

Draft date: 2/22/24

GROUP CAPITAL CALCULATION (E) WORKING GROUP

Tuesday, February 27, 2024

11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

ROLL CALL

John Rehagen, Chair	Missouri	Lindsay Crawford	Nebraska
Susan Berry, Vice-Chair	Illinois	David Wolf	New Jersey
John Loughran	Connecticut	Bob Kasinow	New York
Philip Barlow	District of Columbia	Dale Bruggeman/Tim Biler	Ohio
Ray Spudeck	Florida	Kirstin Anderson	Oregon
Roy Eft	Indiana	Diana Sherman	Pennsylvania
Kevin Clark	Iowa	Trey Hancock	Tennessee
John Turchi/Christopher Joyce	Massachusetts	Jamie Walker	Texas
Judy Weaver	Michigan	Doug Stolte/David Smith	Virginia
Barbara Carey	Minnesota	Amy Malm	Wisconsin

NAIC Support Staff: Jane Ren/Dan Daveline

AGENDA

1. *Welcome—John Rehagen (MO)*
2. *Overview of ACLIs Process for Updating Scalars & Proposed 2023 Scalars—Jennifer McAdam (American Council of Life Insurers—ACLI)* Attachment 1
3. *Discuss Comments Received—John Rehagen (MO)* Attachment 2
 - ACLI
 - APCIA/AHIP
 - United Health Group
4. *Consider Adoption of Proposed 2023 Scalars—John Rehagen (MO)*
5. *Discuss Process for Updating Scalars in the Future—John Rehagen (MO)*
6. *Adjournment*



January 19, 2024

John Rehagen, Chair
NAIC Group Capital Calculation (E) Working Group
Capital Markets & Investment Analysis Office
One New York Plaza, Suite 4210
New York, NY 10004

Via email: ddaveline@naic.org

Re: GCC Scalar Calibration

Dear John:

ACLI is pleased to provide you with the attached Scalar Calibration for Life Insurance Business and Japan Health Scalars Reports we have developed over the last few months in conjunction with our consultants.

As you know, on July 27, 2023, the NAIC Group Capital Calculation (E) Working Group adopted the proposal to designate Excess Relative Ratio (ERR) scalars as the primary scalar methodology within the GCC, which ACLI supported in a comment letter submitted on July 12. Since that time, ACLI and six member companies have engaged consultants, Oliver Wyman (life scalars) and Lou Felice (Japan health scalar), to define an approach to update and maintain the ERR scalars for use in the GCC and, as part of this effort, update the ERR scalars for 2023, for selected Life and Health scalars. While this work focused on Life and Health scalars, the approach was developed with the understanding that it could be applied to Property & Casualty business as well.

Used to adjust available and required capital for non-US insurance regimes, Oliver Wyman developed the initial methodology for life scalars in 2015. Replacing placeholder scalars with ERR scalars appropriately recognizes capital requirements for non-U.S. business in the GCC formula, thus generating appropriate GCC figures for regulators and the industry. Additionally, it is a significant step forward for the following reasons:

1. ERR scalars recognize differences in reserve methodologies across jurisdictions;
2. ERR scalars can adjust to significant changes in jurisdictional solvency regimes; and
3. Many global insurers already use the ERR methodology to allocate group capital.

The work our consultants have done in the last few months have met the following objectives:

1. Identified sources of data in each jurisdiction including:
 - a. Scope of insurers comprising the industry average;
 - b. Solvency ratios (industry average) for each jurisdiction; and
 - c. First point of regulatory intervention in each jurisdiction analyzed.

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. Ninety million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 95 percent of industry assets in the United States.

2. Recommended methodological solutions to address changes to scalars over time:
 - a. Historical data series length to provide accurate scalar estimates balancing responsiveness to changes with limited volatility over time; and
 - b. Methodologies to adjust scalars for significant changes in jurisdictional solvency regimes (e.g., Bermuda in 2023, Japan in 2025).

The attached reports propose scalars for 2023 and outline the recommended methodology to calibrate scalars on an ongoing basis. They also contain details regarding data sources, the data collection process, solvency operating ratios by country, and a summary of design decisions. The proposed health scalar was derived by adjusting the life scalar making it essential that both the life scalar and health scalar be included together in any future scalar updates applying the recommended methodology.

In the attached document you can find the following items:

- **Report 1: Scalar Calibration for Life Insurance Business**, prepared by ACLI and Oliver Wyman (PDF pp.1-35)
 - Executive Summary (p.4)
 - Proposed ERR Scalars (p. 5)
 - Summary of Design Decisions (p. 6)
 - Summary of Data Collection by Jurisdiction (p. 8)
 - Design Decisions (intervention threshold, averaging approach, length of time series, regime change triggers and processes) (pp. 9-17)
 - Appendix A: Project Timeline (pp. 18-19)
 - Appendix B: Processes for Data Collection (pp. 20-23)
 - Appendix C: Solvency Operating Levels by Country (pp. 24-25)
 - Appendix D: Country-Specific Detailed Analysis (pp. 26-32)
- **Report 2: GCC Japan Health Scalars Refresh**, prepared by ACLI and Lou Felice (PDF pp. 36-43)
 - Appendix: 2023 GCC Japan Health Scalar Calibration (pp. 40-43)

ACLI and our consultants are happy to answer any questions you may have.

Sincerely,



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SCALAR CALIBRATION

For Life insurance business

January 2024

A business of Marsh McLennan

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EXECUTIVE SUMMARY

- In July 2023, the NAIC Group Capital Calculation (E) Working Group adopted the proposal to designate Excess Relative Ratio (ERR) scalars, which are used to adjust available and required capital for non-US insurance regimes, as the primary scalar methodology within the Group Capital Calculation (GCC). Replacing placeholder scalars with ERR scalars appropriately recognizes capital requirements for non-U.S. business in the GCC formula, thus generating appropriate GCC figures for regulators and the industry. Additionally, it is a significant step forward for the following reasons:
 1. ERR scalars recognize differences in reserve methodologies across jurisdictions
 2. ERR scalars can adjust to significant changes in jurisdictional solvency regimes, and
 3. Many global insurers already use the ERR methodology to allocate group capital
- Following the NAIC's adoption of the ERR, ACLI and six member companies engaged Oliver Wyman, which had developed the initial method for ERR scalars in 2015, to:
 - Define an approach to update and maintain the ERR scalars for use in the GCC
 - Update the ERR scalars for 2023, for selected Life and Health scalars
- While the work focused on Life and Health scalars, the approach was developed with the understanding that it could also be applied to Property & Casualty business
- In support of the initiative, the following objectives have been achieved
 - Identified sources of data in each jurisdiction including:
 - Scope of insurers comprising the industry average
 - Solvency ratios (industry average) for each jurisdiction
 - First point of regulatory intervention in each jurisdiction analyzed
 - Recommended methodological solutions to address changes to scalars over time:
 - Historical data series length to provide accurate scalar estimates balancing responsiveness to changes with limited volatility over time
 - Methodologies to adjust scalars for significant changes in jurisdictional solvency regimes (e.g., Bermuda in 2023, Japan in 2025)
- This document proposes scalars for 2023 and outlines the recommended methodology to calibrate scalars on an ongoing basis

PROPOSED ERR SCALARS FROM 2023 CALIBRATION EXERCISE

A reconciliation from the 2015 calibration exercise is also provided below

Regime	1. 2022 GCC template	2. 2015 workbook	3. Regulatory triggers	4. Update local ratios for 2022	5. Update US for 2022	6. Use 3-years historical data	7. 2023 scalar ¹
EMEA	0.31	0.22	-	0.17	0.11	(0.01)	0.48
UK	0.31	0.22	-	(0.00)	0.06	(0.07)	0.21
Australia	0.30	0.24	-	0.00	0.07	(0.03)	0.28
Bermuda	0.44	0.17	0.13 ²	0.09	0.08	(0.01)	0.46
Canada	0.15	0.10	Regime change 0.17	(0.20)	0.02	0.01	0.10
Japan ⁴	1.01	0.77	-	0.19	0.29	(0.00)	1.24
Mexico	1.00	0.29	-	0.46	0.22	(0.18)	0.78
Singapore	1.00	0.27	Regime change 0.10	(0.09)	0.08	(0.05)	0.31
Korea RBC	1.00	0.24	0.25 ³	(0.15)	0.03	0.09	0.46
Korea ICS							0.29
Switzerland	0.16	0.11	-	0.23	0.10	(0.04)	0.40
South Africa	1.00	n/a					0.33
Hong Kong	1.00	n/a					0.24
China	1.00	n/a					0.35
Taiwan	1.00	n/a					0.18

1. Calibrated based on regulatory intervention level of 200% ACL for the US
2. 2015 exercise used an intervention level of 120% ECR. 100% ECR was used for this calibration, consistent with NAIC GCC guidelines
3. 2015 exercise used an intervention level of 150% RBC. 100% RBC was used for this calibration, consistent with NAIC GCC guidelines
4. For Japan SMR; see discussion of regime changes for scalar illustrative calibration under the proposed ESR (reflecting both changes to intervention level and industry capital ratios)

