



March 21, 2022

Justin Schrader
Chair, Macroprudential (E) Working Group
National Association of Insurance Commissioners

Re: CRO Council Feedback on NAIC Macroprudential Risk Assessment

Dear Justin,

The North American CRO Council (CRO Council) is a professional association of Chief Risk Officers (CROs) of leading insurers based in the United States, Bermuda, and Canada. Member CROs currently represent 35 of the largest Life and Property and Casualty insurers in North America. The CRO Council seeks to develop and promote leading practices in risk management throughout the insurance industry and provide thought leadership and direction on the advancement of sensible risk-based assessments.

General Comments

The CRO Council supports the initiative to collect quantitative and qualitative information that informs the identification of risk exposures, emerging issues, and industry trends that may warrant further oversight and/or consideration by state regulators. The NAIC, through the state regulators, has made demonstrable progress in developing a credible and effective construct for monitoring and addressing risks – including potential systemic vulnerabilities. Such a construct is essential to supporting the priorities laid out in the Financial Stability Oversight Council’s (FSOC) December 2019 interpretative guidance regarding nonbank financial company designations, which implements an activities-based approach (ABA) for identifying and addressing potential risks to financial stability. Consistent with the FSOC’s guidance, the NAIC, through the state regulators, are appropriately assuming primary responsibility for crafting and implementing an ABA that is tailored to the risk profile of the insurance sector.

Our mandate as CROs very much aligns with those of our supervisors in seeking to protect policyholders and promote financial stability. In this spirit, we are pleased to offer the following feedback on the NAIC’s proposal.

Thematic Feedback

- ***Anchor the Assessment – and the specific metrics chosen to help implement it – with the three distinct “transmission channels” for how risks might propagate across the financial system.*** While the assessment categories the NAIC has identified are pertinent to the assessment of insurance-related risk factors, they appear to be overly inward-focused. We believe that the Assessment – while being mindful of inward risks – should primarily be directed to surveillance for outward risks to the financial system. To this end, we believe that the assessment should filter and focus on metrics that align with, and are directly instrumental to, implementation of an ABA including focus on the Interconnectedness, Asset Liquidation, and Critical Function transmission channels. Further, the focus of the assessment should be on potential macroprudential vulnerabilities resulting from these transmission mechanisms rather than assessment of a particular insurer’s overall risk profile.

- ***Avoid building overly complicated risk dashboards comprised of disparate metrics - and instead focus on prioritizing a manageable set of the indicators that are most relevant to assessing vulnerabilities.*** As CROs, one of our primary responsibilities is to discern “signal” from “noise” among the plethora of financial indicators at our disposal. Making risk-informed decisions depends on identifying – and then contextualizing – a tractable subset within a vast array of metrics. Given the macroprudential nature of the NAIC’s initiative, we encourage careful selection of distinct metrics that address potential drivers of risk – including emerging risks and potential systemic vulnerabilities – such as those that address leverage, liquidity, and risk concentrations. An overly broad dashboard of indicators could introduce potential statistical error (e.g., multicollinearity problems) as well as cognitive biases and limitations. With respect to drawing conclusions from the assessment, greater insight on how the information will be compiled/aggregated across the various indicators/metrics will inform the lens through which the results should be interpreted – especially when housed next to data points that may be based on different approaches (e.g., assumptions, models, etc.) or where results will only be applicable for a subset of the industry.
- ***Identify and contextualize metrics that will underly each assessment category relative to the NAIC’s objectives, historical trends, and broader market developments.*** It would be helpful to get a better sense of the specific metrics the NAIC’s will monitor for each respective category, the intended rationale, and the mode of analysis. Context is critical. For example, credit spreads are potentially useful indicators. However, as a measure of fundamental credit risk (e.g., CDS-implied default probabilities), spreads are prone to volatility and “false positives” in which the implied default likelihood of individual obligors is vastly overstated. Moreover, for insurers that apply disciplined asset and liability management (ALM), an increase in spreads during an illiquidity-related stress period might create opportunities to reinvest at higher yields, which ultimately creates more income to defease policyholder liabilities. A period of sustained low spreads, on the other hand, might create complacency or a generalized underpricing of risk and, in this scenario, could be a better leading indicator of stress than elevated spreads. This nuance underscores that regulators should avoid a hardwired, data-mining reliance on risk dashboards and automatic triggers for action and instead consider the broader situational context surrounding a given metric. More broadly, it is critical that any conclusions about macroprudential risks be drawn within the context of the broader economy. Insufficient consideration of the broader economy when assessing metrics could result in supervisory measures that are not cost-beneficial and that do not focus, as intended, on true sector-wide or systemic risks.
- ***Avoid unnecessary duplication for supervisors and the industry.*** We appreciate and support the NAIC stating it will rely extensively on existing data sources and encourage it to fit its data gathering and assessment into the existing regulatory risk assessment and solvency reporting scheme (e.g., Liquidity Stress Testing, RBC, Form F, the Group Capital Calculation, ORSA, etc.). Additionally, we note that any new data gathering and/or assessment should be given appropriate confidentiality protections. Further, it would be helpful to understand whether the NAIC intends to conduct the same assessment on a semi-annual basis as the varying scope of information insurers file on an annual versus quarterly basis is likely to necessitate different content for a year-end versus mid-year assessment. It would also be helpful to understand if the NAIC intends to present results in aggregate for the industry or separate by line of business,

life versus P&C, mutual versus stock companies, etc.

