Date: 7/13/21

Virtual Meeting
(in lieu of meeting at the 2021 Summer National Meeting)

GROUP CAPITAL CALCULATION (E) WORKING GROUP
Monday, July 26, 2021
2:00 – 3:00 p.m. ET / 1:00 – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.m. PT

ROLL CALL

John Rehagen, Chair Missouri Justin Schrader Nebraska
Kathy Belfi, Vice Chair Connecticut Dave Wolf New Jersey
Susan Bernard California Bob Kasinow New York
Philip Barlow District of Columbia Jackie Obusek North Carolina
Ray Spudeck Florida Dale Bruggeman/Tim Biler Ohio
Kevin Fry Illinois Greg Lathrop Oregon
Roy Eft Indiana Melissa Greiner/Kimberly Rankin Pennsylvania
Carrie Mears Iowa Trey Hancock Tennessee
Gary D. Anderson Massachusetts Jamie Walker/Doug Slape Texas
Judy Weaver Michigan Doug Stolte/David Smith Virginia
Kathleen Orth Minnesota Amy Malm Wisconsin

NAIC Support Staff: Dan Daveline/Jane Ren

AGENDA

1. Consider Adoption of its May 27, May 17, April 27, and March 10 Minutes—John Rehagen (MO)

2. Consider Exposure of Draft Maintenance Documents—John Rehagen (MO)

3. Consider Exposure of a Draft Referral to the Capital Adequacy (E) Task Force—John Rehagen (MO)

4. Discuss Any Other Matters Brought Before the Working Group—John Rehagen (MO)

5. Adjournment
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The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met May 27, 2021. The following Working Group members participated: John Rehagen, Chair (MO); Kathy Belfi, Vice Chair (CT); Susan Bernard (CA); Ray Spudeck (FL); Carrie Mears (IA); Susan Berry (IL); John Turchi and Christopher Joyce (MA); Judy Weaver (MI); Barbara Carey (MN); Jackie Obusek (NC); Justin Schrader (NE); Dave Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman and Tim Biler (OH); Kimberly Rankin (PA); Trey Hancock (TN); Jamie Walker (TX); David Smith (VA); and Levi Olson (WI).

1. **Adopted a Stress Scenario in the GCC Trial Implementation Instructions and Template**

Mr. Rehagen introduced the first agenda item by stating that the purpose of the meeting is to select a standardized percentage to be used for all groups as a stress scenario and adopt the stress scenario instructions and related template changes. He added that in addition to the standard approach, the group capital calculation (GCC) filer manually adds entity categories not adjusted in the standard approach if it is believed that would assist in analyzing the impact of a change in debt allowance on the GCC ratio. The manual entries are not required, but all companies will report at least one GCC result using the standard approach. Mr. Rehagen stated that both the standardized stress tabs and the narrative are intended to be part of the Trial only, and they will not be carried forward. However, there may be some role in the future in the analysis guidance that was recently exposed for reviewing how the group assesses stress scenarios. Mr. Rehagen added that the purpose of the standardized stress scenario is to evaluate its impact on the amount of senior and hybrid debt that can be included as additional capital. If no debt allowance is requested, then the GCC filer can state that such is the case in the separate narrative that is included in the Trial template.

Mr. Rehagen stated that a comment letter from America’s Health Insurance Plans (AHIP) was received and included in the materials (Attachment ??) on the revised stress scenario instructions and separate narrative, along with several emails requesting clarifications. He stated that in response, revisions were made to pages 44, 47, 53 and 54 of the instructions (Attachment ??). Tom Finnell (AHIP) suggested some further revisions to the instructions, and he questioned whether the standard stress scenario was connected to the separate narrative. Lou Felice (NAIC) explained the changes commented on and agreed that some revisions could be made. He also stated that the separate narrative is not necessarily related only to looking at debt. Mr. Finnell stated that the Own Risk and Solvency Assessment (ORSA) is a better way to assess capital adequacy than a simplistic narrative. Mr. Rehagen restated that the stress scenario and the narrative are only for the Trial, and other methods would continue via analysis going forward. Mr. Belfi stated that she would use the narrative to assess the impact on the debt allowance. Mr. Rehagen noted that the stress scenario and narrative are optional. Mr. Felice noted that if the filer supports a different level of stress than is selected for the standardized stress scenario, the lead-state can adjust the percentage in the template as part of its analysis to assess the impact on the debt allowance. He presented some additional language to address the comments by Mr. Finnell and Ms. Belfi. There were no objections or further comments on the new language.

Mr. Felice summarized the remaining revisions made prior to today’s meeting, noting that there are some optional entries that can be added by the filer to adjust the calculated capital for entity types not adjusted in the standardized stress scenario. These entries are optional but if utilized, must be made at the standardized stress percentage; i.e., 30%. Mr. Felice stated that the standardized stress scenario will otherwise be populated and summarized automatically regardless of whether there was a debt allowance included in the Trial template. Ned Tyrrell (NAIC) agreed that this method is preferable to having two different Trial templates. Mr. Felice presented revisions discussed earlier, and there were no comments on those revisions.

Mariana Gomez-Vock (American Council of Life Insurers—ACLI) expressed her organization’s support for a 30% standard stress level based on the impact of such a stress level on the potential movement from current industry risk-based capital (RBC) operating levels to an RBC action level. Kevin Mackay (MetLife) said MetLife supports the 30% standard stress level as a point where procyclicality would materially affect the debt allowance, noting that balance sheet valuation can be affected differently for different entities, such as foreign insurers. Mr. Rehagen asked if there are any objections to using 30% as the standardized stress level. There were no objections or further comments.

Mr. Rehagen asked if any revisions are required to the Trial template. Mr. Tyrrell stated that the now selected standardized stress scenario of 30% will be added to the Trial template.

