FINANCIAL CONDITION (E) COMMITTEE

Draft Pending Adoption

Draft: 3/25/24

Financial Condition (E) Committee
Phoenix, Arizona
March 18, 2024

The Financial Condition (E) Committee met in Phoenix, AZ, March 18, 2024. The following Committee members participated: Nathan Houdek, Chair and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair, represented by Jamie Walker (TX); Michael Conway represented by Rolf Kaumann (CO); Doug Ommen represented by Carrie Mears (IA); Amy L. Beard and Roy Eft (IN); Vicki Schmidt (KS); Gary D. Anderson, John Turchi and Rachel Davison (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by Mark Cooley (MS); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French and Dale Bruggeman (OH); Elizabeth Kelleher Dwyer represented by Ted Hurley and John Tudino (RI); and Scott A. White and Doug Stolte (VA). Also participating was: Philip Barlow (DC).

1. Adopted its 2023 Fall National Meeting Minutes

Eft made a motion, seconded by Walker, to adopt the Committee's Dec. 3, 2023, minutes (*see NAIC Proceedings – Fall 2023, Financial Condition (E) Committee*). The motion passed unanimously.

2. Adopted the Reports of its Task Forces and Working Groups

Commissioner Houdek stated that the Committee usually takes one motion to adopt its task force and working group reports that are considered technical, noncontroversial, and not significant by NAIC standards (i.e., they do not include model laws, model regulations, model guidelines, or items considered to be controversial). He reminded Committee members that after the Committee's adoption of its votes, all the technical items included within the reports adopted will be sent to the NAIC Members for review shortly after the conclusion of the 2024 Summer National Meeting as part of the Financial Condition (E) Committee Technical Changes report. Pursuant to the technical changes report process previously adopted by the Executive (EX) Committee and Plenary, the members will have 10 days to comment. Otherwise, the technical changes will be considered adopted by the NAIC and effective immediately. With respect to the task force and working group reports, Commissioner Houdek asked the Committee: 1) whether there were any items that should be discussed further before being considered for adoption and sent to the members for consideration as part of the technical changes; and 2) whether there were other issues not up for adoption that are currently being considered by task forces or workings groups reporting to this Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Commissioner Houdek noted that the Financial Analysis (E) Working Group met March 15, Feb. 21, and Jan. 24 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group met March 15 and Dec. 18, 2023, in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies.

Kaumann made a motion, seconded by Walker, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Financial Stability (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Valuation of Securities (E) Task Force; Group Capital Calculation (E) Working Group (Attachment One); National Treatment and Coordination (E) Working Group (Attachment Two); and Risk-Focused Surveillance (E) Working Group (Attachment Three). The motion passed unanimously.

3. Received an Update from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Barlow reported that the Risk-Based Capital Investment Risk and Evaluation (E) Working Group heard an update from the American Academy of Actuaries (Academy) on its work toward developing a methodology for addressing collateralized loan obligations (CLOs). Currently, the Academy is developing a list of attributes that could be used to categorize and help determine a factor or methodology to produce an appropriate risk capital charge. Barlow noted this was the Academy's first step to determine if they can identify a few attributes that are useful. If the Academy cannot, a modeling approach may be required. The Academy will provide an update at the Summer National Meeting, and it hopes to have a proposal and methodology ready for presentation to the Working Group by the Fall National Meeting. Barlow stated he was pleased with the Academy's work thus far, as there seems to be a good deal of cooperation among various parties, including working with Eric Kolchinsky (NAIC) to understand the modeling approach it has used in the past, but also with other interested parties. Barlow stated he is also hopeful that the work being done will provide a pathway for a risk-based capital (RBC) approach for other types of structured securities.

Barlow reported on the residual investments project of the Working Group. In 2023, a compromise solution was developed to establish a 30% factor for 2023 and a 45% factor for 2024, but the Working Group left open the possibility of changing the factor if it was presented with a justification that supported a different factor. Barlow reported that the Working Group recently received a proposal from the Alternative Credit Council (ACC) through a report from Oliver Wyman that looked at residual tranches. Barlow noted that the ACC had been helpful in scheduling meetings with various members of the Working Group and other regulators to provide information about the report. Barlow stated that he and some Working Group members believe the report supports the 45% charge that was already established; however, the Working Group agreed to continue work on this to see that, with revisions, it could support something other than a 45% charge. It was exposed for 21 days, which may seem short, but the smaller comment period is to make sure that it can meet the Working Group's procedural requirements. He noted that the report makes clear that it is a small portion of the residual investments held by insurance companies, and a 45% charge may be too high, but those are currently a small portion of the assets, and the group currently only has one factor. The 45% factor still seems reasonable. Barlow stated that the Working Group also received a request to defer the decision to the 45% factor to allow time to review the Oliver Wyman report. Considering the Oliver Wyman report's content and the upcoming June 30 deadline for addressing it, Barlow said the Working Group doesn't need to consider the request. He noted that NAIC staff is putting together a report that summarizes the residual investment reporting from the 2023 annual statement. There will be reports on both the number of residual tranches and the impact of the 45% charge on individual companies. Reports will be produced both for the public and regulators only, with the latter including individual company data as opposed to just aggregate information. Barlow also noted the next work they will begin relates to types of funds.

4. Received an Update from the Valuation of Securities (E) Task Force

Mears reported that the Valuation of Securities (E) Task Force's key initiative related to the Committee's investment framework is the discretion proposal. As a reminder, the Task Force's most recent exposure of this proposal was at the 2023 Fall National Meeting, where comments were received. Then in January, those comments included additional constructive feedback that the Task Force hopes to consider incorporating into a final amendment. Mears reported that the update was not completed before this meeting, as the Task Force wanted to hear additional comments and consider those when developing a final amendment. During this national meeting, the Task Force discussed some of the thematic responses to the comments, as well as an NAIC staff recommendation for the comments that would be incorporated into the next revisions. Mears stated that they have clarified that this process would be utilized for individualized issues and not meant to be used for the broader asset class as there are already mechanisms in place for when those types of issues arise.

Another initiative that will impact the Task Force is the current request from the Committee to the Executive (EX) Committee to draft a request for proposal (RFP) as the first step in establishing a broader due diligence process. Mears noted that the Task Force did receive some comments that suggested its work be paused while a due diligence process is developed. However, it will take quite a bit of time to work on some of the backend technical issues that would be used for communication purposes in this discretion proposal and, therefore, cannot be implemented immediately, so pausing is not appropriate. She noted that potentially, it would take one to two years before the process is in place, with multiple touchpoints along the way. Mears noted that during the Task Force meeting, interested parties were informed that a final draft of the proposal would be exposed in advance of the Summer National Meeting. Mears noted that the Task Force also received an update from Kolchinsky, who, as previously noted, is coordinating with the Academy as it works through its process and considers potential RBC factors for CLOs. She noted that some changes will need to be made to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) because it references a date for when CLO modeling will begin, and as announced at the 2023 Fall National Meeting, this work is not done and will not be in place under the original timeline because work is ongoing.

5. <u>Received an Update from the Statutory Accounting Principles (E) Working Group related to the Principles-Based Bond Project</u>

Bruggeman reported that all planned revisions to statutory accounting that incorporate a principles-based bond definition have been adopted by the Statutory Accounting Principles (E) Working Group. These revisions are effective Jan. 1, 2025, and include a number of highlights. First, *Statement of Statutory Accounting Principles (SSAP) No. 26—Bonds* was adopted during the 2023 Summer National Meeting and includes the revised bond definition. This definition is explicit that all debt securities must represent a creditor relationship in substance, and not just legal form, to qualify as a bond under statutory accounting principles. The bond definition also includes required components for asset-backed security investments to qualify for reporting as bonds, preventing bond reporting when the substance of a securitization does not transform the investment to represent bond risk or bond cash flows. SSAP No. 26 also includes the accounting and reporting guidance for bond investments that qualify as issuer credit obligations, which generally reflect traditional bond investments.

Second, *SSAP No. 43—Asset-Backed Securities*, which was also adopted during the 2023 Summer National Meeting, includes the accounting and reporting guidance for investments that qualify as asset-backed securities and will be separately reported on a new Schedule D-1-2, with reporting lines to differentiate by the type of underlying collateral. For example, the categories divide between financial and non-financial asset-backed and include specific lines for CLOs and equity-backed asset-backed securities. Lastly and the most recent adoption is *SSAP No. 21R—Other Admitted Assets*, which was adopted March 16. This includes the accounting and reporting guidance for debt securities that do not qualify as bonds. Investments do not qualify because they do not reflect a creditor relationship in substance, or, for asset-backed securities, they lack substantive credit enhancement or meaningful cash flows. Debt securities that do not qualify as bonds will be reported on Schedule BA: Other Invested Assets with dedicated reporting lines. The revisions also include guidance for the accounting of residual interests, ensuring residuals follow the same guidance regardless of legal form. Residuals shall be reported at cost and subsequently accounted for: 1) at the lower amortized cost or fair value, with the amortized cost calculated under an allowable earned yield method; or 2) under the practical expedient method, which reflects a return of principal concept. The allowable earned yield method calculates the yield permitted to be recognized as interest income, with cash flows received in excess, reducing the amortized cost as a return of principal. The practical expedient permits all cash flows received to be taken as a reduction of the book/adjusted carrying value (BACV) as a return of principal. With this approach, cash flows received are not recognized as interest income until the residual has a BACV of zero. All other SSAPs are being revised to direct residuals to SSAP No. 21R.

Bruggeman noted that reporting revisions have also been adopted to reflect the new bond reporting schedules (separately between D-1-1 and D-1-2), as well as to incorporate more granular reporting lines for the type of underlying investment. These reporting revisions also capture more investment-related details to allow regulators to assess the underlying investment risk. The revisions to Schedule BA for debt securities that do not qualify as bonds are currently exposed and will be considered for adoption in May. Bruggeman noted that this project's success was from regulators and key industry representatives dedicatedly working and collaborating to improve accounting and reporting under a shared goal that regulators would have transparency to the investment risks held by insurers. With the adoption of the SSAP revisions to incorporate the principles-based bond definition and the reporting revisions also almost final (with the Schedule D revisions adopted and only Schedule BA pending adoption in May), the NAIC is working to offer a training program as soon as possible in 2024. Although various webinars and Insurance Summit sessions have been provided to educate on changes and topics as they were being discussed, the planned training program intends to provide comprehensive guidance addressing all key concepts reflected within the bond project.

Bruggeman concluded by stating that as with any large accounting concept change, regulators anticipate implementation questions and perhaps future clarification revisions. Regulators also anticipate inquiries on specific investment characteristics to assist in determining whether investments qualify as bonds. States are encouraged to submit questions or comments to NAIC staff for accumulation and future assessment. Commissioner Houdek stated his appreciation for all of the work in completing this project; it has been a big lift for many years for many people.

6. Received an Update on the Request to the Executive (EX) Committee

Commissioner Houdek said that included in the advanced materials was a letter from himself as chair of the Financial Condition (E) Committee to the Executive (EX) Committee. He explained that the letter was directed at the item in the framework that contemplates the NAIC implementing a strong due diligence framework in its retention and ongoing utilization of credit rating providers. The idea is to develop some quantitative and qualitative standards for credit rating providers (CRPs). Commissioner Houdek also explained that the goal was to begin the process of developing an RFP for the NAIC to hire a consultant to design and help the NAIC implement such due diligence framework for CRPs. He noted that the Executive (EX) Committee approved the request, so it will begin the process of developing the RFP in the near future. Mears stated her appreciation for the approval and noted that the Task Force was incredibly supportive of this work, and while completion won't happen quickly, she would appreciate input into the process including unsolicited feedback.

