Draft: 12/1/20

International Insurance Relations (G) Committee
Virtual Meeting
Oct. 28, 2020

The International Insurance Relations (G) Committee met Oct. 28, 2020. The following Committee members participated: Gary Anderson, Chair (MA); Bruce R. Ramge, Vice Chair, represented by Justin Schrader (NE); Ricardo Lara represented by Kim Hudson (CA); Andrew N. Mais (CT); David Altmaier (FL); Doug Ommen (IA); James J. Donelon (LA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers (MO); Marlene Caride (NJ); Andrew R. Stolfi (OR); Jessica K. Altman represented by Melissa Greiner (PA); Hodgen Mainda (TN); and Tregneza A. Roach (VI).

1. Discussed the FSAP Recommendations

Commissioner Anderson noted that as previously reported, the International Monetary Fund (IMF) concluded the 2020 Financial Sector Assessment Program (FSAP) of the U.S. financial regulatory system in August, which resulted in a number of recommendations. He said that NAIC staff and Mr. Schrader, the lead state regulator on the project, reviewed those recommendations and came up with a referral plan (Attachment A) that has been reviewed by the Committee.

Mr. Schrader said that all reports related to the 2020 U.S. FSAP, including those relevant to insurance, are posted to the IMF's website, as well as the U.S. Department of the Treasury's (Treasury Department's) website. He said that in contrast to the two earlier FSAPs, there are no ratings of observance of specific International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs), the international standards for insurance supervision. Instead, he said the IMF performed a targeted review of cross-cutting themes building on the detailed assessment of the ICPs conducted in 2015.

Mr. Schrader mentioned areas of strength of the U.S.-stated based system highlighted in the IMF's reports, including "implementation of principles-based reserving (PBR) in the life insurance industry is a step toward addressing the issues found on valuation in the 2015 FSAP"; "implementation of risk-focused surveillance in financial analysis and financial examinations is another key step forward"; "the NAIC's framework for monitoring individual asset-side risks is quite advanced"; and "the financial stability risks stemming from the insurance sector appear contained for now."

Mr. Schrader said that while there are several findings and conclusions drawn by IMF staff that state insurance regulators may ultimately disagree with, he welcomed their view that the U.S. insurance system is in line with the ICPs and that certain key 2015 FSAP recommendations are being addressed. Mr. Schrader explained that in the reports, the IMF makes several recommendations that in their view would help improve insurance supervision in the U.S.—for example, recommending further development of risk-based supervision, consistency of life insurer liability valuation methods, further regulatory requirements in corporate governance, making the NAIC group capital calculation (GCC) a requirement, and enhancing regulatory responses to the increasing risk and severity of natural catastrophes.

Mr. Schrader said that as in years past, following the publication of the FSAP documents, NAIC staff prepared a referral plan regarding certain FSAP recommendations that may merit a closer look by state insurance regulators and the NAIC. He added that Annex A does not include all the IMF recommendations, but rather includes only those that have been flagged for further consideration.

Mr. Schrader said that as with previous FSAPs, by adopting the referral plan, the Committee is not prejudging any of these recommendations or charging any other NAIC group with a specific project or task, as "referral" in this context only means designating the appropriate committee or group to consider the recommendation. He also said the adoption of the referral plan does not necessarily mean the recommendation should be pursued beyond that consideration. Mr. Schrader explained that once approved, the plan will be sent to the relevant NAIC committee staff for consideration by the relevant working group/task force.

Mr. Schrader provided an overview of the various FSAP recommendations included in the referral plan.

Bob Ridgeway (America's Health Insurance Plans—AHIP) asked whether the referral chart addressed all the relevant FSAP recommendations. Mr. Schrader confirmed that the chart did not include all the IMF recommendations but only those flagged for further consideration.

Birny Birnbaum (Center for Economic Justice—CEJ) noted that the chart does not include several of the IMF recommendations on independence. He said the NAIC should review its Conflict of Interest Policy in response to the FSAP recommendations on independence. Commissioner Anderson noted that many of the recommendations on independence are beyond the purview of the NAIC and state insurance regulators and are more for state legislatures and other bodies.

David Snyder (American Property Casualty Insurance Association—APCIA) noted APCIA's appreciation for all of the work that went into the FSAP and that while the U.S. system of insurance supervision is world class, it is good to look over the FSAP recommendations for consideration.

Commissioner Ramge made a motion, seconded by Commissioner Caride, to approve the referral plan of the FSAP recommendations. The motion passed.

2. Heard an Update on International Regulatory Cooperation Activities

a) IAIS

Commissioner Anderson said that before the outbreak of COVID-19, the IAIS was scheduled to have its committee meetings and annual conference the first week of November in Santiago, Chile. Instead, they now will be taking place virtually the weeks of Oct. 26 and Nov. 2, with the annual general meeting and annual conference taking place during the first week of December. Commissioner Anderson said the Committee will have further updates and discussion on IAIS activities at the NAIC Fall National Meeting and noted that a number of public consultations would be released soon, including on development of liquidity metrics, an application paper on resolution powers and planning, and the agreed definition and high-level principles for developing criteria to assess whether the aggregation method provides comparable outcomes to the global insurance capital standard (ICS). Commissioner Anderson said the IAIS and the Sustainable Insurance Forum (SIF) also recently released a joint draft application paper on the supervision of climate-related risks in the insurance sector for public consultation with comments due Jan. 12, 2021. He said as previously reported, the NAIC became a member of the SIF earlier this year and has been participating in several virtual meetings to discuss member initiatives and the strategic focus for the SIF for 2021 and beyond. He said the work with the SIF could help inform the work at the NAIC's new Climate and Resiliency (EX) Task Force going forward and vice versa. Commissioner Anderson said the typical NAIC process for reviewing the consultations will be used, with more information provided at a later date.

