

Draft: 7/21/20

International Insurance Relations (G) Committee  
Conference Call  
June 3, 2020

The International Insurance Relations (G) Committee met via conference call June 3, 2020. The following Committee members participated: Gary Anderson, Chair (MA); Bruce R. Ramage, Vice Chair (NE); Ricardo Lara (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 represented by TK Keen (OR); Jessica K. Altman (PA); Hodgen Mainda (TN); and Tregenza A. Roach (VI). Also participating was Justin Schrader (NE).

1. Heard an Update on International Activities

a. IAIS

Commissioner Anderson said from an operational perspective, the International Association of Insurance Supervisors (IAIS) has suspended in-person meetings until the end of August. He noted that this includes the June Committee Meetings and Global Seminar the NAIC planned to host in Seattle, WA. Instead, the NAIC will host the Global Seminar in June 2023. Commissioner Anderson said the IAIS Executive Committee recently decided to cancel the Committee Meetings, Annual General Meeting and Annual Conference scheduled for November in Santiago, Chile. He said for both the June and November meetings, stakeholder events will be held virtually. He said as part of the June Committee Meetings, the IAIS will discuss whether it will resume other in-person meetings, such as at the subcommittee level, starting in September.

Commissioner Anderson explained that at the end of 2019, the IAIS finalized some key projects; i.e., the holistic framework for systemic risk in the insurance sector and moving into the global insurance capital standard (ICS) monitoring period. He said both projects involve a year-long process that had to be adjusted given the impact of COVID-19.

Regarding the holistic framework, Commissioner Anderson said it was decided to focus the global monitoring exercise, both the individual insurance assessment and the sector-wide monitoring, on COVID-19 related information. He said the results should help provide a global perspective regarding the impact of COVID-19 on the insurance sector. He noted that while this may not be the plan as envisioned going into 2020, this refocusing will hopefully show the value of moving to a more holistic approach that can look at risks and potential systemic impact regardless of the source.

Regarding the ICS, Commissioner Anderson said the monitoring period is underway with data collection for both the ICS and Aggregation Method having started around the end of April and the deadline extended until the end of October. He said work continues within the IAIS ICS Task Force to discuss comparability. He said while the plan was to have a document ready for consultation this summer, the timeline for this work has been adjusted too, with the consultation to take place later this year, likely in November.

Commissioner Anderson said the IAIS currently has two assessment activities underway. The first is a peer review of Insurance Core Principle (ICP) 19 (Conduct of Business) launched at the end of February. Commissioner Anderson said as with prior reviews, the plan was to give IAIS members a month to respond, but with the outbreak of COVID-19, an extension to June 15 has been given to allow jurisdictions more time to respond. He said per usual NAIC practice, about a handful of states have volunteered to participate in responding to this peer review. Second is the holistic framework baseline assessment (BLA) that launched May 1. Commissioner Anderson said Team USA will be coordinating the response to the BLA from a U.S. perspective, given that this assessment covers jurisdictions as a whole. He said the BLA results will be shared with relevant stakeholders, such as the Financial Stability Board (FSB) and the general public, once finalized in March 2021. He said in 2021, the IAIS will build on the BLA in undertaking targeted jurisdictional assessments to determine the consistency of the implementation of the holistic framework supervisory material, and it will deliver a final report to the FSB in 2022.

Commissioner Anderson said since mid-March, the IAIS Secretariat has been collecting information from IAIS members on supervisory measures related to COVID-19, and it has facilitated discussions on the situation in various jurisdictions on biweekly Executive Committee calls. He said a number of considerations on future IAIS work, as well as how the association operates, have arisen from these survey results and discussions. He noted that the IAIS recently formed a small, virtual group to help analyze the variety of COVID-19 supervisory measures and serve as a sounding board, providing recommendations to the Executive Committee as it starts to consider strategic implications. He said the small group's first call was May 28, and it

focused on brainstorming possible areas that the IAIS may want to focus on to help IAIS members responding to the pandemic. He said state insurance regulators and the NAIC have been active in providing and updating input on the IAIS survey and on the Executive Committee calls to help share the experiences in the U.S. insurance sector and what supervisors have been doing in response to COVID-19. He said while this pandemic has caused challenges, it could also provide an opportunity for the IAIS to assess its current and future workstreams and how it operates, noting that the current crisis has highlighted the need to be responsive to new and emerging risks, to react in ways that are helpful for supervisors around the globe, and to be able to operate even outside of normal circumstances. He added that state insurance regulators and the NAIC have been learning lessons on these points, and they look forward to sharing them with the IAIS and other supervisors.

Robert Neill (American Council of Life Insurers—ACLI) said the ACLI hoped to work with members of the Committee on ICS comparability work to supplement what is being done through Team USA, and he asked if there are timelines that interested parties should be aware of in order to feed into the work. Commissioner Anderson responded that while there are not necessarily concrete deadlines for sharing information as the document is developed, it would be helpful if feedback on the work could be shared with the Committee before November. Ryan Workman (NAIC) said many IAIS workstreams have been adjusted in light of COVID-19, and discussions have slowed down as well, but there could be an update on the status of this document for the Committee at the NAIC Summer National Meeting.

b. OECD

Ekrem Sarper (NAIC) said the Organisation for Economic Co-operation and Development (OECD) Insurance and Private Pensions Committee (IPPC) quickly pivoted earlier this year to focus on COVID-19 responses and the discussions and policy considerations of governments and state insurance regulators. He said in early April, the IPPC released a paper, “Initial Assessment of Insurance Coverage and Gaps for Tackling COVID-19 Impacts.” He said recently, the IPPC followed up with a paper, “Responding to the COVID-19 and Pandemic Protection Gap in Insurance,” which can be found on the OECD’s website. He said the focus of this policy paper is on how business interruption insurance against pandemic risk could be provided with support from governments and some of the challenges and considerations necessary for establishing such a program.

