

Date: 7/15/19

2019 Summer National Meeting
New York, New York

GROUP CAPITAL CALCULATION (E) WORKING GROUP

Saturday, August 3, 2019

8:00 – 9:00 a.m.

Hilton New York Midtown—Americas Hall II

ROLL CALL

David Altmaier, Chair	Florida	Justin Schrader	Nebraska
Kathy Belfi, Vice Chair	Connecticut	Dave Wolf	New Jersey
Susan Bernard/Rachel Hemphill	California	Edward Kiffel	New York
Philip Barlow	District of Columbia	Jackie Obusek	North Carolina
Kevin Fry	Illinois	Dale Bruggeman	Ohio
Roy Eft	Indiana	Joe DiMemmo	Pennsylvania
Jim Armstrong	Iowa	Mike Boerner/Doug Slape	Texas
Rachel M. Davison/Christopher Joyce	Massachusetts	Michael Humphreys	Tennessee
Judy Weaver	Michigan	David Smith/Doug Stolte	Virginia
Kathleen Orth	Minnesota	Amy Malm	Wisconsin
John Rehagen	Missouri		

NAIC Support Staff: Dan Daveline/Lou Felice

AGENDA

1. Consider Adoption of its May 2 and Spring National Meeting Minutes Attachment A
—*Commissioner David Altmaier (FL)*
2. Discuss the Draft Memorandum on Confidentiality Protections Attachment B
—*Commissioner David Altmaier (FL)*
3. Receive Feedback from “Shadow Testers” Attachment C
—Jonathan Rodgers (National Association of Mutual Insurance Companies—NAMIC)
4. Discuss Any Other Matters Brought Before the Working Group
—*Commissioner David Altmaier (FL)*
5. Adjournment

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Draft: 5/13/19

Group Capital Calculation (E) Working Group
Conference Call and Webinar
May 2, 2019

The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met via conference call May 2, 2019. The following Working Group members participated: David Altmaier, Chair (FL); Kathy Belfi, Vice Chair (CT); Susan Bernard (CA); Philip Barlow (DC); Kim Cross (IA); Susan Berry (IL); Roy Eft (IN); John Turchi (MA); Judy Weaver (MI); Kathleen Orth (MN); John Rehagen (MO); Jackie Obusek (NC); Justin Schrader (NE); Dave Wolf (NJ); Edward Kiffel (NY); Tim Biler (OH); Joe DiMemmo (PA); Trey Hancock (TN); Jamie Walker (TX); David Smith (VA); and Amy Malm (WI).

1. Discussed Revised Field-Testing Template

Commissioner Altmaier said this open conference call will be the last call before the group capital calculation (GCC) field test begins. He said the first agenda item will focus on revisions made to the GCC template since the Working Group's last webinar in March 2019.

Commissioner Altmaier said NAIC staff will be providing an overview of the template today, and they will pause to allow for questions. He then turned the meeting over to Lou Felice (NAIC) and Ned Tyrrell (NAIC).

Mr. Felice said the biggest revision related to a proposal from the health industry for an alternative grouping output. That output will provide a lower level of granularity in the summary data than the main grouping, but it may provide some additional information for future development or field testing. Mr. Tyrrell then described the columns added to the template to accommodate the alternate grouping. He also described template changes related to the treatment of non-admitted entities.

Dan Daveline (NAIC) described some revisions to the instructions related to the testing of XXX/AXXX captives. Other more minor edits to instructions were also described.

The template or instructions were displayed as part of the webinar as the revisions were presented. As each revision was explained, that section of the template or instructions was displayed on the screen.

There were no questions. Commissioner Altmaier encouraged all involved in the field test to send their questions during the field test.

