

Date: 11/11/21

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

GROUP CAPITAL CALCULATION (E) WORKING GROUP

Monday, November 22, 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/Ned Tyrrell

AGENDA

1. Consider Adoption of its Nov. 8, Sept. 8, and Summer National Meeting Minutes—*John Rehagen (MO)* Attachment A
2. Discuss the Results of the Group Capital Calculation (GCC) Trial Implementation—*Ned Tyrrell (NAIC)* Attachment B
3. Discuss Any Other Matters Brought Before the Working Group—*John Rehagen (MO)*
4. Adjournment

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Draft: 11/15/21

Group Capital Calculation (E) Working Group
Virtual Meeting
November 8, 2021

The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met Nov. 8, 2021. The following Working Group members participated: John Rehagen, Chair (MO); Kathy Belfi, Vice Chair (CT); Kim Hudson (CA); Philip Barlow (DC); Ray Spudeck (FL); Carrie Mears (IA); Susan Berry (IL); Christopher Joyce (MA); Judy Weaver and Steve Mayhew (MI); Jackie Obusek (NC); Justin Schrader (NE); David Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman and Tim Biler (OH); Greg Lathrop (OR); Melissa Greiner and Kimberly Rankin (PA); Trey Hancock (TN); Amy Garcia (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. Discussed and Exposed a Staff Memorandum on Possible GCC Modifications

Mr. Rehagen stated that the first two agenda items were related to the extent the Working Group wants to make any changes to the group capital calculation (GCC) before the template and instructions are effective for 2022. He described that the principle behind agenda item two was to make sure members of the industry have plenty of time to prepare for any changes made in the same year as the changes are effective. He described more specifically how agenda item two requires GCC template changes to be exposed by Jan. 31 of the effective year and then adopted by April 30, and that GCC instruction changes need to be exposed by April 30 and adopted by June 30. He said that the proposed maintenance procedures included in agenda item two had yet to be adopted. Therefore, he said perhaps the Working Group could be more lenient on some of those deadlines this year, but he wants to stick to the spirit of the dates in that agenda item. He stated the Working Group would come back to those dates in the next agenda item but wanted Working Group members to be aware of those before he asked NAIC staff to summarize each of the items in its staff memorandum (Attachment Two-A1). He asked that as NAIC staff summarize the items, Working Group members keep in mind his desire to expose the memorandum for 45 days, and then for the Working Group to meet in early January to discuss comments received.

Dan Daveline (NAIC) summarized each of the proposals in the staff memorandum. As it relates to the proposed change for foreign insurers, Mr. Wolf asked for an example of a jurisdiction that would not have a risk-based regime. Mr. Daveline responded that Barbados was one such example. Ned Tyrrell (NAIC) added some additional context for Mr. Wolf. He said that a non-risk-based regime could include, for example, a jurisdiction where it is simple a minimum capital requirement in dollars, such as \$5 million, that does not go up or down based upon the amount of business written. He stated that Barbados was not quite this insensitive, but that it may not consider the type of business written or the type of assets owned. Mr. Wolf stated his appreciation for the example and stated he is still favoring a 100% factor on the book value of the entity because that is what they have at risk in that country. However, he said that he is not opposed to it being exposed and getting different viewpoints.

Michael DeBois (MassMutual) clarified that the life risk-based capital (RBC) formula actually requires a zero value for the carrying value of foreign insurers and, therefore, is excluded from both the numerator and denominator of the RBC. Mr. Daveline agreed with the statement from Mr. DeBois, indicating he was simply shortcutting for comparative purposes. Mr. Spudeck asked about the materiality of this issue, as well as the materiality of the issue dealing with other debt. Mr. Daveline and Mr. Tyrrell noted this was a good question and said that while neither are generally material to the industry as a whole based upon the trial implementation, it is more material to a small number of companies but not significant even in those cases. It was noted that during a future meeting, aggregate results from the trial implementation would be presented, which may be helpful in supplementing this response. Mr. Spudeck whether in those situations where its more material, would it show up in the financial analysis. Mr. Daveline responded that he believed spike in other debt likely would show up in the GCC analytics, but he does not believe the same could be said about the foreign insurer question. Mr. Tyrrell responded he would look more closely at the data on both questions. With respect to the issue raised within the memorandum on modifying the reporting of some entities in Schedule 1, Ms. Belfi said she appreciates the issue being raised as they had seen some inconsistency in reporting, and they were struggling with the issue as well.

The Working Group agreed to expose the NAIC staff memorandum for a 45-day public comment period ending Dec. 23.

Mr. Rehagen also noted that included in the materials was the latest instructions that already included changes for items that were changed during the trial implementation. He noted all of those changes were intended to be clarifying.

The Working Group agreed to expose the instructions for a 30-day public comment period ending Dec. 8.

2. Discussed Comments on Maintenance Documents and Proposed Revisions

Mr. Rehagen discussed how the Working Group had previously exposed proposed documents that collectively provide the GCC with the same type of maintenance process as exists in RBC, including the change proposal forms, and the timeline he mentioned earlier in the meeting. He noted that the Working Group received one comment letter (Attachment Two-A2) from the American Council of Life Insurers (ACLI). Mr. Rehagen said NAIC staff tried to add language into a revised document to recognize the ACLI's point, but at the same time, give the Working Group some flexibility. He asked if the ACLI could comment on whether it finds the changes proposed responsive to their concerns. Mariana Gomez-Vock (ACLI) stated that while her members have not had a chance to review and discuss the changes, she had, and she believes they could support the changes. She stated her appreciation for the Working Group and NAIC staff's efforts to incorporate feedback from stakeholders around the potential need for more time on more complex issues. Mr. Rehagen asked the Working Group if it would like to adopt the revised procedures today or come back to it after the Working Group has received comments on the first exposure of the Working Group from earlier in the meeting. Ms. Belfi stated she would like to wait. Mr. Rehagen stated he does not believe there is a rush. Therefore, the Working Group will revisit the revised procedures during a future meeting.

3. Considered Comments on a Draft RBC Referral

Mr. Rehagen discussed how the Working Group had previously exposed a "draft" memorandum from the Working Group to the Capital Adequacy (E) Task Force. The memorandum highlighted some of the differences between the GCC and RBC. Mr. Rehagen reminded everyone that the Working Group discussion definitely emphasized that whether RBC made such changes was really up to those particular RBC groups. He noted the Working Group received comments on that memorandum and wanted to give each of those parties an opportunity to speak to their comment letters (Attachment Two-A3). Before doing so, he noted that he is open to having some discussions with the Task Force in the future, maybe just to explain why the GCC was constructed the way it was. He added that he suspects the Working Group may hear some of the same on why RBC was constructed the way it was. He stated the timing of such conversations may not be immediate but rather based upon the current priorities that both groups have. He asked the ACLI to summarize its letter. Ms. Gomez-Vock emphasized the ACLI's support for the work, but also emphasized the GCC should reflect existing RBC and accounting rules. She said to the extent that the GCC causes those existing rules to be rethought, they should be done so under the existing processes in place at those groups.

