DRAFT PENDING ADOPTION

Draft: 8/14/26

Aggregation Method Implementation (G) Working Group
Columbus, Ohio
August 12, 2026

The Aggregation Method Implementation (G) Working Group of the International Insurance Relations (G) Committee met in Columbus, OH, Aug. 12, 2026. The following Working Group members participated: Rebecca Easland, Chair (WI); John F. Rehagen, Vice Chair (MO); William Arfanis (CT); Kevin Clark (IA); Susan Berry (IL); Christopher Joyce (MA); Anthony Quandt (NE); Bob Kasinow (NY); Patrick Smock (RI); and Dan Bumpus (VA).

1. Adopted its June 11, June 2, and Spring National Meeting minutes

The Working Group met June 11 and June 2. During these meetings, it took the following action: 1) heard a presentation on the benefits of scaling jurisdictional regimes for supervisory analysis purposes; 2) discussed and finalized recommendations for the implementation of the insurance capital standard (ICS) via the Aggregation Method (AM); and 3) received a summary of the draft exposure comments and discussed potential resolutions.

Rehagen made a motion, seconded by Arfanis, to adopt the Working Group's June 11 (Attachment Two-A), June 2 (Attachment Two-B), and March 23 (*see NAIC Proceedings – Spring 2026, International Insurance Relations (G) Committee*) minutes. The motion passed unanimously.

2. Discussed its Upcoming Activities

Easland presented an update on the Working Group's activities. Specifically, the Working Group discussed the conclusion of its review of U.S. group solvency regulation and the status, pending adoption by the International Insurance Relations (G) Committee, of the review's recommendations for implementing the ICS via the AM.

3. Heard an Update on the Finalization of the AM

Ned Tyrrell (NAIC) provided an update on the finalization of the AM. This included a comparison of the final AM to the provisional AM released in 2023, the process/timeline for finalization, and a description of the working draft that will be posted later in August. Quandt asked if this document is being written for the International Association of Insurance Supervisors (IAIS) or for domestic purposes. Easland responded that this is being written for the U.S., but it will be made public to anyone (including the IAIS). Kasinow asked if the release of this document is affected by the timing of the Financial Sector Assessment Program (FSAP). Ryan Workman (NAIC) responded that it is not.

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

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AMIWG Planning Meeting

November 2, 2026

Background

- AMIWG completed its review of the US group solvency system in June. The review identified gaps in the implementation of the Insurance Capital Standard (ICS) and made recommendations.
- The review makes recommendations for changes to the Final Aggregation Method (Final AM) document, the Group Capital Calculation (GCC), ORSA, and an additional paper by AMIWG on stress testing.
  - Options for recommendations for reporting/disclosure to be considered after adoption of ComFrame requirements in 2026Q4
  - Recommendations related to GCC and ORSA to be considered under respective working groups

Referral of Recommendations

- At Summer National Meeting, International Insurance Relations (G) Committee approved recommendations for implementation of the ICS via the AM.
- Recommendation for ORSA Implementation Subgroup is to include clarification in new guidance manual that GCC can be appropriate choice for reporting group regulatory capital
  - Manual will be formally adopted at 2026 Fall National Meeting
  - Regulatory capital is compared to the economic capital that is used in the ORSA
- GCC Working Group will be meeting on Friday November 6 to discuss the template/instructions including changes related to AMIWG recommendations.

Draft Timeline

- Nov 2: Open call on finalization of AM and plan for 2027 AM Deliverables (i.e. Final AM, Reporting/Disclosure & the Paper on Stressing GCC).
- Dec 2026 / Jan 2027: Regulator-only call on initial options for Reporting/Disclosure and outline of stress paper.
- Spring National Meeting 2027: Public discussion of options for Reporting/Disclosure. Feedback/suggestions for stress paper.
- Summer National Meeting 2027: Submission of AM documentation to G Committee for approval: Final AM, Reporting/Disclosure & the Paper on Stressing GCC.