7. Heard Oral Comments on the Framework for Regulation of Insurer Investments and Related Documents

Commissioner Houdek stated for the last agenda item, the Committee would provide each of the listed presenters on the agenda up to five minutes to make initial observations on the investment framework documents that were exposed Feb. 15. This was intended to be a preview of these commentators' reactions and does not preclude in any way further formal comments either in writing or orally by the same parties.

A. ACLI

Carrie Haughawout (American Council of Life Insurers—ACLI) expressed the ACLI's compliments for the communication of comment reactions. The ACLI believes this will foster understanding and moves all parties toward agreement. She stated that the ACLI believes that transparency will continue to be key in advancing the approach. Haughawout noted that the ACLI continues to support the investment framework, the idea of the RFP, and noted that the work plan as envisioned makes a lot of sense. The ACLI, like others, feels strongly about the need to continue coordinating, and she noted that the previous updates during this meeting from the three chairs are a great start, but that sort of coordination work is going to continue to be necessary and critical to moving this framework forward, especially because the Committee has made it clear that it's not pausing existing work.

Haughawout suggested a recognized process of coordination—something to signal that the work is being coordinated. It would be helpful to have specific dialogue around what types of transparency, communication, or coordination tools are going to be used. She used the residual tranche issue as an example, where there is a need for to understand the broad impact of the different working groups. More specifically, something that shows that work is being done in coordination with the investment framework. She asked what the impact of that work is across all those workstreams. She suggested a cost benefit analysis be part of the process. She also noted that there was no additional commentary on the work that is occurring at the Life Actuarial (A) Task Force going forward.

B. Athene

Mike Consedine (Athene) thanked the Committee for its transparent process and explained that Athene supports the Committee's goal of developing a holistic and consistent approach to the regulation of insurer investments to account for the evolving life insurance sector and the critical need to remedy the retirement protection gap. He noted that Athene remains committed to respectful dialogue among regulators, industry peers, and other interested parties on these issues. Consedine stated that Athene believes the framework provides a thoughtful, comprehensive approach for addressing the most important challenges confronting U.S. insurance regulators amid a changing marketplace. Athene supports the framework's aim of modernizing investment risk oversight and creating a consistent approach in calculating C1 capital across a diverse set of asset classes and structures. This approach will add diversification and stability in insurer investment activities, which should be as agnostic to regulatory incentives as reasonably possible and will support a market that can meet the substantial demand for retirement income.

Consedine stated that Athene has two areas that should receive additional consideration from the Committee. The first is narrowing the concept of equal capital for equal risk, which Consedine noted Athene supports, but the revised draft framework now refers to "Equal Capital for Equal Tail Risk" instead. Athene agrees that tail risk is an important consideration for RBC, and it is a risk that is relevant for all asset classes, as well as for liability reserving practices. Consedine noted that the framework covers memo states that the drafting group members "are supportive of the concept of equal capital for equal risk which includes consideration of tail risk," which is the more appropriate language, as it does not inadvertently narrow the meaning of equal capital for equal risk. Additionally, there are varying views on what tail risk encompasses within the framework construct, so it would seem counterproductive to limit the application of equal capital to just tail risk without an official determination.

Consedine noted that Athene agrees that it is important for framework-related workstreams to move forward. One such workstream relates to the modeling of CLOs. The framework supports the overall utilization of credit rating providers while developing SVO due diligence, including an important challenge right function. SVO modeling could be a useful tool for supporting the due diligence of CRPs, the challenge right framework, benchmarking, and the SVO's role as an advisory body, but in line with the framework, it should not replace the use of CRPs in designations. Consedine also noted that the current RBC investment framework has several known inconsistencies in design. Athene believes that the integrity and stability of the framework fundamentally depends on a consistent allocation of roles and responsibilities in the determination of credit risk and capital charges. The NAIC should be moving toward more, not less, consistency in these processes, which means that the rating agencies should continue to be the primary arbiters of credit risk with regulators, and the SVO should perform oversight and analytical roles.

Consedine also noted Athene's appreciation for all the work done on the framework and the development of a work plan for moving forward. Athene is supportive of the work plan and believes an independent consultant will be a valuable resource to the NAIC as it builds out its due diligence function. Consedine closed by noting that Athene looks forward to participating in this open, respectful dialogue as they all work toward an important set of shared goals.

C. <u>Anderson Insights</u>

Christopher Anderson (Anderson Insights LLC) said he began following insurer investment issues when he worked for a major broker dealer during the development of RBC, asset valuation reserve (AVR), and interest maintenance reserve (IMR), and at a time when the NAIC appointed advisors to assist with technical work. Anderson stated that for the last 15 years, he has been an independent consultant for a wide variety of clients that are interested in these matters and has consulted with a handful of rating agencies but has never represented any of them. He noted his views being expressed are those as a chartered financial analyst.

Anderson noted that the Financial Condition (E) Committee has charged the Valuation of Securities (E) Task Force with evaluating the reliability of rating agency ratings but needs help from the Committee to do that efficiently. The Task Force is doing all it can with its available resources, but insurers own hundreds of thousands of bonds of many different varieties, so it is a significant challenge to determine which of eight rating agencies for which types of bonds provide ratings that the NAIC can reasonably rely on. Anderson suggested the Task Force was doing this bond by bond. A key screening tool the Task Force has is the yield of individual bonds. This is problematic, however, because credit risk is only one reason for higher spreads. The NAIC has also identified seven other reasons for higher returns, and they are deferral, event, liquidity, call, extension, currency, and leverage.

Anderson noted that casting too wide a net captures elements that make it more difficult to identify the actual ratings that require scrutiny. So far, too many bonds will be identified and then subjected to analysis. Ultimately at the end of the process what the NAIC will have to consider an opinion from the Securities Valuation Office (SVO), say BBB, facing off against an insurer that will have to defend the opinion by a rating agency for a higher rating, say an A-. At the end of the process somebody must decide which credit opinion is right and which one is wrong. Ultimately, insurance regulators have the unenviable responsibility for the integrity and fairness of this process.

Anderson stated that he supported the NAIC having discretion over the ratings it uses on a case-by-case basis. However, there is a much better way of identifying the specific types of ratings the NAIC may not want to rely on. This can be done by using hard, objective, standardized, supervised data. Such data does exist, but the Task Force will need assistance from the Committee to harness that data. The Securities and Exchange Commission (SEC) requires the rating agencies it regulates to publicly disclose nine attributes. The most important of these are historical performance measurement statistics which contain almost 40 tables of individual rating agency track records for the durability of their ratings, going back as far as 10 years. Anderson recommended using objective data to measure performance of the broadest range of securities all together and not one by one. As helpful as the SEC mandated public data is, if it is not sufficiently useful by itself, then the NAIC can combine that data with other data to provide hard evidence of performance. Anderson noted that at one time, the New York State insurance department once mined so much investment data that he believes it was the biggest user worldwide of Bloomberg data. He suggested that this task can be done, but data mining and artificial intelligence (AI) can greatly assist the Task Force in completing the charge the Committee has assigned to it, and the Committee can also help make that happen by providing data analytic resources.

As the NAIC assesses the reliability of rating agencies, it can use the same tools to assess the performance of the SVO. Of the nine disclosures required of rating agencies by the SEC, the SVO discloses only its organizational structure. Its annual report submitted to the Valuation of Securities (E) Task Force two days ago listed only the volume of securities it processed. This may be useful to the Internal Administration (EX1) Subcommittee for budgeting purposes, but it does not form a reasonable basis for assessing the reliability of its work. He asked how then can regulators assess the performance of the SVO. The same tools used for rating agencies can also be used for the SVO. Data reviews, data mining, and perhaps AI can help establish the actual track record of the SVO just as for the rating agencies. He said that everyone gets examined, including insurance companies by regulators. The NAIC examines departments of insurance every five years for accreditation, and the nationally recognized statistical rating organizations (NRSROs) are examined at least every year by the SEC and their foreign regulators as well. Anderson noted he was aware of only two outside examinations of the SVO in the last 30 years, so it is likely time for an examination.

Anderson stated one method used in the past was to select representative samples of SVO decisions and then to examine the actual credit files. He reinforced that this was just one element that can be used in an examination, but the SVO is so important to the NAIC that it makes sense to have hard measures and independent reviews of its performance. He summarized his points by saying that the Valuation of Securities (E) Task Force would benefit greatly if the Committee provided it with the resources to review and mine existing data to assist it in evaluating rating agencies. Similarly, the Committee could commission its own independent review of the performance of the SVO, and this will demonstrate how the SVO can be relied upon, and it might just identify ways its operations can be improved.

D. <u>RRC</u>

Edward Toy (Risk & Regulatory Consulting LLC—RRC) stated he wanted to focus on the future needs of regulators. He said that there had been a lot of change with insurance company investments and their investment practices over the years, which has been highlighted by the Macroprudential (E) Working Group and Financial Stability (E) Task Force and by Carrie Mears at the NAIC Insurance Summit. The information focused not on classes, other than vigilance on credit quality designations of bonds, and instead on collateral loans reported on Schedule BA and construction loans on Schedule B. He noted they took the bold step of not even discussing credit risk and instead focused on market volatility and liquidity. The market volatility includes discussion of increased interest rates given that time period, as well as unrealized losses on both derivatives and bond portfolios. This impacts liquidity planning for insurers, which would include asking companies questions on an exam about how they are focusing on cash flows and prepayment drops, for which no one has a response. Toy noted that after 10-12 years of a relatively benign market with low interest rates, insurance company risk management systems are up to task with the new volatility, especially considering that what is occurring today may be the new normal market. Toy ended by focusing on how RRC was incredibly supportive of the formation of a new working group that would include many regulators from the Financial Analysis (E) Working Group and other key members. He emphasized that the group should include regulators that are "boots on the ground" that experience the risk and encouraged the Committee to take steps to form such a group as soon as possible.

E. <u>MetLife</u>

Francisco Paez (MetLife) thanked the Committee and the drafting group for conducting this process with exemplary transparency, including, in particular, providing detailed responses to each of the comment letters received. This allowed interested parties to better understand regulators' thought processes on these issues. He provided MetLife's brief reactions. First, the decision not to delay or pause any of the existing workstreams was a very welcome outcome. Paez noted that risk-taking continues to build in industry investment portfolios, and MetLife hopes that efforts are expedited to effectively prioritize the robustness of the industry over all secondary considerations. The enhanced coordination among work groups and task forces that are being adopted is a great step in expediting the implementation of much needed change.

Additionally, Paez said the repeated reference to tail risk as the key equalizer of capital is fundamental to MetLife, as it identified the big difference in a risk profile between subordinate structed products that have been behind the increase in risk and insurance investment portfolios versus other similarly rated and more common investment types. Focusing tail risk on subordinate structured products by property and modeling them when practical will substantially enhance the current approach and will help achieve its stated goal of reducing blind reliance on ratings. MetLife is incredibly grateful for the transparency in the process and for the Committee's resolve to expeditiously enhance the current investment regulatory framework to continue to preserve the long-term health of a critical industry in the phase of mounting risks. Resolute action in this area will demonstrate the NAIC's active leadership in standard setting and will also help address some of the concerns about industry trends that have recently been raised by the media and fellow regulatory authorities.

Having no further business, the Financial Condition (E) Committee adjourned.

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Group Capital Calculation (E) Working Group
Virtual Meeting
February 27, 2024

The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met Feb. 27, 2024. The following Working Group members participated: John Rehagen, Chair (MO); Susan Berry, Vice Chair (IL); John Loughran (CT); Ray Spudeck (FL); Kevin Clark (IA); Roy Eft (IN); John Turchi and Christopher Joyce (MA); Judy Weaver (MI); Ben Slutsker (MN); Lindsay Crawford (NE); John Sirovetz (NJ); Bob Kasinow (NY); Cameron Piatt and Dale Bruggeman (OH); Diana Sherman (PA); Trey Hancock (TN); Jamie Walker (TX); David Smith (VA); and Amy Malm (WI).