4. Adopted *Financial Analysis Handbook* Guidance

Mr. Rehagen directed the Working Group to the comments received (Attachment Two-A4) on the Working Group's previously re-exposed *Financial Analysis Handbook* guidance, as well as a revised draft of the same where NAIC staff modified the re-exposed guidance to address any comments that did not change the original intent. Tom Finnell, speaking on behalf of the interested party group consisting of the American Association of Health Insurance Plans (AHIP), the American Council of Life Insurers (ACLI), American Insurance Group, Anthem, Blue Cross and Blue Shield Association (BCBSA), Metropolitan Life Insurance Company, and UnitedHealth Group, stated their support for the revised guidance. He discussed how the group had provided some fairly significant comments during the Working Group's first exposure, which they believe were needed to ensure that the guidance was consistent with the original purpose of the GCC. Mr. Finnell said those comments had been incorporated into the re-exposed version, so they have no further comments.

Mark Sagat (Liberty Mutual) said Liberty Mutual supports the current version and would recommend adoption. Chuck Feinen (State Farm) said State Farm has no further comments at this time. Jeff Martin (UnitedHealth Group) stated his appreciation for the Working Group's incorporation of most of UnitedHealth Group's edits into the revised guidance that it believes should improve the clarity and readability of the document. He did note that there was one reference on Page 169 of the materials that UnitedHealth Group believes required some action. Mr. Daveline acknowledged the comment was legitimate and could be resolved by either updating the cross reference to the other section of the *Financial Analysis Handbook* or by removal of the sentence. He indicated he would work with the NAIC staff support for the *Financial Analysis Handbook* to get it resolved before the document is distributed to the Financial Solvency Analysis Tools (E) Working Group.

Ms. Mears noted one other change on Page 172 and described how the section refers to guidance that is within an international consideration section, which she believes would apply to all groups. Mr. Daveline and Mr. Rehagen agreed that the guidance could pertain to all groups. Ms. Mears suggested renaming that international section to make it more generic to all holding companies.

Mr. Hudson made a motion, seconded by Ms. Mears, to adopt the revised GCC *Financial Analysis Handbook* guidance and send to the Financial Analysis Solvency Tools (E) Working Group for its consideration. The motion passed unanimously.

5. Discussed Other Matters

Mr. Rehagen stated that he expects the Working Group to meet in the coming weeks to receive a presentation from Mr. Tyrrell on the GCC trial implementation results.

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

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Draft: 9/21/21

Group Capital Calculation (E) Working Group
E-Vote
September 13, 2021

The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee conducted an e-vote that concluded Sept. 13, 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); Kevin Fry (IL); Roy Eft (IN); Judy Weaver (MI); Kathleen Orth (MN); Jackie Obusek (NC); Justin Schrader (NE); David Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman (OH); Greg Lathrop (OR); Melissa Greiner (PA); Jamie Walker (TX); and Amy Malm (WI).

1. Re-Exposed Proposed *Financial Analysis Handbook* Guidance

As a result of receiving comments (Attachment 1) on proposed changes to the *Financial Analysis Handbook* to address the group capital calculation (GCC), NAIC staff were directed to make modifications to the proposed guidance to address those comments provided they were consistent with the original intent of the guidance. After providing the Working Group members with revised guidance as directed, a majority of the members voted in favor of re-exposing the guidance for a xx-day public comment period ending Oct. 29.

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

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Draft: 8/3/21

Group Capital Calculation (E) Working Group
Virtual Meeting (*in lieu of meeting at the 2021 Summer National Meeting*)
July 26, 2021

The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met July 26, 2021. The following Working Group members participated: John Rehagen, Chair (MO); Kathy Belfi, Vice Chair (CT); Susan Bernard (CA); Philip Barlow (DC); Ray Spudeck and Virginia Christy (FL); Carrie Mears (IA); Susan Berry (IL); Roy Eft (IN); Christopher Joyce (MA); Judy Weaver and Steve Mayhew (MI); Barbara Carey (MN); Jessica Price (NC); Justin Schrader (NE); David Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman (OH); Greg Lathrop (OR); Kimberly Rankin (PA); Hui Wattanaskolpant (TN); Amy Garcia (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI). Also participating was: Tom Botsko (OH).

1. Adopted its May 27, May 17, April 27, and March 10 Minutes

During its May 27, May 17, April 27, and March 10 meetings, the Working Group took the following action: 1) adopted a revised template for use in the 2021 group capital calculation (GCC) trial implementation, including changes to gather data on a stress scenario; 2) adopted clarifying edits to the GCC instructions that will be used for the 2021 GCC trial implementation; and 3) exposed proposed changes to the *Financial Analysis Handbook* (Handbook) for the GCC.

Mr. Eft made a motion, seconded by Mr. Schrader, to adopt the Working Group's May 27 (Attachment Two-A), May 17 (Attachment Two-B), April 27 (Attachment Two-C), and March 10 (*see NAIC Proceedings – Spring 2021, Financial Condition (E) Committee, Attachment Two*) minutes. The motion passed unanimously.

2. Exposed Draft Maintenance Documents

Mr. Rehagen suggested that the Working Group develop certain maintenance documents related to the GCC and directed participants to draft documents that could meet such needs. He described how these documents would allow the same kind of process as used by other groups, which is to allow anyone (state insurance regulator, industry, consumer, etc.) that wants to present proposed changes to the GCC to do so by first completing a form. He noted that the specific forms developed involved NAIC staff basically taking similar forms for risk-based capital (RBC) forms and updating them for what would be needed for the GCC.

Mr. Rehagen suggested that the main purpose of these forms is to establish some rules so that everyone understands the timeline for when changes need to be adopted by the Working Group to be effective that year. He noted that initially, the forms use the same dates as used for RBC, which means that any change to the template must be adopted by April 30, and all other changes need to be adopted by June 30.

The Working Group agreed to expose GCC maintenance documents for a 60-day public comment period ending Sept. 24.

3. Exposed a Draft Referral to the Capital Adequacy (E) Task Force

Mr. Rehagen directed participants to a draft referral to the Capital Adequacy (E) Task Force. He described that the main purpose of the referral is to make the RBC working groups aware of differences between the GCC and RBC and whether RBC working groups believe making changes to RBC for consistency would be appropriate.

Dan Daveline (NAIC) provided more details regarding differences between the GCC and RBC as documented in the draft memorandum. He described how in developing the GCC, most of the discussions were revolved around the treatment of non-insurance and non-financial related entities to achieve consistency between the GCC and RBC. Specifically, the desire by all parties is for the same GCC treatment, whether entities are owned by an insurer or by a sister company. Mr. Daveline noted that in the end, the GCC adopted a factor that mirrored the result within the RBC post-covariance factor. He stated that because of that, there were fewer differences between the GCC and RBC than what was originally envisioned, but he noted how NAIC staff still believe it is appropriate to present a list of such items to the extent that RBC working groups want to consider changes for consistency purposes. He described how there are three types of entities for consideration, but ultimately, the question is whether the RBC working groups want to modify their formulas to be more consistent with the GCC.

Mr. Daveline described that the first item on the list deals with how the GCC treats insurance companies, most of which are foreign insurance companies. The GCC brings in the minimum capital required by the regulator for a foreign insurance company. This is to show respect for the authority of that regulator, as state insurance regulators would like to receive a reciprocal response on the U.S. basis, but also because this is the most relevant measure of capital at risk. Mr. Daveline noted that the second item on the list is similar in terms of the GCC treatment, but it pertains to other regulated entities such as banks. The last item on the list shows how the GCC treats other financial entities such as asset managers, investment advisors, and other financial entities. In the GCC, a factor is applied to their average revenues, while in RBC, a different factor is applied to the book/adjusted carrying value (BACV) for these entities. Mr. Daveline pointed out that as has been argued in the past, the RBC approach of using BACV as the base instead of average revenue may make more sense since RBC pertains to directly owned subsidiaries where the BACV may be the most relevant measure.

