Draft Pending Adoption

Draft: 3/28/25

Aggregation Method Implementation (G) Working Group
Indianapolis, Indiana
March 25, 2025

The Aggregation Method Implementation (G) Working Group of the International Insurance Relations (G) Committee met in Indianapolis, IN, March 25, 2025. The following Working Group members participated: Andrew N. Mais, Chair (CT); Rebecca Easland, Vice Chair (WI); Kevin Clark (IA); Jennifer Niles (IL); Christopher Joyce (MA); John Rehagen (MO); Anthony Quandt (NE); David Wolf (NJ); Bob Kasinow (NY); Diana Sherman (PA); Elizabeth Kelleher Dwyer and Patrick Smock (RI); and Scott A. White and Dan Bumpus (VA).

1. Heard a Presentation on the Background and Proposed Work Plan for the Working Group

Commissioner Mais welcomed members to the new Working Group. He gave an overview of the steps leading to the agreement at the International Association of Insurance Supervisors (IAIS) that the Aggregation Method (AM) could be a basis for providing comparable outcomes to the insurance capital standard (ICS). He said this Working Group's role is to implement the AM. He introduced a presentation by Ned Tyrrell (NAIC) and Easland on the initial work to be performed by the group.

Commissioner Mais invited interested regulators and parties to comment on the presentation. Mariana Gomez-Vock (American Council of Life Insurers—ACLI) said the ACLI is supportive of the proposed work plan and would be happy to provide help (such as technical support) to the Working Group in the future.

2. Discussed Other Matters

Commissioner Mais thanked attendees for their support over the past decade of work on the AM and comparability. He said this would be a collaborative process moving forward and welcomed cooperation.

Having no further business, the Aggregation Method Implementation (G) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/G CMTE/National Meetings/AMIWG/2025 Spring NM/Final Minutes AMIWG_Indianapolis 032525.docx

AGGREGATION METHOD IMPLEMENTATION (G) WORKING GROUP UPDATE

June 9, 2025

Attachment 2
Aggregation Method Implementation (G) Working Group
6/9/25

Background

After years of deliberation, the International Association of Insurance Supervisors (IAIS) concluded in December 2024 that the AM provides "a basis of implementation" of the ICS for Internationally Active Insurance Groups (IAIGs)

To help ensure convergence, US will address two highlighted areas of work:

- Interest rate sensitivity of US Life IAIG's
- Timing of supervisory intervention

Scalar Update

Scalars

- A scalar can adjust for differences in the level of calibration between types of capital requirements and differences in valuation
- A scalar methodology is a means of using data, statistical analysis and/or judgment to calculate a set of scalars. Once selected, a methodology does not change.
- “Pure” scalars are only applied to the capital requirement
- “Excess” scalars also make an adjustment to preserve the amount of excess assets (the amount by which available exceed required capital)

Scaling in AM

- The goal for the final AM is to select a scaling methodology that is meaningful from a prudential point of view, relevant for the monitoring of financial soundness and that provides for comparable outcomes to the ICS
  - The AM Data Collection tested a wide range of scaling options
  - Provisional AM was unscaled with US entities at 300% of the Authorized Control Level
  - Final AM will be scaled using the method(s) from within this range that best achieves the goal

Further Context

- AM comparability data was collected concurrently with ICS Monitoring Period from 2021-2025
- In 2021, the American Academy of Actuaries released a paper to assist groupwide supervisors that are creating aggregation-based group capital approaches
  - Provided framework for classifying and evaluating methodologies
  - https://www.actuary.org/sites/default/files/2021-04/scalars.pdf
- GCC Working Group decided in 2023 to use an Excess Relative Ratio approach
  - Scaled results had previously been included as a "sensitivity test"
- In 2024, the Federal Reserve's Insurance Policy Advisory Committee released a paper discussing scalars in context of AM
  - "The Excess Relative Ratio method is seen to generate scalars in a viable, reasonable, reliable and stable manner enabling a group capital solvency measure derived using the Aggregation Method to further regulator understanding of the financial condition of internationally active insurance groups
  - https://www.actuary.org/sites/default/files/2024-06/IPAC_Scalar_Report_Feb.2024.pdf

Further Context

- In 2024, the Federal Reserve's Insurance Policy Advisory Committee released a paper discussing scalars in context of AM
  - "The Excess Relative Ratio method is seen to generate scalars in a viable, reasonable, reliable and stable manner enabling a group capital solvency measure derived using the Aggregation Method to further regulator understanding of the financial condition of internationally active insurance groups
  - https://www.actuary.org/sites/default/files/2024-06/IPAC_Scalar_Report_Feb.2024.pdf
- An excess relative ratio approach could address areas of work highlighted during comparability assessment:
  - Supervisory intervention: ERR should begin with the intervention level that is comparable to the ICS
  - Sensitivity to Interest Rates: ERR can adjust for valuation methods between different regimes

Scaling and Sensitivity to Interest Rates

- Some regimes reflect conservatism more in reserves (like SAP) and some have conservatism more in the capital requirement
  - Insofar as it is accompanied by corresponding decrease in capital requirements, higher reserves lead to higher average capital ratios
- The excess relative ratio approach adjusts available and required capital to produce the same average solvency ratio in each jurisdiction while keeping the excess capital (i.e. the amount by which available exceeds required capital) unchanged for each individual entity
  - This adjustment varies with changes in interest rates

