2019 Fall National Meeting  
Austin, Texas  

GROUP CAPITAL CALCULATION (E) WORKING GROUP  
Saturday, December 7, 2019  
8:00 – 9:00 a.m.  
JW Marriott Austin—Lone Star Ballroom E—Level 3  

ROLL CALL  

David Altmaier, Chair — Florida  
Kathy Belfi, Vice Chair — Connecticut  
Susan Bernard — California  
Philip Barlow — District of Columbia  
Kevin Fry — Illinois  
Roy Eft — Indiana  
Jim Armstrong — Iowa  
Rachel M. Davison/Christopher Joyce — Massachusetts  
Judy Weaver — Michigan  
Kathleen Orth — Minnesota  
John Rehagen — Missouri  

Justin Schrader — Nebraska  
Dave Wolf — New Jersey  
Edward Kiffel — New York  
Jackie Obusek — North Carolina  
Dale Bruggeman — Ohio  
Joe DiMemmo — Pennsylvania  
Mike Boerner/Doug Slape — Texas  
Trey Hancock — Tennessee  
David Smith/Doug Stolte — Virginia  
Amy Malm — Wisconsin  

NAIC Support Staff: Dan Daveline/Lou Felice  

AGENDA  

1. Consider Adoption of its Oct. 30, Aug. 29 and Summer National Meeting Minutes  
   — Commissioner David Altmaier (FL)  
   Attachment A  

2. Present Summary of Data Review and Provide Initial Observations from Field-Test  
   — Lou Felice (NAIC) and Ned Tyrrell (NAIC)  
   Attachment B  

3. Discuss Any Other Matters Brought Before the Working Group  
   — Commissioner David Altmaier (FL)  

4. Adjournment  

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The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met via conference call Oct. 30, 2019. The following Working Group members participated: David Altmaier, Chair, and Ray Spudeck (FL); Kathy Belfi, Vice Chair (CT); Kim Hudson (CA); Carrie Mears (IA); Susan Berry (IL); Roy Eft (IN); Judy Weaver (MI); Barbara Carey (MN); John Rehagen (MO); Justin Schrader (NE); Edward Kiffel (NY); Dale Bruggeman (OH); Kimberly Rankin (PA); Trey Hancock (TN); Mike Boerner (TX); Doug Stolte (VA); and Amy Malm (WI).

1. **Adopted a Revised Debt Memorandum**

Commissioner Altmaier stated that the issue of debt was one that had received considerable discussion by the Working Group in the past and that it was currently testing different approaches during field testing. He noted that the way the original memorandum on this topic was drafted created some confusion, and over the past several months, there had been some work to try to resolve the confusion. He stated the purpose of revisions was not to change any of the approaches being tested, but to clarify language to alleviate some of the concerns that had been presented. He stated the revisions specifically remove some of the language related to rating agencies that seem to be causing most of the confusion. Mr. Hudson stated his understanding was that the Working Group was moving forward with field testing and that after receiving additional data, the Working Group would be in a better position to make a final decision. Commissioner Altmaier agreed, noting the revisions do not change that fact. Ms. Belfi highlighted the fourth page of the memorandum where field testing is discussed and noted that none of that language had been revised outside of minor cosmetic editorial changes along with the information related to rating agencies.

Ms. Belfi made a motion, seconded by Mr. Hudson, to adopt the revised changes (Attachment A) and to have the revised memorandum posted to the website. The motion passed unanimously.

2. **Adopted a Request for NAIC Model Law Development**

Commissioner Altmaier stated the Working Group previously discussed the need for the group capital calculation (GCC) to be confidentially filed with the state insurance department and the need for legal authority for this to occur, which requires an NAIC model law. He stated that included in the materials is a document that requires adoption by the Working Group, the Financial Condition (E) Committee and the Executive (EX) Committee before a project to make such changes to an NAIC model law can begin. Commissioner Altmaier stated the document specifically requests changes to the **Insurance Holding Company System Regulatory Act (#440)** and the **Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450)**. Commissioner Altmaier emphasized that the request envisions changes to the model that will not create a regulatory intervention point for the GCC. He stated this is only for the purpose of requiring the filing and its confidentiality.

Mr. Bruggeman said this does not preclude the incorporation of something that already exists within confidentiality provisions and noted, for example, the **Risk Management and Own Risk and Solvency Assessment Model Act (#505)**. Mr. Hudson asked Commissioner Altmaier if he expects the work to be completed by the Group Solvency Issues (E) Working Group. Commissioner Altmaier stated that the Group Solvency Issues (E) Working Group owns that model. He stated he envisions a liaison with that Working Group and a process where both groups are heavily involved. He stated that with all the past discussions of the GCC on its purpose and its goal, it will be important for the Working Group to stay involved in the process.