Ms. Belfi made a motion, seconded by Mr. Spudeck, to adopt the GCC stress scenario instructions with today’s edits along with the template for the Trial Implementation. The motion passed unanimously.
2. **Discussed Next Steps Toward the Start of the 2021 GCC Trial Implementation**

Mr. Rehagen announced that a GCC Trial volunteer call will be held June 17, and a notice will go out soon about the steps to get to the start of the Trial. He stated that NAIC staff can now start taking questions and will provide a question and answer (Q&A) process. Mr. Felice stated that he will check on the status of the confidentiality agreements and work to get them out to the lead-states with volunteers participating in the Trial as soon as possible.

3. **Discussed Other Matters**

Mr. Rehagen and Ms. Belfi recognized the contributions to the GCC project by Mr. Felice, who will be retiring later this year. He also introduced Jane Ren (NAIC), who will be transitioning into her NAIC support staff roll for the Working Group.

Having no further business, the Group Capital Calculation (E) Working Group adjourned.
The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met May 17, 2021. The following Working Group members participated: John Rehagen, Chair (MO); Kathy Belfi, Vice Chair (CT); Susan Bernard (CA); Carrie Mears (IA); Susan Berry (IL); Roy Eft (IN); John Turchi and Christopher Joyce (MA); Judy Weaver (MI); Barbara Carey (MN); Jackie Obusek (NC); Dave Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman and Tim Biler (OH); Melissa Greiner and Kimberly Rankin (PA); Trey Hancock (TN); Jamie Walker (TX); David Smith (VA); and Amy Malm (WI).

1. **Adopted Instructions for the GCC Trial Implementation**

Mr. Rehagen stated that no additional comments specifically addressing the text of the instructions were during the most recent exposure. He further stated that there were several places where new language was added, but mainly for the addition of a stress scenario to the group capital calculation (GCC) instructions and template. He directed the meeting participants to a copy of the instructions included in the materials, which highlighted only the new language (Attachment A). He added that new language related to the stress scenario will be covered under agenda item #2, and he asked Lou Felice (NAIC) to go through the few other places where some additional language was added. Mr. Felice described the new language, which was mostly related to how risk-based capital (RBC) for operational risk RBC will be treated in the GCC for U.S. insurers. Ralph Blanchard (Travelers) stated that the Excess Relative Ratio (ERR) scaling sensitivity analysis may overstate the required capital, and more clarity on the source of data used for the data supporting the scalars is needed. Mr. Felice responded that the U.S. RBC data came from the publicly available aggregated RBC statistics, which will include some double counting; and the required data for the foreign jurisdictions subject to scaling was similarly sourced from publicly available aggregated data, which also includes some double counting. Mr. Blanchard stated that the scalars were directionally correct but could be off by several percentage points. Mr. Rehagen asked Mr. Felice to add some additional clarifying language regarding the data sources for the ERR scalars. Tom Finnell (America’s Health Insurance Plans—AHIP) noted that AHIP members will have questions during the Trial Implementation, but they have no specific comments at this time.

Ms. Belfi made a motion, seconded by Mr. Eft, to adopt the GCC instructions for the Trial Implementation with the exception of language related to the stress scenario. The motion passed unanimously.

2. **Exposed Revised Language for a Proposed Scenario Test in the 2021 GCC Trial Implementation**

Mr. Rehagen stated that comment letters were received from AHIP and the American Council of Life Insurers (ACLI) (Attachment A) related to the proposed stress scenarios. He asked the commenters to present their comments.

Mr. Finnell stated that he is not clear how the company specific assumptions requested in the narrative coordinate with the hypothetical capital adjustments in the stress scenario data calculated in the template. He added that AHIP members were not comfortable providing assumptions for a hypothetical approach.

Mr. Felice stated that he understood that the starting point was a standardized approach—i.e., a template specified percentage adjustment to available and calculated capital—for the stress scenario calculation in the template, but there was a desire to tailor the adjustment to align with the narrative with some opportunities for adding adjustments for specific entity types. Ned Tyrrell (NAIC) stated that he understood that the level of stress adjustment was prescribed and some entity specific adjustments could be made by the group to the prescribed stress, but the narrative would be distinct and based on the group’s own assumptions as to stress level and drivers. Ms. Belfi stated that her thinking is along the lines of what Mr. Tyrrell stated with some potential for tailoring, but she believes that a group could forego the tailoring in the template. She said the narrative is meant to add value for state insurance regulators. Mr. Rehagen agreed. Mariana Gomez-Vock (ACLI) stated that the ACLI is generally aligned with Mr. Finnell’s comments, but she questioned whether the purpose of the stress scenario had shifted from the primary goal of identifying the impact of the prescribed stress on the amount of qualifying debt that can be counted as additional capital. Mr. Rehagen stated that the narrative was added, rather than the purpose shifted. Ms. Gomez-Vock said she supports the narrative, but it should be distinct from the prescribed scenario.

Keith Bell (Travelers) stated that some clarity should be added to the instructions to explain how the prescribed approach works in conjunction with the narrative. Mr. Felice explained that as currently drafted, the selected level of stress in the stress scenario calculation can be by the group to align with the narrative, but that is not required. Ms. Belfi said she supports aligning the
narrative with a prescribed stress scenario only where the group believes they are aligned, and if not, then the group can use its own assumed stress level in the narrative without changing the standardized stress in the template. She added that all groups should use a standardized level of stress in the template calculation. Mr. Rehagen, Ms. Belfi, Mr. Bell and Mr. Finnell agreed. Mr. Rehagen asked Mr. Felice to make the required changes to the instructions. Mr. Felice stated that the instructions could be revised within a day to achieve that end, but the standardized percentage adjustment would need to be finalized (e.g., 10% or 20%, etc.). He suggested a brief exposure for any additional comments.

Mr. Rehagen asked if there were objections to exposing the revised language in the instructions for the stress scenario until May 25. There were no objections, and NAIC staff were directed to expose the document through the close of business on May 25.


