

**DRAFT PENDING ADOPTION**

Draft: 7/26/22

Financial Stability (E) Task Force  
and Macroprudential (E) Working Group  
Virtual Meeting  
June 27, 2022

The Financial Stability (E) Task Force met June 27, 2022, in joint session with the Macroprudential (E) Working Group. The following Task Force members participated: Marlene Caride, Chair (NJ); Elizabeth Kelleher Dwyer, Vice Chair (RI); Ricardo Lara represented by Susan Bernard (CA); Andrew N. Mais represented by Kathy Belfi (CT); Trinidad Navarro represented by Tom Hudson (DE); David Altmaier represented by Ray Spudeck (FL); Doug Ommen (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Gary D. Anderson represented by John Turchi (MA); Kathleen A. Birrane represented by Lynn Beckner (MD); Timothy N. Schott represented by Vanessa Sullivan (ME); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Eric Dunning represented by Justin Schrader (NE); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dale Bruggeman (OH); Michael Humphreys and Melissa Greiner (PA); Michael Wise represented by Daniel Morris (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jamie Walker (TX); Scott A. White represented by Doug Stolte (VA); and Nathan Houdek represented by Amy Malm (WI). The following Working Group members participated: Justin Schrader, Chair (NE); Carrie Mears, Vice Chair (IA); Susan Bernard (CA); Kathy Belfi (CT); Carolyn Morgan (FL); Vanessa Sullivan (ME); Steve Mayhew (MI); Fred Andersen (MN); John Rehagen (MO); Bob Kasinow (NY); Melissa Greiner (PA); Ted Hurley (RI); Jamie Walker (TX); and David Smith (VA). Also participating was: Susan Berry (IL).

1. Heard Opening Remarks

Commissioner Caride said materials for consideration and discussion for this meeting are available on the NAIC website in the Committees section under the Financial Condition (E) Committee. She said to simplify the process, the Task Force and Working Group will consider reception of five comment letters and adoption of the Proposed Regulator Responses to the List of the Working Group's Considerations together.

2. Received comments on the Proposed Regulator Responses to the List of the Working Group's Considerations

Mr. Schrader said the Macroprudential (E) Working Group met April 22 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) and paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) of the NAIC Policy Statement on Open Meetings, to finalize the "Proposed Regulator Responses to the List of the Working Group's Considerations." The Working Group exposed the document on April 27 for a public comment period ending June 13. Mr. Schrader expressed the Working Group's appreciation for five comment letters received from: 1) Risk & Regulatory Consulting (RRC); 2) American Council of Life Insurers (ACLI); 3) American Investment Council (AIC); 4) UNITE HERE; and 5) Northwestern Mutual.

With respect to the UNITE HERE comment letter, Mr. Schrader said that none of the comments were included in Attachment 1 because the comments were not actionable or practical. He added that state insurance regulators must have laws allowing them confidential access to such documents so arguments for the public to get access to such documents are beyond the scope of current considerations. He reported that confidential regulatory tools are not to be presented for the public to assess if they are effective, but instead, the Working Group will focus on presenting the actions regulators propose to take within the NAIC committee structure, recognizing that the specifics of those confidential regulatory processes and their results will continue to remain confidential. Mr.

**DRAFT PENDING ADOPTION**

Schrader summarized that insurance companies provide significant transparency and offered to set up a separate meeting with NAIC staff to explain specifics of the regulatory process in detail including:

- Publicly traded companies in the U.S. must file generally accepted accounting principles (GAAP) financial statements.
- Non-publicly traded companies are not required to provide public GAAP financial statements.
- Statutory financial statements are publicly available for all non-captive life insurers.
- Statutory financial statements provide significantly more detail than GAAP financial statements.
- Statutory financial statements provide information on the legal entity level compared to GAAP, which does so at the group level.
- Statutory financial statements include an annual listing of investments acquired, disposed of, and owned, so actual investment issuers can be assessed by anyone reviewing the filings rather than group-level GAAP financial statements.
- For publicly traded insurers, the public may access the group's GAAP financial statements, as well as the statutory financial statements for each legal entity in the group.

