. As we pointed out, insurance regulators are already empowered to monitor and restrict the flow of capital out of the insurance entities, by means of restrictions on dividends, oversight of transactions with affiliates, and application of the statutory provisions regarding hazardous financial condition, among other methods. If there are serious flaws in all of those other regulatory tools, the GCC is neither a proper nor an effective means to correct those flaws. Therefore, we again request that the reference to “supporting” (previously “subsidizing”) the non-insurance entities be deleted from this paragraph.

I.A.3 (the same previously): Again, most but not all of our concerns about this paragraph have been addressed. We have two comments to offer regarding the following sentence:

> It was also noted that a group capital calculation could serve as a baseline quantitative measure to be used by regulators in [sic] to compliment the view of group-specific risks and stresses provided by the Own Risk and Solvency Assessment (ORSA) Summary Report filings and in Form F filings that may not be captured in legal entity RBC filings.

Our primary comment is that, as we previously suggested, the reference to RBC filings should be deleted. RBC is not a group solvency measure, and its introduction into this discussion could confusingly suggest that the GCC is relevant to the financial condition of individual insurance entities, as RBC is. Also, we suggest deleting the word "in" before "to compliment".

New Concerns

II.15: A new definition has been provided for "Material Risk." It is important to clarify that the phrase "adversely impact a group's ability, to pay policyholder claims or make other policy related payments" refers to an impact that is non-trivial, and that affects the insurers within the group broadly. Situations that affect insurers individually must be dealt with through the domiciliary states' oversight of interaffiliate agreements and transactions. The GCC is intended to address the group as a whole, and only those risks that affect the group broadly, rather than individual insurers separately, should be considered "material risks." Materiality must be measured with reference to the group as a whole, never to the smallest insurance entity within the group.

II.20: The new definition of "Cross Support Mechanism" appears overly broad. In particular, we object to the phrase "other agreements or transactions that create a financial interdependence or link between entities in the group." Any kind of agreement or transaction creates a "link," and any payment by an insurer for any service whatsoever could be deemed to create "financial interdependence." Cross Support Mechanisms should be limited to arrangements that create a legally enforceable obligation on the part of an insurer to make payments to an affiliate outside of the ordinary course of business. Therefore, we recommend that the foregoing phrase be replaced with "other agreements or transactions that create a legally enforceable guarantee from one or more insurance entities to one or more non-insurance entities within the group other than for goods and services."

We will point out again that this definition as currently written, in conjunction with the current definition of "Financial Entity" (see our comments above under "Key Concern #2," paragraph II.9), would penalize integrated groups relative to groups that have arguably riskier arrangements with unaffiliated vendors. We continue to believe that this is an inappropriate outcome, and recommend that both definitions be modified as we have suggested.

Additional Concerns (from the 7/20/20 comment letter)

I.A.7 (the same previously): Although this paragraph was edited to correct a previous wording error, the correction is not complete. In the second-to-last sentence, we suggest the following additional corrections:

> The GCC instructions and template are intended to be modified, improved and maintained by the NAIC in the future ~~similar~~ as are the *Accounting Practices and Procedures Manual*, the *Annual Statement Instructions* and the *Risk-Based Capital formula and Instructions*.

Additionally, we still believe that the final sentence of the paragraph should be deleted. Since, as noted in that sentence itself, other possible items such as stress testing have not yet been considered, it is premature and misleading to discuss them in the GCC instructions.

II.10 (previously IV.23): The definition of "Insurance Group" is still too broad. As currently defined, the "Insurance Group" is not limited to the insurers within a group and their own subsidiaries. Merely being owned by the same intermediate holding company that happens to own the insurers in the group is enough to make a non-financial entity part of the insurance group. This does not seem reasonable. The "Insurance Group" should be defined to exclude any non-financial entities that are not actually owned by the insurers.

III.E.29 (previously II.E.17): We reiterate our comments from our July 20 letter. The definition of Insurance Group (as noted in our comment on paragraph II.10, above) appears to include all subsidiaries of any holding company that has an insurance subsidiary, regardless of whether such subsidiaries have any operational or financial connection with the insurance business. Yet a non-financial entity that is part of the Insurance Group must automatically be included within the scope of the GCC, while an otherwise identical entity that is not part of the Insurance Group may be excluded. In fact, it appears that even the Ultimate Controlling Person could be excluded from the GCC scope, despite its influence in the group on corporate governance and capital allocation, while an entity with no influence at all on the insurance operations would have to be included because of its ownership by a particular intermediate holding company. The GCC should not incorporate preferential treatment for a particular type of group organizational structure, absent any genuine financial impacts. Either the definition of Insurance Group must be changed as we suggest above, or the requirement that all members of the Insurance Group must automatically be in scope must be removed.

VI.56 (previously VI.54): The revised instructions still call for the reporting of all dividends paid within the group. As we indicated previously, this is significant—and, in the context of a balance-sheet-oriented calculation, unnecessary—additional burden. We note that in many cases, a dividend may pass through one or more holding companies before it reaches its final destination (e.g., from insurer to intermediate holding company to ultimate controlling person). Seeing the same dividend being recorded multiple times is very likely to create confusion. We suggest it would be more useful to show, for each entity, only the net of dividends paid and dividends received. In that case, the columns for Dividends Paid and Dividends Received could be collapsed into a single column.

Also, it is not clear that the Yes/No response in the Dividends Received and Not Retained column is useful, as it relies on what is "expected" rather than what is certain; a better approach might be to include dividends declared but unpaid in the column for dividends.

The revised instructions include a drafting note that the data item for "Capital Contributions from Debt Proceeds" may be eliminated. We recommend that this be done. As we described in our July 20 letter, it is not straightforward to determine whether a capital contribution is in fact funded from debt proceeds; and, since cash is fungible, it does not seem worthwhile to try to ascribe a capital contribution to any particular funding source.

VI.58 (previously VI.56): We again point out that intra-group guarantees, solvency reinsurance, and capital maintenance agreements typically do not have notional values, and that the triggering of these arrangements has historically been very unlikely. In an earlier communication from the NAIC on this subject, the estimated notional value was weighted by expected utilization. This weighted approach should be used here.

VI.81 (previously VI.83): In our July 20 letter, we noted that there is a great deal of information requested for the template that is not being used in the calculation of the GCC ratio and is merely informational. As a particularly onerous example, we would like to point to the section of paragraph VI.81 labeled "Accounting Adjustments." Where an entity has a different equity value under its local accounting regime than under its immediate parent's accounting regime, the instructions require the reporting not only of the general reason for the difference (e.g., U.S. GAAP vs. U.S. SAP), but also of the individual types of adjustments (of which there could be several) and the dollar amount associated with each adjustment. This could require the reporting of numerous immaterial amounts, which would be extraordinarily burdensome for filers while providing no real value to their lead-state regulators. It would be preferable to eliminate the automatic reporting of these details, leaving the subject as a matter for additional questions from the lead state if the GCC analysis showed the accounting adjustments to be material.

As always, we appreciate the opportunity to provide our input on this subject. We hope that all of the concerns that we have raised will be given careful consideration, as we believe that our recommendations will improve the usefulness of the GCC to regulators and reduce its burden on insurers.

Sincerely,

James R. Braue
Director, Actuarial Services
UnitedHealth Group

cc: Kathryn Belfi, Vice-Chair, Group Capital Calculation Working Group
Dan Daveline, NAIC
Randi Reichel, UnitedHealth Group

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Attachment 3

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NAIC GROUP CAPITAL CALCULATION INSTRUCTIONS

SEPTEMBER 29, 2020

(REVISED OCTOBER 30, 2020)

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Insurance Products & Services Division

(816) 783-8300

Fax 816-460-7593

http://www.naic.org/store_hom.htm

prodserv@naic.org

Printed in the United States of America

Executive Office

Hall of States Bldg.

444 North Capitol NW, Suite 701

Washington, DC 20011-1512

202-471-3990

Central Office

1100 Walnut Street, Suite 1500

Kansas City, MO 64106-2197

816-842-3600

Capital Markets & Investment Analysis Office

48 Wall Street, 6th Floor

New York, NY 10005-2906

212-398-9000

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I. Background

A. Work Performed Up Through 12/31/15

1. In 2015, the NAIC ComFrame Development and Analysis (G) Working Group (CDAWG) held discussions regarding developing a group capital calculation (GCC) tool. The discussions revealed that developing a GCC was a natural extension of work state insurance regulators had already begun, in part driven by lessons learned from the 2008 financial crisis which include better understanding the risks to insurance groups and their policyholders. While insurance regulators currently have authorities to obtain information regarding the capital positions of non-insurance affiliates, they do not have a consistent analytical framework for evaluating such information. The GCC is designed to address this shortcoming and will serve as an additional financial metric that will assist regulators in identifying risks that may emanate from a holding company system.

2. More specifically, the GCC and related reporting provides more transparency to insurance regulators regarding the insurance group and make risks more identifiable and more easily quantified. In this regard, the tool assists regulators in holistically understanding the financial condition of non-insurance entities, how capital is distributed across an entire group, and whether and to what degree insurance companies may be supporting the operations of non-insurance entities, potentially adversely impacting the insurance company's financial condition or policyholders. This calculation provides an additional analytical view to regulators so they can begin working with a group to resolve any concerns in a manner that will ensure that policyholders of the insurers in the group will be protected. The GCC is an additional reporting requirement but with important confidentiality protections built into the legal authority. State insurance regulators already have broad authority to take action when an insurer is financially distressed, and the GCC is designed to provide lead-State regulators with further insights to allow them to reach informed conclusions on the financial condition of the group and the need for further information or discussion

3. State insurance regulators currently perform group analysis on all U.S. insurance groups, including assessing the risks and financial position of the insurance holding company system based on currently available information; however, they do not have the benefit of a consolidated statutory accounting system and financial statements to assist them in these efforts. It was noted prior to development that a consistent method of calculating group capital for typical group risks would provide a very useful tool for state financial regulators to utilize in their group assessment work. It was also noted that a group capital calculation could serve as a baseline quantitative measure to be used by regulators in to compliment the view of group-specific risks and stresses provided by the Own Risk and Solvency Assessment (ORSA) Summary Report filings and in Form F filings that may not be captured in legal entity filings.

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4. During the course of several open meetings and exposure periods, CDAWG considered a discussion draft which included three high level methodologies for the group capital calculation: an RBC aggregation approach, a Statutory Accounting Principles (SAP) consolidated approach, and a Generally Accepted Accounting Principles (GAAP) consolidated approach. On September 11, 2015, the CDAWG members unanimously approved a motion to move forward with developing a recommendation for a group capital calculation and directed an appropriate high-level methodology for the recommendation.

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5. At a CDAWG meeting on September 24, 2015, pros and cons for each methodology were discussed, and a consensus quickly developed in support of using an RBC aggregation approach if a group capital calculation were to be developed. The NAIC Executive/Plenary ultimately adopted the following charge for the Financial Condition (E) Committee:

   "*Construct a U.S. group capital calculation using an RBC aggregation methodology; liaise as necessary with the ComFrame Development and Analysis (G) Working Group on international capital developments and consider group capital developments by the Federal Reserve Board, both of which may help inform the construction of a U.S. group capital calculation.*"

6. The RBC aggregation approach is intended build on existing legal entity capital requirements where they exist rather than developing replacement/additional standards. In selecting this approach, it was recognized as satisfying regulatory needs while at the same time having the advantages of being less burdensome and costly to regulators and industry and respecting other jurisdictions' existing capital regimes. In order to capture the risks associated with the entire group, including the insurance holding company, RBC calculations would need to be developed in those instances where no RBC calculations currently exist.

In early 2016, the Financial Condition (E) Committee formed the Group Capital Calculation (E) Working Group (Working Group), who began to address its charge and various details of the items suggested by the CDAWG. The instructions included herein represent the data, factors, and approaches that the Working Group believed were appropriate for achieving such an objective. The GCC instructions and template are intended to be modified, improved, and maintained by the NAIC in the future as are the *Accounting Practices and Procedures Manual*, the *Annual Statement Instructions* and *Risk-Based Capital formula and Instructions*. This includes but is not limited to future disclosure of additional items developed or referred by other NAIC Working Groups.

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II. Definitions

7. **Broader Group:** The entire set of legal entities that are controlled by the Ultimate Controlling Person of insurers within a corporate group. When consider the use of this term, all entities included in the Broader Group should be included in Schedule 1 and the Inventory, but only those that are denoted as "included" in the Schedule 1 will be considered in the actual group capital calculation.

8. **Financial Entity:** A non-insurance entity that engages in or facilitates financial intermediary operations (e.g., accepting deposits, granting of credits, or making loans, managing, or holding investments, etc.). Such entities may or may not be subject to specified regulatory capital requirements of other sectoral supervisory authorities. The primary examples of financial entities are commercial banks, intermediation banks, investment banks, saving banks, credit unions, savings and loan institutions, swap dealers, and the portion of special purpose and collective investment entities (e.g., investment companies, private funds, commodity pools, and mutual funds) that represents the Broader Group's aggregate ownership in such entities, whether or not any member of the Broader Group is involved in that entity's management responsibilities (e.g., via investment advisory or broker/dealer duties) for those entities. For purposes of this definition, a subsidiary of an insurance company whose predominant purpose is to manage or hold investments or act as a broker / dealer for those investments on behalf of

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the insurance company and its affiliated insurance (greater than 90% of all such investment subsidiaries' assets under management or held are owned by or for the benefit of these insurance affiliates) should NOT be considered a Financial Entity. However, in the case of collective investment entities (e.g., investment companies, private funds, commodity pools, and mutual funds) the 90% will be measured as applicable: (i) in the aggregate for all affiliated entities within each subtype (e.g., investment companies, private funds, commodity pools, and mutual funds) or (ii) in the case of an investment management subsidiary that has ultimate investment management responsibility for the collective investment entities, by reference to the aggregate assets of all of the collective investment entities. In addition, other financial entities without a regulatory capital requirement include those which are predominantly engaged in activities that depending on the nature of the transaction and the specific circumstances, could create financial risks through the offering of products or transactions outside the group such as a mortgage, other credit offering, or a derivative.

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9. **Insurance Group:** For purposes of the GCC, a group that is comprised of two or more entities of which at least one is an insurer, and which includes all of the insurers in the Broader Group. Another (non-insurance) entity may exercise significant influence on the insurer(s), i.e. a holding company or a mutual holding company; in other cases, such as mutual insurance companies, the mutual insurer itself may be the Ultimate Controlling Person. The exercise of significant influence is determined based on criteria such as (direct or indirect) participation, influence and/or other contractual obligations; interconnectedness; risk exposure; risk concentration; risk transfer; and/or intragroup agreements, transactions and exposures. An Insurance Group may include entities which facilitate, finance or service the group's insurance operation, such as holding companies, branches, non-regulated entities, and other regulated financial institutions. An insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control, and includes all members of the Broader Group that exercise significant influence on the insurance entities and/or facilitate, finance, or service the insurance operations.

   An Insurance Group could be headed by:

   - an insurance legal entity;
   - a holding company; or
   - a mutual holding company.

   An Insurance Group may be:

   - a subset/part of bank-led or securities-led financial conglomerate; or
   - a subset of a wider group.

   An Insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control.