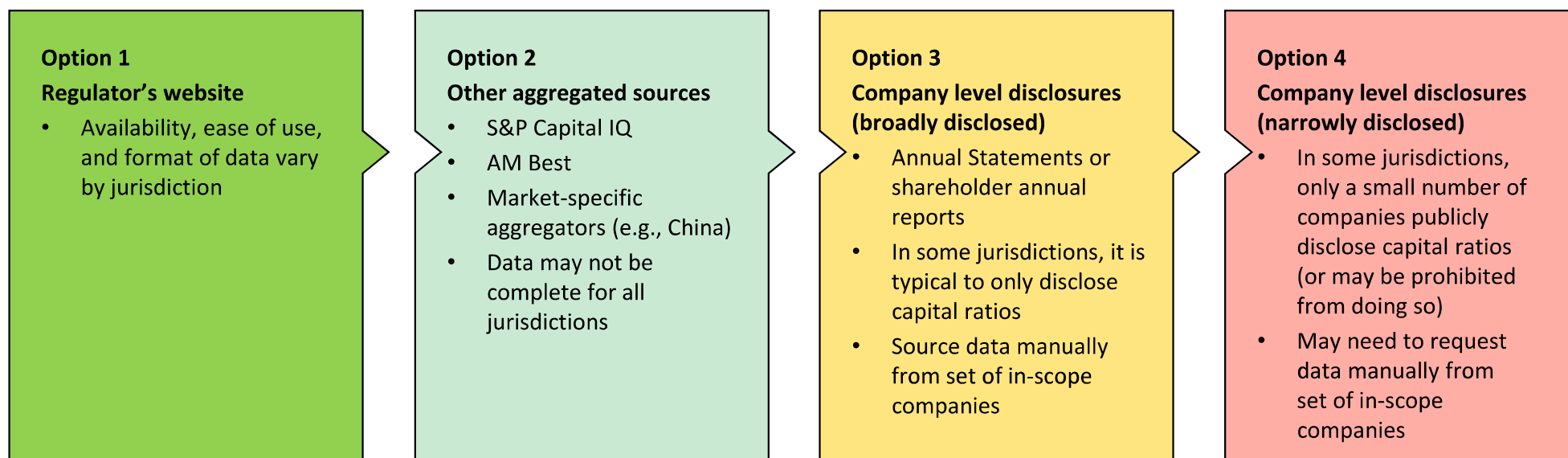
DESIGN DECISIONS – RECAP

#	Topic	Decision point	What was done in 2015?	Proposed approach
1	Data collection & scope	Company scope	<ul style="list-style-type: none"> Mix of company-level and full industry data 	<ul style="list-style-type: none"> Full market, size-weighted, where available Representative companies
		Level of first intervention	<ul style="list-style-type: none"> 200% ACL 	<ul style="list-style-type: none"> To investigate both 200% & 300%
2	Methodology	Averaging approach	<ul style="list-style-type: none"> Simple average, where company-level was used Size-weighted, where industry-level data used 	<ul style="list-style-type: none"> Market aggregates/size-weighted
		Length of time series	<ul style="list-style-type: none"> Single year 	<ul style="list-style-type: none"> 3 years, where available
		Single scalar vs. Life/Non-Life		<ul style="list-style-type: none"> Life/Non-Life
3	Ongoing updates	Frequency of updates		<ul style="list-style-type: none"> 3 years, or regime change
		Triggers for regime change		<ul style="list-style-type: none"> New solvency framework New regulatory intervention level Significant revisions to existing solvency framework
		Process for regime change		<ul style="list-style-type: none"> Year 0: Based on quantitative impact study (QIS) or company-data Year 1+: Based on years of reported data
		Monitoring/flags		<ul style="list-style-type: none"> Further investigation of large movements in capital ratios for a jurisdiction

 Indicates that analysis included in following slides

1 DESIGN DECISIONS: DATA COLLECTION APPROACH

Data collection followed a tiered approach, with data from regulators being the preferred option



Minimum data requirements – (At least 5 years of historical data preferred, minimum of 3 years)

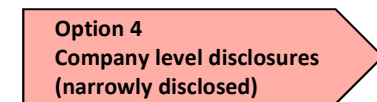
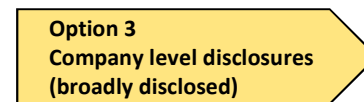
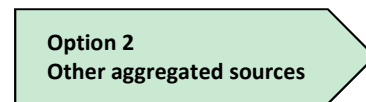
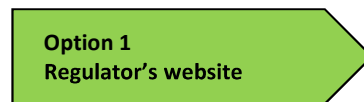
- Available capital
- Required capital
- Solvency ratio (for validation)
- Total assets

1 SUMMARY OF DATA COLLECTION BY JURISDICTION

Solvency data under Options 1 or 2 was available for most jurisdictions

Regime	Data source	Data granularity
US RBC ¹	Capital IQ	Company-level
EMEA ¹	Capital IQ	Company-level
UK	Regulator (Bank of England)	Industry aggregate
Australia	Regulator (APRA)	Company-level
Bermuda	Company filings	Company-level
Canada	Regulator (OSFI)	Company-level
Japan	Capital IQ	Company-level
Mexico	Company filings	Company-level

Regime	Data source	Data granularity
Singapore	Regulator (MAS)	Industry aggregate
Korea	Regulator (FSS)	Industry aggregate
Switzerland	Regulator (FINMA)	Company-level
South Africa	Capital IQ	Company-level
Hong Kong	Company filings	Company-level
China	Regulator (CBIRC)	Industry aggregate
Taiwan	Regulator (Insurance Bureau)	Company-level



1. Broad regulatory data was available for the US and EMEA, but chose to use company-level data from Capital IQ instead for additional granularity

1 DESIGN DECISIONS: INTERVENTION THRESHOLD FOR US MARKET

Company distribution of scaled solvency ratios (capital weighted, 3-year time series) – EMEA & Japan

Regime	US intervention level (% ACL)	Scaled solvency ratio	Number of companies within each solvency bucket ¹				
			2018	2019	2020	2021	2022
US	200%	< 200%	1	0	0	0	0
		200% - 400%	11	10	14	10	15
		> 400%	38	40	36	40	35
	300%	< 200%	1	1	1	1	1
		200% - 400%	45	42	44	45	46
		> 400%	4	7	5	4	3
EMEA	200%	< 200%	2	2	4	1	3
		200% - 400%	22	22	21	22	22
		> 400%	24	26	25	27	24
	300%	< 200%	9	11	11	12	11
		200% - 400%	23	25	30	27	28
		> 400%	16	14	9	11	10
Japan	200%	< 200%	0	0	0	0	0
		200% - 400%	7	8	10	11	11
		> 400%	15	14	12	11	11
	300%	< 200%	1	1	1	1	1
		200% - 400%	17	17	18	19	20
		> 400%	4	4	3	2	1

There is a wide dispersion of solvency ratios for EMEA companies.

At a 300% ACL intervention level, about 20% of companies are below 200% solvency ratio.

For Japan, company solvency ratios are comparatively more concentrated. Almost all companies are above a 200% solvency ratio, regardless of where the US intervention level is set.

1. 50 largest US and EMEA companies (by assets) included as part of this exercise. Full scope of 22 Japanese companies included

2 DESIGN DECISIONS: AVERAGING APPROACH

Historical solvency operating levels by country – US, EMEA & Japan

Regime	Averaging method	2016	2017	2018	2019	2020	2021	2022
US RBC ¹ (ACL)	Simple	2303%	2203%	2111%	2031%	2027%	2548%	2244%
	Median	986%	991%	903%	929%	943%	957%	902%
	Capital weighted	952%	929%	837%	859%	848%	878%	846%
EMEA ¹	Simple	257%	265%	269%	258%	254%	256%	264%
	Median	214%	218%	218%	214%	214%	215%	223%
	Capital weighted	240%	256%	263%	264%	251%	266%	261%
Japan	Simple	1211%	1161%	1149%	1150%	1109%	1089%	1012%
	Median	923%	945%	979%	984%	1009%	970%	963%
	Capital weighted	1017%	983%	991%	1029%	1038%	1049%	1025%

For US, use of simple average results in much higher capital ratio (due to upward outliers)

As a result, taking this approach would require their exclusion – adding an additional point of judgment

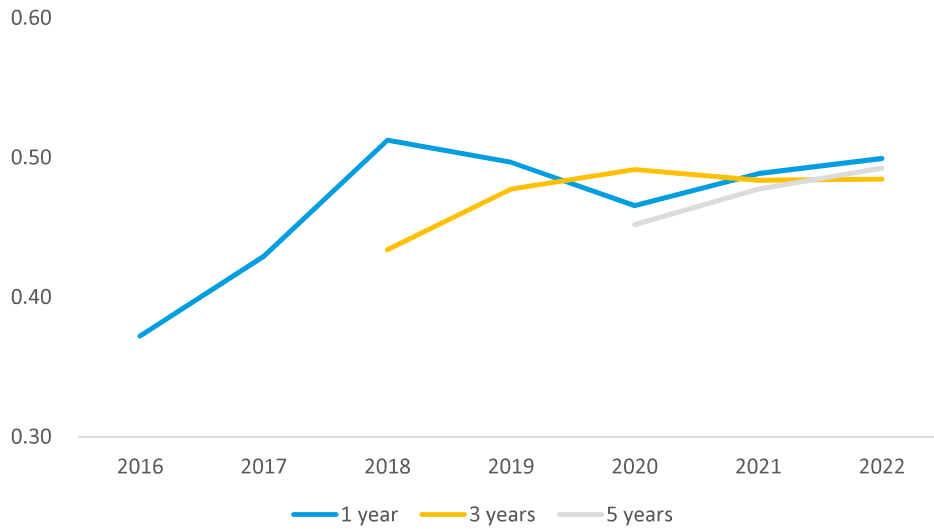
Capital-weighted view is equivalent to using market aggregates, and therefore can be applied even when only industry-level data is publicly available

1. Based on companies with assets over \$10M (USD) for each year

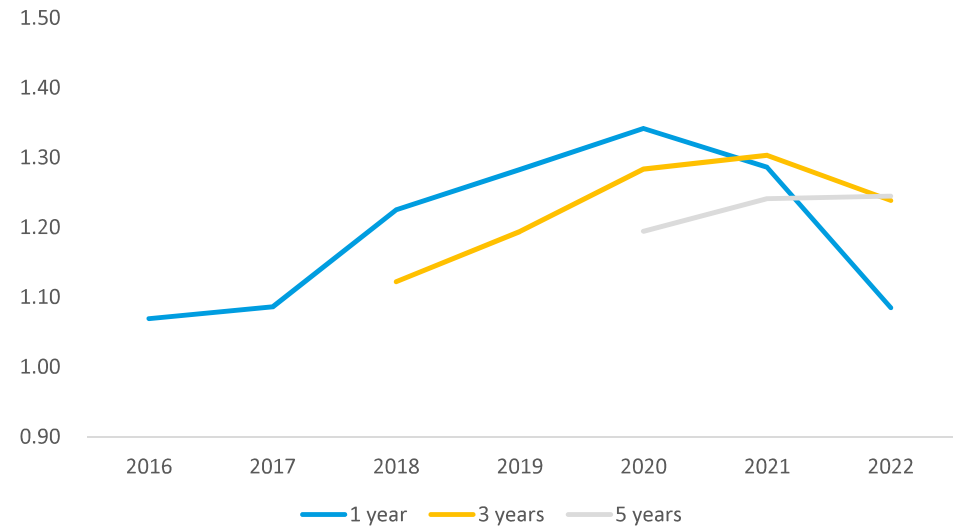
2 DESIGN DECISIONS: LENGTH OF TIME SERIES

ERR scalars (200% ACL) – EMEA & Japan

EMEA



Japan



Using a 3-year time series provides a balance between smoothing annual volatility in solvency ratios, while capturing overall trends in operating solvency levels.