2. Discussed Confidentiality of Field Test Data

Commissioner Altmaier described the way in which data submitted via the lead states would be shared. He said the data will be submitted directly to the lead state, and no field test volunteer submission shared with the NAIC by a lead state will be further shared or provided to another lead state or to any other state by the NAIC. Some data will be viewed by the Working Group members in regulator-to-regulator session, but it will otherwise be aggregated or summarized. He said information-sharing agreements have been executed with 13 of the 15 lead states or are near completion, noting that an agreement must be in place before data can be shared with the NAIC.

Commissioner Altmaier encouraged any field test volunteer who has questions or concerns about the confidentiality agreement in place to contact their respective lead state or NAIC staff.

3. Discussed Next Steps for Field Test

Commissioner Altmaier said there are 31 field test volunteers from 15 lead states. He added that the field-testing template and instructions will be made public on the NAIC website so that non-volunteer firms and other interested parties could ask questions and stay engaged. He said the field test can begin and a kickoff call is being scheduled; however, given the logistics of getting all of the volunteers and states together at the same time, it may be necessary to schedule several kickoff calls.

Commissioner Altmaier noted that data through year-end 2018 would be used for the field test unless there is a particular hardship in using 2018 data. In such a case, he asked the volunteer to discuss that hardship with their lead state and NAIC staff, as it is desirable to have all volunteers using the same data year. He said the field test submissions are due on about Aug. 10. Mr. Felice added that the review of the submissions and summarizing results would take approximately 60 days, so the field test would run about 150 days overall and end in early to mid-October.

Commissioner Altmaier said there will be periodic interactions during the field testing between the Working Group and the field test lead states, field test volunteers and other interested parties. He added that there will be a kickoff call or calls with NAIC staff, lead state contacts and volunteer contacts. He asked that field test participants send any questions to their lead state and NAIC staff, requesting that lead states keep NAIC staff informed of any material discussions with a volunteer.

Having no further business, the Group Capital Calculation (E) Working Group adjourned.

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Draft Pending Adoption

Draft: 4/10/19

Group Capital Calculation (E) Working Group
Orlando, Florida
April 6, 2019

The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met in Orlando, FL, April 6, 2019. The following Working Group members participated: David Altmaier, Chair, and Ray Spudeck (FL); Andrew N. Mais and Kathy Belfi, Vice Chair (CT); Susan Bernard (CA); Philip Barlow (DC); Mike Yanacheak, Kim Cross and Carrie Mears (IA); Kevin Fry and Bruce Sartain (IL); John Turchi (MA); John Rehagen (MO); Jackie Obusek (NC); Justin Schrader (NE); Kristine Maurer (NJ); James Matheson (NY); Dale Bruggeman and Tim Biler (OH); Doug Slape, Mike Boerner and Jamie Walker (TX); and Scott A. White, Doug Stolte and David Smith (VA).

1. Adopted its March 21, 2019; March 12, 2019; March 7, 2019; and 2018 Fall National Meeting Minutes

Commissioner Altmaier said the Working Group met March 21, March 12 and March 7, 2019, and took the following action: 1) discussed the group capital testing process; 2) discussed the revised template and instructions, which were intended to address as many of the industry comments received Jan. 30, 2019, that were consistent with previous direction given to NAIC staff; and 3) received input on more substantive issues to determine if further changes are needed to the template and instructions prior to field-testing.

Ms. Belfi made a motion, seconded by Mr. Fry, to adopt the Working Group's March 21, 2019 (Attachment Two-A); March 12, 2019 (Attachment Two-B); March 7, 2019 (Attachment Two-C); and Nov. 15, 2018 (*see NAIC Proceedings – Fall 2018, Financial Condition (E) Committee, Attachment Two*) minutes. The motion passed unanimously.

2. Finalized Testing Process

Commissioner Altmaier described how various details regarding the testing process were discussed by the Working Group during the March 7 conference call, but he hopes to finalize such ideas during this meeting.