10. **Insurance Subgroup:** Refers to all U.S. insurers within a broader group where the groupwide supervisor is in a non-U.S. jurisdiction. It includes all the directly and indirectly held subsidiaries of those U.S. insurers. For purposes of subgroup reporting, capital instruments, loans, reinsurance, guarantees would only include those that exist within the U.S. insurers. Amounts included for the U.S. insurers shall include all amounts

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contained within the financial statements of those entities included in the subgroup reporting, whether those amounts are directly attributable or allocated to a company in the subgroup from an affiliate outside of the U.S. insurers and its direct or indirect subsidiaries.

An Insurance Subgroup could be headed by:

- an insurance legal entity;
- a holding company; or
- a mutual holding company

11. **Lead State Regulator:** as defined in the NAIC's Financial Analysis Handbook, i.e., generally considered to be the one state that "takes the lead" with respect to conducting group-wide supervision within the U.S. solvency system.

12. **Reciprocal Jurisdiction:** as defined in the Model Law for Credit for Reinsurance.

13. **Entity not Subject to A Regulatory Capital Requirement:** This is a financial entity other than an entity that is subject to a specified regulatory capital requirement.

14. **Scope of Application:** Refers to the entities that meet the criteria listed herein for inclusion in the GCC ratio. The application of material risk criteria may result in the Scope of Application being the same as, or a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s). Please note, U.S. Branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S insurance regulator, otherwise in as much as they are already included in a reporting legal entity, they are already in the scope of application and there is no need for any additional reporting.

15. **Material Risk:** Risk emanating from a non-insurance / non-financial entity not owned by an insurer that is of a magnitude that could adversely impact the ability of insurers within a group to pay policyholder claims or make other policy related payments (e.g. policy loan requests or annuity distributions).

    To determine whether an entity within the Broader Group poses material risks to the Insurance Group, the totality of the facts and circumstances must be considered. The determination of whether risk posed by an entity is material requires analysis of various aspects pertaining to the subject entity. A determination that a non-insurance / non-financial entity does not pose material risk allows the filer to request exclusion of that entity from the calculation of the GCC ratio in the Inventory Tab. A number of items as listed below should be considered in making such a determination, to the extent they apply Caution is necessary, however. The fact that one or more of these items may apply does not necessarily indicate risk to the Insurance Group is, or is not, material. The group should be able to support its determination of material risk if requested by the lead-State regulator. This should not be used as a checklist or as a scorecard. Rather, the list is intended to illuminate relevant facts and circumstances about a subject entity, the risk it poses, how the Insurance Group might be exposed to that risk and means to mitigate that risk."

    Primary Considerations:

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- Past experience (i.e., the extent to which risk from the entity has impacted the Insurance Group over prior years/cycles).
- The degree to which capital management across the Broader Group has historically relied on funding by the Insurance Group to cover losses of the subject entity.
- The existence of intra-group cross support mechanisms (as defined below) between the entity and the Insurance Group.
- The means by which risk can be transmitted, i.e., the existence of sufficient capital within the entity itself to absorb losses under stress and/or if adequate capital is designated elsewhere in the Broader Group for that purpose.
- The degree of risk correlation or diversification between the subject entity and the Insurance Group. (e.g., where risks of one or more entities outside the Insurance Group are potentially offset (or exacerbated) by risks of other entities) and whether the corporate structure or agreements allow for the benefits of such diversification to protect the Insurance Group.
- The existence and relative strength or effectiveness of structural safeguards that could minimize the transmission of risk to the Insurance Group (e.g., whether the corporate shell can be broken).

Other Considerations (If primary considerations suggest exclusion may be reasonable, these can be used to further support exclusions):

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- The location of the entity in relation to the Insurance Group within the Broader Group's corporate structure and how direct or indirect the linkage, if any, to the Insurance Group may be.
- The activities of the entity and the degree of losses that the entity could pose to the group under the current economic environment or economic outlook

The guidance above recognizes that there are diverse structures and business models of insurers that make it impracticable to apply a one-size-fits-all checklist that would work for materiality determinations across all groups. Strict or formulaic quantitative measures based on size of the entity or its operations of a non-insurance affiliate are an insufficient proxy for materiality of risk to the insurance operations. The GCC Instructions thus consider the unique circumstances of the relevant entity and group and uses an interactive process whereby the group brings forward its suggestions as to entities that should be excluded from the scope of application for a discussion with the lead state, ultimately culminating in an agreement on the scope of application. The guidance in this section helps to facilitate that process and discussion with criteria for cross support mechanisms that can potentially transmit material risk, as defined, to the insurance group as well as safeguards that can mitigate such risk or its transfer.

Deleted: <#>Whether the entity (or grouping of similar entities) comprises less than either 5% of the broader group-wide equity or broader groupwide revenue.¶

16. **Cross Support Mechanism:** For purposes of evaluating material risk, depending on the nature of the transaction and the specific circumstances, these may include corporate guarantees, capital maintenance agreements (regulatory or ratings based), letters of credit, intercompany indebtedness, bond repurchase agreements, securities lending or other agreements or transactions that create a financial interdependence or link between entities in the group.

17. **Ultimate Controlling Person:** As used in the NAIC's Insurance Holding Company System Regulatory Act (Model #440). This the entity that exercises control directly or indirectly over all entities within the broader group.

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18. **Control:** As used in the NAIC's Insurance Holding Company System Regulatory Act., the term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or non-management services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person. This presumption may be rebutted by a showing made in the manner provided by Section 4K of Model #440 that control does not exist in fact. The commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support the determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.

19. **Affiliate:** As used in the NAIC's Insurance Holding Company System Regulatory Act., an "affiliate" of, or person "affiliated" with, a specific person, is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified. For purposes of the GCC, affiliates will NOT include those affiliates reported on Schedule A or Schedule BA, EXCEPT in cases where there are financial entities reported as or owned indirectly through Schedule A or Schedule BA affiliates In general Schedule A and Schedule BA affiliates will otherwise remain as investments of a parent insurer will be reported as parent of the value and capital calculation of the parent insurer. Any entities that would otherwise qualify as Schedule BA affiliates as described above but are owned by other entities (e.g. foreign insurers or other type of Parent entity) should be treated in the same way.

20. **Person:** As used in the NAIC's Insurance Holding Company System Regulatory Act., a "person" is an individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a trust, an unincorporated organization, any similar entity or any combination of the foregoing acting in concert, but shall not include any joint venture partnership exclusively engaged in owning, managing, leasing or developing real or tangible personal property.

III. Exemptions & Scope

A. Groups Exempted from the GCC

21. These instructions do not address groups that are exempt from completing the GCC; those matters are addressed instead within proposed changes to the *Insurance Holding Company System Regulatory Act* (Model #440).

B. Scope of the Broader Group & Scope of Application

22. When considering the scope of application, preparers of the GCC must first understand the information to be included in Schedule 1 of the template. When developing an initial inventory of all potential entities, the preparers of the GCC shall complete Schedule 1, which, except in the case of an Insurance Subgroup (as defined in Section II), requests data for all of the entities directly or indirectly owned by the Ultimate Controlling Person (including the Ultimate controlling Person) that are listed in the insurer's most recent Schedule Y or in relevant Holding Company Filings. This will require the preparers of the GCC to complete basic information about

each such entity in Schedule 1, including its total assets, and total revenue and net income for this specific year identified, and the initial filing will require the same information for the prior year. The primary purpose of the Schedule 1 is to 1) assist the lead-state in making an assessment on the entities within the group that should be included in the Scope of Application; and 2) provide the lead state with valuation information to better understand the group. This valuable information produces various ratios and other financial metrics that will be used in the analysis of the GCC and the group by the lead state for their holding company analysis.

23. To assist the Lead State Regulator in assessing the Scope of Application, the Schedule 1 and the Inventory Tab of the template will be completed by each preparer to provide information and certain financial data on all the entities in the group. Each preparer will also use the include / exclude column in Schedule 1 to request its own set of entities to be excluded from the calculation after applying criteria for material risk (as defined in Section II herein) which will be described in the template and evaluated by the Lead State Regulator. A second column will be used by the regulator to reflect entities that the regulator agrees should be excluded.

24. Although all entities must be listed in Schedule 1 and in the Inventory tab, the preparer is allowed to group data for certain financial entities not subject to a regulatory capital requirement and certain non-insurance and non-financial entities. Thus, while the Schedule 1 would include the full combined financial results/key financial information (for all entities directly or indirectly owned by the Ultimate Controlling Person, such data may be reported based upon major groupings of entities to maximize its usefulness and allow the Lead State Regulator to better understand the group, its structure, and trends at the sub-group as well as group level. Prior to completing the GCC annually, the Insurance Group should determine if the proposed grouping is satisfactory to the lead state or if there are certain non-insurance and non-financial entities (such entities are required to be broken out and reported separately) that should be broken out and reported separately.

C. General Process for Determining the Scope of Application

25. The starting point for "Scope of Application" (i.e., for purposes of the GCC specifically) is the entire group except in the case of an Insurance Subgroup (as defined in Section II). However, in the case of groups with material diverse non-insurance / non-financial activities isolated from the financial / insurance group and without cross support mechanisms as defined in Section II, the preparer may request a narrower scope starting at the entity that controls all insurance and financial entities within the group, (i.e., comprise a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s) (Broader Group)). However, the adjustments as to the Scope of Application suggested by the preparer in consultation and in agreement with the Lead State Regulator should include consideration of guidance in Paragraph 9 ("Identify and **Include** all Financial Entities") the totality of the facts and circumstances, as described in paragraph 15 ("Definition of Material Risk"). The rationale and criteria applied in allowing the reduced scope should be documented and made available to non-lead states if requested.

The fundamental reason for state insurance regulation is to protect American insurance consumers. Therefore, the objective of the GCC is to assess quantitatively the collective risks to, and capital of, the entities within the Scope of Application. This assessment should consider risks that originate within the Insurance Group along with risks that emanate from outside the Insurance Group but within the Broader Group. The overall purpose of this assessment is to better

understand the risks that could adversely impact the ability of the entities within the Scope of Application to pay policyholder claims consistent with the primary focus of insurance regulators.

D. Guiding Principles and Steps to Determine the Scope of Application

26. For most groups, the Scope of Application is initially determined by the preparer in a series of steps, listed here and then further explained as necessary in the text that follows:

- Develop a full inventory of potential entities using the Inventory of the Group template (Schedule 1)
- Denote in Schedule 1 for each non-financial entity whether it is to be "included in or excluded from" the Scope of Application" using the criteria below in the section "Identify Risks from the Broader Group"
- All entities, whether to be included in or excluded from the Scope of Application are to be reported in the Inventory Tab of the template. Information for excluded entities will be limited to Schedule 1B and the corresponding columns in the Inventory Tab.
- Non-financial entities may qualify for grouping on this Inventory Tab as described elsewhere in these instructions.

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E. Steps for Determining the Scope of Application

27. Identify and list all Entities in the Insurance Group or Insurance Subgroup (where required)

Include all entities that meet the definition of an affiliate in Section II, above and that that fit the criteria identified in the definition of the Insurance Group or Insurance Subgroup (if applicable), in Section II, above except as modified in Paragraph 30 (Identify Risks from the Broader Group), below. All insurance entities and entities owned directly or indirectly by the insurance entities in the group shall be included in the Scope of Application, and reported in the Schedule 1 and Inventory of the Group template. Other non-insurance/ nonfinancial entities within the Insurance Group may be designated as "exclude" as described in Paragraph 30, below.

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Deleted: and denote as such (i.e., included in the Scope of Application)

Deleted: Said differently, all insurance entities and entities owned directly or indirectly by the insurance entities in the group shall be included in the Scope of Application.

28. Identify and Include all Financial Entities

Financial Entities (as defined in Section II, herein) within the Inventory of the Group template shall be included in (i.e. may not be designated as "excluded from") the Scope of Application regardless of where they reside within the Broader Group.

As learned from the 2008 financial crisis, U.S. insurers were not materially impacted by their larger group issues; however, materiality of either equity or revenue of an entity might not be an adequate determinant of potential for risk transmission within the group. Furthermore, risks embedded in financial entities are not often mitigated by the activities of the insurers in the group and may amplify their (the insurers') risks.

Any discretion in evaluating the ultimate risk generated by a defined financial entity that is not subject to a regulatory capital requirement should be applied via review of the material risk

definitions/ principles included in Paragraph 15 to set the level of risk as low, medium or high and **not** to exclude such entities from the calculation. The rationale should be documented, and all data required in Schedule 1 must be provided for the entity for purposes of analysis and trending.

29. Identify Risks from the Broader Group

An Insurance Group or Insurance Subgroup may be a subset of a Broader Group, such as a larger diversified conglomerate with insurance legal entities, financial entities, and non-financial entities. In considering the risks to which the Insurance Group or Insurance subgroup is exposed, it is important to take account of those material risks (as defined in Section II) to the Insurance Group from the Broader Group within which the Insurance Group operates. All non-insurance / non-financial entities included within the Insurance Group or Insurance Subgroup that pose material risk to the insurers in the group should be included within (i.e. may not be designated as "excluded from") the Scope of the Application. Non-financial entities within the Broader Group but outside the Insurance Group that pose material risks to the Insurance Group should be included within (i.e. may not be designated as "excluded from") the Scope of Application; non-material non-insurance / non-financial entities within the Broader Group or within the Insurance Group (as both terms are defined in Section II, herein) other than those entities owned by entities subject to a specified regulatory capital requirement should be reported as "excluded". However, no entities outside an Insurance Subgroup (as defined in Section II) should be included in the GCC. When determining which non-financial entities from the broader group to include in the Scope of Application, the preparer must include any entity that could adversely impact the ability of the entities within the Scope of Application to pay policyholder claims or provide services to policyholders consistent with the primary focus of insurance regulators.

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30. Review of Submission

The Lead State Regulator should review the Inventory of the Group template to determine if there are entities excluded by the preparer using the criteria above that the Lead State Regulator agrees do not pose material risk to its insurance operations. Additional information may be requested by the Lead State Regulator to facilitate this analysis. For entities where the lead-state regulator agrees with the request to exclude, the group capital calculation may exclude the data for such entities. Ultimately, the decision to include or exclude entities from the GCC will occur based on the Lead-State regulator's knowledge of the group and related information or filings available to the Lead-State and whether they believe an applicable entity would not adversely impact the entities within the Scope of Application to pay policyholder claims.

DRAFTING NOTE: A sensitivity analysis is included to calculate to reflect the impact of excluded entities requested, but not approved for exclusion by the lead-State.

31. The preparer, together with the Lead State Regulator , would use the above steps, which includes considering the Lead State Regulator's understanding of the group, including inputs such as Form F, ORSA, and other information from other involved regulators, to determine the reasonableness of the suggested Scope of Application.

32. Updating the Scope of Application

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The Scope of Application could be re-assessed by the preparer and the Lead State Regulator each successive annual filing of the GCC provided there has been substantial changes in corporate structure or other material changes from the previous year's filing. Any updates should be driven by the assessment of material risk and changes in group structure as they impact the exclusion or inclusion of entities within the Scope of Application based on material risk considerations.

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IV. General Instructions

33. The NAIC Group Capital Calculation Template consists of a number of tabs (sections) within one workbook. The following provides general instructions on each of these tabs. IV.

34. **Attestation:** This tab is intended to work similar to the Annual Statement and RBC attestations, which are both intended to give the regulator greater comfort that the company has completed in accordance with its (these) instructions.

