



**NATIONAL MEETING
SPRING 2022**

Date: 4/4/22

*2022 Spring National Meeting
Kansas City, Missouri*

**JOINT MEETING OF THE FINANCIAL STABILITY (E) TASK FORCE
AND THE MACROPRUDENTIAL (E) WORKING GROUP**

Tuesday, April 5, 2022

9:00 – 10:00 a.m. CT

Loews —City Beautiful E Room— Ballroom Level

ROLL CALL

FINANCIAL STABILITY (E) TASK FORCE

Marlene Caride, Chair	New Jersey	Chlora Lindley-Myers	Missouri
<i>Vice Chair, Vacant</i>	<i>Pending</i>	Eric Dunning	Nebraska
Evan G. Daniels	Arizona	Adrienne A. Harris	New York
Ricardo Lara	California	Mike Causey	North Carolina
Andrew N. Mais	Connecticut	Judith L. French	Ohio
Trinidad Navarro	Delaware	Andrew R. Stolfi	Oregon
Karima M. Woods	District of Columbia	Michael Humphreys	Pennsylvania
David Altmaier	Florida	Elizabeth Kelleher Dwyer	Rhode Island
Amy L. Beard	Indiana	Raymond G. Farmer	South Carolina
Doug Ommen	Iowa	Carter Lawrence	Tennessee
Vicki Schmidt	Kansas	Cassie Brown	Texas
Tim Schott	Maine	Scott A. White	Virginia
Kathleen A. Birrane	Maryland	Nathan Houdek	Wisconsin
Gary D. Anderson	Massachusetts		

NAIC Support Staff: Tim Nauheimer/Todd Sells

MACROPRUDENTIAL (E) WORKING GROUP

Justin Schrader, Chair	Nebraska	Steve Mayhew	Michigan
Carrie Mears, Vice Chair	Iowa	Fred Andersen	Minnesota
Susan Bernard	California	John Rehagen	Missouri
Kathy Belfi/John Loughran	Connecticut	David Wolf	New Jersey
Philip Barlow	District of Columbia	Bob Kasinow	New York
Ray Spudeck	Florida	Melissa Greiner	Pennsylvania
Susan Berry	Illinois	Mike Boerner	Texas
Tim Schott	Maine	Scott A. White	Virginia
Lynn Beckner	Maryland		

NAIC Support Staff: Tim Nauheimer/Todd Sells

AGENDA

1. Hear Opening Remarks and Updates—*Commissioner Marlene Caride (NJ)*
2. Consider Adoption of the Task Force’s Feb. 22 and Working Group’s Mar. 2 Minutes —*Commissioner Marlene Caride (NJ)* Attachment A
3. Receive a Working Group Update—*Justin Schrader (NE)*
 - A. Private Equity (PE) Attachment B
 - B. Liquidity Stress Test (LST)
4. Consider Adoption of Macroprudential Risk Assessment Process —*Justin Schrader (NE)* Attachment C
Attachment D
Attachment E
5. Hear an International Update —*Tim Nauheimer (NAIC)*
6. Discuss Any Other Matters Brought Before the Task Force — *Commissioner Marlene Caride (NJ)*
7. Adjournment

SharePoint/NAIC Support Staff Hub/Member Meetings/Spring 2022 National Meeting/Agendas

DRAFT PENDING ADOPTION

Draft: 2/28/22

Financial Stability (E) Task Force
and Macroprudential (E) Working Group
Virtual Meeting
February 22, 2022

The Financial Stability (E) Task Force met Feb. 22, 2022, in joint session with the Macroprudential (E) Working Group. The following Task Force members participated: Eric A. Cioppa, Chair (ME); Marlene Caride, Vice Chair (NJ); Ricardo Lara represented by Susan Bernard (CA); Andrew N. Mais represented by Kathy Belfi (CT); Karima M. Woods represented by Philip Barlow (DC); Trinidad Navarro represented by Tom Hudson (DE); Amy L. Beard represented by Roy Eft (IN); Doug Ommen (IA); Vicki Schmidt represented by Tish Becker (KS); Gary D. Anderson represented by John Turchi (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Eric Dunning represented by Justin Schrader (NE); Mike Causey and Jackie Obusek (NC); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Tracy Snow (OH); Michael Humphreys represented by Kimberly Rankin and Melissa Greiner (PA); Elizabeth Kelleher Dwyer (RI); Raymond G. Farmer represented by Geoffrey Bonhom (SC); Carter Lawrence and Trey Hancock (TN); Cassie Brown represented by Jamie Walker (TX); Scott A. White represented by David Smith (VA); and Nathan Houdek and Amy Malm (WI). The following Working Group members participated: Justin Schrader, Chair (NE); Carrie Mears, Vice Chair (IA); Susan Bernard (CA); Kathy Belfi (CT); Philip Barlow (DC); Susan Berry (IL); Eric A. Cioppa (ME); Steve Mayhew (MI); Fred Andersen (MN); John Rehagen (MO); Bob Kasinow (NY); Melissa Greiner (PA); Mike Boerner (TX); and Greg Chew (VA).

1. Heard Opening Remarks

Commissioner Caride said materials for consideration and discussion for this meeting are available on the NAIC website in the Committees section under the Financial Condition (E) Committee.

2. Received a Working Group Update

Mr. Schrader said that the Working Group adopted the document titled “List of Regulatory Considerations Applicable (But not Exclusive) to Private Equity (PE) Owned Insurers” during its meeting on Feb. 1. He stressed that some of the work on the considerations will occur, or is already underway, at other NAIC committee groups, and the Working Group’s role is to monitor those activities and developments. He said that the Working Group has organized a meeting with the various groups’ chairs, vice chairs, and NAIC support staff to establish a baseline of their activities underway that relate to the considerations included on the list of regulatory considerations. He added that after the baseline meeting, the list of regulatory considerations will be updated to reflect changes, and the tracking document will be posted on the Working Group’s web page in the documents section. Mr. Schrader said that after establishing the baseline in early March, the Working Group will hold periodic meetings with the chairs, vice chairs, and NAIC support staff of the various groups to ensure proper coordination occurs. He also promised verbal status updates in open meetings of the Working Group, which will be reflected in the Working Group’s tracking document. Mr. Schrader concluded that the Working Group will consider the risks, existing measures to address the risks, if they are sufficient for now or if further measures should be considered, and if the latter, which group is appropriate to perform the work. He added that the Working Group may need to meet in regulator-to-regulator session when deliberating answers to those questions—for example, to speak about specific companies—but that the answers to these questions will be considered in open meetings with an opportunity for interested parties to comment.

DRAFT PENDING ADOPTION

Mr. Schrader said that the Working Group continues to use the unofficial Liquidity Stress Test (LST) Study Group to address the details for the LST project. He added that the LST Study Group has concluded its work on the 2021 LST Framework, which the Working Group will consider for adoption along with the Task Force. He said that the 2021 LST Framework calls for LST filings to be submitted to the lead state regulator by June 30, and once comfortable, the lead state will provide results to NAIC staff to aggregate results. He noted that the LST Study Group will use those results as part of the deliberations for whether and how to modify the 2022 LST Framework. Mr. Schrader added that the LST Study Group will consider issues related to separate accounts, because other than general account guarantees for separate accounts, separate accounts were excluded from the scope. He explained that further considerations to perform some sort of data call and study, as well as whether to modify a future LST Framework to include some aspects of separate accounts, will be considered in the second quarter with any recommendations brought to open meetings of the Working Group.

3. Adopted the “List of Regulatory Considerations – PE Related and Other”

Commissioner Caride said that the initial “List of Regulatory Considerations – PE Related and Other” was exposed for a 30-day public comment period, which was extended by two weeks to meet an interested party’s request regarding the year-end holiday season. She added that the Working Group provided its recommended responses in detail to comments received during the Working Group’s meeting on Feb. 1. Commissioner Caride concluded that since no controversial items were raised during the Working Group process, the Task Force is considering adoption without any comment period.

Mr. Schrader made a motion, seconded by Superintendent Cioppa, to adopt the “List of Regulatory Considerations – PE Related and Other” (Attachment 1). The motion passed unanimously.