Lou Felice (NAIC) announced that there are currently 30 volunteers for the field-testing, but others could join if they volunteer before the start date. He stated that the estimated start date for the field-testing is May 1–15. He stated a desire to use 2018 data, but if there is a hardship for a volunteer, the Working Group will consider 2017 data. He described the idea of a 150-day timeline for the testing, with approximately 90 days to complete the template and another 60 days for the lead state to review the data and the NAIC to aggregate the data. He noted that volunteers should submit upon completion as opposed to waiting until the end of the 90 days. He also stated that if more time is needed by a volunteer, that could be requested through the lead state. He suggested that there would likely be a webinar just before the field-testing begins to be certain volunteers and lead states understand what is needed to begin the testing.

Mr. Felice also described the idea of a weekly question and answer (Q&A) document to help volunteers with issues as they arise. He also discussed the potential for an ad hoc group for certain technical issues, provided that the Working Group is comfortable with such an approach for vetting additional comments from interested parties. He stated that with respect to confidentiality, the NAIC is in the process of entering into confidentiality agreements with the lead states. He noted that those states are citing in such agreements their respective statutory authority to retain the field-testing data as confidential and share it with NAIC staff. He suggested that any potential volunteers speak to their lead state about such authority to the extent they have questions or concerns.

Commissioner Altmaier reiterated the point regarding confidentiality, noting that of all the issues on the list, this is the most important thing to be in place before field-testing begins. He stated that he has received several comments on this topic and noted that this is not the first time the NAIC and the states have collected confidential information, noting that there have been no problems with similar projects in the past. He reiterated that potential volunteers should contact their lead states if they have any concerns on this issue.

Draft Pending Adoption

Mariana Gomez-Vock (American Council of Life Insurers—ACLI) stated her appreciation for the Working Group's ongoing commitment to transparency in the development of the group capital calculation (GCC) and ongoing commitment to the same. She requested that as the Working Group moves forward during the testing and with its goal of adoption of an initial GCC by the end of the 2019, it be an iterative process.

Commissioner Altmaier stated that he believes, like the risk-based capital (RBC) formulas, once completed, the GCC will continuously be updated, especially at the outset, when it is still a relatively new product. He stated that while the end of 2019 is still his goal, he will strive to first make sure that the Working Group gets it right and not rush its work.

Ms. Gomez-Vock stated that the ACLI respects the confidentiality of the testing, but said it will be important for all to understand the decisions that are made. She stated that it is likely that real-time decisions will be made during the testing process, and non-volunteers will not be part of that process. She stated the importance of sharing as much of such information as possible in real time, while striking the balance with confidentiality. She stated that the ACLI looks forward to staying engaged as a constructive dialogue partner through feedback.

Commissioner Altmaier stated that the Working Group will take to heart the comments regarding striking the balance between confidentiality and an ongoing dialogue during the testing period.

Jonathan Rodgers (National Association of Mutual Insurance Companies—NAMIC) stated that NAMIC is hopeful that the previously referenced dates for field-testing can be accomplished. He stated that as long as field-testing takes place, the industry will have only 60 days before the Fall National Meeting to engage with the Working Group on the topic of scope of the group and scope of application. He reminded the Working Group of past comments that several non-volunteer NAMIC members have been testing the template (shadow testers) since it was first exposed in November 2018. While no decisions will be made on scope of the group and scope of application until field-testing is complete, he pointed out that a great deal of time and resources have been spent by NAMIC members on analyzing various issues, and he looks forward to finding an avenue to provide such learnings to the Working Group before decisions are made. He expressed concern that such decisions will be hurried, especially given that NAMIC has tried to engage on these issues during the entire time of development. He requested that the Working Group afford NAMIC shadow volunteers to provide feedback to the Working Group either at the Summer National Meeting or some other venue in the future. He described that this includes feedback from a typical NAMIC member that is simple with an affiliated insurance agency but few other entities, and their view is that this template captures a massive amount of information that they do not have the resources to complete.

Commissioner Altmaier stated that the Working Group would look for an opportunity in the future for NAMIC to provide such information to the Working Group. He stated that he is hopeful that some of the ad hoc groups may provide an avenue for an early thought process on how things are developing, and he does not believe the Working Group will go into hiding for 5–6 months to crunch numbers.