35. **Input 1-Schedule 1:** This tab is intended to provide a full inventory of the group, including the designation by the filer of any non-financial entities to be included in, or excluded from, the Scope of Application and include sufficient data or information on each affiliated entity (See Schedule A and Schedule BA exception) within the group so as to allow for analyzing multiple options for scope, grouping and sensitivity criteria, as well as, allowing the lead state regulator to make a determination as to whether the entities to be included in the scope of application or excluded from the scope of application meet the aforementioned criteria. This tab is also used to maximize the value of the calculation by including various information on the entities in the group that allow the lead state to better understand the group as a whole, the risks of the group, capital allocation, and overall strengths and weaknesses of the group.

36. Except as noted in on the Inventory tab, equity method investments that are accounted for based upon SSAP. No. 48 (Joint Ventures, Partnerships, and Limited Liability Companies) are not required to be de-stacked (separately listed) in Schedule 1, i.e. their value would be included in

amounts reported by the parent insurer within the calculation. The basis for this approach is predicated on the purpose of the entire group capital calculation which is to produce an expected level of capital and a corresponding level of available capital that are derived by aggregating the amounts reported of capital of the individual entities under the GCC methodology. The available capital for such Joint Ventures, Partnerships, and Limited Liability Companies is already considered in Schedule 1 but its inclusion in its parent's financial statements amounts and can thus be excluded from an inventory (not separately listed) since the parent already receives a corresponding capital charge within its RBC.

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37. **Input 2-Inventory:** This tab is intended to be used by the consolidated group to provide information on the value and capital calculation for all the entities in the group before any de-stacking of the entities. While some of this information is designed to "pull" information from Schedule 1, other cells (blue cells) require input from the group. This tab will include the adjustments for investment in subsidiary other than were an exception is described in these instructions and adjust for intra group arrangements. This tab is set up to subtract those adjustments from capital and therefore should be entered as a 1) positive figure if the adjustment currently has a positive impact on the available capital or the capital calculation; or as a 2) negative figure if the adjustment currently has a negative impact on the available capital or the capital calculation. It will also be used to add relevant entities included as equity investments in Schedules A and BA and to aggregate the resulting adjusted values for use in the actual group capital calculation.

38. **Input 3-Capital Instruments:** This tab is intended to be used to gather necessary information to that will be used to calculate an allowance for additional available capital based on the concept of structural subordination applied to senior or other subordinated debt issued by a holding company. It will also provide information on all Debt issued within the group

39. **Input 4 – Analytics:** In recognizing a primary purpose of the GCC is to enhance group-wide financial analysis, this tab includes or draws from entity-category-level inputs reported in the Tab or elsewhere in the GCC template to be used in GCC analytics. Separate guidance for lead-State regulators to reference in analysing the data provided in the GCC Template (reference applicable location of the guidance - e.g. Financial Analysis Handbook).

40. **Input 5 – Sensitivity Analysis and Inputs:** This tab includes inputs and / or describes informational sensitivity analysis for other than XXX / AXXX captives, permitted & prescribed practices, debt designated as "Other", unscaled foreign insurer values and other designated sensitivity analysis. The inputs are intended to simply be a disclosure, similar to the disclosure required under Note 1 of the statutory financial statements. The analysis will be applied in the Summary 2 Tab.

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41. **Input 6 – Questions and Other Information:** This tab will provide space for participants to describe or explain certain entries in other tabs. Examples include the materiality method applied to exclude entities in Schedule 1 and narrative on adjustments for intra group debt and adjustments to available capital or capital calculations that are included in the "other adjustment" column in the Inventory Tab.

42. **Calc 1 – Scaling (Ins):** This tab list countries predetermined by NAIC and provides the necessary factors for scaling available and required capital from non-US insurers to a comparable basis

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relative to the US Risk-based Capital figures. It also allows for set scaling options (that vary by insurance segment such as life, P/C, and health).

43. **Calc 2 – Scaling (Non-Insurance):** This tab is used to determine calculated capital for non-insurance entities.

44. **Summary 1 - Entity Category Level:** This tab provides a summary of available capital and calculated capital for each entity category before the application of capital instruments.

45. **Summary 2 - Top Level:** This tab calculates various informational GCC ratios resulting from applying "on top" and entity level adjustments to adjusted carrying value and adjusted calculated capital and are described in the Sensitivity Inputs and Analysis Tab section. These "what if" scenario analysis will not be part of the GCC ratio.

46. **Summary 3 – Analytics:** Provides a summary of various GCC analytics.

47. **Summary 4 - Grouping Alternatives:** This tab currently calculates and displays a grouping option that was submitted by an interested party.

48. All cells in the template are color-coded based on the chart below Inputs should only be made in blue cells. Do not add/delete rows, columns, cells or change the structure of the template in any way. If there appears to be an error in the formulas in the template, contact the NAIC.

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The following set of colors is used to identify cells:	*Colors used*
Parameters	
Input cells	
Data from other worksheets	
Local calculations	
Results propagated	

VI. Detailed Instructions

Input 1 – Schedule 1

49. 'Schedule 1A' is a small table at the top for identification of the filer. Enter the 'Name of Group', name of the person the Template is 'Completed by' and the 'Date Completed.' Indicate the version number of the template if there are updates or multiple persons completing the template. All figures (in all tabs) should be converted to $'000s. For example, a book value of $123,450 should be entered as 123.45in the template.

50. More detailed information on each legal entity should be reported in Schedule 1B-1E. The order of the entries in Schedule 1 should match that in the Inventory Tab. The first entity listed should be the ultimate controlling party.

51. U.S. Branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S insurance regulator. They should be reported under the appropriate entity category in [Sch1B Col 6].

52. Entries are required for every entity within the scope of the group. However, while recognizing that lead-State regulators retain the discretion to ask for greater detail, the following simplifications **may** be applied as long as information for every entity is entity is listed in Schedule 1B:

- A single numerical entry for like Financial Entities would be allowed at the intermediate holding company level, assuming that the like entities are owned by a common parent that does not own other entity types, all use the same accounting rules (e.g., all GAAP), and are at least consistent with the way the group manages their business. The entity at which the total data is provided must be assigned an "Entity Category" in Schedule 1 that corresponds to the instructed carrying value and capital calculation for which the entry is made (e.g. an entity that would otherwise be categorized as a non-operating holding company but holds asset managers would be categorized as an asset manager). Entries for the remaining individual entities in the grouping will be reported in Schedule 1B only as "included".

- In addition, a single numerical entry would be allowed for all non-insurance / non-financial entities at the intermediate holding company level assuming that the intermediate holding company owns only non-insurance / non-financial entities and would include any positive

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residual value of the holding company itself. Entries for the remaining individual entities in the grouping will be reported in Schedule 1B only as "included".

DRAFTING NOTE: A grouping option similar to what is applied to financial entities as described in the first bullet, is suggested.

- Values for, non-insurance / non-financial subsidiaries of U.S. RBC filers may remain with their Parent insurers and will not be de-stacked. Entries for these individual entities in the grouping will be reported in Schedule 1B only as "included".
- Mutual Insurance Groups may use the amount of required capital from the top-level Insurer's RBC Report adjusted to 300% x ACL RBC and further adjusted to de-stack foreign insurers and other financial entities owned directly or indirectly (on a look-thru basis) via RBC filing subsidiaries. Such foreign insurance subsidiaries or other financial subsidiaries shall be reported at the carrying values and capital calculations as described later herein.
- Data for U.S. Branches of Foreign insurers may be omitted from Schedule 1 if they are otherwise included in the entries, values, and capital requirements of a foreign insurer.

These simplifications will be treated in a similar manner in Input 2 – Inventory.

53. Any financial entity owned by a Parent insurer and listed in Schedule A or Schedule BA, any insurance or financial entity that is owned indirectly through a Schedule BA affiliate should be listed in Schedule 1 and in the Inventory and assigned the appropriated identifying information (See also the instructions for Part B of the Inventory). These entities will be de-stacked from the values for the Parent insurer. The same treatment for these entities will be afforded when they owned by a foreign insurer or other non-insurance entities.

Deleted: , or any Schedule A or BA affiliate that represents greater that X% of total group adjusted capital

54. Schedule 1B contains descriptions of each entity. Make selections from drop down menu where available.

- **[Sch1B Col 1] Include / Exclude (Company) –** This column is to select entities where a request is made for exclusion. The filer will indicate which non-insurance / non-financial entities not owned directly or indirectly by an insurer that should be excluded from the GCC as not posing material risk to the group. The filers definition of material risk will be reported in the Other Information Tab
- **[Sch1B Col 2] Include / Exclude (Supervisor)– Column** to be filled in by supervisor. These are entities where the Supervisor agrees with the filer's assessment of material risk and these entities will be excluded from the group capital calculation and may be included in a sensitivity analysis later in the template.

  DRAFTING NOTE: This Column may also be completed by the filer after advance consultation with the lead-State regulator.
- **[Sch1B Col 3] Include / Exclude (Selected)–** Formula to determine treatment of tab for later sensitivity analysis. If supervisor has made a determination of include/exclude in the prior column, that will be used. If not, company's selection will be used.

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- **[Sch1B Col** 4**] Entity Grouping -**The column denotes whether this is an insurance or non-insurance / non-financial entity and is also automatically populated based on the entry in Column 8.

- **[Sch1B Col 5] Entity Identifier –** Provide a unique string for each entity. This will be used as a cross reference to other parts of the template. If possible, use a standardized entity code such as NAIC Company Code ("CoCode") or ISO Legal Entity Identifier. CoCodes should be entered as text and not number (e.g. if CoCode is 01234, then the entry should be "01234" and not "1234"). If there is a different code that is more appropriate (such as a code used for internal purposes), please use that instead. If no code is available, then input a unique string or number in each row in whatever manner is convenient (e.g. A, B, C, D, … or 1, 2, 3, 4…). Do not leave blank.

- **[Sch1B Col** 6**] Entity Identifier Type –** Enter the type of code that was entered in the 'Entity Identifier' column. Choices include "NAIC Company Code", "ISO Legal Entity Identifier", "Volunteer Defined" and "Other".

- **[Sch1B Col** 7**] Entity Name –** Provide the name of the legal entity.

- **[Sch1B Col** 8**] Entity Category –** Select the entity category that applies to the entity from the following choices (all US Life Captives shall select the option for RBC Filing Captive, complete the calculation using the Life RBC formula in accordance with instructions below regarding "Additional clarification on capital requirements where a US formula (RBC) is not required" whether the company is required by their captive state to complete the RBC formula or not). Insurers or financial entities that are de-stacked from and insurer's Schedule A or BA should be assigned the corresponding insurer or financial entity category:

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	U.K. Solvency II - Life	Indonesia
RBC Filing U.S. Insurer (Life)	U.K. Solvency II - Composite	Thailand
RBC Filing U.S. Insurer (P&C)	Australia - All	Barbados
RBC Filing U.S. Insurer (Health)	Switzerland - Life	Regime A (Participant Defined)
RBC Filing U.S. Insurer (Other)	Switzerland - Non-Life	Regime B (Participant Defined)
U.S. Mortgage Guaranty Insurers	Hong Kong - Life	Regime C (Participant Defined)
U.S. Title Insurers	Hong Kong - Non-Life	Regime D (Participant Defined)
Other Non-RBC Filing U.S. Insurers	Singapore - All	Regime E (Participant Defined)
RBC filing (U.S. Captive)	Chinese Taipei - All	Bank (Basel III)
Canada - Life	South Africa - Life	Bank (Other)
Canadian - P&C	South Africa - Composite	Financial Entity with a Regulatory Capital Requirement
Bermuda - Other	South Africa - Non-Life	Asset Manager/Registered Investment Advisor - High Risk
Bermuda - Commercial Insurers	Mexico	Asset Manager/Registered Investment Advisor - Medium Risk
Japan - Life	China	Other Financial Entity without a Regulatory Capital Requirement – High Risk
Japan - Non-Life	South Korea	Other Financial Entity without a Regulatory Capital Requirement - Medium Risk
Japan – Health*	Malaysia	Other Financial Entity without a Regulatory Capital Requirement – Low Risk
Solvency II - Life	Chile	Other Non-Ins/Non-Fin with Material Risk
Solvency II -- Composite	India	Other Non-Ins/Non-Fin without Material Risk
Solvency II - Non-Life	Brazil	Non-operating Holding Co.
Solvency II – Non-Life	Argentina	
U.K. Solvency II – Non- Life	Colombia	

*If the GCC group's Japanese insurer Health business (referred to as Third Sector) is greater than 60% of total Life (referred to as First Sector) and Health business combined, as reflected by annualized premium for the year reported, then that group may elect to use the Japan Health scalar set rather than the Life scalar.

Deleted: Non-Insurer Holding Company

Deleted: Schedule A and BA Directly or Indirectly Owned Financial Affiliates

All U.S. captives are required to complete the applicable RBC formula template. In addition, any insurer, other than U.S. Captive, that submits an RBC filing to either the State of domicile or the NAIC will be considered an RBC filer.

- **[Sch1B Col** 9**] Alternative Grouping –** This is an optional input field. This field should be used if you wish to show similar entities aggregated into a single line on the "Grouping Alternative Exhibit". For example, if you have a dozen small dental HMO businesses, you may wish to show them as a single line called "Dental HMOs", as opposed to listing each entity separately. This is a level of granularity below 'Entity Category' but above individual entities. No entity should be put in the same 'Alternative Grouping' as its parent. It is fine to put only one entity in a grouping. If any entries are left blank then, in column 17, the 'Entity Name' will be selected as the grouping. This will not impact the order of the entities for which data is entered in Schedule 1 or the Inventory tab.

- **[Sch1B Col** 10**] Parent Identifier –** Provide the 'Entity Identifier' of the immediate parent legal entity for each entity, as applicable. If there are multiple parents, select the parent entity with the largest ownership percentage. Only include one entry. For the top holding company, enter "N/A".

- **[Sch1B Col** 11**] Parent Name –** This will be populated by a formula, so input is not required.

- **[Sch1B Col 12] % Owned by Parent –** Enter percentage of the entity that is owned by the Parent identified earlier in the worksheet. Percentages of ownership should be based on the percentage of voting class securities (unless ownership is maintained other than by control of voting securities) consistent with what is reported pursuant to State holding company regulation filings (Form B or equivalent).

- **[Sch1B Col 13] % Owned within Group Structure --** Enter percentage of the entity that is owned by all entities within the Group.

- **[Sch1B Col 14] State/Country of Domicile –** Enter State of domicile for US insurance entities and country of domicile for all other entities (Use reference that are consistent with those use on Schedule Y where available).

- **[Sch1B Col 15] Zero Valued and Not Admitted Entities– Report for U.S. Insurers Only.** Select the treatment of the entity from following options— 'Zero Valued for RBC or 'Non-Admitted for Accounting and RBC '(Direct or Indirect)'. Zero Valued for RBC are affiliated insurance and financial entities that are otherwise reported in the RBC filer's annual statement at their accounting value (i.e. per Statutory Accounting Principles) but are reported at zero value and zero capital requirements for RBC purposes. Examples include non-Canadian foreign insurers directly owned by U.S. Life RBC filers. The carrying value and capital calculation specified in these instructions for the specific insurance or financial entity type should be reported in Inventory B, Column 2 and Inventory C, Column 2, respectively. DO NOT REPORT ZERO VALUES IN COLUMN 2 OF INVENTORY B AND INVENTORY C FOR THESE AFFILIATES. Only RBC filing entities with this type of affiliate will report in this column.