4. Adopted the 2021 LST Framework

Mr. Schrader said that the 2021 LST Framework drafting began by incorporating the Lead State Guidance items issued last year after the Task Force adopted the 2020 LST Framework document. He added that there were only minor editorial items, such as updating the year and indicating differences of the 2021 LST processes compared to the 2020 LST. He stressed that there is a known set of metrics for the appendices that will need to be updated after the 2021 LST Framework document is adopted. Mr. Schrader said this change and any unexpected changes will be addressed using Lead State Guidance. He said that the 2021 LST Framework document is not being exposed for a public comment period because of this lack of substantive edits from the 2020 LST Framework adopted last year after multiple exposure periods both at the Working Group and the Task Force. Mr. Schrader clarified that all Lead State Guidance elements for the 2020 LST Framework were posted on the Task Force’s web page as they were made in 2021. He concluded that those items being incorporated into the 2021 LST Framework are not new guidance. He added that the insurers in scope that are affected by the minor edits to the 2021 LST Framework document have already signed off during the LST Study Group meetings this year.

For the Macroprudential Working Group’s consideration, Ms. Belfi made a motion, seconded by Ms. Mears, to adopt the 2021 LST Framework (Attachment 2). The motion passed unanimously.

For the Financial Stability Task Force’s consideration, Commissioner Ommen made a motion, seconded by Ms. Belfi, to adopt the 2021 LST Framework (Attachment 2). The motion passed unanimously by the Task Force.

DRAFT PENDING ADOPTION

5. Adopted the Working Group's Feb. 1 Minutes

The Working Group met Feb. 1 and took the following action: 1) adopted the List of Regulatory Considerations – PE Related and Other; 2) received an update on the 2021 LST Framework, Including Scope Criteria; and 3) heard a macroprudential risk assessment update.

Mr. Schrader made a motion, seconded by Mr. Rehagen, to adopt the Working Group's Feb. 1 minutes (Attachment 3). The motion passed unanimously.

6. Discussed Other Matters

Commissioner Caride recognized Superintendent Cioppa for his many years of excellent service to the NAIC and wished him the best in his retirement.

Having no further business, the Financial Stability (E) Task Force and Macroprudential (E) Working Group adjourned.

DRAFT PENDING ADOPTION

Draft: 3/4/22

Macroprudential (E) Working Group
Virtual Meeting
March 2, 2022

The Macroprudential (E) Working Group of the Financial Stability (E) Task Force met March 2, 2022. The following Task Force members participated: Justin Schrader, Chair (NE); Carrie Mears, Vice Chair (IA); Susan Bernard (CA); Kathy Belfi (CT); Ray Spudeck (FL); Lynn Beckner (MD); Vanessa Sullivan (ME); Steve Mayhew (MI); Fred Andersen (MN); John Rehagen (MO); David Wolf (NJ); Bob Kasinow and Bill Carmello (NY); Kimberly Rankin (PA); Jamie Walker and Mike Boerner (TX); and Stephen Thomas (VA).

1. Heard Opening Remarks and Updates

Mr. Schrader said for several years, the NAIC has been supporting state insurance regulators in the development of macroprudential tools. He added that the NAIC started with the Macroprudential Initiative (MPI), which led to the development of the Liquidity Stress Testing Framework (LST Framework) and continues with the introduction of a Macroprudential Risk Assessment process that, although not listed in the MPI, is a logical extension of an activities-based approach to supervision. Mr. Schrader asked Miguel Romero (NAIC) to present on the Macroprudential Risk Assessment process.

2. Received an Update on the Macroprudential Risk Assessment Process

Mr. Romero explained that he would spend most of his time on the PowerPoint presentation summarizing what Macroprudential Risk Assessment process could look like (Attachment 1), which does not go into enough detail but may generate questions. He added that the details are provided in a Word document (Attachment 2), which includes an overview, quantitative review, qualitative review, and overall conclusions of the Macroprudential Risk Assessment process.

Mr. Romero summarized the goals of the Macroprudential Risk Assessment process:

- Process Document: Explains the Macroprudential Risk Assessment process in terms of what goes into it and how it is used.
- Risk Dashboards: Supports the risk and trend assessments contained in the report by providing a mix of data and analysis for state insurance regulators only.
- Risk Report: Documents a summary of state insurance regulators' views on industry developments by providing information on the activities-based supervisory approach for the public.

Mr. Romero added that the Macroprudential Risk Assessment process is designed to support the activities-based supervisory approach to macroprudential supervision by relying extensively on existing data sources:

- Results of microeconomic surveillance.
- Aggregated industry data.
- Publicly available data, where necessary.

Mr. Romero concluded that the analysis includes both a quantitative and qualitative review, which may be useful for both micro and macroprudential supervision, while trying to avoid duplication. He added that the results of the assessment may lead to requests for further study by the NAIC and policy discussions at the Financial Stability

DRAFT PENDING ADOPTION

(E) Task Force. He noted that the work is structured around risk categories, but it is still under active development. He added that a public report will hopefully be ready later this year.

Lauren Sarper (Prudential) asked if Mr. Romero could share a list of existing resources and documentation publicly.

Mr. Romero responded that:

- Qualitative Sources are listed on page 2 of the Macroprudential Risk Assessment process document.
- Quantitative Sources are sector wide data found on the NAIC website, but the analysis may go deeper.

Mr. Schrader said he intends to release the NAIC Macroprudential Risk Assessment process document with an exposure period that allows enough time for the NAIC to incorporate comments before the Working Group meets jointly with the Financial Stability (E) Task Force on April 5 at the Spring National Meeting. After hearing no objection from interested parties or state insurance regulators and support from Mr. Rehagen, Mr. Schrader exposed the NAIC Macroprudential Risk Assessment process (Attachment 2) for a public comment period ending March 21.

Having no further business, the Macroprudential (E) Working Group adjourned.

[Sharepoint/NAIC_Support_Staff_Hub/Member_Meetings/2022_NAIC_Meetings/Spring_National_Meeting/Committee_Meetings/FINANCIAL_CONDITION_COMMITTEE/Financial_Stability_TF/Materials](#)

Regulatory Considerations Applicable (But Not Exclusive) to Private Equity (PE) Owned Insurers

A summary of currently identified regulatory considerations follows with no consideration of priority or importance (green underlined font indicates current or completed work by another NAIC committee group). Most of these considerations are not limited to PE owned insurers and are applicable to any insurers demonstrating the respective activities. A summary of the regulatory process has been added to this document since it is being used by individuals less familiar with the state insurance regulatory system, and the results of regulator discussions on how to move forward have been added to specific considerations in blue font where applicable. Regulators continue to consider the remaining items in the list.

State insurance regulators monitor the solvency of each legal entity insurer, including assessing risks from the broader holding company when an insurer is part of a group, making use of routinely required disclosures, both public, such as the statutory financial statements, and confidential, such as the Risk-Based Capital (RBC) supplemental filing and Holding Company form filings. Regulators also use many analysis and examination tools and procedures for each insurer and/or insurance group. Regulatory responses to the analysis and examination work depend upon the results of those reviews. One specific area of solvency monitoring work focuses on potential acquisitions of a US legal entity insurer, involving a Form A filing. In 2013, guidance was added to the NAIC Financial Analysis Handbook for Form A reviews when a private equity owner was involved, although these considerations are not limited to PE acquisitions. The guidance provides examples of stipulations, both limited time and continuing, regulators could use when approving the acquisition to address solvency concerns, as well as for use in ongoing solvency monitoring. Examples follow:

Limited Time Stipulations:

- Requiring RBC to be maintained at a specified amount above company action level/trend test level. Because capital serves as a buffer that insurers use to absorb unexpected losses and financial shocks, this would better protect policyholders.
- Requiring quarterly RBC reports rather than annual reports as otherwise required by state law.
- Prohibiting any dividends, even ordinary.
- Requiring a capital maintenance agreement or prefunded trust account.
- Enhancing the scrutiny of operations, dividends, investments, and reinsurance by requiring material changes in plans of operation to be filed with the commissioner (including revised projections), which, at a minimum, would include affiliated/related party investments, dividends, or reinsurance transactions to be approved prior to such change.
- Requiring a plan to be submitted by the group that allows all affiliated agreements and affiliated investments to be reviewed, despite being below any materiality thresholds otherwise required by state law. A review of agreements between the insurer and affiliated entities may be particularly helpful to verify there are no cost-sharing agreements that are abusive to policyholder funds assessment.

