

**Legal Entity Insurer – Existing Blanks Disclosures**

- 1) Assets Page
  - a. Invested Assets by type:
    - i. Net Admitted Asset amounts
    - ii. Nonadmitted Asset amounts
  - b. Contract Loans (policy loans)
- 2) Investment Schedules
  - a. More granular detail by type of invested asset allows us to distinguish liquid assets from non-liquid, including derivatives and securities lending reinvested collateral
- 3) Exhibit of Net Investment Income/Exhibit of Capital Gains (Losses)
  - a. Investment income by major type
  - b. Unrealized losses on bonds
- 4) Restricted Assets:
  - a. Schedule E, Part 3 – Special Deposits
  - b. Note to F/S #5H – Restricted Assets
- 5) Liabilities Page
  - a. Reserves, contract claims and other contract liabilities (and Exhibit 5 and its Interrogatories, Note to F/S #14 – Liabilities, Contingencies and Assessments)
  - b. Borrowed Money (Notes to F/S #11)
  - c. Various Payables (Lines 6, 9.1, 9.2, 9.3, 10, 11, 24.4, 24.5 and 24.8)
  - d. Capital Notes
  - e. Common and Preferred Capital Stock
  - f. Surplus Notes
- 6) Off Balance Sheet Risk
  - a. Schedule DB detail
  - b. Note to F/S #16 – Information about Financial Instruments with Off-Balance Sheet Risk . . . .
- 7) Summary of Operations Page:
  - a. Net Transfers to or (from) Separate Accounts Net of Reinsurance
  - b. Capital and Surplus Account:
    - i. Changes to various components (capital, nonadmitted assets, etc.)
    - ii. Dividends
- 8) Cash Flow Page:
  - a. Cash from Operations
  - b. Cash from Investments
  - c. Cash from Financing and Miscellaneous Sources
- 9) Five-Year Historical Data Exhibit
  - a. Line 29, Trends of the net cash flows over the last 5 years
- 10) Analysis of Operations by Lines of Business - LIFE
  - a. Premiums and Considerations
  - b. Net Investment Income
  - c. Other Income

- d. Death Benefits, Matured Endowments, Annuity Benefits
- e. Disability and A&H Contract Benefits, Coupons, Guaranteed Annual Pure Endowments, etc.
- f. Surrender Benefits and Withdrawals, Group Conversions
- g. Interest/Adjustments on Deposit-Type Contracts, Payments on Supplementary Contracts w/  
Life Contingencies
- h. Commissions and other expenses
- i. Dividends to policyholders
- j. Items a. through i. by Type of Life Insurance
  - i. Industrial Life
  - ii. Ordinary (Individual):
    - 1. Life Insurance
    - 2. Individual Annuities
    - 3. Supplementary Contracts
  - iii. Credit Life (Group and Individual)
  - iv. Group:
    - 1. Life Insurance
    - 2. Annuities
  - v. Accident and Health
    - 1. Group
    - 2. Credit (Group and Individual)
    - 3. Other
  - vi. All Other Lines of Business

11) Analysis of Operations by Annuity Lines of Business – ANNUITIES

- a. Same rows as Life +
- b. Policies/certificates in force end of year
- c. By Annuity Type:
  - i. Individual:
    - 1. Fixed Annuities
    - 2. Indexed Annuities
    - 3. Variable Annuities General Account
    - 4. Variable Annuities Separate Account
    - 5. Other Annuities
  - ii. Group:
    - 1. Fixed Annuities
    - 2. Indexed Annuities
    - 3. Variable Annuities General Account
    - 4. Variable Annuities Separate Account
    - 5. Other Annuities

12) Analysis of Increase in Reserves During the Year – Life

- a. Increases
- b. Decreases, including reserves released by other terminations
- c. By Line of Business – ONLY life lines (not A&H lines), excludes column for All Other Life

- 13) Exhibit 1, Part 1: Premiums and Annuity Considerations for Life and A&H Contracts
  - a. Source of premium income
    - i. First year single premium
    - ii. First year annual premium
    - iii. Renewal Premium
- 14) Note 10 – Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties
  - a. Short-term cash pool
  - b. Intercompany liquidity loan
  - c. LOC
  - d. Repurchase agreements
- 15) Note 20 – Fair Value Measurement Illustration
  - a. Comparison of Fair Value to Book/Adjusted Carrying Value for invested assets
- 16) Note 32 - Analysis of Annuity Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics (Also Life General Interrogatory # 9 (variable annuities with guaranteed benefits))

Disclose the amount of annuity actuarial reserves and deposit-type contract funds and other liabilities without life or disability contingencies by withdrawal characteristics as follows:

For A through E below, disclose the general account and separate account with guarantees, separate account nonguaranteed amounts, as well as the total.

