NAIC Group Capital Calculation Trial Implementation

Trial Volunteer WebEx

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Key GCC Components & Status

1. Revised GCC Template & Instructions – ADOPTED

2. Filing Mechanism - ADOPTED
   - Revised Model Holding Company Act & Regulation pointing to instructions
     - Available for enactment by State legislatures
   - Attestation on GCC template and instructions

3. Analytics & Guidance – UNDER DEVELOPMENT
   - Analytics and eventual trending based upon gathered data from Schedule 1 including net income, premiums, liabilities, capital, contributions/dividends
   - Drafting group formed to develop Financial Analysis Handbook guidance including analytics built into the template
   - Initial draft developed by NAIC staff with input from other drafting group members.
   - Exposed for comment on May 17, 2021 until July 31.

Purpose and Timing of Trial Implementation

- Purpose
  - Discover any unintended results
  - Clarify instructions
  - Refine instructions and template
- Timing:
  - Final Trial template and instructions adopted by GCC (E) Working Group on May 27
  - Template submissions due to lead-State by July 31.
  - Volunteer submissions to be shared with NAIC pursuant to confidentiality agreements (Consenting Volunteers Only)
  - Review and discussion with Volunteers in August and September
  - Trial Completed by October 1, 2021
  - Refinements to GCC Instructions and Template to be completed prior to NAIC Fall National Meeting

Template Basics

Tab	Type of Sheet
Attestation	Input Needed
Input 1 - Schedule 1	
Input 2 - Inventory	
Input 2 - Inventory (limited)	
Input 3 - Capital Instruments	
Input 4 - Analytics	
Input 5 - Sensitivity Testing	
Input 6 - Questions	
Stress - Inputs [optional]	
Calc 1 - Scaling (Ins)	Automatic Calculations
Calc 2 - Other Calc Cap	
Summary 1 - Entity Level	
Summary 2 - Top Level	
Summary 3 - Analytics	
Summary 4 - Grouping Alt	
GCC.Param	
Stress - Summary	

Color Coding of Cells
Parameters
Input cells
Data from other worksheets
Local calculations
Results propagated

Key Points for Completing the GCC Template

- Scope of Application
- Calibration Level
- Schedule 1 Data
- Grouping and De-Stacking Entities
- Treatment of De-Stacked Entities
- Non-financial Entities and Material Risk
- Capital Instruments
- Analytics
- Potential Scalars for Foreign Insurers
- Sensitivity Analysis
- Stress Scenario and Narrative (Trial Only)

Scope of Application

1. Starting Point is the Ultimate Controlling Party and all Entities Within the Group (Schedule Y) in Alignment with the Model HCA

2. Working with the Lead-State Regulator a Reduction or Limit on the Scope of Entities to be Included May be Accomplished in Most Instances Via Request in the template to Exclude Certain Non-Financial Entities that do not Pose Material Risk
   - Principles for establishing material risk established

3. The lead-State may accept the request for all or some entities while rejecting it for others
   - The template will make the appropriate adjustments

Scope of Application (continued)

4. In some cases of large decentralized groups a reduction in scope of application up front may be requested based on a determination of no material risk
   - It is preferable that the regulatory evaluation of such requests is based on established guidance (examples include materiality of risk; structural separation; no history of cross subsidies, or other criteria supporting regulatory judgement)
   - Group requests for reducing the scope of application of the base GCC should be based on criteria documented and applied by the Group
   - Rationale for lead-State acceptance of the request should be documented and shared with other regulators (e.g. supervisory college) with information on excluded entities made available upon request

Calibration Level

- Base Calibration Level:
  - ➢All RBC filers capital calculations will be included in the base GCC Ratio at 200% x ACL RBC (RBC Company Action Level)
  - ➢Sensitivity analysis will show Capital calculations for all entities @ 300% x ACL RBC (RBC Trend Test Level)

Schedule 1 Data

- Schedule 1 forms foundation for template inputs: each row is a different legal entity.
  - Schedule 1A has version/currency info: no input needed.
  - Schedule 1B is identifying information: name, parent, location, etc.
  - Schedule 1C is financial data (mostly) for use in Analytics tab: premiums, assets, liabilities, etc.
  - "Gross Paid In Capital" used for capital instruments as well
  - Schedule 1D has a year-over-year reconciliation of equity/surplus.

Grouping and De-Stacking

- Allow Grouping of De-Stacked Financial Entities without a Regulatory Capital Requirement Using Current Criteria
  - Same business type
  - Same accounting basis
  - Group totals may be reported at intermediate HC entity level if all entities held conduct similar business
- Allow grouping for Non-insurance / Non-financial Entities Not Owned by RBC Filers or Other Financial Entities with a Regulatory Capital Requirement for the entity
  - Same requirements as for financial entities

Grouping and De-Stacking (continued)

- Do Not Require De-Stacking of Non-insurance / Non-financial Entities Owned by Either RBC Filers or Foreign Insurers / Financial Entities with a Regulatory Capital Requirement that Includes a Capital Charge
- Use RBC of UCP Mutual Insurer at 200% x ACL RBC Calibration with Only Foreign Insurers and Other Financial Affiliates De-stacked
  - If no financial entities in the group, then TAC and CAL RBC of top mutual is all that is required in the Inventory Tab
  - Certain data for other schedules still required for each grouping or entity as applicable per instructions (e.g., Schedule 1B, but not 1C or 1D)