Mariana Gomez-Vock (American Council of Life Insurers—ACLI) noted support for a memo that summarizes the differences between the GCC and RBC. However, the ACLI expressed concern regarding whether the RBC groups should modify the RBC formulas to be more consistent with the GCC when a trial implementation of the GCC has not yet been completed. Specifically, she noted that the GCC approach for investment advisors and asset managers is new and has never been tested before. Therefore, she suggested removing the last sentence in the second paragraph of the memo so that the adoption of the GCC approach would not be proposed for considerations by the RBC working groups. Mr. Daveline stated that it is not going to be problematic to have this sentence stricken if the Working Group agreed. Mr. Eft agreed with striking this sentence, and the Working Group is not opposed; therefore, it was stricken as requested.

Mr. Botsko, chair of the Capital Adequacy (E) Task Force, stated his appreciation for the groups responsible for the GCC and RBC sharing information on a regular basis. Acknowledging many parallels between the two, he considered it extremely important to be consistent with each other as much as possible. Except for those items with different approaches where appropriate, both groups should take into consideration those items that could be changed by either the GCC or RBC and determine whether their formulas are appropriate.

Lou Felice (NAIC) recommended identifying categories in RBC that are different from the GCC and having an actual structure of formulas ready for those areas that could be changed for consistency purposes.

The Working Group agreed to expose the draft referral document for a 90-day public comment period ending Oct. 25.

4. Discussed Other Matters

The trial implementation is approaching its deadline at the end of the week. NAIC staff can be reached for questions. The draft Handbook guidance is being exposed for comment. Once comments are received, there will likely be another call. NAIC staff may make additional edits based on comments, run them by the state insurance regulators or the drafting group, and re-expose them again.

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

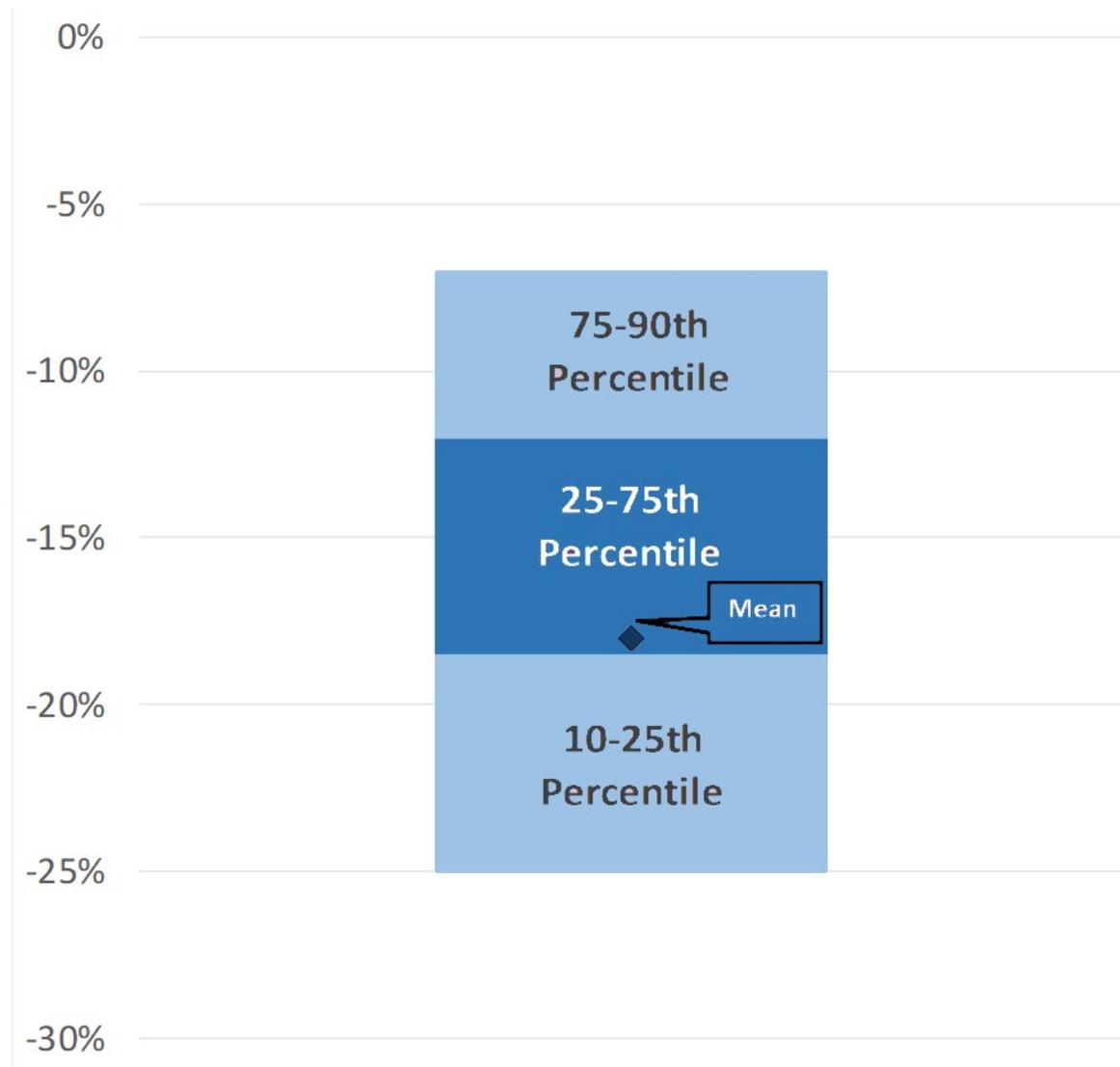
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NAIC GCC 2021 Trial Implementation Results and Analysis

Notes on Charts

- Slides provide a summary of GCC results and analysis related to issues under consideration by GCCWG
 - See 'Attachment A' for Nov 8 working group call
- Results grouped into two types of business: "P&C and Composite" and "Life and Health"
 - "Composite" means insurer that writes both life and p&c
- Results grouped into two ownership models: Stock and Mutual
 - One fraternal company is grouped with mutual
- Individual results are presented on anonymized basis: Group A, Group B, etc.
 - Anonymized means that "Group A" is not same on every chart
- Figures are in \$'000s.