Mr. Rehagen referred to two documents in the materials related to GCC guidance to be included in the Financial Analysis Handbook (Attachments ?? and ??). He stated that early in 2020, the Working Group formed a very small drafting group consisting of a handful of state insurance regulators and industry members, and they were asked to bring to the Working Group draft regulatory guidance of “how the GCC was planned to be used.” He added that the two documents consist of: 1) the actual step-by-step procedures; and 2) what is referred to as “the analyst reference guide” that provides more detail on the purpose of each procedure generally and how the procedures are intended to be utilized. He said he would like to expose the documents and send them to the Financial Analysis Solvency Tools (E) Working Group, which will be asked to comment upon it to the Group Capital Calculation (E) Working Group during the same exposure period. He further stated that states could use this during the Trial Implementation, so there should be an extended comment period to coincide with the timing for the Trial Implementation. Mr. Finnell supported the extended period, noting that AHIP participated in the initial drafting of the guidance. Ms. Belfi said she also supports an extended comment period.

Mr. Rehagen asked if there were objections to exposing the documents stress scenario until July 31. There were no objections, and NAIC staff were directed to expose the document through the close of business on July 31.

4. Discussed Next Steps Toward the Start of the 2021 GCC Trial Implementation

Mr. Rehagen outlined the steps to get to the start of the Trial. He stated that the Working Group will finalize the stress scenario issue on its next call. He added that the confidentiality agreement templates will be going out soon, but that should not affect the Trial start date of June 1, since data will not be shred until the submissions are received by the lead states and certainly not before the agreements are in place. He mentioned that a question and answer (Q&A) process will be established and maintained by NAIC staff. He noted that the overall timing for the Trial is to receive the template submissions by July 31 and complete the Trial by Oct. 31.

5. Discussed Other Matters

Mr. Rehagen asked if there is value in a call with volunteers at the beginning of the Trial or after the volunteers have a few weeks with the final Trial template and instructions. John Dubois (Mass Mutual) asked that the call be held before July 1. Mr. Rehagen suggested mid-June. Mr. Bell agreed.

Mr. Rehagen stated that the next Working Group call would be scheduled later this month or in early June.

Having no further business, the Group Capital Calculation (E) Working Group adjourned
The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met April 27, 2021. The following Working Group members participated: John Rehagen, Chair (MO); Kathy Belfi, Vice Chair (CT); Susan Bernard (CA); Carrie Mears (IA); Kevin Fry (IL); John Turchi and Christopher Joyce (MA); Judy Weaver (MI); Barbara Carey (MN); Jackie Obusek (NC); Justin Schrader (NE); Bob Kasinow (NY); Tim Biler (OH); Greg Lathrop (OR); Melissa Greiner and Kimberly Rankin (PA); Trey Hancock (TN); Mike Boerner (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. Discussed Comment Letters Received for Edits to the GCC Instructions

Mr. Rehagen stated that three comment letters had been received (Attachment ??) from interested parties, and he asked Lou Felice (NAIC) to first summarize the process for addressing the comments and then the commenters to briefly summarize any remaining concerns. Mr. Felice stated that the letter from Mariana Gomez-Vock (American Council of Life Insurers—ACLI) focused on the ACLI’s continued support for developing scalars for foreign insurers. He stated that Ms. Gomez-Vock will elaborate. The other two letters from America’s Health Insurance Plans (AHIP) and The Travelers Companies Inc. (Travelers) contained some initial general comments and several specific revisions to the existing language in the instructions. Mr. Felice stated that the commenters will elaborate on the general comments, but most of the specific comments were addressed and sent to the commenters for their review, resulting in the version of the instructions that is included in the meeting materials (Attachment ??). One additional requested revision was received from Travelers and will be accepted.

Ms. Gomez-Vock stated that the ACLI letter was to confirm deletion of the opportunity to submit group specific scalars and express support for the NAIC’s activities toward recommending scalars for foreign insurers in both the group capital calculation (GCC) and the Insurance Capital Standard (ICS) — Aggregation Method (AM) being developed by the International Association of Insurance Supervisors (IAIS). Tom Finnell (AHIP) stated that the majority of its specific comments were addressed, but a few remain. With regard to AHIP’s overarching comment, he stated that the instructions should be improved in response to questions from groups participating in the Trial Implementation. He stated that the use of examples would enhance the clarity of the instructions. Mr. Rehagen stated that using input from the Trial participants is a good way to make improvements to the instructions. Mr. Felice agreed that questions could be used to embed examples as the Trial is going on. Mr. Finnell also suggested that the process for getting the comments needs to be set up before the Trial begins. Mr. Felice stated that a question and answer (Q&A) process could be established along the line of the prior GCC Field Test. Ralph Blanchard (Travelers) stated that the Excess Relative Ratio sensitivity analysis may overstate the required capital, and more clarity on the source of Authorized Control Level risk-based capital (RBC) and examples are needed. Ned Tyrrell (NAIC) stated that the examples are forthcoming.

Mr. Rehagen provided an update on the International Insurance Relations (G) Committee’s work on scalars, which was raised in the ACLI letter. He stated that work continues on the development of an appropriate scalar approach for use in the AM ICS and in the GCC. Further evaluation is required, including the review of a recently released paper by the American Academy of Actuaries (Academy) and developments at the IAIS regarding comparability of the AM. Mr. Rehagen noted that it is unlikely that the scalar methodology will be finalized this year; consequently, there is currently nothing to add to the GCC Trial template. The GCC Trial Implementation will continue to be based on an unscaled calculation at 200% of the Authorized Control Level. Sensitivity tests will include the GCC ratio scaled using the Excess Relative Ratio approach at both 200% and 300% of the Authorized Control Level.

Mr. Rehagen asked if there were objections to exposing the latest version of the edited GCC instructions and template until May 10. There were no objections, and NAIC staff were directed to expose the document through the close of business on May 10.

