

**NAIC GROUP CAPITAL CALCULATION  
FIELD TESTING INSTRUCTIONS  
AUGUST 2, 2019 UPDATE**

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## I. Background

### A. Work Performed Up Through 12/31/15

1. In 2015, the NAIC ComFrame Development and Analysis (G) Working Group (CDAWG) held discussions regarding developing a group capital calculation (GCC) tool. The discussions revealed that developing a GCC was a natural extension of work state insurance regulators had already begun, in part driven by lessons learned from the 2008 financial crisis which include better understanding the risks to insurance groups and their policyholders. While insurance regulators currently have authorities to obtain information regarding the capital positions of non-insurance affiliates, they do not have a consistent analytical framework for evaluating such information. The GCC is designed to address this shortcoming and will serve as an additional financial metric that will assist regulators in identifying risks that may emanate from a holding company system.
2. More specifically, the GCC and related reporting will provide more transparency to insurance regulators regarding the insurance group and make risks more identifiable and more easily quantified. In this regard, the tool will assist regulators in holistically understanding the financial condition of non-insurance entities, how capital is distributed across an entire group, and whether and to what degree insurance companies may be subsidizing the operations of non-insurance entities, potentially undermining the insurance company's financial condition and/or placing upward pressure on premiums to the detriment of insurance policyholders. It is envisaged that this calculation will provide an additional early warning signal to regulators so they can begin working with a company to resolve any concerns in a manner that will ensure that policyholders will be protected. The GCC will be an additional reporting requirement built off existing legal authorities but with important confidentiality protections built into the legal authority. State insurance regulators already have broad authority to take action when an insurer is financially distressed, and the GCC is designed to provide regulators with further insights to allow them to make informed decisions on both the need for action, and the type of action to take.
3. State insurance regulators currently perform group analysis on all U.S. insurance groups, including assessing the risks and financial position of the insurance holding company system based on currently available information; however, they do not have the benefit of a consolidated statutory accounting system and financial statements to assist them in these efforts. It was noted that a consistent method of calculating group capital for typical group risks would provide a very useful tool for state financial regulators to utilize in their group assessment work. It was also noted that a group capital calculation could serve as a baseline quantitative measure to be used by regulators in conjunction with group-specific risks and stresses identified in the Own Risk and Solvency Assessment (ORSA) Summary Report filings as well as risks identified in Form F filings that may not be captured in legal entity RBC filings. Finally, it's important to understand that regulators believed that a group capital calculation would be another valuable tool to complement the states' legal entity focused solvency assessments.

4. During the course of several open meetings and exposure periods, CDAWG considered a discussion draft which included three high level methodologies for the group capital calculation: an RBC aggregation approach, a Statutory Accounting Principles (SAP) consolidated approach, and a Generally Accepted Accounting Principles (GAAP) consolidated approach. On September 11, 2015, the CDAWG members unanimously approved a motion to move forward with developing a recommendation for a group capital calculation and directed an appropriate high-level methodology for the recommendation.
5. At a CDAWG meeting on September 24, 2015, pros and cons for each methodology were discussed, and a consensus quickly developed in support of using an RBC aggregation approach if a group capital calculation were to be developed. The CDAWG unanimously approved a motion to develop a concept paper that proposes the RBC aggregation method for a group capital calculation in its recommendation to NAIC Executive/Plenary as follows:

#### ***RECOMMENDATION***

**To continue the NAIC’s work on developing regulatory tools for insurance group capital assessment and oversight, the CDAWG recommends the NAIC Executive/Plenary adopt the following charge for the Financial Condition (E) Committee:**

***“Construct a U.S. group capital calculation using an RBC aggregation methodology; liaise as necessary with the ComFrame Development and Analysis (G) Working Group on international capital developments and consider group capital developments by the Federal Reserve Board, both of which may help inform the construction of a U.S. group capital calculation.”***

6. The RBC aggregation approach would build on existing legal entity capital requirements where they exist rather than developing replacement/additional standards. In selecting this approach, it was recognized as satisfying regulatory needs while at the same time having the advantages of being less burdensome and costly to regulators and industry and respecting other jurisdictions’ existing capital regimes. In order to capture the risks associated with the entire group, including the insurance holding company, RBC calculations would need to be developed in those instances where no RBC calculations currently exist.
7. In early 2016, the Financial Condition (E) Committee formed the Group Capital Calculation (E) Working Group (Working Group), who began to address its charge and various details of the items suggested by the CDAWG. The instructions included herein represent the data, factors, and possible approaches that the Working Group believed was appropriate for testing to determine if they collectively achieve the objectives of such a calculation. An item noted by CDAWG that has yet to be discussed by the Working Group is the consideration of stress testing. As a result, stress testing is not a part of these instructions.

**DRAFTING NOTE: The above is intended to be background information only and should NOT be used as instructions to how this template is completed. It’s included to provide information to participants that may not have been involved in the entirety of this project since it explains considerations before this work was developed.**

## **II. Initial Recommendations Being Tested**

8. The version of a Group Capital Calculation covered by these instructions should not be construed to represent anything other than an initial means to explore the construct and analyze the impact of tentative possibilities for such a calculation. The process being used herein is intended to capture valuable information that will be used by the Working Group to evaluate whether such tentative possibilities provide the desired result, and whether additional data points or factors need to be considered to serve the objective of the calculation.

## **III. Objective, Exemptions, Scope, Timeline**

### **Objective of the Template**

9. The objective of this template to collect information at the entity level for all entities within the group and obtain input from Lead-State regulators and volunteers on further improvements and adjustments to the template, the scope of the calculation and the field-testing options therein.

### **Groups Exempted from the GCC Testing Template**

10. No groups will be excluded from volunteering for the field test or otherwise completing the template. After field testing a determination will be made as to whether a non-U.S. based group (a group with a non-U.S. group-wide supervisor) may be exempt from the GCC based on the following:
  - i. The non-U.S. based group is based in a Reciprocal Jurisdiction that recognizes the U.S. regulatory regime and accepts the GCC from U.S. based groups to satisfy the Reciprocal Jurisdiction's group capital requirement;
  - ii. The non-U.S. Group-Wide Supervisor's home jurisdiction requires a group capital calculation be applied at a level that includes the same (or substantially similar) Scope of Application as would otherwise be determined by the Lead State Regulator in the absence of this exemption; and
  - iii. The Lead State Regulator can obtain information from the foreign group's Group-Wide Supervisor either through a Supervisory College or otherwise, that allows the Lead State Regulator to understand the financial condition of the group and complete the expectations of other states in its Group Profile Summary (GPS).

### **Scope of the Broader Group & Scope of Application**

11. When considering the scope of application (i.e. which entities within the broader group are to be included in the field testing of this calculation), the Field Test Volunteer must first understand the information to be included in Schedule 1 of the template. When developing an initial inventory of all potential entities, the Field Test Volunteer shall complete Schedule 1, which requests data for all of the entities directly or indirectly owned by the Ultimate Controlling Person (including the

Ultimate controlling Person) that are listed in the insurer's most recent Schedule Y or in relevant Holding Company Filings. This will require the Field Test Volunteer to complete basic information about each such entity in Schedule 1, including its total assets, and total revenue and net income for this specific year determined to be the basis for the Field-Test (e.g. FY 2018 only). The Field-Test does NOT require the Schedule 1 to be completed for any prior years. The primary purpose of the Schedule 1 is to 1) assist the lead-state in making an initial assessment (not final) on the entities within the group that should be included in the Scope of Application; and 2) provide the lead state with valuation information to better understand the group. The Schedule 1 data included in the Field-Test is NOT intended to be used in a formulaic way to determine the Scope of Application.

12. To assist the Lead State Regulator in assessing the Scope of Application, the Schedule 1 and the Inventory Tab of the template will be completed by participants to provide information and certain financial data on all the entities in the group. Each participant may also use the include / exclude column in Schedule 1 to apply its own set of entities to be subject to the calculation after applying its own criteria for material risk which will be described in the template and evaluated by the Lead State Regulator and field test analyst use in assessing if the entities excluded from the Scope of Application are appropriate. The Lead State Regulator and the Insurance Group may agree on other criteria that can be tested in order to refine the template for future field testing. This may allow the ultimate GCC to reflect a more risk-sensitive approach and allow the Lead State Regulator to better understand the group.
13. Although all entities must be listed in Schedule 1 and in the Inventory tab, a volunteer may agree with its Lead State Regulator to provide the data for certain entities or entity types on a sub-grouping basis. Some options for alternative options for grouping entities are provided within the template. However, the Lead State Regulator should work with the group in determining whether the Inventory Tab should list values for all entities individually, or whether the values for some should be grouped in a specified way. Alternative groupings should be described in 'Input 5 - Questions and Other Narrative Descriptions or Information'. The Lead State Regulator should work with the participant group in determining whether grouping should be adjusted in future iterations of the field test exercise, e.g., to better illuminate potential areas of risk. For example, groupings of non-insurance, non-Financial Entities with some common traits (business unit, purpose, e.g.) could allow the Lead State Regulator to better understand the group and how they are managed. Thus, while the Schedule 1 would include the full combined financial results/key financial information (e.g. net premiums for insurers, total revenues, total net income, total assets, total debt, total capital or equity) for all entities directly or indirectly owned by the Ultimate Controlling Person, such data may be reported based upon major groupings of entities to maximize its usefulness and allow the Lead State Regulator to better understand the group, its structure, and trends at the sub-group as well as group level. Once the calculation is in actual use, it's expected that annually the Lead State Regulator and the Insurance Group would agree on such groupings.

### **General Process for Determining the Scope of Application**

14. The starting point for "Scope of Application" (i.e., for purposes of the GCC specifically) is the entire group. However the Participant may suggest a narrower scope, (i.e., comprise a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s) (Broader Group). However, the adjustments as to the Scope of Application suggested by the participant consultation with the

Lead State Regulator should be provided as input to the field testing process by using the include/exclude column in Schedule 1 to apply its own set of entities to be subject to the calculation and its selected materiality criteria which will be reviewed during analysis of the submitted template.

15. The fundamental reason for state insurance regulation is to protect American insurance consumers. Therefore, the objective of the GCC is to assess quantitatively the collective risks to, and capital of, the entities within the Scope of Application. This assessment should consider risks that originate within the Insurance Group along with risks that emanate from outside the Insurance Group but within the Broader Group. The overall purpose of this assessment is to better understand the risks that could adversely impact the ability of the entities within the Scope of Application to pay policyholder claims consistent with the primary focus of insurance regulators. Consistent with sound regulation, the benefits of the quantitative analysis facilitated by the GCC should exceed the cost of implementation.

### **Guiding Principles and Steps to Determine the Scope of Application**

16. The Scope of Application is initially determined by the Field Test Volunteer in a series of steps, listed here and then further explained as necessary in the text that follows:
  - Develop a full inventory of potential entities using the Inventory of the Group template (Schedule 1)
  - Denote in Schedule 1 for each non-financial entity whether it is to be “included in or excluded from” the Scope of Application” using the criteria below in the section “Identify Risks from the Broader Group”
  - All entities, whether to be included in or excluded from the Scope of Application are to be reported in the Inventory Tab of the template.
  - Each entity should have its own row though for entities that qualify for grouping for purposes of a providing single value only financial values need to be reported for one entity; others can be reported as zero.
  - Testing options applied in the Results sections of the template will calculate a result after excluding entities designated as “exclude” in Schedule 1

### **Identify and Include all Entities in the Insurance Group**

17. Include in the Scope of Application all entities that meet the definition of an affiliate, below and that that fit the criteria identified in the definition of the Insurance Group, below, and denote as such (i.e., included in the Scope of Application) in the Schedule 1 and Inventory of the Group template.

### **Identify and Include all Financial Entities**

18. Financial Entities within the Inventory of the Group template shall be included in (i.e. may not be designated as “excluded from”) the Scope of Application regardless of where they reside within the Broader Group.

