Date: 1/28/22

Virtual Meeting

GROUP CAPITAL CALCULATION (E) WORKING GROUP
Wednesday, February 9, 2022
4:00 – 5:00 p.m. ET / 3:00 – 4:00 p.m. CT / 2:00 – 3:00 p.m. MT / 1:00 p.m. – 2:00 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
John Turchi/Chris Joyce	Massachusetts	Jamie Walker	Texas
Judy Weaver	Michigan	Doug Stolte/David Smith	Virginia
Kathleen Orth	Minnesota	Amy Malm	Wisconsin

NAIC Support Staff: Dan Daveline/Jane Ren/Ned Tyrrell

AGENDA

1. Consider Adoption of its 2021 Fall National Meeting Minutes—*John Rehagen (MO)* Attachment A

2. Discuss Comments Received on Possible Changes to the 2022 GCC—*John Rehagen (MO)* Attachment B

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

4. Adjournment

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Draft Pending Adoption

Draft: 11/24/21

Group Capital Calculation (E) Working Group
Virtual Meeting (*in lieu of meeting at the 2021 Fall National Meeting*)
November 22, 2021

The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met Nov. 22, 2021. The following Working Group members participated: John Rehagen, Chair (MO); Kathy Belfi, Vice Chair (CT); Susan Bernard (CA); Philip Barlow (DC); Ray Spudeck (FL); Carrie Mears (IA); Susan Berry (IL); Roy Eft (IN); Christopher Joyce (MA); Judy Weaver (MI); Kathleen Orth (MN); Jackie Obusek (NC); David Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman and Tim Biler (OH); Greg Lathrop (OR); Melissa Greiner (PA); Trey Hancock (TN); Jamie Walker (TX); and Doug Stolte and David Smith (VA).

1. <u>Adopted its Nov. 8, Sept 13, and Summer National Meeting Minutes</u>

The Working Group met Nov. 8 and Sept. 13 and took the following action: 1) exposed a staff memorandum that includes possible group capital calculation (GCC) modifications for a public comment period ending Dec. 23; 2) exposed until some clarifying changes to the GCC instructions that were previously provided to the Working Group and the public as part of the GCC Trial Implementation for a public comment period ending Dec. 8; 3) discussed comments on maintenance documents and proposed revisions; 4) discussed comments on a draft referral to the Capital Adequacy (E) Task Force; 5) adopted recommended changes to the *Financial Analysis Handbook* that incorporate guidance on using the GCC and subsequently distributed it to the Financial Analysis Solvency Tools (E) Working Group.

Ms. Belfi made a motion, seconded by Mr. Eft, to adopt the Working Group's Nov. 8 (Attachment Two-A), Sept. 13 (Attachment Two-B) and July 27 (See *NAIC Proceedings – Summer 2021, Financial Condition (E) Committee, Attachment Two)* minutes. The motion passed unanimously.

2. <u>Discussed Results of the GCC Trial Implementation</u>

Ned Tyrrell (NAIC) provided a summary of the GCC Trial Implementation (Attachment Two-C). He emphasized that the summary was focused on those particular data points that might be helpful in the Working Group's decisions on whether to make modifications to the template and instructions as they relate to issues identified during its Nov. 8 meeting. He noted that the summary includes data that has been anonymized, which is important in making sure a reader of the information can understand the data but unable to determine a specific company's results. He described the different groupings used through the presentation, including by ownership type or sector, where composite represents an insurance that has a mixture of life and property/casualty (P/C) business. Mr. Tyrrell described the graphs used to provide the distribution of data, including the points used to provide averages and percentiles. He noted that the summary slides are all at the level of 200% of authorized control level risk-based capital (RBC). He also noted the large dominance of U.S. insurance business in most of the participants. Additionally, Mr. Tyrrell noted the relative low number of insurers that are affected by the debt limits, the other debt category and even the stress test, which was extreme and was intended to test the sensitivity of the debt limits.

Mr. Tyrrell discussed the data on non-risk jurisdictions, noting there as well that few of the insurers were affected by these types of insurers within their groups under both the Trial Implication use of 100% charge on the book value, or essentially a zeroing out of available and required capital, or the Nov. 8 meeting proposal of a 50% charge on the book value of such entities. He also discussed how the senior debt reported in the slides represented the allowable senior debt in the companies' specific GCC calculations. Finally, he discussed the current proposal discussed during the Working Group's Nov. 8 meeting that suggests the charge for asset managers be changed to the capital requirement from their regulator and just showed how the issue may be material to some of the insurers just from a simple standpoint of the size of such operations in the makeup of the group, but that it is less material for other volunteers. He noted that additional data would be needed to dig into the impact more specifically.