b) OECD

Commissioner Anderson said the Organisation for Economic Co-operation and Development (OECD) held several virtual events over the past few months for its members. On Oct. 6–7, the OECD Insurance and Private Pensions Committee (IPPC) held a symposium on reinsurance risk and opportunity, where a series of case studies was released on reinsurance regulation in India, Indonesia, Myanmar and the Philippines. He said these newly released case studies build upon the main premise in a 2018 IPPC report that emphasized the important role that international reinsurance markets play in identifying and covering risk. He said the symposium discussed various approaches to leveraging the contribution of international reinsurance markets to managing catastrophe risks, while achieving domestic policy goals related to insurance market development and policyholder protection. He said various speakers discussed the importance of enhanced supervisory cooperation and information exchange between home and host supervisors to help mitigate the concerns of home supervisors related to risk transfer to international reinsurance markets. Commissioner Anderson said the Financial Services Agency of Japan and the Bermuda Monetary Authority (BMA) highlighted the strong regulatory dialogues they have with the NAIC, and the importance of those dialogues to their receiving reciprocal jurisdiction status effective earlier this year.

Commissioner Anderson also said that on Sept. 7–9, the IPPC held a virtual roundtable on the impact of COVID-19 for insurance and retirement saving. He said speakers discussed some of the potential medium-term implications for insurers and reinsurers, such as declining premium revenues, deteriorating asset quality and loss accumulation, as well as the impact of government measures to support the economy and to address specific risks/market disruptions. Commissioner Anderson said there was discussion about the protection gap for business interruption losses and various proposals under consideration to establish pandemic risk insurance programs, as well as the experience from the establishment of programs for other perils that could be informative.

c) NAIC International Fellows Program

Rashmi Sutton (NAIC) said that as previously reported, in light of COVID-19-related travel restrictions and work-from-home policies, it was decided that the fall session of the NAIC's International Fellows Program would take the form of a virtual session, which was held recently on Oct. 12–16.

Ms. Sutton said the fellows program is typically a seven-week program and that this virtual session was designed to replicate the training that fellows receive during their first week at the NAIC Central Office in Kansas City, MO. She said that more than 80 international regulators participated, which exceeded expectations and demonstrated the international regulatory community's continued demand for U.S. training and interest in the U.S. system. Ms. Sutton said participants joined from most major regions, including Western and Eastern Europe, Latin America, the Caribbean, Asia, Africa, and the Middle East. Ms. Sutton said many participants were from countries that frequently participate in the regular fellows program, though a large number joined from countries that have never, or do not typically, participate. She said the silver lining to holding the session virtually is that the NAIC was able to extend the reach of training to more regulators and jurisdictions than ever before.

Ms. Sutton said that with the current uncertainty regarding what will be possible next year, a similar approach may be used for the spring 2021 session if travel restrictions continue. She said the NAIC is also exploring the possibility of offering the virtual session beyond the pandemic to supplement the in-person program.

Ms. Sutton said that while there is no substitute for the hands-on experience fellows receive during the weeks they spend hosted by state insurance departments, getting to know NAIC staff, and meeting with industry and other groups as part of the program, the NAIC is grateful to be able to continue virtually with offering an opportunity for technical training and relationship building with our international colleagues, especially during this difficult time.

Ms. Sutton said the NAIC looks forward to welcoming fellows to the U.S. again, hopefully in the not too distant future. She said states interested in hosting fellows for the first time or learning more about the program can reach out to her for further information.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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Draft: 8/20/20

International Insurance Relations (G) Committee
Virtual Summer National Meeting
August 12, 2020

The International Insurance Relations (G) Committee met via conference call Aug. 12, 2020. The following Committee members participated: Gary Anderson, Chair (MA); Bruce R. Ramge, Vice Chair (NE); Ricardo Lara (CA); Andrew N. Mais (CT); Karima M. Woods (DC); David Altmaier (FL); Doug Ommen (IA); James J. Donelon (LA); Anita G. Fox (MI); Chlora Lindley-Myers (MO); Marlene Caride (NJ); Andrew R. Stolfi (OR); Jessica K. Altman (PA); and Hodgen Mainda (TN). Also participating was: Michael Powers (MA); and Justin Schrader (NE).

1. Adopted its June 3, Feb. 3, Jan. 30, Jan. 15, and 2019 Fall National Meeting Minutes

The Committee met June 3, Feb. 3, Jan. 30, Jan. 15, and Dec. 7, 2019, and took the following action: 1) heard an update on upcoming International Association of Insurance Supervisors (IAIS) committee meetings and activities; 2) heard an update on the Organisation for Economic Co-operation and Development (OECD) and other supervisory cooperation activities; 3) heard an update on the International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP); 4) heard an update on international-related NAIC events; 5) approved submission of NAIC comments on the IAIS and Sustainable Insurance Forum (SIF) draft *Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures*; 6) heard a recap of IAIS committee meetings and an update on the insurance capital standard (ICS), including the aggregation method (AM) and comparability; 7) approved submission of NAIC comments on the IAIS draft *Application Paper on Liquidity Risk Management*; 8) adopted the report of the ComFrame Development and Analysis (G) Working Group; 9) adopted its 2020 proposed charges; 10) heard an update on key 2019 projects of the IAIS; 11) heard an update on international activities; and 12) heard an update on the FSAP.