Continuing Stipulations:

- Requiring prior commissioner approval of material arms-length, non-affiliated reinsurance treaties or risk-sharing agreements.
- Requiring notification within 30 days of any change in directors, executive officers or managers, or individuals in similar capacities of controlling entities, and biographical affidavits and such other information as shall reasonably be required by the commissioner.

- Requiring filing of additional information regarding the corporate structure, controlling individuals, and other operations of the company.
- Requiring the filing of any offering memoranda, private placement memoranda, any investor disclosure statements or any other investor solicitation materials that were used related to the acquisition of control or the funding of such acquisition.
- Requiring disclosure of equity holders (both economic and voting) in all intermediate holding companies from the insurance company up to the ultimate controlling person or individual but considering the burden on the acquiring party against the benefit to be received by the disclosure.
- Requiring the filing of audit reports/financial statements of each equity holder of all intermediate holding companies but considering the burden on the acquiring party against the benefit to be received by the disclosure.
- Requiring the filing of personal financial statements for each controlling person or entity of the insurance company and the intermediate holding companies up to the ultimate controlling person or company. Controlling person could include for example, a person who has a management agreement with an intermediate holding company.

Among many other concepts, regulators are considering the need for any additional stipulations, if there are some stipulations that should be required instead of used subjectively, and use of some stipulations beyond the Form A acquisition process (e.g., for insurers acquired in the past).

1. Regulators may not be obtaining clear pictures of risk due to holding companies structuring contractual agreements in a manner to avoid regulatory disclosures and requirements. Additionally, affiliated/related party agreements impacting the insurer's risks may be structured to avoid disclosure (for example, by not including the insurer as a party to the agreement).

Regulator discussion results:

- Refer this item to the NAIC Group Solvency Issues (E) Working Group. Items discussed:
 - Instead of requiring for all Form A acquisitions to provide additional disclosures, structure an optional disclosure requirement that can be used when unresolved regulatory concerns exist with the acquisition. For example:
 - Disclosures to allow regulators to assess the goal of the potential owner in acquiring the insurer, how the potential owner will be paid and in what amounts, and the ability of the potential owner to provide capital support as needed.
 - Copies of disclosures provided to the potential owner's investors.
 - Provide training as needed to states with less experience reviewing complex Form A transactions and refer those states to more experienced states for live help.
 - These options include highlighting the need to use external expertise for complex transactions, especially to understand non-U.S. affiliations and when assessing multiple complex Form A applications, and at the expense of the Form A applicant.
2. Control is presumed to exist where ownership is $\geq 10\%$, but control and conflict of interest considerations may exist with less than 10% ownership. For example, a party may exercise a controlling influence over an insurer through Board and management representation or contractual arrangements, including non-customary minority shareholder rights or covenants, investment

management agreement (IMA) provisions such as onerous or costly IMA termination provisions, or excessive control or discretion given over the investment strategy and its implementation. Asset-management services may need to be distinguished from ownership when assessing and considering controls and conflicts.

Regulator discussion results:

- Refer this item to the NAIC Group Solvency Issues (E) Working Group. Regulators recognized the integral connection of the first two considerations. Items discussed:
 - o An emphasis on training and providing detailed examples to address the complexity and creativity involved in some of these Form A agreements and holding company structures.
 - o It is not practical to get copies of operating agreements from every entity in a group to assess control impacts to the insurers. Consider ways of better targeting the pertinent agreements to assess, including a potential list of questions about less than 10% owners for use when considering Form A applications and/or ongoing analysis.
 - o Consider if Form B (Insurance Holding Company System Annual Registration Statement) disclosure requirements should be modified to address these considerations.
3. The material terms of the IMA and whether they are arm's length or include conflicts of interest — including the amount and types of investment management fees paid by the insurer, the termination provisions (how difficult or costly it would be for the insurer to terminate the IMA) and the degree of discretion or control of the investment manager over investment guidelines, allocation, and decisions.

Regulator discussion results:

- Refer this item to the NAIC Risk-Focused Surveillance (E) Working Group. Regulators recognized similar dynamics to the first two considerations, but this Working Group was selected because it is already currently focused on a project involving affiliated agreements and Form D filings. Items discussed:
 - o Consider training and examples, such as unique termination clauses and use of sub-advisors with the potential for additive fees, and strategies to address these.
 - This included addressing pushback on obtaining sub-advisor agreements as Form D disclosures and some optional disclosures for the Form A.
 - o Given the increasing prevalence of bespoke agreements, does it make sense to tie this work in to the work of the NAIC Valuation of Securities (E) Task Force and/or the NAIC Securities Valuation Office? If yes, how best to do so?
 - o Surplus Notes and appropriate interest rates given their special regulatory treatment, including whether floating rates are appropriate; follow any Statutory Accounting Principles (E) Working Group projects related to this topic and provide comments as needed.
4. Owners of insurers, regardless of type and structure, may be focused on short-term results which may not be in alignment with the long-term nature of liabilities in life products. For example, investment management fees, when not fair and reasonable, paid to an affiliate of the owner of an insurer may effectively act as a form of unauthorized dividend in addition to reducing the insurer's overall investment returns. Similarly, owners of insurers may not be willing to transfer capital to a troubled insurer.

- a. Life Actuarial (A) Task Force (LATF) work addresses this – helping to ensure the long-term life liabilities (reserves) and future fees to be paid out of the insurer are supported by appropriately modeled assets.

Regulator discussion results:

- In addition to LATF’s work, refer this item to the NAIC Risk-Focused Surveillance (E) Working Group, as it is already looking at some of this work related to affiliated agreements and fees. Items discussed:
 - o Capital maintenance agreements, suggesting guidance for the appropriate entities to provide them and considering ways to make them stronger.
5. Operational, governance and market conduct practices being impacted by the different priorities and level of insurance experience possessed by entrants into the insurance market without prior insurance experience, including, but not limited to, PE owners. For example, a reliance on TPAs due to the acquiring firm’s lack of expertise may not be sufficient to administer the business. Such practices could lead to lapse, early surrender, and/or exchanges of contracts with in-the-money guarantees and other important policyholder coverage and benefits.
- a. The NAIC Financial Analysis Handbook includes guidance specific to Form A consideration and post approval analysis processes regarding PE owners of insurers (developed previously by the Private Equity Issues (E) Working Group).

Regulator discussion results:

- Regulators considered referring this consideration to the NAIC Risk-Focused Surveillance (E) Working Group but opted to keep developing more specific suggestions for now. Items discussed:
 - o Consider optional Form A disclosures and guidance for less experienced states; review EU conduct of business language and consider if similar concepts would help target the optional use.
 - o Consider more detailed guidance for financial examinations.
 - o Besides just inexperience, the consideration also includes intentional actions that ignore known concerns to achieve owner’s results; might need to consider Market Conduct group(s).
6. No uniform or widely accepted definition of PE and challenges in maintaining a complete list of insurers’ material relationships with PE firms. ([UCAA \(National Treatment WG\)](#) dealt with some items related to PE.) This definition may not be required as the considerations included in this document are applicable across insurance ownership types.

Regulator discussion results:

Regulators do not believe a PE definition is needed, as the considerations are activity based and apply beyond PE owners.

7. The lack of identification of related party-originated investments (including structured securities). This may create potential conflicts of interests and excessive and/or hidden fees in the portfolio structure, as assets created and managed by affiliates may include fees at different levels of the value chain. For example, a CLO which is managed or structured by a related party.

- a. [An agenda item and blanks proposal are being re-exposed by SAPWG. Desire for 2022 year-end reporting to include disclosures identifying related-party issuance/acquisition.](#)

Yet to be discussed.

8. Though the blanks include affiliated investment disclosures, it is not easy to identify underlying affiliated investments and/or collateral within structured security investments. Additionally, transactions may be excluded from affiliated reporting due to nuanced technicalities. Regulatory disclosures may be required to identify underlying related party investments and/or collateral within structured security investments. This would include, for example, loans in a CLO issued by a corporation owned by a related party.
 - a. [An agenda item and blanks proposal are being re-exposed by SAPWG. The concept being used for investment schedule disclosures is a code indicator, e.g., a code to identify the existence of a related-party in an owned structured security.](#)

Yet to be discussed.