1. Discussed the Process for Updating Scalars and Proposed 2023 Scalars

Jennifer McAdam (American Council of Life Insurers—ACLI) provided an overview of the excess relative ratio (ERR) scalar development. On July 27, 2023, the Group Capital Calculation (E) Working Group adopted a proposal to designate ERR scalars as the primary scalar methodology within the group capital calculation (GCC). The ACLI and six member companies have engaged consultants, Oliver Wyman and Lou Felice, to define an approach to updating and maintaining the ERR scalars for use in the GCC. This work focused on life and health scalars. The approach was developed with an understanding that it could also be applied to property/casualty (P/C) business. The work identified sources of data in each jurisdiction and recommended methodological solutions to address changes to scalars over time. The report proposed scalars for 2023 and outlined the recommended methodology to calibrate scalars on an ongoing basis.

Kristin Ricci (Oliver Wyman) walked through the scalar calibration process under the ERR method. She talked about the proposed 2023 scalars by regime, which were shown in comparison to what are currently on the GCC template. The proposed 2023 scalars are based on data that was available as of year-end 2022. Three years of historical data were used for calibration to reflect responses to changes in the underlying regimes while adding a degree of stability over time. She walked through key design decisions. First, she discussed the data collection approach. A waterfall approach was taken to aggregate the required data to support the calibration. An ideal source would be regulatory reporting data. A summary of the data collection by jurisdiction was shown. Second, she mentioned that three years was chosen as the length of time series to have smoothing in the annual volatility to capture changes in a reasonable timeframe around trends in solvency ratios. Lastly, she discussed how this process applies to regime changes.

Felice (Consultant for ACLI) talked about the proposed health scalar development under the ERR method for health insurers that operate in Japan. Data came from Aflac, which is a health insurance market leader in Japan. He said the health scalar should be reviewed in conjunction with the life scalar for Japan. He pointed out that the GCC scalar needs to react to the new economic solvency ratio regime that becomes effective in 2025.

2. Discussed the Comment Letter Received from APCIA/AHIP

Tom Finnell (America's Health Insurance Plans—AHIP and American Property Casualty Insurance Association—APCIA) presented the comment letter, and he said there was no comment from a P/C perspective in terms of the factors that were developed for the life sector. The AHIP has no opinion in terms of health factors for Japan as it is very data-specific relative to the company that is involved. He said the amount of business AHIP and the APCIA write internationally is generally fewer, and the impact of scaling on the GCC would not be that impactful. He said this is especially so in the case of the health sector with Aflac being one exception. He also said they have no objection to the approach.

3. Discussed the Comment Letter Received from UHG

James Braue (UnitedHealth Group—UHG) presented UHG's comment letter, and he said the proposed approach on page six of the Oliver Wyman report was to look at both 200% and 300% of the authorized control level (ACL) as the level of first intervention. He said it does not make sense to look at the 300% level for calibration of foreign capital requirements since the domestic capital requirements in the GCC are at the 200% level. UHG's recommendation was to drop the idea of investigating scalars calibrated to 300% of the ACL. He said the Oliver Wyman report makes an assertion that the ERR method adjusts for differing reserve levels across regimes, but mathematically it does not work in that way. This should be appropriately documented so that the ERR methodology does not take into account reserve differences across jurisdictions. Rehagen said 200% has been approved for the GCC, and 300% is intended to be a sensitivity test.

4. Adopted the 2023 Scalars Proposed by the ACLI

Berry made a motion, seconded by Crawford, to adopt the 2023 scalars proposed by the ACLI (Attachment One-A). Finnell asked whether factors to be voted on involve the life sector and the health sector in Japan only and whether factors that are applicable to other sectors for the 2022 GCC are going to be carried forward. Dan Daveline (NAIC) said all the other factors will be carried forward. The motion passed unanimously.

5. Discussed the Process for Updating Scalars in the Future

Rehagen said the process used by the ACLI sounds reasonable. His suggestion was to charge NAIC staff to document the process into an NAIC document, which can be reviewed in the future and potentially adopted as a methodology. After that, he suggested requesting that the Financial Condition (E) Committee ask the Executive (EX) Committee for funding to keep the scalars updated.

Finnell said when the proportionality in terms of jurisdictions is taken into consideration, fewer jurisdictions and companies would be involved in scalar updates, so time and money would be saved. Bruggeman said he agreed with Finnell's theoretical conclusions. He said things should not change too often to lose the perspective of trends over time for the GCC. Rehagen said he agreed, and one of his concerns early on was that yearly adjustments for temporary changes would add noise. Felice said the scalar can be set to one for jurisdictions where there are not a lot of companies writing business. Daveline said NAIC staff will start their work. The NAIC website will be updated with the 2023 scalars where a template that reflects modifications will be added.

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

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ACLI
Financial Security for Life

January 19, 2024

John Rehagen, Chair
NAIC Group Capital Calculation (E) Working Group
Capital Markets & Investment Analysis Office
One New York Plaza, Suite 4210
New York, NY 10004

Via email: ddaveline@naic.org

Re: GCC Scalar Calibration

Dear John:

ACLI is pleased to provide you with the attached Scalar Calibration for Life Insurance Business and Japan Health Scalars Reports we have developed over the last few months in conjunction with our consultants.

As you know, on July 27, 2023, the NAIC Group Capital Calculation (E) Working Group adopted the proposal to designate Excess Relative Ratio (ERR) scalars as the primary scalar methodology within the GCC, which ACLI supported in a comment letter submitted on July 12. Since that time, ACLI and six member companies have engaged consultants, Oliver Wyman (life scalars) and Lou Felice (Japan health scalar), to define an approach to update and maintain the ERR scalars for use in the GCC and, as part of this effort, update the ERR scalars for 2023, for selected Life and Health scalars. While this work focused on Life and Health scalars, the approach was developed with the understanding that it could be applied to Property & Casualty business as well.

Used to adjust available and required capital for non-US insurance regimes, Oliver Wyman developed the initial methodology for life scalars in 2015. Replacing placeholder scalars with ERR scalars appropriately recognizes capital requirements for non-U.S. business in the GCC formula, thus generating appropriate GCC figures for regulators and the industry. Additionally, it is a significant step forward for the following reasons:

1. ERR scalars recognize differences in reserve methodologies across jurisdictions;
2. ERR scalars can adjust to significant changes in jurisdictional solvency regimes; and
3. Many global insurers already use the ERR methodology to allocate group capital.

The work our consultants have done in the last few months have met the following objectives:

1. Identified sources of data in each jurisdiction including:
    a. Scope of insurers comprising the industry average;
    b. Solvency ratios (industry average) for each jurisdiction; and
    c. First point of regulatory intervention in each jurisdiction analyzed.

2. Recommended methodological solutions to address changes to scalars over time:
    a. Historical data series length to provide accurate scalar estimates balancing responsiveness to changes with limited volatility over time; and
    b. Methodologies to adjust scalars for significant changes in jurisdictional solvency regimes (e.g., Bermuda in 2023, Japan in 2025).

The attached reports propose scalars for 2023 and outline the recommended methodology to calibrate scalars on an ongoing basis. They also contain details regarding data sources, the data collection process, solvency operating ratios by country, and a summary of design decisions. The proposed health scalar was derived by adjusting the life scalar making it essential that both the life scalar and health scalar be included together in any future scalar updates applying the recommended methodology.

In the attached document you can find the following items:

- **Report 1: Scalar Calibration for Life Insurance Business,** prepared by ACLI and Oliver Wyman (PDF pp.1-35)
    - Executive Summary (p.4)
    - Proposed ERR Scalars (p. 5)
    - Summary of Design Decisions (p. 6)
    - Summary of Data Collection by Jurisdiction (p. 8)
    - Design Decisions (intervention threshold, averaging approach, length of time series, regime change triggers and processes) (pp. 9-17)
    - Appendix A: Project Timeline (pp. 18-19)
    - Appendix B: Processes for Data Collection (pp. 20-23)
    - Appendix C: Solvency Operating Levels by Country (pp. 24-25)
    - Appendix D: Country-Specific Detailed Analysis (pp. 26-32)
- **Report 2: GCC Japan Health Scalars Refresh**, prepared by ACLI and Lou Felice (PDF pp. 36-43)
    - Appendix: 2023 GCC Japan Health Scalar Calibration (pp. 40-43)

ACLI and our consultants are happy to answer any questions you may have.

Sincerely,

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OliverWyman

ACLI

SCALAR CALIBRATION

For Life insurance business

January 2024

A business of Marsh McLennan

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CONTENTS

EXECUTIVE SUMMARY

- In July 2023, the NAIC Group Capital Calculation (E) Working Group adopted the proposal to designate Excess Relative Ratio (ERR) scalars, which are used to adjust available and required capital for non-US insurance regimes, as the primary scalar methodology within the Group Capital Calculation (GCC). Replacing placeholder scalars with ERR scalars appropriately recognizes capital requirements for non-U.S. business in the GCC formula, thus generating appropriate GCC figures for regulators and the industry. Additionally, it is a significant step forward for the following reasons:
  1. ERR scalars recognize differences in reserve methodologies across jurisdictions
  2. ERR scalars can adjust to significant changes in jurisdictional solvency regimes, and
  3. Many global insurers already use the ERR methodology to allocate group capital
- Following the NAIC's adoption of the ERR, ACLI and six member companies engaged Oliver Wyman, which had developed the initial method for ERR scalars in 2015, to:
  – Define an approach to update and maintain the ERR scalars for use in the GCC
  – Update the ERR scalars for 2023, for selected Life and Health scalars
- While the work focused on Life and Health scalars, the approach was developed with the understanding that it could also be applied to Property & Casualty business
- In support of the initiative, the following objectives have been achieved
  – Identified sources of data in each jurisdiction including:
    - Scope of insurers comprising the industry average
    - Solvency ratios (industry average) for each jurisdiction
    - First point of regulatory intervention in each jurisdiction analyzed
  – Recommended methodological solutions to address changes to scalars over time:
    - Historical data series length to provide accurate scalar estimates balancing responsiveness to changes with limited volatility over time
    - Methodologies to adjust scalars for significant changes in jurisdictional solvency regimes (e.g., Bermuda in 2023, Japan in 2025)
- This document proposes scalars for 2023 and outlines the recommended methodology to calibrate scalars on an ongoing basis

PROPOSED ERR SCALARS FROM 2023 CALIBRATION EXERCISE

A reconciliation from the 2015 calibration exercise is also provided below

Regime	1. 2022 GCC template	2. 2015 workbook	3. Regulatory triggers	4. Update local ratios for 2022	5. Update US for 2022	6. Use 3-years historical data	7. 2023 scalar[1]
EMEA	0.31	0.22	-	0.17	0.11	(0.01)	0.48
UK	0.31	0.22	-	(0.00)	0.06	(0.07)	0.21
Australia	0.30	0.24	-	0.00	0.07	(0.03)	0.28
Bermuda	0.44	0.17	0.13[2]	0.09	0.08	(0.01)	0.46
Canada	0.15	0.10	*Regime change* 0.17	(0.20)	0.02	0.01	0.10
Japan[4]	1.01	0.77	-	0.19	0.29	(0.00)	1.24
Mexico	1.00	0.29	-	0.46	0.22	(0.18)	0.78
Singapore	1.00	0.27	*Regime change* 0.10	(0.09)	0.08	(0.05)	0.31
Korea RBC	1.00	0.24	0.25[3]	(0.15)	0.03	0.09	0.46
Korea ICS							0.29
Switzerland	0.16	0.11	-	0.23	0.10	(0.04)	0.40
South Africa	1.00	n/a					0.33
Hong Kong	1.00	n/a					0.24
China	1.00	n/a					0.35
Taiwan	1.00	n/a					0.18