2. Discussed a Proposed Scenario Test in 2021 GCC Trial Implementation

Mr. Rehagen relayed that himself and Ms. Belfi held two calls with several insurance trade groups and some of their members to discuss their concerns and expectations for stress scenarios to be applied in the template to address procyclicality and other concerns about how the adopted GCC would behave under stressed conditions. During the first call, most of the participants focused on how the allowance for qualifying debt reacts to financial stress, leaving RBC required capital unadjusted, and applying stress scenarios that are not complex and could easily be incorporated into the GCC Trial template prior to the start.
of the Trial Implementation. As a result, the proposed stress scenario document in the materials (Attachment ??) represents what NAIC staff suggest so far for inclusion in the Trial template, and it was presented during the second call with the expectation that there would be further comments today. Mr. Felice outlined the logic behind adjusting available and calculated capital by a specified percentage in a simplified and standardized approach. He stated that to avoid complexity, specific scenarios that may drive changes in available or calculated capital are not included. Via WebEx, Mr. Tyrrell presented the exhibits to be used in the GCC template to add the stress scenarios. He stated that the percentage of adjustment could be varied, and the necessary data would be populated from other parts of the template with no additional direct data entry required.

Mr. Rehagen asked Ms. Belfi to offer some state insurance regulator comments. She agreed that the work done so far was designed to avoid any additional burden on the groups preparing the template, but it provided little value to state insurance regulators without additional narrative information. She proposed that a high-level narrative would accompany the standardized stress scenario to indicate what each group sees as the potential drivers behind the change in available and calculated capital without requiring additional data. Mr. Blanchard agreed that as set up, the stress scenario would not account for differences in the drivers for adjustments to capital, which vary by group. Ms. Belfi responded that the narrative would address the unique drivers for each group.

Mr. Rehagen asked if there were objections to exposing the stress scenario document and related additions to the GCC template additions concurrently with the instructions until May 10. Mr. Finnell asked if the narrative concept will be included in the exposure, possibly with a later due date for comments on that issue. In response to Mr. Rehagen’s question on whether the narrative could be added to the exposed materials, Mr. Felice stated that several sentences could be added to the proposal document to cover the narrative, and a tentative place to capture the narrative could be added to the template in the next day or two after consulting with Ms. Belfi on the wording for requesting the narrative. Comments could then be submitted on that issue as well. Mr. Rehagen stated that comments on whether the narrative can be shared with the NAIC can be included as well. There were no further comments or objections. NAIC staff were directed to expose the materials through the close of business on May 10.

3. Discussed Next Steps Toward the Start of the 2021 GCC Trial Implementation

Mr. Rehagen outlined the steps to get to the start of the Trial. He stated that first, the instructions need to be finalized based on the discussion under agenda item #1, and whether stress scenarios will be included in the Trial template per the discussion under agenda item #2 needs to be determined. He added that currently, 24 volunteers willing to have the state share data on a confidential basis with the NAIC have been identified by state insurance regulators in 12 lead-states thus far. He stated that it needs to be known soon if there are any more volunteers out there. Confidentiality agreement templates will be going out to the lead-states in the next week or so for their review and other edits (e.g., statutory confidentiality provisions). Mr. Rehagen stated that it was previously agreed that the submissions will be due by July 31, and the goal is to have everything in place for the Trial no later than the end of May.

4. Discussed Other Matters

Mr. Rehagen stated that the next Working Group call would be held on or about May 17.

Having no other business, the Group Capital Calculation (E) Working Group adjourned.
The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met Feb. 25, 2021. The following Working Group members participated: John Rehagen, Chair (MO); Kathy Belfi, Vice Chair (CT); Susan Bernard (CA); Ray Spudeck (FL); Carrie Mears (IA); Susan Berry (IL); Roy Eft (IN); Christopher Joyce (MA); Judy Weaver (MI); Barbara Carey (MN); Jackie Obusek (NC); Justin Schrader (NE); Dave Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman and Tim Biler (OH); Greg Lathrop (OR); Melissa Greiner and Kimberly Rankin (PA); Trey Hancock (TN); Mike Boerner (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).


During its Feb. 25, 2021, meeting, the Working Group took the following action: 1) adopted recommended accreditation standards for referral to the Financial Condition (E) Committee related to the Insurance Holding Company System Regulatory Act (#440) and the Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450); and 2) adopted a recommendation to the Financial Condition (E) Committee to modify the charges of the Qualified Jurisdiction (E) Working Group and revise the title of the group to be more encompassing. During its Jan. 28, 2021, meeting, the Working Group took the following action: 1) heard a presentation on the data analysis for the adopted group capital calculation (GCC) template using 2019 field test data; and 2) discussed further GCC data collection. The Working Group conducted an e-vote that concluded Jan. 19 to expose the proposed accreditation standards for the GCC.

Mr. Spudeck stated that he had attended the Feb. 25, 2021, meeting and asked that his name be added to the attendees listed for that meeting.

Ms. Belfi made a motion, seconded by Ms. Bernard, to adopt the Working Group’s Feb. 25, 2021 (Attachment Two-A); Jan. 28, 2021 (Attachment Two-B); Jan. 19, 2021 (Attachment Two-C); and Nov. 17, 2020 (see NAIC Proceedings – Fall 2020, Financial Condition (E) Committee, Attachment Three) minutes, with the addition of Mr. Spudeck to the attendee list for the Feb. 25 meeting. The motion passed unanimously.

2. Continued Discussion of the 2021 GCC Data Collection

Mr. Rehagen noted that a 2021 data collection is now being referred to as a 2021 Trial Implementation (Trial). He referred the Working Group’s attention to an updated data collection considerations attachment (Attachment Two-D) in the meeting materials. The document was originally presented during the Working Group’s Jan. 28 meeting. He stated that a survey was subsequently sent to all Working Group members and interested state insurance regulators. The survey posed questions related to the Trial, including selection process, submission and review deadlines, data year, and practical numbers of volunteers that could be included. Mr. Rehagen stated that 16 responses were received by the due date of March 5. He said that almost all of the responses came from Working Group members and that survey responses are reflected in the attachment.