3 years = Proposed approach

3 DESIGN DECISIONS: REGIME CHANGE TRIGGERS

Triggers

If any trigger is met, then the regime change process is followed

1

New solvency framework

Introduction of a fully new solvency framework (e.g., Korea's adoption of K-ICS) automatically triggers regime change process; this criteria is not triggered by introduction of a new version (e.g., C-ROSS 2.0)

2

New regulatory intervention level

A change in the intervention level will automatically trigger the regime change process (e.g., Singapore RBC2), as it will affect scalars even absent other revisions to the solvency framework

3

Significant revisions to existing solvency framework

Policy changes to components of the existing solvency regime (such as risk factors, tax rates, correlation matrices, etc.) that are expected to have an impact of 10%+ on industry-level solvency ratios; this trigger would apply based on both formal impact studies or the industry identifying triggering changes to the NAIC; **changes in market conditions (rates, spreads, equities, defaults) would not trigger an update**

3 DESIGN DECISIONS: REGIME CHANGE PROCESS

Scalar calculation process for initial year of new regime (when no historical data is available)

1

2

3

Industry-wide impact studies

- May be conducted by regulatory (preferred source) or industry group
- Calculated using consistent time periods (e.g., if impact study is from prior year, then prior year US RBC data used for calibration)
- **Example:** Korea K-ICS

Company-level data

- If impact study is unavailable or outdated (3 years+), company-level data can be used
- If sufficient share of industry (e.g. >50%) reports publicly, this data may replace use of an impact study
- Otherwise, this data may be used to roll-forward or validate continued applicability of an impact study
- **Example:** Japan ICS

Ad hoc analysis

- In certain instances, if neither an impact study nor company-level reporting is available, ad hoc analysis may be used to evaluate scalars
- **Example:** Changes to US tax rate

After the first year, the scalar is calculated based on reported data and rolls into three years of historical data (e.g., in first year after new regime adopted, one year of data is used for calibration; in second year, two years of data are used)

3 REGIME CHANGE EXAMPLE: SOUTH KOREA

Example of a regime change where industry-wide solvency reporting from South Korea’s regulator was used

- South Korea shifted to a new capital regime (“K-ICS”) beginning in 2023 from an RBC framework
 - Changes to regulatory invention point (150% to 100%)
- South Korea’s insurance regulator (the Financial Supervisory Service) publishes regular reports on the industry’s solvency ratios, including data before and after the shift to K-ICS
- To calibrate the ERR scalar under K-ICS, the Q2 2023 industry solvency ratio (with no transitional measures) of 196% was used
 - The scalar was calibrated without reflecting transitional measures to ensure consistent application across insurers
 - For purposes of group capital, we would expect the scalar to be applied to capital ratios before transitional measures
- The scalar will be updated using additional years of reported data under K-ICS as it becomes available

Historical life insurance companies’ solvency ratios:

	2019	2020	2021	2022	2023 Q1	2023 Q2
(A) RBC	285%	297%	254%	206%		
(B) K-ICS (no transitional measures)					193%	196%
(C) K-ICS (with transitional measures)					220%	224%
Difference vs. RBC without transitional measures (B – A)					-13%	-10%
Difference vs. RBC with transitional measures (C – A)					+14%	+18%

Source: Korea Financial Supervisory Service “Insurance Companies’ Capital Adequacy Ratios under K-ICS, June 2023”

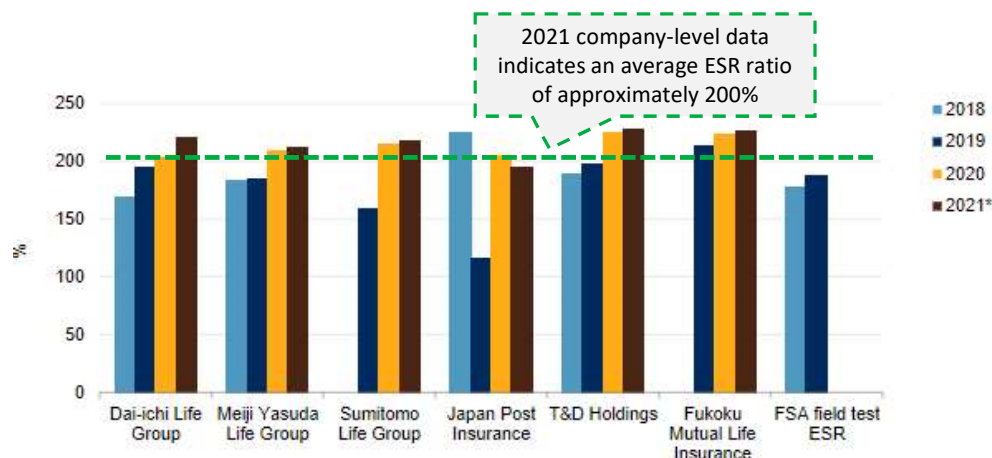
Used for initial calibration of scalar under K-ICS

3 REGIME CHANGE EXAMPLE: JAPAN

Illustration of how company-level data can be used in the absence of industry-wide studies

- Japan will be moving to a new economic value-based capital regime (“ESR”) beginning in 2025
 - Changes to regulatory invention point (200% to 100%)
- Japan’s insurance regulator (Financial Services Agency) conducts annual field tests to gauge the impact of the new regime
 - Most recent publicly released results date back to 2020
 - In 2020, industry-average ratio was 187%
- Several Japanese insurers voluntarily disclose ESR ratios; absent recent field test results, the NAIC can calibrate an initial ESR scalar based on company-level data
 - Company-level data shows a general upward trend with modest increases from 2020 to 2021
 - Overlaying this increase implies an industry ESR ratio of ~200%
- A 200% ESR ratio results in a Japan Life¹ ERR scalar of 0.30
- We expect that this analysis would be refreshed with more recent data when Japan moves to the ESR in 2025

Company-level ESR ratios



Fiscal years end March 31 of the following year. *Data through to the end of the first half of fiscal 2021

Source: S&P Global Ratings

1. An update of the Japan Heath scalar was out-of-scope for this report; this scalar is addressed in a separate analysis presented by consultant Louis Felice, which derives scalar of approximately 0.21 by applying the same principles as the Life scalar.
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3 REGIME CHANGE Q&A

- **What about instances where a regime change allows for early adopters?**

- The NAIC could look at the planned adoption by the relevant companies, i.e., those US companies apply scalars for a specific jurisdiction to determine whether scalars are required under the prior and/or new regime(s)
- If relevant companies are not all early adopters and therefore will continue to report under the existing regime, the scalar should be calibrated using only data for companies reporting under the existing regime
- If relevant US companies are planning to adopt early, the regime change approach can be applied to develop a scalar prior to adoption deadline
- If a mixture of approaches is taken in the industry, the NAIC may take both approaches. However, it may also exercise judgement around the materiality of the scalars (e.g., choosing to not update scalars for the existing regime if most relevant companies are early adopters)


- **What about transition periods?**

- During a regime change, a transition period may allow for the grade-in of certain assumptions, provisions or other components in a manner that reduces the initial impact of a regime change
- Treatment of such measures will need to be addressed on a case-by-case basis, considering factors such as whether the transition approach applies broadly or is subject to election and if it affects all companies in the same way (directionally)
- For calibration of the Korea ICS scalar, data was available from the regulator for industry solvency ratios with and without transitional measures. The scalar was calibrated without reflecting transitional measures as a way to ensure consistency across insurers, regardless of whether they elected transitional measures
- In some cases, it may be appropriate to simply follow the outlined regime change and recurring update process, and the impacts of transitional metrics will be graded in through that mechanism

3 PROPOSED PROCESS FOR ONGOING MONITORING

- Routine updates to scalars are expected to occur every ~3 years
- As part of the routine updates, a monitoring process can be used to identify when further review of a jurisdiction is required
 - Proposed threshold of **10% change in the industry-average capital ratio** for a given jurisdiction
 - Applies to industry-average capital ratios, not scalars
- If the threshold is met, further review should occur in order to:
 - Confirm data quality
 - Identify what factors are driving the change (economic conditions, refinements to capital regime, etc) and narrative around it
- Based on this review, the NAIC could determine whether an adjustment (e.g., using a shorter historical data period) is required

Regime	2019	2020	2021	2022	Comments
US RBC (ACL)	859%	848%	878%	846%	Large changes in 2022 reflect in part significant rate movements in several markets (incl. US and UK)
EMEA	264%	251%	266%	261%	
UK	157%	154%	163%	189%	
Australia	167%	177%	195%	199%	
Bermuda	290%	262%	238%	250%	
Canada	136%	140%	134%	130%	
Japan	1045%	1070%	1071%	901%	
Mexico	364%	329%	330%	411%	High volatility historically
Singapore	236%	186%	200%	216%	2020: RBC2
Korea (RBC)	285%	297%	254%	206%	
Switzerland	226%	216%	236%	243%	
South Africa	219%	216%	198%	208%	
Hong Kong	301%	286%	270%	246%	
China	241%	240%	223%	186%	2022: C-ROSS 2.0
Taiwan	314%	310%	340%	305%	

 = 10-15% movement vs. prior year (absolute basis)

 = Greater than 15% movement vs. prior year (absolute basis)

