

Draft Pending Adoption

Draft: 11/18/22

Financial Stability (E) Task Force
and Macroprudential (E) Working Group
Virtual Meeting
October 28, 2022

The Financial Stability (E) Task Force met Oct. 28, 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 Jack Broccoli (CT); Karima M. Woods represented by Philip Barlow (DC); Trinidad Navarro represented by Tom Hudson (DE); David Altmaier represented by Ray Spudeck (FL); Doug Ommen represented by Carrie Mears (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 (ME); Chlora Lindley-Myers represented by John Rehagen (MO); 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 Diana Sherman (PA); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Rachel Hemphill (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); Jack Broccoli (CT); Philip Barlow (DC); Ray Spudeck (FL); Vanessa Sullivan (ME); Steve Mayhew (MI); Constance Peterson (MN); John Rehagen (MO); David Wolf (NJ); Bob Kasinow (NY); Diana Sherman (PA); Ted Hurley (RI); Rachel Hemphill (TX); and Doug Stolte (VA). Also participating was: Alan McClain (AR).

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 its 2023 Proposed Charges

Commissioner Caride said that while no substantive comments for the 2023 proposed charges of the Working Group and the Task Force were received by the Oct. 24 deadline, a few clarifying and editorial changes were accepted for the 2023 proposed charges of the Working Group.

Bernard made a motion, seconded by Rehagen, to adopt the Working Group's 2023 proposed charges (Attachment 1). The motion passed unanimously.

Eft made a motion, seconded by Malm, to adopt the Task Force's and Working Group's 2023 proposed charges (Attachment 1). The motion passed unanimously.

3. Received an Update on Key Initiatives

Schrader said that NAIC staff are still compiling the 2021 liquidity stress test (LST) results for the detailed report to state insurance regulators and any further public insights that may be shared, so he said he will provide an update on the 2022 LST Framework. He reported that the LST Study Group met to discuss some potential modifications to the 2022 LST Framework, but no substantive changes have been made from the 2021 LST

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Framework. Schrader clarified that since the revised *Insurance Holding Company System Regulatory Act* (#440) requirements incorporating the LST will be effective for several states for the first time this year, the Working Group did not incorporate any of the discussed changes, but those discussions will be added to the list of items to consider for the 2023 LST Framework to be considered for adoption by year-end 2023.

Schrader summarized three new suggestions rather than requirements:

- For Separate Accounts – Consider including non-insulated separate account amounts as if they were general account amounts.
- For the Interest Rate Spike Scenario – Consider increasing the 2021 values for the 2022 LST to ensure a “severe interest rate spike.”
- For the Worst-Case Scenario – Review the scenarios to ensure they are worst case for their business model, products, etc., particularly if no liquidity deficiencies are identified.

Schrader said that comments were inserted to indicate the various metrics in the Appendices that need to be updated as lead state guidance in early 2023. He requested that the Task Force expose the draft 2022 LST Framework for a 30-day comment period.

Rehagen asked about the timing when the Working Group will reassess the scope of analysis of the LST Framework. Schrader responded that the Working Group evaluates the scope of analysis of the LST Framework every year, which resulted in some firms being added and removed from the list from last year. Schrader added that with respect to the criteria for the scope of analysis of the LST Framework, the Working Group has made no changes because this year is the first year that states are fulfilling requirements of Model #440. He said that the Working Group will probably review the criteria for the scope of analysis of the LST Framework next year.

Schrader reported that at the Summer National Meeting, the Working Group received comments and later adopted the “NAIC Macroprudential Risk Assessment” process document, which essentially describes what the NAIC’s system of macroprudential risk assessment entails at a high level. He added that the NAIC constructed the actual macroprudential risk assessment by completing the review of 2020 data as a sort of proof of concept and then reviewed risks for the same 2021 data. Schrader said that NAIC staff are completing a draft of the risk assessment report to be discussed during a regulator-to-regulator meeting in November. He reported that a finished copy reflecting state insurance regulator views of industry risk should be ready for the Fall National Meeting to discuss initial findings. He stressed that before the Working Group sends out referrals or asks for more study on specific matters, the NAIC will seek input during an open meeting.

