Draft: 10/20/17

Liquidity Assessment (EX) Subgroup
Conference Call
October 12, 2017

The Liquidity Assessment (EX) Subgroup of the Financial Stability (EX) Task Force met via conference call Oct. 12, 2017. The following Task Force members participated: Justin Schrader, Chair (NE); Kathy Belfi and John Loughran (CT); Philip Barlow (DC); Ray Spudeck (FL); Bruce Sartain and Vincent Tsang (IL); Fred Andersen (MN); James Regalbuto and William Carmello (NY); and Doug Slape and Mike Boerner (TX).

1. Adopted its Sept. 11 Minutes

Mr. Boerner made a motion, seconded by Mr. Andersen, to adopt the Subgroup's Sept. 11 minutes (Attachment ___). The motion passed.

2. Adopted its 2018 Proposed Charges and Work Plan

Mr. Schrader provided an overview of the Subgroup's 2018 proposed charges and work plan, as follows:

2018 Proposed Charges

The **Liquidity Assessment (EX) Subgroup** will:

A. Review existing public and regulator-only data related to liquidity risk, identify any gaps based on regulatory needs and propose the universe of companies to which any recommendations may apply.
B. Construct a liquidity stress testing framework proposal for consideration by the Financial Condition (E) Committee, including the proposed universe of companies to which the framework will apply (e.g., large life insurers).

Work Plan

- Review existing public and regulator-only data related to liquidity risk, identify regulatory gaps, determine the scope of application, and propose recommendations to enhance these disclosures. Target completion date: 2017 Fall National Meeting.
- Determine the scope of application and begin constructing a liquidity stress testing framework for the companies in scope (e.g., large life insurers). Target completion date: 2018 Spring National Meeting.
- Once the stress testing framework is completed, consider potential enhancements or additions to disclosures. Target completion date: 2018 Summer National Meeting.

Ms. Belfi made a motion, seconded by Mr. Spudeck, to adopt the Subgroup's 2018 proposed charges and work plan. The motion passed.

3. Discussed Liquidity Stress Testing

Mr. Schrader clarified that NAIC staff's review of existing data related to liquidity was performed to remind regulators and the industry alike of the data that currently exist that could have meaning in performing liquidity assessment work. He added that this is a starting point in two applications of the data work: 1) how to improve and/or streamline regulators' current work in analysis and examinations that occur for all life insurers, and which will support macro-surveillance activities; and 2) what data will be needed to support the liquidity stress testing framework that the NAIC will be developing, which will also lend itself to further informing macro-surveillance efforts.

Mr. Schrader said the exposure period ended Oct. 5, and NAIC staff made revisions based on comments from regulators and letters from the American Council of Life Insurers (ACLI) and Northwestern Mutual.

Todd Sells (NAIC) provided an overview of the revised NAIC staff's review of existing data related to liquidity and noted that comments from the New York State Department of Financial Services will be incorporated. Mr. Schrader directed staff to post the revised document on the Subgroup's website under the "Related Documents" tab and indicated it would be consulted as the Subgroup continues its work.

4. Discussed Baseline Blanks Proposal and Notes Blanks Proposal

Mr. Sells provided an overview of the Baseline Blanks Proposal and Notes Blanks Proposal. He added that the changes focus on the performance of various, more detailed product categories, noting that those product categories will allow regulators to perform some general, high-level bucketing of liquidity concerns.

Mr. Schrader indicated his appreciation for the more detailed product categories allowing regulators to perform some general bucketing of liquidity concerns, as well as the additional data on the amounts able to be surrendered, loaned or otherwise withdrawn. He said the new note appears to fill the current gap in liquidity information for life insurance products in the blank. Mr. Schrader also expressed his belief that these proposals would reduce much of the extra data the states request from companies for both analysis and examination purposes.

Ms. Belfi asked for the rationale behind adding the detailed product breakout information on the State Page. Mr. Sells responded that the state guaranty fund system's ability to meet the needs of potential life insurer failures is a common criticism of the state-based system of insurance regulation, noting that this data would assist regulators in addressing those concerns.

With no objection from the Subgroup, interested regulators or interested parties, Mr. Schrader exposed, for a 30-day public comment period ending Nov. 9, the Baseline Blanks Proposal and Notes Blanks Proposal. He said the goal is to have these blanks proposals ready to submit to the Financial Stability (EX) Task Force for its consideration at the Fall National Meeting.

Having no further business, the Liquidity Assessment (EX) Subgroup adjourned.

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ACLI
Financial Security…for Life.

November 9, 2017

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Re: Comments on Staff Draft Blanks Proposal

Dear Mr. Schrader:

The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with approximately 290 member companies operating in the United States and abroad. ACLI advocates in state, federal, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing 95 percent of industry assets, 93 percent of life insurance premiums, and 98 percent of annuity considerations in the United States. Learn more at www.acli.com.