Mariana Gomez-Vock (American Council of Life Insurers—ACLI) expressed appreciation for the recognition that confidentiality needs to be addressed in the GCC. She asked for clarification that the model law amendment process deals with the confidentiality and for the regulatory authority of filing the GCC. Commissioner Altmaier responded that if the Working Group determines that authority is needed for the filing, the changes to the model can address such. He noted, however, that he is primarily focused on a very narrow change to the model since the primary purpose is the confidentiality. Ms. Gomez-Vock stated it would be good to be mindful of the process for addressing other items. Commissioner Altmaier stated they would try to be mindful of such items as they began the process and simply reiterated his desire for the changes to be very narrow and related to the GCC only.
Mr. Hudson made a motion, seconded by Mr. Bruggeman, to adopt the Request for NAIC Model Law Development (Attachment A). The motion passed unanimously.

3. Discussed Other Matters

Commissioner Altmaier asked NAIC staff to provide an update on the field testing. Lou Felice (NAIC) reminded the Working Group of the multiple levels of testing debt within the GCC like the language in the revised memorandum previously adopted by the Working Group earlier in the conference call. He discussed that the testing criteria is being applied over regulatory capital and over regulatory capital plus debt. He discussed that restacked regulatory capital is being used to include all entities, permitted and prescribed practices, but it does not include the XXX/AXXX captive information as they would be considered separately. He also discussed the ongoing openness of considering other options offered by volunteers. Mr. Felice described that they are working their way through the volunteer filings, noting one had dropped out. He stated that they have come in slower than desired. He stated that most of the filings had been reviewed by NAIC staff, with comments sent to the lead states for incorporation of the input from the lead state. He stated that once such input is added, a document would be shared with the volunteer and that companies are then allowed to have a written response and/or a final conference call. He said the greatest difficulty has been the coordinating of schedules for conference calls between each volunteer, their lead state and NAIC staff. They hope to have all completed by the end of November. However, he stated this will not change the summarizing charts that are expected to be provided in the open meeting where public feedback is provided.

Having no further business, the Group Capital Calculation (E) Working Group adjourned.
The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met via conference call Aug. 29, 2019. The following Working Group members participated: David Altmaier, Chair, and Ray Spudeck (FL); Kathy Belfi, Vice Chair (CT); Susan Bernard and Kim Hudson (CA); Philip Barlow (DC); Jim Armstrong, Kim Cross, Mike Yanacheak and Carrie Mears (IA); Susan Berry (IL); John Turchi (MA); Judy Weaver (MI); Kathleen Orth (MN); John Rehagen (MO); Jackie Obusek (NC); Justin Schrader (NE); Edward Kiffel and Mark McLeod (NY); Dale Bruggeman and Tim Biler (OH); Joe DiMemmo (PA); Trey Hancock (TN); Doug Slape and Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. **Discussed Needed Confidentiality Protections**

Commissioner Altmaier stated the purpose of the conference call is to continue discussions about the confidentiality of the group capital calculation (GCC). He stated prior to the Summer National Meeting, he had previously asked NAIC staff to draft an initial memorandum on this topic to allow the Working Group to begin its discussions. He stated during that meeting, the Working Group discussed that initial memorandum briefly, and began some discussions with interested stakeholders. He noted that since that time, additional comment letters have been received on the topic.

Commissioner Altmaier reminded members about the previous discussions as the Summer National meeting, where he reiterated that during the development of the GCC, the Working Group had been clear that once completed, confidentiality would be needed. He stated there had been some discussions about the NAIC model to place such confidentiality provisions, and the Working Group has initially identified the Risk-Based Capital (RBC) for Insurers Model Act (#312) as a logical place to insert language. He stated another issue is preventing rating agencies and other third parties’ access to the GCC. He stated that during today’s conference call, he wants to focus on some of the comments received since the Summer National Meeting.