A. Subject to discretionary withdrawal:

- (1) With market value adjustment, where withdrawal of funds is payable at all times, or prior to specified maturity dates where such dates are more than one year after the statement date and:
  - a. In a lump sum with adjustments to reflect general changes in interest rates or asset values since receipt of funds by the reporting entity; or
  - b. In installments over five years or more, with or without a reduction in the interest rate during the installment period.
- (2) At book value less current surrender charge, where the withdrawal of funds is payable at all times, or at any time within one year from the statement date in a lump sum subject to a current fixed surrender charge of 5% or more and it does not contain a meaningful bail out rate as described in subparagraph A5 (d) below.
- (3) At fair value, where the withdrawal of funds is payable at current fair value of the assets supporting the liabilities, the assets are stated at current fair value and the liabilities are stated at the current fair value or per unit value of the assets supporting the liabilities. These liabilities are for contracts where the customer bears the entire investment risk.
- (4) Total with market value adjustment or at fair value.
- (5) At book value without adjustment (minimal or no charge or adjustment) where the withdrawal of funds is either payable at all times or at any time (including a withdrawal on a scheduled payment date) within one year from the statement date and:
  - a. In a lump sum without adjustment;

- b. In installments over less than five years, with or without a reduction in interest rate during the installment period;
  - c. In a lump sum subject to a fixed surrender charge of less than 5%;
  - d. In a lump sum subject to surrender charge, but such charge is waived if the credited rate falls below a specified "bail out" rate and the "bail out" rate is more than the maximum statutory valuation rate for life insurance policies for more than 20 years for new issues;
  - e. All others.
- B. Not subject to discretionary withdrawal.
  - C. Total (Gross: Direct + Assumed).
  - D. Reinsurance ceded.
  - E. Total (net) (C) – (D).
  - F. Reconcile total annuity reserves and deposit fund liabilities amount disclosed to the appropriate sections of the Aggregate Reserves for Life Policies and Contracts Exhibit and the Deposit Funds and Other Liabilities without Life or Disability Contingencies Exhibit, of the Life, Accident and Health Annual Statement and the corresponding lines in the Separate Accounts Statement.
- 17) Management's Discussion and Analysis (MD&A)
- a. Senior management discussion regarding liquidity and capital sources

**Legal Entity Insurer – Existing Regulator Only Disclosures**

- 1) Information from stress liquidity inquiries and templates from financial exams (every 5 years):
  - a. Details on whether the company maintains a liquidity plan and, if so, its components.
  - b. Information on yield-enhancing activities such as securities lending, repurchase agreements, dollar rolls or similar activities that may introduce liquidity risk.
  - c. Information regarding any rating agency's view of the insurer's liquidity.
  - d. Relevant reinsurance arrangements (including ratings downgrade triggers).
  - e. Details on illiquid assets, including information on how such assets are used to support liabilities with potential material cash demands.
  - f. Information on potential large and institutional cash demands ("large cash demand" is defined as equal to or greater than 10% of the company's surplus and "institutional cash demand" is defined as cash value products of at least \$10 million, under common control or ownership, for which the decision to access the cash is in a single person/entity).
  - g. Information on whether the company's assets are pledged or encumbered for purposes other than to directly support its insurance liabilities (e.g. FHLB loans, etc.).
  - h. A description of all potential cash demands at the holding company level that can have a negative impact on the company's liquidity position.
  - i. A description of all general account guarantees associated with market value separate accounts of the company and disclosure of the total liquidity exposure for each material guarantee.
  - j. Information on any GICs, funding agreements or similar instruments, including listing the 10 largest and the aggregate amount, and describing the terms and conditions of each.

- k. Information on any COLI and BOLI business, including listing the 10 largest and the aggregate amount.

NY Comment: These exam interrogatories do not incorporate the full New York Liquidity and Severe Mortality Inquiry including the data tables. These data tables are completed by the companies and provide a high level comparison of potential cash demands and available assets.

- 2) LR027 of the Life RBC statement contains similar and slightly expanded data to Note 32
- 3) Confidential actuarial memorandum should provide some insight into how the appointed actuary is assessing liquidity risk and associated company specific mitigation measures when assessing the adequacy of formulaic reserves in the context of asset/liability duration matching.