Commissioner Caride made a motion, seconded by Commissioner Mais, to adopt the Committee's June 3 (Attachment One), Feb. 3 (Attachment Two), Jan. 30 (Attachment Three), Jan. 15 (Attachment Four), and Dec. 7, 2019, (*see NAIC Proceedings – Fall 2019, International Insurance Relations (G) Committee*) minutes. The motion passed unanimously.

2. Heard an Update on Key 2020 Projects of the IAIS

Commissioner Anderson announced that the Louisiana Department of Insurance (DOI) has become a member of the IAIS Multilateral Memorandum of Understanding (MMoU), which strengthens supervisors' ability to work cooperatively with other supervisors and monitor large cross-border insurers, which is critically important to promoting effective supervision and protecting consumers. He said since the first jurisdiction was admitted in June 2009, the number of MMoU members has grown significantly to now include 74 signatories, representing approximately 76% of worldwide premium volume, and Louisiana is the twentieth U.S. state to sign the MMoU.

a. Holistic Framework

Commissioner Anderson said with regard to the holistic framework, the IAIS decided to focus this year's global monitoring exercise, both the individual insurance assessment and the sector-wide monitoring, on COVID-19-related information. He said during the June conference calls of the IAIS's Macroprudential and Executive committees, initial results of the data analysis were provided, focusing on the areas of solvency, profitability, liquidity, assets and liabilities. He noted that given the limited data coverage and early stage of data validation work, these results were preliminary in nature, so further work will be done over the summer, which will be discussed at the next set of IAIS committee conference calls in September.

Commissioner Anderson said on the recent Financial Stability (EX) Task Force conference call, there was a question about whether the IAIS would collect COVID-19-related data for the third and fourth quarters of 2020. He clarified what was said on the conference call, noting that a proposal to collect information on additional quarters was discussed during the IAIS committee calls in June; however, this has not yet been decided. He explained that IAIS members first want to assess how useful and complete the data for the first and second quarters is before agreeing to collect additional COVID-19-related data, which reflects the IAIS's recognition of the need for operational relief during this time.

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Regarding implementation of the holistic framework, Commissioner Anderson said the IAIS is currently conducting a baseline assessment using a questionnaire that focuses on the relevant Insurance Core Principle (ICP) and Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) standards adopted in November 2019, and it is designed to help the IAIS assess the level and means of implementation by jurisdictions. He said this assessment forms the first part of the IAIS process so that in November 2022, the Financial Stability Board (FSB) can review, based on the initial years of implementation of the holistic framework, the need to either discontinue or re-establish the annual identification of global systemically important insurers (G-SIIs). He said once the baseline assessment is finalized, the IAIS will share the outcomes of it with the broader IAIS membership, the FSB, and the general public in March 2021. He said following the conclusion of the baseline assessment, the IAIS will undertake targeted jurisdictional assessments to determine the consistency of implementation of holistic framework material in 2021 and 2022 with the objective to determine whether the supervisor has and exercises, when required, the legal authority and supervisory practices to effectively perform the requirements of the relevant holistic framework supervisory material. He said the IAIS is still working through the details of the targeted jurisdictional phase, such as scope of the assessment, jurisdictions involved, and how it will be operationalized; these topics will be discussed in September, and more information will be made publicly available in the future.

b. ICS and Monitoring Period

With regard to the ICS, Commissioner Anderson explained that the IAIS has begun a five-year monitoring period for the ICS for internationally active insurance groups (IAIGs). He said during this period, data will also be collected on the AM, and a decision will be made on whether the AM delivers comparable outcomes to the ICS, thereby being an “outcome-equivalent” implementation to the ICS.

Commissioner Anderson said on April 23, the IAIS released ICS and AM data collection packages to volunteer groups, it will be holding regular calls with volunteers, and it has a “question and answer” process for addressing issues that come up during the reporting process. He said because of the pandemic, the due date for ICS and AM reporting was moved from Aug. 31 to Oct. 31.

On comparability, Commissioner Anderson said work continues at the IAIS by the ICS and Comparability Task Force, and while the plan was to have a document on principles for developing the assessment criteria ready for consultation this summer, the timeline for this work has been adjusted with the consultation to take place later this year. He said as work continues towards developing an AM that delivers comparable outcomes to the ICS, one open issue is scalars, which are percentages that will be applied to each local capital requirement to bring them to a globally comparable level. He noted that scalars will be used in both the NAIC Group Capital Calculation (GCC) and the AM, though they are of particular importance for IAIGs. He said academic research in this area would be helpful, as there are many possible scalar methodologies that can be used.

Steve Jackson (American Academy of Actuaries—Academy) outlined a project that the Academy is undertaking on the scaling of regulatory capital requirements across jurisdictions, looking at theoretical and practical considerations of various methodologies. He explained that this project is being done in four stages: 1) clarifying objectives; 2) assembling an inventory of possible methodologies; 3) deriving a set of criteria for evaluation of methodologies; and 4) developing an annotated bibliography. He said by a targeted completion date of March 1, 2021, the Academy will offer assessments of major possible methods, but it will not recommend a method of scalars. He said the project is designed to assist state insurance regulators as they develop scalars for the AM and to educate the actuarial community.

