January 23, 2018

Peter L. Hartt
Director of Insurance
New Jersey Department of Banking and Insurance
Chair, NAIC Financial Stability (EX) Task Force

Re: Comments on NAIC Draft Blanks Proposal

Dear Mr. Hartt:

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

Thank you again for granting additional time to review the exposure of the NAIC's Liquidity Assessment Subgroup's Blanks Proposal. As explained in detail below, our priorities can be summarized as follows:

1) Resolving technical questions and issues prior to referral to the Blanks Working Group (Blanks);
2) Allowing sufficient time for implementation and reporting – specifically extending the effective date past 2018; and
3) Ensuring new disclosures appropriately address liquidity risk

Resolving Technical Questions and Issues

Our member companies have identified a number of substantive technical questions and issues which, if resolved prior to implementation, would help ensure consistent application across the industry and avoid potential rework costs (see attachment). Given the significance of this proposal and importance of the NAIC's stated objectives, we believe it is important that the Task Force take the requisite time to resolve these open technical questions and issues before referring this proposal to Blanks.

Allowing Sufficient Time for Implementation and Reporting

In light of the numerous systems changes required by the proposed blanks expansion, ACLI urges that the implementation of the proposal occur no earlier than 2019. Internal life insurer company staff and third-party vendors will need to reconfigure their systems in order to populate the significant number of new fields.

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Using the expansion of the Analysis of Operations by Lines of Business to illustrate, by separating “Ordinary Life Insurance” into eight new sub-categories (whole life, term life, indexed life, universal life, universal life with secondary benefits, variable life, universal variable life, and other individual life), and then requiring disclosures for each of the thirty-one elements of analysis, the proposal requires life insurers to supply more than two hundred new pieces of information on individual life insurance alone. Similar multiplier effects arise with the other categories that have been expanded in the Analysis of Operations by Lines of Business, e.g., group life expands into six sub-categories. These challenges are exacerbated for the many life insurance companies with operations in foreign jurisdictions, where products do not align with those available in the U.S.

The data reported in these schedules is recorded through automated feeds from administrative systems as well as through manual processes. There will be significant system resources required to divide current product groupings in ways that were not previously required. Even if companies can assume that information required in the proposal is currently available in existing administrative systems, the following steps will be required:

1. Financial teams will need to define new data requirements for each affected support system and identify the underlying administrative systems that will require programming. This step is dependent on obtaining clarification on the numerous technical questions outlined in the appendix.
2. Administrative system resources will need to be identified or hired and make programming changes to provide access to new data not previously required for financial reporting purposes. The level of effort here could vary widely, but will likely be very significant.
3. Financial system resources will be required to make programming changes to take the new data provided by the administrative systems and move to the financial systems and from the financial systems to reporting systems.
4. Reporting system resources will be required to change structures of existing reports that are significantly more detailed than existing reports. In addition, in some cases (such as the changes to Page 6 where what used to be one report is now five), there is a major increase in the number of reports required to develop and maintain. In modern financial reporting systems, the reporting is usually much more efficient than older systems. The tradeoff, however, is that initial development is frequently more tedious and time consuming.
5. Companies will need time to undergo a thorough testing process for all of these changes. The need to understand cross tie changes resulting from the implementation of this proposal will be essential to begin this testing.
6. Other reporting processes (for example, processes used to allocate certain expenses such as income taxes and investment income) will need to be updated.

In addition to system and process changes, the controls related to impacted processes must be updated and tested, as needed.

If sufficient time is not given to make system changes to facilitate the new product definitions, companies would be required to make retrospective adjustments to administrative system and other automatic feeds, manual entries recorded throughout the year, and accrual entries recorded in the prior year. The manual effort required to reconfigure the mapping of product-level information from administrative systems to financial reporting systems in this way would put year-end filing deadlines at risk and add significant risk from the perspective of internal control over financial reporting.

For numerous life insurance companies, the requisite systems changes will require in excess of a year for successful implementation.

Consideration should be given to ways to ease implementation. Simplified transition rules should also be embraced whenever possible. The most critical of these will be to ensure the initial reporting period coincides with the beginning of a calendar year. Overall, we believe that greater consideration needs to be given to an implementation plan that is realistic and achievable by industry.

In terms of the annual statement reporting processes, we are appreciative of the proposed elimination of certain supplemental schedules; however, including data from these eliminated schedules in the annual statement blanks will accelerate the due date for this data and the timing of the associated work by thirty days. In order to reduce this resource strain, we strongly suggest the Task Force consider an annual statement supplement by which to collect certain information.

Ensuring New Disclosures Appropriately Address Liquidity Risk

ACLI believes the disclosures could be better tailored to provide regulators with more meaningful information regarding liquidity risk. We believe certain disclosures (in particular in the blanks proposal) such as granular reporting of premiums, net investment income and amortization of IMR do not necessarily provide greater insights into liquidity. In addition, companies already compile significant liquidity data for both non-regulatory purposes and regulatory purposes (often confidential). We recommend the Task Force pursue a dual-track approach of considering alternative liquidity reporting approaches, while also addressing open technical questions regarding the exposure. We agree that increased scrutiny of liquidity risk is a worthy goal, but we remain concerned that certain disclosures will be costly and burdensome to industry without necessarily providing meaningful regulatory information.

In terms of specific disclosures, while we believe that Note 32 and Note 33 generally contain useful information from a liquidity perspective, we have two specific recommendations:

- We suggest the following enhancements to Note 32 and Note 33: 1) segregate the data reported into individual versus group/institutional, 2) have a separate bucket for amounts with notice periods/contractual features that allow an insurer to delay payment for at least 6 months within the non-discretionary categories.

- In Note 32, we question the regulatory value of requiring disclosure of the amount of annuity liabilities with a current surrender charge of 5% or more that will have less than a 5% surrender charge in the coming year. It should be possible for regulators to examine historical trends to estimate the migration of reserves through surrender charge buckets, thus eliminating the need for companies to establish a new process to capture this data point.

Lastly, for policy loan data, in lieu of capturing data on amounts outstanding or capable of being lent, we suggest a new interrogatory that queries if material policy loans in excess of cash surrender value are possible. If an insurer answers ‘yes’, then part 2 of the interrogatory can quantify this supplemental data on loans outstanding where this is applicable.

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

Sincerely,

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