9. Broader considerations exist around asset manager affiliates (not just PE owners) and disclaimers of affiliation avoiding current affiliate investment disclosures. [A new Sc Y, Pt 3, has been adopted and will be in effect for year-end 2021.](#) This schedule will identify all entities with greater than 10% ownership – regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation. It will also identify the ultimate controlling party.
 - a. Additionally, [SAPWG is developing a proposal to revamp Schedule D reporting](#), with primary concepts to use principles to determine what reflects a qualifying bond and to identify different types of investments more clearly. For example, D1 may include issuer credits and traditional ABS, while a sub-schedule of D1 could be used for additional disclosures for equity-based issues, balloon payment issues, etc. This is a much longer-term project, 2024 or beyond.

Yet to be discussed.

10. The material increases in privately structured securities (both by affiliated and non-affiliated asset managers), which introduce other sources of risk or increase traditional credit risk, such as complexity risk and illiquidity risk, and involve a lack of transparency. (The NAIC Capital Markets Bureau continues to monitor this and issue regular reports, but much of the work is complex and time-intensive with a lot of manual research required. The NAIC Securities Valuation Office will begin receiving private rating rationale reports in 2022; these will offer some transparency into these private securities.)
 - a. [LATF's exposed AG includes disclosure requirements for these risks as well as how the insurer is modeling the risks.](#)
 - b. [SVO staff have proposed to VOSTF a blanks proposal to add market data fields \(e.g., market yields\) for private securities. If VOSTF approves, a referral will be made to the Blanks WG.](#)

Yet to be discussed.

11. The level of reliance on rating agency ratings and their appropriateness for regulatory purposes (e.g., accuracy, consistency, comparability, applicability, interchangeability, and transparency).

- a. VOSTF has previously addressed and will continue to address this issue. A small ad hoc group is forming (key representatives from NAIC staff, regulators, and industry) to develop a framework for assessing rating agency reviews. This will be a multi-year project, will include discussions with rating agencies, and will include the inconsistent meanings of ratings and terms.

Yet to be discussed.

- 12. The trend of life insurers in pension risk transfer (PRT) business and supporting such business with the more complex investments outlined above. (Enhanced reporting in 2021 Separate Accounts blank will specifically identify assets backing PRT liabilities.) Considerations have also been raised regarding the RBC treatment of PRT business.
 - a. LATF has exposed an Actuarial Guideline to achieve a primary goal of ensuring claims-paying ability even if the complex assets (often private equity-related) did not perform as the company expects, and a secondary goal to require stress testing and best practices related to valuation of non-publicly traded assets (note – LATF’s considerations are not limited to PRT). Comment period ended March 18; to be discussed during Spring NM LATF session on March 31.
 - b. Review applicability of Department of Labor protections resulting for pension beneficiaries in a PRT transaction.
 - c. Review state guaranty associations’ coverage for group annuity certificate holders (pension beneficiaries) in receivership compared to Pension Benefit Guaranty Corporation (PBGC) protection.
 - i. NOLHGA provided 2016 study of state guaranty fund system vs. PBGC.

Yet to be discussed.

- 13. Insurers’ use of offshore reinsurers (including captives) and complex affiliated sidecar vehicles to maximize capital efficiency, reduce reserves, increase investment risk, and introduce complexities into the group structure.
 - a. LATF’s exposed AG requires the life insurer to model the business itself even if it uses these mechanisms to share/transfer risk.

Yet to be discussed.



**NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS**

NAIC Macroprudential Risk Assessment

Overview

The Macroprudential Working Group was charged with development, implementation, and maintenance of a macroprudential risk assessment system. This project is a logical extension of the NAIC's Macroprudential Initiative. The macroprudential risk assessment is also a key component of the NAIC's overall Macroprudential Supervision that enhances regulators' ability to monitor industry trends from a macroprudential perspective. This document summarizes the process to conduct the macroprudential risk assessment.

A key objective of the NAIC's macroprudential risk assessment is to identify and assess industry-wide insurance risks. The proactive identification of risks allows insurance regulators to consider and incorporate, as needed, various macroprudential surveillance measures across the insurance sector. The risk dashboard tools developed in this process may provide valuable insight to insurance regulators, the industry, and the public about activities that may pose systemic risk or threaten U.S. financial stability. The NAIC's membership on FSOC provides a forum to communicate and monitor such systemic risks or activities.

The NAIC uses the definition of systemic risk used by the International Monetary Fund, Bank for International Settlements and Financial Stability Board for the macroprudential risk assessment process. That definition is "a risk of disruption to financial services that is caused by an impairment of all or parts of the financial system and has the potential to have serious negative consequences for the real economy."

The NAIC's macroprudential risk assessment is designed to incorporate both quantitative and qualitative assessment factors to facilitate the identification of key risk exposures. Quantitative factors can be used to track and measure risk exposures by establishing key risk indicators for ongoing monitoring and objective assessment. In addition, qualitative factors may be used to supplement the risk indicators by incorporating information from a broader range of sources into the risk assessment process to identify emerging issues and industry trends for consideration. The risk dashboard primarily considers inward risks but may also consider outward risks. This document describes the steps to review and consider both quantitative and qualitative factors.

Quantitative Review

In conducting a quantitative assessment, NAIC staff and state insurance regulators will identify, aggregate, and track the performance of targeted insurance industry and macroeconomic risk indicators on a biannual basis. Targeted indicators are classified within established risk assessment categories to facilitate both the assessment process and presentation of results. Risk indicators are sourced from aggregated NAIC Annual Statement data as well as public data sources and are reviewed and updated as needed to quantify emerging material risk exposures. Industry exposures and indicators are aggregated/presented in a manner that logically fits the measured risk exposure under evaluation (i.e., by line of business, product type, legal structure, etc.). Careful consideration will also be given to the historical data that best provides context necessary to evaluate the exposure.

Assessment Categories (subject to ongoing review and adjustment):

1. *Macroeconomic* – This category assesses the potential impact of macroeconomic factors affecting the broader economy, with a focus on those most likely to impact the insurance industry.
2. *Interconnectedness* – This category assesses the impact of interconnectedness with other financial sectors on the overall financial stability of the insurance industry.
3. *Capitalization & Reputation* – This category assesses the overall capitalization of the insurance industry, as well as how perceptions of financial strength (including ratings and outlooks) could affect industry performance.



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

4. *Underwriting & Profitability* – This category assesses the exposure of the insurance industry to risks associated with insurance underwriting performance, reserve development, and overall profitability.
5. *Credit* – This category assesses the exposure of the insurance industry to the risk that amounts collected or collectible by insurers are less than those contractually due (i.e., debt securities, reinsurance recoverable, and other counterparties).
6. *Market* – This category assesses the exposure of the insurance industry to the risk that changes in interest rates and/or prices adversely affect the value of investments and liabilities.
7. *Liquidity* – This category assesses the exposure of the insurance industry to the risk that insurers are unable to meet financial obligations (i.e., cash demands) as they become due without incurring unacceptable losses.
8. *Other* – This category assesses the exposure of the insurance industry to other key risks that do not fit into the above categories, which could include operational and strategic risk exposures.

Qualitative Review and Research

In addition to quantitative analysis, the process of macroprudential risk assessment utilizes various qualitative tools and resources to identify emerging risk exposures, market conditions and industry activities that have the potential to impact the macroprudential risk assessment. These tools and resources may include results of company surveillance efforts, industry news, internal/external research, as well as insights from federal and international resources. By conducting ongoing study and research in these areas, topics for consideration in the overall macroeconomic risk assessment may be identified, as well as additional indicators for incorporation into the quantitative assessment. The qualitative assessment and research may also result in the identification of factors that could potentially influence the quantitative assessment of exposures discussed above.

Qualitative Review Sources (subject to ongoing review and adjustment):

- a. *Results of Microeconomic Surveillance* – Incorporation of findings and takeaways from the NAIC FAWG process, ORSA reviews, input from chief regulators, etc.
- b. *Industry News* – Ongoing review and tracking of issues identified through a review of news feeds including Rating Agency reports & outlooks, industry periodicals, etc.
- c. *Internal/External Research & Studies* – Ongoing review and consideration of research performed by the NAIC’s CMB, the NAIC’s CIPR, rating agencies and various external research agencies and sources (i.e., academics, JIR, III), etc.
- d. *Federal Resources* – Review of information highlighted in FSOC Reports and inquiries, Federal Reserve/FIO/OFR reports, etc.
- e. *International Resources* – Review of information highlighted in IAIS’s Global Monitoring Exercise reports and other reports (i.e., GIMAR), FSB data and reports, IMF data and reports, etc.