Reporting / Disclosure

- Recommendation: After the finalization of the relevant ComFrame requirements, AMIWG should develop options for how ComFrame public reporting and supervisory disclosure requirements could be implemented.
- ComFrame standards on reporting and disclosure requirements were consulted in November 2025 will be finalized in by end of 2026:
  - ComFrame 9.4 on supervisory reporting and ComFrame 20.10 on public disclosure
  - Standards are likely to be granular including reporting/disclosure of individual balance sheet and risk categories
- Consultation recognizes that implementation via AM will be different from ICS and includes addition to paragraph 47 of ComFrame assessment methodology that says ICS implementation assessment will consider “specificities of the Final US Aggregation Method as the US implementation of the ICS”

Reporting / Disclosure (2)

- ***Input Needed:*** Suggestions for options on AM reporting / disclosure that consider the outcome to be achieved, reliance on existing legal entity level reporting and information needed to aggregate legal entity results across the IAIG. Options should:
  - Be appropriate for the US regulatory approach
  - Leverage existing requirements to the greatest extent possible
  - Be consistent with an aggregation approach (as opposed to the consolidated approach used in the ICS)
  - Options for supervisory reporting will be more detailed than for public disclosure

Drafting of Stress Testing Paper

- Recommendation was for AMIWG to produce materials on calculating GCC under stressed scenarios
- The Prospective Solvency Assessment includes projections of both economic and regulatory capital under both “normal and stressed environments”.
  - A further recommendations clarified that GCC can be appropriate choice for regulatory capital
- AMIWG will produce a paper with examples and explanation of existing practices.
  - Working plan is for 3-5 pages with brief descriptions of possible methodologies and discussion of practical issues when implementing (e.g. treatment of intragroup reinsurance)
  - This is a reference paper: not a change to existing requirements
- ***Input Needed:*** Examples from groups of how they perform scenario testing on their GCC results (for ORSA or other purposes).

Finalization of AM (1)

- 'Provisional AM for Use in the Comparability Assessment' was released in September 2023.
- IAIS Comparability Assessment: "[W]ork as part of the implementation of a future version of a US AM (Final AM) is a means to address the remaining areas where the Provisional AM produces divergent outcomes …while recognising that the decision on the changes to be implemented is for US supervisors to consider"
- Final AM document will reflect recommendations and any other relevant updates including use of excess relative ratio (ERR) scalars.
  - Draft is in Attachment 3
  - Document will be subject to public comment before finalization

Finalization of AM (2)

Section of Provisional AM paper	Change made to draft Final AM paper
1. Introduction	Updated purpose / background
2. Design Principles	No change needed
3. Provisional AM	Renamed “Final AM” and updates made to ERR scalars and entity categories
4. Scalars	Section on other scalar options deleted
5. Finalizing the AM	Section deleted

Aggregation Method for Implementation of the Insurance Capital Standard in the United States

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1 Introduction

1. This document describes an Aggregation Method (AM) that provides a basis for comparable implementation of the Insurance Capital Standard (ICS) in the United States.[1] This document describes: (i) principles for the AM approach; and (ii) the final version of the AM that provides comparable outcomes to the ICS (the "Final AM"). [2]

2 General Guiding Principles

2. The AM is built on proven capital regimes that have been designed to ensure solvency in each legal entity. As such, the AM provides a lens into group capital information that allows supervisors to analyze, identify and address capital amounts at the group level as well as where the deficiencies may reside at the local legal entity level. Information surrounding capital resources held by each legal entity comes from the legal entity level reporting. Group capital resources and requirements are derived from the aggregation of legal entity-level reporting.

3. Guiding principles of the AM concept:

    - Indifferent to Corporate Structure: Location of an entity within the group and/or intragroup transactions do not impact group-level results.
    - Reflective of Appropriate Capital Regimes: Differentiated treatment for insurance/financial entities under existing capital regimes and application of appropriate alternatives for non-insurance entities. This leverages existing solvency frameworks and jurisdictional-tailored approaches to risk.
    - Transparency: Clear line of sight to where risks reside and capital is held. Provides supervisors with information for assessing risks at the legal entity level within the group.
    - Comparability: Group level results reflect comparable levels of risk through scaling of entity results.