- **Engage in ongoing and iterative dialogue with stakeholders.** We recognize the important role regulatory practices can play in promoting sound behavior across the industry and would welcome the opportunity to assist the NAIC with the development of the risk assessment tool, the review and interpretation of the biannual results, and efforts to identify and understand emerging risks.

Structural Feedback

As noted above, the nuances of the assessment criteria – including how they are interpreted – will be critically important to making the assessment beneficial to state regulators. To this end, the CRO Council recommends the NAIC consider incorporating the following structural elements into the assessment:

1. Use the prevailing “transmission channel” framework to enable a stronger linkage of each assessment category/criteria to a specific macroprudential concern. Numerous regulator and industry groups, both within and outside the US, have coalesced on a “transmission channel” approach to the assessment of macroprudential risk and how such risk could potentially impact financial stability. As noted above, the three transmission channels previously identified are: Interconnectedness, Asset Liquidation, and Critical Function. Regulators should map the existing “Assessment Categories” to a transmission channel to ensure the ultimate assessment criteria metrics align with the pathway for macroprudential risk transmission. The table below reflects a potential mapping of the existing assessment categories to the transmission channels.

Transmission channel	Existing assessment categories
Interconnectedness	2. Interconnectedness 3. Capitalization and reputation 5. Credit 6. Market (non-derivative)
Asset liquidation	6. Market (derivative) 7. Liquidity
Critical function	4. Underwriting and profitability
Other	1. Macroeconomic 8. Other

2. Identify explicit elements of the financial sector that may be influenced by industry contributions to the transmission channels. The Council recommends further identifying the areas of the financial sector that may be affected by the insurance industry through the identified transmission channels. We think this will be necessary to establish thresholds outlined in the “Assessment Levels” that align with a macroprudential risk.
3. Include an assessment on risk management. The proposed Assessment focuses almost solely on risk exposure. We suggest also expressly incorporating an assessment of industry risk management as managed risks are not likely to turn into significant vulnerabilities or transmission of systemic risk.
4. Provide further insight on how the Assessment is envisioned to fit into the existing regulatory



risk and solvency reporting scheme. For example, it would be helpful to have a deeper understanding of what new information the NAIC expects the Assessment to deliver relative to the existing financial solvency regulatory tools. Further, it also would be helpful to obtain additional information regarding how state regulators may be expected to incorporate information from the Assessment into their supervision of insurers.

In Closing

The nuances of the Assessment will be critically important to success of the tool. The Council would welcome the opportunity to further engage with the NAIC on this project, both as development of the assessment framework progresses and post implementation to help ensure it evolves as may be necessary over time.

Sincerely,

A handwritten signature in black ink, appearing to read "Geoffrey Craddock", with a horizontal line underneath.

Geoffrey Craddock
Chair of the North American CRO Council

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March 25, 2022

Miguel Romero, Financial Regulatory Services Manager

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Re: NAIC Macroprudential (E) Working Group exposure of the Macroprudential Risk Assessment Tool

Dear Mr. Romero:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit comments in response to the NAIC Macroprudential (E) Working Groups exposure of its Macroprudential Risk Assessment Tool (“risk assessment tool”). At a high level, we are supportive of the NAIC’s development of the macroprudential risk assessment tool as part of the Macroprudential Initiative and agree that, if designed appropriately, could provide valuable insight to regulators, the industry, and the public. To that end, we would like to offer the following feedback to help improve its design and achieve the tool’s intended goals.

General

We believe the risk dashboard, while being mindful of inward risks, should primarily be directed to surveillance for outward risks to the financial system (i.e., an activities based approach) as state regulators have access to other tools that are better positioned to help them determine if an individual insurer warrants additional monitoring (e.g., LST).

We believe NAIC should develop guiding principles for how it will use existing data and assess each risk category and seek stakeholder collaboration as it builds out and evolves these assessments overtime.

Further, we recommend that the NAIC conduct the monitoring process and dashboard update on an annual basis rather than biannual. Most of the key information used for the exercise is only updated once a year (annual statements, blue book, LST, GCC, ORSA, etc.). Biannual may require additional data that is not available in quarterly filings and we want to avoid unnecessary and burdensome data calls since this exercise is supposed to be leveraging existing data sources.

We also agree with the NAIC relying on the established definition of systemic risk used by various international organizations.