Commissioner Caride exposed the draft 2022 LST Framework for a 30-day public comment period ending Dec. 2 with the intent to address any comments received and to consider adoption of the 2022 LST Framework at the Fall National Meeting.

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

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

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Financial Stability (E) Task Force
and the Macroprudential (E) Working Group
Portland, OR
August 12, 2022

The Financial Stability (E) Task Force met in Portland, OR, Aug. 12, 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); Evan G. Daniels represented by David Lee (AZ); Ricardo Lara represented by Susan Bernard (CA); Andrew N. Mais represented by Jack Broccoli (CT); Karima M. Woods represented by Philip Barlow (DC); Trinidad Navarro represented by Charles Santana (DE); Doug Ommen represented by Carrie Mears (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Kathleen A. Birrane represented by Lynn Beckner (MD); Timothy N. Schott (ME); Chlora Lindley-Myers represented by John Rehagen (MO); Eric Dunning represented by Justin Schrader (NE); Adrienne A. Harris represented by Bob Kasinow (NY); Mike Causey represented by Monique Smith (NC); Judith L. French represented by Dale Bruggeman (OH); Andrew R. Stolfi represented by Doug Hartz (OR); Michael Humphreys represented by Melissa Greiner (PA); Michael Wise represented by Michael Shull (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jamie Walker (TX); Scott A. White (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); Kenneth Cotrone (CT); Philip Barlow (DC); Lynn Beckner (MD); Vanessa Sullivan (ME); Steve Mayhew (MI); Fred Andersen (MN); John Rehagen (MO); Marlene Caride (NJ); Bob Kasinow (NY); Melissa Greiner (PA); Ted Hurley (RI); Jamie Walker (TX); and Doug Stolte (VA). Also participating was: Stephanie McGee (NV).

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 June 27 and Spring National Meeting Minutes

Superintendent Dwyer made a motion, seconded by Mr. Schrader, to adopt the Task Force's June 27 (Attachment One) and April 5 (*see NAIC Proceedings – Spring 2022, Financial Stability (E) Task Force*) minutes. The motion passed unanimously.

3. Heard an Update on FSOC Developments

Superintendent Dwyer reported on a few Financial Stability Oversight Council (FSOC) discussions; issues identified publicly that are most directly related to the NAIC's work or could be of interest down the road include:

- The FSOC's report issued late last year called on member agencies to take action to address climate risk, which was identified as an increasing threat to financial stability. The president's executive order on climate accelerated the FSOC's focus.
- The NAIC is participating in several groups formed under the FSOC to enhance monitoring and information sharing on climate risk and resiliency. The NAIC's focus is on identifying data needs to assess climate-related risks, creating a mechanism for FSOC members to share relevant data and information, providing

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a forum to collaborate on agency priorities, and building capacity for climate risk assessment and monitoring through scenario analysis.

- FSOC member agencies have made considerable progress to address capacity building, enhance disclosure, and identify data needed to assess and mitigate risks. FSOC members share progress through the climate risk and resilience groups, including a recently established staff-level interagency committee to serve as a coordinating body to share information, facilitate standard-setting, and foster communication across FSOC members.

Superintendent Dwyer stressed that the work the NAIC has done and will continue to do through the Climate and Resiliency (EX) Task Force and other groups like the Task Force has enhanced the NAIC's position in the context of FSOC discussions. She reported that with respect to digital assets, the FSOC is focused on various types of monetary digital assets, such as forms of cryptocurrency and other types of related investments, which could propagate the impact of shocks on the financial system or broader economy. She added that June and July have been extremely hard on such companies with the demise of many such assets, including Terra and Luna. She said the FSOC is focused on understanding and documenting the various risks and uncertainties of such digital assets in the context of financial stability and determining appropriate action to mitigate such risks. She concluded that actions may include different recommendations for agency members and market participants as well as monitoring and contributing to these discussions to better understand whether or how they would affect insurers or state regulation.

