

Mar 23, 2023

Honorable Rachel Hemphill
Chair, Life Actuarial (A) Task Force (LATF)
Honorable Philip Barlow
Chair, NAIC Life Risk-Based Capital (E) Working Group (Life RBC)
National Association of Insurance Commissioners

Re: Economic Scenario Generator Technical Drafting Group

Dear Ms. Rachel Hemphill and Mr. Philip Barlow,

Please accept this comment on the NAIC Economic Scenario Generator Technical Drafting Group

Sincerely yours,

Mark S. Tenney

The NAIC ESG GEMS generator is calibrated to negative rates and low for long. It has some ability with other rate environments or in transitions, but these are at least partly limited in their scope and accuracy because of the orientation to low for long and negative rates. Pop-up type scenarios are not as strong as in the recent movement starting in 2021.

These type of scenarios are handled at least partly outside of the ESG in current practice. The exclusion test is to determine whether to exclude testing with the ESG when the ESG by itself is already inadequate for many key tests. This is a sort of paradox. The ESG can not really tell what to exclude, because key risks are not in the ESG. The lack of a more robust ESG thus makes the exclusion test difficult to assess.

At a minimum, a second ESG, a scorekeeper ESG or risk ESG should be used to check the ESG and the exclusion test. This might be an ESG like Regime Switching DMRP. Companies might be encouraged to self-test with their own ESGs or ones they use.