Mr. Sarper said similar to other organizations, the IPPC’s June in-person meeting has been canceled and instead will be held virtually. The virtual meeting will discuss policy responses to COVID-19 and future work for the IPPC; the insurability of perils, which are or are increasingly becoming uninsurable; and a draft preliminary report on the relationship between public and private sectors in the area of long-term care (LTC) and health care.

Mr. Neill asked whether any commissioners or states would be participating in the virtual IPPC meeting along with NAIC staff. Mr. Sarper responded that it would likely just be NAIC staff participating.

c. FSAP

Mr. Schrader explained that the International Monetary Fund (IMF) is about to conclude its third Financial Sector Assessment Program (FSAP) of the U.S. financial regulatory system. He said the FSAP includes Mission 1 and Mission 2. He said meetings for Mission 1 took place last fall with meetings at all the NAIC offices and four states, and Mission 2 took place in February and March with meetings both at the NAIC and several other states. He said relevant to the insurance sector, the IMF is expected to publish the Financial System Stability Assessment (FSSA) and technical notes on insurance and stress testing in July 2020. He said as with previous FSAPs, there will likely be areas in which the NAIC and state insurance regulators will continue to disagree with the IMF’s approach and recommendations, as well as areas in which constructive feedback will be provided to the IMF regarding inaccuracies or particular characterizations of the U.S. system of state-based insurance regulation in the documents before they are published. He thanked the participating states for the time they took to present to the IMF on the state-based system, as well as NAIC staff. He said he would provide an update and summary of the FSAP documents once they are published.

d. Bilateral Supervisory Cooperation

Commissioner Anderson said while the NAIC’s priorities have shifted to focus on COVID-19, so have the priorities for our regulatory counterparts overseas. He said over the years, the NAIC has been improving relationships with foreign regulators, so that in times of crisis, regulators would know how to reach each other. He added that these relationships are built through work at the IAIS and other standard-setting bodies, but more importantly through consistent bilateral outreach.

Commissioner Anderson said since early March, the NAIC and state insurance regulators have been in regular contact with supervisors and finance ministries throughout Asia, Latin America and Europe. He said many jurisdictions are facing the same challenges as the U.S., and in the past month, the NAIC has had several calls at the staff level with supervisors in Bermuda, the European Union (EU), Japan, and the United Kingdom (UK).

Commissioner Anderson said during these discussions, the NAIC shared information about the prudential measures taken by state insurance regulators, including heightened monitoring of insurers through uniform data calls on solvency impact and regulatory relief and forbearance in a number of critical areas, particularly in regard to various statutory accounting exceptions. He said the numerous market conduct related measures taken in response to COVID-19 were also discussed. He said international counterparts shared information about primary challenges that their jurisdictions are facing in responding to COVID-19 and measures they have taken on a prudential and market conduct basis.

Commissioner Anderson said for the foreseeable future, the NAIC's bilateral dialogues will be held virtually; although, state insurance regulators will continue to work closely with international counterparts, ensuring that lines of communication remain open. He said it is important that the sharing of information continues relating to insurers jointly supervised across those jurisdictions, as well as various policy responses to COVID-19 and beyond.

e. NAIC Events

Commissioner Anderson said as previously announced, the NAIC decided to cancel this year's International Insurance Forum. He said a good program was planned for the NAIC's annual flagship international event, so it is unfortunate that it was canceled, but he noted that next year's Forum will be held May 24–25, 2021.

Commissioner Anderson said going into 2020, it was decided not to hold the spring session of the NAIC International Fellows Program due to resource constraints associated with the FSAP. He said in light of COVID-19 and related travel restrictions and resource strains, the NAIC has decided to also cancel the fall session of the Fellows Program, and NAIC staff are exploring virtual alternatives to the fall session in order to continue to provide training opportunities for foreign insurance regulators interested in learning about the U.S. system of insurance regulation, including sessions prerecorded by NAIC technical experts, should resources allow.

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

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Draft: 2/11/20

International Insurance Relations (G) Committee  
Conference Call  
February 3, 2020

The International Insurance Relations (G) Committee met via conference call Feb. 4, 2020. The following Committee members participated: Gary Anderson, Chair (MA); Bruce R. Ramage, Vice Chair (NE); Ricardo Lara represented by Emma Hirschhorn (CA); Andrew N. Mais (CT); David Altmaier (FL); Doug Ommen (IA); James J. Donelon represented by Tom Travis (LA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers (MO); Marlene Caride (NJ); Jessica K. Altman (PA); and Hodgen Mainda (TN).

1. Approved Submission of NAIC Comments on IAIS and SIF Draft Issues Paper on Implementation of the TCFD Recommendations

Commissioner Anderson explained the purpose of the conference call is to discuss and approve the submission of NAIC comments on the joint International Association of Insurance Supervisors (IAIS) and Sustainable Insurance Forum (SIF) draft *Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures* (TCFD Recommendations), which is out for public consultation.

Commissioner Anderson said that in June 2018, the IAIS and SIF released a joint *Issues Paper on Climate Change Risks to the Insurance Sector*. He said the draft issues paper serves as a follow-up to the 2018 paper and describes the role of the Financial Stability Board (FSB) TCFD Recommendations in establishing a framework for climate risk-related disclosures for the insurance sector. Commissioner Anderson said the draft issues paper draws on the results of an SIF survey conducted during the first half of 2019 on implementation of the TCFD Recommendations and provides examples of related supervisory practices from around the world.

Commissioner Anderson explained that per the usual process, the draft issues paper was reviewed internally, including by the NAIC's Climate Risk and Resilience (C) Working Group, which resulted in the initial draft NAIC comments that were circulated on Jan. 21 in advance of the conference call. He said no additional input was received from state insurance regulators or interested parties in advance of the conference call.

Ryan Workman (NAIC) provided an overview of the draft NAIC comments on the draft issues paper, focusing on substantive comments.

