



Date: 7/22/21

2021 Summer National Meeting  
Columbus, Ohio

**FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE**

Saturday, August 14, 2021

11:30 a.m. – 12:30 p.m.

Greater Columbus Convention Center—Union Station Ballroom—Level 1

**ROLL CALL**

Elizabeth Kelleher Dwyer, Chair	Rhode Island	Troy Downing	Montana
Lori K. Wing-Heier, Vice Chair	Alaska	Eric Dunning	Nebraska
Alan McClain	Arkansas	Mike Causey	North Carolina
Andrew N. Mais	Connecticut	Larry D. Deiter	South Dakota
Colin M. Hayashida	Hawaii	Doug Slape	Texas
Sharon P. Clark	Kentucky	Scott A. White	Virginia
Eric A. Cioppa	Maine	Jeff Rude	Wyoming
Gary D. Anderson	Massachusetts		

NAIC Support Staff: Becky Meyer/Sara Franson

**AGENDA**

1. Consider Adoption of its Spring National Meeting Minutes  
—*Superintendent Elizabeth Kelleher Dwyer (RI)* Attachment One
2. Consider Adoption of its 2022 Proposed Charges  
—*Superintendent Elizabeth Kelleher Dwyer (RI)* Attachment Two
3. Consider Adoption of Revisions to the Part A Preamble to Account for Inclusion of the *Term and Universal Life Insurance Reserve Financing Model Regulation (#787)* as a New Accreditation Standard  
—*Superintendent Elizabeth Kelleher Dwyer (RI)* Attachment Three
4. Discuss Comments Received and Consider Exposure of the 2020 Revisions to the *Insurance Holding Company System Regulatory Act (#440)* and the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450)* as an Update to the Accreditation Standards  
—*Superintendent Elizabeth Kelleher Dwyer (RI)*
  - E Committee Referral Attachment Four
  - Comment Letters Attachment Five
5. Discuss Any Other Matters Brought Before the Task Force  
—*Superintendent Elizabeth Kelleher Dwyer (RI)*
6. Adjournment

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## Draft Pending Adoption

Date: 4/19/21

Financial Regulation Standards and Accreditation (F) Committee  
Virtual 2021 Spring National Meeting  
April 12, 2021

The Financial Regulation Standards and Accreditation (F) Committee met April 12, 2021. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair (RI); Lori K. Wing-Heier, Vice Chair (AK); Alan McClain (AR); Andrew N. Mais (CT); Colin M. Hayashida (HI); Sharon P. Clark (KY); Gary D. Anderson (MA); Eric A Cioppa (ME); Mike Causey represented by Jackie Obusek (NC); Bruce R. Ramage represented by Justin Schrader (NE); Larry D. Deiter (SD); Doug Slape (TX); Scott A. White (VA); and Jeff Rude (WY). Also participating were: Kathy Belfi (CT); John Rehagen (MO); and Dave Wolf (NJ).

### 1. Adopted its 2020 Fall National Meeting Minutes

Commissioner Clark made a motion, seconded by Director Wing-Heier, to adopt the Committee's Dec. 7, 2020, minutes (see *NAIC Proceedings – Fall 2020, Financial Regulation Standards and Accreditation (F) Committee*). The motion passed unanimously.

Superintendent Dwyer said the Committee met April 8 in regulator-to-regulator session, pursuant to paragraph 7 (consideration of individual state insurance department's compliance with NAIC financial regulation standards) of the NAIC Policy Statement on Open Meetings. During this meeting, the Committee voted to award continued accreditation to New Mexico and Tennessee.

### 2. Adopted Revisions to the 2020 NAIC Publications Referenced in the Accreditation Standards

Superintendent Dwyer said there are several NAIC publications currently included in the accreditation standards by reference. At each Spring National Meeting, the Committee is to review revisions made to these publications in the prior year. Each of the applicable groups that developed revisions to the publications in 2020 have provided the Committee with a memorandum discussing the revisions, and they indicated whether the revisions should be considered significant or insignificant for accreditation purposes. This included the following publications: the *Accounting Practices and Procedures Manual* (AP&P Manual) (Attachment One); the *Annual and Quarterly Statement Blanks and Instructions* (Attachment Two); the *Financial Condition Examiners Handbook* (Attachment Three); *Risk-Based Capital (RBC) Formulas and Instructions for Life and Property/Casualty (P/C) Insurers* (Attachment Four); the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) (Attachment Five); and the *Valuation Manual* (Attachment Six). The working group or task force responsible for each of these publications has deemed their 2020 changes as insignificant to the accreditation process.

Chief Deputy Commissioner Slape made a motion, seconded by Superintendent Cioppa, to adopt the revisions to each of the publications immediately by reference to the accreditation standards. The motion passed unanimously.

### 3. Exposed Revisions to the Part A Preamble to Account for Inclusion of Model #787 as a New Accreditation Standard

Superintendent Dwyer stated that at the 2019 Fall National Meeting, the Committee adopted the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787), more commonly referred to as the XXX/AXXX Model Regulation, as a new accreditation standard. This decision was confirmed by the Executive (EX) Committee and Plenary at the 2020 Summer National Meeting. The model establishes uniform, national standards governing reserve financing arrangements pertaining to term life and universal life insurance policies with secondary guarantees. Model #787 also includes provisions to ensure that funds backing these captive reinsurance transactions, which consist of primary security and other security, are held in the forms and amounts that are appropriate. Model development was prompted by concerns regarding the security held under these transactions; and an interim solution, outlined by the XXX/AXXX Captive Reinsurance Framework, was included in the accreditation program through the Part A Preamble. The Part A Preamble must now be updated to reference Model #787 as the standard for applicable transactions. This change is not seen as a substantive change. It does not change the scope of the Preamble, but rather it is a straightforward update to reflect the codification in the form of Model #787. At this time, there are no proposed changes to applicability of captives reinsuring variable annuities (VA) or long-term care (LTC), but they will continue to be included within the Preamble with an effective date to be determined based upon regulatory needs.

Superintendent Cioppa stated that he wants to ensure that the references to captives reinsuring VA and LTC business are not forgotten. He suggested that the Financial Regulation Standards and Accreditation (F) Committee may consider referring the

## Draft Pending Adoption

topic to the Financial Condition (E) Committee to get an update on the companies' utilization of captives for VA and LTC. Superintendent Dwyer stated that an inquiry would be made to the Financial Condition (E) Committee.

Director Wing-Heier made a motion, seconded by Superintendent Cioppa, to expose revisions to the Part A Preamble to account for inclusion of Model #787 as a new accreditation standard for a 30-day public comment period (Attachment Seven). The motion passed unanimously.

#### 4. Exposed the 2020 Revisions to Model #440 and Model #450 as an Update to the Accreditation Standards

Superintendent Dwyer stated that in December 2020, the NAIC adopted revisions to the *Insurance Holding Company System Regulatory Act* (#440) and the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). These revisions implement a group capital calculation (GCC) for the purpose of group solvency supervision and a liquidity stress test (LST) for macroprudential surveillance. The revisions are independent of each other and followed two separate workstreams when developed. However, they affect the same sections of the models; therefore, they benefit from joint consideration when discussing if and how to include each in the accreditation standards. In the materials, there are two separate referrals, one from each workstream, which have been combined under one referral from the Financial Condition (E) Committee.

Commissioner White summarized the March 8 referral from the Financial Condition (E) Committee (Attachment Eight). He stated that the GCC and LST were two of the NAIC's top priorities before being adopted by the Financial Condition (E) Committee; therefore, adoption of them as an accreditation standard is appropriate. The recommendation is that the models be adopted as closely as possible with one exception related to subgroup reporting, as reflected in the proposed significant elements.