## **Identify Risks from the Broader Group**

19. An Insurance Group may be a subset of a Broader Group, such as a larger diversified conglomerate with insurance legal entities, Financial Entities and non-financial entities. In considering the risks to which the Insurance Group is exposed, it is important to take account of those material risks to the Insurance Group from the Broader Group within which the Insurance Group operates. All entities included within the Insurance Group should be included within (i.e. may not be designated as “excluded from”) the Scope of the Application. Non-financial entities within the Broader Group but outside the Insurance Group that pose such risks to the Insurance Group should be included within (i.e. may not be designated as “excluded from”) the Scope of Application; others may be reported as “excluded”. However, all non-financial entities that are included within the Insurance Group and directly or indirectly owned by a U.S insurer must be included in the Scope of Application.

## **Review of Submission**

20. The Lead State Regulator should review the Inventory of the Group template to determine if there are entities excluded by the Volunteer using the criteria above that the Lead State Regulator nonetheless believes create material risk to its insurance operations. Additional information may be requested by the Lead State Regulator to facilitate this analysis. This review is very group specific and may or may not lead to recommended changes to the field-testing template. Ultimately, the decision to include or exclude entities from the GCC will occur based on post submission review and the resulting adjustments to the GCC submission will be based on the Lead-State regulator’s knowledge of the group and related information or filings available to the Lead-State.
21. The Field Test Volunteer, together with the Lead State Regulator and with technical support from the field test analysts, would use the above steps, which includes considering the Lead State Regulator’s understanding of the group, including inputs such as Form F, ORSA, and other information from other involved regulators, to determine the reasonableness of the suggested Scope of Application.

## **Updating the Scope of Application**

22. The Scope of Application should be considered for update on an ongoing basis for each successive field test throughout the field-testing process. As part of each update, the exclusion or inclusion of entities within the Scope of Application should be re-assessed by the Volunteer and the Lead State Regulator based on the above criteria or it may be amended in the future by the Working Group.

## **Timeline for Completion of this Template**

23. The following represents the initial timeline for desired completion of the attached

(FINAL TIMELINE TO BE DETERMINED BY WORKING GROUP AND INSERTED)  
POTENTIAL START DATE OF MAY 1, 2019

## IV. Definitions

24. **Broader Group:** The entire set of legal entities that are controlled by the Ultimate Controlling Person of insurers within a corporate group. When consider the use of this term in the Field-Testing Template, all entities included in the Broader Group should be included in Schedule 1 and the Inventory, but only those that are denoted as “included” in the Schedule 1 will be considered in the actual group capital calculation.
25. **Field Test Volunteer, or Volunteer:** An Insurance Group that is participating with its Lead State Regulator and the NAIC in the development of the GCC through the submission of confidential data and field-testing exercises.
26. **Financial Entity:** A non-insurance entity that engages in or facilitates financial intermediary operations (e.g., accepting deposits, granting of credits or making loans, managing or holding investments, etc.). The primary examples of financial entities are commercial banks, intermediation banks, investment banks, saving banks, credit unions, savings and loan institutions, swap dealers, and the portion of special purpose and collective investment entities (e.g., investment companies, private funds, commodity pools, and mutual funds) that represents the Broader Group’s aggregate investment interest in such entities, without regard to any member of the Broader Group’s general entity management responsibilities (e.g., investment advisory or broker/dealer duties) for those entities.” For purposes of this definition, a subsidiary of an insurance company whose predominant purpose is to manage investments on behalf of the insurance company and its affiliated insurance (greater than 90% of the investment subsidiary’s assets are for these insurance affiliates) should NOT be considered a Financial Entity. Other types of service affiliates may be considered as “other financial entities” as defined on page 22 of these instructions for purposes of treatment in this field test.
27. **Insurance Group:** For purposes of the GCC, a group that is comprised of two or more entities of which at least one is an insurer, and which includes all of the insurers in the Broader Group. Another (non-insurance) entity may exercise significant influence on the insurer(s), i.e. a holding company or a mutual holding company; in other cases, such as mutual insurance companies, the mutual insurer itself may be the Ultimate Controlling Person. The exercise of significant influence is determined based on criteria such as (direct or indirect) participation, influence and/or other contractual obligations; interconnectedness; risk exposure; risk concentration; risk transfer; and/or intragroup agreements, transactions and exposures. An Insurance Group may include entities which facilitate, finance or service the group’s insurance operation, such as holding companies, branches, non-regulated entities, and other regulated financial institutions. An insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control, and includes all members of the Broader Group that exercise significant influence on the insurance entities and/or facilitate, finance, or service the insurance operations. An Insurance Group could be headed by:
- an insurance legal entity;
  - a holding company; or
  - a mutual holding company.

An Insurance Group may be:

- a subset/part of bank-led or securities-led financial conglomerate; or
- a subset of a wider group.

An Insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control.

28. **Lead State Regulator:** as defined in the NAIC’s Financial Analysis Handbook, i.e., generally considered to be the one state that “takes the lead” with respect to conducting group-wide supervision within the U.S. solvency system.
29. **Non-Regulated Entity:** An entity that is NOT subject to a prescribed capital requirement.
30. **Reciprocal Jurisdiction:** as defined in the Model Law for Credit for Reinsurance.

***Drafting Note:** The term “Reciprocal Jurisdiction” is from the proposed revisions incorporated to the exposure draft dated June 21, 2018 to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786). The content of this reference may need to be modified if it does not incorporate the mutual recognition of group supervision concept.*

31. **Regulated Entity:** An entity that is subject to a prescribed capital requirement.
32. **Scope of Application:** Refers to the entities that meet the criteria listed herein for inclusion in the GCC ratio. The application of material risk criteria may result in the Scope of Application being the same as, or a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s). Please note, U.S. Branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S insurance regulator, otherwise in as much as they are already included in a reporting legal entity, they are already in the scope of application and there is no need for any additional reporting in field testing.
33. **Ultimate Controlling Person:** As used in the NAIC’s Insurance Holding Company System Regulatory Act (Model #440).
34. **Control-** As used in the NAIC’s Insurance Holding Company System Regulatory Act., the term “control” (including the terms “controlling,” “controlled by” and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or non-management services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person. This presumption may be rebutted by a showing made in the manner provided by Section 4K of Model #440 that control does not exist in fact. The commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific

findings of fact to support the determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.

35. **Affiliate-** As used in the NAIC’s Insurance Holding Company System Regulatory Act., an “affiliate” of, or person “affiliated” with, a specific person, is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified. For purposes of the template, affiliates will not include those affiliates reported on Schedule BA, except in cases where there are financial entities reported as or owned indirectly through Schedule BA affiliates that would otherwise be included in Schedule 1 or the Inventory Tab. In general schedule BA affiliates will remain as investments of a parent insurer will be reported as parent of the value and capital calculation of the parent insurer. Any entities that would otherwise qualify as Schedule BA affiliates as described above but are owned by other entities (e.g. foreign insurers or other type of Parent entity) should be treated in the same way.
36. **Person-** As used in the NAIC’s Insurance Holding Company System Regulatory Act., a “person” is an individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a trust, an unincorporated organization, any similar entity or any combination of the foregoing acting in concert, but shall not include any joint venture partnership exclusively engaged in owning, managing, leasing or developing real or tangible personal property.

## V. Confidentiality and Data Usage

37. Like the Baseline exercise, the intent is for the testing to be a coordinated between the volunteer group and the lead state and held confidential based upon existing state laws (further details to be added later).

## VI. General Instructions

38. The NAIC Group Capital Calculation Template consists of a number of tabs (sections) within one workbook. The following provides general instructions on each of these tabs. See section VII for more detailed instructions for each of the data elements required to be input in each of the tabs.
39. **Input 1-Schedule 1-**This tab is intended to provide a full inventory of the group, including the designation by the Field Testing Volunteers of any non-financial entities to be included in, or excluded from, the Scope of Application and include sufficient data or information on each affiliated entity (See Schedule BA exception) within the group so as to allow for testing multiple options of scope, grouping and entity testing criteria, as well as, allowing the lead state regulator and template reviewer to make a determination as to whether the entities to be included in the scope of application or excluded from the scope of application meet the aforementioned criteria. This tab is also used to maximize the value of the calculation by including various information on the entities in the group that allow the lead state to better understand the group as a whole, the risks of the group, capital allocation, and overall strengths and weaknesses of the group.

40. Except as noted in on the Inventory tab, equity method investments that are accounted for based upon SSAP. No. 48 (Joint Ventures, Partnerships, and Limited Liability Companies) are not required to be de-stacked (separately listed) in Schedule 1, i.e. their value would be included in amounts reported by the parent insurer within the calculation. The basis for this approach is predicated on the purpose of the entire group capital calculation which is to produce an expected level of capital and a corresponding actual level of available capital. The available capital for such Joint Ventures, Partnerships, and Limited Liability Companies is already considered in Schedule 1 but its inclusion in its parent's financial statements amounts and can thus be excluded from an inventory (not separately listed) since the parent already receives a corresponding capital charge within its RBC.
41. **Input 2-Inventory**-This tab is intended to be used by the consolidated group to provide information on the value and capital calculation for all the entities in the group before any de-stacking of the entities. While some of this information is designed to “pull” information from Schedule 1, other cells (blue cells) require input from the group. This tab will include the adjustments to de-stack entities and adjust for intra group arrangements, accounting differences for prescribed and permitted practices. This tab is set up to subtract those practices and adjustment from capital and therefore should be entered as a 1) positive figure if the practice currently has a positive impact on the regulatory required capital; or as a 2) negative figure if the practice currently has a negative impact on the regulatory required capital. It will also be used to add entities erroneously included as equity investments in Schedule BA and to aggregate the resulting adjusted values for use in the actual group capital calculation.
42. **Input 3-Capital Instruments** -This tab is intended to be used to gather necessary information to test various levels of possible adjustments to increase the group's available capital based on the concept of structural subordination applied to senior or other subordinated debt issued by a holding company.
43. **Input 4 – XXX/AXXX Inputs** –This tab should ONLY require input by Life and Annuity Insurers and accumulates selected asset and liability adjustments that will be applied to the available capital as a whole. Examples include XXX/AXXX reserves and other captive adjustments
44. **Input 5 – Questions (and Other Narrative Descriptions or Information)**–This tab will provide space for participants to describe or explain certain entries in other tabs. Examples include the materiality method applied to exclude entities in Schedule 1 and narrative on adjustments for intra group debt and adjustments to available capital or capital calculations that are included in the “other adjustment” column in the Inventory Tab.
45. **Calc 1 – Scaling (Ins, Bank)** -This tab list countries predetermined by NAIC and provides the necessary factors for scaling available and required capital from non-US insurers to a comparable basis relative to the US Risk-based Capital figures. It also allows for set scaling options (that vary by insurance segment - life, P/C and health) and will accommodate scaling of capital calculations for banks
46. **Calc 2 - Select Options** – This tab is used to select the testing parameters to be applied for a particular test run (except scaling options). This run will be referred to as a ‘Base’ in the Template.

Note that the Template can calculate several further options at the same time. These are compared in the later summary tables.

47. **Summary 1 - Entity Category Level** –This tab currently applies the scaling options at the entity category level and provides an example of what applying testing options would look like for each category. In practice, the preferred way to handle the many options for scope, grouping and testing criteria that are included in the field test is to have the results of those options calculated in the background from the input tabs and shown side by side in Section 8 which reflects a top-level summary.
48. **Summary 2 - Top Level** - This tab provides summary GCC ratios for the entire group and compares options for scope, grouping and testing criteria that are included in the field test. These can include the “base” testing option along with others. The tables here are examples of the kind of summaries that will be put together during field testing. More tables are possible.
49. **Summary 3 - Subordinated Debt** - Provides a summary of various subordinated testing options.
50. **Summary 4 - Grouping Alternatives** - This tab currently calculates and displays an interpretation of one grouping option that was submitted by an interested party in prior comments on construction of the GCC template.
51. All cells in the template are color-coded based on the chart below Inputs should only be made in blue cells. Do not add/delete rows, columns, cells or change the structure of the template in any way. If there appears to be an error in the formulas in the template, contact the NAIC.