4. Received a Working Group Update

Mr. Schrader said on June 27, the Task Force adopted a document detailing:

- 1) A list of the Working Group's considerations, private equity (PE)-related and other.
- 2) Summaries of state insurance regulator discussions and interested party comments.
- 3) A recommended disposition for each consideration.

He added that NAIC staff converted that document of proposals into a final document of regulatory intent titled the "Plan for the List of MWG Considerations – PE Related and Other" because there were only editorial changes and no substantive edits to the 13 considerations. He said the Financial Condition (E) Committee adopted the "Plan for the List of MWG Considerations – PE Related and Other" during its July 21 meeting. He said the "Plan for the List of MWG Considerations – PE Related and Other" included referrals to other NAIC committee groups as new work items as well as in recognition of existing work at other NAIC committee groups, while a few items were held for further discussion at the Working Group. He said the Working Group will monitor activities at other NAIC committee groups and provide periodic status updates.

Mr. Schrader summarized the status of the 13 Working Group considerations as follows:

1. Holding Company Structures
 - Sent a referral for new work to the Group Solvency Issues (E) Working Group.
2. Ownership and Control

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- Sent a referral for new work to the Group Solvency Issues (E) Working Group.
3. Investment Management Agreements (IMAs)
 - Sent a referral to the Risk-Focused Surveillance (E) Working Group to add this consideration to existing work involving affiliated agreements and Form D filings.
 - Sent a referral to the Valuation of Securities (E) Task Force to highlight the regulatory discussion involving topics it administers.
 4. Owners of Insurers with a Short-Term Focus and/or Are Unwilling to Support a Troubled Insurer
 - Sent a referral to the Risk-Focused Surveillance (E) Working Group to add this consideration to existing work involving affiliated agreements and fees.
 - Sent a referral to the Life Actuarial (A) Task Force recognizing its existing work to ensure the long-term life liabilities (reserves) and future fees are paid out of the insurer and supported by appropriately modeled assets.
 5. Operational, Governance, and Market Conduct Practices
 - The Working Group will keep developing more specific suggestions before likely referring this consideration to the Risk-Focused Surveillance (E) Working Group.
 6. Definition of PE
 - No action was deemed necessary for this consideration.
 7. Identifying Related Party-Originated Investments, Including Structured Securities
 - Sent a referral to the Statutory Accounting Principles (E) Working Group recognizing its existing work regarding disclosures for related party issuance/acquisition.
 - The Working Group may consider further regulatory guidance as needed once state insurance regulators work with these Statutory Accounting Principles (E) Working Group disclosures and regulatory enhancements from referrals to other groups.
 8. Identifying Underlying Affiliated/Related Party Investments and/or Collateral in Structured Securities
 - Sent a referral to the Statutory Accounting Principles (E) Working Group in recognition of existing work to develop disclosures to identify the role of the related party in the investment and codes for relationships in securitizations or similar investment.
 - Sent a referral for new work to the Examination Oversight (E) Task Force for the collateralized loan obligation (CLO)/structured security considerations.
 9. Asset Manager Affiliates and Disclaimers of Affiliation

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- The Working Group is comfortable waiting to realize the benefits of the recently implemented Schedule Y, Part 3, along with the changes other NAIC committee groups will make for several of the previously listed referrals, before determining if additional work is needed.
- Sent a referral to the Statutory Accounting Principles (E) Working Group recognizing its existing work to revamp Schedule D reporting, along with the previously mentioned code disclosures.

10. Privately Structured Securities

- Sent a referral to the Life Actuarial (A) Task Force recognizing its existing work on an actuarial guideline, including disclosure requirements for the risks of privately structured securities and how the insurer is modeling the risks.
- Sent a referral to the Valuation of Securities (E) Task Force highlighting the Working Group's support for the blanks proposal to add market data fields for private securities.
- The Working Group will wait on any further work or referrals until there is an opportunity to work with the results of the Valuation of Securities (E) Task Force proposal and the Statutory Accounting Principles (E) Working Group Schedule D revamp project.
- Sent a referral for new work to the Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group to address the tail risk concerns not captured by reserves.

