

December 1, 2022

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Re: YE 2022 LST Feedback

On behalf of the American Council of Life Insurers (ACLI), we appreciate the opportunity to comment on the revisions to the draft year-end (YE) 2022 Liquidity Stress Testing (LST) Framework. We strongly believe the current framework works well and based on regulator feedback, has demonstrated the life insurance industry remains highly liquid in times of severe stress and does not pose a risk to U.S. financial stability. We greatly appreciate regulators continued commitment to industry consultation and engagement as we refine the framework for the future.

The life insurance industry is currently facing significant headwinds, as the U.S. economy is entering a significant time of uncertainty and we are in the process of experiencing a severe interest rate spike situation. We understand that regulators will want to re-examine the current interest rate spike scenario (which is based on historical experience from the 1970/80s) and refine the scenario based on current experiences. We also recognize the impracticability of making significant adjustments to the framework prior to December 31, 2022, the statutory due date for the YE 2022 framework under recently adopted revisions to the Insurance Company Holding Act (Model #440). To that end, we appreciate the approach to “consider increasing the 2021 values for use in the 2022 LST to ensure a “severe interest rate spike”” rather than mandate new values, which would take time to vet and incorporate into existing internal models. We look forward to discussing updates to the interest rate spike scenario next year so we can update the YE 2023 run to consider this year’s economic performance and ensure the stress level is appropriately severe for the LST.

We would like to seek clarity on a few items surrounding the interest rate spike scenario. First, what would regulators deem as appropriate for a “severe interest rate spike” for the YE 2022 LST framework? Is there a minimum basis point increase they have in mind? Second, we are already in an interest rate spike scenario for 2022, so the “time zero” projections will reflect the significant rise

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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. 90 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 94 percent of industry assets in the United States.

in Treasury yields this year. We would request guidance on how regulators would like companies to consider this for the 2023 projections.

ACLI remains committed to helping regulators understand the liquidity and related safeguards around both insulated and non-insulated separated accounts. Due to the ongoing joint regulator/industry study group work on separate accounts, we would suggest deferring any requests to include non-insulated separate accounts data for the LST at this time.

For the worst-case scenario, based on conversations with NAIC staff after the release of the draft YE 2022 LST framework, we understand that regulators are comfortable with a narrative only (no additional data templates) submission for the YE 2022 run to help inform future scenario development. ACLI recommends that the NAIC update the document accordingly for the worst-case scenario and data template instructions. We greatly appreciate regulators willingness to streamline this piece of the submission.

One item we feel is missing from the framework is uniform market valuation assumptions for assets and policyholder behavior considerations. We would like to work with NAIC to develop guidance, consistent with company proprietary frameworks, next year based on submitted insurer disclosures from previous LSTs.

Finally, we understand from previous discussions that regulators would like to break out the treasuries and agency bonds category into separate line items and support doing so for this run if desired.

Thank you as always for opportunity to provide industry feedback, and for the constructive and collaborative manner in which the LST has been developed and refined.

Sincerely,



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