Michael Gugig (Transamerica), representing a coalition of 10 companies, summarized the basis for some of the more significant elements of their comments on the topic (Attachment Two-?). He stated that from their vantage point, the need for robust confidentiality protections is absolutely critical to the ultimate success of the GCC in part because of the coalition’s views about deviating from legal entity rules with certain on-top adjustments, which he said they would continue to fight for at the appropriate times. He stated that a GCC for such companies with on-top adjustments will end up with a GCC ratio lower for those companies to which the on-top adjustments would apply than the stated capital in statutory reporting. Mr. Gugig said the coalition thinks the difference between the GCC ratio and the risk-based capital (RBC) ratio would be of significant concern to many stakeholders, not the least of which would be rating agencies or other regulators, or stockholders to the extent that the company has a stock company where policyholders would be confused if they are doing research on an RBC and the GCC ratio. He stated that if the GCC ratio is public information, it is likely to lead to consumer confusion about the actual financial position of the ensure that they have either purchased a policy from or are considering purchasing a policy from. He discussed how there is precedent in the current Insurance Holding Company System Regulatory Act (#440) and said in their draft proposal, the coalition included similar provisions. He stated that their initial view is that Model #440 is the appropriate placement for such protections.

Andrew Vedder (Northwestern Mutual), and representing York Life and Travelers, summarized the basis for some of the more significant elements of their comments on the topic (Attachment Two-?). He stated that while the confidentiality question is important, it should be viewed in the context of the other important decisions to be made about the GCC, including the regulatory filing mechanism that will be chosen. He stated that the NAIC draft memorandum suggests that Model #440 will be that mechanism and they do see merit to that, given that the #440 already addresses supervision of an insurance group, including insurance and non-insurance entities. He noted, however, that given the importance of the regulatory mechanism decision, they would recommend that there be some focus on that question and suggest that a logical next step might be for the Working Group to assess: 1) how it would serve the purposes of the GCC; 2) the relationship to existing regulatory tools; and 3) filing mechanisms under the act in the comparison of alternatives. He stated that their second point is that when it comes to defining the appropriate degree of confidentiality, the question should be viewed in the context of what the GCC is intended to be, which is a new regulatory tool to provide a group-level perspective on capital strength aggregated from legal entity RBC with the adjustments needed to make it a credible group-level measure done in a straightforward and transparent way. These considerations seem more important than how a company’s results may differ from an entity-level view. Commissioner
Altmaier asked for clarification. Mr. Vedder stated that they were operating under the expectation that there will be some regulatory attachment point for the GCC as a requirement and that where it fits in the regulatory toolkit needs to be considered before settling on the confidentiality language.

Bob Ridgeway (America’s Health Insurance Plans—AHIP) summarized AHIP’s comments on the topic (Attachment Two-?). He noted that throughout the development of this GCC, Commissioner Altmaier has stated that it is more important to get this done right than quickly, and he stated his appreciation for that point. He stated this was particularly the case regarding the confidentiality. He stated that while AHIP cannot say that Model #440 is the perfect place to put language, it cannot think of a better place for it to be. He stated AHIP would also like to give at least a preliminary agreement or support to the coalition of 10 recommended revisions to section eight of Model #440 as the confidentiality language. He discussed that during a prior NAIC project, NAIC legal staff indicated that it was important to keep the confidentiality protections consistent from each NAIC model and from state to state, and AHIP believes that is still good advice for this topic.

Mariana Gomez-Vock (American Council of Life Insurers—ACLI) said the ACLI appreciates the Working Group’s recognition of the need for confidentiality of the GCC. She stated its members just met via conference call on this topic and that it wants to provide a summary of its views. First, the GCC should be a confidential regulatory filing, and the ACLI agrees with the NAIC’s view, as espoused in the May 29 “Proposed Group Capital Calculation” memorandum, that the GCC “will be a confidential regulatory filing” and that state insurance regulators will implement the appropriate confidentiality protections. Confidentiality should also be strictly observed while the GCC is under construction and before it is finalized in a version that stakeholders believe is fit for purpose.

Second, Ms. Gomez-Vock stated that strict confidentiality of the GCC results are necessary because if the GCC results are published by the NAIC or affected companies, the potential for misuse and abuse of the GCC ratio/data is high. Non-regulators who view the numbers will not have insight into the details of the calculation to be able to interpret and understand the GCC results. As a result, there is a strong likelihood the GCC would be misused to make comparisons between companies instead of being used as a sophisticated regulatory tool that is “intended to provide comprehensive accounting and transparency to state insurance regulators and facilitate earlier engagement with company management regarding potential business operations of concern and communication with other insurance regulators.” She noted that the NAIC has historically acknowledged and recognized the potential for the misuse of certain regulatory filings like non-public RBC reports or plans by limiting the ability of companies or state insurance regulators to disclose these reports. The GCC, as contemplated by the NAIC, will be a regulatory tool that helps state insurance regulators “better understand an insurance group’s financial risk profile for the purpose of enhancing policyholder protections.” A high degree of regulatory acumen will likely be necessary to ensure that the results, and the nuances contained within them, are understood in the appropriate context.