Treatment of De-Stacked Entities

- All Insurers and Financial Entities within the Larger Group Must be Included in the GCC
- Use Jurisdictional / Sectoral Capital Requirements Where Applicable (e.g., U.S. RBC, Bank or Foreign Insurer)
- Capital Calculation for Financial Entities (As Defined) Without Regulatory Capital Requirements
  - ➢Basel-type op risk type charge applied to 3 years average gross revenue
    - o Use 10% for GCC for high risk entities
    - o Use 5% for medium risk entities
    - o Use 2.5% for low-risk entities
    - o Lead-State must concur with risk level selected

Capital Calculation For Non-Financial Entities

- Capital Charges for Non-insurance / Non-financial Entities
  - An equity charge (based on average post covariance charge by entity type in RBC)
    - 10.5% Life / 9.5% P&C / 3.5% Health
  - Alternative charge for sensitivity analysis: Apply a 5% risk charge to reporting year gross revenue
    - Note: The two alternatives above only apply to non-financial entities not owned by RBC filers or by financial entities with a regulatory capital requirement

- Non-operating Hold Cos:
  - Apply same equity charge used for other non-insurance / non-financial entities to net value of all non-operating hold cos
  - Operating hold cos will be treated according their operating activity

Capital Instruments

- Include Allowance for Additional Capital in Base GCC Adjusted for any Double Counting
  - Exception: No allowance should be calculated where the lead-State accepts a GCC submission that excludes the issuer(s) of the debt
- Components of a Multi Step Approach
  1. Total paid–in and contributed capital and surplus from insurer annual statements
  2. Alternate subordination calculation
  3. Proxy subordination allowance

Capital Instruments – Cont.

- Alternate subordination calculation:
  - ➢ Excess of qualifying debt issued over liquid assets held by issuing hold co

- Proxy Subordination Allowance
  1. Qualifying Senior Debt @ 30% x (Total Adjusted Carrying Value from Inventory B + Outstanding Qualifying Senior and Hybrid Debt)
  2. Qualifying Hybrid Debt @15% x (Total Adjusted Carrying Value from Inventory B + Outstanding Qualifying Senior and Hybrid Debt)

- Overall Limits on Allowance:
  - ➢ 75% of total adjusted carrying value in Inventory B(without the debt allowance)
  - ➢ 100% of qualifying debt

- An Allowance for Debt Classified as “Other” May be Included in Sensitivity Analysis @ 15% x (Total Adjusted Carrying Value from Inventory B + Outstanding Qualifying Senior and Hybrid Debt)

Description of Debt Allowance Calculation

- Step 1: Calculate the following amounts:
  a) The greater of Total paid-in capital and surplus of U.S. insurers or the alternative subordination calculation (defined above)
  b) A proxy value (defined above)

- Step 2: Take the greater of a) or b) from Step 1, and subject that amount to two limitations:
  - First, the total amount to qualify as capital cannot exceed 100% of the total outstanding value of qualified senior and hybrid debt.
  - Second, the total amount to qualify as capital cannot exceed 75% of the total adjusted carrying value in Inventory B.

- After applying the two limitations in Step 2, the remaining amount is allowed as additional capital.

Analytics

- Analytics will (eventually) extend over 5 years.
- Input is by entity category:
  – Fills in automatically for this exercise; may require manual input other years blank
- Summary tab is by high-level groupings

Overall Capital Table	Equity ($)			Equity Allocation (%)			Div/(Paid)			Capital Contrib/(Paid)		
	2024	[...]	2020	2024	[...]	2020	2024	[...]	2020	2024	[...]	2020
HoldCo	XXX	XXX		XXX	XXX		XXX	XXX		XXX	XXX	
US Ins	XXX	XXX		XXX	XXX		XXX	XXX		XXX	XXX	
Non-US Ins	XXX	XXX		XXX	XXX		XXX	XXX		XXX	XXX	
Fin	XXX	XXX		XXX	XXX		XXX	XXX		XXX	XXX	
NI/NF	XXX	XXX		XXX	XXX		XXX	XXX		XXX	XXX	
Total	XXX	XXX		XXX	XXX		XXX	XXX		XXX	XXX	

Scalars

- For now 100% of Jurisdictional PCR Level Capital Requirements Will Apply
- Jurisdictions Without Risk-based Capital Requirements
  - ➢Use 100% of Available Capital
- Excess Relative Ratio Scalars Will be Applied in Sensitivity Analysis

- Continue to Explore Other Potential Methods for Scaling including consideration of:
  - Recent paper from American of Actuaries
  - Comparability assessment of the Aggregation Method

Sensitivity Analysis Tab

- Sensitivity Analysis is Available on an Informational Only Basis to Assess the Capital Impact of Various Adjustments
- The Analysis will Not Impact the GCC Ratio
- Main Sensitivity Analyses Include:
    - **GCC calibrated to 300% x ACL RBC**
    - **Permitted and prescribed practices**
        - **Sensitivity analysis excludes values for permitted and prescribed accounting practices along with associated capital charges**
    - **Foreign insurer capital requirements scaled to RBC**
        - **Calculated at 200% and 300% x ACL RBC**
    - **Alternative calculated capital**
        - **Non-insurance / Non-financial entities**
    - **Excluded entities**
        - **Sensitivity analysis will exclude entities requested by the filer but not accepted by the lead-State**

Stress Scenario and Narrative

- Standardized Stress Scenario Added to Template
  - 30% reduction in available capital
  - 30% reductions in certain entity type calculated capital
  - **Option** to stress additional entity types' capital calculation by 30%
  - Primary purpose to review impact on the debt allowance and report consistent results across all volunteers
- Stress Narrative
  - Group specific stress scenario (% reduction in available capital) may or may not align with the standardized stress of 30%
  - Group will provide brief narrative if a different stress % is more appropriate
  - Primary purpose to give lead-states group specific information on likely stress level an associated impact on the debt allowance


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