Commissioner White stated there are two issues the Financial Regulation Standards and Accreditation (F) Committee should be aware of, and the first relates to the recommended timing under which the GCC and LST should become standards. The referral recommends that the Committee wave its procedures and expeditiously adopt the GCC standards to ensure that the GCC is in place for those states that are a group wide supervisor of a U.S. group that has operations in the European Union (EU) or the United Kingdom (UK). He noted that this list of groups covers a broader spectrum than just internationally active insurance groups (IAIGs); it also includes any groups with operations in the EU or the UK. The reason for making this recommendation for expedited adoption is the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" and the "Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance" (Covered Agreements) that contemplate that such states should have the GCC in place for such groups prior to Nov. 7, 2022. The result of not meeting the deadline is the potential for U.S. insurers to be subject to Solvency II requirements. For groups not subject to the Covered Agreements, the referral recommends following the normal accreditation timeline for adoption. While the same urgency does not exist with these other states, the calculation itself is just as important as a tool for state insurance regulators assessing risk at the group level and enhancing policy owner protections.

Turning to the LST, Commissioner White stated that the Financial Stability (E) Task Force recommended a timing concurrent with the GCC, but it did not modify its suggestion of a Jan. 1, 2023, effective date for states not currently the lead state of a group subject to the LST. Their basis for this earlier effective date was not the Covered Agreements, but rather they believe timely adoption is important since the LST is intended to help the collective states ensure that a large liquidity event of the life industry could not materially disrupt the bond markets and thus cause federal regulators and members of the U.S. Congress (Congress) to question the oversight of state insurance regulators. The LST currently only applies to 23 life insurance groups. However, it is common for legal entity insurers to move from one group to another, and that can affect the group dynamics, including the lead state determination. Therefore, it makes sense that each state has recorded the LST in their statutes to ensure that they will be prepared for any future appointments as the lead state.

Commissioner White stated that another key issue discussed in the development of the accreditation recommendation is the issue of confidentiality. Everyone agrees that the GCC and LST should be confidential, but there was some discussion about how specific the accreditation standard should be. The American Council of Life Insurers (ACLI) strongly encouraged that more explicit language consistent with the models be included in the accreditation standard itself. However, the proposed language recommended for the accreditation standard retains the more general language consistent with other accreditation standards that require a high standard of confidentiality. However, Commissioner White emphasized that the intent is for states to adopt legislation that has substantially the same force.

## Draft Pending Adoption

Superintendent Dwyer stated that as a reminder, the Accreditation Program Manual (Manual) sets forth a clear process and timeline when considering new or revised Part A standards. The first step in that process, upon receipt of a referral, is to expose the referral for a preliminary comment period of 30 days. After the initial comment period, if the Committee determines that it will proceed with considering the update to the standards, it will expose the standard for a one-year comment period, which would eventually result in an effective date, in this case, of Jan. 1, 2026. Alternatively, as Commissioner White noted, the referral from the Financial Condition (E) Committee includes a request to waive procedure, as allowed by the Manual, and expedite adoption for both the GCC and LST. Regardless of how the Financial Regulation Standards and Accreditation (F) Committee proceeds for accreditation purposes, both initiatives are important regulatory tools. For states with a group that has operations in the EU or UK, the Committee cannot emphasize enough the importance of implementing the GCC prior to Nov. 7, 2022, for those groups. Similarly, states with a life insurer affected by the LST requirements are encouraged to implement the model revisions and therefore the use of this important tool as soon as possible.

Chief Deputy Commissioner Slape stated that Texas has no issues with the LST; and while Texas does support the GCC, it does not agree with a broad application of the GCC to all U.S. insurance holding company systems. Texas favors a more limited application to just those groups that have international operations subject to the Covered Agreements. For years, the states have debated the merits of group capital. Chief Deputy Commissioner Slape stated that the focus was on the window and wall approach, while solidifying our windows into groups by enhancing Form B, implementing group supervision and supervisory colleges, enhancing Schedule Y reporting, enhancing or editing holding company examinations, requiring the filing of an Enterprise Risk Report (Form F) and the Own Risk and Solvency Assessment (ORSA), and requiring corporate governance annual disclosures. These tools, if used correctly, already give state insurance regulators great insight into U.S. groups. Only after it was clear that the state's approach would not protect U.S. companies operating internationally from the imposition of international capital standards did state insurance regulators pivot to developing the GCC. Chief Deputy Commissioner Slape stated that the need for the GCC was cemented in the Cover Agreements and is the real reason for the GCC. Many states, if not most, have no groups with international operations. Chief Deputy Commissioner Slape stated that some states will have challenges trying to get this model through their state legislature when the primary justification for group capital has no relevance to any groups in the state. He stated that this is bad public policy forced upon all states, our staffs, and all U.S. groups, and it is yet another regulatory burden. The working group that developed the GCC recognized the potential limits to the benefits of the tool and built in an exemption process, but unlike ORSA filings that exempt carriers unless the commissioner finds a reason to need the filing, the GCC model exemption process requires all groups to make one, and only one, filing and then seek an exemption from further filings. Texas believes this to be an unnecessarily costly and bureaucratic jumping through the hoops for most groups, particularly in light of all the tools it already has. For those reasons, Texas does not support exposing this current document to make GCC an accreditation standard. Chief Deputy Commissioner Slape stated that it should be an accreditation standard, but only for those groups with international operations and without requiring states to implement a file then exemption process.

Commissioner Clark, Superintendent Toal, Ms. Obusek, Commissioner Rude and Director Deiter stated that they support the Texas position.

Superintendent Cioppa stated that consideration of the federal perspective is part of the discussion, but the real issue is understanding if there is inherent risk to an insurer just for being part of a certain holding company group. The GCC is an analytical tool, and the calculation lets state insurance regulators assess what risks are out there that may not be captured by all the tools that are currently available. It is a tool that will help evaluate not only the group capital on a consistent basis, but it will let state insurance regulators drill down to see what is going on in the group and what poses a risk to the group. It is very important, and state insurance regulators should not lose sight of the fact that, noninsurance entities may pose a risk on the insurance entities, and even a one-time calculation can help provide this insight. Superintendent Cioppa stated that he respectfully disagrees with those who think this is just a bureaucratic exercise. He said it is a valuable tool that will give state insurance regulators critical insights into the rest of the insurance company group, which, in effect, helps state insurance regulators better protect policyholders. State insurance regulators should not lose sight of this important fact.

Commissioner Mais echoed Superintendent Cioppa and stated that Connecticut supports the GCC. With all the work that has been done on holding company assessments since 2008, this seems like a logical next step. It is not the genesis that some may think. It gives state insurance regulators insight on group risk that they need. It gives the Lead State a chance to review if there are material risks that have not been identified. If there are none, then it is clear that an exemption is appropriate; but if there are risks, state insurance regulators are one step ahead of the game. This is not a bureaucratic exercise, but something that provides a more quantitative understanding and is a valuable tool to state insurance regulators.

Commissioner Anderson stated that Massachusetts supports the adoption of the GCC for all states. He stated that the list of groups applicable under the Covered Agreements is broader than just IAIGs, but in addition to those groups subject to the

## Draft Pending Adoption

Covered Agreements, Commissioner Anderson agrees that the GCC is important to all groups, even if it is just a one-time filing for some. It is important to understand how the non-insurance entities support the operations of the group and how capital is distributed across the entire group. He stated that he appreciates the windows and walls approach that Chief Deputy Commissioner Slape noted, as there are important tools that have been developed previously, but the GCC is the logical extension to group oversight that formalizes and makes consistent how these group tools, along with the GCC as an analytical tool, can be used.