Jeffrey L. Johnson (John Hancock) asked for clarification regarding the objectives of scalars and whether comparability would be part of the scope. Mr. Jackson responded that the Academy would be looking at how different scalar methodologies provide comparability between various regulatory capital requirements across jurisdictions, not comparability as it relates to the AM and the ICS.

c. Responses to COVID-19

Jonathan Dixon (IAIS) provided an overview of the IAIS’ work to date on COVID-19 and what it will be looking at going forward. He explained that over the past several months, the IAIS has pivoted to COVID-19-related projects, including: 1) refocusing the 2020 Holistic Framework Global Monitoring Exercise; 2) gathering information on supervisors’ COVID-19

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supervisory responses; 3) collaboration with the FSB and other standard-setting bodies; and 4) stakeholder engagement. He noted that as a result of providing operational relief to both IAIS members and stakeholders, the IAIS has extended deadlines or postponed the work of some projects.

Commissioner Anderson noted that NAIC representatives to the IAIS have been sharing the input and experiences of state insurance regulators in responding to COVID-19, and many of the discussions at the IAIS mirror those at the NAIC.

Commissioner Lara asked if the IAIS is looking at solutions to the issue of pandemic coverage in business interruption policies for businesses affected by the pandemic, including using innovation. Mr. Dixon responded that the IAIS is gathering information on business interruption coverage on an ongoing basis, including looking at conduct of business issues. He said given different jurisdictional issues, legal environments, and mandates of supervisors, it is difficult to identify common practices; although, the IAIS is trying to collect as many examples as possible of business interruption coverage to share with supervisors. He also said the IAIS Executive Committee was interested in conducting a business interruption coverage stocktake regarding the pandemic, and he noted that there are discussions around the world regarding potential supervisory solutions, including risk-sharing between the public and private sectors. He added that he expects this work to progress during the second half of the year. Commissioner Anderson noted that, similar to the NAIC statement on pandemic coverage in business interruption, the IAIS also released such a statement in May 2020.

Mr. Powers asked Mr. Dixon for examples of supervisory responses to COVID-19. Mr. Dixon responded that collected responses from various jurisdictions have focused primarily on strengthening operational resilience of supervisors and insurers, business continuity, providing operational relief for insurers to facilitate uninterrupted services, insurer solvency, and market conduct issues.

Robert Neill (American Council of Life Insurers—ACLI) asked if there has been any thought to extending the ICS monitoring period, given the interruptions caused by COVID-19. Mr. Dixon said the IAIS made adjustments to the timeline for IAIS data collection and increased engagement with volunteer groups. Romain Paserot (IAIS) added that while the IAIS has extended the data submission deadline for this year, it is unclear how long the pandemic will cause operational stress to insurers, but the IAIS has good ongoing dialogue with the volunteers.

3. <u>Heard an Update on the FSAP</u>

Mr. Schrader explained that the 2020 U.S. FSAP concluded earlier in the week with publication of final documents describing the IMF's findings and opinions on the U.S. financial regulatory system. He said reports related to the 2020 U.S. FSAP, including those relevant to insurance, are posted to the IMF's website, as well as the U.S. Department of the Treasury (Treasury Department) website.

Mr. Schrader said the FSAP was established by the IMF in 1999 to examine a jurisdiction's financial regulatory system, assess its observance with current international standards in all three major financial sectors—banking, insurance and securities—and offer recommendations for improvement. He said last year, the IMF and U.S. authorities, including the Treasury Department, the Federal Reserve, state insurance regulators, and others began the process for the third IMF assessment of the U.S. financial regulatory system.

Mr. Schrader explained that the 2020 FSAP included two "missions" with separate workstreams, with Mission 1 focusing on many aspects of insurance supervision, as well as stress testing, and Mission 2 focusing on climate risk and resilience, the incidence of natural catastrophes, and mortgage insurance. He said Mission 1 took place during the fall of 2019 with meetings at all the NAIC offices and four states, and Mission 2 took place in February and March of this year, with meetings at the NAIC with leadership of certain NAIC working groups and two states. He added that the IMF met with insurance trades and companies in many of these states as part of their review.

Mr. Schrader said the main documents of relevance for the insurance sector that were recently released by the IMF include: 1) Insurance Technical Note, which provides the IMF's views of the strengths and weaknesses of solvency and market conduct supervision in the U.S.; 2) Risk Analysis and Stress Testing the Financial Sector Technical Note (Stress Testing Note); and 3) Financial System Stability Assessment (FSSA), which provides the IMF's overall assessment of the whole U.S. financial sector,

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including insurance. He said while there is an appendix addressing the impact of COVID-19 in both the Stress Testing Note and the FSSA, the FSAP was largely completed prior to the start of the pandemic.

Mr. Schrader explained that in contrast to the two earlier U.S. FSAPs, there are no ratings of observance of specific ICPs, the international insurance standards established by the IAIS. Instead, the IMF performed a targeted review of cross-cutting themes, building on the detailed assessment of the ICPs conducted in 2015, resulting in recommendations relative to these topics that, in the IMF's opinion, would help to improve insurance supervision in the U.S.

