

January 19, 2024

John Rehagen, Chair  
NAIC Group Capital Calculation (E) Working Group  
Capital Markets & Investment Analysis Office  
One New York Plaza, Suite 4210  
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*Via email: ddaveline@naic.org*

Re: GCC Scalar Calibration

Dear John:

ACLI is pleased to provide you with the attached Scalar Calibration for Life Insurance Business and Japan Health Scalars Reports we have developed over the last few months in conjunction with our consultants.

As you know, on July 27, 2023, the NAIC Group Capital Calculation (E) Working Group adopted the proposal to designate Excess Relative Ratio (ERR) scalars as the primary scalar methodology within the GCC, which ACLI supported in a comment letter submitted on July 12. Since that time, ACLI and six member companies have engaged consultants, Oliver Wyman (life scalars) and Lou Felice (Japan health scalar), to define an approach to update and maintain the ERR scalars for use in the GCC and, as part of this effort, update the ERR scalars for 2023, for selected Life and Health scalars. While this work focused on Life and Health scalars, the approach was developed with the understanding that it could be applied to Property & Casualty business as well.

Used to adjust available and required capital for non-US insurance regimes, Oliver Wyman developed the initial methodology for life scalars in 2015. Replacing placeholder scalars with ERR scalars appropriately recognizes capital requirements for non-U.S. business in the GCC formula, thus generating appropriate GCC figures for regulators and the industry. Additionally, it is a significant step forward for the following reasons:

1. ERR scalars recognize differences in reserve methodologies across jurisdictions;
2. ERR scalars can adjust to significant changes in jurisdictional solvency regimes; and
3. Many global insurers already use the ERR methodology to allocate group capital.

The work our consultants have done in the last few months have met the following objectives:

1. Identified sources of data in each jurisdiction including:
  - a. Scope of insurers comprising the industry average;
  - b. Solvency ratios (industry average) for each jurisdiction; and
  - c. First point of regulatory intervention in each jurisdiction analyzed.

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The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. Ninety million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 95 percent of industry assets in the United States.

2. Recommended methodological solutions to address changes to scalars over time:
  - a. Historical data series length to provide accurate scalar estimates balancing responsiveness to changes with limited volatility over time; and
  - b. Methodologies to adjust scalars for significant changes in jurisdictional solvency regimes (e.g., Bermuda in 2023, Japan in 2025).

The attached reports propose scalars for 2023 and outline the recommended methodology to calibrate scalars on an ongoing basis. They also contain details regarding data sources, the data collection process, solvency operating ratios by country, and a summary of design decisions. The proposed health scalar was derived by adjusting the life scalar making it essential that both the life scalar and health scalar be included together in any future scalar updates applying the recommended methodology.

In the attached document you can find the following items:

- **Report 1: Scalar Calibration for Life Insurance Business**, prepared by ACLI and Oliver Wyman (PDF pp.1-35)
  - Executive Summary (p.4)
  - Proposed ERR Scalars (p. 5)
  - Summary of Design Decisions (p. 6)
  - Summary of Data Collection by Jurisdiction (p. 8)
  - Design Decisions (intervention threshold, averaging approach, length of time series, regime change triggers and processes) (pp. 9-17)
  - Appendix A: Project Timeline (pp. 18-19)
  - Appendix B: Processes for Data Collection (pp. 20-23)
  - Appendix C: Solvency Operating Levels by Country (pp. 24-25)
  - Appendix D: Country-Specific Detailed Analysis (pp. 26-32)
- **Report 2: GCC Japan Health Scalars Refresh**, prepared by ACLI and Lou Felice (PDF pp. 36-43)
  - Appendix: 2023 GCC Japan Health Scalar Calibration (pp. 40-43)

ACLI and our consultants are happy to answer any questions you may have.

Sincerely,



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