The following set of colors is used to identify cells:	<i>Colors used</i>
Parameters	
Input cells	
Data from other worksheets	
Local calculations	
Results propagated	

## VII. Detailed Instructions

### Input 1 – Schedule 1

52. ‘Schedule 1A’ is a small table at the top for identification of the Field Testing participant. Enter the ‘Name of Group’, name of the person the Template is ‘Completed by’ and the ‘Date Completed.’ Indicate the version number of the template if there are updates or multiple persons completing the template. All figures (in all tabs) should be converted to \$’000s. For example, a book value of \$123,450 should be entered as 123.45in the template.
53. More detailed information on each legal entity should be reported in Schedule 1B-1E. The order of the entries in Schedule 1 should match that in the Inventory Tab. The first entity listed should be the ultimate controlling party.
54. U.S. Branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S insurance regulator. They should be reported under the appropriate entity category in [Sch1B Col 6].
55. Entries are required for every entity within the scope of the group. However, the following simplifications may be applied as long as information for every entity is listed in Schedule 1B:
  - a. A single entry for like Regulated Financial Entities or Unregulated Financial Entities would be allowed at the intermediate holding company level, assuming that the like entities are owned by a common parent that does not own other entity types, all use the same accounting rules (e.g., all GAAP), and are at least consistent with the way the group manages their business. The entity at which the total data is provided must be assigned an “Entity Category” in Schedule 1 that corresponds to the instructed carrying value and capital calculation for which the entry is made (e.g. an entity that would otherwise be categorized as a non-operating holding company but holds asset managers would be categorized as an asset manager).
  - b. Data for U.S. Branches of Foreign insurers may be omitted from Schedule 1 if they are otherwise included in the entries, values and capital requirements of a foreign insurer.

These simplifications will be treated in a similar manner in Input 2 – Inventory.

56. Any financial entity owned by a Parent insurer and listed in Schedule BA or any insurance or financial entity that is owned indirectly through a Schedule BA affiliate should be listed in Schedule 1 and in the Inventory and assigned the appropriated identifying information (See also the instructions for Part B of the Inventory). These entities will be de-stacked from the values for the Parent insurer. The same treatment for these entities will be afforded when they owned by a foreign insurer or other non-insurance entities.
57. Schedule 1B contains descriptions of each entity. Make selections from drop down menu where available.
- a. **[Sch1B Col 1] Include / Exclude** – Automatically populated based on entry in Column 6 (Non-insurance / Non-financial without material risk only) and column 16 (‘Non-Admitted’ for RBC Purposes and ‘Non-Admitted (Direct)’ and ‘Non-Admitted (Indirect)’).
  - b. **[Sch1B Col 2] Entity Grouping** -The column denotes whether this is an insurance or non-insurance / non-financial entity and is also automatically populated based on the entry in Column 6.
  - c. **[Sch1B Col 3] Entity Identifier** – Provide a unique string for each entity. This will be used as a cross reference to other parts of the template. If possible, use a standardized entity code such as NAIC Company Code (“CoCode”) or ISO Legal Entity Identifier. CoCodes should be entered as text and not number (e.g. if CoCode is 01234, then the entry should be “01234” and not “1234”). If there is a different code that is more appropriate (such as a code used for internal purposes), please use that instead. If no code is available, then input a unique string or number in each row in whatever manner is convenient (e.g. A, B, C, D, ... or 1, 2, 3, 4...). Do not leave blank.
  - d. **[Sch1B Col 4] Entity Identifier Type** – Enter the type of code that was entered in the ‘Entity Identifier’ column. Choices include “NAIC Company Code”, “ISO Legal Entity Identifier”, “Volunteer Defined” and “Other”.
  - e. **[Sch1B Col 5] Entity Name** – Provide the name of the legal entity.
  - f. **[Sch1B Col 6] Entity Category** – Select the entity category that applies to the entity from the following choices (all US Life Captives shall select the option for RBC Filing Captive, complete the calculation using the Life RBC formula in accordance with instructions below regarding “Additional clarification on capital requirements where a US formula (RBC) is not required” whether the company is required by their captive state to complete the RBC formula or not):

Non-Insurer Holding Company	Solvency II - Non-Life	India
RBC Filing U.S. Insurer (Life)	Australia - All	Brazil
RBC Filing U.S. Insurer (P&C)	Switzerland - Life	Regime A (Participant Defined)
RBC Filing U.S. Insurer (Health)	Switzerland - Non-Life	Regime B (Participant Defined)
RBC Filing U.S. Insurer (Other)	Hong Kong - Life	Regime C (Participant Defined)
Non RBC filing US. Insurer (Except Captives)	Hong Kong - Non-Life	Regime D (Participant Defined)
RBC filing US. Insurer (AG48 Captive)	Singapore - All	Regime E (Participant Defined)

<b>RBC filing US. Insurer (Other Than AG48 Captive)</b>	<b>Chinese Taipei - All</b>	<b>Bank (Basel III)</b>
<b>Canada - Life</b>	<b>South Africa - Life</b>	<b>Bank (Other)</b>
<b>Canadian - P&amp;C</b>	<b>South Africa - Composite</b>	<b>Other Regulated Financial Entity</b>
<b>Bermuda - Other</b>	<b>South Africa - Non-Life</b>	<b>Other Unregulated Financial Entity</b>
<b>Bermuda - Commercial Insurers</b>	<b>Mexico</b>	<b>Asset Manager/Registered Investment Advisor</b>
<b>Japan - Life</b>	<b>China</b>	<b>Other Non-Ins/Non-Fin with Material Risk</b>
<b>Japan - Non-Life</b>	<b>South Korea</b>	<b>Other Non-Ins/Non-Fin without Material Risk</b>
<b>Solvency II - Life</b>	<b>Malaysia</b>	
<b>Solvency II -- Composite</b>	<b>Chile</b>	

- g. **[Sch1B Col 7] Alternative Grouping** – This is an optional input field. This field should be used if you wish to show similar entities aggregated into a single line on the "Grouping Alternative Exhibit". For example, if you have a dozen small dental HMO businesses, you may wish to show them as a single line called "Dental HMOs", as opposed to listing each entity separately. This is a level of granularity below 'Entity Category' but above individual entities. No entity should be put in the same 'Alternative Grouping' as its parent. It is fine to put only one entity in a grouping. If any entries are left blank then, in column 17, the 'Entity Name' will be selected as the grouping. This will not impact the order of the entities for which data is entered in Schedule 1 or the Inventory tab.
- h. **[Sch1B Col 8] Parent Identifier** – Provide the 'Entity Identifier' of the immediate parent legal entity for each entity, as applicable. If there are multiple parents, select the parent entity with the largest ownership percentage. Only include one entry. For the top holding company, enter "N/A".
- i. **[Sch1B Col 9] Parent Name** – This will be populated by a formula, so input is not required.
- j. **[Sch1B Col 10] % Owned by Parent** – Enter percentage of the entity that is owned by the Parent identified earlier in the worksheet. Percentages of ownership should be based on the percentage of voting class securities (unless ownership is maintained other than by control of voting securities) consistent with what is reported pursuant to State holding company regulation filings (Form B or equivalent).
- k. **[Sch1B Col 11] % Owned within Group Structure --** Enter percentage of the entity that is owned by all entities within the Group.
- l. **[Sch1B Col 12] State/Country of Domicile** – Enter State of domicile for US insurance entities and country of domicile for all other entities (Use reference that are consistent with those use on Schedule Y where available).
- m. **[Sch1B Col 13] Inter Company Guarantee** – Participant entry. Description to be provided by participant in The Questions and Other Information Tab.
- n. **[Sch1B Col 14] Capital Maintenance Agreement** – From company records. Description to be provided by participant in The Questions and Other Information Tab (e.g. agreement to maintain an affiliate's capital level or capital ratio).

- o. **[Sch1B Col 15] Contractual Relationships (e.g. intra-group services provided)** – From company records. Description to be provided by participant in The Questions and Other Information Tab (e.g. investment, administrative or other operational services).
- p. **[Sch1B Col 16] Treatment of the Entity for RBC Purposes** – Select the treatment of the entity for RBC purposes from following options—‘Admitted/Other’, ‘Non-Admitted (Direct)’ and ‘Non-Admitted (Indirect)’. Admitted / Other are affiliated entities that are otherwise recorded per accounting rules (e.g. SAP) but are reported at zero value and zero capital requirements for RBC purposes. Examples include non-Canadian foreign insurers owned by U.S. Life RBC filers or U.S. insurers indirectly owned by a U.S. RBC filer thru a not-admitted holding company. This category will apply only to RBC filers.  
 Non-admitted Direct and Indirect are affiliates that are reported at zero value per account rules and are also reported at zero value and zero capital requirements for RBC purposes. Examples include entities required by SAP to use GAAP or adjusted GAAP reporting rules but have not been subject to an independent audit. Non-RBC filing U.S insurers should also include entries in the column when applicable to report Not-Admitted (Direct)’ and ‘Non-Admitted (Indirect) entities.  
 The purpose of this column is to field test based on consistency between accounting rules and RBC treatment. The field test results will be calculated with the entities reported at zero values and at their full accounting values.  
**[Sch1B Col 17] Is Affiliates on Schedule BA** – This Column is meant to identify an entity with a financial entity identifier in Col 6 as a Schedule BA affiliate. Provide a “yes” response where that is applicable. “No” responses for other entities are not required.
- q. **[Sch1B Col 18] Selected Alternative Grouping** – This will be populated by a formula so input is not required. If there are any blank entries in Column 7 (Alternative Grouping) this column will set them equal to the name of the entity.

58. Schedule 1C contains financials for each entity:

- a. **[Sch1C Col 1] Basis of Accounting** – Enter basis of accounting used for the entity’s financial reporting
- b. **[Sch1C Col 2 – 4] Ratings Columns** – Select applicable financial strength rating from drop down menu for insurance and all other financial entities. For ultimate controlling party, enter the group financial strength rating. Non-insurance/non-financial entities can be left blank.
- c. **[Sch1C Col 5] Prospective Risk** – As Determined by filer and explained in the Questions Tab. ORSA filers may provide information from their ORSA.
- d. **[Sch1C Col 6 – 9] Direct, Assumed, Ceded and Net Written Premium** - (Use applicable entity Annual Statement data source for US insurers - Life – P/C and Health). Use equivalent local source for non-U.S insurers or company records when necessary.
- e. **[Sch1C Col 10] Book Assets** - This should be valued based on the applicable basis of accounting reported under the entity’s local regime.
- f. **[Sch1C Col 11] Book Liabilities** - This should be valued based on the applicable basis of accounting reported under the entity’s local regime.
- g. **[Sch1C Col 12] Debt** – Report total value of all Debt Issued and Outstanding by each listed entity as of the Reporting Date.

59. Generally, Schedule 1D will include entries from regulatory filings or entity specific GAAP financial statements as of the reporting date. Only make entries for the non-insurance entities that are subject to the applicable tests. This may require use of company records in certain cases. The amounts should be reported at 100% for the entity listed. Any required adjustments for percentage of ownership in testing will be applied to the test:
- a. **[Sch1D Col 1] Average Revenue Over Last Three Years** – Report average entity specific operating revenue (excluding dividends from subsidiaries and affiliates)
  - b. **[Sch1D Col 2 – 3] Equity and Book Adjusted Carrying Value (BACV)**. Equity is the value based on net equity reported in the Balance Sheet. This may be the same in certain instances as BACV, but may be different due to equity adjustments (e.g. per SAP), the difference between TAC and BACV for RBC filers, and alternative valuations specified by accounting rules (e.g. market value under SAP). The entry here should generally be the same as the value reported in Inventory B, Column 2.
  - c. **[Sch1D Col 4] Calculation Based on Notional Value of Contract** Notional value of the contract (e.g. a net worth guaranty/indemnification/guaranty multiplied by a probability factor as determined by the company based upon past historical experience) Only input this amount for Unregulated Financial Entities.
  - d. **[Sch1D Col 5] Greatest Net Loss in Past 5 Years** - (Self-evident – entity specific data)
  - e. **[Sch1D Col 6] Revenue from Same Year as Greatest Net Loss -- Annual** revenue that corresponds to the same period as the greatest net loss in past 5 years.
  - f. **[Sch1D Col 7] Revenue Current Year** –Report entity specific operating revenue only (excluding dividends from subsidiaries and affiliates).
  - g. **[Sch1D Col 8] Net Income** - (Self-evident)
60. Schedule 1E contains test capital calculations for non-insurance / non-financial entities. These tests are populated via formulas using other data in Schedule 1D. More information on these tests is below.
61. Asset managers and non-regulated financial entities will be tested using Tests 2a, 2b, and 3 below.