  Non-admitted for Accounting and RBC (Direct or Indirect) are insurance or other financial affiliates that owned directly indirectly by an RBC filer via a downstream non-financial entity

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or holding companies that are reported at zero value per SAP and are also reported at zero value and zero capital requirements for RBC purposes. Examples include U.S. insurers indirectly owned by a U.S. RBC filer thru a not-admitted holding company that has not been subject to an independent audit. The carrying values and capital calculations specified herein associated with the specific insurance or financial indirectly owned entity type should be reported Inventory B, Column 2 and Inventory C, Column 2, respectively. DO NOT REPORT ZERO VALUES IN COLUMN 2 IN INVENTORY B AND INVENTORY C FOR THESE AFFILIATES. Only RBC filing entities with this type of affiliate will report in this column. The excess value in the not-admitted Parent entity may be reported at zero value.

No entry is required in this column for any non-admitted directly or indirectly owned non-insurance / non-financial subsidiary. Report zero for these affiliates in Column 2 of Inventory B and Inventory C.

- **[Sch1B Col 16] Is Affiliates on Schedule A or Schedule BA –** This Column is meant to identify an entity with a financial entity identifier in Col 8 that is otherwise reported on Schedules A or BA but is being moved to this Schedule. Provide a "Y' response where that is applicable. Otherwise leave blank.

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Deleted: Also provide a "Y" response for any identified in column 16 as a material non-financial Schedule A or BA affiliates.

- **[Sch1B Col 17] Selected Alternative Grouping –** This will be populated by a formula, so input is not required. If there are any blank entries in Column 9 (Alternative Grouping) this column will set them equal to the name of the entity.

55. Schedule 1C contains financials for each entity:

- **[Sch1C Col 1] Basis of Accounting –** Enter basis of accounting used for the entity's financial reporting.

- **[Sch1C Col 2 & 3] Gross and Net Written Premium – Report for all U.S. and non-U.S. insurers** (Use applicable entity Annual Statement data source for US insurers - Life – P/C and Health). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Schedule 1C, Col 4] Reinsurance Assumed from Affiliates –** Report for all U.S and non-U.S. insurers**.** Use applicable entity Annual Statement data source for US insurers (assumed premiums from P/C Schedule F Part 1 and Life and Health Schedule S Part 1 Section 1 and 2). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Schedule 1C, Col 5] Reinsurance Ceded to Affiliates -** Report for all U.S and non-U.S. insurers**.** Use applicable entity Annual Statement data source for US insurers (assumed premiums from P/C Schedule F Part 3 and Life and Health Schedule S Part 3 Section 1 and 2). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Sch1C Col 6] Book Assets -** This should be valued based on the applicable basis of accounting reported under the entity's local regime and represents the total assets as reported in the basic financial statements before eliminations (since that is presumed to be less burdensome on the insurance holding company). Other financial data should similarly be prepared using financial data before eliminations. However, insurance holding companies are

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allowed to present such figures after eliminations if they do so for all figures and consistently for all years.

- **[Sch1C Col 7] Book Liabilities -** This should be valued based on the applicable basis of accounting reported under the entity's local regime and represents the total liabilities as reported in the basic financial statements.

- **[Col 8] Gross Paid-in and contributed Capital and Surplus – For U.S insurers report the current year end amounts from Annual Statement Page 3 as follows:**

  a. Life Insurers: lines 29, 30 and 33

  b. P&C Insurers: lines 30, 31 and 34

  c. Health Insurers: lines 26 - 28

56. Generally, Schedule 1D will include entries from regulatory filings or entity specific GAAP financial statements as of the reporting date. The amounts reported should be the entity value on a stand-alone (fully de-stacked) or grouped basis (where applicable). This may require use of company records in certain cases. The amounts should be reported at 100% for the entity listed. Any required adjustments for percentage of ownership will be applied later if necessary, to calculate a capital charge.

- **[Sch1D Column 1] Prior Year Entity Identifier –** Report the Legal Entity Identifier, NAIC company code or other identifier used for the entity in the prior year GCC filing for the prior calendar year.

- **[Sch1D Col 2] Prior Year Equity or Capital and Surplus –** Report the value based on net equity reported in the entity stand-alone Balance Sheet. This will generally be the same as what is reported in the current year column in the prior year GCC filing. Where grouping is permitted, the balance reported may be on a grouped basis. Do not report values for non-insurance / non-financial entities owned directly or indirectly by RBC filers or owned by other financial entities with regulatory capital requirements for which the non-insurance / non-financial entity is included in the capital charges for the Parent entity.

- **[Sch1D Col 3] Net Income - The final reported income figure from the income statement, and therefore is the figure reported after interest, taxes, extraordinary items, etc. For entities with accounting and reporting requirements that specify that dividends received will be part of "net income", report the dividends received in this column.** Report dividends to policyholders here as a reduction to net income if required by local accounting or reporting requirements.

- **[Sch1D Col 4] Dividends Paid and Received (Net)** – All entity types report the net amount of dividends paid and received in reporting year to a parent (or affiliate) shareholder, public shareholders, or policyholders (if not required to be a reduction in net income by local accounting or reporting requirements). All entity types that are subject to accounting and reporting requirements that specify that dividends received will be reported as a surplus adjustment, will report dividends received in reporting year from affiliates in this column.

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- **[Sch 1D Col 5] Capital and Surplus Contributions Received from Affiliates -** All entity types. Report sum of Capital Contribution (other than via surplus notes) during the reporting year received from any affiliated entity.

- **[Sch 1D Col 6] All Other Changes in Capital and Surplus.** Include total for all adjustments not listed above. This would include any investment income not already reported in Column 3 or Column 5. Also, report all stock repurchases or redemptions in this column.

  DRAFTING NOTE: Greater detail may either be added to the template or made available on request.

- **[Column 7] Current Year Equity or Capital and Surplus –** Report the value based on net equity reported in the entity stand-alone Balance Sheet for the current year. This will generally be the same as what is reported for the entity in the Inventory B, Column 2 Where grouping is permitted, the balance reported may be on a grouped basis. Do not report values for non-insurance / non-financial entities owned directly or indirectly by RBC filers or owned by other financial entities with regulatory capital requirements for which the non-insurance / non-financial entity is included in the capital charges for the Parent entity.

- **[Sch 1D Col 8] Capital and Surplus Contributions Paid to Affiliates -** All entity types report the total of capital contributions (other than via surplus notes) during the reporting year paid to any affiliated entity.

- **[Sch1D Col 9] Dividends Declared and Unpaid –** For all applicable entities report the amount of dividends declared or approved but not yet distributed.

- **[Sch1D Col 10] Dividends Received and Not Retained –**All holding companies, insurers and financial entities with regulatory capital requirements indicate by "Y" or "N" if part or all of dividends received reported in Column 5 have been paid (passed thru) to a Parent company, to public shareholders, or used to repurchase or redeem shares of stock.

Deleted: <#>[Sch1D Col 5] Dividends Received - All entity types that are subject to accounting and reporting requirements that specify that dividends received will be reported as a surplus adjustment, will report dividends received in reporting year from affiliates in this column.¶

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Deleted: <#>[Sch1D Col 11] Capital Contributions from Debt Proceeds - All insurers and financial entities with regulatory capital requirements indicate by "Y" or "N" if part or all of capital contributions received were from proceeds of debt issued by a Parent or affiliate.¶

Input 2 – Inventory

57. Columns in Inventory A are being pulled from Schedule 1:

- [Column 1] Insurance/Non-Insurance.
- [Column 2] Entity Identifier
- [Column 3] Entity Identifier Type
- [Column 4] Entity Name –
- [Column 5] Entity Category
- [Column 6] Parent Identifier
- [Column 7] Parent Name
- [Column 8] Basis of Accounting

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Columns Requiring Input

58. Enter information on adjustments to carrying value. Considerations specific to different types of entities are located at the end of this subsection.

- **[Inv B Col 1] Carrying Value (Immediate Parent Regime) –** This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. In general, carrying values utilized should represent the 1) the subsidiary valuation required by the insurance or other sectoral regulator if the Parent is a regulated entity; or 2) in the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then a subsidiary valuation based US GAAP or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements.

  The value in this column will include a zero value for entities not admitted per SAP or other jurisdictional regulatory rules. A single entry for all entities that qualify under the grouping exceptions described herein may be made in lieu of individual entries on the line for the affiliate that holds the qualifying entities. This column will include double counting.

  The values recorded for all subsidiaries should be the full value of the subsidiary regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the full value of the subsidiary adjusted to reflect total percentage of ownership within the group.

- **[Inv B Col 2] Carrying Value (Local Regime) –** Record the carrying value recognized by the legal entity's jurisdictional insurance or other sectoral supervisor. This will include the value of capital instruments (e.g. U.S. insurer issued surplus notes) that are specifically recognized by statute, regulation or accounting rule and included in the carrying value of the entity. In the case where the entity is not subject to insurance or other sectoral regulatory valuation, then US GAAP equity (including OCI) or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements. If an agreed upon change in local carrying value should become effective by 2019, Volunteer Groups are expected to report on that basis. If the group is comprised entirely of U.S based entities under a U.S based Parent company, the entries in this column will be the same as in Column 1 except in cases where the Parent owns not admitted (or otherwise zero valued financial affiliates that would be reported as not admitted in the Parent Regime column but fully admitted (per SAP valuation) in the Local Regime column (see instructions for Schedule 1B, Column 15). However, if such an entity has been listed in the **[Sch1B Col** 2**] Include / Exclude (Supervisor)** column , indicating that the lead-State regulator agrees that the entity does not pose material risk, then a value will be reported here, but the ultimate calculation will show the results without the excluded entity's value. The carrying value for affiliates that are U.S. RBC filers, the value will be the amount reported TAC on entity's RBC report. This column will include double counting. The values recorded for all subsidiaries should be the full value of the subsidiary regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the full value of the subsidiary adjusted to reflect total percentage of ownership within the group. The entry here should generally be the same as the value reported in Inventory B, Column 1, except where TAC for RBC filers differs from BACV. A single entry for all entities that

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qualify under the grouping exceptions described herein may be made in the line for the affiliate that holds the qualifying entities in lieu of individual entries.

DRAFTING NOTE: A sensitivity analysis is included to calculate to reflect the impact of excluded entities requested but not approved for exclusion by the lead-State.

	INVENTORY C - Capital Calculation to be Applied			
Parent Entity	Entity	Inv B, Column 1	Inv B, Column 2	Parent Entity Line Inv C, Column 3
U.S. RBC filer	U.S. RBC filer	RBC ACL (excl. op Risk) x 3	RBC ACL x 3	RBC ACL (excl. op Risk) x 3
U.S. RBC filer	Other U.S. Insurer	Per RBC	Per GCC Entity Instructions	Per RBC
U.S. RBC filer	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per RBC	Jurisdictional or Sectoral PCR Level Capital Reqmt	Per RBC
U.S. RBC filer	Financial w/o Capital Reqmt	Per RBC	Per risk level factor x 3-year avg revenue	Per RBC
U.S. RBC filer	Non-Financial	Per RBC	No entry Required	No entry Required - Do not de-stack
Other U.S. Insurer	U.S. RBC filer	Zero	RBC ACL x 3	Zero
Other U.S. Insurer	Any Other Entity Type	Zero	Per GCC Entity Instructions	Zero
Foreign Insurer or Other Regulated w/ Capital Reqmt	U.S. RBC filer	Per Local Capital Reqmt	RBC ACL x 3	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Other U.S. Insurer	Per Local Capital Reqmt	Per GCC Instructions	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Capital Reqmt	Jurisdictional or Sectoral PCR Level Per Local Capital	Foreign Insurer or Other Regulated w/ Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Financial w/o Capital Reqmt	Per Local Capital Reqmt	Per risk level factor x 3-year avg revenue	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Non-Financial	Per Local Capital Reqmt	No entry Required	No entry Required - Do not de-stack
Financial w/o Capital Reqmt or Non-Financial	U.S. RBC filer	Zero	RBC ACL x 3	Zero
Financial w/o Capital Reqmt or Non-Financial	Other U.S. Insurer	Zero	Per GCC Entity Instructions	Zero
Financial w/o Capital Reqmt or Non-Financial	Foreign Insurer or Other Regulated w/ Capital Reqmt	Zero	Jurisdictional or Sectoral PCR Level Capital Reqmt	Zero
Financial w/o Capital Reqmt or Non-Financial	Financial w/o Capital Reqmt	Zero	Per risk level factor x 3-year avg revenue*	Zero
Financial w/o Capital Reqmt or Non-Financial	Non-Financial	Zero	Per GCC Instructions*	Zero

In cases where a U.S. Life RBC filer owns a foreign insurer and the BACV value reported for the foreign insurer in the Parent U.S insurers financial statement is adjusted to zero for RBC purposes, then report zero in Inventory B Column 1, and Column 3 for that foreign insurance entity.

- **[Inv B Col 3] Investment in Subsidiary –** Enter an adjustment to remove the investment carrying value of any directly owned subsidiary(ies) from parent's carrying value. This is intended to prevent from double counting of available capital when regulated entities are stacked. The carrying value to be removed should be the investment value carried by the Parent from which the entity is being de-stacked (i.e. the value in Column 1 in Inventory Section B adjusted for ownership percentage). Thus, there will be no adjustment to the Parent's value in this column for entities that are reported at zero value by the parent. Where entities are owned partially by entities outside of the group, then the Parent's percentage of ownership will be calculated based on the value owned within the group. Generally, all non-financial affiliates, Schedule A and Schedule BA assets will remain in the value of the Parent insurer and not entered in this column unless they meet the exceptions described herein. For

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indirectly owned Schedule A or BA financial entities, only the value of that entity will be included in this column and the remaining value of the downstream BA Parent will remain with the Parent insurer. Similarly the carrying value of U.S. Branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the value of the foreign insurer so that the parent entity may eliminate double counting of that available capital which will now be reported by the stand-alone Branch listed in the inventory. The 'Sum of Subsidiaries' column may provide a useful check against this entry, but it will not necessarily be equal.

When utilizing public accounting (e.g. GAAP) equity values that differ from regulatory values (e.g. SAP), it is **the GAAP equity** of the insurers must be eliminated from the GAAP Parent in this column, not the SAP (regulated capital). This is necessary in order to allow the calculation to appropriately represent SAP capital of regulated entities and GAAP equity of non-regulated entities. Data on the accounting differences between Parent and Local carrying values will be collected in Column 9 and further detail provided in the Questions and Other Information Tab.

Note: Values for Schedule A and Schedule BA affiliates that are required to be reported in the Inventory Tab will be adjusted out of the value reported by the U.S. insurer in this column

- **[Inv B Col 4] Intra-group Capital Instruments –** This column is automatically calculated from inputs to the 'Capital Instruments' Tab. It reflects an adjustment to remove carrying value for intra-group financial instruments that that are treated as capital by the issuer and consequently create additional capital within the group upon issuance (most notably U.S. Surplus Notes). Example for Surplus Notes – In both intra-group and unaffiliated transactions, treat the assets transferred to the issuer of the surplus note as available capital. If the purchaser is an affiliate, eliminate the investment value from the affiliated purchaser of the surplus note in this column. If the purchaser is an insurer or other regulated entity, eliminate the purchaser's capital charge (e.g. RBC charge) on the Surplus note investment in the corresponding adjustment column for the capital calculation. No adjustments are made for any intragroup capital instrument that is treated as a liability by the issuer.