Overall Conclusions and Presentation of Results

Insights from both the quantitative and qualitative reviews are aggregated to reach a baseline assessment of industry exposure to various macroprudential risks. The baseline assessment will then be evaluated, adjusted as needed, and approved by the Macroprudential (E) Working Group. The assessment considers how each risk aligns with the three transmission channels, identified by FSOC as most likely to facilitate the transmission of risk across firms or markets. Those transmission channels are interconnectedness, asset liquidation, and critical function. The final assessment will consist of an overall level and trend for each risk category.

Assessment Levels – Assessment levels are documented on a four-tier scale consisting of High, Moderate-High, Moderate-Low or Low. Assessments are based on current and historical risk indicators and expert judgment.



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Trend Levels – Trend levels are documented on a five-tier scale to consist of Rapidly Increasing, Increasing, Static, Decreasing or Rapidly Decreasing. Trends are based on the changes in risk indicators and expert judgment.

The macroprudential risk assessment are compiled and presented in a public report describing regulator views on risk exposures (i.e., risk dashboards), ongoing supervisory efforts to address exposures, and additional policy considerations in response to higher risk assessments, if warranted. The public report will also highlight specific quantitative and qualitative elements that support the overall assessments.

Use in Ongoing Macroprudential and Microprudential Surveillance

The results of the macroprudential risk assessment process can be used by state insurance regulators for various purposes, including the identification of sector-wide risks and potential systemic risks within the financial system related to insurance sector activities. The risk dashboard may be used to identify interplays between industry-wide risks identified in the dashboard and individual insurer risk analysis.

Insurance regulators may also consider using the risk dashboard in a top-down, risk-focused, supervisory approach. Starting at the top with a sector-wide risk dashboard, insurance regulators may wish to channel their supervisory resources towards identifying individual insurers who contribute to higher assessed sector-wide risks and potential systemic risk or activities. Further analysis may warrant additional supervision and oversight of select insurers. When monitoring an individual insurer, the insurance regulator should be aware of the broader market in which the insurer operates to be able to better understand the context of certain risk factors. To assist state insurance regulators in this regard, the results may be used to complement the NAIC's Solvency Monitoring Risk Alert and act as a regulator-only supplement to NAIC Handbooks for use in addressing risk exposures and industry trends in conducting financial analysis and examinations.

Macroprudential risks can also be presented to the Financial Stability (E) Task Force for general policy consideration, which could include the development of additional tasks, policies, practices, or disclosures to address sector-wide risk exposures. In addition, assessments could be shared with federal and international regulators for broader financial sector and macroprudential surveillance purposes.

Summary of Industry Input

In general, industry appears supportive of the NAIC’s efforts on macroprudential risk assessment.

NAIC staff believes the majority of industry’s input can be addressed as our process is executed without a need to change the process document.

The following tables are NAIC’s attempt to summarize industry’s input with responses by NAIC staff for regulators and industry to consider.

Reference	Summary of Comments	Interested Parties
1	Industry suggests that we focus the assessment to outward risks and that we align the assessment with the three, distinct “transmission channels” of interconnectedness, asset liquidation, and critical function.	ACLI APCIA NA CRO Council
<p>NAIC staff appreciates industry’s input and agrees that it is helpful to align our process with the concept of FSOC’s transmission channels. Although our current process does not separately categorize the three transmission channels it does incorporate the underlying concepts within the eight categories we have identified. Therefore, NAIC staff have proposed a change to the “Overall Conclusions and Presentation of Results” section of the process memo to more clearly express the inclusion of the concepts as a part of the risk assessment process.</p> <p>However, the change does not alter the focus of the risk assessment process to preserve the regulator freedom to freely identify risks both inward and outward. While FSOC’s role is generally macroprudential in nature, state regulators have both a macroprudential and microprudential perspective and, therefore, this tool is designed to be useful towards both lenses of regulator discussions.</p>		

Reference	Summary of Comments	Interested Parties
2	Industry suggests that we “Avoid building overly complicated risk dashboards comprised of disparate metrics- and instead focus on prioritizing a manageable set of the indicators that are most relevant to assessing vulnerabilities.”	NA CRO Council
<p>NAIC staff’s early experience in constructing the macroprudential risk assessment process aligns with industry’s input. While our discussions on specific risks often start with several data points, many of our discussions have resulted in a final analysis that is simpler and therefore easier to discuss.</p> <p>However, given that no two risks are the same, NAIC staff suggests we avoid any prescriptions on number of the number of metrics per risk as each risk may require differing levels of information.</p> <p>NAIC staff also believes that industry’s input can be applied without needing a change to the process document.</p>		

Reference	Summary of Comments	Interested Parties
3	Industry suggests that we “Identify and contextualize metrics that will underly each assessment category.”	NA CRO Council
<p>NAIC staff’s early experience in constructing the macroprudential risk assessment process aligns with industry’s input. Our discussions and the data/metrics we present on each risk allow for context as industry suggests. Context can be quantitative or qualitative with NAIC staff working to make sure all relevant context is available for any risk under discussion.</p> <p>However, given that no two risks are the same, NAIC staff suggests we avoid any prescriptions on the exact information that is required to be presented per risk as each risk may require differing levels of information.</p> <p>NAIC staff have suggested a change to the “Quantitative Review” section to attempt to address this feedback.</p>		

Reference	Summary of Comments	Interested Parties
4	Industry suggests that we “Avoid unnecessary duplication for supervisors and the industry.”	ACLI APCIA NA CRO Council
<p>Industry’s input is consistent with regulator input provided in other settings and therefore NAIC staff have been mindful to not create a process that is burdensome to anyone involved.</p> <p>The intent is that this process be run twice a year, based on data that is available. In other words, where data is unavailable, that will likely mean the risks for which that data is relevant, may not be re-assessed until the annual analysis. Moreover, each risk will be presented at the level which makes the most sense for the risk (generally by line of business).</p> <p>As with any new process, flexibility is key. Therefore, while the intention is to perform the risk assessment semi-annually, that is a design choice that can be revisited as experience dictates.</p> <p>NAIC staff also believes that industry’s input can be applied without needing a change to the process document.</p>		

Reference	Summary of Comments	Interested Parties
5	Industry suggests that we “engage in ongoing and iterative dialogue with stakeholders.”	NA CRO Council
<p>NAIC staff also believes that industry’s input can be applied without needing a change to the process document with the Macroprudential (E) Working Group providing the setting for ongoing dialogue. We will also seek more opportunities for industry involvement as our work progresses</p>		

Reference	Summary of Comments	Interested Parties
6	Industry suggests that we “identify explicit elements of the financial sector that may be influenced by industry contributions to the transmission channels.”	NA CRO Council
<p>Both the macroprudential dashboards and the report will be constructed to allow the reader/user of the information to understand the risk exposure as well as the context necessary to understand the potential for the risk to be magnified via a transmission channel.</p> <p>NAIC staff also believes that industry’s input can be applied without needing a change to the process document.</p>		

Reference	Summary of Comments	Interested Parties
7	Industry suggests that we “include an assessment on risk management.”	NA CRO Council
<p>In past settings, other industry groups and regulators have expressed concern with such a practice. Therefore, the process was designed to allow regulators to consider such insights in so far as industry wide observations can be drawn (see Qualitative Review Sources) without needing to make public assessments of industry wide risk management practices. Moreover, NAIC staff believe that it would be difficult to meaningful describe industry wide risk management practices at the level at which the report is anticipated to be written.</p> <p>NAIC staff also believes that industry’s input can be applied (in a limited capacity) without needing a change to the process document.</p>		

Reference	Summary of Comments	Interested Parties
8	Industry suggests that we “provide further insight on how the Assessment is envisioned to fit into the existing regulatory risk and solvency reporting scheme.”	NA CRO Council
<p>The section of the process document entitled “Use in Ongoing Macroprudential and Microprudential Surveillance” attempts to provide this insight. In short, the new macroprudential risk assessment process is intended to be a complimentary tool to the suite of existing microprudential surveillance tools, policies, and procedures.</p> <p>To the extent further insights are needed, it’s likely that meetings at the Working Group level would be a better venue for the requested information to be provided.</p>		