**Additional tests to be applied:**

- a. **Test 1-Principle-Past Income/Loss is a sound predictor of risk**

Test a factor that considers the specific net losses/fluctuation in profitability over an economic cycle, where five years is used as a proxy for an economic cycle. This factor will be risk-based not only to the industry, but to the individual company since it considers past performance. The calculation would be determined based upon the following (for each entity or group of entities):

62. **Test 1a**-Factor to Apply = (Absolute value of the greatest net loss in the past five years/Gross revenue in that year for that entity or grouped entities) Multiplied by the current year gross revenue for the same entity or grouped entities
  - a. **Test 1b**-Same as Test 1a, except subject to a minimum charge that assumes a net loss equal to 2% of total gross revenues. The minimum is expected to address the fact that the five-year period used in test 1a may not be long enough to recognize that the group is not consistently

profitable or that its losses are not always immaterial, but without requiring a more complex calculation based on the standard deviation of profits over a period of time.

- b. **Test 2-** Principle-Potential Capital Needs of Non-Financial Entities is Equivalent to an Operational Risk Charge
- c. **Test 2a-** The 12% Basel charge is applied to 3 year average revenue and should be scaled to convert to U.S. RBC, thus the scaled factor becomes 2.47% for life insurers (based upon an average RBC Company Action Level ratio of 486%); a factor of 3.64% for property/casualty (P/C) insurers (based on an average RBC Company Action Level ratio of 332%) and a factor of 3.92% for health insurers (based on an average RBC Company Action Level ratio of 306%). A life factor of 3.7% and P/C factor of 5.4% and a health factor of 5.9% should also be tested, which corresponds to RBC equal to the equivalent of one and a half times company action level RBC (or 3 times authorized control level RBC)
- d. **Test 2b-** The 12% Basel charge is applied to 3-year average revenue unscaled.
- e. **Test 2c** - 3% times BACV.
- f. **Test 3-** Principle-Simplicity and Consistency with RBC Requirements.

Test a simpler method specifically, a factor applied to the absolute value of the entities BACV. The relevant RBC charge (22.5% for P&C and Health and 19.5% (post tax) for Life) applied to BACV (post-covariance) should be tested, as well as other alternatives that may be more appropriate for risks posed by entities not owned by an insurer. Consider using the relevant RBC charge applied to BACV, provided groups do so consistently from one year to the next and across all of their entities.

## Input 2 – Inventory

63. Columns in Inventory A are being pulled from Schedule 1:

- i. Insurance/Non-Insurance.
- ii. Entity Identifier
- iii. Entity Identifier Type
- iv. Entity Name –
- v. Entity Category
- vi. Parent Identifier
- vii. Parent Name

### Columns Requiring Input

64. Enter information on adjustments to carrying value. Considerations specific to different types of entities are located at the end of this section.

- a. **[Inv B Col 1] Carrying Value (Immediate Parent Regime)** – This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. In general, carrying values utilized should represent the 1) the valuation required by the insurance or other sectoral regulator if the Parent is a regulated entity; or 2) in the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then US GAAP or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements. For a Parent that is a U.S. RBC filer the value will be the amount reported as Total Adjusted Capital (TAC) on the Parent’s RBC report. The value in this column will include a zero value for entities not admitted per jurisdictional regulatory rules. This column will include double counting. However, in completing this column, understand that in theory, the group’s total available capital will represent the sum of a) the regulated entities available capital using their regulated entity basis of accounting; b) the non-regulated entities GAAP equity (after appropriate eliminations). Please note however, when utilizing GAAP equity values, as the other columns in this tab are completed, **the GAAP equity** of the insurers must be eliminated, not the SAP (regulated capital). This is necessary in order to allow the calculation to appropriately represent SAP capital of regulated entities plus GAAP equity of non-regulated entities.

The values recorded for all subsidiaries should be the full value of the subsidiary regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the full value of the subsidiary adjusted to reflect total percentage of ownership within the group.

- b. **[Inv B Col 2] Carrying Value (Local Regime)** – Record the carrying value recognized by the legal entity’s jurisdictional insurance or other sectoral supervisor. This will include the value of capital instruments (e.g. U.S. insurer issued surplus notes) that are specifically recognized by statute, regulation or accounting rule and included in the carrying value of the entity. In the case where the entity is not subject to insurance or other sectoral regulatory valuation, then US GAAP or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements. If an agreed upon change in local carrying value

should become effective by 2019, Volunteer Groups are expected to report on that basis. If the group is comprised entirely of U.S based entities under a U.S based Parent company, the entries in this column will be the same as in Column 1 except in cases where the Parent owns not admitted affiliates that would be reported as not admitted in the Parent Regime column but fully admitted (per SAP valuation) in the Local Regime column. However, if such an entity has been listed in the excluded column, the ultimate calculation will show the results with and without the excluded entity's value. The carrying value for affiliates that are U.S. RBC filers, the value will be the amount reported TAC on entity's RBC report. This column will include double counting. The values recorded for all subsidiaries should be the full value of the subsidiary regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the full value of the subsidiary adjusted to reflect total percentage of ownership within the group. The entry here should generally be the same as the value reported in Inventory B, Column 2, except where TAC for RBC filers differs from BACV

- c. **[Inv B Col 3] Investment in Subsidiary** – Enter an adjustment to remove the investment carrying value of any directly owned subsidiary(ies) from parent's carrying value. This is intended to prevent from double counting of available capital when regulated entities are stacked. The carrying value to be removed should be the investment value carried by the Parent from which the entity is being de-stacked (i.e. the value in Column 1 in Inventory Section B adjusted for ownership percentage). Thus there will be no adjustment to the Parent's value in this column for entities that are reported at zero value by the parent. Where entities are owned partially by entities outside of the group, then the Parent's percentage of ownership will be calculated based on the value owned within the group. Generally all Schedule BA assets will remain in the value of the Parent insurer and not entered in this column, except that the carrying value of any financial entity reported in a Parent's Schedule BA or any financial entity indirectly owned through another Schedule BA affiliate listed in Schedule 1 and in this section should be entered in this column in the row of the entity that directly or indirectly owns that Schedule BA affiliate so that the parent entity may eliminate double counting of that available capital which will now be reported by the stand-alone Schedule BA affiliate listed in the inventory. For indirectly owned Schedule BA financial entities, only the value of that entity will be included in this column and the remaining value of the downstream BA Parent will remain with the Parent insurer. Similarly the carrying value of U.S. Branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the value of the foreign insurer so that the parent entity may eliminate double counting of that available capital which will now be reported by the stand-alone Branch listed in the inventory. The 'Sum of Subsidiaries' column may provide a useful check against this entry, but it will not necessarily be equal.

Note: Values for Schedule A and Schedule BA indirectly owned financial entities that are owned by Schedule A or Schedule BA assets are reported in the Inventory Tab affiliates and will be adjusted out of the value reported by the U.S. insurer in this column (since the non-financial direct parent Schedule A or BA affiliate is not listed in the Inventory Tab).

In the Questions and Other Information Tab, the indirectly owned entity should also be listed with a value which will be deducted from the value reported for the Schedule A or BA entity that directly owns the financial entity.

- d. **[Inv B Col 4] Intra-group Capital Instruments** – This column is automatically calculated from inputs to the ‘Capital Instruments’ worksheet. It reflects an adjustment to remove double counting of carrying value for intra-group financial instruments that would result in double counting (most notably Surplus Notes). Example for Surplus Notes – In all cases, treat the assets transferred to the issuer of the surplus note as available capital. If the purchaser is an affiliate, eliminate the investment value from the affiliated purchaser of the surplus note in this column. If the purchaser is an insurer or other regulated entity, eliminate the purchaser’s capital charge (e.g. RBC charge) on the Surplus note investment in the corresponding adjustment column for the capital calculation.
- e. **[Inv B Col 5] Reported Intra-group Guarantees, LOCs and Other** – Enter an adjustment to reflect the notional value for reported intra-group guarantees, letters of credit, or other intra-group financial support mechanisms. Explain each intra-group arrangement in The Questions and Other Information Tab
- f. **[Inv B Col 6] Other Intra-group Assets** – Enter the amounts to adjust for and to remove double counting of carrying value for other intra-group assets, which could include intercompany balances, such as (provide an explanation of each entry in The Questions and Other Information Tab):
- o loans, receivables and arrangements to centralize the management of assets or cash;
  - o derivative transactions;
  - o purchase, sale or lease of assets; and
  - o other (describe).
- g. **[Inv B Col 7] All Other Adjustments** – Enter amounts that reflect other differences between ‘Carrying Value (Local Regime)’ of insurance subsidiaries and the ‘Adjusted Carrying Value’. This should include (but not be limited to) differences between the GAAP value and jurisdictional statutory accounting value for a consolidated non-insurer holding company or other entity where the accounting basis changes (e.g. Schedule D carrying value of directly owned U.S. insurance subsidiaries). Include a brief explanation in the “Description of ‘Other Adjustments’”. An example of this adjustment would be when entities that are valued under statutory accounting principles are removed from a GAAP accounting Parent in column 3 (Investment in subsidiary). In such cases the difference between the GAAP value for those entities and the Statutory value for the Parent should be included in this column.
- h. **[Inv B Col 8] Adjusted Carrying Value** - Stand-alone value of each entity per the calculation to eliminate double counting. This value includes permitted and prescribed practices.
- i. **[Inv B Col 9] Permitted practices** – Record value of US permitted practices as described in the Preamble of the NAIC Accounting Practices & Procedures Manual.
- j. **[Inv B Col 10] Prescribed practices** – Record value of State practices prescribed by State statute or regulation as described in the Preamble of the NAIC Accounting Practices & Procedures Manual.
- k. **[Inv B Col 11 - 13] Adjusted Carrying Value Without Permitted/Prescribed Practices** These columns show values after the removal of permitted and prescribed practices.

65. 'Adjusted Capital Calculation' is reported in a similar manner to the 'Adjusted Carrying Value above'. The columns are in the same order though it's likely that fewer entries will be needed for these columns. Further guidance is below.

**[Inv C Col 1] Entity Required Capital (Immediate Parent Regime)** – This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. In general, entity required capital should represent the capital requirements of the Parent's insurance or other sectoral regulator. 1) for subsidiaries of regulated non- U.S. entities, the unscaled capital required by the Parent's regulator of the regulated entity based upon the equivalent of a Prescribed Capital Requirement (PCR) level; 2) for subsidiaries of U.S. insurance entities that are subject to RBC, except where the subsidiary is also an RBC filer, the entry should be equivalent of what would be required in the Parent's RBC report at a level of one and a half times company action level RBC (or 3 times authorized control level RBC) for that entity (i.e. 1.5 times the RBC requirements included in the Parent's RBC report on a pre-covariance basis). Where the subsidiary is also an RBC filer, then the amount reported will be at one and a half times company action level RBC (or 3 times authorized control level RBC) AFTER COVARIANCE; 3) for subsidiaries of U.S. insurers that do not file RBC, report the actual amount of capital required in the Parent's capital requirement (if any) for the subsidiary entity; 4) in the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then use zero where applicable. This column will include double counting. The values recorded for all subsidiaries should be the 100% of the specified capital requirements regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the capital requirements of the subsidiary adjusted to reflect total percentage of ownership within the group.

- a. **[Inv C Col 2] Entity Required Capital (Local Regime)** – Enter required capital for each de-stacked entity, as applicable entity description below. For U.S. RBC filing subsidiaries under a U.S. RBC filing parent the amounts will be the same in both the Parent and Local Regime columns except where the RBC filing subsidiary is subject to an operational risk charge. In such cases the amount reported in this column for the subsidiary will include the operational risk charge while the amount reported in Column 1 will exclude the subsidiary's operational risk charge. However, for some entity types this will result in entries for the entities under a U.S. based insurance parent to be different from what U.S. RBC would dictate. In addition, where a U.S. insurer directly or indirectly owns not admitted financial affiliates, those affiliates would be reported with zero value in the Parent Regime column but at the specified regulatory value described below for that financial entity type in this column. However, if such an entity has been listed in the excluded column, the ultimate calculation will show the results with and without the excluded entity's capital calculation. Directly or indirectly owned non-financial entities that were not admitted or otherwise carried at a zero value in the Parent Regime, may be carried at zero value in this column. This column will include double counting. The values recorded for all subsidiaries should be the 100% of the capital requirements regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the capital requirements of the subsidiary adjusted to reflect total percentage of ownership within the group.