Thank you for the opportunity to provide these comments on the NAIC Staff Draft Blanks Proposal. While we appreciate the effort to better assess life insurer liquidity, our overarching concern is that the exposure lacks a clear description of the underlying objectives and how the proposed changes are necessary to achieve those objectives. It appears that the proposed blanks expansion would impose significant new reporting burdens on companies, without a clearly defined benefit or purpose. Moreover, in reviewing the proposed changes a number of specific questions emerged from our members, but it is difficult to articulate these questions, or to recommend less burdensome alternatives to the proposed additional reporting, without a better understanding of what the proposed changes are intended to achieve. We request that the Subgroup defer the blanks expansion until a better understanding of purpose and scope is achieved and communicated. And if any changes are identified as necessary to meet objectives established through this process, given the volume of new information contemplated and the technical issues likely to emerge we urge that ample time be provided for companies to implement those changes.

We recognize that our recommendation to defer will require the Subgroup to adjust the aggressive timeline for its workplan. Yet, the significance of this effort calls for a fully deliberative process and we are not aware of exigent circumstances that would justify bypassing a fully deliberative approach. It is essential for the Subgroup (or the Financial Stability (EX) Task Force) to fully consider and reconcile the policy issues at stake before referring this proposal to the technical Blanks Working Group.

In addition, considering the MPI Work Plan, the sequencing of the four "key areas of focus" raises questions. For example, the actions taken in the event of a liquidity issue (Recovery and Resolution) may inform what data is collected for a liquidity assessment. The Subgroup may want to consider whether each of the four key areas can adequately be addressed in isolation, without reference to the other key areas. A narrative description of the Subgroup's vision on how the key areas fit together would be useful and appreciated.

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Our detailed comments are grouped under general headings and are as follows:

The Subgroup should articulate its objectives as an initial step

ACLI respectfully urges the Subgroup to articulate the objectives of the proposed increased data collection prior to imposing significant new reporting burdens on the industry. The Subgroup's charges include both an identification of "gaps based on regulatory needs" and a proposed "universe of companies to which any recommendations may apply." The Subgroup has not established how existing data is insufficient to meet regulatory needs, and it is not clear the proposed expansion of data collection provides regulatory value.

Our members are concerned that the draft blanks changes would impose significant new regulatory reporting burdens. However, it appears that much of the information is related to product splits more than liquidity, and we have several questions and concerns related to reinsurance. It is also not apparent what value is expected to be derived from the proposed new split of the Analysis of Operations. We therefore request that the Subgroup develop an overarching memo describing why additional data is needed, how the proposed changes fulfill those needs, and why alternative, existing sources of information are insufficient. Such a work product should build from existing experience within the industry for understanding the actual liquidity characteristics of specific product categories.

The requested information is of limited value to Guaranty Fund Assessment Adequacy

On the October 12 Subgroup call, it was mentioned that one of the justifications for state-by-state reporting of certain information is to allow for an analysis of state guaranty fund assessment adequacy. We would like to better understand this concern. On the surface, this concern seems somewhat misplaced; a company that becomes impaired will do so in all of the jurisdictions in which it does business. The liquidity characteristics of a company's products in any particular state are of only tangential importance to the functioning of the state guaranty fund system. Other attributes of the guaranty fund system can be found that are of greater significance than a liquidity measurement derived from the proposed state-by-state blanks disclosures.

From a practical standpoint, measurements of individual state guaranty fund assessment levels already exist. The National Organization of Life & Health Insurance Guaranty Associations (NOLHGA) conducts a robust survey each year in response to the NAIC's Receivership and Insolvency (E) Task Force's request for such information. This annual survey provides national and state level data on capacity and assessment activity. This comprehensive effort is likely a more useful for any data collection needs relative to individual state guaranty funds. Should the Subgroup desire additional guaranty fund information, we would urge the Subgroup to work with NOLHGA and the NAIC (E) Committee.

The requested blanks information seems misfocused

We are concerned that a bucketing of liabilities by product label is likely to create an incomplete and possibly misleading depiction of liquidity. A focus on risk exposures drawn from actual liquidity risk experience would seemingly be of greater value than some of the detailed data sought in the exposure. Even here individual company experiences may make comparability difficult and future results hard to predict, particularly with newer products. While there may be a place for additional analysis of blanks data, or even additional data, any additional data request should be clearly focused on a particular need and be grounded in the well-established recognition that traditional life insurance products – including products with withdrawable cash values – present low liquidity risk. In addition, a true assessment of liquidity risk must include the asset side of the balance sheet, although we believe the current blanks framework already requires ample reporting relating to assets.

We ask the Subgroup to consider whether other sources of information may provide a more holistic window into the liquidity of a particular life insurer. ORSA reports may be a source of data for certain life insurers. These reports are individualized by design, and this has the benefit of providing regulators insight into the insurer's unique risk profile. However, this benefit would be lost if the ORSA process and reporting were to become prescriptive. In addition, it may be that existing sources of data (other than the blanks) are better suited to provide meaningful information for liquidity analysis purposes.

Thank you again for the opportunity to comment. Please let us know if you have any questions prior to the next public session of the Subgroup.

Sincerely,

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