- **[Inv B Col 5] Reported Intra-group Guarantees, LOCs and Other –** Enter an adjustment to reflect the notional value weighted for expected utilization for reported intra-group guarantees (including solvency insurance and capital maintenance agreements). Enter the notional value for letters of credit, or other intra-group financial support mechanisms. Explain each intra-group arrangement in the Questions and Other Information Tab.

- **[Inv B Col 6] Other Intra-group Assets –** Enter the amounts to adjust for and to remove double counting of carrying value for other intra-group assets, which could include intercompany balances, such as (provide an explanation of each entry in the Questions and Other Information Tab):

  a. loans, receivables, and arrangements to centralize the management of assets or cash;

  b. derivative transactions;

  c. purchase, sale, or lease of assets; and

d. other (describe).

- **[Inv B Col 7] All Other Adjustments –**Include a brief explanation in the "Description of 'Other Adjustments'" in the Other Information Tab.

- **[Inv B Col 8] Adjusted Carrying Value** - Stand-alone value of each entity per the calculation to eliminate double counting. This value includes permitted and prescribed practices.

- **[Inv B Col 9] Accounting Adjustments (e.g. GAAP to SAP) –** Report the total difference between the carrying value reported in Column 1 (and Column 3) and the value reported in Column 2. This column will apply to Regulated entities where the stand-alone carrying value is based on regulatory accounting (e.g. SAP) while the value reported for that entity by the Parent is carried at a financial accounting (e.g. GAAP) value. Further detail is reported in the Questions and Other Information Tab.

- **[Inv B Column 10] Gross Revenue 2nd Prior Year (Financial Entities without Regulatory Capital Requirements and Non-financial Entities)** - Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **[Inv B Column 11] Gross Revenue Prior Year (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities)** - Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **Inv B, Col 12] Gross Revenue Current Year (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities) -** Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **[Inv B Col 13] Average Revenue over 3-years (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities –** This column is populated from data in Columns 10, 11 and 12.

  DRAFTING NOTE: This column will support the capital calculation for Financial Entities without Regulatory Capital Requirements only.

59. 'Adjusted Capital Calculation' is reported in a similar manner to the 'Adjusted Carrying Value above'. The columns are in the same order though it is likely that fewer entries will be needed for Columns 4 -7. Further guidance is below.

    - **[Inv C Col 1] Entity Required Capital (Immediate Parent Regime) –** This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. In general, entity required capital should represents the capital requirements of the Parent's insurance or other sectoral regulator. 1) for subsidiaries of foreign insurers or other non- U.S. financial entities, the unscaled capital required by the Parent's regulator of the regulated entity based upon the equivalent of a Prescribed Capital Requirement (PCR) level; 2) for subsidiaries, including applicable Schedule A and Schedule BA subsidiaries, of U.S. insurance entities that are subject to RBC, except where the subsidiary is also an RBC filer, the entry should be equivalent of what would be required in the Parent's RBC, adjusted for covariance where applicable (calculated by the preparer) reported at a level of one and a half

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times company action level RBC (or 3 times authorized control level RBC) for that entity (i.e. 1.5 times the RBC requirements included in the Parent's RBC report on a post-covariance basis). Where the subsidiary is also an RBC filer, then the amount reported will be at one and a half times company action level RBC (or 3 times authorized control level RBC) AFTER COVARIANCE; 3) for subsidiaries of U.S. insurers that do not file RBC, report the actual amount of capital required in the Parent's capital requirement (if any) for the subsidiary entity: 4) in the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then use zero where applicable. This column will include double counting. The values recorded for all subsidiaries should be the 100% of the specified capital requirements regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the capital requirements of the subsidiary adjusted to reflect total percentage of ownership within the group. A single entry for all entities that qualify under the grouping exceptions described herein may be made on the line for the affiliate that holds the qualifying entities in lieu of individual entries.

- **[Inv C Col 2] Entity Required Capital (Local Regime) –** Enter required capital for each de-stacked entity, as applicable entity description below. For U.S. RBC filing subsidiaries under a U.S. RBC filing parent the amounts will be the same in both the Parent and Local Regime columns except where the RBC filing subsidiary is subject to an operational risk charge. In such cased the amount reported in this column for the subsidiary will include the operational risk charge while the amount reported in Column 1 will exclude the subsidiary's operational risk charge. However, for some entity types his will result in entries for the entities under a U.S based insurance parent to be different from what U.S. RBC would dictate. In addition, where a U.S. insurer directly or indirectly owns not admitted (or otherwise zero valued) financial affiliates, those affiliates would be reported with zero value in the Parent Regime column but at the specified regulatory value described below for that financial entity type in this column. However, if such an entity has been listed in **Sch1B Col** 2**] Include / Exclude (Supervisor column)**, indicating that the lead-State regulator agrees that the entity does not pose material risk, then report the capital calculation in accordance with entity instructions, but the ultimate calculation will show the results without the excluded entity's capital calculation. Directly or indirectly owned non-financial entities that were not admitted or otherwise carried at a zero value in the Parent Regime, may be carried at zero value in this column. A single entry for all entities that qualify under the grouping exceptions described herein may be made in the line for the affiliate that holds the qualifying entities in lieu of individual entries. This column will include double counting. The values recorded for all subsidiaries should be the 100% of the capital requirements regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the capital requirements of the subsidiary adjusted to reflect total percentage of ownership within the group.

60. For financial entities without a regulatory capital requirement and for non-insurance / non-financial entity types where additional options are noted below, the options are shown here for informational purposes only and the calculations are described in the tabs where the relevant data and calculations reside

    <u>Additional clarification on capital requirements where a formula is required:</u>

    - U.S. RBC filing Insurers – Report RBC at Company Action Level (300% x ACL)

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- Foreign Insurance Entities – The local capital requirement as specified below for each jurisdiction should be reported, by legal entity, at a Prescribed Capital Requirement (PCR) level, or the equivalent of one and a half times company action level RBC (or 3 times authorized control level RBC) The amounts reported will be subject to scaling later in the calculation. Scaled values will be included in the GCC capital calculation (see Scaling Tab). This treatment is different than what U.S. Risk-based Capital (RBC) would require and recognizes other regulators view of adequate capital for insurers within another jurisdiction. It is more reflective of risk within the group context. A sensitivity analysis will be included in the Sensitivity Analysis Tab using the jurisdictional PCR scaled per the Excess Relative Ratio method (See Appendix 1) for insurers in foreign jurisdictions that are subject to scaling.

- Subsidiaries based in the European Union should use the Solvency II Solo SCR (Solvency Capital Requirement) as the PCR.

- For US subsidiaries, the RBC Company Action Level of each insurer should be re-calibrated to the point at which regulatory action can be taken in any state based on RBC alone, i.e., the point at which the trend test begins, which is one and a half times company action level.

- For Australian subsidiaries, the PCR is the target capital as set by the insurer/group in accordance with APRA requirements. Effectively, this would be "Target capital under ICAAP". PCR is not a set multiple of MCR.

- For Bermudian subsidiaries, the Legal Entity PCR in Bermuda for medium and large commercial insurers is called the “Enhanced Capital Requirement” (ECR) and is calibrated to TailVaR at 99% confidence level over a one-year time horizon.

- For Hong Kong subsidiaries, under the current rule-based capital regime, if applied similar to the concept of PCR, the regime's PCR would be 150% of MCR for life insurers and 200% of MCR for non-life insurers.

- For Japanese subsidiaries, the PCR is the solvency margin ratio of 200%.

- For Korean subsidiaries, the PCR is 100% of risk-based solvency margin ratio.

- For Singaporean subsidiaries, the PCR is 120% of total risk requirement (i.e. capital requirement).

- For Chinese Taipei subsidiaries, the PCR is 200% of RBC ratio.

- For Canadian life entities, the baseline PCR should be stated to be “100% of the LICAT Base Solvency Buffer”. Carrying value should include surplus allowances and eligible deposits. For property/casualty entities, the PCR should be the MCT capital requirement at the target level.

- For South Africa subsidiaries, the PCR is 100% of the SAM SCR.

- For any entities that cannot be mapped to the above categories, scaling will be at 100%

61. Additional clarification on capital requirements where a US formula (RBC) is not required:

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- For those U.S. insurers that do not have an RBC formula, the minimum capital per state law should be used as the basis for what is used for that insurer in the group capital calculation. This may differ from what U.S. Risk-based Capital (RBC) would require. It is more reflective of the regulatory view of risk in the group context. The following requirements should be used in other specified situations where an RBC does not exist:

- **Mortgage Guaranty Insurers:** The minimum capital requirement shall be based upon the NAIC's requirements set forth in the Mortgage Guaranty Insurance Model Act (#630).

- **Financial Guaranty Insurers:** The minimum capital requirement shall be based upon the NAIC's requirements set forth in the Financial Guaranty Insurance Guideline (Guideline 1626), specifically considering Section 2B (minimum capital requirements) and Section 3 (Contingency, Loss and Unearned Premium Reserves) and the other requirements of that guideline that impact capital (e.g. specific limits).

- **Title Companies:** The minimum capital requirement shall represent 300% of the required level of reserves carried by the insurance company.

- **Other Companies:** A selected basis for minimum capital requirements derived from a review of state laws. Where there is a one-off treatment of a certain type of insurer that otherwise would file RBC (e.g., HMOs domiciled in California), the minimum capital required by their respective regulator could be considered in lieu of requiring the entity to complete an RBC blank

- **Captives**- US insurers that have captives should complete the applicable RBC formula regardless of whether the captive is required to complete it in their captive state. The amounts input into RBC by the captive shall be based upon the actual assets and liabilities utilized in the regulatory reporting used by the captive. Captives used exclusively for self-insurance (either by US life insurers or any other type of insurer) or insurance provided exclusively to its own employees and/or its affiliates, should not complete an RBC calculation and the entire entity should be treated as non-insurers and receive the same charge as a non-regulated entity.

62. Non-insurance Financial Entities Subject to a Specified Regulatory Capital Requirement:

- All banks and other depository institutions – the unscaled minimum required by their regulator. For U.S. Banks that is the OCC Tier 1 or other applicable capital requirement. This is understood to be consistent with how the Federal Reserve Board would apply its Building Block Approach.

- Any other financial entity that is subject to a specified regulatory capital requirement will bring that requirement in the GCC at the first level of regulator intervention (if applicable).

- This differs from what U.S. Risk-based Capital (RBC) would require. It recognizes the sectoral regulator's view of risk for a particular financial entity type. It is more reflective of risk in the group context.

63. Non-insurance Financial Entities NOT Subject to a Specified Regulatory Capital Requirement:

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- All asset managers and registered investment advisors and all other financial entities as defined in Section II.- Capital required by their sectoral regulator. If no specified capital requirement, then use the capital calculation specified below based the level of risk assigned to the entity. In certain cases, these entities may be subject to a layer of regulation (e.g. S.E.C.) but are not generally subject to a specified capital requirement.

  PLACEHOLDER FOR LOW / MEDIUM / HIGH RISK CRITERIA

  High Risk: 15% x 3-year average revenue

  DRAFTING NOTE: a Basel Charge of 15% will be used for the IAIS ICS

  Medium Risk: TBD – Suggest 6.0% x 3-year average revenue. This represents Basel charged scaled to combined industry average RBC ratios at 300% x ACL

  Low Risk: TBD – Suggest 3% x -year average revenue

DRAFTING NOTE: Medium risk could be used as a starting point while the stratified methodology is further developed

64. Other Non-Insurance, Non-Financial Entities with Material risk

- Non-insurance, non-Financial Entities may not be as risky as Financial Entities. For entities not owned by RBC filers or other entities where there is a regulatory capital charge for the entity in the capital formula, use an equity charge of 16% (post tax) for predominantly life insurance groups 14% for predominantly P/C insurance groups and 5% for predominantly health insurance groups x BACV. If the entity is not subject to a capital charge or is included in the capital charge of another financial entity, then enter zero in Column 1 and the charge specified in this paragraph in Column 2. These factors are based on average after covariance RBC charges for the respective insurer types and are calibrated at 300% x ACL RBC. This is meant to be consistent with how the entity would be treated if owned by an RBC filer while recognizing that the entity may be excluded from the GCC if it does not pose material risk to the insurers in the group.

  Non-insurance / non-financial entities owned by RBC filing insurers (or owned by other entities where a regulatory capital charge applied to the non-insurance / non-financial affiliate) is will remain in the Parent's capital charge and reported at that value in Column 1. but will be reported as zero in Column 2. These non-financial entities may not be excluded from the GCC.

One additional informational capital calculation for all non-financial entities will be applied using current year gross revenue from the Inventory B, Column 12 with the calculation occurring and results available in the Calc 2 Tab as follows:

6% of reporting year gross revenue based on a medium level risk for a financial entity.

65. Non-operating Holding Companies

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- Non-operating holding companies will be treated the same as other non-insurance / non-financial entities with material risk. Unless reported on a grouped basis (see paragraph 52, above), for purposes of applying the capital calculation, the carrying value of stand-alone positive valued and negative valued non-operating holding companies will be netted. If the net value is zero or less (floored at zero), the charge applied will be zero. If the filer chooses to designate the non-operating holding company as a non-insurance / non-financial entity without material risk and requests exclusion, then no allowance for debt issued by that holding company may be included in the calculation.

INVENTORY C - Capital Calculation to be Applied				
Parent Entitiy	Entity	Inv B, Column 1	Inv B, Column 2	Parent Entity Line Inv C, Column 3
U.S. RBC filer	U.S. RBC filer	RBC ACL (excl. op Risk) x 3	RBC ACL x 3	RBC ACL (excl. op Risk) x 3
U.S. RBC filer	Other U.S. Insurer	Per RBC	Per GCC Entity Instructions	Per RBC
U.S. RBC filer	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per RBC	Jurisdictional or Sectoral PCR Level Capital Requirement (Scaled)	Per RBC
U.S. RBC filer	Financial w/o Capital Reqmt	Per RBC	12% x 3-year avg revenue	Per RBC
U.S. RBC filer	Non-Financial	Per RBC	No entry Required	No entry Required - Do not de-stack
Other U.S. Insurer	U.S. RBC filer	Zero	RBC ACL x 3	Zero
Other U.S. Insurer	Any Other Entity Type	Zero	Per GCC Entity Instructions	Zero
Foreign Insurer or Other Regulated w/ Capital Reqmt	U.S. RBC filer	Per Local Capital Reqmt	RBC ACL x 3	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Other U.S. Insurer	Per Local Capital Reqmt	Per GCC Instructions	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Capital Reqmt	Jurisdictional or Sectoral PCR Level Capital Requirement (Scaled)	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Financial w/o Capital Reqmt	Per Local Capital Reqmt	12% x 3-year avg revenue	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Non-Financial	Per Local Capital Reqmt	No entry Required	No entry Required - Do not de-stack
Financial w/o Capital Reqmt or Non-Financial	U.S. RBC filer	Zero	RBC ACL x 3	Zero
Financial w/o Capital Reqmt or Non-Financial	Other U.S. Insurer	Zero	Per GCC Entity Instructions	Zero
Financial w/o Capital Reqmt or Non-Financial	Foreign Insurer or Other Regulated w/ Capital Reqmt	Zero	Jurisdictional or Sectoral PCR Level Capital Requirement (Scaled)	Zero
Financial w/o Capital Reqmt or Non-Financial	Financial w/o Capital Reqmt	Zero	12% x 3-year avg revenue*	Zero
Financial w/o Capital Reqmt or Non-Financial	Non-Financial	Zero	Per GCC Instructions*	Zero

* Subject to grouping exception in GCC instruction

Capital Calculation Adjustments:

- **[Inv C Col 3] Investment in Subsidiary –** Enter an adjustment to remove the required capital of the directly owned subsidiary(ies) from parent's required capital. The capital requirement to be removed should be the capital requirement carried by the Parent from which the entity is being de-stacked (i.e. the value reported in Column 1 in Inventory Section C adjusted for ownership percentage). Thus, there will be no adjustment to the Parent's value in this column for entities that are reported at zero value by the parent This is intended to prevent double counting required capital when regulated entities are stacked. [Example: When de-stacking an RBC filer from another RBC filer, the amount entered on the Parent line would be the RBC of the subsidiary. When de-stacking financial entities that are subject to diversification in a capital formula (e.g. RBC) the amount entered on the Parent line is the post-diversified capital requirement as calculated by the preparer(which is also the amount to be reported for the de-stacked entity on the entity's line. Generally the capital requirements for Schedule A and BA affiliates and other non-financial affiliates will remain in the capital requirements of the Parent insurer and not entered in this column, except that the capital requirements for any financial entity reported in a Parent's Schedule A and BA, any financial entity indirectly owned through another Schedule A or BA affiliate listed in Schedule 1 and in this section should be entered in this column in the row of the entity that directly or indirectly owns that Schedule A and BA affiliate so that the parent entity may eliminate double counting of that

capital requirement capital which will now be reported by the stand-alone Schedule A or BA affiliate listed in in the inventory. For indirectly owned Schedule A and BA financial entities, only the capital requirements for that entity will be included in this column and the remaining capital requirement of the downstream BA Parent will remain with the Parent insurer. Similarly the capital requirement for any U.S. Branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the capital requirement of the foreign insurer so that the parent entity may eliminate double counting of that capital requirement which will now be reported by the stand-alone Branch listed in the inventory. The amounts entered in this column for a Parent must correspond to the capital required by the parent entity which is being de-stacked from that Parent.