Guide to Hi-Level Charts



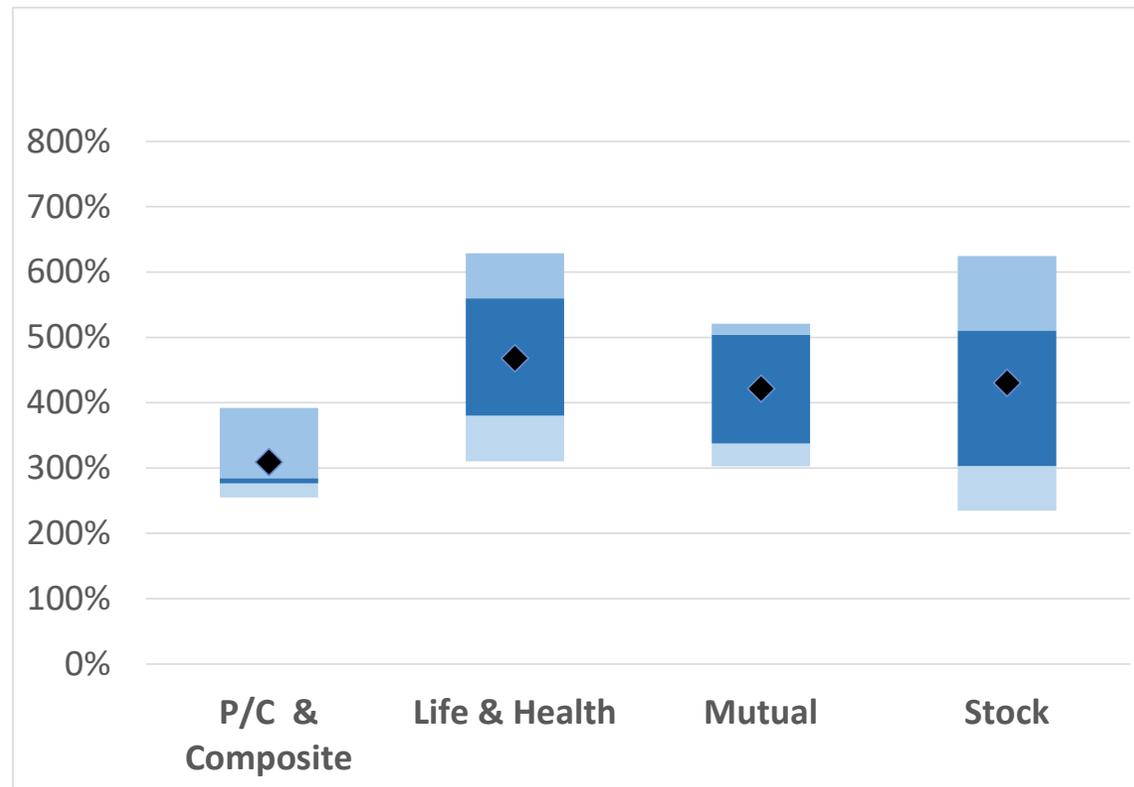
Results Summary

Summary (Participation)

- 25 volunteer groups provided data

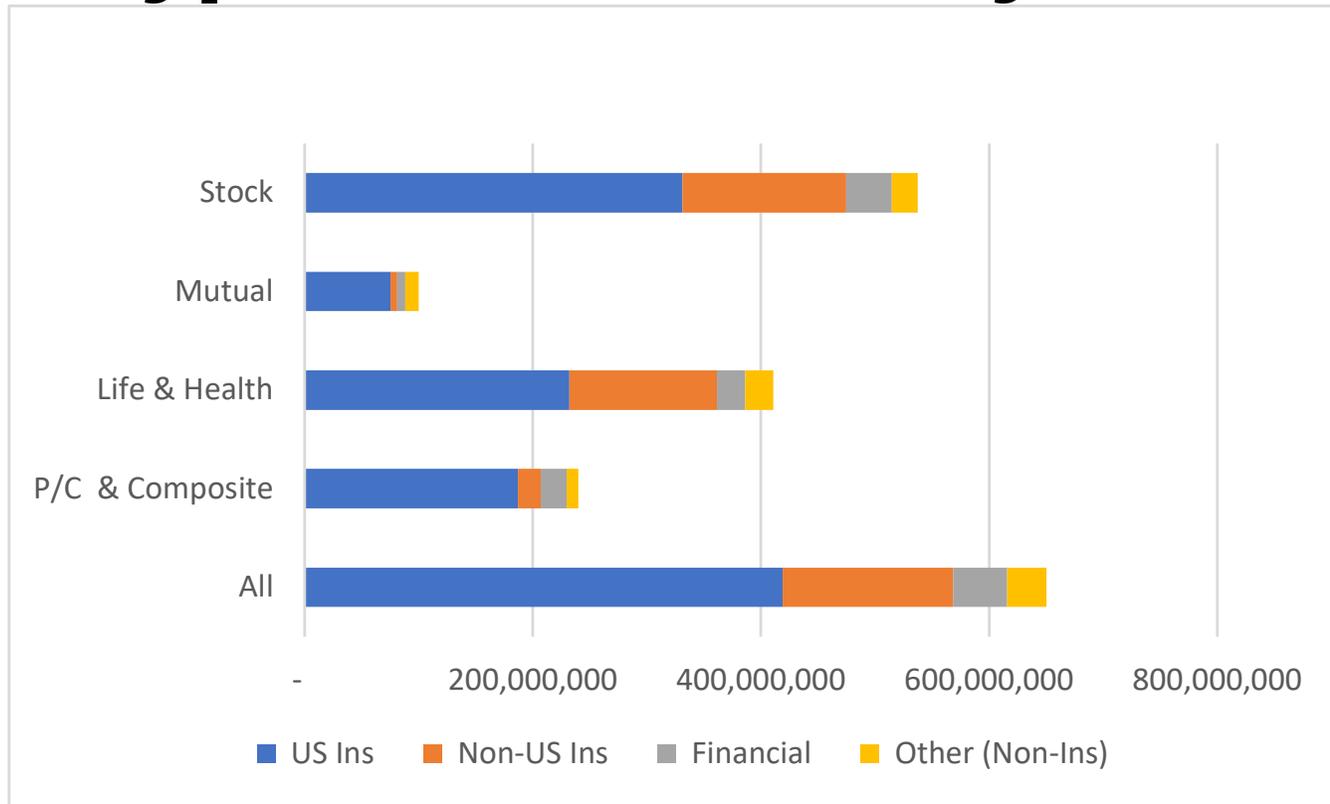
	Stock	Mutual	Fraternal	Total
Life	11	3	1	15
Health	2	1	0	3
P&C	4	1	0	5
Composite	2	0	0	2
Total	19	5	1	25

High Level Results (Business Type)