Mr. Schrader said while there are several findings and conclusions drawn by IMF staff that state insurance regulators may ultimately disagree with, their view that the U.S. insurance system is in line with the ICPs and that key 2015 FSAP recommendations are being addressed is welcomed.

Mr. Schrader noted that in the published reports, the IMF highlighted enhancements and strengths of the U.S. state-based system, including:

- Implementation of principle-based reserving (PBR) in the life insurance industry is a step toward addressing the issues found on valuation in the 2015 FSAP.
- Implementation of risk-focused surveillance in financial analysis and financial examinations is another key step forward.
- The NAIC's framework for monitoring individual asset-side risks is quite advanced.
- The financial stability risks stemming from the insurance sector appear contained for now.

Mr. Schrader highlighted some of the IMF's recommendations, including: 1) further development of risk-based supervision; 2) consistency of life insurer liability valuation methods; 3) further regulatory requirements in corporate governance; and 4) enhancing regulatory responses to the increasing risk and severity of natural catastrophes. He said state insurance regulators believe some of the IMF's statements regarding the ICS, including recommending "developing the Generally Accepted Accounting Principles (GAAP) Plus Global Risk based ICS based on U.S. GAAP" as an "internationally consistent way forward to addressing the current gap in insurance group capital requirements in the United States" are inconsistent with the current discussions at the IAIS, which recognize the potential of the AM to provide comparable outcomes to the ICS. He said the IMF also recommends that if the "NAIC's proposed GCC is adopted, it should be made into a requirement not merely a calculation." He noted that the NAIC questions the certainty with which the IMF speaks when suggesting, before the GCC has even been adopted and implemented, that a calculation cannot be as equally useful as something that is deemed a requirement.

Mr. Schrader stated that, as with the previous U.S. FSAPs, state insurance regulators and NAIC staff will review all the IMF recommendations and allocate, where appropriate, such recommendations to the relevant NAIC committees and working groups for further consideration. He also thanked participating states for their significant time and commitment to this project, as well as NAIC staff.

Andrew T. Vedder (Northwestern Mutual) asked whether the IMF's decision not to include ratings on observance of ICPs represents a decision by the IMF that jurisdictions will not be rated in this way going forward. Gita Timmerman (NAIC) responded that conducting more thematic reviews without ratings reflects a general trend seen with FSAPs for other jurisdictions as well.

Commissioner Anderson thanked Mr. Schrader for his time and effort as the lead U.S. state insurance regulator for the project, and he thanked the involved states and NAIC staff for their hard work, in particular Ms. Timmerman and Rashmi Sutton.

4. Heard an Update on International Activities

   a. Regional Supervisory Cooperation

Director Ramge said during the pandemic, state insurance regulators have continued to stay in touch with regulatory counterparts overseas, as it is even more critical in times of crisis to discuss issues in a frank and candid manner.

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Director Ramge said in late June, the NAIC officers held a principal-level discussion with the Bermuda Monetary Authority (BMA) in order to: 1) update the BMA on the high-level observations from the NAIC's first business interruption data call; 2) discuss the overall strength and capacity of Bermudan reinsurers and any possible impact COVID-19 may have on any potential claims handling resulting from the 2020 hurricane season or other U.S. natural catastrophe events; and 3) continue to share lessons learned with the BMA regarding remote supervision, COVID-19 response measures, and industry engagement.

Director Ramge said in mid-July, Director Cameron participated in a high-level virtual session on regulatory responses to COVID-19 organized jointly by the Financial Stability Institute (FSI), the Association of Insurance Supervisors of Latin America (ASSAL), and the IAIS. Director Ramge said this webinar included participation by a number of Latin American authorities. It provided a platform in which to exchange views on the various regulatory responses to COVID-19; trade-offs, including prudential approaches to soften implications related to COVID-19; and the challenges in the post-pandemic phase. Director Ramge added that this event replaced the ASSAL High-Level Meeting that was scheduled for this past April in Costa Rica.

Director Ramge said in late July, NAIC staff held a bilateral training session for the Superintendent of Brazil's insurance regulator, who wanted to learn more about the U.S. system of regulation, and this was the first in a series of meetings for the Brazilian regulators, who also requested additional training in the future through the NAIC's online education courses.

Director Ramge noted that the NAIC is exploring principal-level calls later in the year with Asian colleagues, such as Taiwan and Japan that have new commissioners leading their authorities, to discuss issues of mutual interest, including COVID-19.

Director Ramge said with regard to the U.S.-European Union (EU) Project, after the cancellation of the March public event and since the Committee's last call in June, there have been several working group calls relating to the various workstreams of the Project. He said it is expected that the working groups on cybersecurity, cyberinsurance and big data will continue to meet virtually to discuss the next steps, as contained in the Project's papers published in February 2020.

Director Ramge said, as reported previously, in light of COVID-19-related travel restrictions and office reopening policies, the fall session of the NAIC's International Fellows Program will take the form of a virtual session in October. He said the application for participation is available on the NAIC website, and a number of applications for the session have already been received from international regulators from several regions around the world. He said while there is no substitute for the hands-on experience that fellows receive during the weeks they spend hosted by state insurance departments and meeting with NAIC staff, the NAIC is grateful to be able to offer international colleagues an opportunity for technical growth and relationship building during this difficult time.