Thomas Finnell (Finnell & Company), representing the American Property Casualty Insurance Association (APCIA), stated that he was not previously focused on the goal of adoption by late 2019. He stated that he assumed the Working Group may have a “straw man” by such a date, with future testing.

Commissioner Altmaier responded that adoption might be a bit of a strong word, but said he is an optimist and noted that it is possible that field-testing goes so well that the Working Group is prepared to consider adoption of the GCC by such a date. He stated that if the results indicate to the Working Group that what was learned suggests the GCC as designed was not as helpful and thorough and a redesign may be necessary, then it is possible that more field-testing may be needed.

Mr. Finnell asked if there is a view of what analyzing the results may look like, such as a breakdown of displayed information, the impact, etc.

Commissioner Altmaier responded that as individual results are completed, it will be determined if there is a way to provide such information in a way that is not compromising of the company's information. He stated that the focus for NAIC staff will be to determine if the data can be aggregated in a way that does not betray the trust of the volunteers.

Bill Schwegler (Transamerica) asked about the confidentiality issue, noting that the NAIC staff memorandum described how the template would be submitted to the lead state then shared with NAIC staff. He asked what sharing with the NAIC means and if individual company results would be shared with members of the Working Group.

Draft Pending Adoption

Commissioner Altmaier responded that, ideally, the lead state will obtain the submission from the volunteer and then provide the information to NAIC staff in a way that NAIC staff can use it to help inform decisions. He stated that the members of the Working Group should be able to look at the results of each of the companies, as well as the feedback from the lead state, to help understand how the GCC impacts volunteers of different sizes, lines of business, etc. He stated that the information will be shared on a need-to-know basis only. He stated that the volunteers should know that all the Working Group members will obtain the results of the information from the lead state.

Ms. Belfi agreed with Commissioner Altmaier on the topic of confidentiality and noted that the NAIC used a similar process for the Own Risk and Solvency Assessment (ORSA), as well as other projects, and results were shared among Working Group members with no issues.

Mr. Felice agreed with Commissioner Altmaier and Ms. Belfi regarding sharing the results with Working Group members, but he stated that the NAIC will not be sending the actual templates around. Instead, NAIC staff will be focused on accumulating the information in a way that the Working Group can use to better understand the results during regulator-to-regulator meetings.

3. Discussed Finalizing Decisions on Other Technical Matters

Mr. Felice described that on the issue of the nonadmitted entities column, the original view was that in the current carrying value column and the current local capital requirement column, the number entered would include what was included in the RBC calculation. In retrospect, it was determined that such items should simply be included in the carrying value. When statutory accounting says treat one way, but nonadmitted for RBC, it would be included in the global carrying value instead of having to readmit in that nonadmitted entities column. He also described that it would be possible to use the exclude column.

Mr. Felice stated that the other issue raised was the investment in subsidiary issue. He described how the Inventory tab does treat the entity different than in the RBC calculation, but this is mostly in the financial entities. He also described that there is not a good way to deal with covariance, and currently these adjustments are in and then out of the RBC calculation at the current 22.5% charge.

Mr. Schwegler said he appreciates the explanation but reiterated Transamerica's macro-point that there needs to be a way for people to understand how to get from the current RBC calculation and what is required to what is required for the GCC. He stated that it should not be up to the industry to dig through the template to figure out, and what was proposed was that all adjustments should be clearly identified so people can understand what is occurring. He stated that he can kind of understand the subsidiary treatment and appreciates that it is a complicated structural issue, but the need is still going to exist.

Commissioner Altmaier stated that there are two other technical items. Ms. Belfi stated that Connecticut was the driver behind Test 3 of the XXX/AXXX on-top adjustment, but one thing that needs to be added to the template is a line to capture primary security valuation differences. She stated that she would be working with the NAIC to incorporate it into the testing template for Test 3 only.