1. Calibrated based on regulatory intervention level of 200% ACL for the US
2. 2015 exercise used an intervention level of 120% ECR. 100% ECR was used for this calibration, consistent with NAIC GCC guidelines
3. 2015 exercise used an intervention level of 150% RBC. 100% RBC was used for this calibration, consistent with NAIC GCC guidelines
4. For Japan SMR; see discussion of regime changes for scalar illustrative calibration under the proposed ESR (reflecting both changes to intervention level and industry capital ratios)

DESIGN DECISIONS – RECAP

#	Topic	Decision point	What was done in 2015?	Proposed approach
1	Data collection & scope	Company scope	• Mix of company-level and full industry data	• Full market, size-weighted, where available • Representative companies
		Level of first intervention	• 200% ACL	• To investigate both 200% & 300%
2	Methodology	Averaging approach	• Simple average, where company-level was used • Size-weighted, where industry-level data used	• Market aggregates/size-weighted
		Length of time series	• Single year	• 3 years, where available
		Single scalar vs. Life/Non-Life		• Life/Non-Life
3	Ongoing updates	Frequency of updates		• 3 years, or regime change
		Triggers for regime change		• New solvency framework • New regulatory intervention level • Significant revisions to existing solvency framework
		Process for regime change		• Year 0: Based on quantitative impact study (QIS) or company-data • Year 1+: Based on years of reported data
		Monitoring/flags		• Further investigation of large movements in capital ratios for a jurisdiction

Indicates that analysis included in following slides

1 DESIGN DECISIONS: DATA COLLECTION APPROACH

Data collection followed a tiered approach, with data from regulators being the preferred option

Option 1

Regulator's website

- Availability, ease of use, and format of data vary by jurisdiction

Option 2

Other aggregated sources

- S&P Capital IQ
- AM Best
- Market-specific aggregators (e.g., China)
- Data may not be complete for all jurisdictions

Option 3

Company level disclosures (broadly disclosed)

- Annual Statements or shareholder annual reports
- In some jurisdictions, it is typical to only disclose capital ratios
- Source data manually from set of in-scope companies

Option 4

Company level disclosures (narrowly disclosed)

- In some jurisdictions, only a small number of companies publicly disclose capital ratios (or may be prohibited from doing so)
- May need to request data manually from set of in-scope companies

Minimum data requirements – (At least 5 years of historical data preferred, minimum of 3 years)

- Available capital
- Required capital
- Solvency ratio (for validation)
- Total assets

1 SUMMARY OF DATA COLLECTION BY JURISDICTION

Solvency data under Options 1 or 2 was available for most jurisdictions

Regime	Data source	Data granularity
US RBC[1]	Capital IQ	Company-level
EMEA[1]	Capital IQ	Company-level
UK	Regulator (Bank of England)	Industry aggregate
Australia	Regulator (APRA)	Company-level
Bermuda	Company filings	Company-level
Canada	Regulator (OSFI)	Company-level
Japan	Capital IQ	Company-level
Mexico	Company filings	Company-level

Regime	Data source	Data granularity
Singapore	Regulator (MAS)	Industry aggregate
Korea	Regulator (FSS)	Industry aggregate
Switzerland	Regulator (FINMA)	Company-level
South Africa	Capital IQ	Company-level
Hong Kong	Company filings	Company-level
China	Regulator (CBIRC)	Industry aggregate
Taiwan	Regulator (Insurance Bureau)	Company-level

Option 1
Regulator's website

Option 2
Other aggregated sources

Option 3
Company level disclosures (broadly disclosed)

Option 4
Company level disclosures (narrowly disclosed)

1. Broad regulatory data was available for the US and EMEA, but chose to use company-level data from Capital IQ instead for additional granularity

DESIGN DECISIONS: INTERVENTION THRESHOLD FOR US MARKET

Company distribution of scaled solvency ratios (capital weighted, 3-year time series) – EMEA & Japan

Regime	US intervention level (% ACL)	Scaled solvency ratio	Number of companies within each solvency bucket[1] 2018	2019	2020	2021	2022
US	200%	< 200%	1	0	0	0	0
		200% - 400%	11	10	14	10	15
		> 400%	38	40	36	40	35
	300%	< 200%	1	1	1	1	1
		200% - 400%	45	42	44	45	46
		> 400%	4	7	5	4	3
EMEA	200%	< 200%	2	2	4	1	3
		200% - 400%	22	22	21	22	22
		> 400%	24	26	25	27	24
	300%	< 200%	9	11	11	12	11
		200% - 400%	23	25	30	27	28
		> 400%	16	14	9	11	10
Japan	200%	< 200%	0	0	0	0	0
		200% - 400%	7	8	10	11	11
		> 400%	15	14	12	11	11
	300%	< 200%	1	1	1	1	1
		200% - 400%	17	17	18	19	20
		> 400%	4	4	3	2	1

There is a wide dispersion of solvency ratios for EMEA companies.

At a 300% ACL intervention level, about 20% of companies are below 200% solvency ratio.

For Japan, company solvency ratios are comparatively more concentrated. Almost all companies are above a 200% solvency ratio, regardless of where the US intervention level is set.

1. 50 largest US and EMEA companies (by assets) included as part of this exercise. Full scope of 22 Japanese companies included

2 DESIGN DECISIONS: AVERAGING APPROACH

Historical solvency operating levels by country – US, EMEA & Japan

Regime	Averaging method	2016	2017	2018	2019	2020	2021	2022
US RBC[1] (ACL)	Simple	2303%	2203%	2111%	2031%	2027%	2548%	2244%
	Median	986%	991%	903%	929%	943%	957%	902%
	Capital weighted	952%	929%	837%	859%	848%	878%	846%
EMEA[1]	Simple	257%	265%	269%	258%	254%	256%	264%
	Median	214%	218%	218%	214%	214%	215%	223%
	Capital weighted	240%	256%	263%	264%	251%	266%	261%
Japan	Simple	1211%	1161%	1149%	1150%	1109%	1089%	1012%
	Median	923%	945%	979%	984%	1009%	970%	963%
	Capital weighted	1017%	983%	991%	1029%	1038%	1049%	1025%

For US, use of simple average results in much higher capital ratio (due to upward outliers)

As a result, taking this approach would require their exclusion – adding an additional point of judgment

Capital-weighted view is equivalent to using market aggregates, and therefore can be applied even when only industry-level data is publicly available

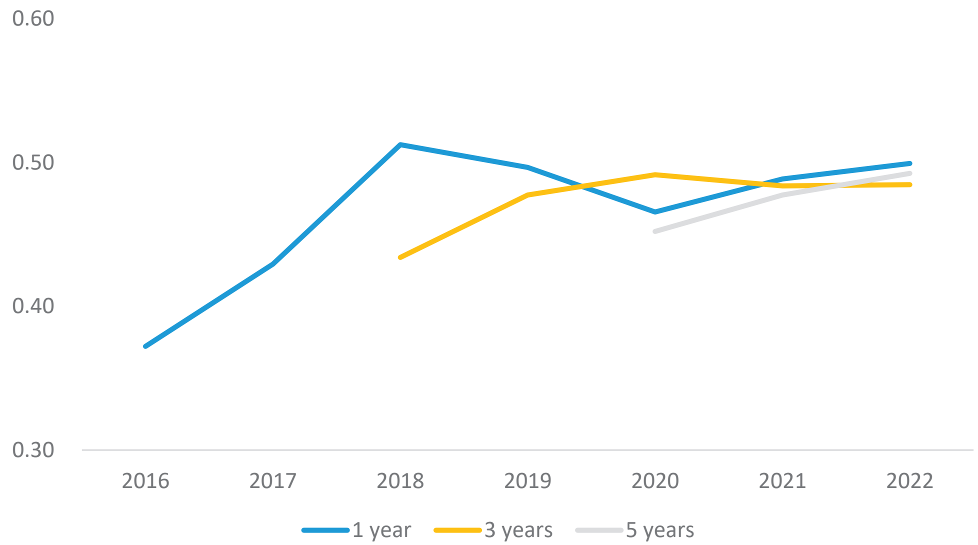
1. Based on companies with assets over $10M (USD) for each year

Capital weighted = Proposed approach

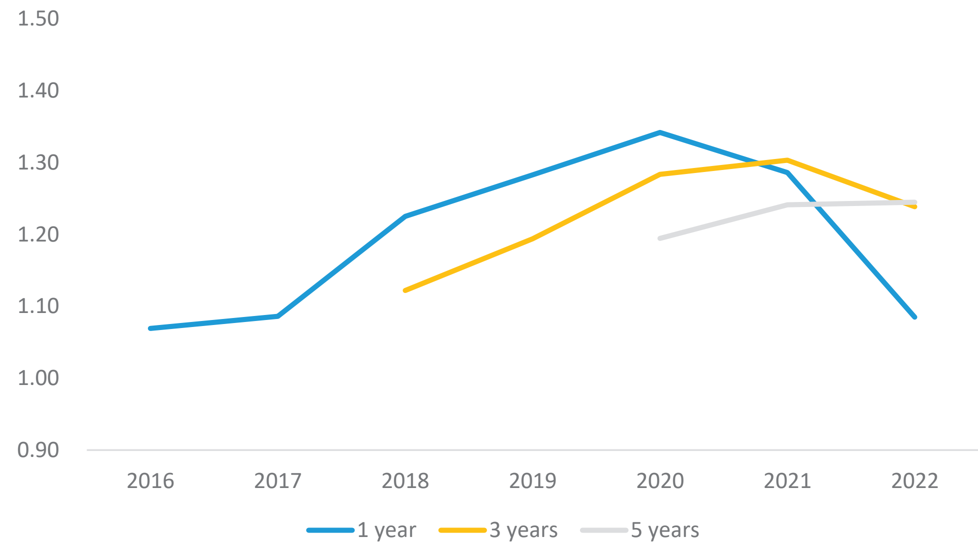
2 DESIGN DECISIONS: LENGTH OF TIME SERIES

ERR scalars (200% ACL) – EMEA & Japan

EMEA



Japan



Using a 3-year time series provides a balance between smoothing annual volatility in solvency ratios, while capturing overall trends in operating solvency levels.