DRAFTING NOTE: Capital calculations for Schedule A and Schedule BA indirectly owned **financial entities** that are owned by Schedule A or Schedule BA assets are reported in the Inventory Tab affiliates and will be adjusted out of the value reported by the U.S. insurer in this column (since the non-financial direct parent Schedule A or BA affiliate is not listed in the Inventory Tab.

In the Questions and Other Information Tab, a capital requirement should be reported for the indirectly owned entity based on the insurers Schedule A or Schedule BA charge rather than a charge (which would be zero) attributable to the Schedule A or BA entity that directly owns the financial entity.

- **[Inv C Col 4] Intra-group Capital Instruments –**This column would generally be used if there is potential double counting of capital requirements (e.g. RBC charges on surplus notes purchased by an affiliated U.S. insurer from a U.S. insurer issuer).

- **[Inv C Col 5] Reported Intra-group Guarantees, LOCs and Other –**This column would generally be used if there is potential double counting of capital requirements (e.g. RBC charges on guarantees or LOCs.).

- **[Inv C Col 6] Other Intra-group Assets –**This column is not intended to be used for required capital but is included in case a volunteer believes it is necessary from reporting an inaccurate required capital figure.

  a. loans, receivables, and arrangements to centralize the management of assets or cash.
  b. derivative transactions.
  c. purchase, sale, or lease of assets.
  d. Other (describe in "Questions and Other Information Tab")

- **[Inv C Col 7] All** Other Adjustments – Include a brief explanation in the "Description of 'Other Adjustments'" in the Questions and Other Information Tab. Use this column is for adjustments related to required capital that correspond to adjustments in Inventory B, Column 7 and in cases where a volunteer believes it's necessary to adjust an inaccurate regulatory required capital figure [Example: RBC calculation applied as a permitted practice.

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DRAFTING NOTE: Consider whether this column should be used rather than Column 2 for zero value entities.

- **[Inv C Col 8]** Adjusted Capital Calculation Stand-alone capital calculation for each entity per the calculation to eliminate double counting. This value includes the impact of permitted and prescribed practices

- Inventory D is for 'Reference Calculations Checks'. These are calculations that can serve as checks on the reasonability/consistency of entries.

  a. [**Inv D Col 1 – 3] Sum of Subsidiaries (Carrying Value) –** This automatically generated column calculates the value of the carrying value of the underlying subsidiaries. It is provided for reference when filling out the 'Investment in Subsidiary' column. This sum will often, but not always, be equal to the 'Investment in Subsidiary' column.

  b. [Inv D Col 4 – 6] Sum of Subsidiaries (Calculated Capital) – Similar to above but for calculated capital.

  c. [Inv D Col 7-8] Carrying Value / Adj Calc Cap – This is a capital ratio on the adjusted and unadjusted figures. Double-check entities with abnormally large/small/negative figures to make sure that adjustments were done correctly.

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Input 3 – Capital Instruments

66. Provide all relevant information pertaining to paid-up (i.e. any receivables for non-paid-in amounts would not be included for purposes of calculating the allowance) financial instruments issued by the Group (including senior debt issued by a holding company), except for common or ordinary shares and preferred shares. This worksheet aims to capture all financial instruments such as surplus notes, senior debt, hybrid instruments and other subordinated debt. Where a Volunteer Group has issued multiple instruments, the Volunteer Group should not use a single row to report that information; one instrument per row should be reported (multiple instruments issued under the same terms may be combined on a single line). All qualifying debt should be reported as follows.

67. Debt issued by US led groups:

- Surplus Notes – Report the outstanding value of all surplus notes in Column 8 whether issued to purchasers within or outside the group. The outstanding value of Surplus notes issued to entities outside the group and that is already recognized by State regulators and reported 100% as capital in the carrying value of U.S insurer issuers in Section B of the **inventory tab and will not be included in the additional capital allowance.** Surplus notes issued within the group generally result in double counting and will not be included in the additional capital allowance. See instructions below.

- Subordinated Senior Debt (and Hybrid Debt e.g., debt issuances that receive an amount of equity credit from rating agencies) issued – The outstanding value will be reported in Column 8. Recognition for structurally subordinated debt will be allowed to increase available capital. For purposes of qualifying for recognition as additional capital, both of the following criteria must be met:

  a. The instrument has a fixed term (a minimum of five years at the date of issue or refinance, including any call options).

  b. Supervisory approval is required for any extraordinary dividend or distribution from any insurance subsidiary to fund the repurchase or redemption of the instrument. There shall be no expectation, either implied or through the terms of the instrument, that such approval will be granted without supervisory review.

  c. "Other" Debt - The outstanding value will be reported in Column 8 and will be further described in the Other Information Tab and will be reported in a manner that is consistent with Senior Subordinated Debt as described above. Such Debt will not initially be included in the additional capital allowance for the GCC. An additional allowance of this debt as additional capital will be calculated in this Tab and reported as a sensitivity analysis in the Summary 2 Tab, subject to future determination on whether it will become part of the GCC calculation.

68. Foreign debt:

- Report the outstanding value of Non-U.S. senior debt issued to entities outside the group in Column 8. Debt specifically recognized by statute, regulation or accounting rule as additional capital resources by the lead jurisdiction based on contractual subordination or where a regulatory regime proactively enforces structural subordination through appropriate regulatory / supervisory controls over distributions from insurers in the group **will not be included in the calculation of an additional capital allowance** if it is already reported as capital in the carrying value of the issuer in Section B of the **inventory tab. It will be included in the calculation of an additional capital allowance if recognized by the local jurisdiction and NOT already included in the value of the issuer** in Section B of the **inventory tab.** b. Cases where the value of debt instruments issued to purchasers outside the group has not been recognized by the legal entity's insurance or other sectoral supervisor **will not be included in the additional capital allowance.**

69. Please fill in columns in Section 3A as follows for all capital instruments–

- **[Column 1] Name of Issuer –** Name of the company that issued the capital financial instrument. [1]Will populate automatically from the 'Entity Identifier" column in this subsection'.

- **[Column 2] Entity Identifier –** Provide the reference number that was input in Schedule 1.

- **[Column 3] Type of Financial Instrument –** Select type from dropdown. Selections include Senior Debt, Surplus Notes (or similar), Hybrid Instruments and "Other" Subordinated Debt.
- **[Column 4] Instrument Identifier –** Provide a unique security identifier (such as CUSIP). ALL debt instruments must include an internal identifier if not external identifier is available.
- **[Column 5] Entity Category –** Links automatically to selection made on 'Inventory Tab' worksheet.
- **[Column 6] Year of Issue –** Provide the year in which the financial instrument was issued or refinanced.
- **[Column 7] Year of Maturity –** Enter the year in which the financial instrument will mature.
- **[Column 8] Balance as of Reporting Date –** Enter the principal balance outstanding as reported in the general-purpose financial statements of the issuer.
- **[Column 9] Intragroup Issuance –** Select whether the instrument was issued on an intra-group basis (that is, issued to a related entity within the group). This column will be used to remove "double counting". This column is a dropdown box with options "Y" and "N"
- **[Column 10] Treatment in Inventory B –** Select option that applies:

  a. **Capital - This instrument is recognized or credited as capital in local regulatory regime and reported as part of the adjusted carrying value of the issuer and was not purchased by an affiliate–** This includes the value of qualifying senior and hybrid debt instruments (if recognized as capital) and U.S. surplus notes (or similar local regime instruments) that are issued to entities outside the group recognized in the Inventory B Tab The outstanding value of those debt instruments will not be included in the calculation of a proxy allowance for additional capital.

  b. **Liability – This instrument is reflected by the issuer as a liability in the adjusted carrying value in the Inventory B Tab and was not purchased by an affiliate -** This would apply to all qualifying senior and hybrid debt issued to purchasers outside the group that is not recognized as capital by the local regulator that are issued to entities outside the group recognized in the Inventory B Tab. The value will be included in the calculation of a proxy allowance for additional capital.

  c. **Liability designation** would also apply to all non-qualifying senior and hybrid instruments and all debt categorized as "Other" issued to purchasers outside the group that is not recognized as capital by the local regulator. The value of these instruments will **NOT** be included the calculation for the in the calculation of a proxy allowance for additional capital.

  d. **Intragroup –** This would apply to all qualifying instruments purchased by an affiliate within the group. The outstanding value of those debt instruments will not be included in the calculation of a proxy allowance for additional capital. If the financial instrument is recognized or credited as part of the issuer's available capital in Inventory B, then an adjustment for intra-group capital instruments is made in Inventory B, Column 4 and

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Inventory C adjustments(if necessary to eliminate an associated capital requirement). If the financial instrument is treated as a liability by the issuer, then no intra-group capital instrument adjustment is required in Inventory B or Inventory C.

e. The outstanding value of all non-qualifying senior and hybrid instruments and financial instruments categorized as "Other Debt" whether issued to purchasers inside or outside the group will not be included in the calculation of a proxy allowance for additional capital and no other adjustments are required in the template. However, in the unlikely event that the instrument is treated as available capital to the issuer in Inventory B, an adjustment in Inventory B, Column 4 to remove the available capital would be required.

Additional information on instruments categorized as "Other Debt" in the Type of Financial Instrument Column will require additional information to be provided in the Questions and Other Information Tab.

- **[Column 11] Intragroup Purchaser Identifier –** Enter the entity identify for the affiliate entity that purchased the instrument.
- **[Column 12] Description of Other Debt Instruments –** Provide a description of instruments designated as "Other".
- **[Column 13] Base–** This column is calculated automatically using data ON THE ENTRIES IN Columns 3, 8 and 10. It represents the amount of qualifying debt that will be used for in the calculation of a proxy allowance for additional capital.

  For intra-group surplus notes, the adjustment will impact the carrying value and associated capital calculation of the purchasing affiliated entity.

-
- **[Column 14] Amount Down-streamed -** The total amount of gross paid-in or contributed capital and surplus reported by the insurance entities within the group as reported in Schedule 1. This value will be carried into the calculation for an additional capital allowance. No more than 100% of the total outstanding value of qualified senior and hybrid debt will be allowed into the calculation.

70. **Section 3C will be auto filled**

- **[Column 1, Line 1] Total Paid In and Contributed Capital and Surplus – This is the amount reported on Page 3 of the Annual Statement submitted to regulators by a U.S. insurer.**
- **[Column 1, Line 2] Alternate Subordination Calculation – This is the excess of qualifying debt over liquid assets [+ the carrying value of unregulated entities] held by the issuing consolidated or other holdco.**

Proxy Calculation for Additional Capital Allowance – A calculation will be made in this Tab in Section 3B that will apply 30% of available capital plus the value of all qualifying debt to become part of the proxy allowance for additional capital for qualifying senior subordinated. An

Deleted: **[Column 14] Tracked Amount Down-streamed** – Enter amount of debt proceeds that was infused into the regulated entities' surplus at issuance or refinance of qualifying debt. Evidence of such infusion should be provided to the Lead-State. In addition, where a "N" response was entered in Schedule 1D, Column 11, or where a "Y" responses was entered in Schedule 1D, Column 11 and the amount entered here is greater than the current year capital contribution reported in Schedule 1D, Column 71 , an explanation and description of the method used for tracking the proceeds should be provided in the Questions and Other Information Tab.

Deleted: **DRAFTING NOTE:** Additional criteria will be provided for purposes of determining qualification of debt as "down-streamed". Consideration should be given to eliminating the "down-streamed" category in favor of using paid-in and contributed capital and surplus alone.¶

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additional amount of 15% of available capital plus the value of all qualifying debt will be calculated to become part of a proxy allowance for additional capital be for hybrid debt.

No more than 100% of the total outstanding value of qualified senior and hybrid debt will be allowed into the calculation.

71. The greater of the proxy calculation or the larger of paid in capital or alternate subordination calculation will be allowed as additional capital. However, an overall limit of no more than 75% of the total adjusted carrying value in Inventory B will be applied. Adjustments to increase available capital will be calculated from data on this page. The summary results of the components of the calculation (paid in capital and surplus, proxy calculation and limitations) are populated as titled in the calculation columns beyond Column 14. The additional capital allowance calculated for capital instruments will be shown as an "on-top" adjustment in the Summary 1 – Entity Level

72. **Informational Proxy calculation for "Other Subordinated Debt"** – A sensitivity analysis will be applied in a designated calculation column on this Tab and carried into the Summary 2 Tab to adjust the amount of additional capital in the proxy calculation by the amount of "Other Debt" reported in Column **8** of this Tab issued to purchasers outside the group. This informational sensitivity analysis will include an additional allowance for such debt up to 15% of available capital plus the value of all qualifying debt including qualifying "Other" Debt subject to the same limitations noted for the proxy allowance in general.

Input 4 – Analytics

73. The entity type information supporting analytics summarized in Summary 3 - Analytics are pulled into this tab from data or information reported in other Tabs in the GCC template. That data is exported into summaries in the Summary 3 – Analytics Tab. Only 2020 data is currently to be populated. However, it is contemplated that going forwards, data for prior years will also be populated such that it will provide the lead-State regulator with metrics to identify trends over time.

Input 5 - Sensitivity Analysis and Inputs

74. The sensitivity analysis is calculated in the Summary 2 Tab. Most inputs for the analysis are populated from other Tabs as described below and carried into the analysis which are reported in the Summary 2 Tab. However certain analysis requires inputs from this Tab. Inputs are required in this Tab for Analysis 2, 3, 8, and 9. Sensitivity Analysis are intended to provide the lead-state regulator additional information that helps them better understand the financial condition of the group. Similar to the sensitivity analysis included in the legal entity RBC, it provides the regulator with additional information and allows them to consider "what-if" scenarios to better understand the impact of such items. The results of these analysis will not impact the GCC ratio.