Commissioner Altmaier stated that the other issue is the so-called "Cigna" proposal, which attempts to work through a different report display within the template. He stated that NAIC staff and members of the industry are meeting tomorrow to continue to work through this issue, and an update will be provided in the future.

Mr. Rehagen asked if the Working Group could also be updated on the new line added to Test 3 in the future.

Having no further business, the Group Capital Calculation (E) Working Group adjourned.

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MEMORANDUM

TO: Justin Schrader (NE)
Chair of the Group Solvency Issues (E) Working Group

FROM: Commissioner David Altmaier (FL)
Chair of the Group Capital Calculation (E) Working Group

DATE: **TBD**

RE: Confidentiality of Group Capital Calculation

As you may be aware, in 2016 the NAIC formed the Group Capital Calculation (E) Working Group, which was charged with constructing a U.S. group capital calculation using a risk-based capital (RBC) aggregation methodology. Since that time, the Working Group has focused on developing the details of such a calculation, which is currently being tested by 33 insurance groups. While I do not expect the calculation to be finalized until sometime in 2020, one issue that will need to be addressed is the confidentiality protection that we expect the calculation to have under state law. At this point, I believe modifying the *Insurance Holding Company System Regulatory Act* (#440) to incorporate such protections would be an appropriate step by the NAIC. I recognize that the Group Solvency Issues (E) Working Group is the primary NAIC group that has had purview over Model #440; therefore, I wanted to make you aware of future steps that are likely. I recognize that such work would only begin upon the Executive (EX) Committee agreeing to open such a model. I also recognize that the Group Capital Calculation (E) Working Group will eventually need to provide you a more specific granular recommendation. Regardless, I wanted to provide you with this memorandum at this time.

As it relates to the timing of a more specific granular recommendation to the Group Solvency Issues (E) Working Group, we still need to make a few critical decisions before this can be determined. Specifically, the Group Capital Calculation (E) Working Group will first need to determine who is required to complete and file the calculation. Next, the Working Group will need to determine if the calculation will be filed with the NAIC. Several state insurance regulators have stated that one of the most useful aspects of the calculation will be the trending of financial information (e.g., net income, revenues, assets, debt, etc.) over time, and this is unlikely to be possible unless it is filed with the NAIC and held confidential under state law. Finally, it may be necessary for at least some groups (U.S. groups complying with either the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” [EU Covered Agreement] or the “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” [UK Covered Agreement]) to disclose a numerical result, but we think that language could be constructed in a way that the group itself discloses that information rather than the state insurance regulator or the NAIC. Point being, it may take us time to work through these issues before you can expect a more specific granular recommendation and the process to obtain approval from Executive (EX) Committee level.

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GROUP CAPITAL CALCULATION – SHADOW FIELD TESTERS

JON RODGERS
DIRECTOR OF FINANCIAL AND TAX POLICY, NAMIC



NAMIC OBTAINED FEEDBACK FROM 3 CATEGORIES OF MEMBERS

1. Holding Companies – That do NOT own a bank or other regulated entity;
2. Non-Holding Companies that own an agency;
3. Non-Holding Companies – That do NOT own any other entity;