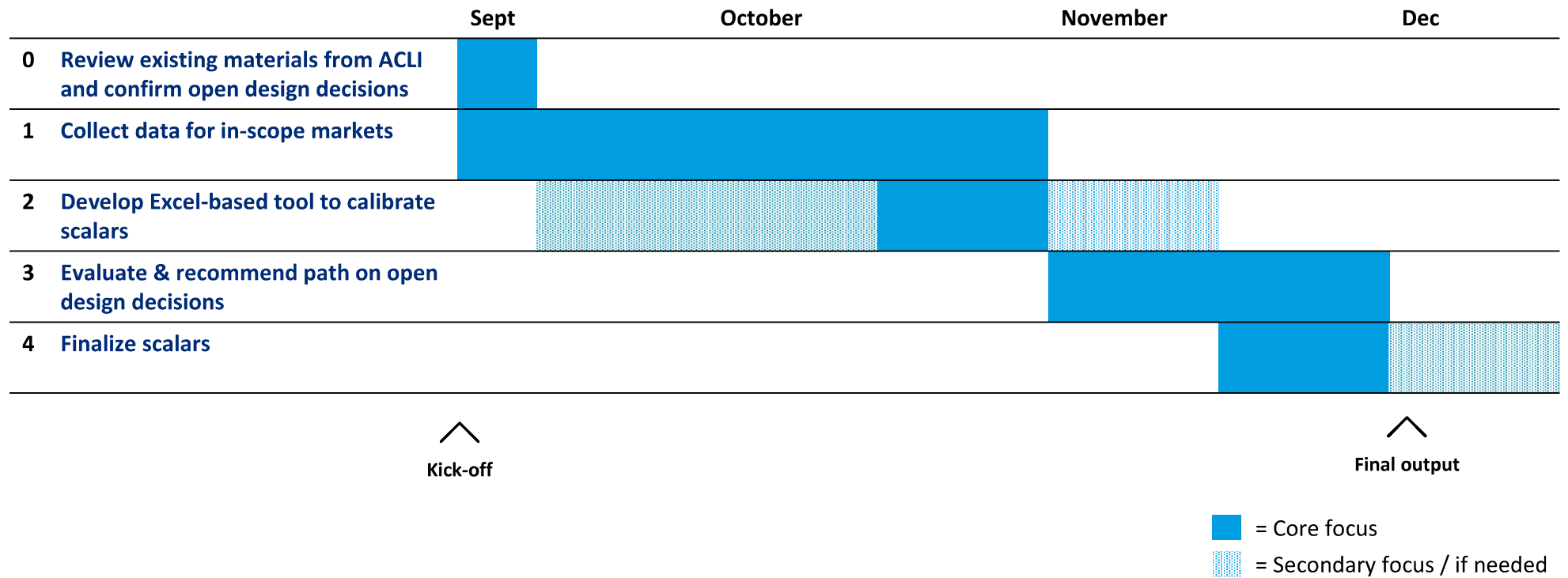
APPENDIX A

PROJECT TIMELINE

PROJECT TIMELINE

Core effort spread over 3 months, with weekly touchpoints between Oliver Wyman and ACLI working group
















Timeline















APPENDIX B

PROCESS FOR DATA COLLECTION

DATA FOR IN-SCOPE MARKETS (1 OF 3)

Country	Source identified?	Data acquired?	Intervention level?
Australia	 <ul style="list-style-type: none"> Source: APRA website Scope: Full market (33 companies) 	 <ul style="list-style-type: none"> Aggregate and company-specific data 2008-2022 	 100% PCR (Increase supervision)
Bermuda	 <ul style="list-style-type: none"> Source: Company-level disclosures Scope: Subset of market 	 <ul style="list-style-type: none"> Acquired data for 21 companies making up 50% of Class E assets Challenges faced from limited company-level public reporting 	 100% ECR (to align with NAIC GCC instructions)
Canada	 <ul style="list-style-type: none"> Source: OSFI website Scope: Full market 	 <ul style="list-style-type: none"> Aggregate and company-specific data 	 100% LICAT (Supervisory target that provides a cushion above minimum requirements) Regime change: <i>LICAT introduced in 2018</i>
Mexico	 <ul style="list-style-type: none"> Source: CNSF website Scope: Full market 	 <ul style="list-style-type: none"> Acquired data for 18 companies making up 86% of total industry assets 	 100% SCR (consistent with 2015 analysis)
United States	 <ul style="list-style-type: none"> Source: Statutory filings via CapIQ Scope: Full market (legal-entity level) 	 <ul style="list-style-type: none"> Legal-entity level data 2015-2022 (earlier years available) 	 100% Company Action Level RBC (Company submits plan to regulatory)

DATA FOR IN-SCOPE MARKETS (2 OF 3)

Country	Source identified?	Data acquired?	Intervention level?
Solvency II (Europe)	 <ul style="list-style-type: none"> Source: Financial statements via CapIQ Scope: Close to full market 	 <ul style="list-style-type: none"> Company-specific data Acquired data from CapIQ makes up ~90% of industry assets 	 100% SCR (Supervisory actions required to restore solvency level)
Solvency II (UK)	 <ul style="list-style-type: none"> Source: Financial statements via CapIQ Scope: Full market 	 <ul style="list-style-type: none"> Company-specific data 	 100% SCR (Supervisory actions required to restore solvency level)
Switzerland	 <ul style="list-style-type: none"> Source: FINMA website Scope: Full market 	 <ul style="list-style-type: none"> Historical industry-wide solvency ratios available 	 100% SST (Company submits an action plan)
South Africa	 <ul style="list-style-type: none"> Source: Financial statements via CapIQ Scope: Subset of market 	 <ul style="list-style-type: none"> Company-specific data Acquired data for top 5 companies making up ~80% of industry assets 	 100% SCR

DATA FOR IN-SCOPE MARKETS (3 OF 3)

Country	Source identified?	Data acquired?	Intervention level?
China	✓ <ul style="list-style-type: none"> Source: CBIRC website Scope: Full market 	✓ <ul style="list-style-type: none"> Historical industry-wide solvency ratios available Regime change to be graded in through regular updates 	✓ <ul style="list-style-type: none"> 100% Comprehensive Solvency Margin Regime change: C-ROSS Phase II introduced in 2022
Chinese Taipei	✓ <ul style="list-style-type: none"> Source: Insurance Bureau website, company-level reporting Scope: Full market 	✓ <ul style="list-style-type: none"> Acquired data for 21 companies making up 98% of total industry assets 	✓ <ul style="list-style-type: none"> 200% RBC ICS-like regime to be introduced in 2026
Japan	✓ <ul style="list-style-type: none"> At least partially available from CapIQ Expect broadly available in annual reports and disclosures 	✓ <ul style="list-style-type: none"> Acquired data for 22 companies from CapIQ making up close to 100% of industry assets 	✓ <ul style="list-style-type: none"> 200% SMR (Submission of business improvement plan) ICS-like regime to be introduced in 2025
Hong Kong	✓ <ul style="list-style-type: none"> No broad market data identified Operating company-level data not widely available 	✓ <ul style="list-style-type: none"> Company-level reporting covers ~30% of the market (by assets) No participating companies indicated a need for Hong Kong scalar 	✓ <ul style="list-style-type: none"> 150% regulatory minimum capital (under HKIO) Post-2023: 100% PCR (under HKRBC)
Singapore	✓ <ul style="list-style-type: none"> Source: MAS regulator website Scope: Full market 	✓ <ul style="list-style-type: none"> Historical industry-wide solvency ratios available 	✓ <ul style="list-style-type: none"> 100% CAR¹ Regime change: RBC 2 introduced in 2020
South Korea	✓ <ul style="list-style-type: none"> Source: FSS regulator website Scope: Full market 	✓ <ul style="list-style-type: none"> Historical industry-wide solvency ratios available To be treated as regime change. No transitional measures as tentative approach 	✓ <ul style="list-style-type: none"> 2022 and prior: 100% RBC (to align with NAIC GCC instructions) 2023 onwards: 100% K-ICS Upcoming regime change: Shift to K-ICS

1. NAIC GCC instructions use 120% CAR as intervention level. However, this was likely based on the previous RBC regime for Singapore

APPENDIX C

SOLVENCY OPERATING LEVELS BY COUNTRY

HISTORICAL SOLVENCY OPERATING LEVELS BY COUNTRY

Regime	2014	2015	2016	2017	2018	2019	2020	2021	2022
US RBC (%ACL)	972%	964%	952%	929%	837%	859%	848%	878%	846%
EMEA			240%	256%	263%	264%	251%	266%	261%
UK					154%	157%	154%	163%	189%
Australia					179%	167%	177%	195%	199%
Bermuda					298%	290%	262%	238%	250%
Canada					138%	136%	140%	134%	130%
Japan ¹	1010%	955%	1004%	991%	981%	1045%	1070%	1071%	901%
Mexico					215%	364%	329%	330%	411%
Singapore					236%	236%	186%	200%	216%
Korea					271%	285%	297%	254%	206%
K-ICS									196% ²
Switzerland					219%	226%	216%	236%	243%
South Africa					238%	219%	216%	198%	208%
Hong Kong					296%	301%	286%	270%	246%
China					235%	241%	240%	223%	186%
Taiwan					306%	314%	310%	340%	305%

1. Japanese insurers' financial reporting cycles end in March. Solvency ratios used for calibration are on a calendar year basis to align with other countries' financial reporting cycles

2. Based on Q2 2023 industry K-ICS ratio with no transitional measures

APPENDIX D

COUNTRY-SPECIFIC DETAILED ANALYSIS

Presented October 12, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – AUSTRALIA

- Example of a best-case scenario for data collection
- Regulator website includes database of key financial metrics for life insurers (2008 – 2022):
 - Total assets
 - Eligible capital
 - Prescribed capital amount

Australia life insurance industry statistics (2020-2022)

<i>AUD billions</i>	2020	2021	2022
Assets	129.6	130.4	121.4
Eligible capital	17.2	17.0	15.5
Prescribed capital amount	9.7	8.7	7.8
Industry solvency ratio	177%	195%	199%

Presented October 12, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – BERMUDA

- Gathering complete data for the Bermuda life insurance industry has been challenging:
 - Aggregate industry solvency metrics unavailable from Bermuda Monetary Authority (BMA) website
 - Company-level information unavailable from CapIQ or AM Best
 - Company-level reporting also difficult to obtain in many cases¹

List of life insurers from AM Best, as well as companies with filings on BMA website:

Company	Total Assets (\$ billions)	Solvency Ratios		
		2022	2021	2020
Athene Life Re	103	252%	209%	252%
RGA Americas Reinsurance Company Ltd	55	n/a	n/a	n/a
Global Atlantic	46	221%	257%	280%
Resolution Re	45	216%	227%	198%
Fortitude Re	43	174%	226%	228%
Legal & General Re	30	359%	332%	303%
Wilton Re	20	226%	256%	298%
Monument Re	17	167%	299%	473%
MetLife Reinsurance Co of Bermuda Ltd	16	n/a	n/a	n/a
Talcott Life Re Ltd	14	224%	288%	n/a
Partner Re Bermuda	12	256%	253%	258%
Gibraltar Re	11	n/a	n/a	n/a
Transamerica Life (Bermuda) Ltd	10	1209%	409%	529%
Somerset Reinsurance Ltd	5	356%	319%	313%
Pacific Life Re International Limited	5	265%	316%	251%
Aspida Life Re	4	207%	181%	n/a
Kuvare Life Re	3	262%	234%	358%
Athora Life Re Ltd	3	210%	227%	328%
Union Hamilton Re	2	n/a	n/a	n/a
RGA Global Reinsurance Company, Ltd	2	n/a	n/a	n/a
Oceanview Reinsurance Ltd	2	268%	259%	313%
AIG Life of Bermuda, Ltd	2	n/a	n/a	n/a
Liberty Re (Bermuda)	1	177%	197%	301%
Legal & General Reinsurance Co No.2 Ltd	0	409%	344%	n/a
Total	452			

Aggregate data from 2022 BMA Annual Report:

Class of Insurer	No. of Licences	Gross Premiums (USD)	Net Premiums (USD)	Total Assets (USD)	Capital and Surplus (USD)
Class 1	169	2,333,121,374	1,960,081,842	18,120,135,559	13,925,207,443
Class 2	252	9,498,102,449	8,066,400,503	63,345,613,144	35,730,173,982
Class 3	190	16,440,071,299	11,653,073,128	63,278,503,798	21,589,610,070
Class 3A	119	27,087,153,507	19,264,620,994	67,539,789,913	27,566,198,558
Class 3B	27	8,927,141,999	7,265,021,165	46,907,810,721	21,237,052,202
Class 4	43	58,502,015,601	46,013,313,223	227,240,574,360	104,984,802,347
Class A	8	604,639,989	52,566,710	5,372,222,168	2,395,591,606
Class B	13	253,438,367	232,202,287	434,592,676	135,035,648
Class C	83	33,837,732,669	28,170,116,213	181,442,799,399	15,974,725,727
Class D	8	133,447,700	68,150,111	5,768,984,906	415,513,064
Class E	57	102,053,255,694	72,674,834,270	882,284,687,276	111,468,818,626
SPI	178	7,506,492,342	6,893,620,640	66,494,362,649	13,979,631,708
Collateralized	7	964,162,294	433,544,022	5,419,541,608	1,302,640,755
Total	1,154	268,140,775,285	202,747,545,107	1,633,649,618,176	370,705,001,734

Companies included in our list make up 51% of total Class E insurer assets. Removing those where solvency data is unavailable, the 51% drops to 41%

1. Following the October 12, 2023 meeting, RGA provided company-level solvency reports to be included as part of the Bermuda dataset
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Presented October 30, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – CANADA

- Canadian insurance regulator (OSFI) website has detailed financial information available on a company-by-company basis, as well as on an aggregate basis
- Various entity splits are available:
 - Domestic vs. Foreign
 - Life vs. Fraternal
- **Our proposed approach for company inclusion is to include the total market**, including foreign and fraternal companies
 - Most comprehensive view of Canadian insurance industry solvency
 - Solvency levels not materially different between Total view and Canadian/Life-only view
 - Confirmed that supervisory intervention levels are the same between LICAT and LIMAT

	Assets	LICAT/LIMAT Total Ratio				
	(2022, CAD 000s)	2018	2019	2020	2021	2022
Canadian, Life	1,704,022,528	1.39	1.37	1.40	1.34	1.29
Canadian, Fraternal	17,919,436	1.53	1.72	1.91	1.65	1.65
Foreign, Life	21,284,756	1.29	1.26	1.35	1.31	1.28
Foreign, Fraternal	3,928,927	1.91	1.43	1.30	2.05	2.48
Total	1,747,155,647	1.38	1.36	1.40	1.34	1.30

Presented October 30, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – CHINA

Discussion on approach for C-ROSS Phase 2 regime change

- China shifted from their previous capital regime C-ROSS Phase 1 to C-ROSS Phase 2 beginning in 2022
 - The regulator is granting insurers up to 3 years to apply transitional measures
- Capital required under C-ROSS Phase 2 is expected to be higher than under Phase 1 for life insurers, although impact to comprehensive solvency ratio appears low
 - No impact studies were identified
 - Industry-level reporting does not include overlapping period
 - Greater impact to core ratio due to caps implemented on amount of future profits recognizable as Tier 1 capital
 - Industry impacts expected to be larger for non-life insurers

Proposed approach (for discussion today): Given modest impact to relevant ratio for GCC and 3-year transitional period, allow changes to be captured via regular scalar updates

Solvency ratios for select large Chinese life insurers before and after C-ROSS Phase 2:

	Comprehensive Solvency Ratio (relevant ratio for GCC purposes)			Core Solvency Ratio (focuses on Tier 1 capital)		
	Q4 2021 (under C-ROSS Phase 1)	Q1 2022 (under C-ROSS Phase 2)	Difference	Q4 2021 (under C-ROSS Phase 1)	Q1 2022 (under C-ROSS Phase 2)	Difference
China Life	262%	248%	-14%	254%	176%	-78%
China Pacific	218%	247%	+29%	218%	147%	-71%
Ping An	233%	236%*	+3%	229%	179%	-50%
AIA	Annual report noted that the impact of C-ROSS Phase II was insignificant					

*As at Q2 2022

Source: Company public filings

Presented October 30, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – MEXICO

Proposed approach for company data inclusion

- Industry-wide solvency ratios for Mexico are available, but it is unclear how the ratios were derived
 - Average vs. median solvency ratios
 - Only 3 years of ratios available, rounded to nearest 10%
 - Inconsistent with company-level data
- The Mexican regulator (CNSF) website also publishes insurer solvency ratios, but not required and available capital
- Analysis of the company-level data reveals data concerns
 - Volatile historical solvency ratios
 - Some data outliers, which skew industry-level
 - Not all ratios can be confirmed through public solvency reports

Our proposed approach for Mexico is to include a subset of the total market, where ratios can be confirmed through company public reports

Data for 10 largest Mexican life insurers from AM Best:

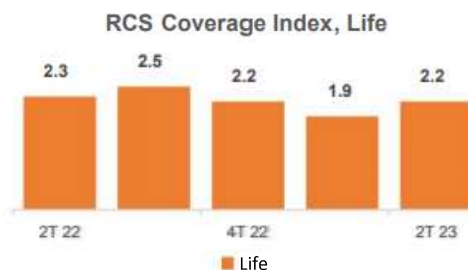
	2022 Total Assets (USD 000s)	SCR Coverage Ratio				
		2022	2021	2020	2019	2018
Pensiones Banorte	12,182,428	1075%	734%	713%	2940%	2877%
Grupo Nacional Provincial	10,164,421	217%	247%	284%	236%	146%
BBVA Seguros México	9,266,393	257%	221%	238%	206%	398%
BBVA Pensiones México	7,825,955	391%	510%	873%	1170%	2624%
MetLife México	7,247,672	528%	331%	340%	406%	188%
Citibanamex Seguros	7,192,095	416%	404%	232%	408%	132%
Seguros Monterrey New York Life	7,157,593	288%	272%	290%	374%	188%
Profuturo Pensiones	5,116,091	274%	364%	117%		
AXA Seguros	4,405,400	246%	272%	301%	275%	
Seguros Inbursa, S.A.	4,054,853	443%	342%	250%	261%	148%

Source: Solvency ratios obtained from CNSF website <https://informacionfinanciera.cnsf.gob.mx/>

Significant volatility observed in reported solvency ratios

Outliers present in data that skew averages

Mexican life insurance industry-wide solvency ratios:



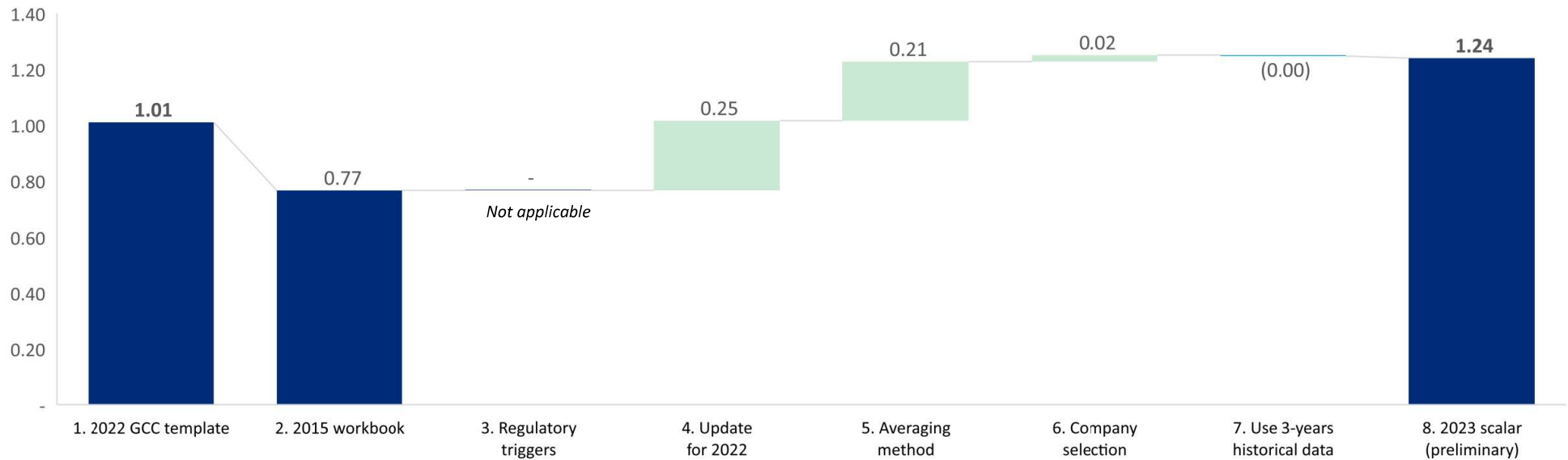
Source: CNSF "Analytical Overview of the Sector June 2023"

Presented November 9, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – JAPAN

Reconciliation of ERR scalar (200% ACL) from 2015 exercise to current

- The difference between the 2015 ERR scalar for Japan and the scalar calculated under the current proposed approach can be broken down into a number of steps:



- 1 Japan Life ERR scalar from 2022 GCC template (200% ACL)
- 2 Scalar from 2015 workbook
- 3 Update for any changes in regulatory intervention levels (none needed)
- 4 Update operating ranges to use 2022 solvency ratios

- 5 Update for averaging method (simple average to weighted market)
- 6 Update company selection (from market subset to full market)
- 7 Update time series length from 1 year to 3 years (average)
- 8 2023 scalar under current proposed methodology

APPENDIX E

OLIVER WYMAN CONTACT INFORMATION

CONTACT INFORMATION



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GROUP CAPITAL CALCULATION – JAPAN HEALTH SCALARS REFRESH REPORT TO NAIC

Executive Summary

An updated health scalar under the existing excess relative ratio (ERR) method is proposed herein for health insurers operating in Japan. In July 2023, NAIC adopted the ERR method as the sole scalar method in the GCC and upon review has also moved the scalars from “sensitivity analysis” to the base GCC Ratio calculation. Utilizing the same framework as the 2019/2020 health scalar development, a scalar of .89 is being proposed for use in the base capital ratio reported in the 12/31/2023 Group Capital Calculation (GCC) template replacing the .71 scalar currently included in the GCC template. This is directly proportional to the increase observed for the 2023 Japan life scalar calibration. Additionally, an initial projected scalar of .21¹ is being proposed under the capital regime change to occur in Japan effective April 1, 2025. The proposed health scalars for both current regime and projected under regime change were adjusted from the life insurance ERR scalars proposed in the accompanying report from Oliver Wyman. The best estimate projected scalars of .30 for life and .21 for health are preliminary and should be reviewed further as additional data becomes available. The Oliver Wyman report presents the methodology and process for periodically updating scalars with work focused on life insurance scalars only. The data included in the calculations attached for the proposed health scalars used the same data periods through 12/31/2022 applied by Oliver Wyman to develop the Japan life scalars with adjustments for health solvency requirements. Per the NAIC Group Capital Calculations Instructions, the Japan health scalar may be used by insurers whose insurance health business (referred to as “Third Sector”) comprise greater than sixty percent of all insurance lines underwritten, reflected by annualized premium.

Background:

The group capital calculation (GCC) template and instructions were formally adopted by the NAIC members in 2021 and are maintained each year by the NAIC. Scalars are included to compare insurance capital requirements of non-U.S. jurisdiction to U.S. Risk-based Capital (RBC) requirements. Prior to the 2023 version of the GCC template, the scalars were included in the template as part of “sensitivity analysis.” The current scalars for life insurers and property and casualty insurers were developed by the NAIC based on available public data from jurisdictions for reporting years 2015 and 2016. After consultation with NAIC staff, scalars for insurers writing a predominant amount of business in Japan’s Third Sector were presented to NAIC by AFLAC, assessed by NAIC staff, and introduced in 2020 as part of the development of the GCC. The Japan health scalars were developed by adjusting the scalars for life insurers using data provided by AFLAC, who is organized as a life insurer and the industry leader

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in Japan's Third Sector. Both Life and Non-Life insurers in Japan may write health or related insurance in the Third Sector. The data used to develop the proposed life scalars for Japan includes health business similar to the data used for the Japan scalars in the current GCC template.

The updated health scalars presented above were derived using the same methodology framework used in 2019/2020 starting with the life scalar developed by the NAIC for Japan (and now as updated in the accompanying Oliver Wyman report) and then adjusted for several factors.

Regime Change:

The current Japanese insurance capital regime includes a Solvency Margin Ratio (SMR) calculated in a way much closer to U.S. RBC. Reported weighted average solvency ratios in Japan are historically higher than reported U.S. RBC ratios for life insurers. This can result in a scalar greater than 1 as is the case for the proposed Japan Life Scalar of 1.24. Effective in fiscal year 2025, this will change to an Economic Solvency Ratio (ESR) regime with required capital calculated in a way closer to the Solvency II regimes used in the United Kingdom and European Union. Based on an impact study by the Japan Financial Services Authority in 2020 and other available information the targeted solvency ratios will be significantly lower than weighted average U.S. RBC ratios under the ESR regime (See Oliver Wyman report). This results in a scalar much lower than 1 as is the case for the tentative projected Japan Life Scalar of .30.¹ Absent adoption of revised scalars, group capital ratios reported in the GCC for life and health insurers operating in Japan will be severely impacted.

As with the initial GCC scalars development, the projected health scalar for the GCC upon and after regime change in Japan should be reviewed in conjunction with the life scalar for Japan. For example, the life scalar would be updated first (if necessary) and then the adjustments described below applied to the life scalar to calculate a health scalar. The Oliver Wyman report includes guidance for such a process for the life scalar.

Methodology (See Appendix attached):

Starting with the life insurance ratios included in the accompanying Oliver Wyman report and using updated data provided by AFLAC through 12/31/22, the scalars for life insurers were adjusted based on two broad concepts:

1. The stringency of current Japanese solvency standards on health ("Third Sector") vs. life ("First Sector") business. AFLAC data indicates a materially higher level of capital stringency (capital devoted to Third Sector business) compared to its First Sector business.

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2. The proportion of Third Sector to First Sector insurance written by AFLAC vs. a typical Japanese life insurer. AFLAC's Japan premium profile is approximately 75% health and 25% life. This is roughly the opposite of a typical Japanese life insurer.

The adjustments result in a factor of .72 applied to the Japan life scalar. Based on historical data, both above conditions are expected to remain constant over time and across regime change.

Adjustment steps to determine a Japan health scalar:

- a. Allocate available capital to the First Sector and Third Sector based on insurance liabilities attributable to each sector.
- b. Use actual SMR filings to establish required capital specifically attributed to the First Sector and Third Sector.
- c. Calculate a solvency ratio for each sector by dividing the results under a., by those under b., above.
- d. Using the solvency ratios calculated under (c), an adjustment factor for health vs. life SMR required capital was derived. The resulting .72 factor was then selected based on the split in annualized premium between Third and First sectors. The factor is applied to the life ERR scalar which produces the proposed 0.89 Health scalar (0.72 adjustment factor x 1.24 life scalar).

Additional Information:

Weighted average Japan solvency ratio data for life insurers used for both this report and by Oliver Wyman indicate an approximately 15% drop in the ratios in calendar 2022 compared to both 2021 and 2020. This may have to do with market conditions in Japan such as higher bond yields impacting investments. However, there can be other changes in play related to implementing a new regime or other policy change that result in a material change in the solvency ratio. The potential persistency of this directional in Japan should be investigated, and a potential update to the 1.24 and .89 respective proposed scalars for life and health as of 12/31/23 scalars considered for the 12/31/2024 GCC. Moving from the one data year approach adopted by the NAIC in the current GCC template to the rolling 3-year process with exceptions described in the Oliver Wyman report is reasonable. It may be that where there is a meaningful change in the reference jurisdiction's solvency ratio, particularly in the final year of the 3-year evaluation period, an updated review can be considered. Such is the case for Japan with the weighted average decrease of 15% noted earlier herein.

Example: Using 2022 data alone would have generated a life scalar of 1.05 (.76 for health) for Japan.

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Recap:

- A scalar of .89 is proposed for use in the base capital ratio reported in the 12/31/2023 Group Capital Calculation (GCC) template, assuming a Q1 2024 approval. Additionally, an initial projected scalar of .21¹ is being proposed under the capital regime change to occur in Japan in 2025.
- In July 2023, NAIC adopted the ERR method as the sole scalar method in the GCC and upon review has also moved the scalars from “sensitivity analysis” to the base GCC Ratio calculation.
- The projected health scalar for the GCC upon and after regime change in Japan should be reviewed in conjunction with the life scalar for Japan using updated information.
- The adjustments to a Japan life scalar to arrive at an appropriate health scalar is expected to remain constant over time and upcoming regime change.
- An observed directional change in the Japan 2022 solvency ratio should be investigated and an update to the 1.24 and .89 respective proposed scalars for life and health as of 12/31/23 scalars considered for the 12/31/2024 GCC.

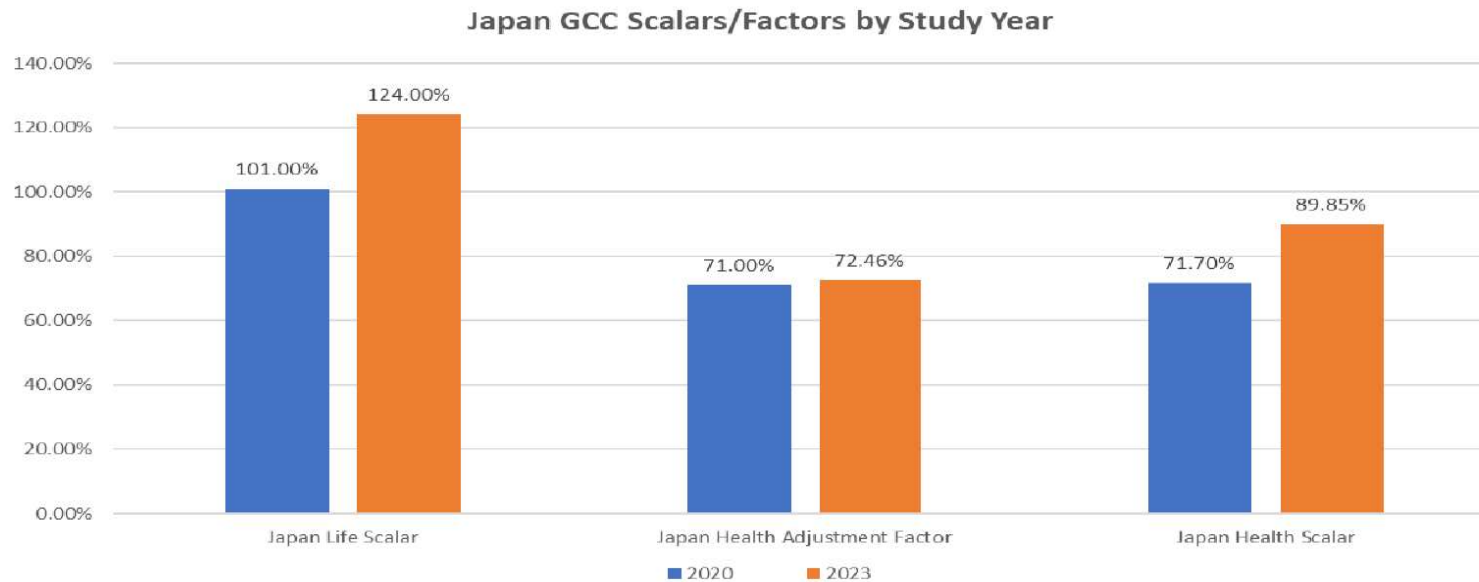
2023 GCC
Japan Health
Scalar
Calibration
1/3/2024