Mr. Schrader concluded that the nature of the UNITE HERE comments and concerns seemed more focused on actual solutions that will be developed for the Working Group's considerations rather than the exposed document listing how the Working Group plans to assign the work. He suggested the Working Group redirect some of those comments to specific work to address those Working Group considerations once they have been referred to the appropriate group and work begins.

For the Working Group, Ms. Mears made a motion, seconded by Ms. Bernard, to receive the five comments letters on the "Proposed Regulator Responses to the List of the Working Group's Considerations" (Attachment 1). The motion passed unanimously.

For the Task Force, Ms. Malm made a motion, seconded by Ms. Bernard, to receive the five comments letters on the "Proposed Regulator Responses to the List of the Working Group's Considerations" (Attachment 1). The motion passed unanimously.

3. Adopted the Proposed Regulator Responses to the List of the Working Group's Considerations

Mr. Schrader summarized how to incorporate the comments received to the "Proposed Regulator Responses to the List of the Working Group's Considerations" (Attachment 2) with no further changes discussed to the redlined document.

For the Working Group, Mr. Spudeck made a motion, seconded by Ms. Bernard, to adopt the "Proposed Regulator Responses to the List of the Working Group's Considerations" (Attachment 2). The motion passed unanimously.

For the Task Force, Mr. Schrader made a motion, seconded by Mr. Kasinow, to adopt the "Proposed Regulator Responses to the List of the Working Group's Considerations" (Attachment 2). The motion passed unanimously.

Commissioner Caride said that with the adoption, the word "Proposed" will be removed from the title of the final version of Attachment 2.

4. Received an Update on Key Initiatives

**DRAFT PENDING ADOPTION**

Mr. Schrader said that the Liquidity Stress Test (LST) Study Group has met to discuss several questions for potential modifications to the 2022 LST framework. He added that these questions included concepts such as providing more consistency in certain stress test assumptions. Mr. Schrader reported that an LST Separate Accounts Study Group is going to be formed to tackle the questions of how to address non-insulated separate account sales, as well as whether, and if so how, to address insulated separate accounts in terms of macroprudential impacts to broader financial markets. He said that the LST Study Group will also be reviewing the results of running the most recent 2021 year-end data through the 2021 LST scope criteria and assessing the list of LST participants, as well as whether changes need to be made to the 2022 LST scope criteria. Mr. Schrader summarized that state insurance regulators are anticipating receipt of the 2021 LST filing on June 30, at which point results will be reviewed, assessed, and then provided to the Working Group and Task Force.

Mr. Schrader said that at the Spring National Meeting, the Working Group received comments on and later adopted a Macroprudential Risk Assessment Process document, which essentially describes what the system of Macroprudential Risk Assessment entails at a high level. He added that state insurance regulators had several volunteer group meetings to complete the 2020 Macroprudential Risk Assessment. Mr. Schrader said that after completing several further scheduled meetings, NAIC staff and state insurance regulators will turn to the report writing phase, which will summarize the results of the risk assessment and may offer ideas for additional areas of research or regulator action. He added that the report will likely represent the next opportunity for extended discussion on the Macroprudential Risk Assessment Process reflecting regulator views of industry risks and allow discussion of those views, as well as potential responses in a public setting. Mr. Schrader said that he expects a first edition of the Risk Assessment Process report later this year. He clarified that the analysis underlying the Macroprudential Risk Assessment Process is not new as regulators have long monitored industry developments with assistance from the NAIC. What is new is the publication of a summary risk dashboard report. As a result of the Risk Assessment Process further analysis of specific risks may be warranted. If further study is deemed necessary, the Working Group may seek input from the public prior to a consideration for a referral or further study of specific matters. He noted that even after a referral, there will be an opportunity for public input.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/2022 Summer National Meeting/