Finally, Ms. Gomez-Vock stated that the ACLI has a question. She said they appreciate that the Working Group is giving serious thoughts to the need for robust confidentiality protections and is considering using the Model #440 as a vehicle to incorporate those protections, but the ACLI has a question about the timing and implementation of the confidentiality protections and the timing and implementation of the calculation. Specifically, the NAIC has said it hopes to finalize the GCC in 2019 or early 2020 and begin implementation as soon as possible. The ACLI’s question is: How does the NAIC plan to handle the potential discrepancies between the two timelines? If the goal is to finalize the GCC and begin implementation in 2020, how does that affect the placement and implementation of the necessary confidentiality protections? Are we setting up a scenario where the GCC is ready to be implemented but the confidentiality protections have not been incorporated into Model #440 yet, much less adopted into state law yet? She stated the ACLI is not opposed to including the confidentiality protections in Model #440, but it believes it would be beneficial to have a discussion on the implementation of the GCC and confidentiality protections, and what the plan is to ensure that the protections are in place if the NAIC begins implementing the GCC prior to the adoption of Model #440 amendments. It may also be appropriate to consider a vehicle other than the HCA, and just in case, the ACLI wants the confidentiality and placement discussions to proceed hand in hand.

Commissioner Altmaier responded that it was a good question and stated he believes Mr. Slape touched upon this issue at the Summer National Meeting. He stated that there probably is a little bit of misalignment between the two timelines but that he sees a duel track approach to where progress is made on both during 2020 to where they become aligned once the GCC is completed. He also talked about how state insurance regulators have done things in the past with respect to, for example, the Own Risk and Solvency Assessment (ORSA) pilot project, where examination statutes were used in the interim.

Mr. Barlow stated he was confused by the comments from Mr. Vedder from the standpoint that the NAIC is not planning to create a model law with authority for the GCC. Commissioner Altmaier responded that he does not envision a group capital law like the RBC model law, which establishes thresholds under which regulatory regulators could act. He stated he believes
Mr. Vedder was suggesting that if the intent is for state insurance regulators to require all their insurers to provide a copy of their GCC, there might need to be somewhere in a model that that is a required filing. Mr. Slape agreed with Commissioner Altmaier and noted how certain ratios were developed using data supplied by annual statement filings required by law. He said the GCC would need a specific statutory framework on which to collect data. He also agreed that the work can be dual tracked in some respects as not to distract the GCC work. Commissioner Altmaier asked Mr. Vedder if he agrees with others on the non-disclosure issue; not only should the calculation be confidential when it was given to state insurance regulators, but also to have prohibition placed upon them so that insurers are not permitted to share their calculation with someone like a rating agency. Mr. Vedder responded that when it’s taken to something like rating agencies, it does get more complicated because rating agencies are going to have their own tools, and they do receive confidential information from insurers already. He stated he agrees with the idea that it is not something that companies should be advertising. However, he said he considers the GCC a relevant tool and rating agencies ask about relevant tools and including things like the Risk Management and Own Risk and Solvency Assessment Model Act (#505).

Mr. Gugig responded that Transamerica agrees with Mr. Slape but with respect to the rating agencies, those are exactly the type of entities that Transamerica referred to when it talked about the inability to understand. He stated that there are lots of nuances that state insurance regulators would understand that he does not think even rating agencies would. He said Transamerica thinks that rating agencies might use the information to publicly create winners and losers.

Commissioner Altmaier stated that he would work with NAIC staff to update the memorandum to reflect some of the conversations and bring back for discussion on a future conference call.

Having no further business, the Group Capital Calculation (E) Working Group adjourned.
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The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met in New York, NY, Aug. 3, 2019. The following Working Group members participated: David Altmaier, Chair, and Ray Spudeck (FL); Kathy Belfi, Vice Chair, and William Arias (CT); Susan Bernard and Rachel Hemphill (CA); Philip Barlow (DC); Jim Armstrong and Mike Yanacheak (IA); Bruce Sartain (IL); Roy Eft (IN); Judy Weaver (MI); Kathleen Orth (MN); John Rehagen (MO); Jackie Obusek (NC); Justin Schrader (NE); Marlene Caride, John Sirovetz and Diana Sherman (NJ); James Regalbuto (NY); Dale Bruggeman and Tim Biler (OH); Joe Dimemmo, Kimberly Rankin and Melissa Greiner (PA); Trey Hancock and Patrick Merkel (TN); Doug Slape, Mike Boerner and Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. ** Adopted its May 2 and Spring National Meeting Minutes**

Commissioner Altmaier said the Working Group met May 2 to provide an overview of its final group capital calculation (GCC) testing template and instructions before testing began.