Dave Neve (Global Atlantic) asked about the difference between the GCC ratios on slide 6 and slide 10. Mr. Tyrell noted it was a good catch to see the differences, and he said the reason is because one is weighted (slide 10) while the other (slide 6) is not. More specifically, on slide 10, the ratio is calculated by adding up the available capital and the required capital, and the available capital is divided by the requirement capital. Mr. Neve also asked about the impact of scalars. Mr. Tyrrell noted this was looked at but not included in the summary since there is currently not a decision before the Working Group on the matter. He described that with the excess scalar method, for most volunteers it actually does not make much of a difference. He noted, however, that the results are consistent with the intent, which is to capture the difference between those systems with less reserve conservatism versus more reserve conservatism.

3. Discussed Other Matters

Mr. Rehagen reminded the participants of the Working Group's two current exposures and that his intent is meet in early January to consider comments from those two exposures.

Having no further business, the Group Capital Calculation (E) Working Group adjourned.

Attachment Two-A-11-8-21 Meeting Minutes (1).docx

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Group Capital Calculation (E) Working Group

FROM: Dan Daveline, Ned Tyrrell, and Jane Ren

DATE: Nov. 8, 2021

RE: Staff Proposed Changes as a Result of Trial Implementation

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While the 2019 GCC Field Test was invaluable in finalizing major changes to the GCC Template and Instructions before implementation, the 2021 Trial Implementation allowed preparers and reviewers of the GCC to focus more on the nuances of the GCC. As expected, a number of changes to the instructions were suggested during the completion of the template based upon comments and feedback from preparers, which the Working Group has been made aware of with each new release of the same during the trial period. Such changes are included in today's materials, and we request the Working Group to expose these updated instructions with these modifications. The purpose of this memorandum however is to highlight more material changes, or potentially material changes to the extent the Working Group agrees with the staff recommendation. The following summarizes such changes.

Due to the fact that in accordance with draft procedures for the Working Group, template changes need to be adopted earlier in the year before instructional changes, we have listed those that require template changes first so they can be prioritized in discussions.

Template Changes

1. **Eliminate Stress Scenario-** While some Working Group members may want to consider adding informational stresses to the GCC in the future, the current sentiment among the Working Group seems to suggest that should only be considered after the GCC is fully implemented. Based upon that, it seems appropriate to remove the current stress from the template and the instructions.

   AHIP
   AHIP agrees with Staff Memo's proposal to eliminate the stress scenarios in the template. Should the working group consider adding those scenarios back to the template later (which is stated as a possibility in the Staff Memo), we would expect that to be subject to another exposure process at that time and that we would again have an opportunity to comment.

   ACLI
   ACLI is generally supportive of the proposed changes, however, we do have some comments to provide in relation to the Debt Allowance, Schedule 1 Considerations, and Non-Risk Sensitive Jurisdictions.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2. **Debt Allowance-** One of the reasons the industry proposed the idea of including stress testing in the GCC for the Trial Implementation was to understand the sensitivity of the debt allowance after an economic downturn, therefore addressing its procyclicality. While it's true that a 30% decline in the capital of a group can impact the debt allowance of the GCC in certain situations, thereby reducing the GCC ratio, NAIC staff does not believe this is a sufficient cause for increasing the debt allowance. As a reminder, the debt allowance is a proxy for the amount of subordinated capital embedded within the GCC and we believe the current allowance approximates this proxy well. A number of volunteers participating in the Trial Implementation suggested the 30% decline was generally not a very reasonable stress given past performance of the industry during previous financial crisis (e.g., 2008/2009 great recession). However, some of those volunteers pointed to monetary policy during a financial crisis which actually encourages entities of all industries to increase debt as a means to push back against the negative impact. They pointed to the industry's issuance of debt immediately after COVID and suggested the GCC should not go against these policies. NAIC staff does not disagree in principle, and would suggest a better way to address these points is through a simple annual 10% cap that enables the debt allowance to increase 10% from the prior year, but only during a period where the Federal Reserve has taken a public position of reducing the cost of borrowing through reducing interest rates either by lowering the Federal Funds rates or by purchasing debt instruments (additional if applicable). However, the 10% increase must be reversed once the Federal Reserve has taken action to reverse its trend (e.g., increase rates or reduce purchasing debt instruments). Perhaps this could be formally implemented only upon issuance of "guidance" by the Working Group that is posted to the Website. The details of whether this is appropriate and how it should be considered for adoption should first be determined by the Working Group. NAIC Staff would welcome proposed changes to the GCC instructions and template that could achieve this type of approach or any other similar approach that reduces the perceived procyclicality of the GCC limitation in this area.

