

Draft Pending Adoption

Attachment Three
Capital Adequacy (E) Task Force
11/17/21

Draft: 12/8/21

Life Risk-Based Capital (E) Working Group
Virtual Meeting (*in lieu of meeting at the 2021 Fall National Meeting*)
November 9, 2021

The Life Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met Nov. 9, 2021. The following Working Group members participated: Philip Barlow, Chair (DC); Jennifer Li (AL); Ben Bock (CA); Wanchin Chou (CT); Sean Collins (FL); Carrie Mears (IA); Vincent Tsang (IL); Ben Slutsker (MN); William Leung (MO); Derek Wallman (NE); Seong-min Eom (NJ); Bill Carmello (NY); Andrew Schallhorn (OK); Mike Boerner and Rachel Hemphill (TX); and Tomasz Serbinowski (UT).

1. Adopted its Summer National Meeting minutes

Mr. Chou made a motion, seconded by Mr. Schallhorn, to adopt the Working Group's July 21 (*see NAIC Proceedings – Summer, Capital Adequacy (E) Task Force, Attachment Four*) minutes. The motion passed unanimously.

2. Exposed the Guidance Document on Bond Factor Changes

Mr. Barlow said this was directed to NAIC staff to draft in order to assist financial examiners and other state insurance regulators as they review the results of 2021 risk-based capital (RBC) calculations for life insurers in light of the 2021 bond factor changes. The Working Group exposed the guidance document for a 30-day public comment period ending Dec. 9.

3. Exposed the Report of the C2 Mortality Work Group of the Academy

Chris Trost (American Academy of Actuaries—Academy), chair of the Academy's C2 Mortality Work Group, said the last time the Work Group was able to provide a report was last year due to the focus on bonds, real estate, and longevity this year. He said the Work Group has continued its work and, where previous updates have been focused on methodology, the Work Group is now at a point to present its recommendations (Attachment Three-A). He noted that included with the recommendations is a full report (Attachment Three-B) that highlights the major changes in the proposed methodology along with detailed documentation on the methodology and assumptions. He said the Work Group is looking for additional feedback, questions, and any other information the Working Group would like to have provided.

Ryan Fleming (Academy) presented the recommendations. Discussing the overall framework and the mortality risk categories, he noted that while the previous recommendation included catastrophe risk, the Work Group has included two new components, one for a terrorism-type event as well as providing for some chance of a currently unknown event. Mr. Carmello asked about the work done for the original factors and suggested it was not stochastic. Mr. Fleming said it was a more limited number of potential scenarios related to various adverse events and did not involve running thousands of scenarios and getting a full distribution of results. Mr. Carmello said it appears these were more deterministic scenarios. Mr. Fleming highlighted what had changed in the recommendation from the original work and what had not as presented on slide six and noted that the expanded factor categories for both individual and group life are needed to reflect differences in mortality risk. He continued this aspect with the information in slides nine and 10, highlighting the relative contribution of the risk categories to the overall capital factors and noting that those factors should recognize that there are varying levels of flexibility to adjust premiums or mortality charges between the products.

The Working Group agreed to expose the Academy's recommendations and report for a public comment period ending Jan. 10, 2022. Mr. Barlow suggested scheduling a meeting to continue discussion of this recommendation during the exposure period and asked Mr. Trost to work with NAIC staff on drafting the actual blank and instructions necessary for a formal proposal.

4. Discussed Other Matters

Mr. Barlow reminded the Working Group that there is work being done by the American Council of Life Insurers (ACLI) on making the necessary modifications to the asset valuation reserve (AVR) factors related to the bond factor changes. He also

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noted that Dave Fleming (NAIC) has continued work on the statistics review and that the goal is to have this presented to those Working Group members who volunteered in December.

Having no further business, the Life Risk-Based Capital (E) Working Group adjourned.

[Att Three Life RBC 11-9-21 Minutes.docx](#)