David Snyder (American Property Casualty Insurance Association—APCIA) said that while the TCFD Recommendations have value, their implementation should be a voluntary process. He said the APCIA hopes the disclosure will be accepted as reporting in places where reporting is mandatory and noted that the APCIA looks forward to working with the NAIC on these issues.

Commissioner Caride made a motion, seconded by Commissioner Altmaier, to approve submission of the NAIC comments (Attachment A). The motion passed.

Commissioner Anderson said the NAIC comments on the draft issues paper would be submitted in advance of the Feb. 5 deadline and urged interested parties to submit comments as well.

2. Discussed Other Matters

Commissioner Anderson thanked Committee members and interested parties for their participation during the recent Committee meeting and conference call on Jan. 30 in Washington, DC, on the aggregation method and comparability. He said it was a productive discussion and that the Committee looks forward to this ongoing dialogue over the course of 2020.

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

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Draft: 7/29/20

International Insurance Relations (G) Committee  
January 30, 2020

The International Insurance Relations (G) Committee met in Washington, DC, and via conference call Jan. 30, 2020. The following Committee members participated: Gary Anderson, Chair (MA); Bruce R. Ramge, Vice Chair, represented by Justin Schrader (NE); Ricardo Lara represented by Emma Hirschhorn (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 represented by John Rehagen (MO); Marlene Caride (NJ); Andrew R. Stolfi (OR); Jessica K. Altman (PA); and Hodgen Mainda (TN).

1. Heard an Introduction

Commissioner Anderson gave an overview of the agenda and said it would start with a recap of the agreements coming out of last year's International Association of Insurance Supervisors (IAIS) meetings in Abu Dhabi, United Arab Emirates. He said there would then be a short overview of the aggregation method (AM) along with some discussion on its ongoing development, as well as how the NAIC can further help with the understanding and education of the AM. Finally, he said there will be a discussion on comparability, in particular looking at the definition of comparability and overarching approach and moving towards developing criteria and the overall assessment process.

Commissioner Anderson noted the IAIS is looking at these issues and that state insurance regulators are in the process of thinking through them as well. He said today's meeting would consider a variety of points that will be part of further developing the AM and the comparability assessment. He said there may not be answers to every question, but that is in part due to the nature of the insurance capital standard (ICS) project. He added that there are a number of moving parts that will continue to evolve over the monitoring period.

2. Heard a Recap of Abu Dhabi Agreements

Ryan Workman (NAIC) provided an overview of the agreement reached at the IAIS meetings in Abu Dhabi, United Arab Emirates, in November 2019. This included the definition of comparable outcomes and the overarching approach to developing high-level principles and criteria for the comparability assessment that are to be done in such a manner that the AM is neither precluded at the outset as an outcome equivalent approach to the ICS for measuring group capital, nor given a free pass. Mr. Workman also walked through the work plan and timeline for the ICS project and the comparability assessment.

3. Heard an Update on the AM Status

Ned Tyrrell (NAIC) provided an overview of the AM, which is designed around the concept that group capital resources and requirements are derived from the aggregation of entity-level reporting. He described five components of the AM: 1) group financials and inventory; 2) adjustments for double-counting; 3) scaling; 4) capital instruments; and 5) aggregation. Mr. Tyrrell also provided an update on the status of each of these five design components.

Commissioner Anderson noted that while there is a relationship between the AM and the domestic group capital work, there is a difference. Commissioner Altmaier provided an update on the status of the NAIC's group capital calculation (GCC) that is intended to be a regulatory tool for supervisors of U.S.-based groups. Thomas Sullivan (Federal Reserve Board—FRB) provided an update on the development of the FRB's building-block approach capital standard for insurers it supervises.

Comments made on the development of and education on the AM included the following:

- While there may be questions about scalars and how they will work, it is a mechanism that is part art and part science, and there is no need to be defensive about their use and how the AM aggregates risk.
- Having regular workshops and educational sessions about the AM would be helpful, as well as having documents that explain its design and provide responses to frequently asked questions (FAQ). Such information would help educate people on how the AM meets the same goals as the ICS and to give input on the comparability assessment criteria.
- There is a need to distinguish between the AM and jurisdictional implementations of the AM; the AM is not simply risk-based capital (RBC). The more information that is available on the GCC, the more tangible the AM becomes, so having an exposure draft of the GCC by mid-2020 would be helpful.

- Problems can be hidden in a consolidation approach, whereas the AM can be more regionally reflective and provides the right level of information at the right level.
- Volatility is a concern with the ICS. There is a need to avoid false positives, which could be demonstrated by linking the AM to the economic impact assessment.

Commissioner Anderson said that while there will be “stability” with the AM, just as there is with the ICS over the monitoring period, similarly the NAIC hopes the data received over this period helps inform the AM and any improvements. He said there are some outstanding points to be decided, such as scalars, so there will be some additional changes as work progresses on the version that will be assessed for comparability.

#### 4. Discussed Comparability

Commissioner Anderson opened the discussion on comparability by looking at the definition approved at the IAIS meetings in Abu Dhabi, United Arab Emirates, how to go from the overarching approach to principles on comparability and what the actual assessment process could look like.

Comments on the definition of comparable outcomes included the following:

- The definition should not be reopened as it would lead to a different outcome on the way forward on comparability. The definition emphasizes that while the ICS and AM have similar elements, they are done differently.
- The assessment would need to involve both quantitative and qualitative aspects. There is an opportunity for the AM if it can demonstrate quantitatively that the AM produces fewer false positives. The qualitative side is more about how supervisors use different supervisory action to get an outcome.
- Regardless of how quantitative or qualitative the assessment is, it needs to avoid being granular.
- In considering what is an appropriate scope and form of supervisory action, hard wiring specific triggers needs to be avoided.
- Consideration should be given to how useful the approach is to the internationally active insurance group’s (IAIG’s) supervisory college. However there also needs to be education on how colleges in the U.S. operate and what is done within them.