AHIP

The Staff Memo proposes that the debt allowance currently provided in the GCC Instructions be allowed to increase 10% from the prior year, but only during a period where the Federal Reserve has taken a public position of reducing the cost of borrowing through reducing interest rates either by lowering the Federal Funds rates or by purchasing debt instruments; the 10% increase would then be reversed once the Federal Reserve has taken action to reverse its trend. AHIP is concerned that the proposed 10% decrement in capital when the Federal Reserve reverses its action could have the same systemic impacts of triggers based on rating agency downgrades as was experienced during the financial crisis. The Financial Analysis Handbook guidance that was recently adopted on the use of the GCC suggests that regulatory analysts focus on year-over-year GCC consistency to identify red flags that would trigger a deeper level of regulatory review of the GCC, both of capital resources and of calculated capital. The subject proposal could trigger unintended "red flags" and a deeper regulator review based solely on the toggling of the debt allowance, rather than an underlying economic cause impacting the group. As new debt is issued or debt retired, the true capital picture may thus be clouded by change to the debt allowance. Therefore, AHIP does not support the proposed changes to the debt allowance presented in the Staff Memo.

ACLI

In 2020, the NAIC agreed to increase the overall debt cap from 50% to 75% but left the subcategory caps unchanged: (1) Senior debt cap remains at 30%; (2) Hybrid debt cap remains at 15%. ACLI suggests that the subcategory caps should instead be set at a percentage of the overall cap: (1) Senior debt cap should be 60% of the overall cap (i.e., the original 30%/50%); and (2) Hybrid debt cap should be at 30% of the overall cap (15%/50%). Having the subcategories as a percentage of the overall cap allows the subcategories to adjust automatically as the overall cap adjusts up and down.

3. **Eliminate Sensitivity Test Related to "Other Debt"** – We recognize that some members of the industry continue to believe that the debt allowance should include "other debt" beyond "senior debt" and "hybrid debt". However, NAIC staff continues to believe that the approach already adopted by the Working Group to have an individual limit for each of those items (30% and 15% respectively) and the overall cap of those two is appropriate for the previous points made regarding how the debt allowance is a proxy for subordinated capital already within the insurance companies. With the previous consideration about adding an additional 10% annual change meeting the criteria, we further support no change to allow other debt. This should be further deliberated by the Working Group before taking action on this issue and input from interested parties may assist the Working Group in such a deliberation.

ACLI

ACLI is generally supportive of the proposed changes, however, we do have some comments to provide in relation to the Debt Allowance, Schedule 1 Considerations, and Non-Risk Sensitive Jurisdictions.

4. **Non-Risk Sensitive Foreign Jurisdictions-** One recommendation that has already been made by NAIC staff and regulators during the Trial Implementation is a different approach related to non-risk sensitive foreign jurisdictions. In summary, these are jurisdictions whose capital requirements are not responsive to the magnitude and/or nature of an insurer's risk profile. During the Trial Implementation, a conservative approach was used on this matter, and the template included a capital charge equivalent to 100% of the carrying value of the non-U.S. insurer, which is similar in the life RBC formula today. However, to be clear, since 2010, the life formula has required companies to use a zero value for foreign affiliates statutory carry value is excluded from both total adjusted capital (the numerator) and RBC (the denominator) of the RBC ratio. This was done to level the playing field between stock and mutual insurers on the basis that most stock insurers where such entities are owned by a sister non-insurance holding company rather than the U.S. life insurance company.

NAIC staff suggestion during the Trial implementation was that groups with such entities consider using a lower factor, such as 50% of the carrying value, and be given the option to calculate the insurers capital requirement using RBC (with reasonable simplifications/estimates) if that is preferred to the 50% carrying value. At this point we have included this option in the revised instructions pending approval with exposure of such a substitute.