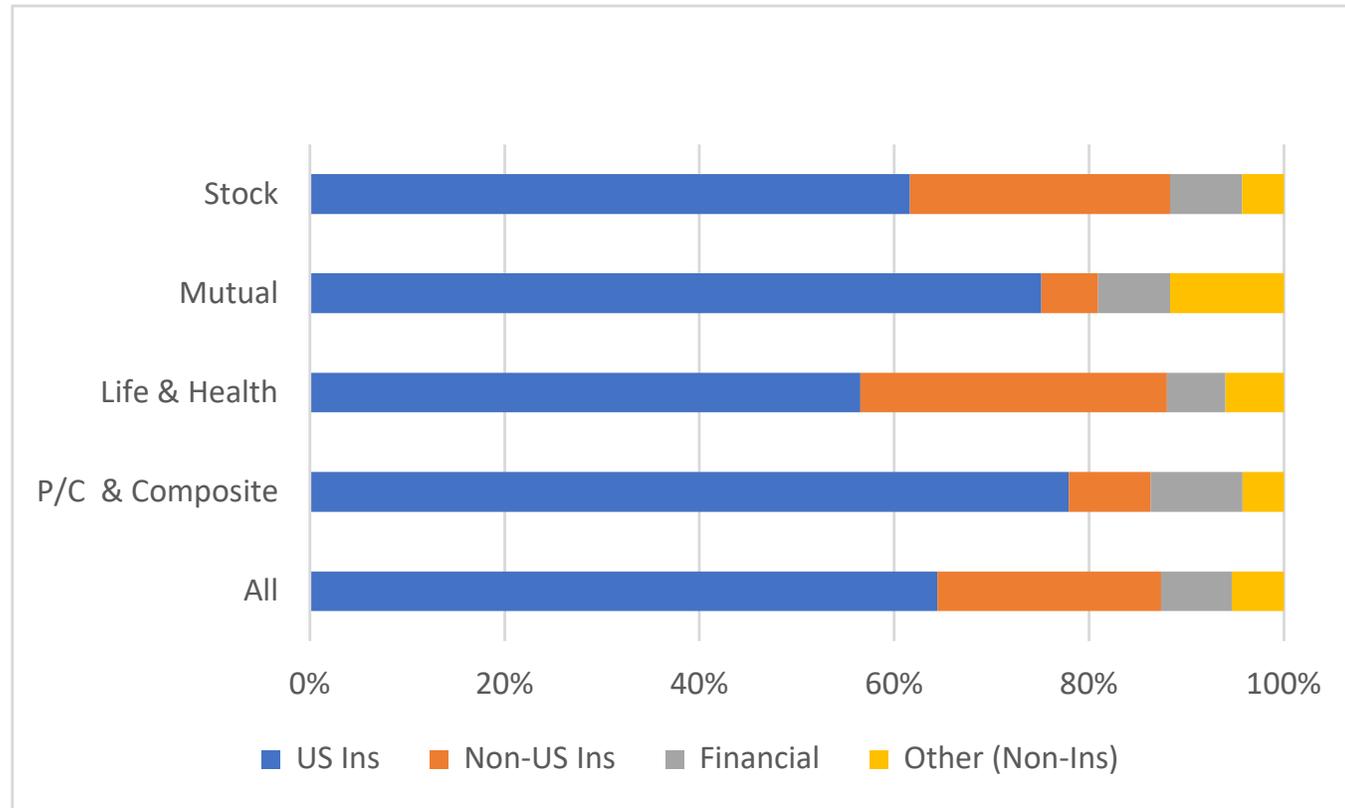
- Chart shows GCC ratios by type of business. Note that there is overlap between the groupings. The GCC is calibrated at 200% of Authorized Control Level.
- Narrower and lower range of ratios among P&C/Composite volunteers than Life / Health volunteers
- Narrower range of ratios among mutuals than stock companies
- Note: above averages are unweighted (i.e. a straight average of each individual company's GCC ratio)

Business Type (Breakdown by \$ amount)



- Chart shows GCC available capital in \$'000s
- Excludes Holding Company and Capital instruments

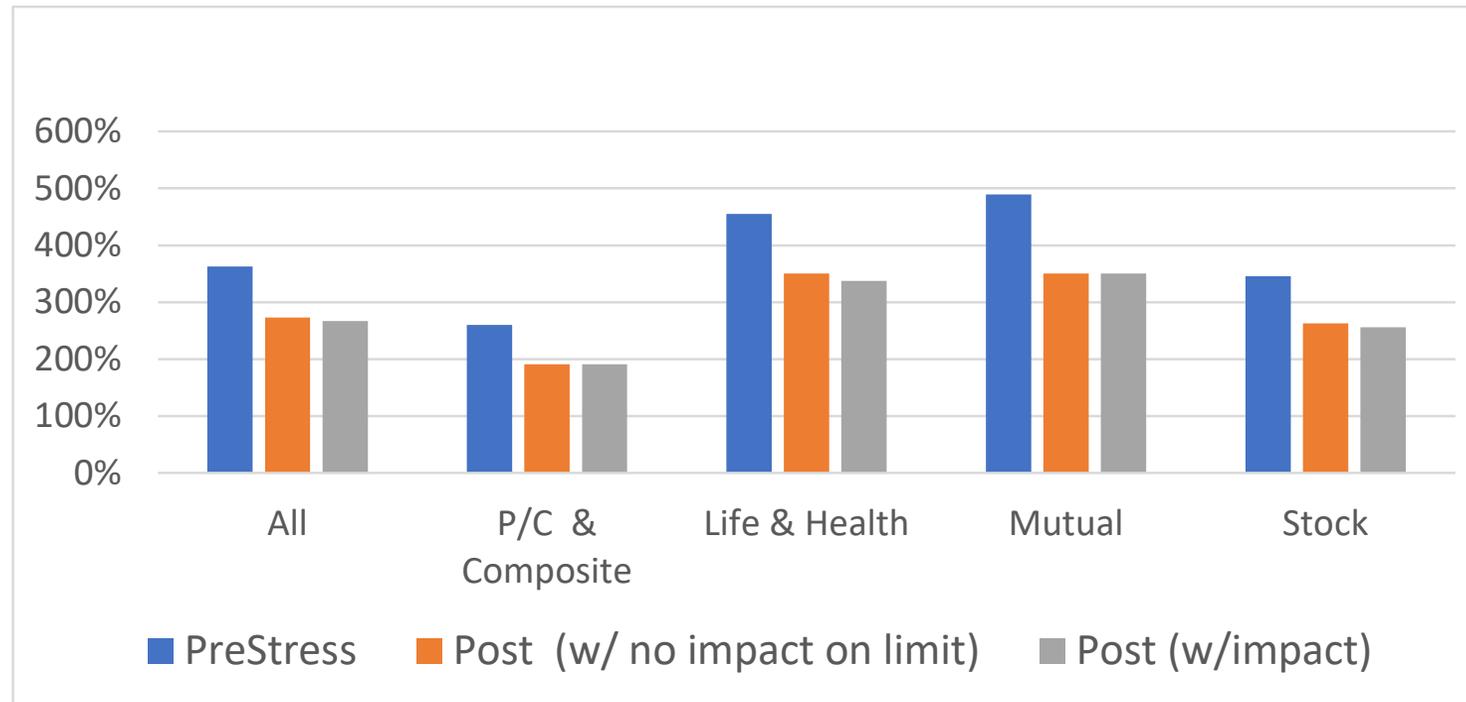
Business Type (% Breakdown)



- Chart shows % of available capital excluding Holding Company and Capital instruments