Choice of Intervention Level

- Criterion 2.3 of comparability assessment says that overall AM should provide "a similar level of solvency protection as the ICS" which is a "99.5% Value at Risk over a one-year time horizon"
  - No agreement on how this is calculated
- As part of the comparability assessment process, using a "reverse-engineered ICS" method was suggested where required capital is scaled to produce same average calibration as the ICS
  - Sensitive to sample and weighting
  - For volume weighted sample of all US life and non-life IAIG's during the Monitoring Period, this method is closest to a 200% of ACL calibration
- Ongoing work will consider potential use of an excess relative ratio approach calibrated to 200% of the Authorized Control Level

AM Review & Request for Technical Input

AM Review

- Review of AM to provide response to IAIS on issues identified during comparability assessment (sensitivity to interest rates for US life groups and supervisory intervention on group capital grounds)
  - This will include considering scalars and what a 'Prescribed Capital Requirement' means in the context of our system
  - Will include how issues are already addressed and, if necessary, suggestions for refinements
- Process will include review of existing documentation, processes, procedures, etc.
- Technical input during the AM review will help ensure that the final work product accurately describes the solvency tools used in the US system (particularly regarding sensitivity of life insurance liabilities to interest rates).

Technical Input

- Examples of technical input that may be needed:
  - Qualitative descriptions of how different products are treated under SAP and the ICS
  - Sample calculations that compare the impact of interest rate changes on an idealized group
  - Estimates of impact of the move to Principles Based Reserving on US life insurance liabilities
  - Updates to scalars and analysis on their sensitivity to interest rates
  - Review of existing US group solvency tools
- Consider using a group of stakeholder volunteers to contribute to this input

Next Steps

- Next AMIWG meeting at the Spring National Meeting in Minneapolis – day/time is TBD
- Detailed timeline (Attachment 3)

Questions / Comments / Suggestions?

INTERNATIONAL AFFAIRS

NAIC
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AMIWG Timeline and Deliverables

<u>Introduction:</u> This document provides details and a timeline on the initial deliverables for the Aggregation Method Implementation (G) Working Group. This is a follow-up to the "Potential Deliverables" presented at the session at the Spring 2025 National Meeting in Indianapolis. The overall plan is that a review of the US solvency regime will provide recommendations for the finalization of the AM which will then inform the implementation and assessment of the AM.

- *Review of US solvency regime*: The initial review will be completed in 2025 and the final review with recommendations will be completed by mid-2026. The review will cover:
    - Identification of a scaling methodology (including calibration level) for use in the final AM
    - Development of supervisory materials for AM reporting/disclosure. Includes templates, sample calculations, and educational materials on the US system.
    - Reviews of how the AM and existing US regulatory tools regarding sensitivity to interest rates and intervention on group capital grounds
- *Finalization of AM:* An update to the provisional AM that incorporates refinements identified during the review. A draft will be completed by mid-2026 and a final version, at the earliest, in 2027.
- *ICS Assessments*: A self-assessment in 2026 will be followed by an IAIS assessment in or after 2027.
- *Implementation of Final AM*: At the earliest, in 2027.

<u>Meeting Plan</u>
Below is an overall timeline and milestones for how each issue will be followed through at AMIWG meetings in 2025 and the first half of 2026; adjustments may be made (such as additional meetings) as needed as work progresses.

August: NAIC Summer National Meeting
- *Scalars:* Recommendation on scalar method and calibration level. Scalar updates for key jurisdictions.
- *Supervisory Materials:* Draft package of AM reporting materials. Discussion of possible supplementary materials (e.g. info on US system).
- *AM Review:* Updates on review of sensitivity to interest rates and supervisory intervention, including impact of scalars and input from interested parties.

December 2025: NAIC Fall National Meeting
- *Scalars:* Scalar updates for material jurisdictions. Summarize results for GCC Working Group.
- *Supervisory Materials:* Discuss IAIS consultation on ICS Reporting / Disclosure. Finalize 2026 AM reporting materials based on input.
- *AM Review:* Draft summary of findings. Identify potential refinements (if any) to existing solvency tools.

Plan for 2026:
- *Scalars / Supervisory Reporting:* Maintain and, as needed, update for use in regular reporting.

- *AM Review:* Finalize response to areas of work highlighted during comparability assessment and recommendations for implementation of Final AM.
- *AM Finalization*: Draft version of the Final AM by 2026Q2. Liase with GCCWG and other relevant groups on potential refinements (if any) to existing solvency tools.
- *ICS Self-Assessment:* Review and complete IAIS questionnaire.
- *IAIS:* Public consultation on supervisory material on ICS reporting/disclosure.

Plan for 2027 (and beyond):

- *Scalars / Supervisory Reporting:* Maintain and, as needed, update for use in regular reporting.
- *AM Implementation:* Finalize AM documentation for implementation in 2027. Make relevant recommendations to other working groups.
- *ICS Assessment:* Provide IAIS with relevant information for assessment of the US implementation of the ICS via the AM. The assessment will, at the earliest, be in 2027.