Ms. Belfi stated that the GCC was not developed solely to appease international regulators. If the purpose is solely to appease the international regulators, it would only apply to international business. Early on, the Group Capital Calculation (E) Working Group, made a conscious decision that this was an important tool to be added to the current arsenal of tools for group oversight. The reason the perspective of group capital is so important is that all the current tools referenced, such as Form F or Form B filings, do not contain a lot of aggregated quantitative data, which is the step that the group thought was missing. Filling this gap and creating a more comprehensive view of the group is the reason for the GCC.

Mr. Schrader stated that the GCC is an important tool that was developed as a quantitative tool to pair with many of the qualitative tools at the group level. The need for the tool is not only for groups with international business, but domestic business as well, as it can be useful for all companies. There is an exemption option after the first filing if the state insurance regulator has a good understanding of the risks and does not believe they are significant enough to continue to receive the filing. However, it is important for all groups to complete the calculation at least once to make sure there is a level playing field and that state insurance regulators are treating insurers in groups consistently. Also, whether an insurer is a small part of a large group or a large part of a small group or anywhere in between, each part of the group has a potential risk, and the GCC adds value as a key tool for the state insurance regulators to help assess risk.

Commissioner Anderson commented that it is important to steer away from the premise that the GCC was a response to the Covered Agreements. The GCC discussions began prior to the Covered Agreement discussions, which did not occur until late 2015. The GCC was developed because state insurance regulators, as the leaders of groups, see the value in understanding the entities within the groups that they oversee.

Mr. Rehagen stated that during the development of the GCC there was extensive discussion around exempting certain companies. However, all groups are different, and the Group Capital Calculation (E) Working Group concluded that there is not a way to provide a blanket exemption because of the many differences between each group. Therefore, Model #440 and Model #450 require one filing for all groups prior to allowing an exemption. Once state insurance regulators get the first filing, they can determine whether the filing is needed going forward or an exemption can be granted.

Mr. Wolf agreed that the GCC is a natural building block of the NAIC macroprudential initiative (MPI), and it was not just developed for international reasons. Quantifying the risks within a holding company is important because the risks can emanate anywhere within that holding company structure and can come from any part of the holding company, not just an international entity. In the initial development of the GCC, there were several discussions with federal regulators, who viewed a group capital tool as a national initiative. From the very beginning of development, the GCC was created not just for international purposes, but as a tool to assess the risk of U.S. holding companies as well.

Commissioner Anderson made a motion, seconded by Superintendent Cioppa, to expose the March 8 referral from the Financial Condition (E) Committee regarding the GCC and LST as additions to the accreditation standard for a 30-day public comment period, with the expectation that the normal timeline for adoption of a Part A accreditation standard will be followed, and the effective date for all states will be Jan. 1, 2026. Commissioner Anderson stated that in conjunction with the motion, the Financial Regulation Standards and Accreditation (F) Committee should strongly encourage all states with a group affected by the Covered Agreements to adopt the GCC revisions to Model #440 and Model #450 for those groups effective Nov. 7, 2022. He also stated that the Committee should strongly encourage states with a group affected by the LST to adopt the relevant revisions to Model #440 and Model #450 as soon as possible. The motion passed with Alaska, Arkansas, Connecticut, Hawaii, Maine, Massachusetts, Nebraska and Virginia voting in favor and Kentucky, North Carolina, South Dakota, Texas and Wyoming opposed.

Having no further business, the Financial Regulation Standards and Accreditation (F) Committee adjourned.

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**MEMORANDUM**

TO: Members of the Financial Regulation Standards and Accreditation (F) Committee

FROM: Becky Meyer, Senior Accreditation Manager

DATE: July 26, 2021

RE: 2022 Proposed Charges

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Below are the Financial Regulation Standards and Accreditation (F) Committee's 2022 proposed charges. There have been no substantive changes from the Committee's 2021 charges.

The mission of the Financial Regulation Standards and Accreditation (F) Committee is both administrative and substantive, as it relates to the administration and enforcement of the NAIC Financial Regulation Standards and Accreditation Program. This includes, without limitation: 1) the consideration of standards and revisions of standards for accreditation; 2) the interpretation of standards; 3) the evaluation and interpretation of the states' laws and regulations, as well as departments' practices, procedures, and organizations as they relate to compliance with standards; 4) the examination of members for compliance with standards; 5) the development and oversight of procedures for the examination of members for compliance with standards; 6) the selection of qualified individuals to examine members for compliance with standards; and 7) the determination of whether to accredit members.

**Ongoing Support of NAIC Programs, Products or Services**

1. The **Financial Regulation Standards and Accreditation (F) Committee** will:
  - A. Maintain and strengthen the NAIC Financial Regulation Standards and Accreditation Program.
  - B. Assist the states, as requested and as appropriate, in implementing laws, practices, and procedures and obtaining personnel required for compliance with the standards.
  - C. Conduct a yearly review of accredited jurisdictions.
  - D. Consider new model laws; new practices and procedures; and amendments to existing model laws, practices, and procedures required for accreditation. Determine the timing and appropriateness of the addition of new model laws, practices, procedures, and amendments.
  - E. Render advisory opinions and interpretations of model laws required for accreditation and on substantial similarity of state laws.
  - F. Review existing standards for effectiveness and relevancy, and make recommendations for change, if appropriate.
  - G. Produce, maintain, and update the NAIC *Accreditation Program Manual* to provide guidance to state insurance regulators regarding the official standards, policies, and procedures of the program.

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- H. Maintain and update the “Financial Regulation Standards and Accreditation Program” pamphlet.
- I. Perform enhanced pre-accreditation review services, including, but not limited to, additional staff support, increased participation, enhanced report recommendations, and informal feedback.

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## NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

### MEMORANDUM

**TO:** Financial Regulation Standards and Accreditation (F) Committee

**FROM:** NAIC Staff

**DATE:** March 15, 2021

**RE:** Part A Preamble Update for the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787)

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In 2019, the Financial Regulation Standards and Accreditation (F) Committee adopted the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787) as a new Part A accreditation standard, effective Sept. 1, 2022, with enforcement to begin Jan. 1, 2023. Model #787 establishes uniform, national standards governing captive reinsurance agreements pertaining to term and universal life insurance policies with secondary guarantees. Prior to Model #787, *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (Model #830)* (AG48) was adopted as an interim step to address concerns regarding such reserve financing transactions. Model #787 completes the XXX/AXXX Reinsurance Framework by codifying the concepts in AG 48.

The NAIC Reinsurance Framework is discussed in the Part A Preamble under the section for captive reinsurers. The current iteration includes reference to the Reinsurance Framework and the impact on compliance with accreditation for captive reinsurers regarding specific lines of business. The lines of business include policies applicable under Section 3 of Model #787, commonly referred to as XXX/AXXX policies. The applicable excerpt of the Preamble is attached and includes recommended tracked changes to reference Model #787. The updates are not considered substantive, but rather are to ensure consistency with the adoption of Model #787 as the new standard for compliance.

Following adoption of AG 48 and prior to the effective date of Model #787, NAIC staff have performed an annual review of all insurers with applicable transactions. The review is designed to ensure all applicable transactions comply with the Reinsurance Framework and, as a result, comply with the Part A accreditation standards. NAIC staff will continue this review until the effective date of Model #787, at which time enactment of the model will be the measure of compliance.