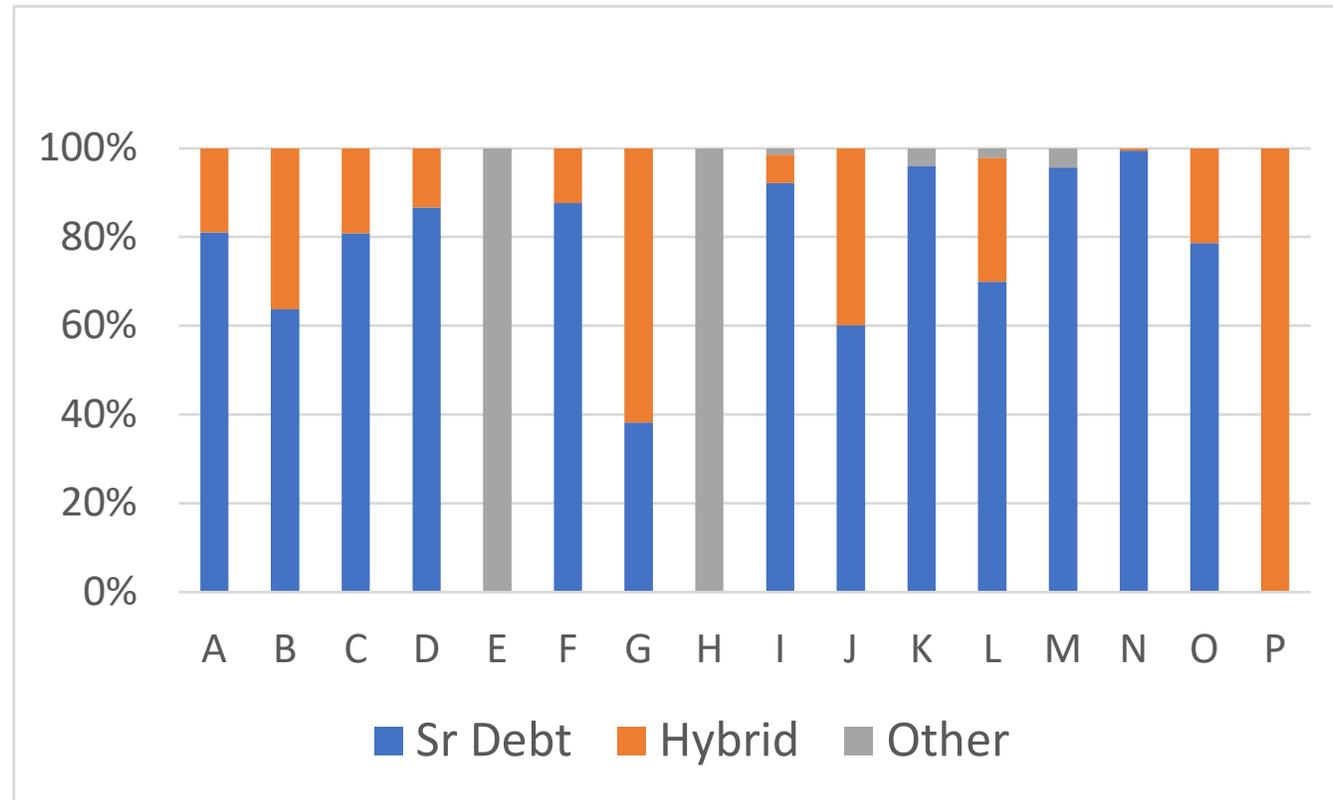
Analysis Related to Proposed GCC Modifications

Stress & Debt Allowance



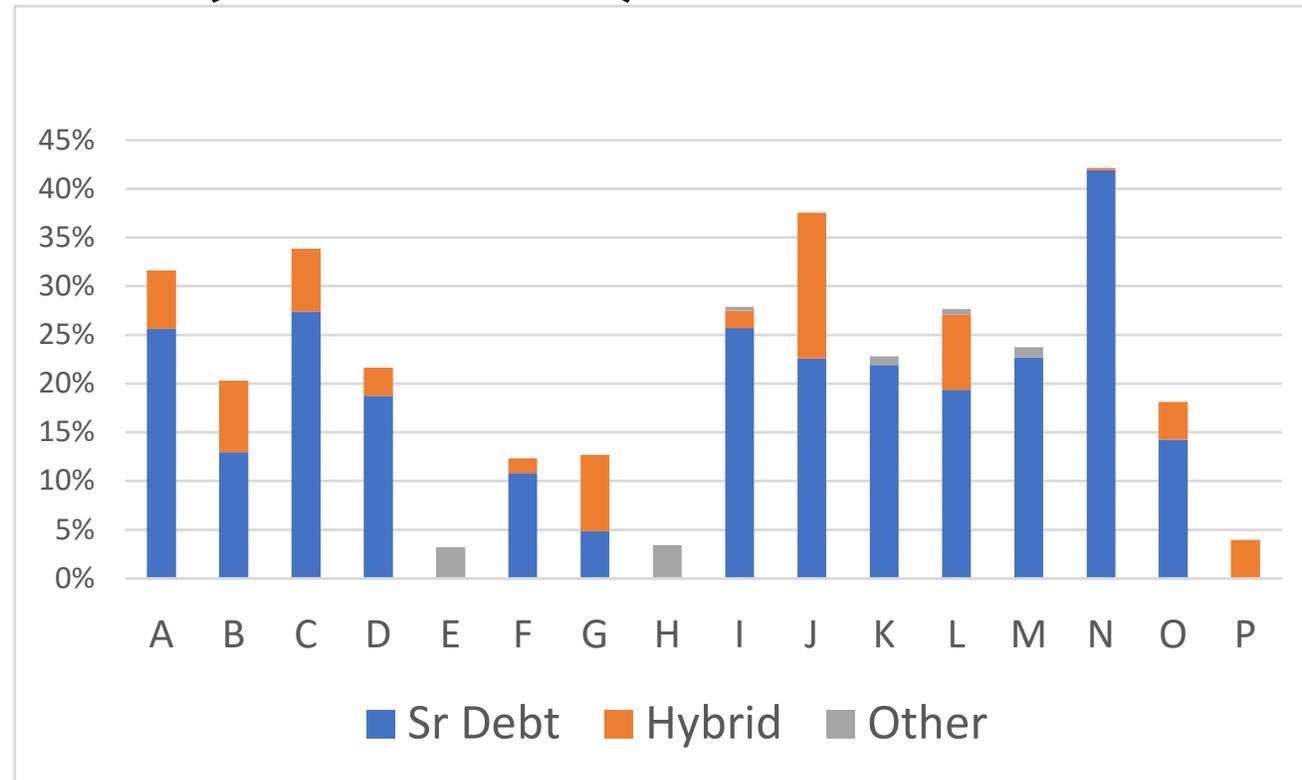
- To investigate calculation of limit for debt, Trial GCC included a stress scenario based on 30% decline in available capital. Proposal is to remove this stress and keep current debt allowance.
- Chart shows *weighted* average GCC ratios by business type pre-stress and post stress (both with and without impact on debt limit).
- Six groups had instruments go above the debt limit as a result of a stress. Of those one has pre-stress debt above the limit.

Other Debt (Breakdown)