Appendix to Japan Health Scalar Report

- Louis Felice
 - Consultant
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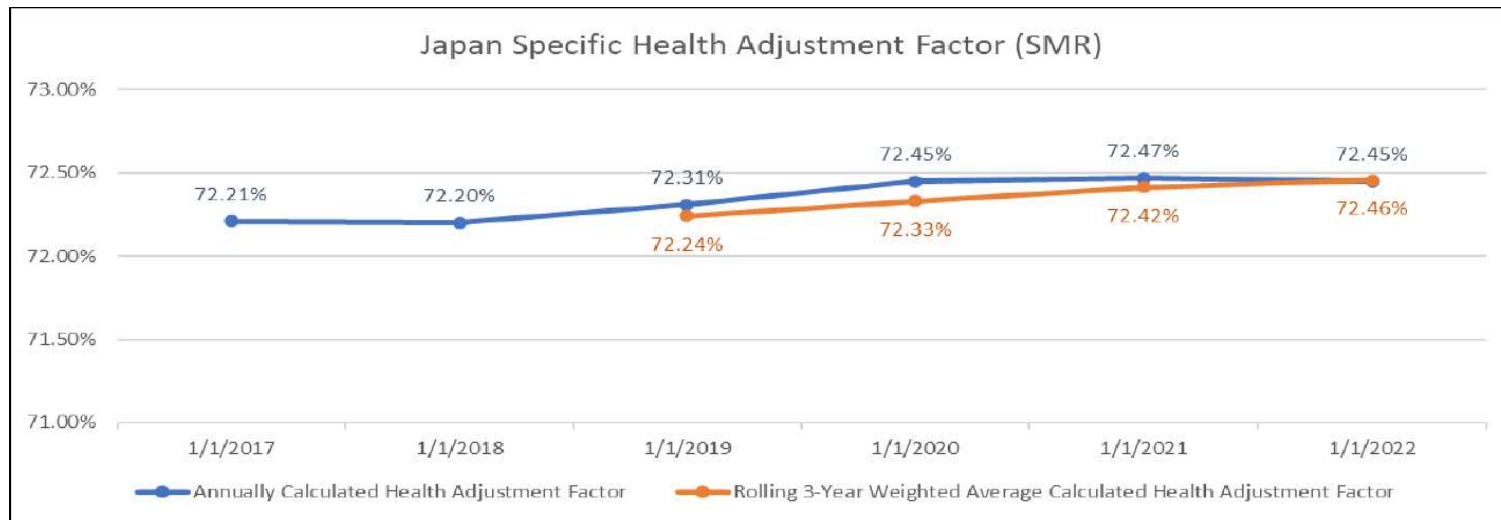
Japan GCC Scalar Comparison

- ❑ The current GCC Japan Life Scalar saw a significant increase from 101% to 124% in the current analysis.
 - No alterations to the Life Scalar have been made, and Japan life Insurers rely upon the work performed by the ACLI/OW in its derivation.
- ❑ The health adjustment factor produced in this 2023 analysis closely resembles the previous factor produced in 2020.
- ❑ The resulting Japan Health Scalar saw a significant increase from 71.70% to 89.85%.
 - The movement is dependent and consistent with the increase in the Japan Life Scalar.



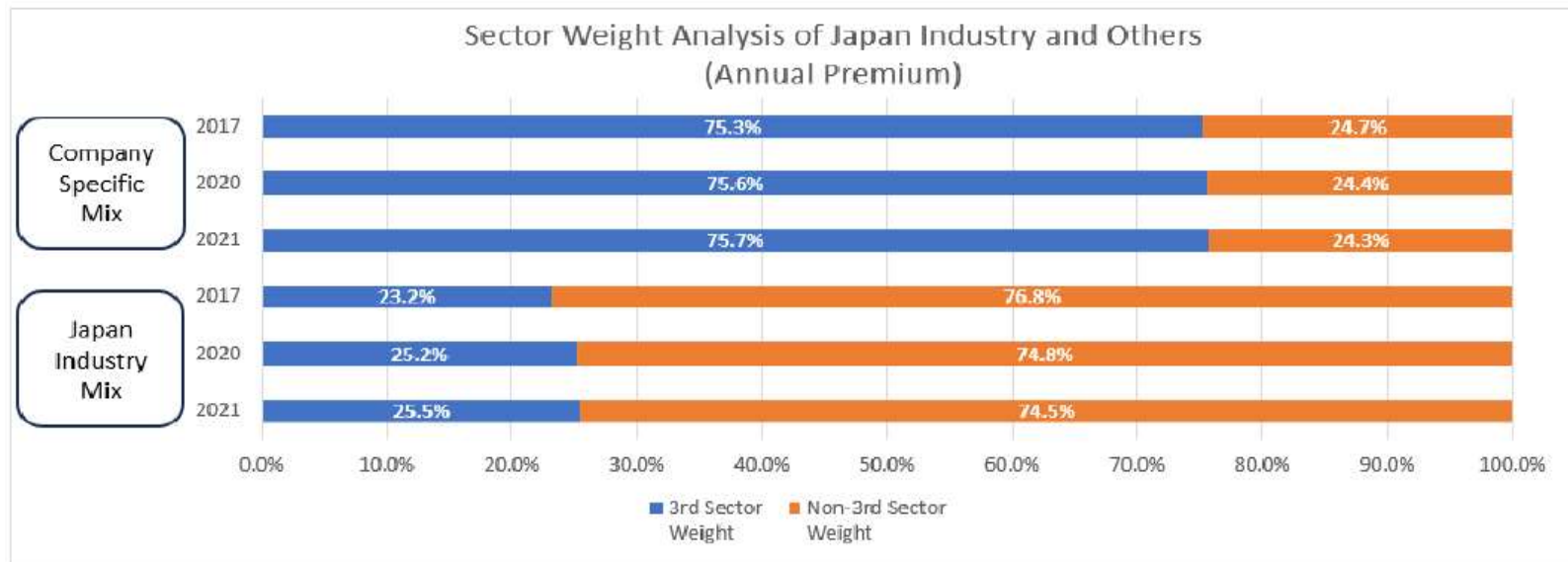
Proposed Japan Specific Health Adjustment Factor (2023)

- ❑ A proposed Japan Health Adjustment Factor based on company specific data utilizing a Calendar Year-End rolling 3-year weighted average to align with the methodology and data structure proposed by the ACLI/OW for the Japan Life Scalar.
- ❑ The analysis produces a 72.46% Adjustment Factor that can be applied directly to the proposed Japan Life Scalar similar to the previously adopted methodology and scalar.
- ❑ Similar to the prior study/methodology, the final proposed factor will be rounded to the nearest percentage point; 72%.
 - Rounding has no material impact on the resulting scalar.



Japan Sector Weight Analysis Refresh

- ❑ Japan's Industry mix can be materially different and may not be representative of all companies individually within the industry. The Japan Life Scalar may not be applicable to a company that exemplifies a material difference in business mix compared to the industry.
- ❑ It would be appropriate to apply the proposed health scalar methodology to any company whose insurance profile consists of more than 60% of annualized health premiums in the health line of business.
- ❑ The company specific analysis below shows a material and stable difference in business mix compared to the industry.
- ❑ Additionally, the company specific data below meets the necessary minimum requirements for use of the Japan Health Scalar.





February 21, 2024

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Via email: ddaveline@naic.org

Re: ACLI GCC Scalars Calibration Reports

Dear John:

ACLI would like to thank you for the opportunity to provide the NAIC Group Capital Calculation (E) Working Group members with the [GCC Scalars Calibration Reports](#) prepared by our consultants, proposing selected Life and Health scalars for 2023 and outlining the recommended methodology to calibrate scalars on an ongoing basis. The reports contain details regarding data sources, the data collection process, solvency operating ratios by country, and a summary of design decisions.

ACLI and our consultants, Oliver Wyman (life scalars) and Lou Felice (Japan health scalar), will participate in the Working Group's call on February 27, where we will provide an overview of the reports and answer any questions. We look forward to the discussion.

Sincerely,

A handwritten signature in black ink that reads 'Jennifer M. McAdam'.

Jennifer M. McAdam
Associate General Counsel
202-624-2032
jennifermcadam@acli.com

A handwritten signature in black ink that reads 'Alan Morris'.

Alan Morris
Actuary
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The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. Ninety million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 95 percent of industry assets in the United States.

acli.com



February 21, 2024

John Rehagen, Chair
 Susan Berry, Vice Chair
 NAIC Group Capital Calculation (E) Working Group

c/o Dan Daveline, Director, Financial Regulatory Services, NAIC, at DDaveline@naic.org

Re: ACLI Scalar Calibration Cover Letter and Reports Relating to the Group Capital Calculation (GCC)

America's Health Insurance Plans (AHIP)¹ and the American Property Casualty Insurance Association (APCIA)² (collectively, the Associations) are pleased to jointly submit comments relative to the above-referenced ACLI Cover Letter and Reports which were exposed by the Group Capital Calculation (E) Working Group (GCCWG) on January 22, 2024.

The ACLI Cover Letter and Reports address scaling within the GCC in the context of life insurers and, in the case of only one jurisdiction, for health insurers. The ACLI noted in its Cover Letter that “while this work focused on Life and Health scalars, the approach was developed with the understanding that it could be applied to Property & Casualty business as well.” That notion was echoed in the Report of the ACLI’s consultant as well. The ACLI Cover and Letter and Reports do not express the view that the approach to scaling which is described in the consultant’s Report “should” be applied to property casualty business or to the health sector (other than for the single jurisdiction which health business is addressed in the consultant’s Report).