4. The AM calculation has five components. These components are described further in Section 3 of this document.

    - Inventory & Group Financials
    - Adjustments
    - Capital Requirements
    - Capital Resources
    - Aggregation

[1] In November 2024, the IAIS concluded that the US Aggregation Method provides a basis for implementation of the ICS to produce comparable outcomes. https://www.iais.org/uploads/2024/11/Report-on-Aggregation-Method-comparability-assessment.pdf

[2] This document is an update to the September 2023 Provisional AM that the IAIS used to for its comparability assessment which concluded in 2024. https://content.naic.org/sites/default/files/committee-related-provisional-am-comparability-assessment.pdf

5. When introduced in ComFrame, IAIG capital reporting to group-wide supervisors and public disclosure requirements will also apply to the final AM. Assessment of the AM as an implementation of the ComFrame standards will consider the specificities of the Final US Aggregation Method.[3] Results of the implemented capital standard – including but not limited to the template, available capital and required capital – will be reported to the group-wide supervisor. Documentation of the capital standard – specifications, template, scalars, etc. – would be publicly disclosed and updated as required under ComFrame.

3 Final Aggregation Method

3.1 Inventory & Group Financials

3.1.1 Perimeter of the Calculation

6. The starting point for the AM is the Consolidated Holding Company or Controlling Insurer in the case of a mutual insurer structure. All entities within the defined insurance (or financial) group are included.

7. The AM is based on regulatory reporting at the legal (or local) entity level. This reporting is used to populate a schedule that separately lists the legal entities within the group and includes their available and required capital plus other relevant financial information. All figures are converted to a common reporting currency.

8. Material legal entities are to be reported separately. Immaterial legal entities can be grouped or 'stacked' together. When the capital ratio is the same, regardless of whether a legal entity is stacked or de-stacked, then only the parent entity may be reported. Examples would include immaterial legal entities and non-insurance/non-financial entities that are not directly subject to a regulatory regime.

9. Legal entities that have material exposure to the total available capital are not grouped with a parent, including specifically legal entities that are subject to consolidated group capital requirements and foreign branches of an IAIG.

10. Each reported entity is mapped by the IAIG to an entity category. Entity categories are used to group entities prior to aggregation. Each entity within an entity category has its AM required capital determined in the same manner. There are entity categories for unregulated and regulated entities ("regulated", in this context, means that an entity is subject to a capital requirement). For regulated entities, the entity category corresponds to a specific capital regime (e.g. RBC Filing US Life Insurer). Unregulated entities are mapped to categories including "Non-Insurer Holding Company," "Asset Management," "Other Non-Insurance/Non-Financial" or "Other Financial" and follow the AM specifications to calculate their required capital.

[3] Paragraph-47-of-the-CF-Assessment-Methodology.pdf

11. Entities in the final AM are mapped to the following categories. Note this list (and underlying scalars) will be updated regularly. See Appendix 2.

Type	Entity Category	Type	Entity Category
Non-US Ins	**Argentina**	Non-US Ins	**Solvency II (UK) – Life**
Non-US Ins	**Australia - All**	Non-US Ins	**Solvency II (UK) - Non-Life**
Non-US Ins	**Barbados**	Non-US Ins	**South Africa - Composite**
Non-US Ins	**Bermuda – Comm Insurers**	Non-US Ins	**South Africa – Life**
Non-US Ins	**Bermuda - Other**	Non-US Ins	**South Africa - Non-Life**
Non-US Ins	**Brazil**	Non-US Ins	**Switzerland – Life**
Non-US Ins	**Canada - Life**	Non-US Ins	**Switzerland - Non-Life**
Non-US Ins	**Canadian - P&C**	Non-US Ins	**Thailand**
Non-US Ins	**Chile**	US Ins	**RBC Filing U.S. Insurer (Life)**
Non-US Ins	**China**	US Ins	**RBC Filing U.S. Insurer (P&C)**
Non-US Ins	**Chinese Taipei - All**	US Ins	**RBC Filing U.S. Insurer (Health)**
Non-US Ins	**Colombia**	US Ins	**RBC Filing U.S. Insurer (Other)**
Non-US Ins	**Hong Kong - Life**	US Ins	**Non RBC filing U.S. Insurer**
Non-US Ins	**Hong Kong - Non-Life**	Non-US Ins	**Regime A**
Non-US Ins	**India**	Non-US Ins	**Regime B**
Non-US Ins	**Indonesia**	Non-US Ins	**Regime C**
Non-US Ins	**Japan - Life**	Non-US Ins	**Regime D**
Non-US Ins	**Japan - Health**	Non-US Ins	**Regime E**
Non-US Ins	**Japan - Non-Life**	HoldCo	**Non-Insurer Holding Company**
Non-US Ins	**South Korea**	Fin	**Bank (Basel III)**
Non-US Ins	**Malaysia**	Fin	**Bank (Other)**
Non-US Ins	**Mexico**	Fin	**Asset Manager/Registered Inv Advisor**
Non-US Ins	**New Zealand**	Fin	**Other Regulated Financial Entity**
Non-US Ins	**Philippines**	Fin	**Other Unregulated Financial Entity**
Non-US Ins	**Singapore - All**	Other	**Other Non-Ins/Non-Fin with Material Risk**
Non-US Ins	**Solvency II (EU) - Life**	Other	**Other Non-Ins/Non-Fin w/o Material Risk**
Non-US Ins	**Solvency II (EU) - Non-Life**		