66. For entity types where additional options are noted below, the options are shown here for informational purposes only and the calculations are described in the tabs where the relevant data and calculations reside. (e.g. for non-regulated financial entities and for non-financial entities the value reported in this column should be based on  $33.75 \times \text{BACV}$  using the  $300\% \times \text{ACL RBC}$  calibration as specified for Col 1).

Additional clarification on capital requirements where a formula is required:

- i. Insurance Entities – The local capital requirement should be reported, by legal entity, at a Prescribed Capital Requirement (PCR) level, or the equivalent of one and a half times company action level RBC (or 3 times authorized control level RBC).

Additional options will be tested include:

- Using a Prescribed Capital Requirement (PCR) level, of one times company action level RBC (or 2 times authorized control level RBC). This option may be used as a “base case”
- An option scaled using a straight jurisdictional PCR (unscaled)

These options will be calculated in the Scaling Tab.

- ii. Subsidiaries based in the European Union should use the Solvency II Solo SCR (Solvency Capital Requirement) as the PCR.
- iii. For US subsidiaries, the RBC Company Action Level of each insurer should be re-calibrated to the point at which regulatory action can be taken in any state based on RBC alone, i.e., the point at which the trend test begins, which is one and a half times company action level.
- iv. 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.
- v. 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 TailVaR at 99% confidence level over a one-year time horizon.
- vi. 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.
- vii. For Japanese subsidiaries, the PCR is the solvency margin ratio of 200%.
- viii. For Korean subsidiaries, the PCR is 100% of risk-based solvency margin ratio.
- ix. For Singaporean subsidiaries, the PCR is 120% of total risk requirement (i.e. capital requirement).
- x. For Chinese Taipei subsidiaries, the PCR is 200% of RBC ratio.
- xi. For Canadian life entities, the baseline PCR should be stated to be “100% of the LICAT Base Solvency Buffer”. Carrying value should include surplus allowances and eligible deposits. For property/casualty entities, the PCR should be the MCT capital requirement at the target level.
- xii. For South Africa subsidiaries, the PCR is 100% of the SAM SCR.

- xiii. For any entities that cannot be mapped to the above categories, please provide further information about these capital regimes in the Questionnaire.

Additional clarification on capital requirements where a US formula (RBC) is not required:

67. For those U.S. insurers that do not have an RBC formula, the minimum capital per state law should be used as the basis for what is used for that insurer in the group capital calculation. The following requirements should be used in other specified situations where an RBC does not exist:

- i. **Mortgage Guaranty Insurers:** The minimum capital requirement shall be based upon the NAIC's requirements set forth in the Mortgage Guaranty Insurance Model Act (#630), specifically considering Section 3 (minimum capital and surplus requirements) and Section 12 (capital, surplus and contingency reserves equal to the minimum of 1/25th of the a total liability net of reinsurance.)
- ii. **Financial Guaranty Insurers:** The minimum capital requirement shall be based upon the NAIC's requirements set forth in the Financial Guaranty Insurance Guideline (Guideline 1626), specifically considering Section 2B (minimum capital requirements) and Section 3 (Contingency, Loss and Unearned Premium Reserves) and the other requirements of that guideline that impact capital (e.g. specific limits).
- iii. **Title and Other Companies:** A selected basis for minimum capital requirements derived from a review of state laws. Where there is a one-off treatment of a certain type of insurer that otherwise would file RBC (e.g., HMOs domiciled in California), the minimum capital required by their respective regulator could be considered in lieu of requiring the entity to complete an RBC blank
- iv. **Captives-** US Life insurers that have captives should complete the Life RBC formula regardless of whether the captive is required to complete it in their captive state. The amounts input into RBC by the captive shall be based upon the actual assets and liabilities utilized in the regulatory reporting used by the captive. Captives used exclusively for self-insurance (either by US life insurers or any other type of insurer) or insurance provided exclusively to its own employees and/or its affiliates, should not complete an RBC calculation and the entire entity should be treated as non-insurers and receive one of the three different charges being tested for non-regulated entities.

68. Non-insurance Financial Entities:

- i. All banks and other depository institutions – the unscaled minimum required by their regulator. For U.S. Banks that is the OCC Tier 1 or other applicable capital requirement. This is understood to be consistent with how the Federal Reserve Board would apply its Building Block Approach.
- ii. All asset managers and registered investment advisors – the unscaled Capital required by their regulator otherwise use 12% of the three-year average revenue.

Additional options will be applied to Test both a) 22.5% of Book/Adjusted Carrying Value (BACV); and; b) a 12% factor scaled to 2.5% based on scaling to a 2 times ACL RBC; and c) a 12% factor scaled to 3.8% based on scaling to a 3 times ACL RBC). Data for these additional

tests are included in Schedule 1 and the tests are described further in the instructions for Schedule 1.

iii. All other financially regulated entities - Capital required by their regulator (not scaled). If no specified capital requirement then use the tests specified for asset managers and registered investment advisors.

iv. Unregulated Financial Entities

- Other entities that engage in financial activities or services that support the insurer(s) – Because these entities can pose more risk of a material adverse impact on the group’s insurance entities and operations than other non-regulated entities, a 33.75% (22.5% @ 1.5 x CAL RBC) charge on the BACV should be reported. These will also be test using a Prescribed Capital Requirement (PCR) level, of one times CAL RBC (or 22.5%). These entities are not subject to a minimum capital requirement. For purposes of this definition, a subsidiary of an insurance company whose predominant purpose is to manage investments on behalf of the insurance company and its affiliated insurance (greater than 90% of the investment subsidiary’s assets are for these insurance affiliates) should NOT be considered a Financial Entity. However, other types of service affiliates will continue to be treated as unregulated financial entities.
- Other Financial Entities-For purpose of the GCC, unregulated Financial Entities include those which create financial risks through products or transactions such as a mortgage, other credit offering, a derivative, corporate guarantees, intercompany indebtedness, operational interdependence, materiality to the application of credit rating methodologies to the overall group rating and other financial links. Because these entities can pose more risk of a material adverse impact on the group’s insurance entities and operations than other non-regulated entities, apply 12% of the three-year average revenue. In certain cases, these entities may be subject to a layer of regulation (e.g. S.E.C.) but are not generally subject to a specified capital requirement:

**Additional testing options will be applied as follows:**

- Notional value of the contract (e.g. a net worth guaranty/indemnification/guaranty multiplied by a probability factor as determined by the company based upon past historical experience)
- 22.5% of the BACV
- a 12% factor scaled to 2.5% based on scaling to a 2 times ACL RBC
- a 12% factor scaled to 3.8% based on scaling to a 3 times ACL RBC).

Data for these additional tests are included in Schedule 1 and the tests are described further in the instructions for Schedule 1.

Other Non-Insurance, Non-Financial Entities

69. Non-insurance, non-Financial Entities (including holding companies that are not insurance legal entities) may not be as risky as regulated entities and other Financial Entities. The Lead State Regulator and the group may decide together how best to group such entities and subject them

collectively to the following charges for field testing. The agreed-upon basis for such groupings should be disclosed to the field test analysts. When such entities are owned by an entity that is subject to a capital charge for the non-insurance entity (e.g. 33.75% x BACV or 1.5 x CAL RBC level - 22.5% x BACV under U.S.P/C RBC @ 1 x CAL RBC will also be tested on Schedule 1 – 1E) then report the result in Column 1 and / or 2 as applicable. If the entity is not subject to a capital charge or is included in the capital charge of another financial entity, then enter zero.

**Additional testing options will be applied.** The testing alternatives are described in the instructions for Schedule 1E. Data for these additional tests are included in Schedule 1D.

#### **Capital Calculation Adjustments:**

- a. **[Inv C Col 3] Investment in Subsidiary** – Enter an adjustment to remove the required capital of the directly owned subsidiary(ies) from parent’s required capital. The capital requirement to be removed should be the capital requirement carried by the Parent from which the entity is being de-stacked (i.e. the value reported in Column 1 in Inventory Section C adjusted for ownership percentage). Thus, there will be no adjustment to the Parent’s value in this column for entities that are reported at zero value by the parent This is intended to prevent double counting required capital when regulated entities are stacked. [Example: When de-stacking an RBC filer from another RBC filer, the amount entered on the Parent line would be the RBC of the subsidiary. When de-stacking entities that are subject to diversification in a capital formula (e.g. RBC) the amount entered on the Parent line is the undiversified capital requirement specified above (which is also the amount to be reported for the de-stacked entity on the entity’s line and applied in all tests). Generally the capital requirements for Schedule BA affiliates will remain in the capital requirements of the Parent insurer and not entered in this column, except that the capital requirements for any financial entity reported in a Parent’s Schedule BA or any financial entity indirectly owned through another Schedule BA affiliate listed in Schedule 1 and in this section should be entered in this column in the row of the entity that directly or indirectly owns that Schedule BA affiliate so that the parent entity may eliminate double counting of that capital requirement capital which will now be reported by the stand-alone Schedule BA affiliate listed in in the inventory. For indirectly owned Schedule BA financial entities, only the capital requirements for that entity will be included in this column and the remaining capital requirement of the downstream BA Parent will remain with the Parent insurer. Similarly the capital requirement for any U.S. Branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the capital requirement of the foreign insurer so that the parent entity may eliminate double counting of that capital requirement which will now be reported by the stand-alone Branch listed in the inventory. The amounts entered in this column for a Parent must correspond to the capital required by the parent entity which is being de-stacked from that Parent.

Note: Capital calculations for Schedule A and Schedule BA indirectly owned financial entities that are owned by Schedule A or Schedule BA assets are reported in the Inventory Tab affiliates and will be adjusted out of the value reported by the U.S. insurer in this column (since the non-financial direct parent Schedule A or BA affiliate is not listed in the Inventory Tab.

In the Questions and Other Information Tab, a capital requirement should be reported for the indirectly owned entity based on the insurers Schedule BA charge rather than a charge (which would be zero) attributable to the Schedule A or BA entity that directly owns the financial entity.

- b. **[Inv C Col 4] Intra-group Capital Instruments** – Since the carrying value adjustments will have no impact on existing legal entity required level capital requirements, it is not anticipated that similar adjustments are needed to required capital outside of stacked entities (investment in subsidiaries). This column would generally be used if there is potential double counting of capital requirements (e.g. RBC charges on surplus notes purchased by an affiliated U.S. insurer from a U.S. insurer issuer).
- c. **[Inv C Col 5] Reported Intra-group Guarantees, LOCs and Other** – Since the carrying value adjustments will have no impact on existing legal entity required level capital requirements, it is not anticipated that similar adjustments are needed to required capital outside of stacked entities (investment in subsidiaries). This column would generally be used if there is potential double counting of capital requirements (e.g. RBC charges on guarantees or LOCs.).
- d. **[Inv C Col 6] Other Intra-group Assets** – Since the carrying value adjustments will have no impact on existing legal entity required level capital requirements, it is not anticipated that similar adjustments are needed to required capital outside of stacked entities (investment in subsidiaries). This column is not intended to be used for required capital but is included in case a volunteer believes it’s necessary from reporting an inaccurate required capital figure.
  - loans, receivables and arrangements to centralize the management of assets or cash;
  - derivative transactions;
  - purchase, sale or lease of assets.
  - Other (describe in “Questions Tab”)
- e. **[Inv C Col 7] All Other Adjustments** – Since the carrying value adjustments will have no impact on existing legal entity required level capital requirements, it is not anticipated that similar adjustments are needed to required capital outside of stacked entities (investment in subsidiaries). This column is not intended to be used for required capital but is included in case a volunteer believes it’s necessary from reporting an inaccurate required capital figure.
- f. Inventory D is for ‘Reference Calculations Checks’. These are calculations that can serve as checks on the reasonability/consistency of entries.
  - **[Inv D Col 1 – 3] Sum of Subsidiaries (Carrying Value)** – This automatically generated column calculates the value of the carrying value of the underlying subsidiaries. It is provided for reference when filling out the ‘Investment in Subsidiary’ column. This sum will often, but not always, be equal to the ‘Investment in Subsidiary’ column.
  - **[Inv D Col 4 – 6] Sum of Subsidiaries (Calculated Capital)** – Similar to above but for calculated capital.