ACLI

ACLI members have varying perspectives on this issue. Some are comfortable with lowering the risk-charge for non-risk sensitive jurisdictions from 100% to 50%. Others believe that to uphold credibility in the GCC, non-risk sensitive jurisdictions should apply an RBC-type charge in the GCC or default to a 100% factor absent any other information. To move materially away from a 100% factor should require analysis and an explanation for why a different factor, in this case 50%, is more appropriate. They do agree with the proposed alteration to allow groups to calculate the insurer's capital requirement using RBC, with simplifications, if that is preferable to the 100% risk charge approach.

There is potentially room for a compromise on this issue, where the 50% factor is maintained in the GCC Trial Implementation Instructions, but it is clearly labeled as an interim factor until more thorough analysis can be done on the appropriate factor(s) for non-risk-based jurisdictions. Some key items of the GCC are yet to be finalized and/or may change over time, such as scalars and calibration levels. The non-risk-based jurisdiction factors could be added to that list.

5. **Schedule 1 Related Questions/Considerations**-The last item actually includes a number of separate questions or considerations, but they are all related to Schedule 1 and its purpose. More specifically, from the onset, the regulators have always stated they would like a way to make sure that the GCC includes all of the entities included in Schedule Y. Said differently, as drafted today, the Schedule 1 requires all entities to be listed in the Schedule Y, thereby providing that starting point the regulators requested. However, the instructions do provide one exception, and that is for Schedule A and BA entities, since those entities are already reflected in the RBC, and they don't result in double counting of capital. Instead, these entities are listed in the Q&A tab, thereby having the effect of keeping the Schedule 1 cleaner, but still allowing a way for the regulator to reconcile back to the Schedule Y if they chose to do so. The question is whether similar exceptions in Schedule 1 should be provided for other entities. This would be for simplicity and to allow the regulator to focus on the entities more easily in the group on that matter. NAIC staff welcomes input on these considerations. The following presents such types of entities to the Working Group in a way to see if they would like a different approach:

a. **Other entities included in the RBC-**The GCC does not require non-insurance/non-financial entities to be destacked, but they are required to be included in Schedule 1 and certain limited information included in the Inventory. The question is whether a listing of these entities could be included in the Q&A similar to the Schedule A and BA entities. The idea being that would keep the Schedule 1 cleaner, but for anyone wanting to reconcile back to the Schedule 1, they could do so with the listings in the Q&A. The NAIC raises this issue in case the current approach results in confusion by the preparer, or even for the reviewer since the inventory does not include any calculated capital amounts for these entities.

b. **Consideration of Entities "Not material" or "Excluded" from the GCC ratio**-The GCC currently requires the group to list out its entities on Schedule 1, then mark each as either "Included" or "Excluded" for the purpose of calculating the GCC ratio. Specifically, for those that do not meet the GCC definition of material, the entity can "Exclude" them, however they have to be marked as such. The regulator then reviews the same listing and determines for themselves if each entity should be "Included" or "Excluded". It's likely that in the majority of situations, once a regulator determines an entity may be "Excluded" from the ratio, that they will likely be excluded in the future. This is based upon the fact that the general reason for exclusion tends to be driven by the nature of the entity and its risks, and not its size. However, to clarify, not all entities that are once approved to be excluded always will be, and for that reason there will be a continued need for the GCC to provide information that allows the regulator to decide whether they can be excluded. The question is whether such information could be different than what is provided in Schedule 1, and, if so, whether perhaps such information could be reported elsewhere (e.g., Q&A tab). This would reduce the number of entities on Schedule 1 and perhaps help the regulator to focus on material entities in that schedule. The NAIC raises this issue for two reasons; 1) whether a different approach would allow for a more efficient review of the GCC by the regulator; 2) whether the current approach results in confusion by the preparer.

AHIP

Relating to "non-insurance/non-financial entities" and "not material/excluded entities," AHIP prefers the current template structure, which has all Schedule Y entities listed in Schedule 1. Including all entities in Schedule 1 provides better controls to ensure completeness and accuracy. Members report that the control process becomes more complicated if they have multiple lists of entities in different places, and especially if entities move from one list to another.