Mr. Rehagen stated that the Purpose section at the beginning and the Related Considerations section at the end of the document reflected some of the input from the Working Group’s January meeting but otherwise have not changed much. He added that most of today’s discussion will be focused on the revisions to the other sections in the document. He then walked through each relevant issue addressed in the survey.

a. Process for Selecting Participants in the Trial

Mr. Rehagen said that based on the results of the survey, NAIC staff recommend following the same confidentiality process used for the 2019 field test and that 75% of the survey respondents supported this approach. There were no objections to this approach from Working Group members.

Mr. Rehagen said that NAIC staff could take the lead in establishing a list of potential volunteers, which then would be presented to each lead state for review and selection based on available resources. However, for the 2019 field test, potential volunteers were directed to contact their lead state to discuss participation. Ms. Belfi stated that more lead state involvement is preferred so that the number of volunteers could match resources to review submissions. She said she prefers that the canvass letter come from the Connecticut Insurance Department. Ms. Weaver asked whether what Ms. Belfi was suggesting would limit participation from groups that other licensed states might want to see. Ms. Malm said she has no problem with the NAIC compiling a list as long as the state insurance regulators had the final say on which groups could participate. Lou Felice (NAIC)
confirmed that Ms. Carey’s view was consistent with the NAIC’s intent. Ms. Berry stated that some groups want all contact to go through the Illinois Department of Insurance (DOI) rather than directly to the NAIC. Mr. Schrader agreed that the lead state should do the actual canvass for participants. Ms. Carey asked how the number of participants accepted by all lead states would match NAIC resources available to assist in the review of Trial submissions. Mr. Felice stated that most states responding to the survey indicated they could handle between two and four volunteers and that the NAIC could handle roughly 30 participants. He said that the NAIC could also provide limited assistance for additional participants that do not want the lead state to share data with the NAIC. Mr. Wolf noted that NAIC resources should prioritize internationally active groups that also participate in the insurance capital standard (ICS) aggregation method (ICS-AM) data collection exercise conducted by the International Association of Insurance Supervisors (IAIS).

In response to a question from Ms. Berry, Mr. Rehagen stated that the Trial would be open to groups beyond those who participated in the 2019 GCC field test depending on the resource capacity of each lead state.

Mr. Rehagen summarized the discussion by stating that he would work with NAIC staff to draft wording for a canvass letter that would then be sent by each lead state to select groups. The Working Group members agreed. Mr. Rehagen directed NAIC staff to draft the language and present it to him for review.

b. Due Date for Submissions and Data Year

Mr. Rehagen said that a majority of state insurance regulators responding to the survey supported starting the review of submission in June 2021 and that almost all state insurance regulators responding to the survey supported a default date for group data of Dec. 31, 2020.

Thomas Finnell (America’s Health Insurance Plans—AHIP) asked about shadow submission from groups not participating in the Trial but wanting to complete the GCC templates, specifically with regard to submitting questions as part of question-and-answer (Q&A) guidance published. Ms. Belfi said she supports involvement of such groups in the Q&A process. Mr. Felice stated that the NAIC would address questions from nonparticipants but suggested that all questions come through the group’s lead state rather than directly from the group.

Mr. Finnell, Keith Bell (Travelers Insurance) and Maria Gomez-Vock (American Council of Life Insurers—ACLI) expressed concern about groups’ ability to submit the Trial template with 2020 data by the end of June. Ms. Gomez-Vock also asked about the timeline for the 2021 ICS-AM data collection. Ned Tyrrell (NAIC) stated that the submission will be due at the end of August using 2020 financial data. Ms. Gomez-Vock suggested an August submission date for the Trial template. Mr. Wolf stated that the Trial submission should be received before the ICS-AM data in order to allow the NAIC sufficient time to review the Trial submission and provide feedback prior to the states reviewing the ICS-AM submission. Ms. Berry and Ms. Belfi agreed. Ms. Malm asked if an August submission date would leave enough time to complete the review and have a report by the Fall National Meeting. Ms. Mears asked if the June deadline could be retained but extended by the lead state based on requests by a participating group.

Mr. Rehagen asked if the Working Group prefers a fixed July 31, 2021, submission deadline or Ms. Mears’ suggestion. Ms. Belfi expressed support for a fixed July 31 submission date. Mr. Wolf and Mr. Eft agreed. Mr. Rehagen asked if the Working Group members agreed with a July 31 submission deadline for the Trial template using year-end 2020 data. There were no objections.

In response to a question about when the GCC would become effective, Dan Daveline (NAIC) stated that adoption into a state’s law would govern. However, it was not expected that such legislative action would occur in 2021. So, for most states, the GCC would most likely be effective for year-end 2022.

c. End Date for Review of Submissions

Mr. Rehagen said that about half of state insurance regulators responding to the survey thought the review should be completed by October. Some suggested earlier, and a few later. Mr. Rehagen expressed support for an October time frame as reasonable in order to possibly have results compiled and discussed by the Fall National Meeting.

d. Stress Tests
Mr. Rehagen stated that the data considerations attachment also included initial thoughts on stress testing that could be added to the Trial template. He asked for some initial feedback. Mr. Finnell stated that scenario testing might be overly complex for health groups. Mr. Bell stated that there are unique stresses for property/casualty (P/C) groups. Ms. Gomez-Vock suggested referring the stress testing issue out to a study group made up of state insurance regulators and industry representatives. Mr. Felice stated that the Trial stresses were intended to be used for the purpose of evaluating unintended consequences but not generally as permanent additions to the GCC template. Mr. Rehagen agreed. Mr. Finnell supported Ms. Gomez-Vock’s comments and suggested taking the issue offline for further detailed discussion.