11. Reliance on Rating Agencies

- Sent a referral to the Valuation of Securities (E) Task Force indicating the Working Group's agreement to monitor the work of its ad hoc group addressing various rating agency considerations.

12. Pension Risk Transfer (PRT) Business Supported by Complex Investments

- Life Actuarial (A) Task Force's Actuarial Guideline
 - Sent a referral to the Life Actuarial (A) Task Force recognizing its work on an actuarial guideline, which should address the reserve considerations of PRT business.
 - Sent a referral to the Statutory Accounting Principles (E) Working Group to address the related disclosure considerations, as the goal was to have them in the Notes to Financial Statements.
- U.S. Department of Labor (DOL) Protections
 - NAIC staff have engaged the DOL to begin discussions.
- State Guaranty Funds Compared to Pension Benefit Guaranty Corporation (PBGC) Protection – National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) 2016 Study
 - No further action was deemed necessary.
- RBC Treatment of PRT Business

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- Sent a referral to the Longevity Risk (E/A) Subgroup recognizing that its work will also address PRT business and indicating that the Working Group will monitor this work.

13. Offshore/Complex Reinsurance

- The Working Group is scheduling and has already held some confidential discussions with industry participants regarding the use of offshore reinsurers and complex affiliated reinsurance vehicles, as well as other activities included in this list. These meetings are held 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 of Open Meetings. The Working Group will consider further work and/or referrals once it has gained more insights.

Mr. Schrader concluded that the Working Group will still be addressing these considerations for some time to come, as some of these projects will be ongoing for several years. He added that NAIC staff will be posting a tracking document for the 13 Working Group considerations and copies of the referral letters sent to the committee groups to the Documents tab of the Working Group web page.

Mr. Schrader reported that NAIC staff received and performed initial reviews on a total of 21 groups' 2021 Liquidity Stress Test (LST) filings. He added that the 2021 LST filings were due on June 30 and were based on year-end 2021 annual statement amounts, which were projected over the specified time frames of one month, three months and one year for five stress scenarios:

- Baseline.
- Adverse, Adverse What-If.
- Interest Rate Spike.
- Worst-Case.

He said the in-depth reviews are still ongoing, but he shared some preliminary high-level observations:

- Most of the assumptions for all five scenarios remain consistent with the 2020 LST assumptions; although, some additional updates were made to the market assumptions to reflect the current economic environment.
- After aggregating the results for each stress scenario and comparing them to the 2020 LST aggregated results, the total assets sold increased for the Baseline and Adverse scenarios, while decreasing for the other three scenarios. These changes appear reasonable based on the initial review.
- The 2021 LST filing results continue to show that the amount of asset sales from the U.S. life insurance industry during these stress events would not be significant to the broader financial markets, satisfying the primary macroprudential objective of the LST.
- Consistent with last year's results, a few groups reported no cash deficit for the worst-case scenario, which will require further study to address the question of whether these groups' assumption models were stressful enough.
- For the modeled asset sales, the majority are from Treasury and Agency Bonds, along with Investment-Grade Public Corporate Bonds.

He added that the Working Group plans to publish a public summary of the 2021 LST results in September. He reported the formation of the LST Separate Account Study Group, another informal group, that includes volunteer

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state insurance regulators and companies from the larger LST Study Group, along with an American Council of Life Insurers (ACLI) representative, and it is led by Ms. Mears. He added that the LST Separate Account Study Group is charged with considering how to include non-insulated separate accounts into the LST filings, discuss liquidity risk in the insulated separate accounts, and consider which insulated separate account products are subject to existing U.S. Securities and Exchange Commission (SEC) stress testing requirements compared to those that are not, and if warranted, the design of an appropriate LST for macroprudential purposes. He reported that the LST Separate Account Study Group held its first meeting on July 29 and is in the process of scheduling its next meeting sometime in September. He said the LST Study Group will consider the results of the 2021 LST filings and the LST Separate Account Study Group's work to construct the 2022 Liquidity Stress Testing Framework (LST Framework).