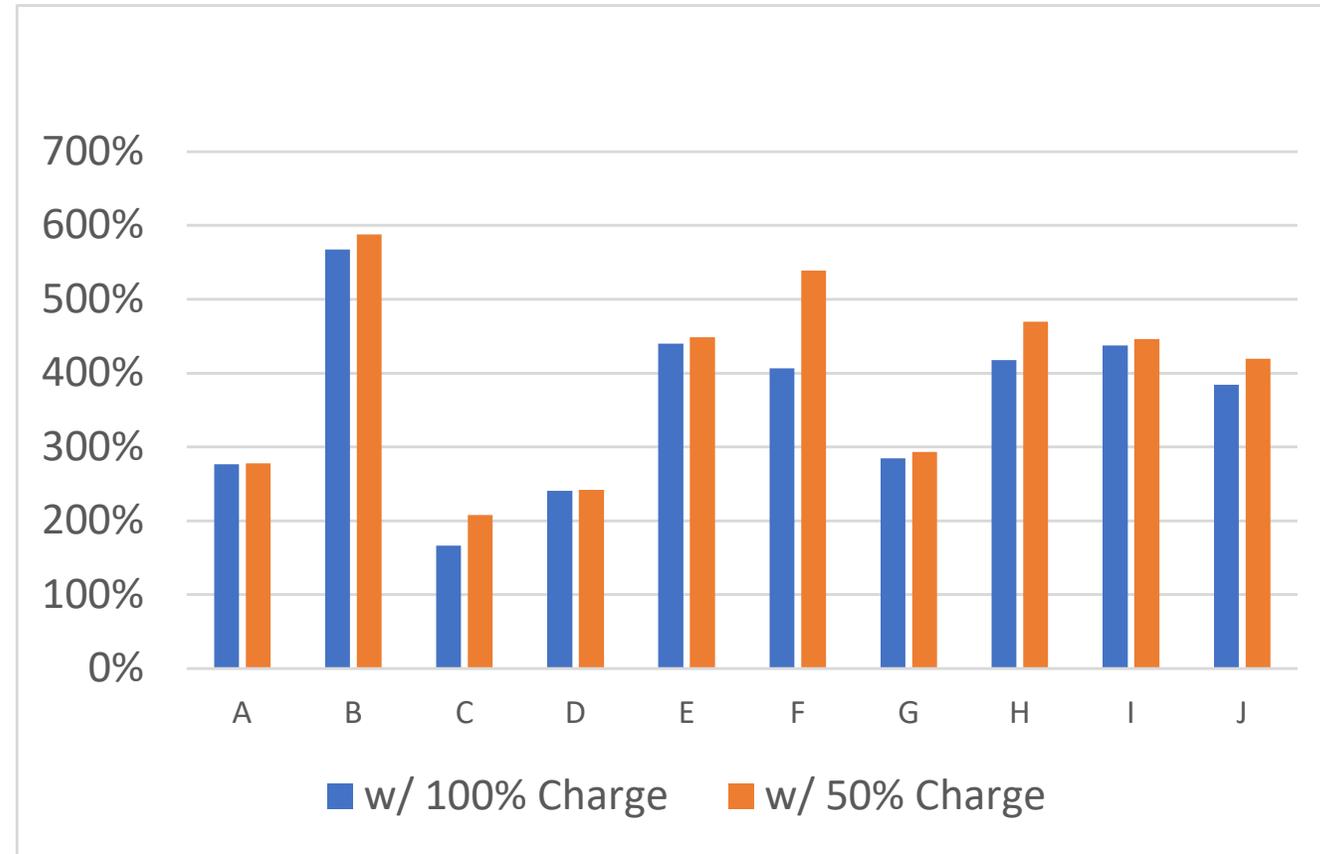
- Subject to limits and criteria, the GCC has an allowance for Senior and Hybrid Debt instruments.
- A sensitivity test related to "Other Debt" was included in the Trial Implementation; proposal is to remove that sensitivity test.
- Chart shows anonymized results for the 16 volunteer groups with reported capital instruments
- 'Other Debt' makes up a significant portion of capital instruments for 2 of the 16 groups

Other Debt (As % AC)



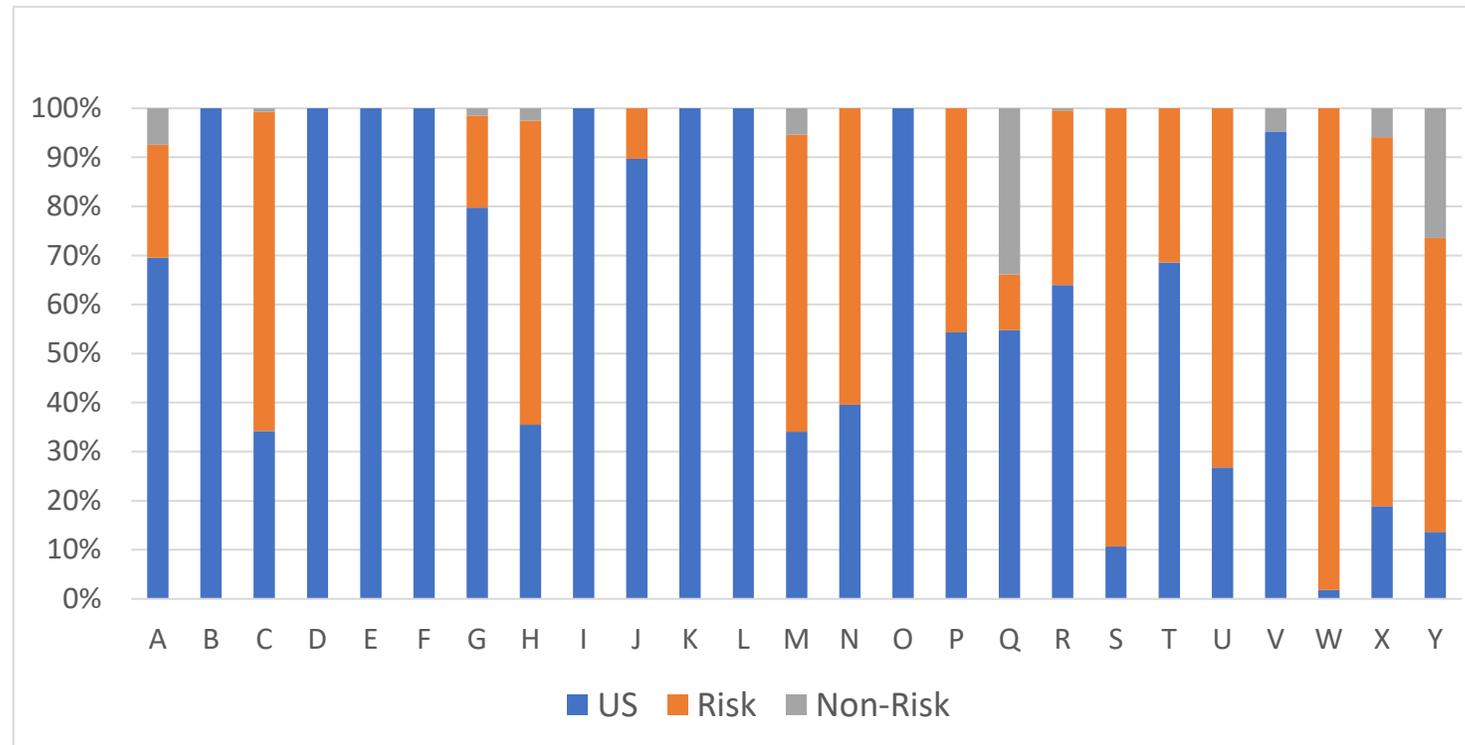
- Chart shows ratio of amount of each instrument type, before limits, to available capital. (Same lettering as prior slide.)
- In no case are 'Other' instruments material relative to available capital.