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## Excerpt from Accreditation Manual – Part A Preamble

### Captive Reinsurers

The following Part A standards apply to the regulation of a state's domestic insurers licensed and/or organized under its captive or special purpose vehicle statutes or any other similar statutory construct (captive insurer) that reinsure business covering risks residing in at least two states, but only with respect to the following lines of business:

- 1) ~~Term and universal life with secondary guarantee P~~olicies that are applicable under Section 3 of the Term and Universal Life Insurance Reserve Financing Model Regulation (#787)~~required to be valued under Sections 6 or 7 of the Valuation of Life Insurance Policies Model Regulation (Model #830)~~ (commonly referred to as XXX/XXX policies). The application of this provision is intended to have a prospective-only effect, so that regulation of captive insurers, special purpose vehicles and any other entities that reinsure these types of policies will not be subject to the Part A standards if the policies assumed were both (1) issued prior to Jan. 1, 2015, and (2) ceded so that they were part of a reinsurance arrangement as of Dec. 31, 2014. [Drafting Note: This paragraph of the Preamble became effective Jan. 1, 2016]
- 2) Variable annuities valued under Actuarial Guideline XLIII—CARVM for Variable Annuities (AG 43). [Drafting Note: This paragraph of the Preamble is not yet effective. Effective date for compliance to be determined.]
- 3) Long term care insurance valued under the *Health Insurance Reserves Model Regulation* (Model #10). [Drafting Note: This paragraph of the Preamble is not yet effective. Effective date for compliance to be determined.]

~~The NAIC Executive (EX) Committee adopted the XXX/XXX Reinsurance Framework, and the NAIC is currently in the process of adopting actions necessary for its full implementation.~~ With regard to a captive insurer, special purpose vehicle, or any other entity assuming XXX/XXX business, regulation of the entity is deemed to satisfy the Part A accreditation requirements if the applicable reinsurance transaction complies with Model #787. ~~satisfies the XXX/XXX Reinsurance Framework requirements adopted by the NAIC.~~

[Drafting Note: The Part A standards with respect to entities assuming variable annuities and long term care reinsurance business are intended to be effective with respect to both currently in-force and future business. However, the effective dates for variable annuities and long term care insurance are not yet determined, and their application to in-force business need further discussion].



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MEMORANDUM

To: Financial Regulation Standards and Accreditation (F) Committee

From: Financial Condition (E) Committee

Date: March 8, 2021

Re: 2020 Revisions to *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450)

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On Dec. 9, 2020, the NAIC Executive (EX) Committee and Plenary unanimously adopted revisions to the NAIC *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). These revisions implemented a Group Capital Calculation (GCC) for the purpose of group solvency supervision and Liquidity Stress Test (LST) for macroprudential surveillance.

Please find attached, memorandums and proposed changes to the Accreditation (E) Committee as adopted by the Financial Condition (E) Committee related to these most recent changes to #440 and #450. Each of the memorandum's summarize the basis for recommending that certain provisions of these model changes become part of the Accreditation program as well as suggested timing. With respect to timing, consistent with action taken by the Financial Regulation Standards and Accreditation (F) Committee to use an expedited process in 2019 with respect to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786) due to the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (Covered Agreement), we recommend a similar expedited process with respect to states who are a Group Wide Supervisor of a group with operations in the EU or UK. The attached provide further details on the specifics of such recommendations.

F Committee exposed the referral for a 30-day comment period ending May 13, 2021.

The exposure motion by F Committee is as follows, which alters the effective date recommended in the referral.

- Motion to expose the March 8 referral from E Committee regarding the Group Capital Calculation and the Liquidity Stress Test as additions to the accreditation standard for 30 days with the expectation that the normal timeline for adoption of a Part A accreditation standard will be followed, and the effective date for all states will be January 1, 2026.

- Note: In conjunction with the motion, the F Committee strongly encourages all states with a group impacted by the Covered Agreement to adopt the group capital calculation revisions to Model #440 and Model #450 for those groups effective Nov. 7, 2022. The Committee also strongly encourages states with a group impacted by the liquidity stress test to adopt the relevant revisions to Model #440 and #450 as soon as possible.




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**MEMORANDUM**

To: Financial Condition (E) Committee

From: Group Capital Calculation (E) Working Group

Date: February 25, 2021

Re: 2020 Revisions to *Insurance Holding Company System Regulatory Model Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450)

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**Executive Summary**

On Dec. 9, 2020, the NAIC Executive (EX) Committee and Plenary unanimously adopted revisions to the NAIC *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). These revisions implemented a Group Capital Calculation (GCC) for the purpose of group solvency supervision and Liquidity Stress Test (LST) for macroprudential surveillance. This memorandum makes recommendations with respect to the accreditation standards that this Working Group believes is appropriate with respect to only the GCC and expect the Financial Stability (EX) Task Force to make separate recommendations to the Committee with respect to the LST.

The GCC was developed as a result of discussions which began in 2015. The GCC is a natural extension of work state insurance regulators had begun, in part by lessons learned from the most recent financial crisis, to better understand an insurance group's financial risk profile for the purpose of enhancing policyholder protections. While state insurance regulators currently have the authority to obtain information regarding the capital positions of non-insurance affiliates, they do not have a consistent analytical framework for evaluating such information. The GCC is designed to address this shortcoming and will serve as an additional financial metric that will assist state insurance regulators in identifying risks that may emanate from a holding company system. The GCC, and related financial reporting, will provide comprehensive transparency to state insurance regulators, making risks more easily identifiable and quantifiable. For these reasons, the Working Group recommends adoption of #440 and #450 as accreditation standards for all states with the normal accreditation timeline, which would result in an effective date of January 1, 2026.

In addition, the GCC is intended to comply with the requirements under the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (Covered Agreement), which was signed on Sept. 22, 2017. On Dec. 18, 2018, a similar Covered Agreement was signed with the United Kingdom (UK). The GCC is intended to meet the requirement that the states have a "worldwide group capital calculation" in place by Nov. 7, 2022 in order to avoid the EU from imposing a group capital assessment or requirement at the level of the worldwide parent undertaking. Failure of any state to do so for any U.S. group operating in such jurisdiction raises the potential for any supervisor in the EU or UK to impose its own group capital calculation (e.g., Solvency II capital requirements) on that group and therefore all of the U.S. insurers within that group. Due to this agreement, the Working Group recommends that the accreditation standard become effective Nov. 7, 2022 for those states who are the Group Wide Supervisor of a group with operations in the EU or UK.

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**A statement and explanation of how the potential standard is directly related to solvency surveillance and why the proposal should be included in the standards:**

The current *Insurance Holding Company Systems* accreditation standard requires that state law shall contain the significant elements from Model #440 and Model #450. These models have provided state insurance departments the framework for insurance group supervision since the early 1970s. Following the 2008 financial crisis, state regulators identified group supervision as an area where improvements could be made to the U.S. system. In December 2010, the NAIC adopted changes to the models enhancing the domestic legal structure under which holding companies are supervised. In December 2014, the NAIC adopted revisions to clarify legal authority and powers to act as a group-wide supervisor for internationally active insurance groups. These changes are newly required elements of the NAIC Accreditation Program and have been satisfactorily adopted by nearly all accredited U.S. jurisdictions. As discussed in the preceding paragraphs, the GCC was designed to enhance these same standards that were previously included as accreditation standards.