Reference	Summary of Comments	Interested Parties
9	Industry suggests that the “NAIC should develop guiding principles for how it will use existing data and assess each risk category and seek stakeholder collaboration as it builds out and evolves these assessments overtime.”	ACLI
<p>NAIC staff believes that the existing process document adequately reflects the role of data within the risk assessment process. The complexity of a macroprudential risk assessment process limits our ability to codify the role of data across the board for all risks or risk categories. Therefore, the process was designed to be flexible, while describing the many inputs, and yet allowing regulators to combine the inputs as appropriate to each risk discussion.</p> <p>NAIC suggests no edits are necessary to the process document to reflect industry comments</p>		

Reference	Summary of Comments	Interested Parties
10	Industry suggests not aggregating life and property and casualty insurer data together.	APCIA NACRO Council
<p>We have in fact separated property, life and health data for certain risk categories where it makes sense and is feasible to do so. For example, the dashboard for underwriting risk, is separated by industry sector.</p> <p>The change made related to feedback item # 2, discussed above, was also made with the intent of addressing this piece of feedback.</p>		



Gabrielle Griffith
Senior Policy Analyst and NAIC Coordinator
202-624-2371 t
gabriellegriffith@acli.com

March 25, 2022

Miguel Romero, Financial Regulatory Services Manager
MARomero@naic.org

Re: NAIC Macroprudential (E) Working Group exposure of the Macroprudential Risk Assessment Tool

Dear Mr. Romero:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit comments in response to the NAIC Macroprudential (E) Working Groups exposure of its Macroprudential Risk Assessment Tool (“risk assessment tool”). At a high level, we are supportive of the NAIC’s development of the macroprudential risk assessment tool as part of the Macroprudential Initiative and agree that, if designed appropriately, could provide valuable insight to regulators, the industry, and the public. To that end, we would like to offer the following feedback to help improve its design and achieve the tool’s intended goals.

General

We believe the risk dashboard, while being mindful of inward risks, should primarily be directed to surveillance for outward risks to the financial system (i.e., an activities based approach) as state regulators have access to other tools that are better positioned to help them determine if an individual insurer warrants additional monitoring (e.g., LST).

We believe NAIC should develop guiding principles for how it will use existing data and assess each risk category and seek stakeholder collaboration as it builds out and evolves these assessments overtime.

Further, we recommend that the NAIC conduct the monitoring process and dashboard update on an annual basis rather than biannual. Most of the key information used for the exercise is only updated once a year (annual statements, blue book, LST, GCC, ORSA, etc.). Biannual may require additional data that is not available in quarterly filings and we want to avoid unnecessary and burdensome data calls since this exercise is supposed to be leveraging existing data sources.

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 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 94 percent of industry assets in the United States.

We also agree with the NAIC relying on the established definition of systemic risk used by various international organizations.

Quantitative Review

We agree with the 8 risk assessment categories, and note that they are broadly aligned with those identified in the EIOPA risk dashboard that was included in the IAIS Application Paper on Macroprudential Supervision published last year. However, it is hard to comment on the categories without additional information or something tangible to review. We understand there needs to be a balance between regulator discretion and prescriptive metrics when assessing risk. The process needs to be data informed, but not data driven. We believe NAIC should develop guiding principles for how it will use existing data and assess each risk category and seek stakeholder collaboration as it builds out and evolves these assessments overtime.

Additionally, the risk categories should be mapped back to the transmission channels identified by the FSOC 2019 guidance and IAIS's holistic framework. As noted above, we are concerned that these assessment categories are primarily focused on inward risks and could limit or downplay valuable insight about activities that may pose systemic risk or threaten US financial stability. We request the NAIC provide more detail on the metrics/risk indicators for each category, including how they will map to existing data collections and provide ample time for industry comments to ensure the metrics are appropriate for the dashboard's stated use.

It would also be helpful to understand how the working group envisions the macroprudential risk assessment tool will influence existing risk assessment and mitigation work at the Macroprudential Working Group and more broadly the NAIC (i.e., RBC, actuarial modeling, accounting, etc.).

Qualitative Review and Research

We agree that a qualitative component of the tool is an important complement to the quantitative component, particularly to the extent that the qualitative tool may be more responsive to emerging risks.

Overall Conclusions and Presentation of Results

We agree on the use of assessment levels and trend levels in the presentation of results.

Thank you in advance for the consideration of our comments. ACLI and its members look forward to continuing our work with you on the important matter of improving macroprudential surveillance tools.

Sincerely,



Gabrielle Griffith
Senior Policy Analyst
202-624-2371
gabrielgriffith@acl.com



March 25, 2022

Justin Schrader, Chair
Macroprudential (E) Working Group
National Association of Insurance Commissioners

Re: Proposed Macroprudential Risk Assessment

Dear Chairman Schrader:

The American Property Casualty Insurance Association (APCIA) welcomes the opportunity to comment on the NAIC Macroprudential (E) Working Group's proposed Macroprudential Risk Assessment. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

The NAIC, through the collective participation of state regulators, has made significant progress in developing an effective framework for monitoring and addressing insurers' risks, and the development of a macroprudential risk assessment to monitor systemic vulnerabilities is a natural complement to that framework. The proposed assessment is essential to support the priorities laid out in the December 2019 interpretative guidance from the Financial Stability Oversight Council (FSOC) regarding nonbank financial company designations, which utilizes an activities-based approach (ABA) for identifying and addressing potential risks to financial stability. Consistent with the FSOC's interpretative guidance, the NAIC is appropriately developing an ABA that is designed to address the risk profile of the insurance sector.

In general, APCIA believes the proposed Macroprudential Risk Assessment sets forth a reasonable process for monitoring industry-wide risk within an activities-based approach for monitoring systemic risk.

As this process moves forward, we believe the proposed assessment should identify and focus on metrics that are relevant with and responsive to the risks associated with an ABA, including a focus on the Interconnectedness, Asset Liquidation, and Critical Function transmission channels. Further, the focus of the assessment should be on potential financial vulnerabilities that can occur on a macroprudential level from these transmission mechanisms over identified time periods rather than assessment of a particular insurer's overall risk profile. As an example, if a transmission occurs over the course of a year or longer, the potential impact would be very different from that if the transmission occurs within one week. For this reason, we would also caution against aggregating life and property & casualty insurer data together, as the transmission time horizons are very different for these two business models, even though both types of insurance are collectively part of the insurance sector.

In addition, it is critical that any conclusions about macroprudential risks be drawn within the context of the broader economy. Exposures that may seem large within the insurance industry may be significantly smaller when compared with other financial service providers. If the Macroprudential Risk Assessment too narrowly focuses on the collective risk exposures of insurers, without considering the broader economy, this could result in supervisory measures that are not cost-beneficial and that do not focus, as intended, on true sector-wide or systemic risks. Likewise, we agree the Macroprudential Risk Assessment should leverage federal and international resources, such as broad macro-level and cross-sectoral data, because this will ensure the assessment properly looks at the impact of risks on insurers in the context of the broader economy.

Furthermore, we agree with the proposal's approach to identifying, collecting, and aggregating data, including data collected from U.S.-based insurers through the Individual Insurer Monitoring data collection exercise conducted by the Bank of International Settlements, because the Macroprudential Risk Assessment should not require any additional reporting from or analysis of individual insurers. As discussed above, we would also caution against aggregating life and property & casualty insurer data together. Similarly, individual company data should remain confidential and aggregated reporting should be done separately for the life and property & casualty segments of the insurance sector.

Thank you for considering the points addressed in this letter, and please do not hesitate to contact us if you have any questions.

Sincerely,



Stephen W. Broadie
Vice President, Financial & Counsel



Matthew Vece
Director, Financial & Tax Counsel



March 21, 2022

Justin Schrader
Chair, Macroprudential (E) Working Group
National Association of Insurance Commissioners

Re: CRO Council Feedback on NAIC Macroprudential Risk Assessment

Dear Justin,

The North American CRO Council (CRO Council) is a professional association of Chief Risk Officers (CROs) of leading insurers based in the United States, Bermuda, and Canada. Member CROs currently represent 35 of the largest Life and Property and Casualty insurers in North America. The CRO Council seeks to develop and promote leading practices in risk management throughout the insurance industry and provide thought leadership and direction on the advancement of sensible risk-based assessments.