Ms. Bernard made a motion, seconded by Mr. Bruggeman, to adopt the Working Group’s May 2 (Attachment Two-A) and April 6 (see NAIC Proceedings – Spring 2019, Financial Condition (E) Committee, Attachment Two) minutes. The motion passed unanimously.

2. **Discussed Draft Memorandum on Confidentiality Protections**

Commissioner Altmaier said the Working Group has always been clear that the GCC is intended to be a confidential document and, he had asked NAIC staff to draft a document on the topic that could be used to start the Working Group’s logistical discussions on the topic. He indicated that now was an appropriate time to have such conversations while field testing is being completed. Mariana Gomez-Vock (American Council of Life Insurers—ACLI) said the ACLI appreciated the Working Group’s recognition of the need for confidentiality of the GCC, and she indicated that as field-testing moves forward, confidentiality is important to her members. Michael Gugig (Transamerica), representing a coalition of 10 companies, summarized some of the more significant elements of their letter to the Working Group on the topic of confidentiality. He emphasized the need not only for confidentiality, but also a prohibition on allowing groups to voluntarily disclose the information or results. He emphasized that given that the GCC will be a tool, he could see no reason for any of its related information to be public. Commissioner Altmaier expressed his appreciation for the comments and suggestions, and he noted that the letter was received too late to include in the materials, but it had been posted to the Working Group’s website. Mr. Slape asked if there were any state laws that would prevent such an approach. Mr. Gugig responded that their proposed language includes key language taken from the Risk-Based Capital (RBC) for Insurers Model Act (§312) and the Risk Management and Own Risk and Solvency Assessment Model Act (§505); therefore, state laws should allow a similar approach for their proposed protections. Commissioner Altmaier suggested that the Working Group schedule a conference call for the end of August to begin more in-depth discussions on the topic, including the letter proposal from the coalition. He asked NAIC staff to distribute the comment letter to the Working Group.

3. **Received Feedback from Testers**

Jonathan Rodgers (National Association of Mutual Insurance Companies—NAMIC) reminded the Working Group of past comments that several non-volunteer NAMIC members have been testing the template since it was first exposed in November 2018. He noted that a great deal of time and resources have been spent by NAMIC members on analyzing various issues, and he provided a summary of some of those views (Attachment Two-B). He emphasized that NAMIC appreciates how the GCC is intended to be a quantitative tool in the state insurance regulator’s toolbox and how it is a natural extension of the other significant items that state insurance regulators have added to their toolbox for group supervision.

Mr. Rodgers’ discussion described how there were three different holding company structures of NAMIC testers, and there was some major take away from each of those different structures, specifically for groups that do not own a bank or other regulated entity, the lack of value for the company or state insurance regulator. He also noted that these groups had concerns...
about the timing of the filing requirement with other existing requirements, how it should be incorporated into existing annual
statement software to reduce as much duplication of work as possible, and how other regulatory information is likely more
valuable to state insurance regulators for these types of groups. Mr. Rodgers noted that for groups that are very small and hold
an agency, many such members are so concerned about the calculation that such groups are considering dropping their agencies.
He also discussed how small mutual, such as town, county and farm mutuals are generally not required to file a complete annual
statement, and many do not file their statement electronically. Finally, there are groups that do not own any other entity besides
the mutual insurer itself, where they question the value completely; requiring for these groups is missing the view that the focus
should be on the big risks of groups; and for such groups, the GCC should equal the risk-based capital (RBC). Mr. Rodgers
said his members are also concerned about how this may evolve, even knowing that there is a large learning curve for those
that have not been closely involved. He emphasized the need for the instructions to be clear and complete.

4. Discussed Other Matters

Lou Felice (NAIC) provided an update on the field testing. He discussed how the process has allowed for continual
improvement of the instructions by the issuance of multiple question and answer documents, which help solidify the intent of
part of the testing. He described how some groups had already submitted their field-test template, and the process of lead states
reviewing the GCC would begin soon. In summary, he suggested that the field testing was on-track, as envisioned.