**A statement as to why ultimate adoption by every jurisdiction may be desirable:**

The Group Capital Calculation (E) Working Group believes that all states that are the lead state for a group subject to the GCC should be required to adopt the model revisions. The GCC is a tool intended to help protect the policyholders in all states from the risk that can emanate from outside the domestic insurer and will be an input into the Group Profile Summary (GPS). After an initial filing by all insurance groups, the GCC is required for all U.S. insurance groups with greater than \$1 billion in premium. The groups subject to the GCC are expected to have domestic insurers in most U.S. states. Therefore, it is recommended that that the new significant elements apply to all states.

**A statement as to the number of jurisdictions that have adopted and implemented the proposal or a similar proposal and their experience to date:**

We are not currently aware of any states that have adopted the 2020 revisions to Model #440 and Model #450, although we have been advised that many states have begun their legislative processes for adoption of these revisions.

**A statement as to the provisions needed to meet the minimum requirements of the standard. That is, whether a state would be required to have “substantially similar” language or rather a regulatory framework. If it is being proposed that “substantially similar” language be required, the referring committee, task force or working group shall recommend those items that should be considered significant elements:**

The current accreditation standard for Model #440 and Model #450 requires state adoption on a substantially similar basis. Therefore, the Group Capital Calculation (E) Working Group supports the attached proposed significant elements (Attachment A) be adopted by NAIC-accredited jurisdictions in a “substantially similar” manner, as that term is defined in the Accreditation Interlineations of the NAIC Financial Regulation Standards and Accreditation Program. The Financial Regulation Standards and Accreditation (F) Committee should consider a waiver of procedure as provided for in the Accreditation Program Manual and expeditiously consider adoption of this standard. The Group Capital Calculation (E) Working Group recommends that the accreditation standard become effective Nov. 7, 2022, the end of the 60-month period contemplated under the Covered Agreement, with enforcement of the standard to commence Jan. 1, 2023. However, the Working Group is also supportive of the effective date being bifurcated to allow those states that are not the Group Wide Supervisor of a group with operations in the EU or UK to be subject to a later effective date in line with the normal accreditation timeline, which would result in an effective date of January 1, 2026.

There were also revisions made to Section 8 of Model #440 regarding Confidential Treatment. The Group Capital Calculation (E) Working Group strongly supports the use of language similar to that contained in Section 8G of Model #440. This language was considered very critical to the GCC as its very important that members of the insurance industry (or regulators) not be allowed to make the results of the GCC public in any way as they are designed as regulatory-only tools. Unlike RBC that has regulatory trigger points, the GCC does not, and the regulators of these groups believed it would be detrimental if these tools were used by insurers as a means to advertise their relative solvency strength.

**An estimate of the cost for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it, if reasonably quantifiable:**

The NAIC has not performed a cost/benefit analysis with respect to the 2020 revisions to Model #440 and Model #450, nor do we believe that the specific costs for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it are reasonably quantifiable. However, the possible exemptions allowed under Model #450 are specifically designed to consider the cost to complete the GCC by the insurance company and the benefits of the GCC to the lead-state commissioner. More specifically, all insurers are required to submit the GCC at least once, after which time the expectation is that the lead state commissioner will evaluate the added insight brought to the state from GCC; then, provided the group has premium less than \$1 billion, no international business, no risky non-regulated entities and no banks or similar capital regulated entities in the group, the lead state commissioner can exempt the group from filing in the future.

In addition, the construction of the GCC also considers cost of completion and specifically provides a principle-based approach where the insurance company can exclude non-risky affiliates from the calculation and also provides the insurance company to group the information of multiple non-insurance/non-regulated affiliates as a means to further reduce the burden of completion. In short, the GCC is only as complex as the insurance group has structured itself, and therefore the GCC already inherently considers the cost to comply.

## 6. Insurance Holding Company Systems

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State law should contain the NAIC *Insurance Holding Company System Regulatory Act* (#440), or an act substantially similar, and the department should have adopted the NAIC *Insurance Holding Company System Model Regulation* (#450).

### *Insurance Holding Company Systems – continued*

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#### Changes to Existing

k. Filing requirements for the enterprise risk filing similar to those specified in Section 4L(1) of the Model #440?

#### New

- l. Filing requirements for the group capital calculation filing similar to those specified in Section 4L(2) of Model #440?
- i. The ultimate controlling person of every insurer subject to registration shall annually file a group capital calculation completed in accordance with the NAIC Group Capital Calculation Instructions as directed by the lead state commissioner similar to section 4L(2)?
  - ii. Provision for exempting an insurance holding company system that has only one insurer within its holding company structure, that only writes business [and is only licensed] in its domestic state and assumes no business from any other insurer, similar to 4L(2)(a)?
  - iii. Provision for exempting an insurance holding company system that is required to perform a group capital calculation specified by the U.S. Federal Reserve? If the Federal Reserve Board cannot share the calculation with the lead state commissioner, the insurance holding company system is not exempt from the GCC, similar to 4L(2)(b)?
  - iv. Provision for exempting an insurance holding company system whose non-U.S. group-wide supervisor is located within a Reciprocal Jurisdiction that recognizes the U.S. state regulatory approach to group supervision and group capital, similar to 4L(2)(c)?
  - v. Provision for exempting an insurance holding company system that provides information to the lead state that meets the requirements for accreditation under the NAIC financial standards and accreditation program and whose non-U.S. group-wide supervisor that is not in a Reciprocal Jurisdiction recognizes and accepts the GCC as the world-wide group capital assessment for U.S. insurance groups who operate in that jurisdiction, similar to 4L(2)(d)?
  - vi. Provision that gives the lead state the authority to require the GCC for U.S. operations of any non-U.S. based insurance holding company system where after any necessary consultation with other supervisors or officials, it is deemed appropriate by the lead state commissioner for prudential oversight and solvency monitoring purposes, similar to 4L(2)(e)?

#### Changes to Existing

cc. Provisions for protecting confidential information submitted to the commissioner, including provisions maintaining confidentiality for information shared with state, federal and international regulators similar to Section 8? If sharing confidential information with the NAIC and third-party consultants is permitted, appropriate confidentiality protections should be included.

#### New

- m. Provision prohibiting the making, publishing, disseminating, circulating or placing before the public in any way the group capital calculation and resulting group capital ratio under Section 4L(2) and/or the liquidity stress test along with its results and supporting disclosures required under Section 4L(3), by any insurer, broker, or other person engaged in any manner of the insurance business, except if the sole purpose of the announcement is to rebut a materially false statement, similar to Section 8G of Model #440?
- n. Filing requirements for the group capital calculation filing similar to those specified in Section 21 of Model #450?
- i. Provision that gives the lead state the authority to exempt the filing of the group capital calculation provided the criteria are similar to those allowed under Section 21A of Model #450?

- ii. Provision that gives the lead state the authority to accept a limited group capital filing provided the criteria are similar to those allowed under Section 21B of Model #450?
- iii. Provision that gives the lead state the authority to require the group capital calculation of any group that previously met an exemption or submitted a limited filing if any insurer in the holding company system either triggers an RBC action level event, is deemed in hazardous financial condition, or otherwise exhibits qualities of a troubled insurer, similar to those allowed under Section 21C of Model #450?
- iv. Provision that sets forth the criteria for a jurisdiction to be included on the NAIC listing that “recognize and accept the group capital calculation” similar to that required under Section 21D and Section 21E of Model #450?