**DRAFT PENDING ADOPTION**

Draft: 4/18/22

Jt. Financial Stability (E) Task Force  
and Macroprudential (E) Working Group  
Kansas City, MO  
April 5, 2022

The Financial Stability (E) Task Force met in Kansas City, MO, April 5, 2022, in joint session with the Macroprudential (E) Working Group. The following Task Force members participated: Marlene Caride, Chair (NJ); Elizabeth Kelleher Dwyer, Vice Chair (RI); Ricardo Lara represented by Susan Bernard (CA); Andrew N. Mais represented by Kathy Belfi (CT); Karima M. Woods represented by Philip Barlow (DC); Trinidad Navarro represented by Tom Hudson (DE); David Altmaier represented by Carolyn Morgan (FL); Doug Ommen (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Gary D. Anderson represented by John Turchi (MA); Timothy N. Schott represented by Vanessa Sullivan (ME); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Eric Dunning represented by Justin Schrader (NE); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dale Bruggeman (OH); Andrew R. Stolfi represented by Doug Hartz (OR); Michael Humphreys represented by Matt Milford (PA); Raymond G. Farmer represented by Daniel Morris (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jamie Walker (TX); Scott A. White and Greg Chew (VA); and Nathan Houdek and Amy Malm (WI). The following Working Group members participated: Justin Schrader, Chair (NE); Carrie Mears, Vice Chair (IA); Susan Bernard (CA); Kathy Belfi (CT); Philip Barlow (DC); Carolyn Morgan (FL); Susan Berry (IL); Vanessa Sullivan (ME); Steve Mayhew (MI); Fred Andersen (MN); John Rehagen (MO); Bob Kasinow (NY); Matt Milford (PA); Jamie Walker (TX); and Greg Chew (VA).

1. Heard Opening Remarks

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

2. Adopted the Task Force's Feb. 22 Minutes and the Working Group's March 2 Minutes

Commissioner Caride said to simplify the process, the Task Force will consider adoption of its Feb. 22 minutes and the Working Group's March 2 minutes together.

Mr. Schrader made a motion, seconded by Mr. Eft, to adopt the Task Force's Feb. 22 minutes (Attachment One) and the Working Group's March 2 minutes (Attachment Two). The motion passed unanimously.

3. Received a Working Group Update

Mr. Schrader said since the Task Force adopted the "List of Regulatory Considerations Applicable (But Not Exclusive) to Private Equity (PE) Owned Insurers," the Working Group met with the Statutory Accounting Principles (E) Working Group, the Valuation of Securities (E) Task Force, several risk-based capital (RBC) groups, and the Life Actuarial (A) Task Force to establish a baseline of their activities that relate to the considerations included on the list. The Macroprudential (E) Working Group met March 25 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) and paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) of the NAIC Policy Statement on Open Meetings, to reach an initial conclusion on how to move forward for the first six considerations. Mr. Schrader added that another regulator-only meeting will be held after the national meeting to address the remaining considerations, with the expectation to release the

**DRAFT PENDING ADOPTION**

full list of 13 considerations for a brief comment period. He stressed that if state insurance regulators or interested parties have comments or suggestions on the first six considerations, they should direct those to NAIC staff. He concluded that after considering any comments received on the 13 considerations, the Working Group will finalize the document to consider for adoption by the Financial Stability (E) Task Force with status updates as work progresses.

Mr. Schrader summarized the changes made to the list of considerations so far:

- Added an introductory paragraph that gives a high-level explanation of solvency monitoring.
- Added specific examples from the NAIC *Financial Analysis Handbook* of stipulations state insurance regulators may require addressing outstanding concerns with entities acquiring insurers.
- Added the full list of considerations, updated with a summary of the existing work occurring at other NAIC groups and results of regulator-only discussions.

