

A background image of a financial chart with a white line graph and vertical bars, overlaid on a blue gradient. The chart shows an overall upward trend with some fluctuations.

GOES (E/A) Subgroup: Model Governance

May 1st, 2024

NAIC  NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS



Agenda

1. Roles and Responsibilities - Including Sign-off
2. Next Steps

Roles and Responsibilities - Overview

Define and document responsibilities for **all** stakeholders involved in the **ongoing production** of scenarios

GOES (E/A) Subgroup through NAIC Committee Structure

NAIC staff

Economic Scenario Generator Vendor, e.g., Conning

Subject Matter Experts (industry, Academy, and others)

Interested Parties

Roles and Responsibilities - GOES (E/A) Subgroup

2024 Charges: The Generator of Economic Scenarios (GOES) (E/A) Subgroup of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:

- 1. Monitor that the economic scenario governance framework is being appropriately followed by all relevant stakeholders involved in scenario delivery.**
- 2. Review material economic scenario generator updates, either driven by periodic model maintenance or changes to the economic environment, and provide recommendations.**
- 3. Regularly review key economic conditions and metrics to evaluate the need for off-cycle or significant economic scenario generator updates and maintain a public timeline for economic scenario generator updates.**
4. Support the implementation of an economic scenario generator for use in statutory reserve and capital calculations.
- 5. Develop and maintain acceptance criteria that reflect history as well as plausibly more extreme scenarios.**

Additional Details:

- GOES (E/A) Subgroup will own the model governance framework and be responsible for approval of all updates
- GOES (E/A) Subgroup will direct NAIC Staff as necessary to effectuate aspects of the model governance framework

Roles and Responsibilities - NAIC Committee Structure

Executive (EX) Committee

Life Insurance and Annuities (A) Committee

Financial Condition (E) Committee

Life Actuarial (A) Task Force

Life RBC (E) Working Group

GOES (E/A) Subgroup

- Recommended changes to the Valuation Manual and Life RBC Blanks/Instructions related to the GOES will be considered for adoption by the Life Actuarial (A) Task Force and Life RBC (E) Working group before being considered by their respective parent committees
- In addition to having the final approval on changes from subordinate groups, the Executive (EX) Committee will allocate funding for the NAIC GOES initiative.

Roles and Responsibilities - Conning

Monthly Scenario Production: Conning will produce 10,000 scenarios as of each month-end.

- This process must be completed in time to post scenarios and related tools by 4:00 PM Central Time on the first business day of the following month.
- Validation reports and additional statistics are expected to be delivered simultaneously with the scenario files.
- A link to the scenario files, **validation reports**, statistics, related tools, documentation, and training materials will be provided on the NAIC/Conning scenario website. Access will be provided for End Users regardless of whether they have licensed Conning's software.

Sign-off: Conning will attest to NAIC staff that they performed the agreed-upon validation steps ahead of posting the scenario files and post a validation report with each monthly scenario release.

Roles and Responsibilities - Conning

Periodic GOES Recalibration: Conning will develop parameter updates at a frequency determined by the state regulators [*NAIC Staff Recommendation: 5 years*]. The process will include the following steps:

1. Perform research on potential changes as requested by state regulators.
2. Document and present potential changes to state regulators for exposure and adoption. Attend regulator meetings as needed to respond to questions/comments received during the exposure period. Materials to be provided for consideration of changes should include: a) discussion on how changes were vetted for complex interactions between parameters, b) attribution analysis showing the impact of each change, and c) documentation on the above in sufficient detail to allow independent review.
3. Reflect final adopted updates in a timely manner and provide evidence to the NAIC that they were made appropriately.
4. Update documentation impacted by any changes.

Roles and Responsibilities - NAIC Staff

Model Governance Framework:

- Act under the direction of the GOES (E/A) Subgroup to implement and monitor the model governance framework
- Bring governance issues to GOES (E/A) Subgroup for consideration

Monthly Scenario Production:

- Monitors the effectiveness of the validation procedures and recommends changes to the GOES (E/A) Subgroup as necessary

Periodic GOES Recalibration:

- Plan for periodic recalibrations with Conning
- Bring results of recalibrations to public GOES (E/A) Subgroup meetings

Roles and Responsibilities - Subject Matter Experts and Interested Parties

Model Governance Framework:

- Bring governance issues to GOES (E/A) Subgroup for consideration

Monthly Scenario Production:

- Report any issues with scenario delivery to GOES (E/A) Subgroup and NAIC Staff

Periodic GOES Recalibration:

- Review results of recalibration and provide independent feedback in public sessions of GOES (E/A) Subgroup

Next Steps

1. NAIC Staff and Conning Draft Monthly Scenario Generation Validation Steps
2. NAIC Staff Draft Model Governance Framework