- o **[Inv D Col 7-8] Carrying Value / Adj Calc Cap** – This is a capital ratio on the adjusted and unadjusted figures. Double-check entities with abnormally large/small/negative figures to make sure that adjustments were done correctly.
- g. **[Inv C Col 9] Permitted practices** – Record capital charges associated with U.S. permitted practices as described in the Preamble of the NAIC Accounting Practices & Procedures Manual and reported in Inv B Column 9.
- h. **[Inv C Col 10] Prescribed practices** – Record capital charges associated with State practices prescribed by State statute or regulation as described in the Preamble of the NAIC Accounting Practices & Procedures Manual and reported in Inc B, Column 10.

### Input 3 – Capital Instruments

70. Volunteer Groups should provide all relevant information pertaining to paid-up (i.e. any receivables for non-paid-in amounts would not be included for purposes of calculating the allowance) financial instruments issued by the Volunteer Group (including senior debt issued by a holding company), except for common or ordinary shares and preferred shares. This worksheet aims to largely capture financial instruments such as surplus notes, senior debt, and hybrid instruments. Where a Volunteer Group has issued multiple instruments, the Volunteer Group should not use a single row to report that information; one instrument per row should be reported (multiple instruments issued under the same terms may be combined on a single line). Only qualifying debt should be reported as follows.
71. Debt issued by US led groups:
- a. Surplus Notes – Outstanding value of Surplus notes is already recognized by State regulators and reported 100% as capital in the carrying value of U.S insurer issuers in Section B of the **inventory tab**. Do not include surplus notes issued to entities outside the group in this tab. Only report intragroup surplus notes in this Tab.
  - b. Subordinated Senior Debt (and Hybrid Debt) issued – Various levels of recognition for structurally subordinated debt will be tested to increase available capital. For purposes of recognition treat as additional capital if both of the following criteria are met:
    - i. The instrument has a fixed term (a minimum of five years at the date of issue or refinance, including any call options).
    - ii. Supervisory approval is required for any extraordinary dividend or distribution from any insurance subsidiary to fund the repurchase or redemption of the instrument. There shall be no expectation, either implied or through the terms of the instrument, that such approval will be granted without supervisory review.
72. Debt issued by non-U.S. led groups:
- a. Outstanding value of debt specifically recognized by statute, regulation or accounting rule as additional capital resources by the lead jurisdiction based on contractual subordination or where a regulatory regime proactively enforces structural subordination through appropriate regulatory / supervisory controls over distributions from insurers in the group should already be reported as capital in the carrying value of the issuer in Section B of the **inventory tab**.

- b. Do not include any instrument issued outside to entities outside the group where the capital has already been recognized by the legal entity’s local regime insurance or other sectoral supervisor in the Inventory Tab. Only cases where the value of debt instruments issued to purchasers outside the group has not been recognized by the legal entity’s insurance or other sectoral supervisor in the ‘Local Regime Carrying Value’ in the Inventory Tab should be included in this tab.

73. Please fill in columns as follows –

- a. **Name of Issuer** – Input the name of the company that issued the capital financial instrument. <sup>1</sup>Will populate automatically from the ‘Entity Identifier # column in this section’.
- b. **Entity Identifier** – Provide the reference number that was input in Schedule 1.
- c. **Type of Financial Instrument** – Select type from dropdown. Selections include Senior Debt, Surplus Notes (or similar) and Hybrid Instruments.
- d. **Instrument Identifier** – Provide a unique security identifier (such as CUSIP).
- e. **Entity Category** – Links automatically to selection made on ‘Inventory Tab’ worksheet.
- f. **Year of Issue** – Provide the year in which the financial instrument was issued or refinanced.
- g. **Year of Maturity** – Enter the year in which the financial instrument will mature.
- h. **Balance as of Reporting Date** – Enter the principal balance outstanding as reported in the general purpose financial statements of the issuer.
- i. **Amount recognized or credited as capital in local regulatory regime** – Enter the amount of the capital instrument which is recognized in the local regulatory regime. For U.S. led groups, report zero in this column. For debt issued by unregulated entities (including non-insurer holding companies), report the ‘Balance as of reporting date’ in this column.
- j. **Amount Down-streamed** – If available and tracked, enter amount of debt proceeds that was infused into the regulated entities’ surplus. This amount will be considered as fully structurally subordinated and included as additional capital to the issuer of the debt. Methodologies for tracking should be provided. If there is no tracking methodology in place, this column need not be completed.  
All other tested additional allowance levels are included as proxies for structural subordination in the absence of tracking.

**DRAFTING NOTE: Using current accounting and regulatory guidance a zero allowance may be included in a “base case” calculation.**

- k. **Intragroup Issuance** – Select whether the instrument was issued on an intra-group basis (that is, issued to a related entity within the group). This column will be used to remove “double counting”. This column is a dropdown box with options “Y” and “N”
- l. **Intragroup issuance results in double counting of available capital** - Select whether the instrument was issued on an intra-group basis (that is, issued to a related entity within the group) will result in counting of capital resources that would normally be offset in consolidation (examples would include Surplus Notes or other instruments issued to affiliates that are

recognized by the regulatory authority as capital rather than as a liability). This column is a dropdown box with options “Y” and “N”

Using the above inputs, this worksheet calculates an adjustment to carrying value due to “Intragroup Capital Instruments”. Note the Inventory Tab worksheet is linked to this calculation.

- m. **Purchasing Affiliate Identification** –Enter the entity identify for the affiliate entity that purchased the instrument
- n. **Base (No Adjustment)** – This column is calculated automatically. For U.S. led groups the amount reported this column will be populated with the amount reported in the “Balance as of Reporting Date” column. For Non-U.S. led groups an alternate calculation will be made during field testing to exclude any amounts recognized in a foreign jurisdiction.
- o. **Deduct instruments issued on an intragroup basis** – This column is calculated automatically and feeds into the ‘Entity Inputs’ worksheet. The aim is to remove the double counting of the carrying value of capital instruments issued on an intra-group basis. The adjustment will impact the carrying value of the purchasing affiliated entity.

Adjustments to increase available capital will be calculated from data on this page based upon the testing percentage option selected. A range of aggregate results for capital instruments (including the selected and others) are shown in **Summary 3 - Subordinated Debt**.

## Input 4 – XXX/AXXX Inputs

**This tab only requires input by US Life and Annuity insurers.**

### **Adjustment for XXX / AXXX Business (5 tests)**

74. The NAIC adopted Regulation XXX in February 2001 to address several reserving issues identified at that time. In general, Regulation XXX requires conservative reserve assumptions and valuation methodologies for determining the level of statutory reserves required to fulfill long-term premium rate guarantees. As time has elapsed, however, it's become widely recognized that these standards are so high for level premium term insurance (XXX Term) that a perception has been established that these reserves are overly conservative. The same can be said for similar universal life with secondary guaranty policies (ULSG), where Regulation AXXX has a similar, albeit less significantly perceived excess conservatism of reserves. While the NAIC and most states have since adopted "Principle-Based Reserving" that will right size reserves, such new reserving methodologies apply to new business only, not all companies are required to utilize such standards, and companies can transition to such methodologies over a three-year transition period. **For purposes of the remaining instructions to this Template and this specific Input Tab, XXX is used to ONLY refer to Term life insurance, and AXXX is used to ONLY refer to ULSG.**

### **Tests**

75. The Group Capital Calculation tool is intended to provide analytical information to the lead-state of the U.S. group, and this template is designed to capture information on XXX/AXXX reserves that allows the lead state to consider such in their analysis of the group. Five tests, and information to perform such tests, are being used to address the issue included in the background information. The following explains the information being requested.

### **Test 1**

#### **Liability Adjustment**

76. The first test requests information to be input into the template on the amount of XXX and AXXX net (of reinsurance) reserves and applies a different factor to each based upon the belief that for the industry, these types of reserves are overstated by 60% and 10% respectively relative to a PBR VM-20 reserve. (Note the template does not apply such a factor to reserves already subject to either PBR or to valuation at the "Required Level of Primary Security" as defined by AG48 after 1/1/15 since it uses VM-20 as its basis). The template in turn applies a factor to the amount of these reserves across the entire group, regardless of in which entity(ies) within the group these reserves are located (e.g. within a traditional insurance company or within a captive insurance company). The result produced is then compared to the actual reserve, and the difference (after applying a tax adjustment of 21%) represents an on-top capital adjustment, with reserve overstatements representing a positive figure in column 7. Please note, this adjustment is intended to be applied to all inforce XXXX Term and ULSG business applying Regulation XXX or AXXX, and to all companies with such business, not just those that utilize captives. However, because there are varying standards that have been developed and applied since XXX and AXXX, such reserves must be broken out into different buckets to provide a more appropriate estimate of what is attempting to be captured. For an

explanation of the basis for these factors, see the end of these instructions for this section. The following example is used with the instructions to explain further the intent of each cell.

<b>XXX/AXXX On Top Adjustment</b>	<b>Total Reserve Value Using These Standards</b> <b>(1)</b>	<b>Factor</b> <b>(2)</b>	<b>Readjusted Value</b> <b>(calc)</b> <b>(3)</b>	<b>Existing Book /Adjusted Carrying Value</b> <b>(4)</b>	<b>Pre-Tax Diff</b> <b>(5)</b>	<b>Tax</b> <b>(6)</b>	<b>On-Top Liab Adjust</b> <b>(7)</b>	<b>Economic Reserve/ Required Level of Primary Security</b> <b>(8/9)</b>
<b>Liability Adjustment</b>								
<b>XXX Res Using PBR 1/1/17</b>	400	100%	400	400	0	21%	N/A	N/A
<b>XXX Res Using AG48 1/1/15</b>	800	100%	800	800	0	21%	N/A	500
<b>All other XXX Reserves</b>	15,000	40%	6,000	15,000	9,000	21%	7,110	5,500
<b>AXXX Res Using PBR 1/1/17</b>	900	100%	900	900	0	21%	N/A	N/A
<b>AXXX Res Using AG48 1/1/15</b>	1,800	100%	1,800	1,800	0	21%	N/A	1,700
<b>All other AXXX Reserves</b>	15,000	90%	13,500	15,000	1,500	21%	1,185	13,000
<b>Total</b>							8,295	

77. The following provides more specific instructions for each line (where not otherwise clear through other instructions) and explains indirectly the reason for the different treatment of each of these lines.
78. Column 1 -Total Reserve Value Using These Standards-Please note that the figures included in this column will be based upon different standards, with PBR reserves entered on the first line (only business subject to such standard after 1/1/17), AG48 reserves for any new business entered into after 1/1/15 (but before the PBR reserves entered on the first line) entered on the second line, and then all other XXX business using the reserve methodologies that have been found to produce highly redundant reserves on this third line. The same concepts apply to the AXXX business in the lines that follow.
79. Line 1- XXX Reserve Using PBR effect 1/1/17-Input the amount of reserves in the entire group using the new PBR valuation basis. If PBR is not utilized, report such figures in the next line or in the last line for all other XXX reserves, as appropriate. This line is included first to serve as a waterfall since it's the most recent standard that applies.
80. Line 2- XXX Reserve Using AG 48 effective 1/1/15 (or similar valuation using NAIC Model 787 as its basis). This is primarily designed to be used by captives where the required valuation on new business requires this valuation for new business issued after 1/1/15. This is not to be used where the valuation of XXX liabilities remains subject to Regulation XXX.
81. Line 3- All other XXX Reserves-Input the amount of XXX reserves in the entire group issued since the inception of XXX (e.g. 2001), other than reserves entered on Line 1 or Line 2 above. Enter these reserves using Regulation XXX, even if the company (e.g. captive) utilizes a different more company specific economic basis. Input this information for all such net reserves (after reinsurance), not just if utilized by a captive in the group. If PBR is not utilized, report such figures in the last line for all other XXX reserves. This line is included last to serve as a waterfall since it should capture all such reserves not included in the previous two lines.
82. Line 4-6 (AXXX Lines)-Utilize the same methodology for these lines as lines 1-3, except replace XXX with AXXX.
83. Column 4 -Existing Book /Adjusted Carrying Value  
This column is designed to capture the existing net XXX/AXXX reserves recorded in the financials for two reasons:
- 1) It will allow regulators to be certain they understand the relationship of the reserves required under XXX/AXXX to those that might be used based upon an economic valuation utilized within a captive, as such information may suggest a factor of something other than 40%/90% is more appropriate based upon the volunteers;
  - 2) It allows the calculation to determine an estimated overstatement of such reserves as used in the rest of the calculation. Unlike Line 1/4 under Column 1 (Total Reserve Using These Standards), where the idea is to capture what the reserve is using such strict standards, this column might represent a different figure if the captive uses an "economic" reserve for its valuation of liabilities

on its balance sheet. While in most cases, most captives will record the same figure in this column as in column 1 (and the overly conservative reserve addressed through the allowance of a letter of credit as an asset), in some cases, the captive may actually utilize the economic reserve, in which case it should be entered in this column.