Mr. Schrader summarized each regulatory response to the list of regulatory considerations:

- For the first consideration, which involves state insurance regulators' ability to gain a full understanding of the risks to their regulated insurers affected by holding company structures and affiliated/related-party agreements that avoid required disclosures, the Working Group believes it should be referred to the Group Solvency Issues (E) Working Group. He added that state insurance regulators discussed creating an optional set of disclosures for their use when approving a Form A applicant when unresolved regulatory concerns still exist. He also noted that the Macroprudential (E) Working Group recognized the benefit of additional training for states with less experience reviewing Form A applications involving complex holding company structures and agreements.
- For the second consideration, which deals with the potential existence of control and conflicts of interest where ownership is less than or equal to 10%, the Working Group believes it should also be referred to the Group Solvency Issues (E) Working Group. He also noted that the Macroprudential (E) Working Group recognized the benefit of additional training. He added that the Working Group suggested developing ways to better target affiliated agreements to collect, and he questioned if the Form B Insurance Holding Company System Annual Registration Statement needs to be modified.
- For the third consideration, which addresses control and conflict of interest, but specifically within the investment management agreement (IMA), the Working Group believes it should be referred to the Risk-Focused Surveillance (E) Working Group, which is already focused on a project involving other affiliated agreements and Form D filings. He also noted that the Macroprudential (E) Working Group recognized the benefit of additional training, and he questioned if the Valuation of Securities (E) Task Force should have a role in IMA review work due to the increase in bespoke agreements.
- For the fourth consideration, which involves the potential conflict of owners wanting short-term gains compared to the needs of life insurance products' long-term liabilities and specifically includes fees charged to insurers in service agreements with other holding company entities; The Working Group noted the Life Actuarial (A) Task Force is performing work to address some of this consideration, but suggested the consideration should be referred to the Risk-Focused Surveillance (E) Working Group as well, because it is already addressing issues with affiliated agreements and fees. He added that the Macroprudential (E) Working Group believes increased guidance for capital maintenance agreements should be considered.
- For the fifth consideration, which covers the broader areas of operational, governance, and market conduct practices, and how those areas would be affected by new owners of insurers with a lack of insurance expertise, the Working Group noted the existence of good guidance in the NAIC *Financial Analysis Handbook*. Despite this existing guidance, the Working Group considered a referral to the Risk-

**DRAFT PENDING ADOPTION**

Focused Surveillance (E) Working Group, but for now the members opted to keep developing suggestions at the Working Group. Some of the specific suggestions already discussed include optional Form A disclosures and guidance for less experienced states, considering more detailed guidance for financial examinations, and a recognition that this consideration must also address intentional actions.

- For the sixth consideration, which notes the impact of the lack of a widely accepted definition of PE, the Working Group consensus is that a definition of PE is not needed, as the considerations in this list are activity-based, and the activities, along with any remedies developed, apply to any type of owner.

Mr. Schrader reported that the Working Group updated the 2021 Liquidity Stress Testing Framework (LST Framework) document with Lead State Guidance, providing the outstanding economic variables for the adverse liquidity stress test, as well as the templates to use for the 2021 liquidity stress test (LST). He added that those documents are located on the Financial Stability (E) Task Force's website. He clarified that insurers should use the Lead State Guidance version of the 2021 LST Framework and the updated templates for submitting the 2021 LST filings with a due date of June 30. He added that the Working Group will address questions and issues related to separate accounts with respect to future LST frameworks before discussing the results of those June 30 filings.

4. Adopted the Macroprudential Risk Assessment Process

Mr. Schrader said the Macroprudential Risk Assessment Process was updated with:

- Minor amendments based on industry feedback (Attachment Three).
- An NAIC staff summary of industry feedback paired with NAIC staff's responses followed by each of the industry comment letters (Attachment Four).
- An illustrative version of the Macroprudential Risk Assessment Process to show what a final document could look like (Attachment Five).