3.1.2 Use of Local Valuation, Capital Resources and Capital Requirements

12. Depending on the type of entity, available capital is reported based on either local GAAP or the local capital regime. There is no group or consolidated balance sheet reported under the AM.

13. For unregulated entities, available capital is based on local GAAP reporting.

14. For regulated entities, unadjusted available capital and unadjusted required capital refer to reported amounts based on the relevant local capital regime. The local unadjusted available capital reflects all exclusions and adjustments as required by the local capital regime. The local unadjusted required capital is at the prescribed capital requirement (PCR)[4] intervention level or the closest equivalent. See Appendix 2 for the process for updating this list.

    a. For Australian subsidiaries, the PCR is the target capital as set by the insurer/group in accordance with APRA requirements. Effectively, this would be "Target capital under ICAAP". PCR is not a set multiple of MCR.

    b. For Bermudian subsidiaries, the Legal Entity PCR in Bermuda for medium and large commercial insurers is called the "Enhanced Capital Requirement" (ECR) and is calibrated to Tail-VaR at 99% confidence level over a one-year time horizon.

    c. For Brazilian subsidiaries, the PCR is reported as the Brazilian MCR (in Portuguese, CMR – Capital Mínimo Requerido).

    d. For Canadian life entities, the baseline PCR is "100% of the LICAT Base Solvency Buffer". The carrying value should include surplus allowances and eligible deposits on a net of reinsurance basis. For property/casualty entities, the PCR should be the MCT capital requirement at the target level.

    e. For Chilean subsidiaries, the PCR is 100% of the total capital requirement which is the maximum between minimum capital, maximum debt ratios and a solvency margin.

    f. For Chinese subsidiaries, the PCR is 100% of the C-ROSS total capital.

    g. For Chinese Taipei subsidiaries, the PCR is 200% of the RBC ratio.

    h. For European Union member-based subsidiaries, the PCR is the Solvency II Solo SCR (Solvency Capital Requirement).

    i. For Hong Kong subsidiaries, under the current rule-based capital regime, if applied similar to the concept of PCR, the regime's PCR would be 150% of MCR for life insurers and 200% of MCR for non-life insurers.

    j. For Indian subsidiaries, the PCR is a factor-based solvency approach, based on a Solvency I type model, to maintain an excess of the value of assets over the amount of liabilities of not less than 50% of the amount of minimum capital subject to the control level of a solvency ratio of 150%.

    k. For Japanese subsidiaries, the PCR is the Economic Solvency Ratio (ESR) of 100%.

    l. For Korean subsidiaries, the PCR is 100% of risk-based solvency margin ratio.

    m. For Malaysian subsidiaries, the PCR is the individual target capital level calculated by individual entities based on policy requirements set by the Bank Negara Malaysia. It reflects the individual insurer's/Takaful Operator's own risk profile and risk management practices and includes additional capacity to absorb unexpected losses beyond those covered in the Risk-Based Capital Frameworks for Insurance and Takaful Operators.

[4] A PCR is defined in ICP 17.4 as "a solvency control level above which the supervisor does not intervene on capital adequacy grounds". (https://www.iaisweb.org/icp-online-tool/13528-icp-17-capital-adequacy/)

n. For Mexican subsidiaries, the PCR is the solvency capital requirement (SCR) based on a Solvency II type model, using both Value at Risk (VaR) methodologies, considering the time horizon of one year at a confidence level of 99.5%, and Probable Maximum Loss (PML) methodologies for catastrophic risks.

o. For Singaporean subsidiaries, the PCR at the legal entity level under the enhanced valuation and capital framework for insurers (RBC 2) is calibrated at the 99.5% VaR over a one-year period.

p. For South African subsidiaries, the PCR is 100% of the SAM SCR.

q. For Swiss subsidiaries, the legal entity PCR under the "Swiss Solvency Test" (SST) is 100% of the target capital, which is calibrated to Tail-VaR at 99% confidence level over a one-year time horizon.

r. For US subsidiaries, the RBC Company Action Level should be reported at the company action level (i.e. 200% of the Authorized Control Level).

