MetLife

January 29, 2024

Via email

Scott O'Neal, NAIC Life Actuarial (A) Task Force

Re: APF 2023-12 on VM-30 Equity Return Volatility Assumptions

Dear Mr. O'Neal:

MetLife appreciates the opportunity to submit comments on APF 2023-12, which outlines a principles-based approach to setting insurer expections on reflecting equity return volatility in VM-30 cash-flow testing.

We support the principles-based standards set in APF 2023-12 as an appropriate mechanism for ensuring that AAT reserves are adequately conservative, meeting the "moderately adverse" standard. Guardrails on long-term AAT assumptions, including equity returns, ensure that asset allocations within the AAT framework appropriately reflect insurers' expected future balance sheets under a variety of scenarios.

Methodology Recommendation

The APF 2023-12 exposure requests comment on the preferred methodology for incorporating equity return volatility into AAT reserves. The APF offers four potential methodologies for consideration:

1. Stochastic modeling for equity returns, with accompanying analysis of risk metrics.

2. As relevant to capture the risk, including up, down, and/or volatile equity return scenarios for each given set of interest rate paths.

3. Projecting one or more market drops, taking into consideration future points at which cash-flow testing results could be vulnerable to market downturns.

4. Reflecting a level return assumption set equal to a tail risk metric, for example, setting investment returns to the average of the worst 30% of future scenarios, i.e., CTE 70.

MetLife's proposal reflects two salient characteristics of diversified equity returns:

1. Equity returns are relatively well-behaved and more predictable over the long term, i.e., holding periods of 20 years or longer. In general, equities are more suited to backing longer term, less liquid liabilities.

2. Different categories of equities (listed equities, private equity funds, hedge funds, etc.) have varying return and risk profiles and therefore should be modeled by category.

We propose that the CTE 70 methodology, combined with an interest rate dependency, (i.e., a combination of options 4 and 2 above) offers the most robust projection for equity returns in cashflow testing. At a high-level, this proposal could be implemented as follows:

1. Separate equity holdings into different categories

2. For each category, develop a long-term CTE 70 equity risk premium (ERP)

3. Add the ERP to the interest rates defined by the tested interest rate scenarios

4. Implement guardrails for shorter holding periods, (e.g., a demonstration that equity allocation does not exceed the value of long-tailed liabilities in the portfolio)

We believe that this principles-based approach can provide regulators robust and conservative equity return projections without adding significant operational complexity for insurers. Given the impactful nature of this topic, MetLife stands ready to discuss this proposal in greater detail to facilitate ongoing progress at LATF.

MetLife appreciates the opportunity to comment on APF 2023-12, and we look forward to continuing this constructive discussion. Please direct any questions on this letter to Ben Cushman, Head of Global Regulatory Policy, via email at ben.cushman@metlife.com.

Sincerely,

Bryan Boudreau
Executive Vice President and Chief Actuary
MetLife