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- **[Analysis 1]: Excluded non-insurance / non-financial entities without material risk –** No additional data is needed in the Tab. The data for entities where exclusion has been requested and the lead-State does not agree will be populated based on entries in Schedule 1B, Column 3 and data in Inventory B, Column 2 and Inventory C, Column 2. This analysis will be applied and reported in the Summary 2 Tab. It will provide the regulator with the impact of excluding non-agreed upon entities on the GCC ratio**.**

- **[Analysis 2 and 3]: Permitted practices –** This information shows the amount of US permitted practices as described in the Preamble of the NAIC Accounting Practices & Procedures Manual and the sensitivity analysis allows the state to understand the size of the practices related to the overall group capital position and their impact on the GCC ratio.

- **Prescribed practices –** This information to be entered on this Tab shows the amount of US prescribed and prescribed practices as described in the Preamble of the NAIC Accounting Practices & Procedures Manual and the sensitivity analysis allows the state to understand the size of the practices related to the overall group capital position and their impact on the GCC ratio. This analysis will be applied and reported in the Summary 2 Tab.

  Permitted and Prescribed Practices - Report Values from Annual Statement Note 1 (excluding those pertaining to XXX/AXXX captives)

  a. Entity Identifier
  b. Value of permitted practice
  c. Capital Requirement attributable to permitted practice (if any)
  d. Description of permitted practice
  e. Value of prescribed practice
  f. Capital requirement attributable to permitted practice (if any)
  g. Description of prescribed practice

- **[Analysis 4]: Foreign Insurer Capital Requirements Scaled** – No additional data is needed in the Tab. This information shows the amount of foreign insurer capital calculations scaled by applying scalars using the Excess Relative Ratio approach at a 300% x ACL RBC calibration level, for all non-U.S. jurisdictions where scalar data is available (See Appendix 1). The sensitivity analysis allows the state to understand the impact of scaling on the GCC ratio. This information is populated from the Scalar Tab. This analysis will be applied and reported in the Summary 2 Tab.

- **[Analysis 5]: Debt Classified as "Other" –** No additional data is needed in the Tab. The analysis data will be populated from the Capital Instruments Tab and the analysis and will be applied and reported in the Summary 2 Tab.

- **[Analysis 6]: Alternative capital Calculation for Financial Entities without Regulatory Capital Requirements** – No additional data is needed in the Tab. The values reported will represent the alternative values for capital calculation that is being captured in the template. The data will be populated from Schedule 1 and Inventory B and the analysis will be applied and reports in the Scaling Non – Insurance Tab (Calc 2)

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- **[Analysis 7]: Alternative capital Calculation for Non-Financial Entities -** No additional data is needed in the Tab. The values reported will represent the alternative values for capital calculation that is being captured in the template. The data will be populated from Schedule 1 and Inventory B and the analysis will be applied and reported in Scaling Non – Insurance Tab (Calc 2).

Commented [FL3]: May consider deleting if consensus is reached on treatment of these entities

75. **[Analysis 8]** For Captives other than XXX/AXXX, all other US captives shall 1) make an asset adjustment similar to that described below;

Asset Impact

76. For the asset impact, it is ONLY required for the assets included in a captive or an entity not required to follow the statutory accounting guidance in the NAIC *Accounting Practices & Procedures Manual*. It is not required for assets for those groups that retain such business in a non-captive traditional insurance company(ies) that is already required to follow the *NAIC Accounting Practices & Procedures Manual*. Please note, variations for state prescribed and permitted practices are captured in the separate sensitivity analysis.

77. The asset impact amount shall be determined based upon a valuation that is equivalent to what is required by the *NAIC Accounting Practices & Procedures Manual* (NAIC SAP). For this purpose, “equivalent” means that, at a minimum the listed adjustments (as follows) be made with the intent of deriving a valuation materially equivalent to what is required by the *NAIC Accounting Practices and Procedures Manual*, however, without requiring adjustments that are overly burdensome (e.g. mark-to market bonds used by some captives under US GAAP, vs full SAP that considers NAIC designations). To be more specific, the asset impact shall be developed by accumulating the impact on surplus because of an accumulation of all the following in paragraphs 79 and 80 combined. Please note that Letters of Credit or other financial instruments that operate in a manner like a letter of credit, which are not designated as an asset under either NAIC SAP or US GAAP and are required to be adjusted out of the available assets (i.e. the asset reduction is recorded as a negative figure in the template).

78. To achieve the above, accumulate the effect of making the following impact and record as a negative figure in the template, an asset adjustment for all the following explicit assets not allowed to be admitted under NAIC SAP:

79. Assets specifically not allowed under NAIC *Accounting Practices and Procedures Manual in accordance with paragraph 9 of Statement of Statutory Accounting Principles No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*:

- *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*
- *SSAP No. 16R—Electronic Data Processing Equipment and Software*
- *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
- *SSAP No. 20—Nonadmitted Assets*
- *SSAP No. 21—Other Admitted Assets* (e.g., collateral loans secured by assets that do not qualify as investments are nonadmitted under SAP)
- *SSAP No. 29—Prepaid Expenses*

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- *SSAP No. 105—Working Capital Finance Investments*
- *Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the Accounting Practices and Procedures Manual (e.g., deferred policy acquisition costs, pre-operating, development and research costs, etc.);*
- *Depreciation for certain assets in accordance with the following statutory accounting principles:*
- *SSAP No. 16R—Electronic Data Processing Equipment and Software*
- *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
- *SSAP No. 68—Business Combinations and Goodwill*
- *The amount of goodwill of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements*
- *The amount of the net deferred tax assets (DTAs) of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.*
- *Any surplus notes held by the SCA issued by the reporting entity*

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80. In addition, record as a negative figure, an asset impact for any assets that are not recognized as an admitted asset under the principles of SSAP No. 4—*Assets and Nonadmitted including:*

- *Letters of credit, or other similar instruments, that operate in a manner like a letter of credit and therefore do not meet the definition of an asset as required under paragraph 2.*
- *Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third-party interests should not be recognized on the balance sheet and are therefore considered nonadmitted.*
- *Assets of an insurance entity pledged or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, such assets shall not be recognized as an admitted asset on the balance sheet.*

- **[Analysis 9]: Other Regulator Discretion –** This analysis is designed to reflect other regulator adjustments including for transactions other than XXX / AXXX reinsurance where there are differences in regulatory regimes exist and there is a desire to fully reflect U.S. Statutory Accounting treatment. This will be a post-submission item completed by the lead-state regulator. Enter the following information here:

  a. Entity Identifier
  b. Amount of adjustment
  c. Description of regulatory issue

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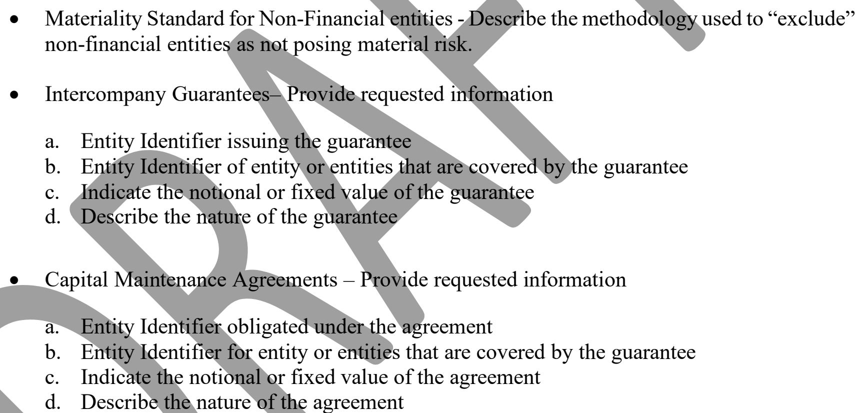
DRAFTING NOTE: This Column may also be completed by the filer after advance consultation with the lead-State regulator.

Input 6 – Questions and Other Information

81. This tab provides space for participants to describe or provide greater detail for specified entries in other tabs (as noted in the instructions for the columns in those tabs) or additional relevant information not captured in the template. Examples include the materiality method applied to exclude entities in Schedule 1; adjustments for intra group debt, description of permitted practices; scalars proposed / supporting information for jurisdiction without a prescribed scalar; and adjustments to available capital or capital calculations that are included in the "other adjustment" column in the Inventory Tab. Specified items are included in the Tab. Other information that the filer believes is relevant should be added freeform in this tab.



<u>Information or Detail for Items Not Captured in the Template</u>

- Materiality Standard for Non-Financial entities - Describe the methodology used to "exclude" non-financial entities as not posing material risk.

- Intercompany Guarantees– Provide requested information

  a. Entity Identifier issuing the guarantee
  b. Entity Identifier of entity or entities that are covered by the guarantee
  c. Indicate the notional or fixed value of the guarantee
  d. Describe the nature of the guarantee

- Capital Maintenance Agreements – Provide requested information

  a. Entity Identifier obligated under the agreement
  b. Entity Identifier for entity or entities that are covered by the guarantee
  c. Indicate the notional or fixed value of the agreement
  d. Describe the nature of the agreement

-

Deleted: Alternative Scalar Approaches – Describe suggested approaches to scaling of foreign insurer capital requirements other than those currently included in the template.…

<u>Information or Detail for Items Captured in the Template</u>

- Value of intangible assets included in non-insurance Holding Companies – Provide the requested information for all entities designated with a holding company entity type.

  a. Entity Identifier
  b. Total value of intangible assets included in local carrying value column in Inventory B*
  c. Description and amount of each intangible asset

  *Auto populated

DRAFTING NOTE: Consider whether this information should be collected only for positive value holding companies.

- Currency Adjustments –Provide requested information only for entities where the amount reported for an entity in Inventory B Column 2 is different than the amount in Inventory B, Column 1 due to currency conversion.

  a. Entity Identifier
  b. Currency Type reported in Inventory B Column 1 and Inventory C, column 1 (Foreign currency)
  c. Conversion rate applied
  d. Source of conversion rate applied

DRAFTING NOTE: Consider whether guidance on sources of conversion rates should be provided in lieu of this information.

- Intra-group Assets - Description of Adjustments for intra-group assets reported in Inventory B, Column 7 and Inventory C, Column 7. Provide the following information:

  a. Entity Identifier
  b. Amount reported in Inventory B, Column 7*
  c. Description of adjustment

  * Auto populated

- Other Adjustments - Description of adjustments reported in Inventory B, Column 8 and Inventory C, Column 8. Provide the following information:

  a. Entity Identifier
  b. Amount reported in Inventory B, Column 7*
  c. Description of adjustment

  * Auto populated

- Accounting Adjustments– Provide requested information only for entities where the amount reported for an entity in Inventory B Column 1 is different than the amount in Inventory B, Column 2 due to differences in accounting basis

  a. Entity Identifier
  b. Value reported in Inventory B Column 1*
  c. Value reported in Inventory B Column 2*
  d. Total Amount of Adjustments related to difference in accounting basis*
  e. Nature of Adjustment (e.g. GAAP to SAP)
  f. Description and amount of the Adjustments (e.g. treatment of deferred acquisition cost; reserve valuation; treatment of intangible assets)

  *Auto populated

Commented [FL4]: Delete and reference in Analysis guidance or retain?

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- The tab also includes a listing of all Schedule A and Schedule BA affiliates along with the following information:

  a. Parent identifier (if available) this is the same information as is included in Schedule 1 (Sch. 1B, Col 3) as would be entered for non-Schedule A / BA affiliates

  b. Parent Name – Enter the Name of the Parent

  c. Is Parent a Schedule A or BA Asset? - This column is only required for financial entities that are Directly owned by a Schedule A or BA Affiliate. No other downstream affiliates owned by Schedule A or BA entities need to be listed. These entities are not normally independently reported in Schedules A and BA so are extra entries.

  d. Financial? (Y/N) - if the entity meets the criteria as being a financial entity, indicate with a "yes" response. A "no" response is not required for other entities listed. "Yes" entries should correspond to "yes" entries in Schedule 1(Sch. 1B, Col 17)

  e. Carrying Value of Immediate Parent – Report the value listed in Schedule A and BA of the Parent insurer. For those cases where an indirect financial entity is reported use the value used by the direct Parent

f. Capital Requirement for Immediate Parent - Report the value listed in the RBC report of the Parent insurer (pre-tax where applicable). For those cases where an indirect financial entity is listed, report the value of the capital requirement attributable to the Insurer rather than the direct non-financial Schedule BA parent. The capital requirement reported in this column for the immediate Schedule BA parent should be adjusted to deduct the amount moved to Schedule 1 and Inventory C.

Calc 1 – Scaling (Insurance Entities)

82. All entries in this tab are calculation cells populated using data from within the tab or using data from elsewhere in the template. Scaled values for calculated capital will become part of the GCC ratio. The calculated values will be summarized by entity type in Summary 1 – Entity Level Tab. The concept of a scalar was first introduced to address the issue of comparability of accounting systems and capital requirements between insurance regulatory jurisdictions. The idea is to scale capital requirements imposed on non-U.S. insurers so as to be comparable to an RBC based requirement. Two approaches for scaling related to foreign insurers were presented, and others are being explored and will be reviewed. A decision on the scaling methodology to be adopted into the GCC Template will be made at the end of the review. In the interim a scalar of 100% of the jurisdictional PCR will be applied to all jurisdictions where a risk sensitive capital requirement is in place.

83. Information on the Excess Relative Ratio (ERR) scalar methodology will be collected and applied in the Sensitivity Analysis Tab

    SEE APPENDIX 1 FOR MORE INFORMATION AND EXAMPLES ON HOW THE ERR SCALARS ARE CALCULATED.

84. For jurisdictions without risk sensitive capital requirements a 100% charge will be applied to adjusted carrying value.

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Deleted: Scalars developed by volunteers for jurisdictions where there is only 100% included in the Tab or which are not listed at all should not be included in this Tab. Include the scalars in the Questions and Other Information Tab along with supporting rationale for the scalar.

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Calc 2 – Capital Calculations for Non-insurance Entities

85. All entries in this tab are either calculation cells using data from within the tab or using data populated from elsewhere in the template. Calculated capital for all entities except insurers will be reported in this Tab. The calculated values will be summarized by entity type in Summary 1 – Entity Level Tab.

86. In addition, one informational option for calculated capital for financial entities without an existing regulatory capital requirement and one informational option for calculated capital for non-financial entities will be reported in this tab. Those calculation will not be carried into the Summary 1 – Entity Level Tab and will not be part of the GCC ratio.

87. Only amounts for entities that the filer and the lead- State regulator agree should **not** be excluded (See Schedule 1B, Column 2) will be brought into the calculation in this Tab and Summary 1 – Entity Level. Entities where the Lead-State does not agree with the filer's request to exclude an entity will be part of the GCC ratio.

Summary 1 - Entity Level GCC Summary

88. Summarized results by entity type for the GCC ratio will be reported in this tab. An on top adjustment for debt allowed as additional capital will be added at the bottom of the table. All informational sensitivity analysis will be reported in Summary 2 and will not impact the GCC ratio.