Quantitative Review

We agree with the 8 risk assessment categories, and note that they are broadly aligned with those identified in the EIOPA risk dashboard that was included in the IAIS Application Paper on Macroprudential Supervision published last year. However, it is hard to comment on the categories without additional information or something tangible to review. We understand there needs to be a balance between regulator discretion and prescriptive metrics when assessing risk. The process needs to be data informed, but not data driven. We believe NAIC should develop guiding principles for how it will use existing data and assess each risk category and seek stakeholder collaboration as it builds out and evolves these assessments overtime.

Additionally, the risk categories should be mapped back to the transmission channels identified by the FSOC 2019 guidance and IAIS's holistic framework. As noted above, we are concerned that these assessment categories are primarily focused on inward risks and could limit or downplay valuable insight about activities that may pose systemic risk or threaten US financial stability. We request the NAIC provide more detail on the metrics/risk indicators for each category, including how they will map to existing data collections and provide ample time for industry comments to ensure the metrics are appropriate for the dashboard's stated use.

It would also be helpful to understand how the working group envisions the macroprudential risk assessment tool will influence existing risk assessment and mitigation work at the Macroprudential Working Group and more broadly the NAIC (i.e., RBC, actuarial modeling, accounting, etc.).

Qualitative Review and Research

We agree that a qualitative component of the tool is an important complement to the quantitative component, particularly to the extent that the qualitative tool may be more responsive to emerging risks.

Overall Conclusions and Presentation of Results

We agree on the use of assessment levels and trend levels in the presentation of results.

Thank you in advance for the consideration of our comments. ACLI and its members look forward to continuing our work with you on the important matter of improving macroprudential surveillance tools.

Sincerely,



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March 25, 2022

Justin Schrader, Chair
Macroprudential (E) Working Group
National Association of Insurance Commissioners

Re: Proposed Macroprudential Risk Assessment

Dear Chairman Schrader:

The American Property Casualty Insurance Association (APCIA) welcomes the opportunity to comment on the NAIC Macroprudential (E) Working Group’s proposed Macroprudential Risk Assessment. 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 represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

The NAIC, through the collective participation of state regulators, has made significant progress in developing an effective framework for monitoring and addressing insurers’ risks, and the development of a macroprudential risk assessment to monitor systemic vulnerabilities is a natural complement to that framework. The proposed assessment is essential to support the priorities laid out in the December 2019 interpretative guidance from the Financial Stability Oversight Council (FSOC) regarding nonbank financial company designations, which utilizes an activities-based approach (ABA) for identifying and addressing potential risks to financial stability. Consistent with the FSOC’s interpretative guidance, the NAIC is appropriately developing an ABA that is designed to address the risk profile of the insurance sector.

In general, APCIA believes the proposed Macroprudential Risk Assessment sets forth a reasonable process for monitoring industry-wide risk within an activities-based approach for monitoring systemic risk.

As this process moves forward, we believe the proposed assessment should identify and focus on metrics that are relevant with and responsive to the risks associated with an ABA, including a focus on the Interconnectedness, Asset Liquidation, and Critical Function transmission channels. Further, the focus of the assessment should be on potential financial vulnerabilities that can occur on a macroprudential level from these transmission mechanisms over identified time periods rather than assessment of a particular insurer’s overall risk profile. As an example, if a transmission occurs over the course of a year or longer, the potential impact would be very different from that if the transmission occurs within one week. For this reason, we would also caution against aggregating life and property & casualty insurer data together, as the transmission time horizons are very different for these two business models, even though both types of insurance are collectively part of the insurance sector.

In addition, it is critical that any conclusions about macroprudential risks be drawn within the context of the broader economy. Exposures that may seem large within the insurance industry may be significantly smaller when compared with other financial service providers. If the Macroprudential Risk Assessment too narrowly focuses on the collective risk exposures of insurers, without considering the broader economy, this could result in supervisory measures that are not cost-beneficial and that do not focus, as intended, on true sector-wide or systemic risks. Likewise, we agree the Macroprudential Risk Assessment should leverage federal and international resources, such as broad macro-level and cross-sectoral data, because this will ensure the assessment properly looks at the impact of risks on insurers in the context of the broader economy.

Furthermore, we agree with the proposal's approach to identifying, collecting, and aggregating data, including data collected from U.S.-based insurers through the Individual Insurer Monitoring data collection exercise conducted by the Bank of International Settlements, because the Macroprudential Risk Assessment should not require any additional reporting from or analysis of individual insurers. As discussed above, we would also caution against aggregating life and property & casualty insurer data together. Similarly, individual company data should remain confidential and aggregated reporting should be done separately for the life and property & casualty segments of the insurance sector.

Thank you for considering the points addressed in this letter, and please do not hesitate to contact us if you have any questions.

Sincerely,



Stephen W. Broadie
Vice President, Financial & Counsel



Matthew Vece
Director, Financial & Tax Counsel