84. Column 5 -Pre-Tax Difference – Subtract Column 3 (Readjusted Value) from Column 4 (Existing Book/Adjusted Carrying Value). If the result is negative, enter “0”.
85. Column 8/9-This column is not used in the reserve overstatement calculation, but rather is considered potentially useful information for purposes of context since it represents the actual economic reserve either calculated by the captive and used to determine the level of high-quality assets required by the regulator of the captive to support the reserves, or used in the liability recorded in column 4.

86. **Test 1**

**Asset Adjustment**

- a. The asset adjustment is ONLY required for the assets included in a XXX/AXXX captive or an entity not required to follow the statutory accounting guidance in the NAIC *Accounting Practices & Procedures Manual*. It is not required for assets related to XXX/AXXX business for those groups that retain such business in a non-captive traditional insurance company(ies) that is already required to follow the NAIC *Accounting Practices & Procedures Manual*. Please note, variations for state prescribed and permitted practices are captured in the separate on-top adjustment.
- b. The asset adjustment shall be determined based upon a valuation that is equivalent to what is required by the NAIC *Accounting Practices & Procedures Manual* (NAIC SAP). For this purpose, “equivalent” means that, at a minimum the listed adjustments (as follows) be made with the intent of deriving a valuation materially equivalent to what is required by the NAIC *Accounting Practices and Procedures Manual*, however, without requiring adjustments that are overly burdensome (e.g. mark-to market bonds used by some captives under US GAAP, vs full SAP that considers NAIC designations). To be more specific, the asset adjustment shall be developed by accumulating the impact on surplus because of an accumulation of all the following in paragraphs 87 and 88 combined. Please note that Letters of Credit or other financial instruments that operate in a manner like a letter of credit, which are not designated as an asset under either NAIC SAP or US GAAP and are required to be adjusted out of the available assets (i.e. the asset reduction is recorded as a negative figure in the template).

To achieve the above, accumulate the effect of making the following adjustments and record as a negative figure in the template, an asset adjustment for all of the following explicit assets not allowed to be admitted under NAIC SAP:

87. Assets specifically not allowed under NAIC *Accounting Practices and Procedures Manual* in accordance with paragraph 9 of *Statement of Statutory Accounting Principles No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*:

- i. *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*
  - ii. *SSAP No. 16R—Electronic Data Processing Equipment and Software*
  - iii. *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
  - iv. *SSAP No. 20—Nonadmitted Assets*
  - v. *SSAP No. 21—Other Admitted Assets* (e.g., collateral loans secured by assets that do not qualify as investments are nonadmitted under SAP)
  - vi. *SSAP No. 29—Prepaid Expenses*
  - vii. *SSAP No. 105—Working Capital Finance Investments*
  - viii. *Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the Accounting Practices and Procedures Manual (e.g., deferred policy acquisition costs, pre-operating, development and research costs, etc.);*
  - ix. *Depreciation for certain assets in accordance with the following statutory accounting principles:*
    - *SSAP No. 16R—Electronic Data Processing Equipment and Software*
    - *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
    - *SSAP No. 68—Business Combinations and Goodwill*
  - x. *The amount of goodwill of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements*
  - xi. *The amount of the net deferred tax assets (DTAs) of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.*
  - xii. *Any surplus notes held by the SCA issued by the reporting entity.*
88. In addition, record as a negative figure in the template, an asset adjustment for any assets that are not recognized as an admitted asset under the principles of SSAP No. 4—*Assets and Nonadmitted including:*
- xiii. *Letters of credit, or other similar instruments, that operate in a manner like a letter of credit and therefore do not meet the definition of an asset as required under paragraph 2.*
  - xiv. *Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third-party interests should not be recognized on the balance sheet and are therefore considered nonadmitted.*
  - xv. *Assets of an insurance entity pledged or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, such assets shall not be recognized as an admitted asset on the balance sheet.*

## **Test 2**

### **Liability Adjustment**

89. Another test being conducted is to collect information on the net premium reserve formula within VM20 without allowing the use of the deterministic or stochastic approaches. While test 1 is considered to be the most practical approach for allowing a method of estimating the overstatement of reserves since it can be used for all inforce whether a company has adopted PBR or AG48, regulatory actuaries believe information on the NPR would be invaluable in testing whether those

specific factors used in test 1 are the best, or whether they should be adjusted. The following table is taken from the template and has some but not all the same breakouts as Test 1. This is included in part to bifurcate the reserves but also to consider that not all companies will be able to determine this calculation.

<b>XXX/AXXX On Top Adjustment</b>		<b>Total Reserve Value Using These Standards</b> (1)	<b>Existing Book /Adjusted Carrying Value</b> (2)	<b>Pre-Tax Diff</b> (3)	<b>Tax</b> (4)	<b>On-Top Liab Adjust</b> (5)
<b>Liability Adjustment</b>						
<b>XXX Reserve Using PBR 1/1/17</b>		400	400	0	21%	N/A
<b>XXX Reserve Using AG48 1/1/15</b>		800	800	0	21%	N/A
<b>XXX Net Premium Reserve</b>		12,000	15,000	3,000	21%	2,370
<b>AXXX Reserve Using PBR 1/1/17</b>		900	900	0	21%	N/A
<b>AXXX Reserve Using AG48 1/1/15</b>		1,800	1,800	0	21%	N/A
<b>AXXX Net Premium Reserve</b>		12,000	15,000	3,000	21%	2,370

90. In this test, only the third row is expected to be calculated differently than it was in first test. In this test, the first column would represent the Net Premium Reserve. Columns that apply a factor are not necessary, and instead this first column is compared to the actual existing value used in the financial statements, and that figure is used to determine the on-top adjustment (after tax like the first test).

**Test 2**

**Asset Adjustment**

91. Utilize the same approach for the assets as described in test 1

**Test 3**

**Liability Adjustment**

92. Another test being conducted is to collect information that adjusts the liability to be equivalent to 1) the economic reserve for the captive that has considered such valuation/been reviewed by the state; 2) the factor-based approach calculated in test 1 for non-captives with XXX/AXXX business.

#### **Asset Adjustment**

93. Utilize the same approach for the assets as described in test 1.
94. Record in a separate line for “Assets Not Allowed for Primary Security”, a negative figure in the template for any assets that do NOT qualify as a Primary Security under AG 48 but are counted as statutory assets using the Test 1 criteria. The idea of collecting this additional information is to consider how applying the Primary Security standard adopted for AG 48 and Model 787 would impact the group capital calculation versus the narrower adjustments described in Test 1.

#### **Test 4**

##### **Liability Adjustment**

95. Another test being conducted is the same as Test 1 but gives Test Volunteers an opportunity to work together to develop different factors than the 40% and 90% used in Test 1. All other figures will be the same.

#### **Asset Adjustment**

96. Utilize the same approach for the assets as described in test 1

#### **Test 5**

##### **Liability Adjustment**

97. This test is left open for Testing Volunteers to develop a testing questionnaire for each proposed different acceptable liability valuation. Specifically, a testing questionnaire will be used as an option for companies to calculate the actual VM-20 reserve for their XXX/AXXX inforce policies. A separate questionnaire will be used as an option for companies to utilize a GAAP reserve. Each of these methods might be allowable on the basis that they are already computed in accordance with prescribed rules applicable to numerous companies already.

#### **Asset Adjustment**

98. Utilize the same approach for the assets as described in test 1

#### **Further Details on Approach for the Liability Factors of 40% and 90%**

99. The reports on the 2014 VBT Impact Study and the 2017 CSO and 2017 Preferred Structure Table Development published in 2015 on the SOA website show definitive evidence of a significant mortality improvement in the insured population from the time used to develop the 2001 CSO tables through current day. The CSO Impact Study compared tabular reserves for 20-year XXX and AXXX products by age, gender, rating class, and duration. To estimate the aggregate impact of the

2017 CSO table, an industry model office was developed based on LIMRA industry sales data by product, age gender, and rating class. For XXX, Table 1D on page 31 of the Report on the 2014 VBT/2017 CSO Impact Study shows the overall impact of the 2017 CSO preferred class structure select and ultimate tables, i.e. the mortality impact, on 20-year term products is between a 31-33% reduction for the peak reserve durations. Furthermore, it is relatively straightforward to calculate VM-20 Net Premium Reserves (NPR) for term products, and some have found the impact of the term NPR reserve framework on 20-year term products is approximately a 40-45% reduction from the XXX peak reserve durations. These two together support a reduction of about 60%, or a factor of 40%.

100. For AXXX, Table 1B on page 44 of the report shows the overall impact of the 2017 CSO smoker distinct ultimate tables on ULSG products is between an 8-12% reduction for the peak reserve durations. The impact of the reserve framework itself is much less clear for AXXX reserves, so the factor of 90% reflects the mortality impact only.

#### **Adjustment for Other Types of Captives**

101. Captives other than XXX/AXXX-With the exception of captives used exclusively for self-insurance or insurance provided exclusively to its own employees and/or its affiliates (for which they should be treated as non-insurers and valued using GAAP) all other US captives shall 1) make an asset adjustment similar to that described in Test 1 for XXX/AXXX; 2) make a liability adjustment that is designed to allow the liability that was recorded on the affiliated direct writer of the business to flow through to the group capital calculation. The one exception is for variable annuity captives that are permitted to utilize a valuation of those liabilities consistent with the valuation principles adopted by the Variable Annuities Issues Working Group/Financial Condition (E) Committee in July 2018, and/or as adjusted by the Variable Annuities Capital and Reserve (E/A) Subgroup.

## Input 5 – Questions and Narrative Descriptions or Information

102. This tab provides space for participants to describe or explain specified entries in other tabs (as noted in the instructions for the columns in those tabs). Examples include the materiality method applied to exclude entities in Schedule 1; adjustments for intra group debt, description of permitted practices; scalars proposed / supporting information for jurisdiction without a prescribed scalar; and adjustments to available capital or capital calculations that are included in the “other adjustment” column in the Inventory Tab. Sample items are included in the Tab. Other information that the filer believes is relevant to development of a final GCC template should be added freeform in this tab.
103. The tab also includes a listing of all Schedule A and Schedule BA affiliates along with the following information:
- i. Parent identifier (if available) this is the same information as is included in Schedule 1 (Sch. 1B, Col 3) as would be entered for non-Schedule BA affiliates
  - ii. Parent Name – Enter the Name of the Parent
  - iii. Is Parent a Schedule BA Asset? - This column is only required for financial entities that are Directly owned by a Schedule BA Affiliate. No other downstream affiliates owned by Schedule BA entities need to be listed. These entities are not normally independently reported in schedule BA so are extra entries.
  - iv. Financial? (Y/N) - if the entity meets the criteria as being a financial entity, indicate with a “yes” response. A “no” response is not required for other entities listed. “Yes” entries should correspond to “yes” entries in Schedule 1(Sch. 1B, Col 17)
  - v. Carrying Value of Immediate Parent – Report the value listed in Schedule BA of the Parent insurer. For those cases where an indirect financial entity is reported use the value used by the direct Parent
  - vi. Capital Requirement for Immediate Parent - Report the value listed in the RBC report of the Parent insurer (pre-tax where applicable). For those cases where an indirect financial entity is listed, report the value of the capital requirement attributable to the Insurer rather than the direct non-financial Schedule BA parent. The capital requirement reported in this column for the immediate Schedule BA parent should be adjusted to deduct the amount moved to Schedule 1 and Inventory C

## Calc 1 – Scaling (Insurance and Banking Entities)

104. All entries in this tab will either be populated from elsewhere in the template or are calculation cells using data from within the tab or from elsewhere in the template.
105. The concept of a scalar was first introduced to address the issue of comparability of accounting systems and capital requirements between insurance regulatory jurisdictions. The idea is to scale capital requirements imposed on non-U.S. insurers so as to be comparable to an RBC based requirement. Two approaches for scaling related to foreign insurers were presented:

**Relative Ratio Approach (RRA- “Pure”)**

106. This method adjusts only the capital requirement of a non-U.S insurer in the group. It compares the average capital ratios relative to capital required at the first intervention level. For purposes of the template scalars have been developed from publicly available information for certain jurisdictions where such data was available. The scalars may differ if the foreign jurisdiction applies different formulas to the industry segments (Life, P/C and Health). The scalars will require periodic maintenance to provide for accurate scaling for each reporting year but will likely always lag by at least one calendar year. For jurisdiction where a scalar has not been provided, no scalar will be applied. However, a field test participant may provide such data to support a scaling factor that will be manually entered. Scalars will be applied using the RBC Trend Test threshold  $300\% \times \text{ACL RBC}$  as the first intervention level.