General Comments

The CRO Council supports the initiative to collect quantitative and qualitative information that informs the identification of risk exposures, emerging issues, and industry trends that may warrant further oversight and/or consideration by state regulators. The NAIC, through the state regulators, has made demonstrable progress in developing a credible and effective construct for monitoring and addressing risks – including potential systemic vulnerabilities. Such a construct is essential to supporting the priorities laid out in the Financial Stability Oversight Council’s (FSOC) December 2019 interpretative guidance regarding nonbank financial company designations, which implements an activities-based approach (ABA) for identifying and addressing potential risks to financial stability. Consistent with the FSOC’s guidance, the NAIC, through the state regulators, are appropriately assuming primary responsibility for crafting and implementing an ABA that is tailored to the risk profile of the insurance sector.

Our mandate as CROs very much aligns with those of our supervisors in seeking to protect policyholders and promote financial stability. In this spirit, we are pleased to offer the following feedback on the NAIC’s proposal.

Thematic Feedback

- ***Anchor the Assessment – and the specific metrics chosen to help implement it – with the three distinct “transmission channels” for how risks might propagate across the financial system.*** While the assessment categories the NAIC has identified are pertinent to the assessment of insurance-related risk factors, they appear to be overly inward-focused. We believe that the Assessment – while being mindful of inward risks – should primarily be directed to surveillance for outward risks to the financial system. To this end, we believe that the assessment should filter and focus on metrics that align with, and are directly instrumental to, implementation of an ABA including focus on the Interconnectedness, Asset Liquidation, and Critical Function transmission channels. Further, the focus of the assessment should be on potential macroprudential vulnerabilities resulting from these transmission mechanisms rather than assessment of a particular insurer’s overall risk profile.



- ***Avoid building overly complicated risk dashboards comprised of disparate metrics - and instead focus on prioritizing a manageable set of the indicators that are most relevant to assessing vulnerabilities.*** As CROs, one of our primary responsibilities is to discern “signal” from “noise” among the plethora of financial indicators at our disposal. Making risk-informed decisions depends on identifying – and then contextualizing – a tractable subset within a vast array of metrics. Given the macroprudential nature of the NAIC’s initiative, we encourage careful selection of distinct metrics that address potential drivers of risk – including emerging risks and potential systemic vulnerabilities – such as those that address leverage, liquidity, and risk concentrations. An overly broad dashboard of indicators could introduce potential statistical error (e.g., multicollinearity problems) as well as cognitive biases and limitations. With respect to drawing conclusions from the assessment, greater insight on how the information will be compiled/aggregated across the various indicators/metrics will inform the lens through which the results should be interpreted – especially when housed next to data points that may be based on different approaches (e.g., assumptions, models, etc.) or where results will only be applicable for a subset of the industry.
- ***Identify and contextualize metrics that will underly each assessment category relative to the NAIC’s objectives, historical trends, and broader market developments.*** It would be helpful to get a better sense of the specific metrics the NAIC’s will monitor for each respective category, the intended rationale, and the mode of analysis. Context is critical. For example, credit spreads are potentially useful indicators. However, as a measure of fundamental credit risk (e.g., CDS-implied default probabilities), spreads are prone to volatility and “false positives” in which the implied default likelihood of individual obligors is vastly overstated. Moreover, for insurers that apply disciplined asset and liability management (ALM), an increase in spreads during an illiquidity-related stress period might create opportunities to reinvest at higher yields, which ultimately creates more income to defease policyholder liabilities. A period of sustained low spreads, on the other hand, might create complacency or a generalized underpricing of risk and, in this scenario, could be a better leading indicator of stress than elevated spreads. This nuance underscores that regulators should avoid a hardwired, data-mining reliance on risk dashboards and automatic triggers for action and instead consider the broader situational context surrounding a given metric. More broadly, it is critical that any conclusions about macroprudential risks be drawn within the context of the broader economy. Insufficient consideration of the broader economy when assessing metrics could result in supervisory measures that are not cost-beneficial and that do not focus, as intended, on true sector-wide or systemic risks.
- ***Avoid unnecessary duplication for supervisors and the industry.*** We appreciate and support the NAIC stating it will rely extensively on existing data sources and encourage it to fit its data gathering and assessment into the existing regulatory risk assessment and solvency reporting scheme (e.g., Liquidity Stress Testing, RBC, Form F, the Group Capital Calculation, ORSA, etc.). Additionally, we note that any new data gathering and/or assessment should be given appropriate confidentiality protections. Further, it would be helpful to understand whether the NAIC intends to conduct the same assessment on a semi-annual basis as the varying scope of information insurers file on an annual versus quarterly basis is likely to necessitate different content for a year-end versus mid-year assessment. It would also be helpful to understand if the NAIC intends to present results in aggregate for the industry or separate by line of business,



life versus P&C, mutual versus stock companies, etc.

- **Engage in ongoing and iterative dialogue with stakeholders.** We recognize the important role regulatory practices can play in promoting sound behavior across the industry and would welcome the opportunity to assist the NAIC with the development of the risk assessment tool, the review and interpretation of the biannual results, and efforts to identify and understand emerging risks.

Structural Feedback

As noted above, the nuances of the assessment criteria – including how they are interpreted – will be critically important to making the assessment beneficial to state regulators. To this end, the CRO Council recommends the NAIC consider incorporating the following structural elements into the assessment:

1. Use the prevailing “transmission channel” framework to enable a stronger linkage of each assessment category/criteria to a specific macroprudential concern. Numerous regulator and industry groups, both within and outside the US, have coalesced on a “transmission channel” approach to the assessment of macroprudential risk and how such risk could potentially impact financial stability. As noted above, the three transmission channels previously identified are: Interconnectedness, Asset Liquidation, and Critical Function. Regulators should map the existing “Assessment Categories” to a transmission channel to ensure the ultimate assessment criteria metrics align with the pathway for macroprudential risk transmission. The table below reflects a potential mapping of the existing assessment categories to the transmission channels.

Transmission channel	Existing assessment categories
Interconnectedness	2. Interconnectedness 3. Capitalization and reputation 5. Credit 6. Market (non-derivative)
Asset liquidation	6. Market (derivative) 7. Liquidity
Critical function	4. Underwriting and profitability
Other	1. Macroeconomic 8. Other

2. Identify explicit elements of the financial sector that may be influenced by industry contributions to the transmission channels. The Council recommends further identifying the areas of the financial sector that may be affected by the insurance industry through the identified transmission channels. We think this will be necessary to establish thresholds outlined in the “Assessment Levels” that align with a macroprudential risk.
3. Include an assessment on risk management. The proposed Assessment focuses almost solely on risk exposure. We suggest also expressly incorporating an assessment of industry risk management as managed risks are not likely to turn into significant vulnerabilities or transmission of systemic risk.
4. Provide further insight on how the Assessment is envisioned to fit into the existing regulatory



risk and solvency reporting scheme. For example, it would be helpful to have a deeper understanding of what new information the NAIC expects the Assessment to deliver relative to the existing financial solvency regulatory tools. Further, it also would be helpful to obtain additional information regarding how state regulators may be expected to incorporate information from the Assessment into their supervision of insurers.

In Closing

The nuances of the Assessment will be critically important to success of the tool. The Council would welcome the opportunity to further engage with the NAIC on this project, both as development of the assessment framework progresses and post implementation to help ensure it evolves as may be necessary over time.

Sincerely,

A handwritten signature in black ink, which appears to read "Geoffrey Craddock". The signature is fluid and cursive, with a long horizontal flourish extending from the bottom of the name.