Director Ramge said for the foreseeable future, the NAIC's bilateral dialogues will continue to be held virtually, and state insurance regulators will continue to work closely with international counterparts, ensuring that lines of communication remain open, as ongoing communication with our international partners remains the utmost importance, especially in these challenging times.

b. <u>OECD</u>

Director Ramge said with regard to the OECD, its Insurance and Private Pensions Committee (IPPC) met virtually in June and discussed topics including: 1) supervisory, regulatory and industry responses taken on COVID-19; 2) the role of public-private partnerships to address the insurability of perils that are or are increasingly becoming uninsurable, such as pandemic/epidemics, as well as perils such as floods, wildfires and cyclones whose severity and frequency is being affected by a changing climate; 3) a draft preliminary report on the relationship between public and private sectors in the area of long-term care (LTC) and health care; and 4) a revised draft Recommendation of the Council on Financial Literacy.

Director Ramge said in early July, the OECD released a comprehensive report on COVID-19-related actions taken by supervisors, policymakers and industry in the insurance sector, and the paper can be found on the OECD's website. He reported that the OECD has also published its mid-year report on insurance market trends, which shows gross premiums still rising in 2019; although, COVID-19 may curb the positive premium and investment income growth of insurers. He said this report is available on the OECD IPPC website, and a more detailed report on insurance market trends will be published later this year.

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c. SIF

With regard to the SIF, Director Ramge said, as previously reported, the NAIC became a member of the SIF in February 2020, and it has participated in several virtual meetings this summer discussing topics such as member initiatives in the area of climate risk and sustainability and joint work with the IAIS on drafting an *Application Paper on the Supervision of Climate-related Risks in the Insurance Sector*. He said this paper will be out for public consultation later this fall, and it is scheduled to be published in early 2021. He said the strategic focus for the SIF for 2021 and beyond has also been discussed during the virtual meetings.

Director Ramge said examining the issue of climate and natural catastrophe risks and resiliency is central to state insurance regulators' mission of protecting policyholders, and it is the focus of a newly created executive-level NAIC task force, which will help inform state insurance regulators' contributions to the SIF going forward.

5. Discussed Other Matters

Commissioner Anderson said the Committee's next conference call has not been scheduled; however, there are some upcoming activities and events that will merit a call, such as updates on the September IAIS meetings, the public consultation on the joint IAIS-SIF application paper, and addressing recommendations from the FSAP. He said once the timing on these items is better understood, a save-the-date will be sent.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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Draft: 10/28/20
Adopted by the Executive (EX) Committee and Plenary, Dec. __, 2020
Adopted by the International Insurance Relations (G) Committee, Dec. __, 2020

2021 Proposed Charges

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

The mission of the International Insurance Relations (G) Committee is to coordinate NAIC participation in international discussions on and the development of insurance regulatory and supervisory standards and to promote international cooperation. The Committee also coordinates on international insurance matters with the U.S. federal government, including the U.S. Department of the Treasury (Treasury Department), the Federal Reserve Board, the Office of the U.S. Trade Representative (USTR), the U.S. Department of Commerce, and other federal agencies. In addition, the Committee provides an open forum for NAIC communication with U.S. interested parties and stakeholders on international insurance matters.

Ongoing Support of NAIC Programs, Products or Services

1. The **International Insurance Relations (G) Committee** will:
   A. Monitor and assess international activities at forums like the International Association of Insurance Supervisors (IAIS), the Financial Stability Board (FSB), and the Organisation for Economic Co-operation and Development (OECD), among others, that affect U.S. insurance regulation, U.S insurance consumers, and the U.S. insurance industry.
   B. Support and facilitate the participation of state insurance regulators and the NAIC in relevant IAIS, FSB, OECD and similar workstreams.
   C. Develop NAIC policy on international activities, coordinating as necessary with other NAIC committees, task forces and working groups, and communicating key international developments to those NAIC groups.
   D. Coordinate and facilitate state efforts to participate in key bilateral and multilateral dialogues, projects, conferences and training opportunities with international regulators and international organizations, both directly and in coordination with the federal government, as appropriate.
   E. Strengthen international regulatory systems and relationships by interacting with international regulators and sharing U.S. supervisory best practices, including conducting an International Fellows Program and educational (technical assistance) seminars to provide an understanding of the U.S. state-based system of insurance regulation.
   F. Coordinate the NAIC's participation in the International Monetary Fund (IMF)/World Bank Financial Sector Assessment Program (FSAP).
   G. Coordinate state efforts to assist in achieving U.S. international trade objectives through reviewing relevant materials, developing input, and providing assistance and expertise on insurance matters to the USTR and/or other federal entities.

NAIC Support Staff: Ryan Workman/Ethan Sonnichsen

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1 Introduction

1.1 Purpose

1. The purpose of this draft Level 1 document is to set out the overarching principles and concepts for the Aggregation Method (AM). This document describes: (i) a provisional AM (which provides a set of calculations that will be used to identify the final version of the AM); and (ii) the AM Data Collection. This draft Level 1 document was prepared by the NAIC and U.S. state insurance supervisors, with support from other members of Team USA, and in consultation with other interested jurisdictions.

2. The goal of interested jurisdictions that are developing the AM is to have a three-level AM documentation framework similar to that of the ICS. As the provisional AM is further developed and future decisions made regarding certain parameters, Level 2 and 3 documents will be made available.