3. Discussed Other Matters

Mr. Finnell repeated a prior request that the GCC instructions be edited for increased clarity. Mr. Felice stated that NAIC staff are completing edits, which will be presented during a future Working Group meeting. In response to a question from John DuBois (MassMutual), Mr. Rehagen clarified that the Working Group supports a July 31 Trial data submission deadline and a completion date of Oct. 31 for the review of the submissions.

Having no other business, the Group Capital Calculation (E) Working Group adjourned
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PROCEDURES OF THE FINANCIAL CONDITION (E) COMMITTEE’S GROUP CAPITAL CALCULATION WORKING GROUP IN CONNECTION WITH PROPOSED AMENDMENTS TO GCC TEMPLATE AND INSTRUCTIONS

The following establishes procedures and rules of the Financial Condition (E) Committee’s Group Capital Calculation Working Group with respect to proposed amendments to the NAIC GCC Template and Instructions.

1. The Working Group may consider relevant proposals to change the GCC Template and Instructions at the national meeting or designated interim meeting as scheduled by the Working Group.

2. All proposals for suggested changes and amendments shall use NAIC Proposal Forms and shall be stated in a concise and complete manner and include the appropriate blank and instruction modifications. The Proposal Form and its instructions are available online under related documents and resources at https://content.naic.org/cmte_e_grp_capital_wg.htm and should be emailed to the appropriate NAIC staff support.

The following guidelines apply:

• Any proposal that affects the GCC Template must be exposed by the Working Group by January 31 of the effective year of the change and adopted by the Working Group no later than April 30 of the effective year of the change.
• Any proposal that only affects the instructions or factors must be exposed by the Working Group by April 30 and adopted by the Working Group by June 30 of the current year.
• The Working Group may extend the June 30th adoption deadline for previously considered proposals regarding instructions or factors upon a super majority (two-thirds) consent of the Working Group members present where such extension can be no later than July 30th of the current year. This would be considered only in rare circumstances where urgency of such adoption is high.

An illustration of the proposed change to the GCC Template and Instructions should accompany the Proposal Form.

The Working Group will review the proposal and determine whether to receive the proposal and expose for public comment (initial exposure of at least 30-days) or whether to reject the proposal. The comment period ends at least 10 days prior to the next designated national or interim meeting of the Working Group. The Working Group will consider comments received on each proposal at its next meeting. Proposals under consideration may be deferred by the Working Group if there is general consensus among members that the proposal has merit but warrants additional work or input. However, the Working Group will limit the number of deferrals to two. The proposal must be acted upon by the third meeting, and absent action, the proposal is deemed to have been rejected and will be removed from the agenda. The Working Group may also refer proposals to other NAIC groups due to their technical expertise or for additional review. If a proposal has been referred to another NAIC group, it will be considered again in the form of a modified or new proposal after comments/recommendations are received.

3. Proposals filed with the appropriate NAIC staff support shall be considered at the next regularly scheduled meeting of the Working Group if the proposal is filed at least twenty days prior to the meeting. Items filed less than twenty days prior to a regularly scheduled meeting will be considered at the following regularly scheduled meeting.

4. The NAIC staff support shall prepare an agenda of all suggested proposals. The agenda will be posted one week prior to the scheduled meeting.

5. At each meeting, the Working Group will review comments that were received by the comment exposure due date for suggested proposals.

6. NAIC staff support will present to the Working Group a list of necessary non-substantive changes discovered in the process of implementing proposals, e.g., reference changes due to new SSAPs or required changes discovered in the process of implementing proposals. The Working Group will review these changes and may adopt the appropriate items at any regularly scheduled meeting. Such actions will be documented in the minutes of the Working Group. NAIC staff support may also request that the Working Group reconsider items adopted, if these items contain substantial errors.

7. The Working Group may, when deemed necessary, appoint an Ad Hoc Drafting Group to study proposals and/or certain issues.

8. The NAIC will publish each agenda approximately one week prior to each interim or national meeting (including proposals received for comment and comments received) on the NAIC Web site.
9. The NAIC will retain all current and subsequent adopted proposals on the Working Group website up to the publication date of November 1 for current and subsequent years.

10. The NAIC will publish the GCC Template and Instructions for the next subsequent year on, or about November 1 each year. NAIC staff support will post to the NAIC Web site any subsequent corrections to these publications.
## Group Capital (E) Working Group

<table>
<thead>
<tr>
<th>DATE:</th>
<th>FOR NAIC USE ONLY</th>
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</thead>
<tbody>
<tr>
<td>CONTACT PERSON:</td>
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<tr>
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<td>Year</td>
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<td>ADDRESS:</td>
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</table>

### IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- [   ] GCC Template
- [ ] GCC Instruction

### DESCRIPTION OF CHANGE(S)

### REASON OR JUSTIFICATION FOR CHANGE **

Additional Staff Comments:

** This section must be completed on all forms.  
Revised 7-2021
Group Capital (E) Working Group
GCC Proposal Form

1. Complete this form for EACH proposal to modify GCC documents.
2. Under “Identification of Sources and Form(s)/Instructions to Change”, mark all appropriate boxes for the forms or instructions that apply.
3. Under ”Description of Changes”, state in specific terms the changes to be made for this proposal. Include the line(s) to be changed, as well as the Page number(s), and the Paragraph or Item number(s), or other identification and specific reference to items to be changed.
4. Under ”Reason or Justification for Change”, state in specific terms the enhancement to the GCC to be derived from this proposal.
5. All attachments should be presented in Word and/or Excel format wherein new language is underscored and deletions struck through.
6. Original forms, etc., are available from NAIC staff support for the GCC Working Group.
7. All Submission Forms and Attachments must be Typed and Submitted electronically directly to the NAIC staff support.
MEMORANDUM

TO: John Rehagen (MO), Chair of the Group Capital Calculation (E) Working Group

FROM: Dan Daveline, NAIC Staff

DATE: July 6, 2021

RE: Items for Consideration

This memorandum is intended to summarize two items for consideration by the Working Group in the coming months. The first item relates to the topic of consistency between the GCC and RBC and visa versa. The second item relates to the presumed need for a maintenance process similar to that which exists for RBC today.