3 years = Proposed approach

3 DESIGN DECISIONS: REGIME CHANGE TRIGGERS

Triggers

If any trigger is met, then the regime change process is followed

1. **New solvency framework**
Introduction of a fully new solvency framework (e.g., Korea's adoption of K-ICS) automatically triggers regime change process; this criteria is <u>not</u> triggered by introduction of a new version (e.g., C-ROSS 2.0)

2. **New regulatory intervention level**
A change in the intervention level will automatically trigger the regime change process (e.g., Singapore RBC2), as it will affect scalars even absent other revisions to the solvency framework

3. **Significant revisions to existing solvency framework**
Policy changes to components of the existing solvency regime (such as risk factors, tax rates, correlation matrices, etc.) that are expected to have an impact of 10%+ on industry-level solvency ratios; this trigger would apply based on both formal impact studies or the industry identifying triggering changes to the NAIC; **changes in market conditions (rates, spreads, equities, defaults) would <u>not</u> trigger an update**

3 DESIGN DECISIONS: REGIME CHANGE PROCESS

Scalar calculation process for initial year of new regime (when no historical data is available)

1

2

3

Industry-wide impact studies

- May be conducted by regulatory (preferred source) or industry group
- Calculated using consistent time periods (e.g., if impact study is from prior year, then prior year US RBC data used for calibration)
- **Example:** Korea K-ICS

Company-level data

- If impact study is unavailable or outdated (3 years+), company-level data can be used
- If sufficient share of industry (e.g. >50%) reports publicly, this data may replace use of an impact study
- Otherwise, this data may be used to roll-forward or validate continued applicability of an impact study
- **Example:** Japan ICS

Ad hoc analysis

- In certain instances, if neither an impact study nor company-level reporting is available, ad hoc analysis may used to evaluate scalars
- **Example:** Changes to US tax rate

After the first year, the scalar is calculated based on reported data and rolls into three years of historical data (e.g., in first year after new regime adopted, one year of data is used for calibration; in second year, two years of data are used)

3 REGIME CHANGE EXAMPLE: SOUTH KOREA

Example of a regime change where industry-wide solvency reporting from South Korea's regulator was used

- South Korea shifted to a new capital regime ("K-ICS") beginning in 2023 from an RBC framework
  – Changes to regulatory invention point (150% to 100%)

- South Korea's insurance regulator (the Financial Supervisory Service) publishes regular reports on the industry's solvency ratios, including data before and after the shift to K-ICS

- To calibrate the ERR scalar under K-ICS, the Q2 2023 industry solvency ratio (with no transitional measures) of 196% was used
  – The scalar was calibrated without reflecting transitional measures to ensure consistent application across insurers
  – For purposes of group capital, we would expect the scalar to be applied to capital ratios before transitional measures

- The scalar will be updated using additional years of reported data under K-ICS as it becomes available

Historical life insurance companies' solvency ratios:

	2019	2020	2021	2022	2023 Q1	2023 Q2
(A) RBC	285%	297%	254%	206%		
(B) K-ICS (no transitional measures)					193%	196%
(C) K-ICS (with transitional measures)					220%	224%
Difference vs. RBC without transitional measures (B – A)					**-13%**	**-10%**
Difference vs. RBC with transitional measures (C – A)					**+14%**	**+18%**

Source: Korea Financial Supervisory Service "Insurance Companies' Capital Adequacy Ratios under K-ICS, June 2023"

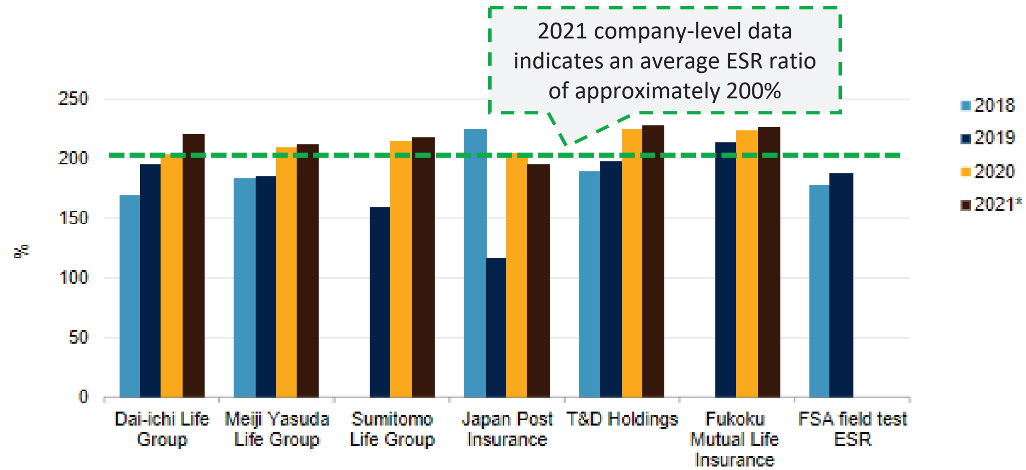
Used for initial calibration of scalar under K-ICS

3 REGIME CHANGE EXAMPLE: JAPAN

Illustration of how company-level data can be used in the absence of industry-wide studies

- Japan will be moving to a new economic value-based capital regime ("ESR") beginning in 2025
  - Changes to regulatory invention point (200% to 100%)
- Japan's insurance regulator (Financial Services Agency) conducts annual field tests to gauge the impact of the new regime
  - Most recent publicly released results date back to 2020
  - In 2020, industry-average ratio was 187%
- Several Japanese insurers voluntarily disclose ESR ratios; absent recent field test results, the NAIC can calibrate an initial ESR scalar based on company-level data
  - Company-level data shows a general upward trend with modest increases from 2020 to 2021
  - Overlaying this increase implies an industry ESR ratio of ~200%
- A 200% ESR ratio results in a Japan Life[1] ERR scalar of 0.30
- We expect that this analysis would be refreshed with more recent data when Japan moves to the ESR in 2025

Company-level ESR ratios



*Fiscal years end March 31 of the following year. *Data through to the end of the first half of fiscal 2021*

Source: S&P Global Ratings

1. An update of the Japan Heath scalar was out-of-scope for this report; this scalar is addressed in a separate analysis presented by consultant Louis Felice, which derives scalar of approximately 0.21 by applying the same principles as the Life scalar.

3 REGIME CHANGE Q&A

- **What about instances where a regime change allows for early adopters?**
  - The NAIC could look at the planned adoption by the relevant companies, i.e., those US companies apply scalars for a specific jurisdiction to determine whether scalars are required under the prior and/or new regime(s)
  - If relevant companies are not all early adopters and therefore will continue to report under the existing regime, the scalar should be calibrated using only data for companies reporting under the existing regime
  - If relevant US companies are planning to adopt early, the regime change approach can be applied to develop a scalar prior to adoption deadline
  - If a mixture of approaches is taken in the industry, the NAIC may take both approaches. However, it may also exercise judgement around the materiality of the scalars (e.g., choosing to not update scalars for the existing regime if most relevant companies are early adopters)

- **What about transition periods?**
  - During a regime change, a transition period may allow for the grade-in of certain assumptions, provisions or other components in a manner that reduces the initial impact of a regime change
  - Treatment of such measures will need to be addressed on a case-by-case basis, considering factors such as whether the transition approach applies broadly or is subject to election and if it affects all companies in the same way (directionally)
  - For calibration of the Korea ICS scalar, data was available from the regulator for industry solvency ratios with and without transitional measures. The scalar was calibrated without reflecting transitional measures as a way to ensure consistency across insurers, regardless of whether they elected transitional measures
  - In some cases, it may be appropriate to simply follow the outlined regime change and recurring update process, and the impacts of transitional metrics will be graded in through that mechanism

3 PROPOSED PROCESS FOR ONGOING MONITORING

- Routine updates to scalars are expected to occur every ~3 years
- As part of the routine updates, a monitoring process can be used to identify when further review of a jurisdiction is required
  - Proposed threshold of **10% change in the industry-average capital ratio** for a given jurisdiction
  - Applies to industry-average capital ratios, not scalars
- If the threshold is met, further review should occur in order to:
  - Confirm data quality
  - Identify what factors are driving the change (economic conditions, refinements to capital regime, etc) and narrative around it
- Based on this review, the NAIC could determine whether an adjustment (e.g., using a shorter historical data period) is required

Regime	2019	2020	2021	2022	Comments
US RBC (ACL)	859%	848%	878%	846%	Large changes in 2022 reflect in part significant rate movements in several markets (incl. US and UK)
EMEA	264%	251%	266%	261%	
UK	157%	154%	163%	189%	
Australia	167%	177%	195%	199%	
Bermuda	290%	262%	238%	250%	
Canada	136%	140%	134%	130%	
Japan	1045%	1070%	1071%	901%	
Mexico	364%	329%	330%	411%	High volatility historically
Singapore	236%	186%	200%	216%	2020: RBC2
Korea (RBC)	285%	297%	254%	206%	
Switzerland	226%	216%	236%	243%	
South Africa	219%	216%	198%	208%	
Hong Kong	301%	286%	270%	246%	
China	241%	240%	223%	186%	2022: C-ROSS 2.0
Taiwan	314%	310%	340%	305%	

= 10-15% movement vs. prior year (absolute basis)

= Greater than 15% movement vs. prior year (absolute basis)

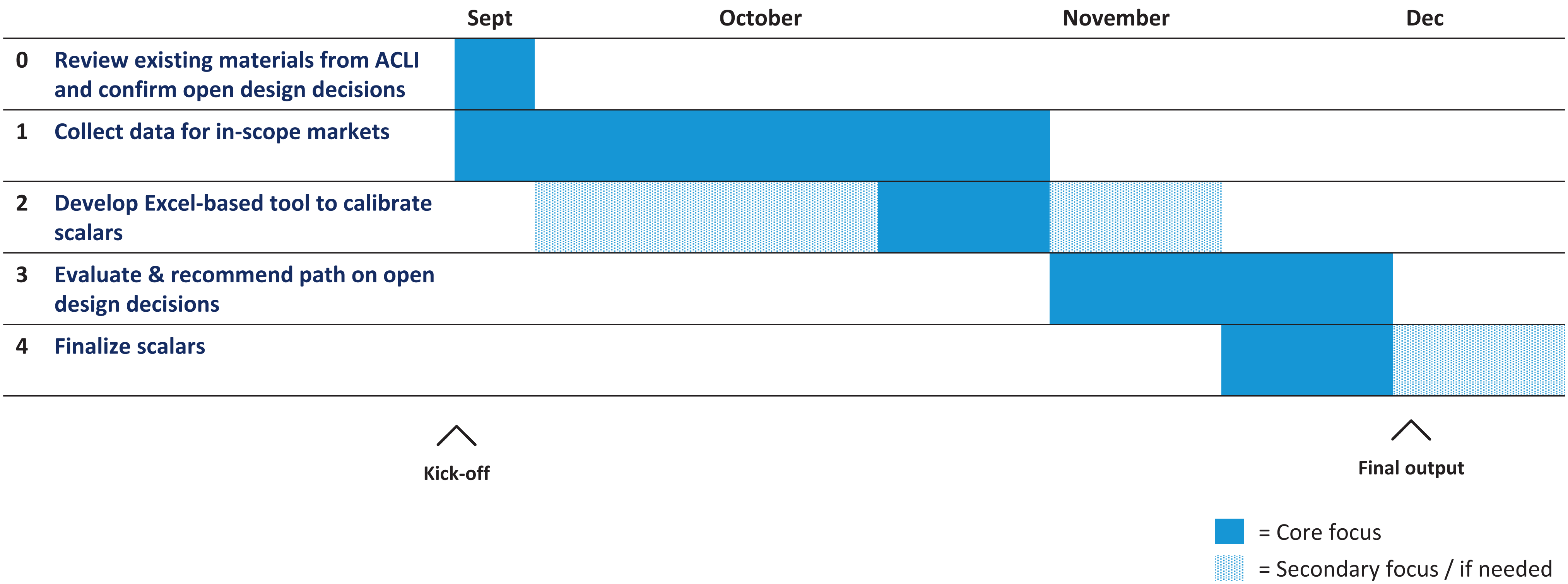
APPENDIX A

PROJECT TIMELINE

PROJECT TIMELINE

Core effort spread over 3 months, with weekly touchpoints between Oliver Wyman and ACLI working group

Timeline



APPENDIX B

PROCESS FOR DATA COLLECTION

DATA FOR IN-SCOPE MARKETS (1 OF 3)