3.2 Adjustments

15. Before entities are aggregated, the reported available and required capital figures are adjusted to remove any double-counting. After adjustment, an entity's available and required capital reflects solely its own capital and risks and not that of its subsidiaries.

16. To ensure that the IAIG has properly eliminated any double-counting, details on each adjustment should also be provided to the IAIG's group-wide supervisor using the following categories:

- Investment in Subsidiary
- Intra-group capital instruments
- Reported Intra-group Guarantees and Letters of Credit
- Other Intra-Group Assets
- All Other Adjustments

3.3 Capital Requirements

17. The AM capital requirement reflects risk aggregated at the group level. The AM also provides the capital requirement contribution from each entity within the scope of the group that provides another level of granularity for jurisdictional analysis. Group-level breakdowns of risk is by type of entity (e.g. entity category, entities by region). Given this approach, reporting at the individual risk level is not necessary nor would it be possible due to differing risk categories and definitions under the local capital regimes.

3.3.1 Exposures

18. The contribution of each legal entity to the total capital requirement is equal to a factor multiplied by a specified exposure measure. An exposure measure is specified for each entity category. All entities within their respective categories use the same factor and exposure measure. For regulated financial entities (including banking and insurance), the exposure measure is the local required capital (after adjustments for double-counting and at a specified

PCR-equivalent intervention level). For these regulated entities, the factor is referred to as a "scalar".

19. The exposure measures used in the AM are provided in the table below. In the event an exposure is negative, the required capital is floored at zero.

Reg/Non-Reg	Category	Exposure Measure
Entities with Regulatory Capital Requirements	Insurance Entities	Adjusted Required Capital
	Banking Entities	Adjusted Required Capital
	Asset Mgmt	Adjusted Required Capital
Entities without Regulatory Capital Requirements	Non-Insurer Holding Company	Adjusted Available Capital
	Asset Mgmt / Other Financial	Average 3-year Gross Revenue
	Non-Insurance / Non-Financial	Adjusted Available Capital

3.3.2 Diversification/Fungibility

20. The AM reflects the diversification that is already included in local capital requirements. The AM does not allow for further diversification between different legal entities and thereby recognizes the limitations on capital fungibility within a group.

3.3.3 Scalar Methodology

21. A scalar adjusts for differences in the level of calibration between types of capital requirements and differences in valuation between the entities. A scalar methodology is a means of using data, statistical analysis and/or judgment to calculate a set of scalars.

22. The AM uses the Excess Relative Ratio (ERR) scalar methodology. The ERR 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 provides an adjustment for differing levels of reserve conservatism while still respecting the underlying regimes approach to measuring solvency.

23. ERR scalars can be calibrated to different intervention levels. The calibration level used in the final AM is based on NAIC Risk-Based Capital at 200% of the Authorized Control Level. This is equivalent to the average calibration level of the "Reverse Engineered ICS" method calculated on a volume weighted sample of all US internationally active insurance groups during the ICS Monitoring Period.

24. Further detail on the calculation of scalars is in the Appendix.

3.4 Capital Resources

3.4.1 General Considerations

25. Capital resources have two tiers: adjusted available capital and financial instruments. Available capital is determined at the legal entity level and becomes an input to the aggregated amount. Qualifying financial instruments are determined using a common set of criteria at the group-level. These instruments are issued at the holding company level and treated as liabilities in the holding company's balance sheet. They are classified as 'Senior Debt', 'Hybrid', 'Surplus Notes (or Similar)' and 'Other'. Available capital is determined at the legal entity level and becomes an input to the aggregated amount. Financial instruments issued at the legal entity level are recognized as capital resources in the AM to the extent they are recognized as available capital in the local statutory regime. Any capital element (other than a financial instrument) that is not recognized as available capital in the local statutory regime is also be excluded from capital resources in the AM.