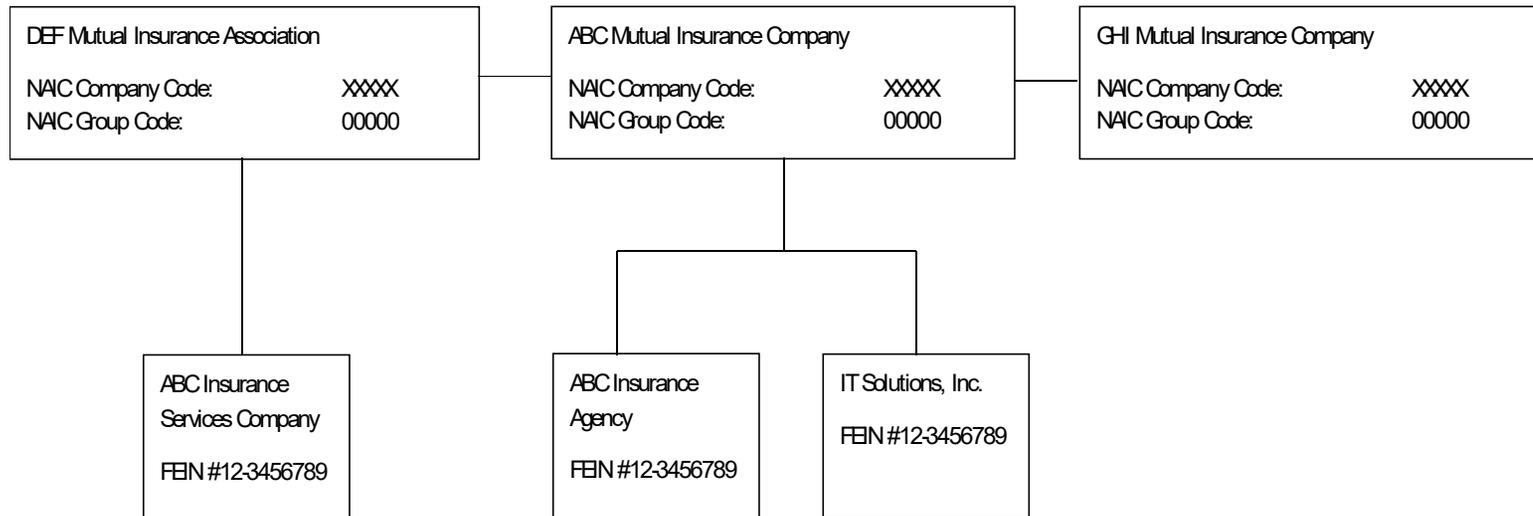


HOLDING COMPANIES THAT DO NOT OWN A BANK OR OTHER REGULATED ENTITY

ANNUAL STATEMENT FOR THE YEAR 2018 OF THE ABC / DEF MUTUAL INSURANCE COMPANY

SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 – ORGANIZATIONAL CHART





HOLDING COMPANIES THAT DO NOT OWN A BANK OR OTHER REGULATED ENTITY

- **Capital View** – look to mutual at top of house for capital planning – do not see value for company or regulator
- **Timing and Implementation** – January/February very busy time – could do after audits complete; Needs to be incorporated into annual statement/RBC software
- **Regulatory Action** – What is a good number? Concerns with evolving into a standard
- **Non-Insurance Entities** – Is treatment same as RBC or different?
- **Resources** – Finance/Accounting Departments have seen substantial growth over last 10-15 years; From bookkeepers to CPA's with advanced degrees
- **ORSA/Holding Company Analysis/Enterprise Risk Reports** – contains info about non-insurance and non-regulated entities