Country	Source identified?		Data acquired?		Intervention level?	
Australia	✓	• Source: APRA website • Scope: Full market (33 companies)	✓	• Aggregate and company-specific data • 2008-2022	✓	100% PCR (Increase supervision)
Bermuda	✓	• Source: Company-level disclosures • Scope: Subset of market	✓	• Acquired data for 21 companies making up 50% of Class E assets • Challenges faced from limited company-level public reporting	✓	100% ECR (to align with NAIC GCC instructions)
Canada	✓	• Source: OSFI website • Scope: Full market	✓	• Aggregate and company-specific data	✓	100% LICAT (Supervisory target that provides a cushion above minimum requirements) **Regime change:** *LICAT introduced in 2018*
Mexico	✓	• Source: CNSF website • Scope: Full market	✓	• Acquired data for 18 companies making up 86% of total industry assets	✓	100% SCR (consistent with 2015 analysis)
United States	✓	• Source: Statutory filings via CapIQ • Scope: Full market (legal-entity level)	✓	• Legal-entity level data • 2015-2022 (earlier years available)	✓	100% Company Action Level RBC (Company submits plan to regulatory)

DATA FOR IN-SCOPE MARKETS (2 OF 3)

Country	Source identified?		Data acquired?		Intervention level?	
Solvency II (Europe)	✓	• Source: Financial statements via CapIQ • Scope: Close to full market	✓	• Company-specific data • Acquired data from CapIQ makes up ~90% of industry assets	✓	100% SCR (Supervisory actions required to restore solvency level)
Solvency II (UK)	✓	• Source: Financial statements via CapIQ • Scope: Full market	✓	• Company-specific data	✓	100% SCR (Supervisory actions required to restore solvency level)
Switzerland	✓	• Source: FINMA website • Scope: Full market	✓	• Historical industry-wide solvency ratios available	✓	100% SST (Company submits an action plan)
South Africa	✓	• Source: Financial statements via CapIQ • Scope: Subset of market	✓	• Company-specific data • Acquired data for top 5 companies making up ~80% of industry assets	✓	100% SCR

DATA FOR IN-SCOPE MARKETS (3 OF 3)

Country	Source identified?		Data acquired?		Intervention level?	
China	✓	• Source: CBIRC website • Scope: Full market	✓	• Historical industry-wide solvency ratios available • **Regime change to be graded in through regular updates**	✓	100% Comprehensive Solvency Margin **Regime change:** C-ROSS Phase II introduced in 2022
Chinese Taipei	✓	• Source: Insurance Bureau website, company-level reporting • Scope: Full market	✓	• Acquired data for 21 companies making up 98% of total industry assets	✓	200% RBC ICS-like regime to be introduced in 2026
Japan	✓	• At least partially available from CapIQ • Expect broadly available in annual reports and disclosures	✓	• Acquired data for 22 companies from CapIQ making up close to 100% of industry assets	✓	200% SMR (Submission of business improvement plan) ICS-like regime to be introduced in 2025
Hong Kong	✓	• No broad market data identified • Operating company-level data not widely available	✓	• Company-level reporting covers ~30% of the market (by assets) • No participating companies indicated a need for Hong Kong scalar	✓	150% regulatory minimum capital (under HKIO) **Post-2023:** 100% PCR (under HKRBC)
Singapore	✓	• Source: MAS regulator website • Scope: Full market	✓	• Historical industry-wide solvency ratios available	✓	100% CAR[1] **Regime change:** *RBC 2 introduced in 2020*
South Korea	✓	• Source: FSS regulator website • Scope: Full market	✓	• Historical industry-wide solvency ratios available • To be treated as regime change. **No transitional measures as tentative approach**	✓	2022 and prior: 100% RBC (to align with NAIC GCC instructions) 2023 onwards: 100% K-ICS **Upcoming regime change:** Shift to K-ICS

1. NAIC GCC instructions use 120% CAR as intervention level. However, this was likely based on the previous RBC regime for Singapore

APPENDIX C

SOLVENCY OPERATING LEVELS BY COUNTRY

HISTORICAL SOLVENCY OPERATING LEVELS BY COUNTRY

Regime	2014	2015	2016	2017	2018	2019	2020	2021	2022
US RBC (%ACL)	972%	964%	952%	929%	837%	859%	848%	878%	846%
EMEA			240%	256%	263%	264%	251%	266%	261%
UK					154%	157%	154%	163%	189%
Australia					179%	167%	177%	195%	199%
Bermuda					298%	290%	262%	238%	250%
Canada					138%	136%	140%	134%	130%
Japan[1]	1010%	955%	1004%	991%	981%	1045%	1070%	1071%	901%
Mexico					215%	364%	329%	330%	411%
Singapore					236%	236%	186%	200%	216%
Korea					271%	285%	297%	254%	206%
K-ICS									196%[2]
Switzerland					219%	226%	216%	236%	243%
South Africa					238%	219%	216%	198%	208%
Hong Kong					296%	301%	286%	270%	246%
China					235%	241%	240%	223%	186%
Taiwan					306%	314%	310%	340%	305%

1. Japanese insurers' financial reporting cycles end in March. Solvency ratios used for calibration are on a calendar year basis to align with other countries' financial reporting cycles
2. Based on Q2 2023 industry K-ICS ratio with no transitional measures

APPENDIX D

COUNTRY-SPECIFIC DETAILED ANALYSIS

Presented October 12, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – AUSTRALIA

- Example of a best-case scenario for data collection
- Regulator website includes database of key financial metrics for life insurers (2008 – 2022):
  - Total assets
  - Eligible capital
  - Prescribed capital amount

Australia life insurance industry statistics (2020-2022)

AUD billions	**2020**	**2021**	**2022**
Assets	129.6	130.4	121.4
Eligible capital	17.2	17.0	15.5
Prescribed capital amount	9.7	8.7	7.8
Industry solvency ratio	177%	195%	199%

Presented October 12, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – BERMUDA

- Gathering complete data for the Bermuda life insurance industry has been challenging:
  - Aggregate industry solvency metrics unavailable from Bermuda Monetary Authority (BMA) website
  - Company-level information unavailable from CapIQ or AM Best
  - Company-level reporting also difficult to obtain in many cases[1]

List of life insurers from AM Best, as well as companies with filings on BMA website:

Company	Total Assets ($ billions)	Solvency Ratios		
		2022	2021	2020
Athene Life Re	103	252%	209%	252%
RGA Americas Reinsurance Company Ltd	55	n/a	n/a	n/a
Global Atlantic	46	221%	257%	280%
Resolution Re	45	216%	227%	198%
Fortitude Re	43	174%	226%	228%
Legal & General Re	30	359%	332%	303%
Wilton Re	20	226%	256%	298%
Monument Re	17	167%	299%	473%
MetLife Reinsurance Co of Bermuda Ltd	16	n/a	n/a	n/a
Talcott Life Re Ltd	14	224%	288%	n/a
Partner Re Bermuda	12	256%	253%	258%
Gibraltar Re	11	n/a	n/a	n/a
Transamerica Life (Bermuda) Ltd	10	1209%	409%	529%
Somerset Reinsurance Ltd	5	356%	319%	313%
Pacific Life Re International Limited	5	265%	316%	251%
Aspida Life Re	4	207%	181%	n/a
Kuvare Life Re	3	262%	234%	358%
Athora Life Re Ltd	3	210%	227%	328%
Union Hamilton Re	2	n/a	n/a	n/a
RGA Global Reinsurance Company, Ltd	2	n/a	n/a	n/a
Oceanview Reinsurance Ltd	2	268%	259%	313%
AIG Life of Bermuda, Ltd	2	n/a	n/a	n/a
Liberty Re (Bermuda)	1	177%	197%	301%
Legal & General Reinsurance Co No.2 Ltd	0	409%	344%	n/a
Total	**452**			

Aggregate data from 2022 BMA Annual Report:

Class of Insurer	No. of Licences	Gross Premiums (USD)	Net Premiums (USD)	Total Assets (USD)	Capital and Surplus (USD)
Class 1	169	2,333,121,374	1,960,081,842	18,120,135,559	13,925,207,443
Class 2	252	9,498,102,449	8,066,400,503	63,345,613,144	35,730,173,982
Class 3	190	16,440,071,299	11,653,073,128	63,278,503,798	21,589,610,070
Class 3A	119	27,087,153,507	19,264,620,994	67,539,789,913	27,566,198,558
Class 3B	27	8,927,141,999	7,265,021,165	46,907,810,721	21,237,052,202
Class 4	43	58,502,015,601	46,013,313,223	227,240,574,360	104,984,802,347
Class A	8	604,639,989	52,566,710	5,372,222,168	2,395,591,606
Class B	13	253,438,367	232,202,287	434,592,676	135,035,648
Class C	83	33,837,732,669	28,170,116,213	181,442,799,399	15,974,725,727
Class D	8	133,447,700	68,150,111	5,768,984,906	415,513,064
Class E	57	102,053,255,694	72,674,834,270	882,284,687,276	111,468,818,626
SPI	178	7,506,492,342	6,893,620,640	66,494,362,649	13,979,631,708
Collateralized	7	964,162,294	433,544,022	5,419,541,608	1,302,640,755
Total	**1,154**	**268,140,775,285**	**202,747,545,107**	**1,633,649,618,176**	**370,705,001,734**

Companies included in our list make up 51% of total Class E insurer assets. Removing those where solvency data is unavailable, the 51% drops to 41%

1. Following the October 12, 2023 meeting, RGA provided company-level solvency reports to be included as part of the Bermuda dataset

Presented October 30, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – CANADA

- Canadian insurance regulator (OSFI) website has detailed financial information available on a company-by-company basis, as well as on an aggregate basis
- Various entity splits are available:
  - Domestic vs. Foreign
  - Life vs. Fraternal
- **Our proposed approach for company inclusion is to include the total market**, including foreign and fraternal companies
  - Most comprehensive view of Canadian insurance industry solvency
  - Solvency levels not materially different between Total view and Canadian/Life-only view
  - Confirmed that supervisory intervention levels are the same between LICAT and LIMAT

	Assets	LICAT/LIMAT Total Ratio				
	(2022, CAD 000s)	2018	2019	2020	2021	2022
Canadian, Life	1,704,022,528	1.39	1.37	1.40	1.34	1.29
Canadian, Fraternal	17,919,436	1.53	1.72	1.91	1.65	1.65
Foreign, Life	21,284,756	1.29	1.26	1.35	1.31	1.28
Foreign, Fraternal	3,928,927	1.91	1.43	1.30	2.05	2.48
Total	**1,747,155,647**	**1.38**	**1.36**	**1.40**	**1.34**	**1.30**

Presented October 30, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – CHINA

Discussion on approach for C-ROSS Phase 2 regime change

- China shifted from their previous capital regime C-ROSS Phase 1 to C-ROSS Phase 2 beginning in 2022
  - The regulator is granting insurers up to 3 years to apply transitional measures
- Capital required under C-ROSS Phase 2 is expected to be higher than under Phase 1 for life insurers, although impact to comprehensive solvency ratio appears low
  - No impact studies were identified
  - Industry-level reporting does not include overlapping period
  - Greater impact to core ratio due to caps implemented on amount of future profits recognizable as Tier 1 capital
  - Industry impacts expected to be larger for non-life insurers

Proposed approach (for discussion today): Given modest impact to relevant ratio for GCC and 3-year transitional period, allow changes to be captured via regular scalar updates

Solvency ratios for select large Chinese life insurers before and after C-ROSS Phase 2:

	Comprehensive Solvency Ratio (relevant ratio for GCC purposes)			Core Solvency Ratio (focuses on Tier 1 capital)		
	Q4 2021 (under C-ROSS Phase 1)	Q1 2022 (under C-ROSS Phase 2)	Difference	Q4 2021 (under C-ROSS Phase 1)	Q1 2022 (under C-ROSS Phase 2)	Difference
China Life	262%	248%	**-14%**	254%	176%	**-78%**
China Pacific	218%	247%	**+29%**	218%	147%	**-71%**
Ping An	233%	236%*	**+3%**	229%	179%	**-50%**
AIA	Annual report noted that the impact of C-ROSS Phase II was insignificant					

*As at Q2 2022

Source: Company public filings

Presented October 30, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – MEXICO