3.4.2 Recognition of Financial Instruments

26. The AM recognition of a financial instrument as a qualifying capital resource is based on consideration of criteria developed based on five key principles:

    - loss absorbing capacity (on a going concern basis and/or in winding-up);
    - subordination;
    - availability to absorb losses;
    - permanence; and
    - absence of both encumbrances and mandatory servicing costs.

27. Based on these principles, the following criteria are applied to financial instruments. These criteria are consistent with those used to determine financial instruments that qualify as capital resources in the ICS while also reflecting the economic circumstances and existing legal protections under a structural subordination environment.

    - The instrument must have a maturity date and initial maturity must be at least five years;
    - Instruments must be subordinated to policyholders. For structurally subordinated instruments, supervisory approval of ordinary dividends can be met if the supervisor has in place supervisory controls over distributions, including the ability for the supervisor to limit, defer and/or disallow the payment of any distributions should it find that the insurer is presently, or may potentially become, financially distressed;
    - Distributions cannot be linked to the credit standing or financial condition of the insurance group;
    - The issuer has full discretion at all times to cancel distribution or payments;
    - The instrument is not secured or covered by a guarantee given by the issuer or a related entity of the issuer;

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- The debt instrument has been issued by a clean holding company, which is defined as a holding company that does not have policyholder liabilities on its stand-alone balance sheet;
- Amounts from the instrument issuance have been down-streamed into an insurance subsidiary of the holding company and the insurance subsidiary is located in a jurisdiction whose regulatory regime proactively enforces structural subordination;
- The IAIG and its group-wide supervisor have determined that the proceeds of the instruments, which have been down-streamed into insurance subsidiaries, are being tracked and reported appropriately; and
- The instrument must be fully paid up.

3.4.3 Application of Limits to Recognition of Debt

28. The amount of qualifying financial instruments recognized is subject to a limit of 75% of the aggregated available capital (before the addition of instruments). This is equivalent to a limit of 43% of group capital resources including financial instruments.

3.5 Aggregation

29. After application of adjustments and scaling, the IAIG's available and required capital are aggregated by entity category.
30. Group capital resources are the sum of the adjusted available capital for the underlying entities plus any qualifying financial instruments subject to limits described above.
31. Group required capital is the sum of the scaled adjusted required capital for the underlying entities.

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4 Appendix 1: Calculation of Excess Relative Ratio Approach

1. Included below are various steps to be taken in calculating the excess relative ratio approach to developing jurisdiction-specific scalars. In order to numerically demonstrate how this approach could work for a particular regime, hypothetical capital requirements and financial amounts have been developed for Country A. Based on research that has been performed by the NAIC, the level of conservatism built into accounting and capital requirements within a jurisdiction may differ significantly for life insurers and non-life insurers. Therefore, ideally each jurisdiction would have two different scalars based on the type of business. The example below includes information related to life insurers in the US and Country A.

Step 1: Understand the Jurisdiction's Capital Requirements and Identify the First Intervention Level

a. The first step in the process is to gain an understanding of the jurisdiction's capital requirements. This can be done in a variety of ways, such as reviewing publicly available information on the regulator's website, reviewing the jurisdiction's Financial Sector Assessment Program (FSAP) reports and/or discussions with the regulator.

In Country A, it assumes that the capital requirements for life insurers are based on a capital ratio, which is calculated as follows:

$$\text{Capital ratio} = \frac{\text{Total available capital}}{\text{Base required capital (BRC)}}$$

In the US, capital requirements are related to the insurer's RBC ratio. For purposes of the ERR Approach, an Anchor RBC ratio is used and calculated as follows:

$$\text{Anchor RBC ratio} = \frac{\text{Total adjusted capital}}{\text{100\% Company Action Level RBC*}}$$

* 100% Company Action Level RBC is equal to the Total RBC After Covariance including operational risk, without adjustment or 200% Authorized Control Level RBC.

b. Similar to legal entity RBC requirements in the US, Country A utilizes an early intervention approach by establishing target capital levels above the prescribed minimums that provide an early signal so that intervention will be timely and for there to be a reasonable expectation that actions can successfully address difficulties. Presume that this target capital level is similar to the US Company Action Level (CAL) event, both of which can be considered the first intervention level in which some sort of action—either on the part of the insurer or the regulator—is mandated. A separate sensitivity calculation is applied in the GCC template using trend test level RBC.