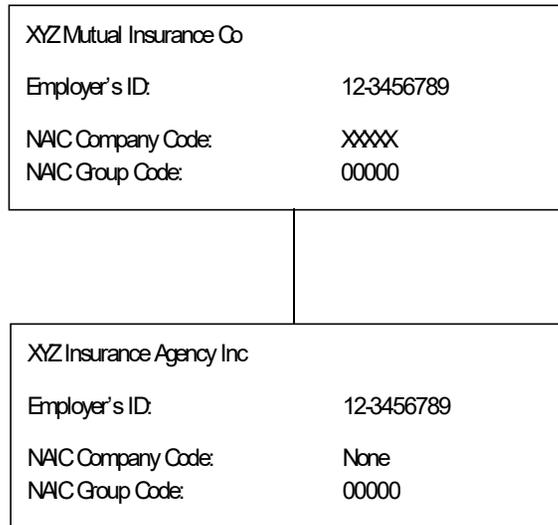


NAMIC MEMBERS NOT PART OF HOLDING COMPANY THAT OWN AN AGENCY

ANNUAL STATEMENT FOR THE YEAR 2018 OF THE XYZ MUTUAL INSURANCE COMPANY

SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 – ORGANIZATIONAL CHART





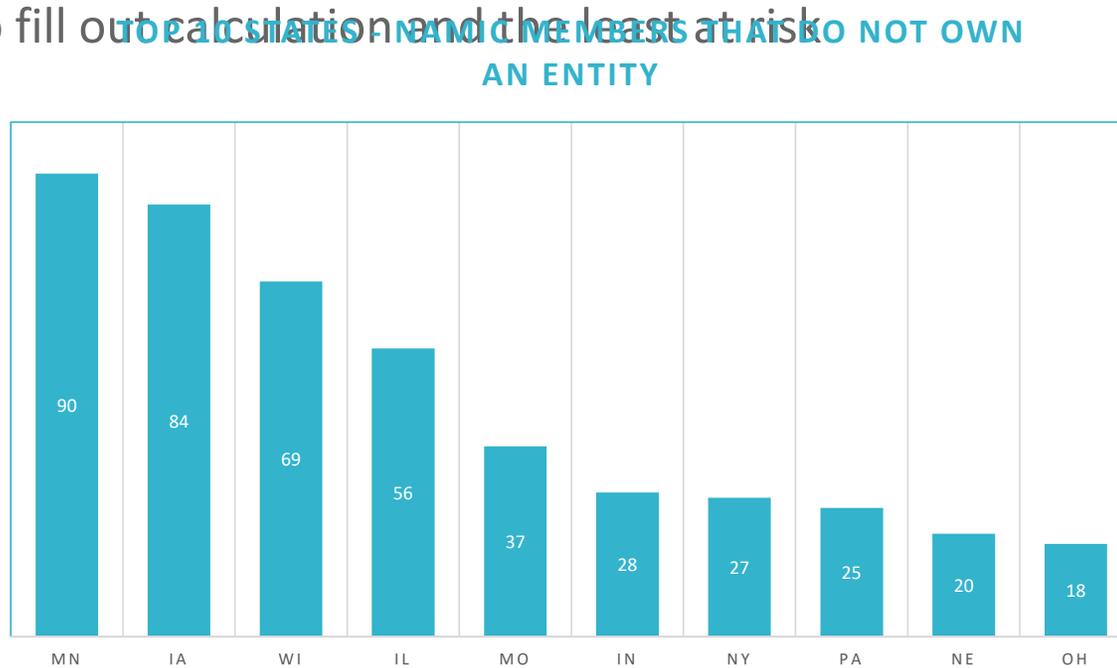
NAMIC MEMBERS NOT PART OF HOLDING COMPANY THAT OWN AN AGENCY

- **Small Mutuals** – each state treats small mutuals, such as town, county, or farm mutuals differently; most are not required to file an annual statement electronically with NAIC
- **Example** – Mutual in Wisconsin writes \$4 million in DWP; agency does under \$5K of business per year – they would “dissolve” agency if required to do GCC
- **Other States** – NAMIC members in Guam, Illinois, Kansas, New York, South Dakota, and Texas in similar situation



NON-HOLDING COMPANIES THAT DO NOT OWN ANY OTHER ENTITY

- There are 615 NAMIC mutual insurance company members that write \$9.64 Billion in DWP
- This represents 1.43% of the \$675 billion written in 2018
- Least able to fill out calculations and the least at risk





GENERAL FEEDBACK

- **Transition** – Once adopted and handed off to states = BIG learning curve
- **Operational Risk** – Still relatively new – RBC formula puts OP Risk outside covariance
- **Instructions and Template** – Needs to be clear and complete
- **Focus Should be on Big Risks** – For most mutual insurance groups, a substantial amount of business is in one company
- **Simple Calculation** – For an underwriting entity at top of house that doesn't own a bank or regulated entity, GCC should equal RBC; year 1 is the toughest



QUESTIONS