Thomas Finnell (Finnell & Company), representing Americas Health Insurance Plans (AHIP), expressed some concern about
the degree of work related to the de-stacking of companies within the calculation field-testing. Mr. Felice noted that this is one
of the items the Working Group will need to evaluate coming out of the field testing, and it is possible that the Working Group
may decide on a different approach that does not require this extent of de-stacking once the calculation is final.

Having no further business, the Group Capital Calculation (E) Working Group adjourned.
NAIC GROUP CAPITAL
CALCULATION FIELD TESTING
INITIAL REVIEW OBSERVATIONS
AND DATA SUMMARIES

December 6, 2019
Status of field Test

• 32 Submissions Reviewed by NAIC (1 Volunteer withdrew)

• 28 Review Summaries Provided to / Discussed with Lead—States

• 14 Submissions Presented and Discussed with Volunteer

• NAIC / Lead-States will Schedule Calls with Remaining Volunteers (est. completion before 1/15/2020)
Field Test Feedback (Template and Instructions)

• Comments and Observations Thus Far on:
  ➢ Template
    o Additions / deletions
    o Formula revisions

  ➢ Instructions:
    o Additions and clarifications
Schedule 1

• Instructions
  ➢ Clarify required entries in Schedule 1B, Column 16 (Treatment of Entity for RBC purposes)
  ➢ Clarify instructions or eliminate Section 1D, Column 4 (Notional Value of Contract)
  ➢ Add / delete instructions for new data columns and delete for any that are removed
  ➢ Clarify definition of regulated vs. non-regulated financial entity
  ➢ Clarify Instructions for Tests in Schedule 1E

• Template
  ➢ Add Columns in Schedule 1C to report stand-alone revenue and equity amounts for each entity (+ instructions). This will avoid double counting in the tests applied to non-insurance entities
  ➢ Remove the following data:
    o Financial strength ratings?
    o Assumed and ceded premiums?
  ➢ Add the following data:
    o Dividends Paid and Received
    o Capital Contributions Paid and Received
    o Intra-group reinsurance assumed and ceded
    o Income/other data for insurers as well (for trending/better picture of group)
Inventory Tab

• Instructions
  ➢ Enhance instructions regarding carrying values to be reported in Columns 1 and 2 of Inventory B (Parent and Local carrying values)
  ➢ Clarify when values should be reported in Inventory C for non-insurance / non-financial entities including holding companies
  ➢ Clarify where and which intercompany receivables and payables should be reported in Inventory C
  ➢ Clarify reporting of prescribed and permitted practices of subsidiaries in Inventory B and C, columns 9 and 10
  ➢ Clarify handling of de-stacking of Schedule BA financial affiliates and intragroup surplus notes

• Template
  ➢ Add columns (+ instructions) in Section 1B for GAAP to SAP (or other regulatory) adjustments
  ➢ Address (+ Instructions) cases where a foreign regulator does not impose an insurer entity capital requirement.
  ➢ Add columns (+ instructions) in Section 1B and 1C for foreign currency adjustments to U.S. dollars (may be better to handle in Schedule 1)
Capital Instruments

• Instructions
  ➢ Clarify what should be reported in Section A, column 9 (“Amount recognized or credited as capital in local regulatory regime”)
  ➢ Clarify what should be reported in Section A, column 10 (“Amount Down-streamed”) and clarify criteria for “tracking”
  ➢ Clarify instructions as relates to debt issued to affiliates (avoid double hit for captive adjustments)

• Template
  ➢ Adjust formulas to bring the correct amount of outstanding debt into the calculation base in Section B.
  ➢ Review allowance options for hybrid debt
  ➢ Cleaner separation of intra-group debt vs. debt issued to parties outside the group
  ➢ Include all debt and improve tie with Schedule 1C, Column 12
XXX / AXXX Assets and Liabilities

• Template
  – Very few comments on the template and instructions
    • Recommendation to delete tax affecting the calculation
  – Most comments suggested information should not be included in ratio, but more as FYI
Questions and Other Information

• Instructions
  ➢ Materiality information TBD
  ➢ Should there be a materiality threshold for non-insurance / non-financial Schedule BA affiliates (Similar to such entities in Schedule D)?