Summary 2 – Informational Sensitivity Tests

89. Summary results for each informational sensitivity analysis described in the Sensitivity Analysis Inputs Tab will be shown here. Each sensitivity analysis will be shown on a stand-alone basis. It is expected that each informational sensitivity analysis will run automatically in the background and the results for each displayed in this Tab. The results for the informational sensitivity analysis will not be included in **Summary 1 - Entity Level**.

Summary 3 – Analytics

90. Summary results for metrics described in the Analytics Guidance **[insert attachment or appendix reference]** and utilizing data collected in the Input 4 – Analytics Tab or other Tabs in the GCC will be calculated and presented here.

Summary 4 - Alternative Grouping Option(s) (a.k.a. Cigna Illustration)

91. One sample alternative structure for grouping entities in the GCC calculation is displayed based on a suggested method. It can be modified, or other suggestions can be accommodated based on combining of data from **Schedule 1 and the Inventory** in to be defined ways**.**

    This tab is intended to be an additional analytical tool. The tool summarizes the GCC based upon how a reporting entity views its organization, and provides regulators that view, to align it with regulatory information, other than what is reported elsewhere in the GCC Template, that the reporting entity has submitted such as current filings, communications, etc. In this summary

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view, entities are organized into like regimes and multiple entities may be grouped together, in order to create a view of capital that is easy to review and analyze within each grouping. The intent of this approach is to provide an additional analytical tool designed to enhance dialogue between the lead regulator and the company contemplated by the GCC filing. This view is transparent (no scalers, no adjustments, no de-stacking) so that financial information may be cross-walked to other financial submissions such as RBC filings.

92. The results are dependent on how the reporting entity populated. Input 1 - Schedule 1, Column H, [7] Alternative Grouping. For example, if you have a dozen small dental HMO businesses, you may wish to collapse the results to a single line called "Dental HMOs", by populating Input 1 - Schedule 1, Column H, [7] Alternative Grouping for each dental HMO as "Dental HMOs". Then "Right-click" and select "Refresh" to see the results with the "Dental HMOs" combined.

93. For your reference, the data for the Summary 4 -Grouping Alternative is from Calc 1 - Scaling (Ins, Bank) which is fed by the inputs you have made in Input 1 - Schedule 1, Input 2 – Inventory, etc.

Appendix 1 – Explanation of Scalars

94. The concept of a scalar is to equate the local capital requirement to an adjusted required capital level that is comparable to U.S. levels. The purpose of a scalar is to address the issue of comparability of accounting systems and capital requirements between jurisdictions. The following provides details on how the scalars were calculated by the NAIC, or how they are to be used when the NAIC has not developed a scalar for a country due to lack of public data.

Excess Relative Ratio Approach

95. Included below are various steps to be taken in calculating the excess relative ratio approach to developing jurisdiction-specific scalars. In order to numerically demonstrate how this approach could work, hypothetical capital requirements and financial amounts have been developed for Country A. Based on preliminary research that has been performed by NAIC staff, it appears that the level of conservatism built into accounting and capital requirements within a jurisdiction may differ significantly for life insurers and non-life insurers. Therefore, ideally each jurisdiction would have two different scalars based on the type of business. The example below includes information related to life insurers in the U.S. and Country A.

1. Understand the Jurisdiction's Capital Requirements and Identify the First Intervention Level

   a. The first step in the process is to gain an understanding of the jurisdiction's capital requirements. This can be done in a variety of ways including reviewing publicly available information on the regulator's website, reviewing the jurisdiction's Financial Sector Assessment Program (FSAP) reports and discussions with the regulator.

   In Country A, assume that the capital requirements for life insurers are based on a capital ratio, which is calculated as follows:

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Capital ratio =	Total available capital / Base required capital (BRC)

In the U.S., capital requirements are related to the insurer's risk-based capital (RBC) ratio. For purposes of the Relative Ratio Approach, an Anchor RBC ratio is used and calculated as follows:

Anchor RBC ratio =	Total adjusted capital / 100% Company Action Level RBC*

* 100% Company Action Level RBC is equal to the Total RBC After Covariance, without adjustment or 200% Authorized Control Level RBC.

b. Similar to legal entity RBC requirements in the U.S., Country A utilizes an early intervention approach by establishing target capital levels above the prescribed minimums that provide an early signal so that intervention will be timely and for there to be a reasonable expectation that actions can successfully address difficulties. Presume that this target capital level is similar to the U.S.'s Company Action Level (CAL) event, both of which can be considered the first intervention level in which some sort of action—either on the part of the insurer or the regulator—is mandated. For simplification purposes, NAIC staff is not considering the RBC trend test in this memo.

c. For Country A, the target capital level is presumed to be a capital ratio of 150%. That is, the insurer's ratio of total available capital to its BRC should be above 150% to avoid the first level of regulatory intervention. Again, this is similar to the U.S.'s CAL event, which is usually represented as an RBC ratio of 200% of Authorized Control Level (ACL) RBC (ignoring the RBC trend test.). In the Relative Ratio approach, the Anchor RBC ratio represents the Company Action Level event (or first level of regulatory intervention) as 100% CAL RBC (instead of 200% ACL RBC), because CAL RBC is the reference point that is used to calibrate against other regimes. The Anchor RBC Ratio (Total Adjusted Capital ÷ 100% CAL RBC) tells us how many "multiples of trigger level capital" that the company holds. Conceptualizing the CAL event as 100% CAL RBC allows the consistent definition of local capital ratios that are calibrated against a "multiples of the trigger level" approach, to ensure an apples-to-apples comparison[2].

2. Obtain Aggregate Industry Financial Data

96. The next step is to obtain aggregate industry financial data, and many jurisdictions include current aggregate industry data on their websites. Included below are the financial amounts for use in this exercise.

U.S. Life Insurers – Aggregate Data

While it is mathematically equivalent to use 200% ACL RBC as the denominator, the Approach is designed to use the representation of first-intervention level capital levels as the conceptual underpinning of the Relative Ratio Approach, where 100% CAL RBC is the reference point to calibrate against other regimes.

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Total Adjusted Capital = $495B Authorized Control Level RBC = $51B Company Action Level RBC = $102B *Country A Life Insurers – Aggregate Data* Total Available Capital = $83B BRC = $36B

3. Calculate a Jurisdiction's Industry Average Capital Ratio

97. To calculate a jurisdiction's average capital ratio, the aggregate total available capital for the industry would be divided by the minimum or base capital requirement for the industry in computing the applicable capital ratio. In Country A, this would be the BRC. In the U.S., this base or minimum capital requirement is usually seen as the ACL RBC, but because the Relative Ratio Approach is using 100% CAL RBC as a reference point to calibrate other regimes to, the Relative Ratio formula uses 100% CAL RBC as the baseline and the first-intervention level to calculate the Average Capital Ratio and Excess Capital Ratio. As a result, the scaled ratio of a non-U.S. company should inform regulators how many multiples of first-intervention level capital the non-U.S. company holds. Included below is the formula to calculate a jurisdiction's industry average capital ratio:

Calculation of U.S. Industry Average Capital Ratio – Life Insurers

$$\frac{\$495B \text{ (Total Adjusted Capital)}}{\$102B \text{ (CAL RBC)}} = \mathbf{485\%}$$

Calculation of Country A Industry Average Capital Ratio – Life Insurers

$$\frac{\$83B \text{ (Total Available Capital)}}{\$36B \text{ (BRC)}} = \mathbf{231\%}$$

4. Calculate a Jurisdiction's Excess Capital Ratio

98. The next step is to understand the level of capital the industry is holding above the first intervention level. Therefore, to calculate a jurisdiction's excess capital ratio, one would first need to calculate the amount of the capital ratio carried in excess of the capital ratio required at the first intervention level. This amount would then need to be divided by the capital ratio required at the first intervention level.

General Excess Capital Ratio Formula

$$\frac{\text{Average Capital Ratio – Capital Ratio at the First Intervention Level}}{\text{Capital Ratio at the First Intervention Level}}$$

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99. Based on the formula above and information provided in Steps #2 and #3, included below are how to calculate each jurisdiction's excess capital ratio. Note: The first intervention level in the U.S. is defined in the Relative Ratio Approach as 100% CAL RBC, while the first intervention level in Country A is a capital ratio of 150%.[3]

Calculation of U.S. Excess Capital Ratio – Life Insurers

$$\frac{\text{485\% (Average Capital Ratio)} - \text{100\% (Capital Ratio at the First Intervention Level)}}{\text{100\% (Capital Ratio at the First Intervention Level)}} = \mathbf{385\%}$$

Calculation of Country A Excess Capital Ratio – Life Insurers

$$\frac{\text{231\% (Average Capital Ratio)} - \text{150\% (Capital Ratio at the First Intervention Level)}}{\text{150\% (Capital Ratio at the First Intervention Level)}} = \mathbf{54\%}$$

5. Compare a Jurisdiction's Excess Capital Ratio to the U.S. Excess Capital Ratio to Develop the Scalar

100. Based on the information above, the U.S. excess capital is 385%. In other words, life insurers in the U.S. carry approximately 385% more capital than what is needed over the first intervention level. Country A's excess capital ratio is 54%. That is, life insurers in Country A carry approximately 54% more capital than what is needed over the first intervention level.

101. To calculate the scalar, one would divide a jurisdiction's excess capital ratio by the U.S. excess capital ratio. Therefore, the calculation of Country A's scalar for life insurers would be 54% ÷ 385% = 14% Therefore, Country A's scalar for life insurers would be 14%

6. Apply to the Scalar to the Non-U.S. Insurer's Amounts in the Group Capital Calculation

102. In order to demonstrate how the calculation of the scalar works, it would be best to provide a numerical example. For purposes of this memo, assume that a life insurer in Country A reports required capital of $341,866 and total available capital of $1,367,463. (These are the amounts previously used in a hypothetical calculation example that was discussed by the Working Group during its July 20, 2016, conference call.) As noted previously, the above information and calculation suggests that U.S. life insurers carry capital far above the minimum levels, while life insurers in Country A carry capital far closer to the minimum. Therefore, in order to equate the company's $341,866 of required capital, we must first calibrate the BRC to the first regulatory intervention level by multiplying it by 150%, or Country A's capital ratio at the first intervention level. The resulting

[3] 100% CAL RBC translates to an ACL RBC level of 200%, but for conceptual purposes, the Relative Ratio Approach refers to the U.S. first intervention level as 100% CAL RBC, as 100% CAL RBC is the reference point to which the Relative Ratio Approach calibrates other regimes. In other words, 100% CAL RBC ensures that the scaled ratio of Country A results in a ratio that determines how many multiples of first-intervention level capital that the company in Country A is holding.

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amount of $512,799 is then multiplied by the scalar of 14% to get a scaled minimum required capital of $71,792.

103. Further, the above rationale suggests that the available capital might also be overstated (since it does not use the same level of conservatism in the reserves) by the difference between the calibrated required capital of $512,799 and the required capital after scaling of $71,792, or $441,007. Therefore, we should now deduct the $441,007 from the total available capital of $1,367,463 for a new total available capital of $926,456. These two recalculated figures of required capital of $71,792 and total available capital of $926,456 is what would be included in the group's capital calculation for this insurer. These figures are further demonstrated below.

Calculation of Scaled Amounts for Group Capital Calculation

Amounts as Reported by the Insurer in Country A

Total available capital = 1,367,463

Minimum required capital (BRC) = 341,866

Calibration of BRC to 1st Regulatory Intervention Level

341,866 (BRC) * 150% = 512,799

Scaling of Calibrated Minimum Required Capital

512,799 (Calibrated BRC) * 14% (Scalar) = 71,792 (Difference of 441,007)

Scaled Total Available Capital

1,367,463 (Total Available Capital) – 441,007 (Difference in scaled required capital) = 926,456

104. Given these scaled amounts, one can calculate the numerical effect on the company's relative capital ratio by using the unscaled and scaled amounts included below.

	Unscaled Amounts from Table Above	*Scaled Amounts from Table Above*
Total Available Capital	1,367,463	926,456
Base Required Capital	341,866	71,792
Capital Ratio (= TAC / BRC)	400%	1290%

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105. Considering the fact that life insurers in Country A hold much lower levels of capital over the first intervention level as compared to U.S. life insurers, the change in the capital ratio from 400% (unscaled) to 1290% (scaled) appears reasonable and consistent with the level of conservatism that we understand is built into the U.S life RBC formula driven primarily from the conservative reserve valuation.

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Attachment 4 - Summary of Revisions Post Sept 29, 2020 Exposure:

Only the new revisions made in response to general comments are marked in the October 29 Version of the GCC Instructions are shown. No revisions have yet been made on calibration.

There are comment bubbles on pages 23, 38, 40, and 44. And drafting notes on page 43 remain for consideration. Revisions have been posted in the following places:

Section I - Background

- Paragraphs 2, 3, 7, edits related to clarification requests.

Section II - Definitions

- Paragraph 9 clarifies when to treat affiliated investment managers and underlying collective investment entities as non-financial entities
- Paragraph 11 (New) adds a definition of Insurance Subgroup for a non-U.S. led group
- Paragraph 16 clarifies the definition of Material risk relative to insurers within the group; changes Secondary considerations to "Other" considerations; and eliminated the quantitative (5%) criterion from the Other considerations.

Section III – Exemptions and Scope

- Paragraph 23 adds a reference to Insurance Subgroup.
- Paragraph 26 adds a reference to Insurance Subgroup.
- Paragraph 28 adds a reference to Insurance Subgroup. The paragraph is also substantially revised to align with paragraph 30 regarding the scope of application for an Insurance Group.
- Paragraph 30 adds a reference to Insurance Subgroup. Also adds clarifying language on treatment of entities outside the insurance subgroup.

Section IV – General Instructions

- Paragraph 37 clarifying language reenforcing the aggregation concept
- Paragraph 41 eliminating the reference to XXX /AXXX business

Input 1 – Schedule 1

- Paragraph 55 (Page 18) clarified entity category to be reported for insurance or financial Schedule A / BA entities de-stacked from an insurer.
- Chart on Page 19 revised to match current entity categories
- Paragraph 57 (on pages 22 and 23) Combined dividend paid and received into a single "Net" column; added a column for dividends declared and unpaid; changed the instructions for Dividends Received and Not Retained to include dividends received and already paid upstream.

Input 2 - Inventory

- Paragraph 59 (Page 27) revised reporting of notional value for guarantees and capital maintenance agreements.
- Paragraph 61 (Page 29) clarifies that the GCC will used unscaled values for foreign insurer capital requirements and apply the Excess Relative Ratio approach in the sensitivity analysis.
- Paragraph 66 (Page 32) clarifies treatment of non-operating holdcos and their related debt.

Input 3 - Capital Instruments

- Paragraph 68 (Page 35) adds characteristics of hybrid debt.
- Paragraph 70 (Page 38) Eliminates "Tracked Down-streamed" metric for establishing subordination. This may be replaced with the APCIA suggested approach (suggested wording included).

Input 5 – Sensitivity Analysis

- Paragraph 70 (Page 39) revised to exclude AAA /AXXX related permitted practices from the sensitivity analysis.
- Paragraph 70 (Page 40) revised to use the Excess Relative Ratio approach in the sensitivity analysis.

Input 6 – Other Information

- Paragraph 82 (Page 43) deletes language related to volunteer proposed scalers.
- Paragraph 82 (Page 44) deletes reference to non-financial Schedule A / BA affiliates.

Calc 1 – Scaling (Foreign Insurers)

- Paragraph 85 revises the placeholder scaling methodology to 100% of jurisdictional PCR.

The GCC Template will be updated in line with the revised instructions where applicable.