ACLI

ACLI supports the streamlining of Schedule 1, however, we want to ensure that regulators have the detail they need for entities that are not already included in the

GCC via the parent insurer's RBC. Our recommendation would be to treat immaterial non-insurance/non-financial entities on Schedule Y of an RBC-filing US insurer like non-financial BA and A entities and create a place for them to be identified on Input 6. That way, while they are not listed on Schedule 1, they would continue to receive the same treatment as under the parent insurer's RBC.

i. **Sensitivity Analysis**-There is currently a sensitivity analysis related to "Excluded" entities to help the regulator understand the impact of the excluded entities on the GCC. The question is whether this should be removed. To the extent these excluded entities were no longer included in the Schedule 1 and Inventory, this sensitivity analysis could not be calculated, again, suggesting the need for some type of information to still be captured elsewhere in the GCC.

Instruction Only Changes

6. **Asset Managers** – The GCC currently considers asset managers as financial entities, and therefore subject to a factor of either 2.5%, 5.0%, or 10% of 3-year average revenue (same as other financial entities) based upon the material risk principles defined in Section II of the instructions. Some members of the industry have suggested that asset managers should instead utilize the regulatory capital standards imposed by the Financial Industry Regulatory Authority (FINRA). NAIC staff have always believed that while the base GCC requirements should generally remain the same as the principles under which they have been developed by the Working Group, it's only natural that it evolves over time to carve out new factors for specific industry's where a different factor can be supported. As it relates to the current GCC, this would include either specific financial entities having a different factor than those noted above, or potentially even for non-insurance/non-financial industries, a different factor than is used for all other non-insurance/non-financial entities. Additionally, perhaps more specific to the point, one of the GCC principles is that it defers to the specific capital requirements of the regulator of the entity, which in this case may include FINRA to the extent they have specific capital requirements. NAIC staff attempted to gather information on such requirements through the review of FINRA 15c3-1, but it was unclear how such capital requirements practically work as they seem to be more principle-based. NAIC Staff would recommend the Working Group consider such a request, but only upon deliverance of documentation, including examples, that enable the regulators to understand. This does not need to be a full presentation to the Working Group unless the members indicate such is needed but could instead be full documentation and time for the Working Group to ask questions.

ACLI

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ACLI is generally supportive of the proposed changes, however, we do have some comments to provide in relation to the Debt Allowance, Schedule 1 Considerations, and Non-Risk Sensitive Jurisdictions.

December 21, 2021

Dan Daveline
Assistant Director-Financial Analysis
National Association of Insurance Commissioners
Via email: ddaveline@naic.org

Group Capital Calculation (E) Working Group – Staff Memo of Proposed Changes to the GCC as a Result of Trial Implementation

Dear Mr. Daveline:

On behalf of AHIP's member plans, we welcome the opportunity to comment on the Staff Memo of Proposed Changes to the GCC as a Result of Trial Implementation (Staff Memo). Our comments follow and are arranged by the topics captioned in the Staff Memo:

Template Changes

1. Eliminate Stress Scenario – AHIP agrees with Staff Memo's proposal to eliminate the stress scenarios in the template. Should the working group consider adding those scenarios back to the template later (which is stated as a possibility in the Staff Memo), we would expect that to be subject to another exposure process at that time and that we would again have an opportunity to comment.

2. Debt Allowance – The Staff Memo proposes that the debt allowance currently provided in the GCC Instructions be allowed to increase 10% from the prior year, but only during a period where the Federal Reserve has taken a public position of reducing the cost of borrowing through reducing interest rates either by lowering the Federal Funds rates or by purchasing debt instruments; the 10% increase would then be reversed once the Federal Reserve has taken action to reverse its trend. AHIP is concerned that the proposed 10% decrement in capital when the Federal Reserve reverses its action could have the same systemic impacts of triggers based on rating agency downgrades as was experienced during the financial crisis. The Financial Analysis Handbook guidance that was recently adopted on the use of the GCC suggests that regulatory analysts focus on year-over-year GCC consistency to identify red flags that would trigger a deeper level of regulatory review of the GCC, both of capital resources and of calculated capital. The subject proposal could trigger unintended "red flags" and a deeper regulator review based solely on the toggling of the debt allowance, rather than an underlying economic cause impacting the group. As new debt is issued or debt retired, the true capital picture may thus be clouded by change to the debt allowance. Therefore, AHIP does not support the proposed changes to the debt allowance presented in the Staff Memo.