• Template
  ➢ Add a description of debt instruments listed in the Capital Instruments Tab that are reported as other than senior debt or hybrid debt.
  ➢ Add question on intangible assets held by positive value Hold Cos + instructions
Scalars

• Instructions
  ➢ TBD

• Template
  ➢ Separate alternative charges for Hold Cos from other scaled values for foreign insurers
Test Options and Data Points Summary

• Base GCC Ratio
• Defining the Insurance Group
  ➢ Materiality (include / exclude and thoughts on regulator discretion)
  ➢ Treatment of Non-insurance / Non-financial entities

• Banks and Other Financial Entities
• Treatment of Hold Cos
• Permitted / Prescribed Practices
• Capital Instruments
• XXX / AXXX
• Scalars
Guide to Hi-Level Charts

-30% -25% -20% -15% -10% -5% 0% 5% 10% 15% 20% 25% 30%

75-90th Percentile

25-75th Percentile

10-25th Percentile

Mean
Base GCC Ratio

• All Entities
• All Entities at Values Reported in the Inventory Tab
  ➢ Trend test calibration for RBC filers and non-insurance / non-financial subsidiaries (300% x ACL)
  ➢ Available capital from Inventory B, Column 8 (negative values included)
  ➢ Capital calculation from Inventory C, Column 8 (floored at zero)
  ➢ All permitted and prescribed practices allowed
  ➢ All non-operating hold cos at zero capital calculation
  ➢ All values foreign insurance values scaled at 100%
  ➢ Captives at reported regulatory values
  ➢ No additional allowance for senior / hybrid debt

Attach Chart A - Base GCC Ratios
• Similar (though large) range of base ratios across types of business.
Defining the Insurance Group

• Field Test includes the ultimate controlling party and all entities within the group.
  ➢ Only non-insurance / non-financial entities without material risk that are outside the defined insurance group may be marked as “exclude”

• Current Definition of Insurance Group

An insurance Group is comprised of the head of the Insurance Group (insurer, mutual holding, or other holding company) and all entities under its direct or indirect control and includes all members of the Broader Group that exercise significant influence on the insurance entities and/or facilitate, finance, or service the insurance operations.

An Insurance Group may be:
  • a subset/part of bank-led or securities-led financial conglomerate; or
  • a subset of a wider group.

• Materiality and Excluding Non-insurance / Non-financial entities
  ➢ No single suggestion for a threshold had consensus from the volunteers
  ➢ 17 Volunteers excluded some amount for non-material entities (Range from <1% of Available Capital to 48%)
  ➢ Range of results is shown in Chart B

• Treatment of Non-insurance / Non-financial Entities
  ➢ Owned by Insurers (may not be excluded) – consider not de-stacking due to covariance issues in RBC
  ➢ Owned by non-insurers within defined group (may not be excluded)
  ➢ Owned outside the defined insurance group (may be excluded based on materiality threshold)
  ➢ Tested using 5 alternative equity and revenue-based measures – See Chart C
Included Business; Stock Companies Only [Chart B Hi-Level]

- Impact of removing ‘Excluded’ entities is small for most Volunteers but leads to a large reduction for a small number of them.
Tests 2a is reported at 2 calibration levels (12% Scaled to RBC CAL x Revenue and 12% Scaled to RBC Trend Test x Revenue)

Treatment of Non-Insurance / Non-Financial entities is material for three volunteers and not material for the rest.

Of those three entities, one sees sizable benefit from the revenue-based tests (i.e. 1a, 1b and 2a) and the other see decrease. The average impact is positive. Tests based on carrying value (i.e. 2b and 3) have less impact on all.
Banks and Other Financial Entities

• Banks are valued at regulatory available capital and regulatory capital requirements (risk weighted assets calculation) [Chart D]

• Other Financial Entities (e.g. asset managers) were run through several equity and revenue-based tests
  ➢ Chart E displays the range of results for the calculations that were tested
• There are 9 volunteers with banking operations. Of those, 5 have more than 1% of available capital in banking entities.
• Capital ratios for banking within these volunteers are in range of 100-300% .
The revenue based tests tend to lead to higher charges than the BACV and notional value based test.
Treatment of Hold Cos

- Non-operating Hold Cos (Ungrouped)
  - Negative values included
  - Zero Capital charge
  - Alternative charge @ 22.5% x stand-alone value
  - Chart F indicates impact of 22.5% charge on the GCC ratio

- Operating Hold Cos
  - Treated based on operating activities (and included with data on applicable entity type)

- Grouped Hold Cos (Excludes regulated insurance and bank entity Hold Cos)
  - Categorized based on entity type of grouped subsidiaries and included with data on applicable entity type
  - Must all conduct similar operating activities and reported under same basis of accounting

Impact on Capital Ratio of 22.5% Charge on HC (floored at 0)
Perm/ Prescribed Practices