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## MEMORANDUM

To: Financial Condition (E) Committee

From: Financial Stability (E) Task Force

Date: February 22, 2021

Re: 2020 Revisions to *Insurance Holding Company System Regulatory Act* (#440)

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### Executive Summary

On Dec. 9, 2020, the NAIC Executive (EX) Committee and Plenary unanimously adopted revisions to the NAIC *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). These revisions implemented a Group Capital Calculation (GCC) for the purpose of group solvency supervision and Liquidity Stress Test (LST) for macroprudential surveillance. This memorandum makes recommendations with respect to the accreditation standards that this Task Force believes is appropriate with respect to only the LST and expect the Group Capital Calculation (E) Working Group to make separate recommendations to the Committee with respect to the GCC.

Post-financial crisis, regulators from all financial sectors across the globe recognized the need for macroprudential surveillance and tools to address macroprudential risks. While the solvency framework established and managed by the Financial Condition (E) Committee thoroughly addresses legal entity insurers and insurance groups, there was no group with a macroprudential scope. This Task Force was created to fill this gap, and in 2017 was charged to “analyze existing post-financial crisis regulatory reforms for their application in identifying macroprudential trends, including identifying possible areas of improvement or gaps, and propose . . . enhancements and/or additions to further improve the ability of state insurance regulators and industry to address macroprudential impacts.” The Task Force created the NAIC Macroprudential Initiative (MPI) to focus its efforts in four key areas: liquidity risk, recovery and resolution, capital stress testing, and exposure concentrations. Liquidity risk was consistently recognized as a key macroprudential risk by federal and international regulatory agencies, and there were several attempts to assess potential market impacts emanating from a liquidity stress in the insurance sector. Many of these analyses relied heavily on anecdotal assumptions and observations from behaviors of other financial sectors.

In order to provide more evidence-based analyses, the Task Force decided to develop a LST for large life insurers that would aim to capture the impact on the broader financial markets of aggregate asset sales under a liquidity stress event. Unlike capital adequacy, which has risk-based capital as a standardized legal entity capital assessment tool and the newly created Group Capital Calculation to provide a capital analysis tool at the group level, there is no regulatory liquidity assessment or stress tool. The Task Force focused on large life insurers due to the long-term cash buildup involved in many life insurance contracts and the potential for large scale liquidation of assets, not because liquidity risk does not exist in other insurance segments. Thus, the primary goal of the LST is to provide quantitative as well as qualitative insights for macroprudential surveillance, such as identifying the amount of asset sales that could occur during a specific stress scenario; but it will also aid micro prudential regulation as well. Because this stress testing is complex and resource-intensive, a set of scope criteria were developed to identify life insurers with large balances of activities assumed to be highly correlated with liquidity risk; thus, many life insurers will not be subject to the LST.

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**A statement and explanation of how the potential standard is directly related to solvency surveillance and why the proposal should be included in the standards:**

The current *Insurance Holding Company Systems* accreditation standard requires that state law shall contain the significant elements from Model #440 and Model #450. These models have provided state insurance departments the framework for insurance group supervision since the early 1970s. Following the 2008 financial crisis, state regulators identified group supervision as an area where improvements could be made to the U.S. system. In December 2010, the NAIC adopted changes to the models enhancing the domestic legal structure under which holding companies are supervised. In December 2014, the NAIC adopted revisions to clarify legal authority and powers to act as a group-wide supervisor for internationally active insurance groups. These changes are newly required elements of the NAIC Accreditation Program and have been satisfactorily adopted by nearly all accredited U.S. jurisdictions. As discussed in the preceding paragraphs, the LST was designed to enhance these same standards that were previously included as accreditation standards.

Macroprudential risks can directly impact regulated legal entity insurers and groups, and/or can emanate from or be amplified by these insurers and transmitted externally. The NAIC solvency surveillance framework must address macroprudential risks to ensure that the companies states regulate remain financially strong for the protection of policyholders, while serving as a stabilizing force to contribute to financial stability, including in stressed financial markets. The LST is the first new tool developed for the macroprudential program within the financial solvency framework.

**A statement as to why ultimate adoption by every jurisdiction may be desirable:**

The Financial Stability Task Force believes that all states that are the lead state for a group subject to the LST should be required to adopt the model revisions. The LST is a tool intended to help assess the impacts the life insurance industry can have on the broader financial markets in a time of stress. Ideally, the tool would have been required of all life insurance groups, but this was not possible due to the complexity and resources required to accomplish such liquidity stress testing. Thus, the LST uses a set of scope criteria to identify those life insurers with significant amounts in activities assumed to have high liquidity risk, thus representing the larger portion of the life insurance industry in terms of liquidity risk rather than representing the entire life insurance industry. If a scoped-in life insurance group was not subject to the LST because a state did not adopt the model revisions, this would significantly reduce the ability of the NAIC to represent the results as truly macroprudential and reflective of the majority of risks of the life insurance sector. Additionally, the LST results will be helpful to the lead states in their group supervision efforts as well.

Though not every state will be the lead state of a scoped-in group, the Task Force still believes the model revisions for the LST should be adopted in every state. It is fairly common for legal entity insurers to move from one group to another, impacting the group dynamics including the lead state determination, and each state should have the LST in their statutes to ensure they will be prepared for any future appointment as lead state. Also, even without legal entities changing groups, business acquisition and operational changes within existing groups might subject a previously excluded group to the LST. Therefore, it is recommended that that the new significant elements apply to all states.

**A statement as to the number of jurisdictions that have adopted and implemented the proposal or a similar proposal and their experience to date:**

We are not currently aware of any states that have adopted the 2020 revisions to Model #440, although we have been advised that many states have begun their legislative processes for adoption of these revisions.

**A statement as to the provisions needed to meet the minimum requirements of the standard. That is, whether a state would be required to have “substantially similar” language or rather a regulatory framework. If it is being proposed that “substantially similar” language be required, the referring committee, task force or working group shall recommend those items that should be considered significant elements:**

The current accreditation standard for Model #440 and Model #450 requires state adoption on a substantially similar basis. Therefore, the Financial Stability (E) Task Force supports the attached proposed significant elements (Attached) be adopted by NAIC-accredited jurisdictions in a “substantially similar” manner, as that term is defined in the Accreditation Interlineations of the NAIC Financial Regulation Standards and Accreditation Program. The Financial Regulation Standards and Accreditation (F) Committee should consider a waiver of procedure as provided for in the Accreditation Program Manual and expeditiously consider adoption of this standard. The Financial Stability (E) Task Force recommends that the accreditation standard become effective Nov. 7, 2022, concurrent with the Group Capital Calculation revisions to the model, with enforcement of the standard to commence Jan. 1, 2023.

There were also revisions made to Section 8 of Model #440 regarding Confidential Treatment. The Financial Stability (E) Task Force strongly supports the use of language similar to that contained in Section 8G of Model #440. This language was considered very critical to the LST as its very important that members of the insurance industry (or regulators) not be allowed to make the results of the LST public in any way as they are designed as regulatory-only tools using complex assumptions for potential future stress events and the results could easily be misinterpreted and misrepresented by other users, causing true financial harm to the insurers.

**An estimate of the cost for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it, if reasonably quantifiable:**

The NAIC has not performed a cost/benefit analysis with respect to the 2020 revisions to Model #440, nor do we believe that the specific costs for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it are reasonably quantifiable. However, the LST scope criteria selects the larger, more complex life insurers, and all of these already perform some form of internal liquidity stress tests. While there are regulatory requirements for inputs and outputs, truly significant costs are avoided by using their existing internal stress testing systems instead of specifying a regulatory model.

## 6. Insurance Holding Company Systems

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State law should contain the NAIC *Insurance Holding Company System Regulatory Act* (#440), or an act substantially similar.