Comments on going from an overarching approach on comparability to principles included the following:

- For the overarching approach that addresses the prudence of the AM in relation to the ICS, the notion of prudence suggests consideration of the level of calibration, but it should also consider the prudent supervisory actions.
- The overarching approach that notes the scope of group under the AM and ICS should be consistent with that set out in the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) shows that not everything about the comparability assessment needs to be based on the ICS.
- The assessment of comparable outcomes could also look at the utility of the supervisory action taken to an end user, especially the supervisor.
- In moving from principles to criteria for the assessment, the ICS principles could be a good basis, minus those principles that are irrelevant.

Comments on the approach and work plan for the assessment process included the following:

- The economic impact assessment should take place midway through the monitoring period, not at the end. Otherwise, the results produced will not have any actual impact. The economic impact assessment should be performed by the IAIS.
- Some IAIS members interpret “level playing field” as everyone having to adopt a market adjusted valuation ICS. However, if a level playing field is only concerned with competition, the competition is not IAIG versus IAIG but rather an IAIG versus non-IAIGs in its jurisdiction. In this respect, the AM is better at delivering such a level playing field as it shows more of what is happening at the local levels.

Regarding next steps on comparability, Commissioner Anderson said that part of moving into the monitoring period is the data collection, a process that should be getting underway shortly. He said the NAIC appreciates the participation of our IAIGs who will be providing the ICS and/or AM data. Commissioner Anderson added that the IAIS has its first committee meetings at the

end of February and as part of those meetings, members will be looking at how to go from the overarching approach to the principles that will be out for consultation later in July.

Commissioner Anderson commented that it has been helpful to get interested party views on the number of steps that will be part of the monitoring period and comparability assessment. As part of thinking into the future, he asked whether after the monitoring period when ComFrame is revised to reflect the ICS, should the AM also be integrated into ComFrame. Ian Adamczyk (Prudential) replied that if the AM is found to provide comparable outcomes, it should be included in ComFrame.

#### 5. Discussed Other Matters

Commissioner Anderson reminded participants of the next Committee conference call planned on Feb. 3 to review and approve submission of NAIC comments on a draft joint issues paper by the IAIS and Sustainable Insurance Forum (SIF) on the implementation of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations that is currently out for public consultation.

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

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Draft: 2/11/20

International Insurance Relations (G) Committee  
Conference Call  
January 15, 2020

The International Insurance Relations (G) Committee met via conference call Jan. 15, 2020. The following Committee members participated: Gary Anderson, Chair (MA); Bruce R. Ramage, Vice Chair (NE); Ricardo Lara represented by Emma Hirschhorn (CA); Andrew N. Mais (CT); David Altmaier represented by Ray Spudeck (FL); Doug Ommen represented by Carrie Mears (IA); James J. Donelon (LA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers represented by John Rehagen (MO); Marlene Caride (NJ); Andrew Stolfi (OR); Jessica K. Altman (PA); and Hodgen Mainda represented by Trey Hancock (TN).

1. Approved Submission of NAIC Comments on IAIS Draft Application Paper on Liquidity Risk Management

Commissioner Anderson explained that the purpose of the conference call is to discuss and approve the submission of NAIC comments on the International Association of Insurance Supervisors (IAIS) draft *Application Paper on Liquidity Risk Management*, which is out for public consultation.

Commissioner Anderson noted that the IAIS recently revised certain Insurance Core Principles (ICPs) and Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) material as part of the development of the holistic framework for systemic risk in the insurance sector. He said that during this process, the IAIS enhanced the enterprise risk management (ERM) requirements in ICP 16, ERM for Solvency Purposes, to more explicitly address liquidity risk. He added that the IAIS developed this application paper to help provide further guidance on the relevant supervisory material related to liquidity risk management.

Commissioner Anderson said that per the usual NAIC process, the paper was reviewed internally, including by the NAIC's Financial Stability (EX) Task Force, which resulted in the initial draft NAIC comments that were circulated on Dec. 31, 2019, in advance of the conference call. He said no additional input was received from state insurance regulators or interested parties in advance of the conference call.

Ryan Workman (NAIC) provided an overview of the draft NAIC comments on the draft application paper, focusing on substantive comments.

Robert Neill (American Council of Life Insurers—ACLI) said he appreciates the NAIC comments and that the ACLI is supportive of the holistic framework overall and hopes it succeeds. However, he said the ACLI views the draft application paper as overly prescriptive in certain areas and plans to submit its own comments to the paper.

Commissioner Caride made a motion, seconded by Commissioner Mais, to approve submission of the NAIC comments (Attachment A). The motion passed.

Commissioner Anderson said the NAIC comments on the draft application paper would be submitted in advance of the Jan. 20 deadline and urged interested parties to submit comments as well.

2. Discussed Other Matters

Commissioner Anderson noted two upcoming Committee conference calls. He said there will be a conference call and in-person meeting on Jan. 3 to discuss the aggregation method and the process for assessing comparable outcomes. Commissioner Anderson said that on Feb. 3, there will be a conference call to review and approve submission of NAIC comments on a draft joint issues paper by the IAIS and Sustainable Insurance Forum (SIF) on the implementation of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations that is currently out for public consultation. He said registration information and other details for both conference calls would be circulated shortly.

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

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## Draft Pending Adoption

Attachment Five  
International Insurance Relations (G) Committee  
8/12/20

Draft: 12/19/19

International Insurance Relations (G) Committee  
Austin, Texas  
December 7, 2019

The International Insurance Relations (G) Committee met in Austin, TX, Dec. 7, 2019. The following Committee members participated: Gary Anderson, Chair (MA); Andrew Stolfi, Vice Chair (OR); Andrew N. Mais (CT); Stephen C. Taylor (DC); David Altmaier (FL); Colin M. Hayashida (HI); Doug Ommen (IA); James J. Donelon (LA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers (MO); Bruce R. Ramage represented by Justin Schrader (NE); Marlene Caride (NJ); John G. Franchini represented by Robert Doucette (NM); Jillian Froment (OH); and Jessica Altman (PA).