As it relates to the first item, during the development of the GCC, the Working Group was clear in its desire to develop an aggregation methodology built on RBC. Most of that is specifically addressed by the fact that the GCC utilizes the required capital from RBC just as RBC already utilizes the required capital from its U.S. insurance subsidiaries. However, the GCC also takes the same approach with non-U.S. insurers where it utilizes the required capital from a group’s non-U.S. insurance subsidiaries. Also, during the development of the GCC, the Working Group and interested parties strived to develop a GCC that treated similar assets similarly. In fact, it was for this reason that the factors used by the GCC as it relates to non-financial entities are based upon a similar result that an insurance group would obtain if it were held by a U.S. insurance company. Given this desire for consistency during the development of the GCC, we wanted to bring to the Working Group a list of items where decisions were made by the Working Group for which similar changes to RBC may be deemed desirable to regulators. This memorandum and corresponding possible referral memorandum are included only for your consideration, and even if the Working Group does want to consider such a referral, timing of doing so would be at the will of the Working Group. In an effort to assist the Working Group in considering such a matter, a draft referral has been drafted that could be exposed for comment as a means to begin such conversations. A longer exposure (e.g., 60-90 days) may be deemed desirable given the current Trial Implementation and that such potential changes have never been specifically considered but rather spoken of more generally during the development of the GCC.

As it relates to second item, certainly the GCC Trial Implementation is intended to result in improvements in the clarity of the GCC Instructions and related Template. While it is expected that such improvements may be in place by the end of 2021, leaving plenty of time for implementation by any companies subject to the GCC for year-end 2022, now may be the time to introduce maintenance procedures. Such procedures should be similar to RBC and set forth among other things, the need for any modifications to be in place by the end of June each year, thereby allowing time for preparers to consider for the coming annual filing. To that end, we have taken the existing such documents that exist for RBC and have modified them slightly to replace the RBC terminology with the GCC terminology and or other slight modifications needed (e.g., removing information on the specified formula impacted). We think similar procedures and documents should be considered by the Working Group in the future, and therefore exposure of these “maintenance documents” may be appropriate at this time.
time. Related to this topic, and the need for such document, the Working Group should be aware that some members of the industry believe that the GCC and the Working Group should be rolled under the Capital Adequacy (E) Task Force. While regulators may determine such action is appropriate, we think it is appropriate that the Working Group remain in existence and remain a group reporting directly to the Financial Condition (E) Committee until the GCC is fully implemented and the work is moves to be more “ongoing maintenance.” This recommendation is made under the assumption that the GCC will not have the same degree of ongoing modifications that each of the RBC formulas do, but that continued improvements to the instructions may be needed.
MEMORANDUM

TO: Judith L. French (OH), Chair of the Capital Adequacy (E) Task Force

FROM: John Rehagen (MO), Chair of the Group Capital Calculation (E) Working Group

DATE: TBD, 2021

RE: Group Capital Calculation Treatment Regarding Certain Subsidiaries

As you may know, the Group Capital Calculation (GCC) utilizes an aggregation methodology where it accumulates the available capital and required capital of a group’s subsidiaries and affiliates. More specifically, as it relates to insurance subsidiaries, it accumulates the available capital and company action level RBC from the RBC formula for U.S. insurers and utilizes the same methodology for non-U.S. insurers. In doing so, it also does not require insurance groups to “de-stack” non-insurance and non-financial subsidiaries reporting directly or indirectly from the parent insurance company’s available capital and company action level RBC.

This decision to not require de-stacking of non-insurance and non-financial subsidiaries was largely done as a means to respect existing regulatory authority. However, it was also done as a means to address another point made by some regulators and some interested parties during the development of the GCC, which is that the GCC and RBC should treat similar assets similarly. In fact, it was for this reason that the factors used by the GCC as it relates to non-financial entities are based upon a similar result that an insurance group would obtain if it were held by a U.S. insurance company. However, its also to this point of desired consistency between the GCC and RBC that we recommend the Task Force to consider at some point in the future if a change should be made to RBC regarding the treatment of insurance company subsidiaries and financial entities within RBC. Specifically, we request the Task Force consider whether it would be appropriate for RBC to adopt the following (or similar) guidance from the GCC.

**Insurance Company Subsidiaries (Directly and Indirectly Owned) Required Capital**

**U.S. insurance subsidiaries** - Report the capital required by RBC at the Company Action Level (consistent with today).

**U.S. Non-RBC insurance subsidiaries** - For those insurance that do not have an RBC formula, the minimum capital per state law should be used. This specifically includes mortgage guaranty insurers, financial guaranty insurers, and other companies that do not have an RBC (e.g., HMOs regulated by the California Department of Managed Care).

**Title Insurance Companies** - Use 200% of the required level of reserves carried by the insurance company.

**Non-U.S. insurance subsidiaries** - Use the local capital requirement as specified by the regulator in that jurisdiction at a Prescribed Capital Requirement (PCR) level. The following provides more specific guidance on what meets the definition for the identified jurisdictions:

- **European Union** - Use the Solvency II Solvency Capital Requirement (SCR) as the PCR.
Australia - Use 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.

Bermuda - Use the “Enhanced Capital Requirement” (ECR) which is the legal entity PCR for medium and large commercial insurers and is calibrated to Tail VaR at 99% confidence level over a one-year time horizon.

Hong Kong - 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.

Japan - Use the solvency margin ratio of 200%.

Korea - Use 100% of risk-based solvency margin ratio.

Singapore - Use 120% of total risk requirement (i.e., capital requirement).

China Taipei - Use 200% of the LICAT Base Solvency Buffer.” The carrying value should include surplus allowances and eligible deposits.