### *Insurance Holding Company Systems – continued*

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#### Changes to Existing

- k. Additions to the filing requirements for the enterprise risk filing specified in Section 4L(1) of the Model #440 (see next item).

#### New

- c. Define “NAIC Liquidity Stress Test Framework” similar to that in Section 1K?
- d. Define “Scope Criteria” similar to that in Section 1M?
- l. Filing requirements for the liquidity stress test filing similar to those specified in Section 4L(3) of Model #440:
- i. The ultimate controlling person of every insurer subject to registration and also scoped into the NAIC Liquidity Stress Test Framework shall file the results of a specific year’s Liquidity Stress Test to the lead state insurance commissioner of the insurance holding company system as determined by the procedures within the *Financial Analysis Handbook* similar to Section 4L(3)?
  - ii. Insurers meeting at least one threshold of the Scope Criteria for a specific data year are scoped into that year’s NAIC Liquidity Stress Test Framework unless the lead state, after consultation with the NAIC Financial Stability Task Force or its successor, determines the insurer should not be scoped into the Framework for that data year similar to Section 4L(3)(a)? Insurers that do not trigger at least one threshold of the Scope Criteria are considered scoped out of the NAIC Liquidity Stress Test Framework for the specified data year, unless the lead state insurance commissioner, in consultation with the NAIC Financial Stability Task Force or its successor, determines the insurer should be scoped into the Framework for that data year?
  - iii. Provision requiring compliance with the NAIC Liquidity Stress Test Framework’s instructions and reporting templates for the specific data year and any lead state insurance commissioner determinations in consultation with the Financial Stability Task Force or its successor, provided within the Framework similar to Section 4L(3)(b)?

#### Changes to Existing

- cc. Provisions for protecting confidential information submitted to the commissioner, including provisions maintaining confidentiality for information shared with state, federal and international regulators similar to Section 8? If sharing confidential information with the NAIC and third-party consultants is permitted, appropriate confidentiality protections should be included.
- m. Provision prohibiting the making, publishing, disseminating, circulating or placing before the public in any way the group capital calculation and resulting group capital ratio under Section 4L(2) and/or the liquidity stress test along with its results and supporting disclosures required under Section 4L(3), by any insurer, broker, or other person engaged in any manner of the insurance business, except if the sole purpose of the announcement is to rebut a materially false statement, similar to Section 8G of Model #440?



## LOUISIANA DEPARTMENT OF INSURANCE

JAMES J. DONELON  
COMMISSIONER

May 13, 2021

VIA EMAIL

Elizabeth Kelleher Dwyer

Chair, NAIC Financial Regulation Standards and Accreditation (F) Committee

Attention: Becky Meyer (bmeyer@naic.org)

**RE: Group Capital Calculation ("GCC") - (F) Committee Exposure – Louisiana Comments**

Dear Superintendent Dwyer.

The Louisiana Department of Insurance is writing in response to the current exposure by the Financial Regulation Standards and Accreditation (F) Committee regarding the group capital calculation ("GCC") and the liquidity stress test ("LST"), as additions to the accreditation standards for insurance holding company systems. The accreditation standard items are included in the 2020 revisions to the NAIC *Insurance Holding Company System Regulatory Act* (#440) and the NAIC *Insurance Holding Company System Model Regulation* (#450).

My comments are regarding Model Regulation #450, Section 21, A and B. Louisiana agrees that GCC should become an accreditation standard and believes that GCC will be a valuable tool for regulators. However, Louisiana does not support the inclusion of Model Regulation #450, Section 21, A and B, as an accreditation standard, which provides that the Commissioner may only grant exemptions "**where an insurance holding company system has previously filed the annual GCC at least once**".

I believe that the commissioners should be allowed to grant exemptions to companies meeting the standards set forth in Model Regulation #450, Section 21, A and B, regardless of whether the holding company system has previously filed the GCC. This is based upon the following:

- The cost benefit must be taken into consideration for our small insurance holding company systems and that can only be done on a case-by-basis by the lead state Commissioner.
- Obtaining the information only once will not provide significant value because it will lack comparability.
- As the ultimate controlling person for their insurance holding company system, many small mutual insurers already provide their own RBC calculation that quantifies the risk for the entire holding company system. As such, the addition of the GCC does not provide significant value but does increase their cost of doing business.

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May 13, 2021

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May 13, 2021  
Superintendent Dwyer

I appreciate the opportunity to comment on this important topic. Please let me know if you need any additional information or would like to discuss my comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "James J. Donelon". The signature is stylized and cursive, with a large initial "J" and "D".

James J. Donelon  
Commissioner of Insurance  
State of Louisiana



## MISSISSIPPI INSURANCE DEPARTMENT

**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**J. MARK HAIRE**  
Deputy Commissioner of Insurance

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May 13, 2021

VIA EMAIL

Elizabeth Kelleher Dwyer, superintendent

Chair, NAIC Financial Regulation Standards and Accreditation (F) Committee

Attention: Becky Meyer (bmeyer@naic.org)

RE: Group Capital Calculation ("GCC") - (F) Committee Exposure-MID Comments

Dear Superintendent Dwyer:

The Mississippi Department of Insurance is writing in response to the group capital calculation exposure by the Financial Regulation Standards and Accreditation (F) Committee regarding the group capital calculation ("GCC") and the liquidity stress test ("LST"), as additions to the accreditation standards for insurance holding company systems. The accreditation standard items are included in the 2020 revisions to the NAIC Insurance Holding Company System Regulatory Act (#440) and the NAIC Insurance Holding Company System Model Regulation (#450).

Our comments are regarding Model Regulation #450, Section 21, A and B. Mississippi agrees that GCC should become an accreditation standard and believes that GCC will be a valuable tool for regulators. However, Mississippi does not support the inclusion of Model Regulation #450, Section 21, A and B, as an accreditation standard, which provides that the Commissioner may only grant exemptions "where an insurance holding company system has previously filed the annual GCC at least once".

Mississippi believes that the commissioners should have discretion to grant exemptions to small Holding Companies without the first year filing requirement, if the Holding Company does not have a covered agreement and has less than one Billion aggregate premium for the group. This follows similar adopted language for ORSA.

Many small insurers provide their own RBC calculation that quantifies the risk for the entire holding company system. Adoption of the Committee Exposure would be an increase cost of doing business.

Thank you for the opportunity to comment on this important topic.

Sincerely,

Mike Chaney, Commissioner



**NC** DEPARTMENT  
*of* INSURANCE  
MIKE CAUSEY, COMMISSIONER

COMPANY SERVICES GROUP

Tel 919.807.6141 Fax 919.807.6635

May 13, 2021

VIA EMAIL

Elizabeth Kelleher Dwyer  
Chair, NAIC Financial Regulation Standards and Accreditation (F) Committee  
Attention: Becky Meyer (bmeyer@naic.org)

**RE: Group Capital Calculation ("GCC") - (F) Committee Exposure – NCDOI Comments**

Dear Superintendent Dwyer:

The North Carolina Department of Insurance is writing in response to the current exposure by the Financial Regulation Standards and Accreditation (F) Committee regarding the group capital calculation ("GCC") and the liquidity stress test ("LST"), as additions to the accreditation standards for insurance holding company systems. The accreditation standard items are included in the 2020 revisions to the NAIC *Insurance Holding Company System Regulatory Act* (#440) and the NAIC *Insurance Holding Company System Model Regulation* (#450).

Our comments are regarding Model Regulation #450, Section 21, A and B. North Carolina agrees that GCC should become an accreditation standard and believes that GCC will be a valuable tool for regulators. However, North Carolina does not support the inclusion of Model Regulation #450, Section 21, A and B, as an accreditation standard, which provides that the Commissioner may only grant exemptions "**where an insurance holding company system has previously filed the annual GCC at least once**".