#### **Insurance Group – Existing Blank Disclosures**

- 1) Schedule Y, Part 1A – Detail of Insurance Holding Company System
  - a. List of individual entities within the holding company system (not just the insurance group)
  - b. Common Schedule Y, Part 1A is filed in each legal entity insurer’s statutory financial statement.
  - c. MN comment: We do not have good sources of data at the holding company level, except perhaps for those entities that are publicly traded and file with the SEC.

#### **Insurance Group – Existing Regulator Only Disclosures**

- 2) ORSA
  - a. Companies/groups of a certain size are expected to describe their material risks and their mitigation strategies. Most that are required to complete this do so at the insurance group level, and life insurers tend to include liquidity risk as one of their material risks.
  - b. Part 2 of the ORSA also requires the company to quantify such material risks both under normal and stressed conditions. Most companies tend to include a summary discussion of their liquidity risk limits that they use, the liabilities that can be stressed to require liquidity and the assets that would be used to fund such payments of these liabilities. MN comment: We have a limited amount of data available in the ORSA reports, although this information is highly confidential and is not standard across the industry.

#### **NAIC Staff Position:**

- 1) Legal Entity Insurer Disclosures:
  - a. Blanks disclosures include an extensive amount of data. This data is used by regulators to perform liquidity risk assessment in their annual and quarterly financial analysis reviews as well as during scheduled financial exams.
    - i. Despite the extensive data, there are some missing items to consider. For example, while the policy loans outstanding are captured on the Assets Page, the amount of

- eligible policy loans is not disclosed. The information on annuities in Note 32 provides a good start for this type of liquidity analysis to be performed by regulators, but there is no equivalent for life insurance policies that have surrender benefits. MN comment: Note 32 provides data on the volume of annuity reserves subject to discretionary withdrawal with a surrender charge, but not the volume of such reserves that might be leaving the surrender charge category in the next year.
- ii. Staff question whether the appropriate level of granularity exists in the lines of business disclosures throughout the life blank to allow regulators to quickly and easily identify where liquidity concerns may be likely and/or exist. Just as we have good category breakouts for the assets to allow bucketing by relative liquidity, regulators need a similar ability to group products/policies based on the relative levels of ability to draw cash; if it is cashable, on what terms and over what time frame; and what are the surrender penalties/costs at the company level for such cashing out activity. Data to bucket products/policies based on term/duration may be needed also. MN comment: Although we do have some limited data on the types of annuity reserves, these broad categories are not as useful as they might be in assessing a liquidity position and identifying any weaknesses since we do not have specific details on the types of annuity reserves: immediate annuities and deferred annuities have different liquidity characteristics, and would tend to have differing types of investment portfolios supporting these reserves. Similarly, a life insurer with large deposits might pose higher liquidity risk because of the runoff characteristics of those liabilities.
  - iii. Staff question whether some reorganization of existing schedules, such as the Analysis of Operations schedules, would, when combined with expanded detail in the lines of business and additional disclosures, better present the information for regulatory use.
  - iv. MN comment: Some items might be useful to be added to the Annual Statement for better disclosure and analysis; other sources of information such as liquidity policies and controls are unlikely to be added to the statement, as they are proprietary.
- b. Regarding the financial exam regulator only inquiries and templates, staff suggest the Subgroup review these items after the work on liquidity stress testing is completed for the larger insurance entities, as they may have ideas that would be beneficial to receive from other insurers in the examination process. MN comment: The data gathered by the NY Department, which includes both public and regulatory information, could be very useful in gathering data to assess the liquidity position of large life insurers. We suggest obtaining this detailed information on the following subset of life insurers for further analysis: Life companies with more than \$20 billion of General Account Annuity reserves + Deposits, AND more than 25% of General Account Assets in Annuities + Deposits. We note that this group includes mutual insurers, insurers with holding companies that are publicly traded, as well as holding companies whose sources of funding are the private equity markets. (In looking at industry data, the general account portfolio poses higher liquidity risk than the variable annuity writers.)

2) Insurance Group Disclosures:

- a. Since there is no Insurance Group blank, staff have no comments for this item.
- b. Regulator only disclosures should support the liquidity stress testing framework developed by the Subgroup for larger insurers (and potentially additional entities as part of the financial exam process). MN comment: Rather than reinventing a new report, we should look at collecting data such as that found in the NY annual report on liquidity and assess whether that data set, with its relevant discussion of company practices, would be an appropriate next step in our process.