### 1. Adopted its Nov. 6, Oct. 15, Aug. 13, and Summer National Meeting Minutes

The Committee met Nov. 6, Oct. 15, Aug. 13 and Aug. 3 and took the following action: 1) heard an update on upcoming International Association of Insurance Supervisors (IAIS) committee meetings; 2) approved submission of NAIC comments on the IAIS draft *Issues Paper on the Use of Big Data Analytics in Insurance*; 3) heard updates on IAIS activities and the Financial Sector Assessment Program (FSAP); 4) approved submission of NAIC comments on IAIS revised supervisory material and material related to the holistic framework for systemic risk in the insurance sector; 5) adopted the report of the ComFrame Development and Analysis (G) Working Group; and 6) discussed IAIS key 2019 projects with interested parties.

Commissioner Anderson noted that the Committee also met Nov. 19, Oct. 29, and Sept. 30 in regulator-to-regulator sessions, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss key agenda items before and after the IAIS committee meetings and the International Monetary Fund (IMF) FSAP.

Commissioner Stolfi made a motion, seconded by Commissioner Caride, to adopt the Committee's Nov. 6 (Attachment One), Oct. 15 (Attachment Two), Aug. 13 (Attachment Three), and Aug. 3 (*see NAIC Proceedings – Summer 2019, International Insurance Relations (G) Committee*) minutes. The motion passed unanimously.

### 2. Adopted the Report of the ComFrame Development and Analysis (G) Working Group

Commissioner Anderson said the ComFrame Development and Analysis (G) Working Group met prior to the Committee meeting in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss next steps on implementation of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and the global insurance capital standard (ICS) and monitoring period process. He said that with the adoption of ComFrame, the Working Group has fulfilled its mandate and will be dissolved at the end of 2019. However, he said that as work related to ComFrame and the ICS is moving into a new phase, relevant charges have been added to working groups reporting to the Financial Condition (E) Committee. He noted that the Group Solvency Issues (E) Working Group's 2020 proposed charges include: "[a]ssess the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and make recommendations on its implementation in a manner appropriate for the U.S." He also noted that the Group Capital Calculation (E) Working Group's 2020 proposed charges include: "[I]aise, as necessary, with the International Insurance Relations (G) Committee on international group capital developments and consider input from participation of U.S. state insurance regulators in the International Association of Insurance Supervisors (IAIS) monitoring process." Additionally, he said the Committee will continue to track and provide input, as appropriate, as ComFrame is implemented and the monitoring period moves forward.

Commissioner Mais made a motion, seconded by Commissioner Caride, to adopt the report of the ComFrame Development and Analysis (G) Working Group. The motion passed unanimously.

### 3. Adopted its 2020 Proposed Charges

Commissioner Anderson explained that the Committee's proposed charges for 2020 (Attachment Four) have some minor wording changes and that some of the individual charges were reordered for a more logical flow. He said that as noted in the ComFrame Development and Analysis (G) Working Group report, 2019 is the last year for the Working Group. He added that

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as this project moves into the next phase, the necessary analysis and coordination by the states and the NAIC and interaction with interested parties will continue under the relevant groups reporting to the Financial Condition (E) Committee.

Commissioner Altmaier made a motion, seconded by Commissioner Stolfi, to adopt the Committee's 2020 proposed charges. The motion passed unanimously.

#### 4. Heard an Update on Key 2019 Projects of the IAIS

Commissioner Anderson said the NAIC was very pleased to have former Tennessee Commissioner Julie Mix McPeak receive the Distinguished Fellows award from the IAIS in Abu Dhabi for her dedication and work at the IAIS, including serving on multiple committees and taking key leadership positions for a number of years. He congratulated Ms. McPeak on behalf of state insurance regulators and expressed appreciation for the time and leadership she provided at the international level during her time as commissioner.

Commissioner Anderson reported that at its committee meetings and annual general meeting in mid-November in Abu Dhabi, the IAIS reached key milestones on the effective cross-border supervision of insurance groups and contributing to global financial stability. He said these achievements were made possible by a shared commitment from the world's insurance supervisors to the maintenance of fair, safe and stable insurance markets for the benefit and protection of policyholders. He said that overall, state insurance regulators are pleased with the outcomes of these meetings.

#### *ICPs and ComFrame*

Commissioner Anderson explained that in Abu Dhabi, the IAIS adopted a revised set of its Insurance Core Principles (ICPs) and ComFrame. Revisions to the ICPs has been a multi-year process, making updates to reflect input from self-assessment and peer reviews, developments in the market, and supervision, as well as to ensure consistency between the ICPs and ComFrame. He noted that ComFrame is the result of years of work, and it is intended to be a comprehensive and outcome-focused framework that provides supervisory minimum requirements tailored to the international activity and size of internationally active insurance groups (IAIGs). Commissioner Anderson said that moving into 2020, IAIS members will begin the implementation of ComFrame. He said the NAIC's Group Solvency Issues (E) Working Group will assess ComFrame and make recommendations on its implementation in a manner appropriate for the U.S. He said that during this initial phase of implementation, the IAIS will be providing supporting material to help members understand expectations set out by ComFrame. He commented that there have been comments submitted previously by interested parties during the development of ComFrame related to possible deviations from U.S. regulations, and he noted that there will be careful and due deliberation to ensure that the implementation of ComFrame in the U.S. is compatible with our regulatory system. He added that it will be important to have ongoing engagement with interested parties to understand any specific concerns and address them accordingly.

Commissioner Anderson said that as part of its 2020–2024 strategic plan, the IAIS plans to focus on developing supporting material for its members more broadly, which will include issues and application papers on a variety topics. He added that the IAIS will also be continuing with its implementation assessment activities through peer reviews of ICPs on a thematic basis.