Proposed approach for company data inclusion

- Industry-wide solvency ratios for Mexico are available, but it is unclear how the ratios were derived
  - Average vs. median solvency ratios
  - Only 3 years of ratios available, rounded to nearest 10%
  - Inconsistent with company-level data
- The Mexican regulator (CNSF) website also publishes insurer solvency ratios, but not required and available capital
- Analysis of the company-level data reveals data concerns
  - Volatile historical solvency ratios
  - Some data outliers, which skew industry-level
  - Not all ratios can be confirmed through public solvency reports

Our proposed approach for Mexico is to include a subset of the total market, where ratios can be confirmed through company public reports

Data for 10 largest Mexican life insurers from AM Best:

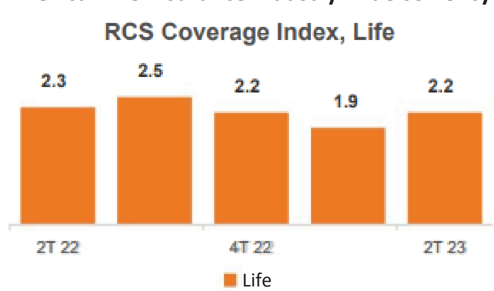
	2022 Total Assets (USD 000s)	SCR Coverage Ratio				
		2022	2021	2020	2019	2018
Pensiones Banorte	12,182,428	1075%	734%	713%	2940%	2877%
Grupo Nacional Provincial	10,164,421	217%	247%	284%	236%	146%
BBVA Seguros México	9,266,393	257%	221%	238%	206%	398%
BBVA Pensiones México	7,825,955	391%	510%	873%	1170262%	1406224%
MetLife México	7,247,672	528%	331%	340%	406%	188%
Citibanamex Seguros	7,192,095	416%	404%	232%	408%	132%
Seguros Monterrey New York Life	7,157,593	288%	272%	290%	374%	188%
Profuturo Pensiones	5,116,091	274%	364%	117%		
AXA Seguros	4,405,400	246%	272%	301%	275%	
Seguros Inbursa, S.A.	4,054,853	443%	342%	250%	261%	148%

Source: Solvency ratios obtained from CNSF website https://informacionfinanciera.cnsf.gob.mx/

Significant volatility observed in reported solvency ratios

Outliers present in data that skew averages

Mexican life insurance industry-wide solvency ratios:



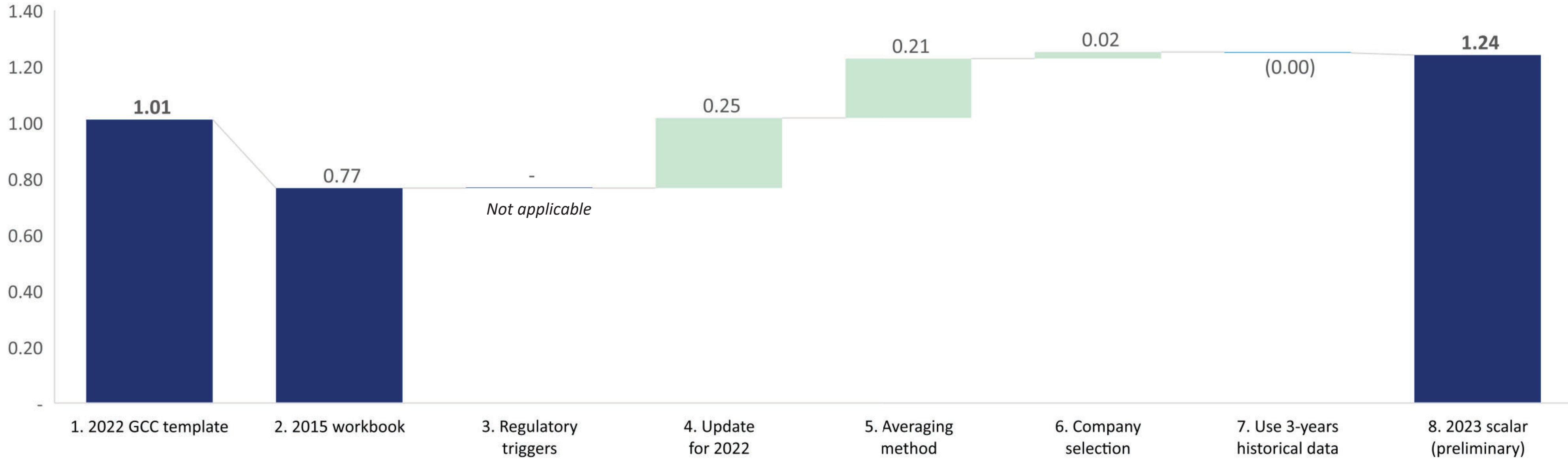
Source: CNSF "Analytical Overview of the Sector June 2023"

Presented November 9, 2023

COUNTRY-SPECIFIC DETAILED ANALYSIS – JAPAN

Reconciliation of ERR scalar (200% ACL) from 2015 exercise to current

- The difference between the 2015 ERR scalar for Japan and the scalar calculated under the current proposed approach can be broken down into a number of steps:



1. Japan Life ERR scalar from 2022 GCC template (200% ACL)
2. Scalar from 2015 workbook
3. Update for any changes in regulatory intervention levels (none needed)
4. Update operating ranges to use 2022 solvency ratios
5. Update for averaging method (simple average to weighted market)
6. Update company selection (from market subset to full market)
7. Update time series length from 1 year to 3 years (average)
8. 2023 scalar under current proposed methodology

APPENDIX E

OLIVER WYMAN CONTACT INFORMATION

CONTACT INFORMATION

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GROUP CAPITAL CALCULATION – JAPAN HEALTH SCALARS REFRESH REPORT TO NAIC

Executive Summary

An updated health scalar under the existing excess relative ratio (ERR) method is proposed herein for health insurers operating in Japan. In July 2023, NAIC adopted the ERR method as the sole scalar method in the GCC and upon review has also moved the scalars from "sensitivity analysis" to the base GCC Ratio calculation. Utilizing the same framework as the 2019/2020 health scalar development, a scalar of .89 is being proposed for use in the base capital ratio reported in the 12/31/2023 Group Capital Calculation (GCC) template replacing the .71 scalar currently included in the GCC template. This is directly proportional to the increase observed for the 2023 Japan life scalar calibration. Additionally, an initial projected scalar of .21[1] is being proposed under the capital regime change to occur in Japan effective April 1, 2025. The proposed health scalars for both current regime and projected under regime change were adjusted from the life insurance ERR scalars proposed in the accompanying report from Oliver Wyman. The best estimate projected scalars of .30 for life and .21 for health are preliminary and should be reviewed further as additional data becomes available. The Oliver Wyman report presents the methodology and process for periodically updating scalars with work focused on life insurance scalars only. The data included in the calculations attached for the proposed health scalars used the same data periods through 12/31/2022 applied by Oliver Wyman to develop the Japan life scalars with adjustments for health solvency requirements. Per the NAIC Group Capital Calculations Instructions, the Japan health scalar may be used by insurers whose insurance health business (referred to as "Third Sector") comprise greater than sixty percent of all insurance lines underwritten, reflected by annualized premium.

Background:

The group capital calculation (GCC) template and instructions were formally adopted by the NAIC members in 2021 and are maintained each year by the NAIC. Scalars are included to compare insurance capital requirements of non-U.S. jurisdiction to U.S. Risk-based Capital (RBC) requirements. Prior to the 2023 version of the GCC template, the scalars were included in the template as part of "sensitivity analysis." The current scalars for life insurers and property and casualty insurers were developed by the NAIC based on available public data from jurisdictions for reporting years 2015 and 2016. After consultation with NAIC staff, scalars for insurers writing a predominant amount of business in Japan's Third Sector were presented to NAIC by AFLAC, assessed by NAIC staff, and introduced in 2020 as part of the development of the GCC. The Japan health scalars were developed by adjusting the scalars for life insurers using data provided by AFLAC, who is organized as a life insurer and the industry leader

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in Japan's Third Sector. Both Life and Non-Life insurers in Japan may write health or related insurance in the Third Sector. The data used to develop the proposed life scalars for Japan includes health business similar to the data used for the Japan scalars in the current GCC template.

The updated health scalars presented above were derived using the same methodology framework used in 2019/2020 starting with the life scalar developed by the NAIC for Japan (and now as updated in the accompanying Oliver Wyman report) and then adjusted for several factors.

Regime Change:

The current Japanese insurance capital regime includes a Solvency Margin Ratio (SMR) calculated in a way much closer to U.S. RBC. Reported weighted average solvency ratios in Japan are historically higher than reported U.S. RBC ratios for life insurers. This can result in a scalar greater than 1 as is the case for the proposed Japan Life Scalar of 1.24. Effective in fiscal year 2025, this will change to an Economic Solvency Ratio (ESR) regime with required capital calculated in a way closer to the Solvency II regimes used in the United Kingdom and European Union. Based on an impact study by the Japan Financial Services Authority in 2020 and other available information the targeted solvency ratios will be significantly lower than weighted average U.S. RBC ratios under the ESR regime (See Oliver Wyman report). This results in a scalar much lower than 1 as is the case for the tentative projected Japan Life Scalar of .30.[1] Absent adoption of revised scalars, group capital ratios reported in the GCC for life and health insurers operating in Japan will be severely impacted.

As with the initial GCC scalars development, the projected health scalar for the GCC upon and after regime change in Japan should be reviewed in conjunction with the life scalar for Japan. For example, the life scalar would be updated first (if necessary) and then the adjustments described below applied to the life scalar to calculate a heath scalar. The Oliver Wyman report includes guidance for such a process for the life scalar.

Methodology (See Appendix attached):

Starting with the life insurance ratios included in the accompanying Oliver Wyman report and using updated data provided by AFLAC through 12/31/22, the scalars for life insurers were adjusted based on two broad concepts:

1. The stringency of current Japanese solvency standards on health ("Third Sector") vs. life ("First Sector") business. AFLAC data indicates a materially higher level of capital stringency (capital devoted to Third Sector business) compared to its First Sector business.

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2. The proportion of Third Sector to First Sector insurance written by AFLAC vs. a typical Japanese life insurer. AFLAC's Japan premium profile is approximately 75% health and 25% life. This is roughly the opposite of a typical Japanese life insurer.

The adjustments result in a factor of .72 applied to the Japan life scalar. Based on historical data, both above conditions are expected to remain constant over time and across regime change.

Adjustment steps to determine a Japan health scalar:

a. Allocate available capital to the First Sector and Third Sector based on insurance liabilities attributable to each sector.
b. Use actual SMR filings to establish required capital specifically attributed to the First Sector and Third Sector.
c. Calculate a solvency ratio for each sector by dividing the results under a., by those under b., above.
d. Using the solvency ratios calculated under (c), an adjustment factor for health vs. life SMR required capital was derived. The resulting .72 factor was then selected based on the split in annualized premium between Third and First sectors. The factor is applied to the life ERR scalar which produces the proposed 0.89 Health scalar (0.72 adjustment factor x 1.24 life scalar).

Additional Information:

Weighted average Japan solvency ratio data for life insurers used for both this report and by Oliver Wyman indicate an approximately 15% drop in the ratios in calendar 2022 compared to both 2021 and 2020. This may have to do with market conditions in Japan such as higher bond yields impacting investments. However, there can be other changes in play related to implementing a new regime or other policy change that result in a material change in the solvency ratio. The potential persistency of this directional in Japan should be investigated, and a potential update to the 1.24 and .89 respective proposed scalars for life and health as of 12/31/23 scalars considered for the 12/31/2024 GCC. Moving from the one data year approach adopted by the NAIC in the current GCC template to the rolling 3-year process with exceptions described in the Oliver Wyman report is reasonable. It may be that where there is a meaningful change in the reference jurisdiction's solvency ratio, particularly in the final year of the 3-year evaluation period, an updated review can be considered. Such is the case for Japan with the weighted average decrease of 15% noted earlier herein.