Canada life - Use the MCT capital requirement at the target level.

South Africa - Use 100% of the SAM SCR.

Non-Insurance Financial Entities Subject to a Specified Regulatory Capital Requirement

Banks and other depository institutions - Use the unscaled minimum required by their regulator. For U.S. banks, that is the Office of the Comptroller of the Currency (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.

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

Non-Insurance Financial Entities NOT Subject to a Specified Regulatory Capital Requirement

Asset Managers, Registered Investment Advisors and All other Financial Entities - Use the capital calculation specified below based the level of risk assigned to the entity by applying the material risk principles defined below. However, asset managers and investment affiliates (not qualifying to be treated as non-financial entities as defined below) will be reported at either medium or high risk. In certain cases, these entities may be subject to a layer of regulation (e.g., SEC or FINRA) but are not generally subject to a specified capital requirement.

High Risk: 10% x 3-year average revenue
Medium Risk: 5.0% x 3-year average revenue
Low Risk: 2.5% x 3-year average revenue

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. For purposes of the GCC, entities that are not regulated by an insurance or banking authority [e.g., the U.S. Securities and Exchange Commission (SEC) or the Financial Industry
Regulatory Authority (FINRA)] will be considered as not subject to a specified regulatory capital requirement.

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 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. In the case where an insurer sets up multiple subsidiaries for this purpose, the 90% may be measured in the aggregate for all such entities. Similarly, in the case of collective investment pools (e.g., private funds, commodity pools, and mutual funds) the 90% may be measured individually, or in the aggregate for each subtype (e.g., private funds, commodity pools, and mutual funds).

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.

**Material Risk**: Risk that is of a magnitude that could adversely impact such that the ability to pay policyholder claims or make other policy related payments (e.g., policy loan requests or annuity distributions) may be impacted.

To determine whether an entity poses material risk, 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 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 insurer should be able to support its determination of material risk if requested by the 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 insurer might be exposed to that risk and means to mitigate that risk.

Primary Considerations:

- Past experience (i.e., the extent to which risk from the entity has impacted the insurer over prior years/cycles).
- The existence of intragroup cross-support mechanisms (as defined below) between the entity and
the insurer.
• The means by which risk can be transmitted, i.e., the existence of sufficient capital within the entity itself to absorb losses under stress.
• The degree of risk correlation or diversification between the subject entity and the other entities owned by the insurer (e.g., where risks of one or more entities 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 insurer.
• The existence and relative strength or effectiveness of structural safeguards that could minimize the transmission of risk.

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

• The activities of the entity and the degree of losses that the entity could pose to the insurer 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. 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.
## COMPARISON OF RBC VS. GCC TREATMENT OF AFFILIATES

<table>
<thead>
<tr>
<th>Affiliate Type RBC</th>
<th>Corresponding Affiliate Type - GCC</th>
<th>RBC Treatment</th>
<th>GCC Treatment in Group Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S RBC filer - Direct</td>
<td>Same</td>
<td>TAC and RBC*</td>
<td>Same (*Mutual Groups Do not De-stack)</td>
</tr>
<tr>
<td>U.S RBC filer - Indirect</td>
<td>Same</td>
<td>TAC and RBC</td>
<td>Same</td>
</tr>
<tr>
<td>HC in Excess of U.S. Insurance Affiliates</td>
<td>Non-insurance / Non-financial Affiliate</td>
<td>Stat BACV / Equity charge that is Formula specific</td>
<td>Same for Mutual Group or individual RBC filer (Do not De-stack)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>For Other Entity Types: Stat BACV / Average Industry-wide post covariance Equity charge that is dependent on predominant type of insurers in the group and determination of material risk</td>
</tr>
<tr>
<td>Investment Subsidiaries</td>
<td>Non-insurance / Non-financial Affiliate</td>
<td>PRBC and HRBC: Stat BACV / Equity charge that is Formula specific LRBC: Investment Type RBC applied to investments held</td>
<td>Same for RBC filer (Do not De-stack)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>For Other Entity Types: Stat BACV / Average Industry-wide post covariance Equity charge that is dependent on predominant type of insurers in the group</td>
</tr>
<tr>
<td>Alien Insurers – Direct</td>
<td>Same</td>
<td>PRBC and HRBC: Stat BACV / Equity charge that is Formula specific LRBC: Zero /Zero</td>
<td>For All Entity Types: Regulator Available Capital / Required PCR level Capital</td>
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<tr>
<td>Alien Insurers - Indirect</td>
<td>Same</td>
<td>Same as Direct</td>
<td>Same as Direct</td>
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<tr>
<td>Investment in Upstream Affiliates</td>
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<td>Stat BACV / Equity charge that is Formula specific</td>
<td>Entity Type Dependent</td>
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<tr>
<td>Insurers not Subject to RBC</td>
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<td>Stat BACV / Equity charge that is Formula specific</td>
<td>For All Entity Types: Stat BACV / Capital Requirements vary by insurer type - Per GCC Instructions</td>
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<td>Financial Affiliates Subject to a Regulatory Capital Requirement</td>
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<td>Stat BACV / Equity charge that is Formula specific</td>
<td>For All Entity Types: Regulator Available Capital / Required PCR level Capital</td>
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<tr>
<td>Other Financial Affiliates</td>
<td>Same</td>
<td>Stat BACV / Equity charge that is Formula specific</td>
<td>For All Entity Types: Stat BACV / Risk Level specific Capital Charge applied to 3 yr. average gross revenue</td>
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<td>Non-insurance / Non-financial Affiliates</td>
<td>Same</td>
<td>Stat BACV / Equity charge that is Formula specific</td>
<td>Same for Mutual Group or individual RBC filer (Do not De-stack)</td>
</tr>
</tbody>
</table>

For Others:
Stat BACV / Average Industry-wide post covariance Equity charge that is dependent on predominant type of insurers in the group and determination of material risk