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c. For Country A, the target capital level is presumed to be a capital ratio of 150%. That is, the insurer's ratio of total available capital to its BRC should be above 150% to avoid the first level of regulatory intervention. Again, this is similar to the US CAL event, which is usually represented as an RBC ratio of 200% of Authorized Control Level (ACL) RBC (ignoring the RBC trend test). In the Relative Ratio approach, the Anchor RBC ratio represents the Company Action Level event (or first level of regulatory intervention) as 100% CAL RBC (instead of 200% ACL RBC), because CAL RBC is the reference point that is used to calibrate against other regimes. The Anchor RBC Ratio (Total Adjusted Capital ÷ 100% CAL RBC) tells how many "multiples of trigger level capital" that the company holds. Conceptualizing the CAL event as 100% CAL RBC allows the consistent definitionof local capital ratios that are calibrated against a "multiples of the trigger level" approach, to facilitate an "apples-to-apples" comparison.[5]

Step 2: Obtain Aggregate Industry Financial Data

2. The next step is to obtain aggregate industry financial data, and many jurisdictions include current aggregate industry data on their websites. Included below are the financial amounts for use in this exercise.

U.S. Life Insurers – Aggregate Data Total Adjusted Capital = $495B Authorized Control Level RBC = $51B Company Action Level RBC = $102B *Country A Life Insurers – Aggregate Data* Total Available Capital = $83B BRC = $36B

Step 3: Calculate a Jurisdiction's Industry Average Capital Ratio

3. To calculate a jurisdiction's average capital ratio, the aggregate total available capital for the industry would be divided by the minimum or base capital requirement for the industry in computing the applicable capital ratio. In Country A, this would be the BRC. In the US, this base or minimum capital requirement is usually seen as the ACL RBC, but because the Relative Ratio Approach is using 100% CAL RBC as a reference point to calibrate other regimes to, the Relative Ratio formula uses 100% CAL RBC as the baseline and the first-intervention level to calculate the Average Capital Ratio and Excess Capital Ratio. As a result, the scaled ratio of a non-US company should inform regulators how many multiples of first-intervention level capital the non-US company holds. Included below is the formula to calculate a jurisdiction'sindustry average capital ratio:

[5] While it is mathematically equivalent to use 200% ACL RBC as the denominator, the Approach is designed to use the representation of first-intervention level capital levels as the conceptual underpinning of the Relative Ratio Approach, where100% CAL RBC is the reference point to calibrate against other regimes.

Calculation of U.S. Industry Average Capital Ratio – Life Insurers

$$\frac{\$495\text{B (Total Adjusted Capital)}}{\$102\text{B (CAL RBC)}} = \mathbf{485\%}$$

Calculation of Country A Industry Average Capital Ratio – Life Insurers

$$\frac{\$83\text{B (Total Available Capital)}}{\$36\text{B (BRC)}} = \mathbf{231\%}$$

Step 4: Calculate a Jurisdiction's Excess Capital Ratio

4. The next step is to understand the level of capital the industry is holding above the first intervention level. Therefore, to calculate a jurisdiction's excess capital ratio, one would first need to calculate the amount of the capital ratio carried in excess of the capital ratio required at the first intervention level. This amount would then need to be divided by the capital ratio required at the first intervention level.

General Excess Capital Ratio Formula

$$\frac{\text{Average Capital Ratio} - \text{Capital Ratio at the First Intervention Level}}{\text{Capital Ratio at the First Intervention Level}}$$

5. Based on the formula above and information provided in Step 2 and Step 3, included below are how to calculate each jurisdiction's excess capital ratio.

NOTE: The first intervention level in the US is defined in the Relative Ratio Approach as 100% CAL RBC, while the first intervention level in Country A is a capital ratio of 150%.[6]

Calculation of U.S. Excess Capital Ratio – Life Insurers

$$\frac{485\%\text{ (Average Capital Ratio)} - 100\%\text{ (Capital Ratio at the First Intervention Level)}}{100\%\text{ (Capital Ratio at the First Intervention Level)}} = \mathbf{385\%}$$

Calculation of Country A Excess Capital Ratio – Life insurers

$$\frac{231\%\text{ (Average Capital Ratio)} - 150\%\text{ (Capital Ratio at the First Intervention Level)}}{150\%\text{ (Capital Ratio at the First Intervention Level)}} = \mathbf{54\%}$$

[6] 100% CAL RBC translates to an ACL RBC level of 200%, but for conceptual purposes, the Relative Ratio Approach refersto the U.S. first intervention level as 100% CAL RBC, as 100% CAL RBC is the reference point to which the Relative RatioApproach calibrates other regimes. In other words, 100% CAL RBC ensures that the scaled ratio of Country A results in a ratio that determines how many multiples of first-intervention level capital that the company in Country A is holding.