Geoffrey Craddock
Chair of the North American CRO Council



NAIC Macroprudential Risk Assessment

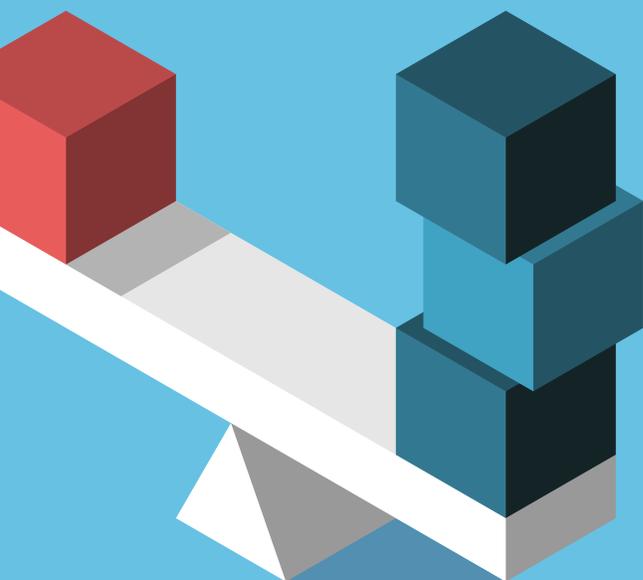
Overview

As a logical extension of the NAIC's Macroprudential Initiative, the Macroprudential Working Group was charged with developing, implementing, and maintaining a macroprudential risk assessment system. The macroprudential risk assessment is a key component of the NAIC's overall Macroprudential Supervision that enhances regulators' ability to monitor industry trends from a macroprudential perspective. This document summarizes the process to conduct the macroprudential risk assessment.

A key objective of the NAIC's macroprudential risk assessment is to identify and assess industry-wide insurance risks. The proactive identification of risks allows insurance regulators to consider and incorporate, as needed, various macroprudential surveillance measures across the insurance sector. The risk dashboard tools developed in this process may provide valuable insight to insurance regulators, the industry, and the public about activities that may pose systemic risk or threaten U.S. financial stability. The NAIC's membership on FSOC provides a forum to communicate and monitor such systemic risks or activities.

The NAIC uses the definition of systemic risk used by the International Monetary Fund, Bank for International Settlements and Financial Stability Board for the macroprudential risk assessment process. That definition is "a risk of disruption to financial services that is caused by an impairment of all or parts of the financial system and has the potential to have serious negative consequences for the real economy."

The NAIC's macroprudential risk assessment is designed to incorporate both quantitative and qualitative assessment factors to facilitate the identification of key risk exposures. Quantitative factors can be used to track and measure risk exposures by establishing key risk indicators for ongoing monitoring and objective assessment. In addition, qualitative factors may be used to supplement the risk indicators by incorporating information from a broader range of sources into the risk assessment process to identify emerging issues and industry trends for consideration. The risk dashboard primarily considers inward risks but may also consider outward risks. This document describes the steps to review and consider both quantitative and qualitative factors.



FOR ILLUSTRATIVE PURPOSES ONLY



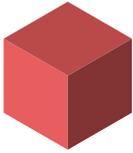
Quantitative Review

In conducting a quantitative assessment, NAIC staff and state insurance regulators will identify, aggregate, and track the performance of targeted insurance industry and macroeconomic risk indicators on a biannual basis. Targeted indicators are classified within established risk assessment categories to facilitate both the assessment process and presentation of results. Risk indicators are sourced from aggregated NAIC Annual Statement data as well as public data sources and are reviewed and updated as needed to quantify emerging material risk exposures. Industry exposures and indicators are aggregated across statement types/lines of business as appropriate and compared against historical results and averages for purposes of review and assessment.



Assessment Categories *(subject to ongoing review and adjustment):*

- 1. Macroeconomic** This category assesses the potential impact of macroeconomic factors affecting the broader economy, with a focus on those most likely to impact the insurance industry.
- 2. Interconnectedness** This category assesses the impact of interconnectedness with other financial sectors on the overall financial stability of the insurance industry.
- 3. Capitalization & Reputation** This category assesses the overall capitalization of the insurance industry, as well as how perceptions of financial strength (including ratings and outlooks) could affect industry performance.
- 4. Underwriting & Profitability** This category assesses the exposure of the insurance industry to risks associated with insurance underwriting performance, reserve development, and overall profitability.
- 5. Credit** This category assesses the exposure of the insurance industry to the risk that amounts collected or collectible by insurers are less than those contractually due (i.e., debt securities, reinsurance recoverable, and other counterparties).
- 6. Market** This category assesses the exposure of the insurance industry to the risk that changes in interest rates and/or prices adversely affect the value of investments and liabilities.
- 7. Liquidity** This category assesses the exposure of the insurance industry to the risk that insurers are unable to meet financial obligations (i.e., cash demands) as they become due without incurring unacceptable losses.
- 8. Other** This category assesses the exposure of the insurance industry to other key risks that do not fit into the above categories, which could include operational and strategic risk exposures.



Qualitative Review and Research

In addition to quantitative analysis, the process of macro risk assessment utilizes various qualitative tools and resources to identify emerging risk exposures, market conditions and industry activities that have the potential to impact the macroprudential risk assessment. These tools and resources may include results of company surveillance efforts, industry news, internal/external research, as well as insights from federal and international resources. By conducting ongoing study and research in these areas, topics for consideration in the overall macroeconomic risk assessment may be identified, as well as additional indicators for incorporation into the quantitative assessment. The qualitative assessment and research may also result in the identification of factors that could potentially influence the quantitative assessment of exposures discussed above.



Qualitative Review Sources *(subject to ongoing review and adjustment):*

- a. **Results of Microeconomic Surveillance** - Incorporation of findings and takeaways from the NAIC FAWG process, ORSA reviews, input from chief regulators, etc.
- b. **Industry News** - Ongoing review and tracking of issues identified through a review of news feeds including Rating Agency reports & outlooks, industry periodicals, etc.
- c. **Internal/External Research & Studies** - Ongoing review and consideration of research performed by the NAIC's CMB, the NAIC's CIPR, rating agencies and various external research agencies and sources (i.e., academics, JIR, III), etc.
- d. **Federal Resources** - Review of information highlighted in FSOC Reports and inquiries, Federal Reserve/FIO/OFR reports, etc.
- e. **International Resources** - Review of information highlighted in IAIS's Global Monitoring Exercise reports and other reports (i.e., GIMAR), FSB data and reports, IMF data and reports, etc.



Overall Conclusions and Presentation of Results

Insights from both the quantitative and qualitative reviews are aggregated to reach a baseline assessment of industry exposure to various macroprudential risks. The baseline assessment will then be evaluated, adjusted as needed, and approved by the Macroprudential (E) Working Group. The final assessment will consist of an overall level and trend for each risk category.

1. **Assessment Levels** - Assessment levels are documented on a four-tier scale consisting of High, Moderate-High, Moderate-Low or Low. Assessments are based on current and historical risk indicators and expert judgment.
2. **Trend Levels** - Trend levels are documented on a five-tier scale to consist of Rapidly Increasing, Increasing, Static, Decreasing or Rapidly Decreasing. Trends are based on the changes in risk indicators and expert judgment.



The macroprudential risk assessment are compiled and presented in a public report describing regulator views on risk exposures (i.e., risk dashboards), ongoing supervisory efforts to address exposures, and additional policy considerations in response to higher risk assessments, if warranted. The public report will also highlight specific quantitative and qualitative elements that support the overall assessments.



Use in Ongoing Macroprudential and Microprudential Surveillance

The results of the macroprudential risk assessment process can be used by state insurance regulators for various purposes, including the identification of sector-wide risks and potential systemic risks within the financial system related to insurance sector activities. The risk dashboard may be used to identify interplays between industry-wide risks identified in the dashboard and individual insurer risk analysis.

Insurance regulators may also consider using the risk dashboard in a top-down, risk-focused, supervisory approach. Starting at the top with a sector-wide risk dashboard, insurance regulators may wish to channel their supervisory resources towards identifying individual insurers who contribute to higher assessed sector-wide risks and potential systemic risk or activities. Further analysis may warrant additional supervision and oversight of select insurers. When monitoring an individual insurer, the insurance regulator should be aware of the broader market in which the insurer operates to be able to better understand the context of certain risk factors. To assist state insurance regulators in this regard, the results may be used to complement the NAIC's Solvency Monitoring Risk Alert and act as a regulator-only supplement to NAIC Handbooks for use in addressing risk exposures and industry trends in conducting financial analysis and examinations.

Macroprudential risks can also be presented to the Financial Stability (E) Task Force for general policy consideration, which could include the development of additional tasks, policies, practices, or disclosures to address sector-wide risk exposures. In addition, assessments could be shared with federal and international regulators for broader financial sector and macroprudential surveillance purposes.