Mr. Schrader noted a recurring theme of industry asking for more details, but apart from some minor revisions to enhance understanding, the Working Group opted for more discussion on the matters to address industry concern by asking for feedback on the proposed actions based on the assessment performed rather than on revisions of the Macroprudential Risk Assessment Process document that could result in constant updates with every new metric or risk under consideration.

Miguel Romero (NAIC) summarized four changes to the Macroprudential Risk Assessment Process document based on industry comments:

- The Overview paragraph was updated to better clarify the intent of the risk assessment process.
- The Quantitative Review section changed to clarify that metrics will be presented in a manner that fits the measured risk with historical data also presented to provide the context needed to assess the risk.
- A reference to macro risk assessment was changed to macroprudential risk assessment to be consistent and not to be confused with macroeconomic risk analysis.
- The Conclusion and Presentation of Results paragraph was changed to add a reference to the three transmission channels identified by the Financial Stability Oversight Council (FSOC) as most likely to facilitate the transmission of risk across firms or markets, which are interconnectedness, asset liquidation, and critical function.

**DRAFT PENDING ADOPTION**

Mr. Schrader said a redlined version of the document was not included in the materials because of an administrative oversight in the preparation of the materials but due to the minor nature of the changes, he had still hoped to adopt the updated document as described by Mr. Romero.

For the Working Group, Ms. Bernard made a motion, seconded by Ms. Mears, to adopt the Macroprudential Risk Assessment Process (Attachment Three). The motion passed unanimously.

For the Task Force, Mr. Schrader made a motion, seconded by Mr. Rehagen, to adopt the Macroprudential Risk Assessment Process (Attachment Three). The motion passed unanimously.

**DRAFT PENDING ADOPTION**

Heard an International Update

Tim Nauheimer (NAIC) said the International Association of Insurance Supervisors (IAIS) launched the Global Monitoring Exercise (GME) on March 10, which includes the individual insurer monitoring (IIM) and sector-wide monitoring (SWM). He added that the deadline to submit IIM data is May 10 and the SWM data is June 30. He noted that as part of the SWM exercise, additional climate data and new data on cyber are being collected. He said cyber data will be aggregated anonymously and will be published as the IAIS's special topic for the Global Insurance Market Report (GIMAR) this year. The IAIS is also collecting data on reinsurers as part of the SWM. Mr. Nauheimer emphasized the importance of striking a balance with respect to the burden for insurers and supervisors by limiting the data requested by the IAIS and ensuring that the objective for collecting such data is clear. He added that the work on potential revisions of the IIM systemic risk assessment methodology will be completed this year as part of a three-year cycle review, which is similar to the global systemically important insurer (G-SII) identification process that was replaced with the IAIS holistic framework for systemic risk. He said the implementation of the holistic framework is currently being assessed by the IAIS, and the Financial Stability Board (FSB) will decide towards the end of this year whether to eliminate the G-SII identification process for good or revive the process.

Mr. Nauheimer reported that the IAIS is reviewing comments received on the second public consultation on the development of liquidity metrics, which focuses on developing the Phase II cash flow projection approach and aligns more with the NAIC's approach to assess liquidity risk. He added that the IAIS intends to issue a publication titled, "Liquidity Metrics as an Ancillary Indicator" this year after analysis of liquidity data received as part of the GME. He said the IAIS formed a climate risk steering group (CRSG) with three workstreams:

- GAP Analysis charged with reviewing the Insurance Core Principles (ICPs) and Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) standards.
- Scenario Analysis charged with best practices and education around scenario analysis.
- Climate Data charged with respect to data collection and analysis.

5. Discussed Other Matters

Commissioner Caride congratulated Superintendent Dwyer for being appointed the NAIC's representative on the FSOC and the new vice chair of the Task Force. Superintendent Dwyer congratulated Commissioner Caride for being appointed the new chair of the Task Force.

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

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