1.2 History/Background

3. The AM concept was introduced as an alternative group capital approach for interested jurisdictions to apply to Internationally Active Insurance Groups (IAIGs).[1] The goal of the AM is to leverage legal entity reported available and required capital to produce a measure of group capital adequacy.

4. At the 2017 IAIS Annual Meeting, the IAIS agreed to collect data from US-based IAIGs and any other willing jurisdiction/volunteer at the option of the group-wide supervisor to assist the US and other interested jurisdictions in the development of the AM, through an annual AM Data Collection. In so doing, the IAIS aims to be in a position by the end of the monitoring period to assess whether the AM provides comparable, i.e. substantially the same, outcomes to the ICS and if so, it will be considered an outcome-equivalent approach for implementation of the ICS as a PCR[2].

5. At the November 2019 IAIS Meeting, the IAIS agreed on the definition of comparable outcomes and an overarching approach to guide the development of high-level principles and criteria[3].

6. The IAIS also agreed at the November 2019 meeting to move forward into a five-year monitoring period from 2020 through 2024, during which time optional reporting of the AM would be permitted, at the discretion of group-wide supervisors. As stated in the resulting workplan: "in support of the work on the comparability assessment, there will be an annual AM data collection" with timing that will be "similar to that for the ICS confidential reporting"[4].

7. Work has begun within the IAIS ICS and Comparability Task Force on developing the comparability assessment process, based on the workplan and timeline that was agreed upon by IAIS members

[1] During the monitoring period, other interested Volunteer Groups that do not meet the definition of an IAIG may choose to participate in the annual AM Data Collection exercise, at the option of their group-wide supervisor.
[2] Implementation of ICS Version 2.0, IAIS 2 November 2017
[3] Explanatory Note on the ICS and Comparability Assessment, IAIS 14 November 2019
[4] Work Plan and Timeline 2020-24, IAIS 14 November 2019

in Abu Dhabi. Following a deliberative process that includes public consultations, the IAIS plans to adopt in Q4 2022 the definition of comparable outcomes, high level principles and criteria to assess whether an AM provides comparable outcomes to the ICS.

1.3 Principles for AM Development

8. Based on legal entity building blocks, the AM provides a lens into group capital adequacy that allow supervisors to analyze, identify and address capital deficiencies where they reside. The AM concept builds on existing capital regimes. Group capital resources and requirements are derived from the aggregation of entity-level reporting.

9. Guiding principles of the AM concept include:
    - Indifferent to Corporate Structure: Location of an entity within the group and/or intragroup transactions do not impact group-level results.
    - Reflective of Appropriate Capital Regimes: Differentiated treatment for insurance/financial entities under existing capital regimes and application of appropriate alternatives for non-insurance entities. This leverages existing solvency frameworks and jurisdictional-tailored approaches to risk.
    - Transparency: Clear line of sight to where risks reside and capital is held. Provides supervisors with the necessary information for assessing risks at the legal entity level within the group.
    - Comparability: Group level results reflect comparable levels of risk through scaling of entity results.

10. The structure and design of the AM is final; however, the parameters for calculating the AM are still under development. The AM is a calculation consisting of five components. During the five years of the monitoring period (2020-2024), a provisional version of the AM will be used. While the final version of the AM will follow the same design as this provisional AM, it ultimately may have different parameters based on decisions informed by the annual AM Data Collection. It will be possible to back-test the AM, applying a variety of parameters with the data collected.

11. As listed below, the components of the AM are described further in Section 2 of this document:
    - Inventory & Group Financials
    - Adjustments
    - Capital Requirements
    - Capital Resources
    - Aggregation

2 AM Components

12. The following section describes the five components of the provisional AM. The final version of the AM will use the same components.

2.1 Inventory & Group Financials

2.1.1 Scope

13. The starting point for the AM is the Consolidated Holding Company or Controlling Insurer in the case of a mutual insurer structure. All entities within the defined insurance (or financial) group are included.

14. The AM is based on reporting at the local entity level. This reporting is used to populate a schedule that separately lists every legal entity within the group and includes relevant financial information including their available and required capital. All figures are converted to a common reporting currency. Exchange rates will be provided in the Level 3 documentation.

15. Each reported entity is mapped by the IAIG to an entity category. There are entity categories for unregulated and regulated entities ("regulated", in this context, means that an entity is subject to a capital requirement). This category is used to group entities prior to aggregation. Each entity within an entity category has its AM required capital determined in the same manner. Unregulated entities are mapped to categories including "Non-Insurer Holding Company," "Asset Management," "Other Non-Insurance/Non-Financial" or "Other Financial". For regulated entities, the entity category corresponds to a specific capital regime (e.g. RBC Filing US Life Insurer). A full list of the entity categories will be set out in the Level 2 document.

2.1.2 Use of Local Valuation, Capital Resources and Capital Requirements

16. For unregulated entities, available capital is based on local GAAP reporting.

17. For regulated entities, unadjusted available capital and unadjusted required capital refer to reported amounts based on the relevant local capital regime. The local unadjusted capital resources reflect all exclusions and adjustments as required by the local capital regime. The local unadjusted required capital is at the prescribed capital requirement (PCR)[5] intervention level or the closest equivalent.

18. A table of local capital regimes and PCR-equivalent intervention levels will be set out in the Level 2 document.

2.2 Adjustments

19. Before entities are aggregated, the reported available and required capital figures are adjusted to remove double-counting. After adjustment, an entity's available and required capital reflects its own risk and not that of its subsidiaries.