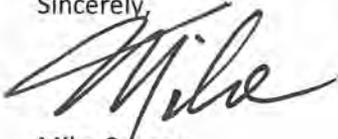
North Carolina believes that the commissioners should be allowed to grant exemptions to companies meeting the standards set forth in Model Regulation #450, Section 21, A and B, regardless of whether the holding company system has previously filed the GCC. This is based upon the following:

- The cost benefit must be taken into consideration for our small insurance holding company systems and that can only be done on a case-by-basis by the lead state Commissioner.
- Obtaining the information only once will not provide significant value because it will lack comparability.
- As the ultimate controlling person for their insurance holding company system, many small mutual insurers already provide their own RBC calculation that quantifies the risk for the entire holding company system. As such, the addition of the GCC does not provide significant value but does increase their cost of doing business.

Page 2 of 2  
May 13, 2021  
Superintendent Dwyer

We appreciate the opportunity to comment on this important topic. Please let us know if you need any additional information or would like to discuss our comments.

Sincerely,

A handwritten signature in black ink that reads "Mike". The signature is written in a cursive, flowing style.

Mike Causey  
Commissioner



**DIVISION OF INSURANCE**

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May 12, 2021

Superintendent Elizabeth Kelleher Dwyer  
Chair, NAIC Financial Regulation Standards and Accreditation (F) Committee  
Attention: Becky Meyer (bmeyer@naic.org)

**EMAIL ONLY**

**RE: Group Capital Calculation (“GCC”) - (F) Committee Exposure – SDDOI Comments**

Dear Superintendent Dwyer:

The South Dakota Division of Insurance is writing in response to the current exposure by the Financial Regulation Standards and Accreditation (F) Committee regarding the group capital calculation (“GCC”) and the liquidity stress test (“LST”), as additions to the accreditation standards for insurance holding company systems. The accreditation standard items are included in the 2020 revisions to the NAIC *Insurance Holding Company System Regulatory Act* (#440) and the NAIC *Insurance Holding Company System Model Regulation* (#450).

Our comments are regarding Model Regulation #450, Section 21, A and B. South Dakota agrees that GCC should become an accreditation standard in general and believes that GCC will be a valuable tool for regulators. South Dakota however does not support the inclusion of the provision in the standard which provides that the Commissioner may only grant exemptions “**where an insurance holding company system has previously filed the annual GCC at least once**”.

South Dakota believes that the commissioners should be allowed to grant exemptions to companies meeting the standards set forth in Model Regulation #450, Section 21, A and B, regardless of whether the holding company system has previously filed the GCC. A few reasons for this justification are listed below.

- The cost benefit must be taken into consideration for small insurance holding company systems and that can only be done on a case-by-basis by the lead state Commissioner.
- Obtaining the information only once will not provide significant value because it will lack comparability.
- As the ultimate controlling person for their insurance holding company system, many small mutual insurers already provide their own RBC calculation that quantifies the risk for the entire holding company system. As such, the addition of the GCC does not provide significant value but does increase their cost of doing business.
- State legislation that includes an exemption “only where previously filed” will cause this important regulatory standard to fail in multiple states.

We appreciate the opportunity to comment on this topic. Please let us know if you need any additional information or would like to discuss our comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Larry Deiter'.

Larry Deiter

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May 11, 2021

Hon. Elizabeth Kelleher Dwyer, Chair  
Financial Regulation Standards and Accreditation (F) Committee

Dear Superintendent Dwyer:

RE: Exposed accreditation standards for Models 440 and 450

Texas appreciates the opportunity to provide comments on the exposed accreditation standard modifications associated with the group capital calculation (GCC) and the liquidity stress test framework (LST) amendments to Models 440 and 450. Our comments are as follows:

#### Group Capital Calculation

#### **Exposed Language:**

- I. Filing requirements for the group capital calculation filing similar to those specified in Section 4L(2) of Model #440?
  - i. The ultimate controlling person of every insurer subject to registration shall annually file a group capital calculation completed in accordance with the NAIC Group Capital Calculation Instructions as directed by the lead state commissioner similar to section 4L(2)?
  
- n. Filing requirements for the group capital calculation filing similar to those specified in Section 21 of Model #450?
  - i. Provision that gives the lead state the authority to exempt the filing of the group capital calculation provided the criteria are substantially similar to those allowed under Section 21A of Model #450?

#### **Comments:**

Texas is opposed to the broad requirement that every group file a GCC as an accreditation requirement. The accreditation standard to file a GCC should be limited to those with international operations and provide the lead state commissioner the discretion to require any group file a GCC.

For years the states debated the merits of group capital. We focused upon our windows and walls approach and enhanced our windows into groups including enhancing Forms B, implementing group supervision and supervisory colleges, enhancing Schedule Y reporting, specifically authorizing holding company examinations, and requiring the filing of enterprise risk reports, ORSA, and Corporate Governance Annual Disclosures. These tools used correctly already give us great insight into most US groups.

Only after it was clear the states' approach would not protect US companies operating internationally from the imposition of international capitals standards did we pivot to developing the GCC. The need for the GCC for groups operating internationally was cemented in the covered agreements.

A state's accreditation status should not be threatened if all groups are not required to file the GCC once. As currently contemplated, if all groups are required to seek an exemption from the lead state commissioner, valuable resources that could be used to monitor solvency will be used in a bureaucratic process that does not enhance solvency oversight of companies. The added filing of the GCC should only be required in situations where the lead state commissioner believes that it would add valuable insight and information to group oversight, not just because it is an accreditation requirement.

Through the supervisory college framework, other regulators would be able to raise concerns about a group's operations and discuss whether a GCC should be required. Because this approach would "achieve the objective of the standard," this approach should be accepted as substantially similar in effect.

### Liquidity Stress Test

#### **Exposed Language:**

The Financial Stability Task Force believes that all states that are the lead state for a group subject to the LST should be required to adopt the model revisions.

Though not every state will be the lead state of a scoped-in group, the Task Force still believes the model revisions for the LST should be adopted in every state.

### **Comments:**

Less than 15 states are currently the lead state for a scoped-in groups. The requirement that all states adopt the law regardless of whether the state will ever be the lead state for a scoped-in group does not enhance the overall regulation of insurance groups.

The point of adding provisions to Part A of the accreditation standards is to create a floor of solvency regulation that can be relied upon by other states. Threatening a state's accreditation for not having an unnecessary law on the books puts the state in a position of requesting new laws with the only rationale being the NAIC is telling elected officials what legislation they must pass. This is not a message that will be well received in state capitals.

We anticipate that some states that are not currently lead states for scoped-in groups would adopt the model in order to make their jurisdiction a more attractive domiciliary regulator, but that should be their choice, not a mandate. There is no regulatory reason for all states to be required to adopt these changes.

### Conclusion

Texas opposes requiring GCC filings to be prepared by groups when the filing is not needed to understand group operations. A state's accreditation should not be affected if:

- the state enacts a GCC law that requires filings from all groups with international operations and provides the lead state commissioner discretion to require all other groups file; and,
- aligns with the language included in the covered agreements.

Texas also opposes the application of the LST requirements to all states. There are less than 15 states that are the lead regulators for scoped-in groups. The states that should be subject to those standards should be limited to those that would be required to require LST filings.

Thank you for the opportunity to provide these comments.

Respectfully,



Doug Slape  
Chief Deputy Commissioner