Non-Risk (Capital Ratios)



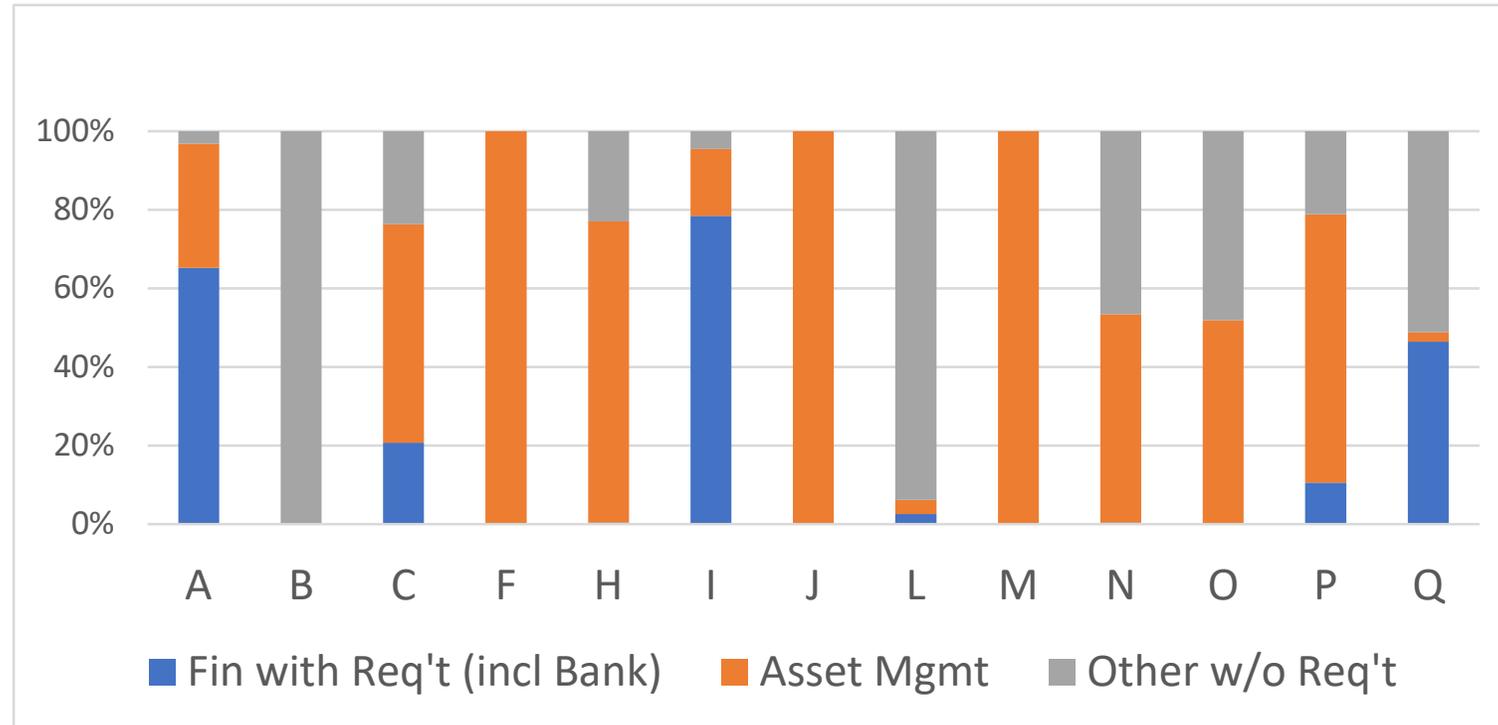
- Chart compares GCC ratios under two different treatments of Non-Risk sensitive foreign entities for the 10 groups with exposure to such entities
- Current GCC treatment for non-risk foreign based entities is to set calculated capital equal to 100% of available capital
- An alternative treatment with 50% of AC has been proposed. This leads to a max decrease in capital ratio of 51%

Non-Risk (Breakdown)



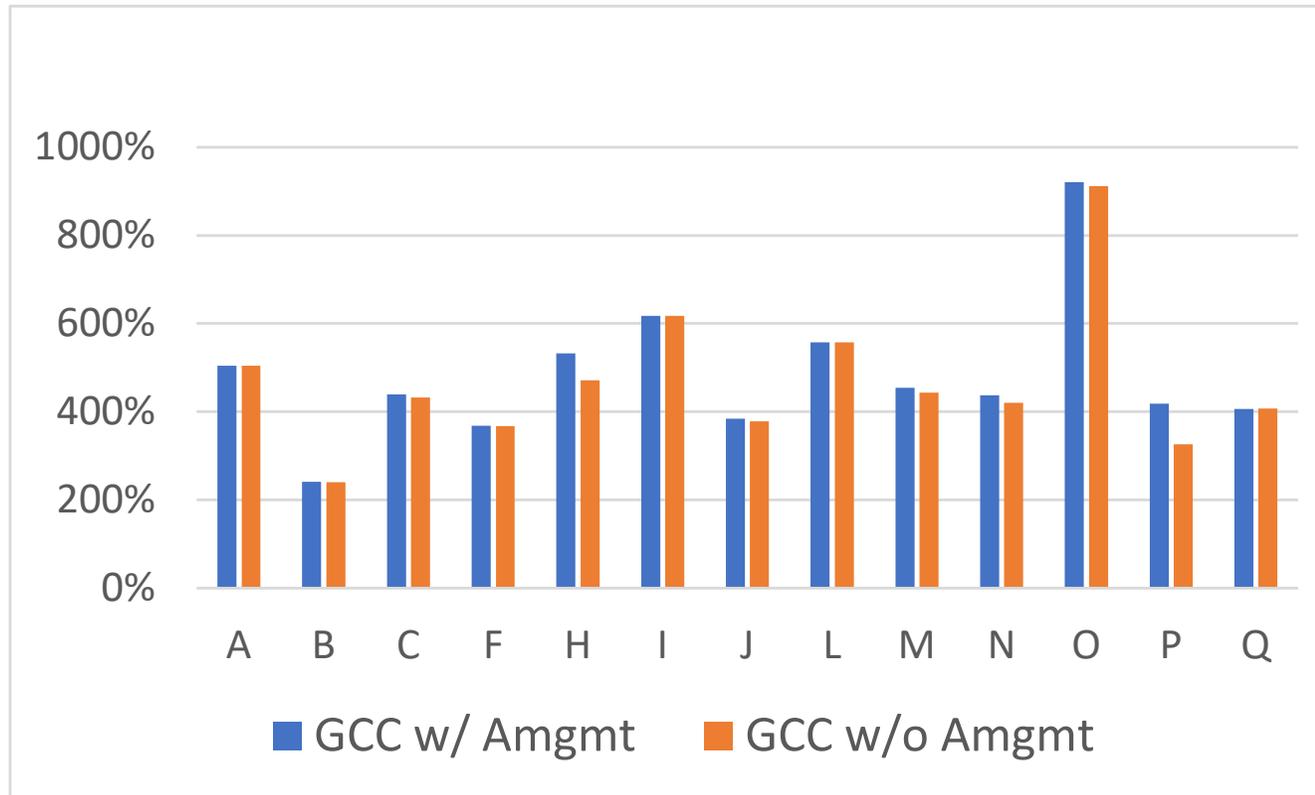
- Chart shows breakdown of insurance entity exposure by volunteer shows that most volunteers are predominantly exposed to US entities. Foreign exposure is predominantly in risk sensitive entities ('Risk' on chart).
- Ten groups have exposure to foreign Non-risk sensitive entities. The exposure is significant for two. In both cases, the bulk of the exposure is in Barbados. (Note lettering is different from prior slide)

Asset Mgmt (Breakdown)



- Proposal is to replace the current capital treatment for asset managers (which is based on 3 year average revenue) with regulatory capital standards imposed by FINRA.
- Chart above shows breakdown of the portion of available capital for financial entities by type of financial entity for the 19 volunteers with relevant exposure.

Asset Mgmt (Ratios)



- While capital amounts under FINRA standard were not part of GCC reporting, above chart of GCC calculated with and without Asset Management entities should give sense of the materiality
- Same letters as next slide but only including groups with Asset Mgmt entities