Schedule 1 Related Questions/Considerations – Relating to "non-insurance/non-financial entities" and "not material/excluded entities," AHIP prefers the current template structure, which has all Schedule Y entities listed in Schedule 1. Including all entities in Schedule 1 provides better controls to ensure completeness and accuracy. Members report that the control process becomes more complicated if they have multiple lists of entities in different places, and especially if entities move from one list to another.

* * * * * *

We thank you again for the opportunity to comment and for your patience and consideration of our views. We look forward to discussing them with you further.

Sincerely,

Bob Ridgeway
Bridgeway@ahip.org
501-333-2621

Cc: Tom Finnell

ACLI
Financial Security for Life

December 22, 2021

Mr. John Rehagen, Chair
Missouri Department of Insurance
Division Director – Financial Institutions & Professional Registration
NAIC Group Capital Calculation Working Group
Via e-mail: ddaveline@naic.org

Re: Comments on NAIC Group Capital Calculation (E) Working Group exposed proposed changes to the Group Capital Calculation (GCC) following the 2021 Trial Implementation

Dear Mr. Rehagen:

The American Council of Life Insurers appreciates the opportunity to comment on the Proposed changes to the Group Capital Calculation ("GCC") following the 2021 Trial Implementation. We appreciate the significant and thoughtful work that has gone into the GCC framework and the NAIC's ongoing commitment to developing a GCC that is fit-for-purpose.

ACLI is generally supportive of the proposed changes, however, we do have some comments to provide in relation to the Debt Allowance, Schedule 1 Considerations, and Non-Risk Sensitive Jurisdictions.

Debt Allowance

In 2020, the NAIC agreed to increase the overall debt cap from 50% to 75% but left the subcategory caps unchanged: (1) Senior debt cap remains at 30%; (2) Hybrid debt cap remains at 15%. ACLI suggests that the subcategory caps should instead be set at a percentage of the overall cap: (1) Senior debt cap should be 60% of the overall cap (i.e., the original 30%/50%); and (2) Hybrid debt cap should be at 30% of the overall cap (15%/50%). Having the subcategories as a percentage of the overall cap allows the subcategories to adjust automatically as the overall cap adjusts up and down.

Schedule 1 Considerations

ACLI supports the streamlining of Schedule 1, however, we want to ensure that regulators have the detail they need for entities that are not already included in the GCC via the parent insurer's RBC. Our recommendation would be to treat immaterial non-insurance/non-financial entities on Schedule Y of an RBC-filing US insurer like non-financial BA and A entities and create a place for them to be identified on Input 6. That way, while they are not listed on Schedule 1, they would continue to receive the same treatment as under the parent insurer's RBC.

Non-Risk Sensitive Jurisdictions

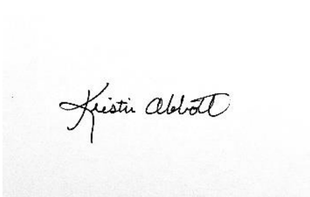
ACLI members have varying perspectives on this issue. Some are comfortable with lowering the risk-charge for non-risk sensitive jurisdictions from 100% to 50%. Others believe that to uphold credibility in the GCC, non-risk sensitive jurisdictions should apply an RBC-type charge in the GCC or default to a 100% factor absent any other information. To move materially away from a 100% factor should require analysis and an explanation for why a different factor, in this case 50%, is more appropriate. They do agree with the proposed alteration to allow groups to calculate the insurer's capital requirement using RBC, with simplifications, if that is preferable to the 100% risk charge approach.

There is potentially room for a compromise on this issue, where the 50% factor is maintained in the GCC Trial Implementation Instructions, but it is clearly labeled as an interim factor until more thorough analysis can be done on the appropriate factor(s) for non-risk-based jurisdictions. Some key items of the GCC are yet to be finalized and/or may change over time, such as scalars and calibration levels. The non-risk-based jurisdiction factors could be added to that list.

Conclusion

Thank you for the opportunity to comment. We look forward to continuing to support the efforts of the Working Group and staff as work continues on other GCC elements, like scalar methodology. As always, we would be happy to discuss our comments, or any other issue, with you or your staff at your convenience.

Many thanks,



Kristin Abbott