20. To ensure that the IAIG has properly eliminated double-counting, details on each adjustment is provided. A table for reporting these adjustments is included in the AM Data Collection.

[5] A PCR is defined in ICP 17.4 as "a solvency control level above which the supervisor does not intervene on capital adequacy grounds".

2.3 Capital Requirements

21. The AM capital requirement reflects risk aggregated at the group level. The AM also provides information about the risk posed by every entity within the scope of the group that enables supervisors to conduct jurisdictional analysis. Individual entity level risk charges (e.g. market risk or premium risk) contribute to the group level requirements. As in any aggregation-based methodology, group-level breakdowns of risk will be by type of entity (e.g. entity category, entities by region) rather than by risk charges.

2.3.1 Factors/Scalars

22. The contribution of each legal entity to the total capital requirement is equal to a factor multiplied by an exposure measure. The type of exposure measure applied depends on the entity category. All entities within their respective categories use the same factor and exposure measure. For regulated financial entities (including banking and insurance), the exposure measure is the local required capital (after adjustments for double-counting and at a PCR-equivalent intervention level). For these regulated entities, the factor will be referred to as a "scalar".

23. The exposure measures used in the provisional AM (along with other options being considered for the final AM) are in the table below. In the event an exposure is negative, the required capital is floored at zero.

Reg/Non-Reg	Category	Provisional Exposure Measure	Other Options Tested for Final AM
Entities with Regulatory Capital Requirements	Insurance Entities	Adjusted Required Capital	Results will be re-tested under all scalar option(s) using results of the annual AM Data Collection
	Banking Entities	Adjusted Required Capital	
	Asset Mgmt	Adjusted Required Capital	
Entities without Regulatory Capital Requirements	Non-Insurer Holding Company	Adjusted Available Capital	An alternate option using revenue as an exposure will be tested.
	Asset Mgmt / Other Financial	Revenue	An alternate option using Adjusted Available Capital will be tested.
	Non-Insurance / Non-Financial	Adjusted Available Capital	An alternate option using revenue as an exposure will be tested.

2.3.2 Diversification/Fungibility

24. The AM reflects the diversification that is already included in local capital requirements. Given limitations on capital fungibility, the AM does not allow for diversification between different legal entities.

2.3.3 Scalar Methodologies

25. Given differences between solvency frameworks, scalars will be used to bring the required capital for each legal entity to a common level. The AM template allows a range of scaling methodologies to be tested. Each scaling methodology will indicate one scalar per entity category to be used for the full term of the annual AM Data Collection. Based on an assessment of the data and the annual AM Data Collection process, a decision will be made as to which scaling methodology to use in the final version of the AM. The goal is to select a scaling methodology for the final AM that is meaningful from a prudential point of view, relevant for the monitoring of financial soundness and helps provide comparable outcomes to the ICS. AM results from the annual AM Data Collection will be recalculated using the selected set of scalars. Until such a determination is made, the provisional AM will use scalars of 100% as a placeholder.

26. Descriptions of the methodologies used to determine each set of scalars (and factors) will be provided in the Level 2 document. The options to be tested will include a number of approaches. The final scaling methodology will either be one of the tested methodologies or some combination/variation that falls within the range of options under consideration. A complete list of entity categories and their scalars/factors under each methodology will be set out in the Level 3 documentation.

2.4 Capital Resources

2.4.1 General Considerations

27. Capital resources have one tier with two components: financial instruments and available capital. Qualifying financial instruments are determined using a common set of criteria at the group-level. Available capital is determined at the legal entity level and becomes an input to the aggregated amount. Any capital element (other than a financial instrument) that is not recognized as available capital in the local statutory valuation will also be excluded from capital in the AM.

2.4.2 Recognition of Financial Instruments

28. The AM recognition of a financial instrument is based on consideration of a number of criteria focused on five key principles:
    - loss absorbing capacity (on a going concern basis and/or in winding-up)
    - subordination
    - availability to absorb losses
    - permanence
    - absence of both encumbrances and mandatory servicing costs

29. The list of criteria for recognition will be specified in the Level 2 document.

2.4.3 Application of Limits to Recognition of Debt

30. The amount of qualifying financial instruments recognized is subject to a limit. This limit and its calculation will be specified in the Level 2 document. In addition, a range of limits will be analyzed during the monitoring period before determining the final version of the AM.

2.5 Aggregation

31. After application of adjustments and scaling, the IAIG's available and required capital are aggregated by entity category.
32. Group capital resources are the sum of the adjusted available capital for the underlying entities plus any qualifying financial instruments subject to limits.
33. Group required capital is the sum of the scaled adjusted required capital for the underlying entities.

3 AM Data Collection

34. The AM Data Collection has a template and specifications that are released annually. The template can calculate the provisional AM as well as other possible versions of the final AM. Aside from refinements and clarifications to the provisional AM, the contents of the AM Data Collection will be stable for the rest of the monitoring period. If the final version of the AM has different parameters than the provisional AM, the results from prior years can be recalculated retrospectively.
35. In addition to the data needed to calculate the provisional AM, further data will be collected as part of the annual AM Data Collection. This information will help to finalize the AM framework and provide "support of the work on the comparability assessment", the latter being an IAIS issue (see Section 1.2).