Given the limited scope of the ACLI’s Cover Letter and Reports as described in the preceding paragraph, and in the absence of any suggestion that the scalar approach for the GCC described by the ACLI’s consultants “should” apply more broadly to the property casualty and health sectors, the Associations have no comment.

It is nonetheless our understanding that the GCCWG desires some indication as to any concerns or suggestions the Associations and their members may have if the GCCWG were to adopt and apply the Excess Relative Ratio (ERR) approach in a similar manner to that described by the ACLI’s consultant in its Report to property casualty and “other health” business (in this context, and throughout this letter, “other health” business refers to health business in jurisdictions other

¹ AHIP is a national association whose members provide health care coverage, services, and solutions to hundreds of millions of Americans every day and are committed to market-based solutions and public-private partnerships that make health care better and coverage more affordable and accessible for everyone.

² APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members include companies of all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

than the single jurisdiction for which health insurance is addressed in the ACLI's consultant's Report, i.e., Japan).

As a threshold matter, AHIP, APCIA and their members do not see scaling for property casualty and "other health" business as a critical component for the GCC.

- Property casualty: Based on APCIA's inquiries of its members with cross-border business, it is apparent that, on average, relatively few U.S.-based property casualty insurance groups write business in foreign jurisdictions. And when they do, they write in amounts that could be considered significant only in a small number of key jurisdictions for which scalars have already been developed. Further, for all but a handful of groups, the proportion of available capital located in foreign entities to group-wide available capital is generally not significant.
- Health: Based on AHIP's inquiries of its members with cross-border business, the same dynamics exist as for property casualty business, but are even much more pronounced. AHIP has identified only a handful of members that write any health insurance in other jurisdictions, and only two do so to any significant degree in only a few jurisdictions.

Therefore, a fundamental concept which underlies our view on the matter of scaling of property casualty and "other health" business is that of proportionality. Applying that concept would lead to an approach to the development and updating of scalars for property casualty and "other health" sectors that would accomplish in all material respects the goals of the GCCWG with respect to scaling, and which would be pragmatic and efficient for the NAIC to implement and maintain and with a minimum investment of time and resources.

Neither of the Associations have any fundamental concerns with the ERR approach for purposes of the 2023 GCC filings and going forward. Rather, it is our view that failure to take a proportional approach can lead to undue cost and burden on regulators and groups alike, while resulting in an insignificant difference in reported GCC amounts that just won't matter, and imply a degree of precision that, in reality, doesn't exist.

As to funding the cost to update and maintain the scalars for the property casualty and "other health" sectors, the Associations and their members believe that, like other regulatory tools used by state insurance regulators and developed through NAIC proceedings, the NAIC itself is the appropriate body to perform the underlying work and to fund the necessary resources. Further, and like any other NAIC initiative, the process to obtain information used to develop and update the scalars, as well as the resulting calculation of the scalars themselves, should be subject to stakeholder involvement and consultation through the NAIC's public exposure process with interested parties at key intervals.

Thus, neither of the Associations plan to volunteer to update the scalars for their sector either directly or through funding of other resources. However, the Associations offer some suggestions as to how the NAIC can update the scalars in a pragmatic and proportional fashion, as described below.

1. The ACLI's approach focuses on updating the scalars for all key jurisdictions for the life sector in time for publication in the 2023 GCC instructions. As a practical matter and given the applicability of proportionality for the property casualty and "other health" sectors as described above, it would not appear to be necessary to update scalars for those sectors for all jurisdictions at the same time, e.g., for year-end 2023. The effort could focus initially on four to five of the key jurisdictions which are host to the most significant proportions of available capital of U.S.-based groups. The remaining key jurisdictions could be staged for updating at subsequent intervals and/or on a rotating basis (for example, every 3 to 4 years) in order to better manage and spread the work. Furthermore, for those jurisdictions where the proportion of U.S. groups' available capital that is hosted in the foreign jurisdiction is immaterial (i.e., less than 2%), those scalars could be updated even less frequently, if scaling would be necessary at all.
2. Going forward, the task of identifying sources of information as the necessary inputs for updating the scalars, i.e., the identification of representative insurers, determining average solvency ratios for groups of representative insurers, etc., could be performed most efficiently for all sectors at the same time and by the same individual(s). As various sources of information are accessed, such as jurisdictional supervisors, industry associations, websites, etc., once the necessary inputs are sourced for the life insurance sector it would seem to be a relatively small incremental step to also then obtain corresponding information for the property casualty and "other health" sectors in each such jurisdiction. That information can then be shared with the NAIC who would take the remaining steps to work with that information to update the scalars for the property & casualty and "other health" sectors in the small number of key jurisdictions where doing so is proportionally necessary.
3. It would be helpful for the NAIC to first determine which property casualty and "other health" insurance groups write business internationally, in what jurisdictions, and what proportions of group-wide capital is held in each foreign jurisdiction. Both AHIP and APCIA have reached out to selected members on an informal basis for some feedback on those matters. Members have responded, albeit in various degrees of detail, reflecting in some circumstances their concerns over the confidentiality of data. Nonetheless, it is apparent for the US property & casualty and "other health" insurance sectors that, where business is done outside the U.S., it is by large measure in those jurisdictions for which scalars had already been developed for the 2022 GCC instructions. Where business is written by U.S.-based property casualty and "other health" insurance groups in other jurisdictions for which scalars have not yet been developed, the amount of available capital held in those other jurisdictions is generally very minor, typically less than 1% of total available capital on a group wide basis. Thus, it is evident that scaling in those situations would not have a significant impact on the overall GCC result.
4. While the NAIC might rely in the short term on the ACLI's consultants to obtain the necessary inputs to update the property & casualty and "other health" scalars as the consultants obtain corresponding inputs for the life sector, there are other means by which the NAIC and state insurance regulators could be more directly involved going forward. These relate to various dialogues that the NAIC and its member state insurance

regulators periodically have with other jurisdictions, either directly on a bilateral basis (such as the EU-U.S. Insurance Dialogue, or in supervisory colleges), or through other means such as in participation in various activities of the International Association of Insurance Supervisors. Periodically, it would seem appropriate for the agenda for certain of those meetings to include a discussion to enable the NAIC to obtain a better or updated understanding as to the overall capital regime in a jurisdiction that would be sufficient to support a determination of the necessary inputs to update the scalars, i.e., determination of representative insurers, average solvency ratios, as well as any changes to the jurisdiction's capital regime that may have occurred.

5. Once the necessary inputs for the scalars are determined, the calculation of the scalar itself should be a relatively straightforward process. We understand that the ACLI's consultants may have developed an Excel-based tool to accomplish the calculation for each jurisdiction for the life sector. The NAIC could discuss with them whether the tool could be shared with the NAIC for purposes of calculating the property casualty and "other health" scalars.

Thank you for this opportunity to present our comments in response to the GCCWG's exposure and the Associations' suggestions as to how the NAIC can put into place a reasonable process to update the scalars for the property casualty and "other health" insurance sectors. We would be glad to address any questions you may have at your convenience.

Sincerely,



Bob Ridgeway
Senior Government Relations Counsel
America's Health Insurance Plans



Stephen W. Broadie
Vice President, Financial & Counsel
American Property Casualty Insurance Association

UNITEDHEALTH GROUP

Corporate Finance – Actuarial Services Division
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February 21, 2024

Mr. John Rehagen, Chair
Group Capital Calculation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via electronic mail to Dan Daveline.

Re: ACLI GCC Scalars Calibration Reports.

Dear Mr. Rehagen:

I am writing on behalf of UnitedHealth Group regarding the “ACLI GCC Scalars Calibration Reports” as exposed for comment by your Working Group on January 22, 2024. We have comments on two items in the reports.

Calibration level.

On page 6 of the Oliver Wyman report, the “proposed approach” is to “investigate both 200% and 300%” as the “level of first intervention.” We are concerned, first of all, about whether it is appropriate to calibrate the scalars to a level of 300% of Authorized Control Level (ACL) when the Group Capital Calculation is calibrated to 200% of ACL. We certainly don’t think that the possibility of calibrating the GCC itself to 300% of ACL should be raised again. The Working Group decided in 2020 to calibrate the GCC to 200% of ACL after hearing many cogent arguments in favor of that level, including those set forth in our comment letters of July 20, 2020, and October 15, 2020. That in turn means that other U.S. capital requirements, such as those for U.S. banks, are being considered as comparable to 200% of ACL. We do not see any rationale for then comparing non-U.S. capital requirements to a different multiple of ACL.

In any case, we must reiterate that it is misleading to characterize 300% of ACL as the “level of first intervention” under the U.S. system of solvency regulation. There has been an attempt to justify this characterization by pointing to 300% of ACL as the level below which the Risk-Based Capital Trend Test applies. However, the Trend Test takes into account factors other than capital levels; as it is not clear how such factors could be taken into account in calibrating the scalars, then it is inappropriate to base that calibration on the Trend Test.

Furthermore, we must point out that intervention can occur at levels above 300% of ACL. For example, under state “hazardous financial condition” laws (those comparable to NAIC Model Regulation #385) regulators can intervene in a company’s operations because of solvency concerns regardless of the company’s RBC results. While such “hazardous financial condition” standards are not part of the RBC formula per se, the NAIC has often emphasized that RBC is just one of a suite of tools for addressing solvency concerns, so RBC cannot be considered in isolation. Therefore, if factors other than capital levels are to be taken into consideration, there is no “level of first intervention,” as intervention can occur at any level.

Accordingly, we believe it is inappropriate to “investigate ... 300%” as the level of first intervention, and we recommend to the Working Group that such investigation be rejected as part of the proposed approach to calibrating scalars.

Differences in reserve methodologies.

Page 4 of the Oliver Wyman report asserts that “ERR scalars recognize differences in reserve methodologies across jurisdictions.” In our July 13, 2023, comment letter, we provided a mathematical demonstration that the ERR method does not correctly reflect differing reserve requirements. We understand that the Working Group has accepted the ERR method regardless of this flaw. However, we believe it is important that any documentation of the scalar methodology be accurate. Therefore, any official documentation should exclude incorrect assertions of this kind.

* * * * *

We would be happy to discuss our comments with the Working Group.



James R. Braue
Senior Director, Actuarial Services
UnitedHealth Group

cc: Dan Daveline, NAIC
Tracy Arney, UnitedHealth Group
Mollie Zito, UnitedHealth Group