- Permitted and prescribed practices can both increase and decrease capital ratios.
- In dollar terms, the bulk of the impact was in P&C entities. As a %, the entity category most impacted was RBC Filing US Insurer (AG 48 Captive)
  - Does not include asset adjustments for AG48 Captives that are shown separately
Capital Instruments (1)

- 23 Volunteers Issued Debt other than Surplus Notes from either Top or Downstream Hold Cons
- Tested Allowances from 20% to 100% for Senior Debt and 10% to 100% for Other Debt
- Ratio Of All Listed and Qualifying (i.e. at least 5-year term) Debt to Equity Ranges was calculated in two ways
  - The straight debt to equity ratio ranges from 1% to 95%
  - When the qualifying debt is Included in the denominator of ratio, the range is 1% to 48% (7 > 30% / 3 > 40%)
  - Chart G shows the average ratio of debt to base available capital for non-mutual groups by industry segment (with debt included in the denominator)
Capital Instruments EXAMPLE (2)

- Some Volunteers’ Description of Debt Listed as “Other” or “Capital Instruments” is Still Required
- Chart H shows the impact on the GCC ratio for stock groups by Industry Segment using (i) expanded ratio definition and applying a sample allowance of 30% for senior debt and 15% of other debt and (ii) No limit on debt

Note: Allowing Senior Debt may require reconsideration of capital calculation for hold cos.
XXX / AXXX

• Test 3 generally considered most favorable
  – Uses economic reserve approved by regulator on captives
  – Uses factor approach as proxy for companies not modeling
• Test 1 factor for XXX considered somewhat reasonable
• Test 1 factor for AXXX less desired but at least recognizes reserve likely overstated
• Test 2 not able to be completed by many companies due to lack of data (would require estimations);
• Test 4-Despite some negative feedback on Test 1 factor approach, only 5 utilized a different factor, and none pushed it as being right for rest of industry
• Test 5-Only 5 companies provided (GAAP or GAAP based)
Due to data availability, only tests 1 and 3 are shown.
Scalars

- 22 Volunteers Reported Insurance Entities Located in Non-U.S Jurisdictions > 1% of Available Capital. The range was from 1.9% - 83.8%
  - 13 Volunteers Reported Insurance Entities Located in Non-U.S Jurisdictions > 10% of Available Capital (9 reported > 30%).
  - 4 scaling methods were tested – 2 at RBC Trend Test Level (300% x ACL) and 2 at RBC CAL
- Over 99% of entities (as measured by available capital) were mapped to named entity category. Remainder were mapped to Region A, B, etc.
  - Top Missing Countries (in order of AC): Barbados, Thailand, New Zealand, Indonesia, Cayman, Vietnam, Brazil
  - Some of these regimes do not have req’d capital; in such cases suggestion made to set ‘calc capital’ = ‘available capital’

NOTE: One suggestion to use Group Specific (Rather than U.S Industry) Average RBC Ratio and Excess Ratio compared to Jurisdiction Ratios to Scale
• Chart above shows impact of scalar options for all volunteers and the subset that are likely IAIG’s.
• Main driver of the differences is calibration level: Prelim 1 and Prelim 2 are at ‘Trend Test’ level (i.e. 300% of ACL) while Prelim 3 and Prelim 4 are at Company Action Level (i.e. 200% of ACL)
• Likely US ‘Internationally Active Insurance Groups’ are actually less sensitive, on average, to scalars than other volunteers. This is mostly due to inclusion of non-US domiciled insurers in the sample.
• Chart above includes impact on Base GCC Ratio for all types of companies of different options
Other Input Provided

• Consider Materiality Threshold for Schedule BA Non-financial Affiliates
• Do Not De-stack Non-insurance / Non-financial entities from RBC Filers
• RBC Equity Charges are Too High for Non-insurance / Non-financial Affiliates Outside the Defined Insurance Group.
• Consider Other Options for Non-RBC Filing U.S. Insurers
• Consider a capital charge on Des-stacked Hold Cos material positive values (Due to investment risk or holding of significant intangible assets)
Template Revisions Since Version 2

• Fixes / Changes to address data quality:
  – Added separate row to ‘Calc 2’ to allow adjustment to calculated capital due to permitted / prescribed practices
  – Several adjustments to fill in missing data: used ‘Revenue’ as proxy for ‘Revenue during year of greatest loss’ and ‘Average 3 yr. Revenue; ‘Adj Carrying Value’ for Equity and BACV; etc.
  – Any capital instrument with blank/error in maturity date was assumed to be included

• Suggested improvements:
  ➢ Req’d capital should be entered Company Action Level and then multiplied by 1.5 in the template