Stephen Broadie (American Property Casualty Insurance Association—APCIA) commented that the APCIA appreciates the final outcomes on ComFrame, especially with regard to the overarching principles, which include recognizing that IAIGs can be organized in different manners, as long as the objectives of ComFrame are ultimately achieved. He also agreed that any regulatory changes made in the U.S. to implement ComFrame should be consistent with the U.S. regulatory framework.

#### *Holistic Framework*

Commissioner Anderson said the IAIS adopted the holistic framework for the assessment and mitigation of systemic risk in the insurance sector. He said this new framework moves away from a solely entities-based approach and instead recognizes that systemic risk can arise both from sector-wide trends with regard to specific activities and exposures, as well as from a concentration of these activities and exposures in individual insurers. He explained that the holistic framework consists of: 1) an enhanced set of supervisory policy measures and powers of intervention; 2) an annual IAIS global monitoring exercise; and 3) a robust implementation assessment.

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With regard to the global monitoring exercise, Commissioner Anderson said the IAIS will undertake an annual process to assess insurance market trends and developments and determine any potential build-up of systemic risk in the global insurance sector. He said this will include an assessment of potential systemic risk arising from sector-wide trends with regard to specific activities and exposures, which will leverage and build upon existing IAIS work, such as the Global Insurance Market Report. He said this will also assess the possible concentration of systemic risks at an individual insurer level arising from these activities and exposures using an updated version of the former global systemically important insurer (G-SII) assessment methodology.

Commissioner Anderson said the global monitoring exercise will also see a collective discussion by the IAIS on the assessment of potential systemic risk in the global insurance sector, at both a sector-wide and individual insurer level, and appropriate supervisory responses to systemic risk if it arises. He noted that the IAIS will share the outcomes of the global monitoring exercise each year with participants in the global monitoring exercise (participating insurers as well as participating IAIS members), other IAIS members, the Financial Stability Board (FSB), and the general public.

Commissioner Anderson explained that another key element of the holistic framework is the IAIS's implementation assessment of related supervisory material. He said this approach builds on existing methodology for assessing the implementation of ICPs and ComFrame, while considering the specific nature of the holistic framework as a subset of the ICP and ComFrame material that is relevant to the assessment and mitigation of systemic risk. He said the assessments will proceed in phases, beginning with a baseline assessment in 2020 and moving towards more intensive jurisdictional assessments in 2021, which will include targeted in-depth verification of supervisory practices. He noted that the IAIS will share the outcomes of the holistic framework implementation assessments with the FSB and the general public.

Commissioner Anderson said the implementation of the holistic framework is expected to provide an enhanced basis for assessing and mitigating systemic risk in the insurance sector and therefore eliminate the need for identification of insurers as G-SIIs. He said the FSB will determine whether to discontinue G-SII identification in November 2022 based on the initial years of implementation of the holistic framework. Commissioner Anderson noted that as implementation gets underway, state insurance regulators will be mindful of the appropriate role for the IAIS, as there have been concerns expressed about the role of the IAIS and it taking on regulatory-like powers.

### *ICS and Monitoring Period*

Commissioner Anderson said the IAIS agreed on Version 2.0 of the ICS for a five-year monitoring period, starting in January 2020. He said that during the monitoring period, ICS Version 2.0 will be used for confidential reporting and discussion in supervisory colleges to provide feedback to the IAIS on the ICS design and performance. He said that at the same time, the IAIS agreed on a definition of comparable outcomes and an overarching approach and timeline for the development of criteria to assess whether the aggregation method (AM) being developed by the U.S. and other interested jurisdictions, provides comparable outcomes to the ICS.

Commissioner Anderson noted that going into these meetings, there was a lot of attention domestically on the ICS, including significant time dedicated by this Committee. He said an agreement was secured that advances critical U.S. objectives as part of the IAIS debate on the next phase of the ICS project. He added that state insurance regulator support came about after the IAIS agreed to an achievable definition and approach to the assessment of comparable outcomes, providing a clear path forward for the AM. He said other objectives that were met include having timelines and governance for operationalizing the monitoring period, a commitment to consider modifications to the ICS itself, and conducting an economic impact assessment.

Commissioner Anderson said members of Team USA have been clear that this pathway ensures that the AM, as one part of a comprehensive U.S. regulatory framework, will be viewed through outcomes that it provides and not simply a quantitative lens. He said that while state insurance regulators will not be implementing the ICS, they will remain committed to an approach to group capital analysis, which can and should be viewed as comparable to the outcomes achieved by the ICS.

Commissioner Anderson noted that the IAIS posted a number of documents explaining various parts of the monitoring period. He said this includes a document that sets out the overarching principles and concepts for the annual confidential reporting of the reference ICS and, at the option of group-wide supervisors (GWS), additional reporting during the five-year monitoring period. He said there is a note that explains some of the technical decisions that were made for the reference ICS, including ICS balance sheet, market-adjusted valuation (MAV), qualifying capital resources, and margin-over-current-estimate (MOCE). He said that as state insurance regulators have had concerns over the development phase of the ICS on some of these technical

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points, they will continue to see how these perform during the monitoring period and to what extent improvements and changes are merited.

Commissioner Anderson said materials have also been posted that explain the definition of comparable outcomes and the overall approach to the comparability assessment, as well as the governance and timeline planned for this work. He explained that the agreed upon definition reads, “[c]omparable outcomes to the ICS means that the Aggregation Method (AM) would produce similar, but not necessarily identical, results over time that trigger supervisory action on group capital adequacy grounds.” He said agreement on the definition also included an approach for developing high-level principles and criteria for the comparability assessment, which will be subject to further discussion over the monitoring period and will help make an informed process to develop and perform the comparability assessment of the AM, an important workstream for next year. Commissioner Anderson said that in addition to comparability, the workplan for the monitoring period also addresses how things like the generally accepted accounting principles plus (GAAP+) valuation approach and the use of internal models will be assessed and whether they are ultimately included as part of the ICS. He also said the IAIS plans to perform an economic impact assessment, which state insurance regulators think will help inform the version of the ICS that is to be used as a prescribed capital requirement (PCR).