Step 5: Compare a Jurisdiction's Excess Capital Ratio to the US Excess Capital Ratio to Develop the Scalar

6. Based on the information above, the US excess capital is 385%. In other words, life insurers in the US carry approximately 385% more capital than what is needed over the first intervention level. Country A's excess capital ratio is 54%. That is, life insurers in Country A carry approximately 54% more capital than what is needed over the first intervention level.

7. To calculate the scalar, one would divide a jurisdiction's excess capital ratio by the US excess capital ratio. Therefore, the calculation of Country A's scalar for life insurers would be 54% ÷ 385% = 14%. Therefore, Country A's scalar for life insurers would be 14%.

Step 6: Apply to the Scalar to the Non-US Insurer's Amounts in the GCC

8. To demonstrate how the calculation of the scalar works, a numerical example is provided. For the purposes of this illustration, it assumes that a life insurer in Country A reports required capital of $341,866 and total available capital of $1,367,463. As noted previously, the above information and calculation suggests that US life insurers carry capital far above the minimum levels, while life insurers in Country A carry capital far closer to the minimum. Therefore, to equatethe company's $341,866 of required capital, one must first calibrate the BRC to the first regulatory intervention level by multiplying it by 150%, or Country A's capital ratio at the firstintervention level. The resulting amount of $512,799 is then multiplied by the scalar of 14% to get a scaled minimum required capital of $71,792.

9. Further, the above rationale suggests that the available capital might also be overstated (because it does not use the same level of conservatism in the reserves) by the difference between the calibrated required capital of $512,799 and the required capital after scaling of $71,792, or $441,007. Therefore, one should now deduct the $441,007 from the total available capital of $1,367,463 for a new total available capital of $926,456. These two recalculated figures of required capital of $71,792 and total available capital of $926,456 is what would be included in the group's capital calculation for this insurer. These figures are further demonstrated below.

Calculation of Scaled Amounts for GCC

Amounts as Reported by the Insurer in Country A

Total available capital = 1,367,463

Minimum required capital (BRC) = 341,866

Calibration of BRC to 1st Regulatory Intervention Level

341,866 (BRC) * 150% = 512,799

Scaling of Calibrated Minimum Required Capital

512,799 (Calibrated BRC) * 14% (Scalar) = 71,792 (Difference of 441,007)

Scaled Total Available Capital

1,367,463 (Total Available Capital) – 441,007 (Difference in scaled required capital) = 926,456

10. Given these scaled amounts, one can calculate the numerical effect on the company's relative capital ratio by using the unscaled and scaled amounts included below.

	Unscaled Amounts from Table Above	*Scaled Amounts from Table Above*
Total Available Capital (TAC)	1,367,463	926,456
Base Required Capital (BRC)	341,866	71,792
Capital Ratio (= TAC ÷ BRC)	400%	1290%

11. Because life insurers in Country A hold much lower levels of capital over the first intervention level as compared to US life insurers, the change in the capital ratio from 400% (unscaled) to 1290% (scaled) appears reasonable and consistent with the level of conservatism that is built into the US life RBC formula driven primarily fromthe conservative reserve valuation.

Note: In the above example, the company has an unscaled ratio (400%) that is above the industry average in Country A (231%) and a scaled ratio (1290%) that is higher than the US life industry average (485%). If the company had an unscaled ratio that was lower than the industry average in Country A, its scaled ratio would be lower than the US life industry average. A company with an unscaled ratio equal to its own country's industry average will have a scaled ratio equal to the anchor RBC ratio.

Data for industrywide US RBC ratios is sourced from the aggregate RBC Statistics maintained by the NAIC. Data for industry-wide capital ratios for foreign insurance jurisdictions was derivedfrom publicly available aggregate industry data.

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5 Appendix 2: Process for Updating Entity Categories and their Scalars

[Note: to be completed after the process has been developed and approved]

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