**Excess Capital Ratio Approach (ECRA – “XS”)**

107. This method adjusts both available capital and required capital. It adds a step to the RRA by looking at the ratio of excess capital carried over first intervention level requirement. 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. As with the RRA scalars have been provided in the template relying on publicly available information for certain jurisdictions where such data was available. The scalars may differ if the foreign jurisdiction applies different formulas to the industry segments (Life, P/C and Health). The scalars will require periodic maintenance to provide for accurate scaling for each reporting year but will likely always lag by at least one calendar year. For jurisdiction where a scalar has not been provided, no scalar will be applied. However, a field test participant may provide such data to support a scaling factor that will be manually entered. Scalars will be applied using the RBC Trend Test threshold  $300\% \times \text{ACL RBC}$  as the first intervention level.

SEE APPENDIX 1 FOR MORE INFORMATION AND EXAMPLES ON HOW THE RRA and ECRA SCALARS ARE CALCULATED.

108. In addition to testing unscaled amounts, the two methods will be tested in two ways each: scalars calibrated to RBC at  $300\% \times \text{ACL}$ ; and scalars tested at CAL RBC ( $200\% \times \text{ACL}$ ). A total of four options will be tested:
- a. **Preliminary Option 1--** Excess Capital Ratio Approach with jurisdictions scaled to a level equivalent to an RBC ratio of  $300\% \times \text{ACL}$ .

- b. **Preliminary Option 2**-- Pure Relative Ratio Approach with jurisdictions scaled to a level equivalent to an RBC ratio of 300% x ACL.
- c. **Preliminary Option 3**-- Excess Capital Ratio Approach with jurisdictions scaled to a level equivalent to an RBC ratio of 200% x ACL.
- d. **Preliminary Option 4**-- Pure Relative Ratio Approach with jurisdictions scaled to a level equivalent to an RBC ratio of 200% x ACL.

109. Scalars developed by volunteers for jurisdictions where there is only 100% included in the Tab or which are not listed at all should not be included in this Tab. Include the scalars in the Questions and Narrative Description or Information Tab along with supporting rationale for the scalar.

*Drafting Note: Base Case is subject to change based on input received.*

## Calc 2 -- Select Options

- 110. Select the options to be applied to a specific test run from the drop down for each value where there is more than one testing option. The selected set of options will then be included in the field test calculation. Tests for non-insurance and other financial entities are applied on this tab. Scaling options for insurance and banking are applied to the results in **Calc 1 – Scaling (Ins, Bank)**. ‘On Top Adjustments’ calculate automatically in the tables below. The resulting GCC can be shown at the entity level detail (See Summary (Entity Category Level) for an example) or can be run in the background and shown in summary form (See ‘Summary 2 - Top Level’ for an example).
- 111. Amounts shown for available capital for entities with material risk and without material risk are summarized from entries on the **Inventory**. Amounts shown for required capital are summarized for entities with material risk and entities without material risks from the test columns for non-insurance / non-financial entities in **Schedule 1**. Also included are tests for “Other Unregulated Financial Entities”.
- 112. A recommended “Base Case” set of options were selected for purposes of the example shown in **Summary (Entity Level)**.

## Summary 1 - Entity Level

- 113. Results of a specific test run are displayed here at the entity level of detail. Any “on top” adjustments from **the ‘Select Options’ tab** are added at the bottom of the table. An example is shown in the tab based on the options chosen in **Select Options** with all defined foreign insurance scaling options applied.

## Summary 2 - Top Level

- 114. Summary results for each test run can be shown here. Several examples are shown. Most were run in the background based on selected options and data extracted from other parts of the template. It is expected that all testing options will run automatically in the background and the results for each displayed in this Tab. Suggestions for other options are welcome for formatting the required

data into the template. There will be no need for Participants to run manual test options. The results for the example shown in **Summary 1 - Entity Level** are shown in red numbering.

### **Summary 3 - Subordinated Debt**

115. Summary results of impact of selected options for recognition of subordinated debt as additional available capital on the GCC ratio will be displayed here. The Tab currently includes a main example that reflects a zero allowance, a 100% allowance, and “including only down-streamed proceeds”. It also displays high level examples based on various percentage allowances to be tested.

### **Summary 4 - Alternative Grouping Option(s) (a.k.a. Cigna Illustration)**

116. One sample alternative structure for grouping entities in the GCC calculation is displayed based on a suggested method. It can be modified, or other suggestions can be accommodated based on combining of data from **Schedule 1 and the Inventory** in to be defined ways.

117. The concept of a scalar was first introduced to the Working Group in a joint presentation from the American Council of Life Insurers (ACLI) and the American Insurance Association (AIA) at the 2016 Spring National Meeting. Within that presentation, it was suggested that the local capital requirements be multiplied by a factor (e.g., 1.0, 2.3, etc.) to equate the local capital requirement to an adjusted required capital level that is comparable to U.S. levels. During its Aug. 11, 2016 conference call, the Working Group again discussed the possible use of scalars for non-U.S. insurers and noted that scalars are needed, at least in part, to remove the differences that exist between countries because of the different level of conservatism built into the accounting and capital requirements. The purpose of a scalar is to address the issue of comparability of accounting systems and capital requirements between jurisdictions. The following provides details on how the scalars were calculated by the NAIC, or how they are to be used when the NAIC has not developed a scalar for a country due to lack of public data. Two approaches are shown:

**Relative Ratio Approach**

118. Included below are various steps to be taken in calculating the relative ratio approach to developing jurisdiction-specific scalars. In order to numerically demonstrate how this approach could work, hypothetical capital requirements and financial amounts have been developed for Country A. Based on preliminary research that has been performed by NAIC staff, it appears that 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 U.S. and Country A.

**1. Understand the Jurisdiction’s Capital Requirements and Identify the First Intervention Level**

119. 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 including reviewing publicly available information on the regulator’s website, reviewing the jurisdiction’s Financial Sector Assessment Program (FSAP) reports and discussions with the regulator.

In Country A, assume 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 U.S., capital requirements are related to the insurer’s risk-based capital (RBC) ratio. For purposes of the Relative Ratio Approach, an Anchor RBC ratio is used and calculated as follows:

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

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

120. Similar to legal entity RBC requirements in the U.S., 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 U.S.’s 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. For simplification purposes, NAIC staff is not considering the RBC trend test in this memo.

121. 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 U.S.’s 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 ( $\text{Total Adjusted Capital} \div 100\% \text{ CAL RBC}$ ) tells us how many “multiples of trigger level capital” that the company holds. Conceptualizing the CAL event as 100% CAL RBC allows the consistent definition of local capital ratios that are calibrated against a “multiples of the trigger level” approach, to ensure an apples-to-apples comparison<sup>2</sup>.

## 2. Obtain Aggregate Industry Financial Data

122. 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.

<p><i>U.S. Life Insurers – Aggregate Data</i> Total Adjusted Capital = \$495B Authorized Control Level RBC = \$51B Company Action Level RBC = \$102B</p> <p><i>Country A Life Insurers – Aggregate Data</i> Total Available Capital = \$83B BRC = \$36B</p>
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## 3. Calculate a Jurisdiction’s Industry Average Capital Ratio

123. 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 U.S., 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-U.S. company

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<sup>2</sup> 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, where 100% CAL RBC is the reference point to calibrate against other regimes.

should inform regulators how many multiples of first-intervention level capital the non-U.S. company holds. Included below is the formula to calculate a jurisdiction's industry average capital ratio:

*General Industry Average Capital Ratio Formula*

Total adjusted capital (or similar amount)

Base/minimum capital requirement

124. Based on the formula above and data obtained in Step #2, included below are how to calculate each jurisdiction's industry average capital ratio.

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

\$495B (Total Adjusted Capital)

\$102B (CAL RBC) = **485%**

*Calculation of Country A Industry Average Capital Ratio – Life Insurers*

\$83B (Total Available Capital)

\$36B (BRC) = **231%**

**Excess Relative Ratio Approach**

**4. Calculate a Jurisdiction's Excess Capital Ratio**

125. 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*

Average Capital Ratio – Capital Ratio at the First Intervention Level

Capital Ratio at the First Intervention Level

126. Based on the formula above and information provided in Steps #2 and #3, included below are how to calculate each jurisdiction's excess capital ratio. Note: The first intervention level in the U.S.

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%.<sup>3</sup>

*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*

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

5. Compare a Jurisdiction's Excess Capital Ratio to the U.S. Excess Capital Ratio to Develop the Scalar

127. Based on the information above, the U.S. excess capital is 385%. In other words, life insurers in the U.S. 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.

128. To calculate the scalar, one would divide a jurisdiction's excess capital ratio by the U.S. excess capital ratio. Therefore, the calculation of Country A's scalar for life insurers would be  $54\% \div 385\% = 14\%$ . Therefore, Country A's scalar for life insurers would be 14%.

6. Apply to the Scalar to the Non-U.S. Insurer's Amounts in the Group Capital Calculation

129. In order to demonstrate how the calculation of the scalar works, it would be best to provide a numerical example. For purposes of this memo, assume that a life insurer in Country A reports required capital of \$341,866 and total available capital of \$1,367,463. (These are the amounts previously used in a hypothetical calculation example that was discussed by the Working Group during its July 20, 2016, conference call.) As noted previously, the above information and calculation suggests that U.S. life insurers carry capital far above the minimum levels, while life insurers in Country A carry capital far closer to the minimum. Therefore, in order to equate the company's \$341,866 of required capital, we must first calibrate the BRC to the first regulatory intervention level by multiplying it by 150%, or Country A's capital ratio at the first intervention 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.

130. Further, the above rationale suggests that the available capital might also be overstated (since it does not use the same level of conservatism in the reserves) by the difference between the calibrated

<sup>3</sup> 100% CAL RBC translates to an ACL RBC level of 200%, but for conceptual purposes, the Relative Ratio Approach refers to the U.S. first intervention level as 100% CAL RBC, as 100% CAL RBC is the reference point to which the Relative Ratio Approach 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.

required capital of \$512,799 and the required capital after scaling of \$71,792, or \$441,007. Therefore, we 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.

<i>Calculation of Scaled Amounts for Group Capital Calculation</i>	
<u>Amounts as Reported by the Insurer in Country A</u>	
Total available capital =	1,367,463
Minimum required capital (BRC) =	341,866
<u>Calibration of BRC to 1<sup>st</sup> Regulatory Intervention Level</u>	
341,866 (BRC) * 150% =	512,799
<u>Scaling of Calibrated Minimum Required Capital</u>	
512,799 (Calibrated BRC) * 14% (Scalar) =	71,792 (Difference of 441,007)
<u>Scaled Total Available Capital</u>	
1,367,463 (Total Available Capital) – 441,007 (Difference in scaled required capital) =	926,456

131. 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.

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

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