Commissioner Anderson noted that it will be important to develop a timeline for engagement with interested parties to help inform state insurance regulators and be best positioned to advocate at the IAIS for goals relative to comparability. The IAIS plans to issue a consultation in early July 2020 on the high-level principles to be used for the comparability assessment. These high-level principles could build upon the NAIC’s interpretative guidance issued while in Abu Dhabi, which was intended to provide context and details about the interpretation of the agreement, outlining what was included, but just as important, what was not included.

Marty Hansen (American International Group—AIG) commended the NAIC for a successful negotiation in Abu Dhabi. He noted that the way forward on the reference ICS has been substantially changed to reflect U.S. practices, including senior debt and NAIC designations for credit risk. He commented that this would also provide the necessary breathing room for the NAIC’s Group Capital Calculation (GCC) to be developed without an artificial IAIS deadline on the AM. He said that there are some very concrete steps on the definition of comparable outcomes and an overarching approach to guide the development of high-level principles and criteria for assessing comparability. He suggested that a precondition for comparability will be a credible and implementable GCC, and he encouraged the NAIC to continue to maintain this positive momentum and keep moving forward.

Ian Adamczyk (Prudential) thanked the NAIC for the successful outcome achieved in Abu Dhabi with regard to the positioning of the AM and the future development of high-level principles and criteria for the comparability assessment. He noted that the additional parameters surrounding governance for the AM, economic impact analysis, and ongoing stakeholder engagement during the monitoring period are all positive outcomes.

Joe Engelhard (MetLife) noted that in 2019, the IAIS delivered the largest set of standard setting material in decades. He commented that going into the Abu Dhabi meeting, industry had three main goals for the ICS, and all three were achieved. He complimented Team USA for successfully changing the direction of the IAIS to be more positive than the previous position on the ICS. He suggested that the IAIS should consider broader public policy goals as the ICS is further refined and ensure alignment with the G20 themes of sustainable growth and the role of long-term investment. He also commented that attention should be given by IAIS members to implementing the holistic framework to ensure its credibility and effectiveness. He commended the NAIC for being ahead of the game with regard to its work on macroprudential supervision.

Robert Neill (American Council of Life Insurers—ACLI) thanked the NAIC for all the hard work that went into the final outcomes in Abu Dhabi, which met the ACLI’s stated objectives from earlier in the year. He also appreciated that the NAIC had conducted outreach to ACLI members in advance of bilateral dialogues and meetings with other jurisdictions.

Mariana Gomez-Vock (ACLI) sought clarification on the relationship between the GCC, AM and supervisory intervention. She also sought additional clarity on the transparency principles embedded within the comparability assessment approach. Commissioner Altmaier said that the AM is an aggregation-based framework being developed internationally in conjunction with other jurisdictions. He said that while the AM is influenced by work on the GCC, the AM will be more jurisdictional agnostic, and therefore perhaps simpler than the GCC. He said the ultimate intention is to have the GCC serve domestically as implementation of an AM approach. He added that there are still a number of unknowns, including final design of the AM and

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GCC, recognition of the AM as comparable, the ultimate fate of the ICS project, and how any prescribed capital requirement (PCR) will be implemented and evaluated in international active insurance group (IAIG) jurisdictions. He noted that there will be ongoing engagement with stakeholders as state insurance regulators get clarity on these outstanding issues.

Tracey Laws (Chubb) commented on the positive outcomes from Abu Dhabi and noted that the additional clarity shared by the IAIS about the voluntary nature of participation in ICS field testing was quite helpful. She raised the issue of the relationship between a PCR for IAIGs and non-IAIGs and the potential for creating a competitive disadvantage for IAIGs.

Tom Finnell (America's Health Insurance Plans—AHIP) reiterated earlier comments made about the good outcomes from the Abu Dhabi meetings. He sought clarification about certain elements regarding comparability and whether the IAIS will compare the GCC to the ICS or if it will compare the AM to the ICS, which would be jurisdictionally agnostic. Commissioner Anderson replied that it would be a comparison of the AM to the ICS.

Commissioner Anderson thanked the speakers for their comments and views, and he noted that these topics are important workstreams that the NAIC will continue discussing throughout the monitoring period.

### 5. Heard an Update on International Activities

#### *Regional Supervisory Cooperation*

Regarding Asia, Commissioner Mais said the NAIC hosted the 11<sup>th</sup> NAIC—Financial Services Agency, Japan (JFSA) Insurance Regulatory Dialogue in Washington, DC in October. He said the biannual dialogue brings together regulators from two of the world's largest insurance markets, representing more than 47% of worldwide premium income. He noted that the meeting allowed regulators an opportunity to discuss regulatory issues of mutual concern, including Japan's desire to become a reciprocal jurisdiction under the revisions to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786) and key issues at the IAIS, including the ICS and holistic framework. He said the 12<sup>th</sup> Dialogue will be hosted in Japan in the first half of 2020, where these ongoing discussions will continue.

Regarding Europe, Commissioner Mais said the U.S.-EU Insurance Dialogue Project is continuing its work on cyberinsurance, cybersecurity, and big data with a public event expected to take place in March in Washington, DC. He thanked Commissioner Ommen and Director Froment for serving as the NAIC's Steering Committee members for the project. He said that state insurance regulators and the NAIC continue to meet directly with counterparts at the European Insurance and Occupational Pensions Authority (EIOPA) and the European Commission on a regular basis throughout the year on matters of mutual regulatory concern, including IAIS issues such as ICS developments, developments relating to innovation and technology, and revisions to Model #785 and Model #786.

Regarding Latin America, Commissioner Mais said state insurance regulators have been working closely with the Association of Latin American Supervisors (ASSAL) as part of the NAIC's efforts to share best practices with other supervisors and enhance regulatory cooperation to help with the supervision of international insurance groups. He said that in October, the NAIC participated in ASSAL's regional seminar for insurance supervisors of Latin America in San Jose, Costa Rica. He said he and Director Cameron spoke on various topics throughout the two-day meeting, including insurtech, conduct of business, and corporate governance. Commissioner Mais said that in late April, the NAIC will participate in the ASSAL's Annual Meeting in Lima, Peru.

