Life Insurance and Annuities (A) Committee
Virtual Meeting
July 19, 2023

The Life Insurance and Annuities (A) Committee met July 19, 2023. The following Committee members participated: Judith L. French, Chair (OH); Carter Lawrence, Vice Chair (TN); Barbara D. Richardson (AZ); Karima M. Woods represented by Phillip Barlow (DC); Doug Ommen (IA); Vicki Schmidt (KS); James J. Donelon (LA); Eric Dunning (NE); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bill Carmello (NY); Scott A. White represented by Craig Chupp (VA) and Nathan Houdek (WI). Also participating was: Rachel Hemphill (TX).

1. **Adopted its Spring National Meeting Minutes**

   Commissioner Lawrence made a motion, seconded by Commissioner Ommen, to adopt the Committee’s April 14 minutes (see NAIC Proceedings – Summer 2023, Life Insurance and Annuities (A) Committee). The motion passed unanimously.

2. **Adopted 2024 Valuation Manual Amendments**

   Hemphill said the Life Actuarial (A) Task Force adopted 12 amendment proposal forms (APFs) to be effective for the 2024 Valuation Manual. She said the APFs fall into three categories: 1) APFs primarily adding documentation in reporting (2022-06, 2022-09, 2023-02, and 2023-04); 2) APFs primarily clarifying requirements or correcting typos (2022-07, 2022-10, 2023-01, and 2023-03); and 3) APFs making more substantive changes to requirements (2021-08, 2022-08, 2023-05, and 2023-07). Hemphill summarized the substance of this third category of APFs.

   Hemphill said that APF 2021-08 reduces the reporting lag for VM-51, Experience Reporting Formats, from two years to one year to gather more timely industry mortality data and thus allow more timely creation of mortality tables. She said that APF 2022-08 makes variable annuities that are exempt from complex modeling have reduced VM-G, Appendix G – Corporate Governance Guidance for Principle-Based Reserves, governance requirements, analogous to the treatment already in place for life principle-based reserving. She said APF 2023-05 allows alternate hedge modeling and hedge error reflection for variable annuities indexed credit hedging programs, reflecting the distinct nature of these hedging programs. She said APF 2023-07 removes one of two methods available to companies for calculating part of VM-21, Requirements for Principle-Based Reserves for Variable Annuities, reserve requirements, effective in 2025, due to this method being rarely used. She said only two companies are affected by this change. One company is immediately able to use the more common method, and the other will be able to use the other method by 2025 and is directly working with its domestic regulator to effectuate the change.

   Director Richardson made a motion, seconded by Commissioner Lawrence, to adopt the 2024 Valuation Manual amendments. The motion passed unanimously.

3. **Adopted Amended Life Actuarial (A) Task Force Charges**

   Hemphill explained that on June 15, the Life Actuarial (A) Task Force voted to adopt its updated charges, which include: 1) the removal of the Indexed-Linked Variable Annuities (ILVA) Subgroup. Hemphill said the Subgroup completed its charges when the Task Force adopted Actuarial Guideline LIV—Nonforfeiture Requirements for Index-Linked Variable Annuity Products (AG 54); and 2) the addition of the Generator of Economic Scenarios (E/A)
Subgroup and its charges. Hemphill explained that state insurance regulators and interested parties agreed that a formal subgroup was needed to have a robust and proactive approach to future economic scenario generator (ESG) maintenance and updates, including to: a) oversee the ESG governance framework; b) review material generator updates; c) monitor economic conditions for any signal that there is a need for additional generator updates; d) support generator implementation; and e) maintain generator acceptance criteria. Mike Yanacheak (IA) and Pete Weber (OH) have agreed to serve as Subgroup chair and vice chair, respectively.

Carmello made a motion, seconded by Director Dunning, to adopt the amended Life Actuarial (A) Task Force charges. The motion passed unanimously.

4. Discussed Other Matters

Jennifer Cook (NAIC) said that the agenda for the Special (EX) Committee on Race and Insurance Life workstream meeting on July 20 has changed. The Colorado presentation has been postponed to a future meeting. The workstream will still meet to discuss its next steps.

Having no further business, the Life Insurance and Annuities (A) Committee adjourned.
Risks Facing the Life and Annuity Industry

Steve Hazelbaker, CPA, FLMI
President

August 15, 2023

NAIC – Life Insurance and Annuities (A) Committee
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Objectives

1. Identify and increase awareness of certain current and prospective risks facing the life insurance and annuity industry

2. Become more familiar with the contents and value of the NAIC “Solvency Monitoring Risk Alert”
Risks/Concerns Affecting the Overall Insurance Industry (Spring 2023; Revised May 15, 2023)

• InsurTech
  • Distribution; Process; Strategy; Group Organization Structure

• Federal and International Regulatory Developments
  • FSOC; FRB; FIO; IAIS Comframe/Holistic Framework

• Private Equity Firm Relationships with Insurers

• Inflation
Risks/Concerns Affecting Life Insurance

- Growth and Trends in the Annuity Market
- Interest Rate Environment
Risks/Concerns Affecting Insurer Investments

• Inflation and Federal Reserve Rate Hikes
• Changing Investment Strategies and Profiles
• Regulatory Guidelines/Concerns
Impact of Rising Rates on U.S. Insurer Investments (NAIC Capital Markets Special Report)

Positive Implications

• Support investment income
• Benefit insurers’ spread business
• Less pressure to invest in riskier assets
• Reinvest proceeds of maturing investments at greater yields
• Benefit floating rate structured securities investments

Negative Implications

• Realized and/or unrealized losses due to decline in market values
• Existing mortgage loans at lesser rates could decline in market value, resulting in higher loan-to-value ratios
Other Risk Considerations Affecting Life and Annuity Insurers

• Commercial Real Estate

• Reinsurance

• Talent / Intellectual Capital