Mr. Schrader reported that at the Spring National Meeting, the Working Group adopted a Macroprudential Risk Assessment process document that describes what the NAIC's system of macroprudential risk assessment entails at a high level. He added that the Working Group has been executing the process outlined in the document, which included frequent meetings with state insurance regulators on each risk category to agree on the key risk indicators to use to assess the trend of the risk and the risk assessment level as Low, Mod-Low, Mod-High, and High. He announced a plan to have a detailed confidential report for state insurance regulators to review in late September and have a public high level summary dashboard report to be published later this year. He added that the Working Group will consider whether it would be appropriate to take any actions based on the contents of that report, such as sending referrals to other NAIC working groups.

5. Heard an International Update

Mr. Nauheimer reported that the International Association of Insurance Supervisors (IAIS) completed numerous data calls and analysis as part of the annual Global Monitoring Exercise (GME), which includes individual insurer monitoring (IIM) and sector-wide monitoring (SWM). He added that the GME is part of the IAIS Holistic Framework for Systemic Risk monitoring, which takes a broader approach to financial stability and macroprudential surveillance. He noted that the IAIS has completed the following:

- The IIM quantitative data analysis from its annual exercise in June.
- The quantitative and qualitative SWM data collection due June 30, which now includes separate data collections for climate and cyber data.
- The reinsurance SWM data collection due July 31.

Mr. Nauheimer added that after all the data call submissions and analysis thereof, the IAIS will complete the Global Insurance Market Report (GIMAR). He added that for the annual GIMAR, the IAIS Climate Risk Steering Group (CRSG), along with the Macroprudential Monitoring Working Group (MMWG), will draft a new chapter on climate related risks. He said the NAIC will continue to monitor and contribute to the development of these reports.

Mr. Nauheimer reported that IIM and SWM help determine the scope for an annual collective discussion by the IAIS on potential systemic risk issues. He clarified that the collective discussion is generally among supervisors regarding views on and responses to overall risk themes and individual insurers who have been scoped in based on long running established criteria. He noted that the IAIS asked for the following due Aug. 12:

- A detailed SWM questionnaire regarding the nature and extent of the risk themes and the supervisory measures in place to address those risks.

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- An IIM questionnaire with a focus on firms identified by a quantitative scoring, as well as overarching themes related to financial stability identified through expert judgment.

He added that the collective discussions will take place at the Macroprudential Committee and Executive Committee meetings from Sept. 14 to Sept. 16.

Mr. Nauheimer reported that the MMWG continues to review the IIM Assessment Methodology, which the IAIS updates every three years. He added that the IAIS is also finalizing the reports on the targeted jurisdictional assessment of the implementation of the Holistic Framework Supervisory materials, which includes a report to the Financial Stability Board (FSB) on a review of the Holistic Framework for Systemic Risk in the Insurance Sector, which will inform the FSB's decision to re-establish or end the identification of global systemically important insurers (G-SIIs).

Mr. Nauheimer said the IAIS Liquidity Workstream will meet at the end of August to analyze data received as part of the GME to develop a liquidity metric, which utilizes a company's cash flow projections and aligns more with the NAIC's adopted domestic approach to assessing liquidity risk. He added that after incorporating comments from two public consultations, the IAIS intends to complete a publication titled "Liquidity Metrics as an Ancillary Indicator" this year, which will serve as a guidance document for liquidity monitoring within the GME.

Mr. Nauheimer reported that the IAIS also formed a Private Equity Workstream within the Macroprudential Supervision Working Group (MSWG) to produce an internal briefing memo to the Macroprudential Committee that provides an update on the involvement of PE in members' jurisdictions. He added that the MSWG will continue to monitor PE ownership in the global insurance industry.

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/