Commissioner Mais said one of the NAIC's most successful capacity building projects is the International Fellows Program, which is in its fifteenth year. He said that since the program started in 2004, over 300 fellows from 35 countries have participated in this program designed to advance working relations with foreign markets, emphasizing the exchange of regulatory techniques and technology. He said that for the Fall 2019 session, the NAIC welcomed 11 international regulators from Bermuda, India, Kenya, Saudi Arabia, Taiwan, Thailand and Tunisia. He thanked the host states for this session, which included Arkansas; California; Louisiana; Missouri; New York; Oregon; Texas; Washington, DC; and Washington. He said the NAIC is always interested in having more states host fellows, an experience which is valuable not only for fellows but for host states as well.

#### *Organisation for Economic Co-operation and Development (OECD)*

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Commissioner Mais noted that the OECD's Insurance and Private Pensions Committee (IPPC) met earlier in the week in Paris, France, hosting a half-day roundtable on digitalization of insurance intermediation and regulatory responses. He said that during the meeting, there were updates on: 1) a revised report on the regulatory and supervisory framework of insurance intermediaries and market conduct; 2) a report on big data and artificial intelligence (AI) in the insurance sector; 3) draft revised guidance on the structure of insurance regulation and supervision; 4) a project proposal on the interaction between public and private sectors in long-term and health care; 5) a policy framework for accessing international property catastrophe reinsurance markets; 6) a project proposal on assessing the integration of environmental, social, and governance (ESG) factors by institutional investors; and 7) a draft report on the impact of public policy and regulation on cyberinsurance coverage.

### 6. Heard an Update on the FSAP

Mr. Schrader explained that as previously reported to the Committee, the IMF is conducting its third FSAP of the U.S. financial regulatory system in 2019–20. He said the FSAP is comprised of Mission 1 and Mission 2, with much of the insurance-related work concentrated in Mission 1 and additional work happening during Mission 2 in early 2020. He noted that meetings for Mission 1 took place this fall and concluded on Nov. 8 with a closing meeting hosted by the U.S. Department of the Treasury (Treasury). He said the NAIC and several states participated in a number of these meetings with IMF staff, and he added that the IMF also conducted meetings with the private sector. He said that since the last FSAP of the U.S. in 2015, state insurance regulators and the NAIC have further enhanced the U.S. state-based system, and Mission 1 included many good, in-depth discussions with the IMF on these regulatory developments. He said Mission 2 is scheduled for mid-February to early March with meetings expected at the NAIC and several states. He said the IMF is expected to publish a technical note on insurance by the summer of 2020.

Mr. Schrader added that as with previous FSAPs, it is expected that there will be areas where state insurance regulators will continue to disagree with the IMF's approach and recommendations, as well as areas where state insurance regulators can hopefully provide constructive feedback relating to any inaccuracies or particular characterizations of the U.S. system in the document before it is published. He also thanked participating states for the time they took to meet with the IMF on the U.S. state-based system of insurance regulation and NAIC staff for their many contributions to the work so far.

### 7. Discussed Other Matters

Commissioner Anderson said the IAIS recently released its draft *Application Paper on Liquidity Risk Management* for public consultation with a comment deadline of Jan. 20, 2020. He said this paper is intended to provide guidance on the supervisory material related to liquidity risk management in the relevant ICP and ComFrame material. He said the usual NAIC review process will take place for this paper and that a Committee call will be held in mid-January to approve submission of any NAIC comments.

Commissioner Anderson noted that the question and answer session with the IAIS Secretariat would begin immediately following the Committee meeting.

Ryan Workman (NAIC) noted that the international calendars for 2019 and 2020 had been posted to the website.

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

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# AGGREGATING REGULATORY CAPITAL REQUIREMENTS ACROSS JURISDICTIONS: THEORETICAL AND PRACTICAL CONSIDERATIONS

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# Background

- On November 14, 2019, at its Annual Meeting, the International Association of Insurance Supervisors (IAIS) agreed that in the monitoring period for the Insurance Capital Standard (ICS), it would assess whether an aggregation method (AM) for group capital calculations provides a comparable outcome to the ICS.
- The essential element of the AM is that the required capital for each entity within a group, established by its regulatory authority, is the basic building block for the calculation of the group's required capital.
- However, if different jurisdictions set their required capital to different risk or safety levels, then some adjustment of the individual required capital is needed to bring them to a common level of safety.
- These adjustments are called scalars.
- The NAIC has requested the American Academy of Actuaries' help in the form of a technical paper assessing various methodologies for the creation of scalars.



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# Project Description

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The project will proceed in four stages:

1. clarify as much as possible the objectives, both conceptual and practical, of a scalar methodology;
  2. assemble an inventory of possible methodologies—both from methodologies that have been tried and/or assessed by the NAIC, the Federal Reserve Board, the IAIS, or others—and from methodologies suggested by academic literature addressing adjacent issues;
  3. derive a set of criteria for the evaluation of the methodologies from the existing discussions of possible methodologies and from standard statistical principles;
  4. evaluate each of several, if not all, relevant methodologies according to the specified criteria.
- We will also be developing an annotated bibliography to make more accessible relevant academic work on the subject.
  - The target completion date is March 1, 2021.



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# Expected Results

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- The Academy will be offering assessments of several major possible methods but will not be recommending a method for scalars.
- Academy assessments will address both theoretical and practical considerations.
- The project is intended to assist regulators and staff seeking to create group capital standards by the AM by providing information as they seek to choose the best scalar for their purposes.
- The project is also intended to educate the actuarial community about scalars and to engage the academic community in this issue.
- Academy assessments will be clearly designed to address scaling for insurance entities across jurisdictions, while also being relevant to other uses for scalars.



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# Questions?

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