Example: Using 2022 data alone would have generated a life scalar of 1.05 (.76 for health) for Japan.

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Recap:

- A scalar of .89 is proposed for use in the base capital ratio reported in the 12/31/2023 Group Capital Calculation (GCC) template, assuming a Q1 2024 approval. Additionally, an initial projected scalar of .21[1] is being proposed under the capital regime change to occur in Japan in 2025.
- In July 2023, NAIC adopted the ERR method as the sole scalar method in the GCC and upon review has also moved the scalars from "sensitivity analysis" to the base GCC Ratio calculation.
- The projected health scalar for the GCC upon and after regime change in Japan should be reviewed in conjunction with the life scalar for Japan using updated information.
- The adjustments to a Japan life scalar to arrive at an appropriate health scalar is expected to remain constant over time and upcoming regime change.
- An observed directional change in the Japan 2022 solvency ratio should be investigated and an update to the 1.24 and .89 respective proposed scalars for life and health as of 12/31/23 scalars considered for the 12/31/2024 GCC.

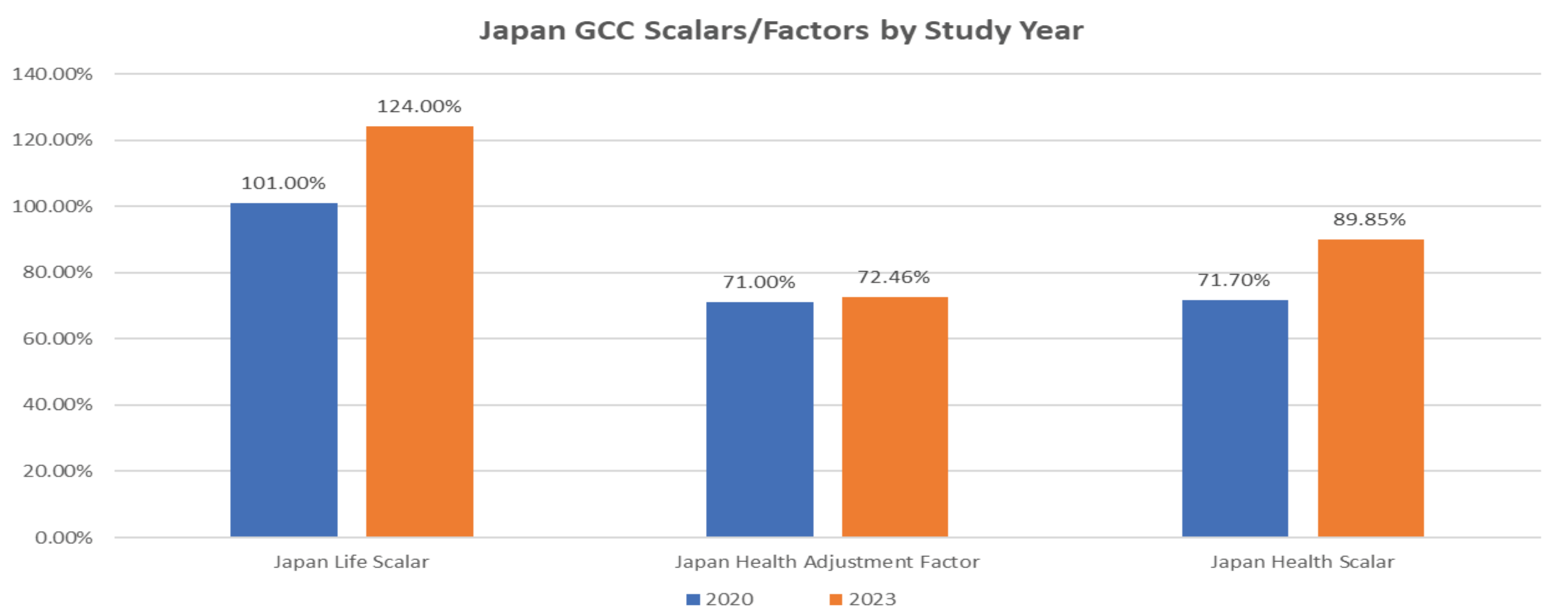
2023 GCC Japan Health Scalar Calibration 1/3/2024

Appendix to Japan Health Scalar Report

- Louis Felice
- Consultant

Japan GCC Scalar Comparison

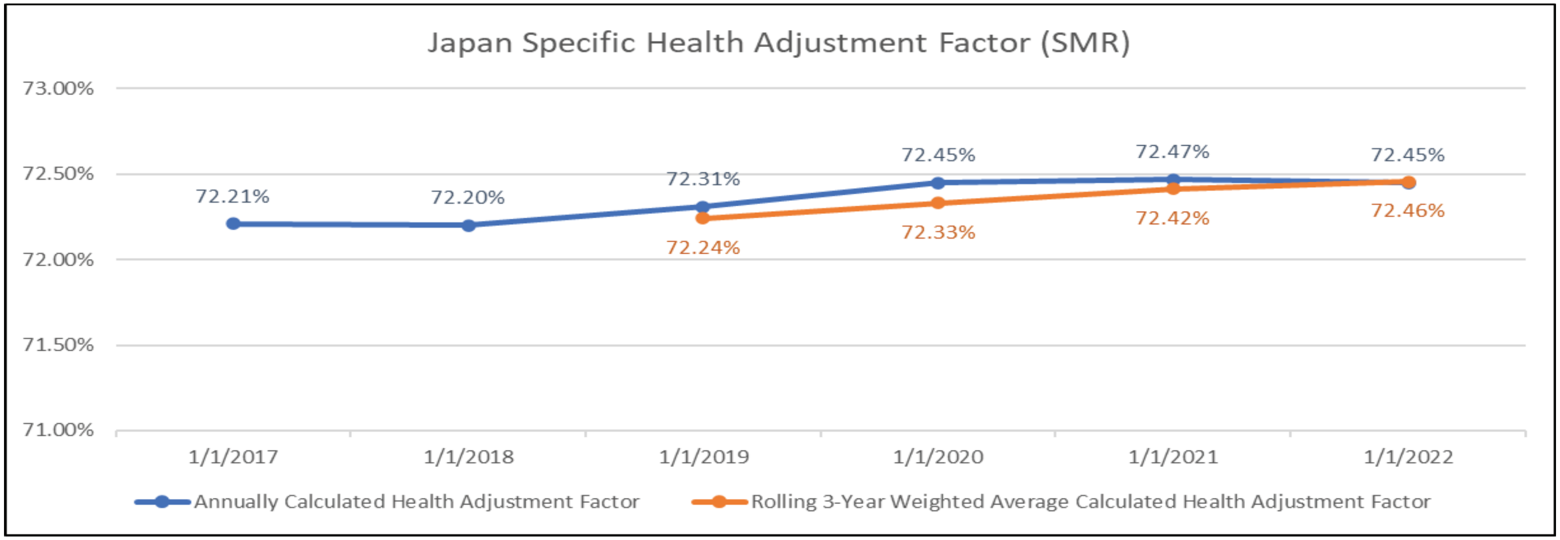
- The current GCC Japan Life Scalar saw a significant increase from 101% to 124% in the current analysis.
  - No alterations to the Life Scalar have been made, and Japan life Insurers rely upon the work performed by the ACLI/OW in its derivation.
- The health adjustment factor produced in this 2023 analysis closely resembles the previous factor produced in 2020.
- The resulting Japan Health Scalar saw a significant increase from 71.70% to 89.85%.
  - The movement is dependent and consistent with the increase in the Japan Life Scalar.



2

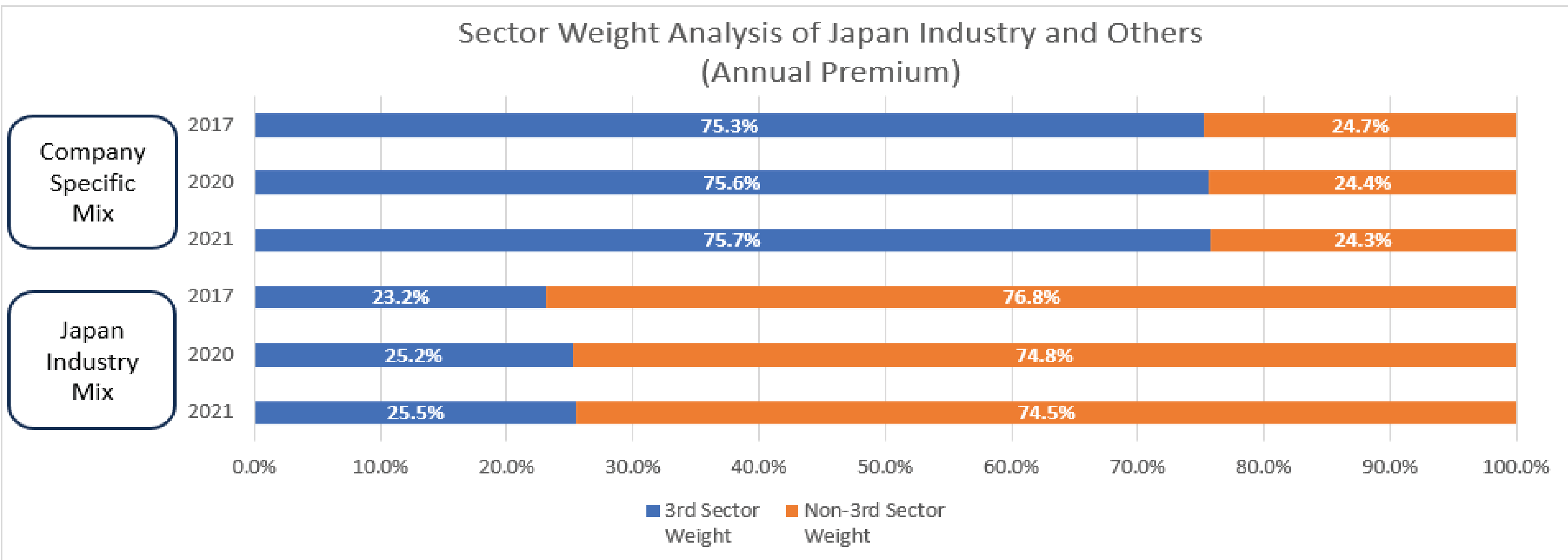
Proposed Japan Specific Health Adjustment Factor (2023)

- A proposed Japan Health Adjustment Factor based on company specific data utilizing a Calendar Year-End rolling 3-year weighted average to align with the methodology and data structure proposed by the ACLI/OW for the Japan Life Scalar.
- The analysis produces a 72.46% Adjustment Factor that can be applied directly to the proposed Japan Life Scalar similar to the previously adopted methodology and scalar.
- Similar to the prior study/methodology, the final proposed factor will be rounded to the nearest percentage point; 72%.
  - Rounding has no material impact on the resulting scalar.



Japan Sector Weight Analysis Refresh

- ❑ Japan's Industry mix can be materially different and may not be representative of all companies individually within the industry. The Japan Life Scalar may not be applicable to a company that exemplifies a material difference in business mix compared to the industry.
- ❑ It would be appropriate to apply the proposed health scalar methodology to any company whose insurance profile consists of more than 60% of annualized health premiums in the health line of business.
- ❑ The company specific analysis below shows a material and stable difference in business mix compared to the industry.
- ❑ Additionally, the company specific data below meets the necessary minimum requirements for use of the Japan Health Scalar.



4

Draft: 02/27/24

National Treatment and Coordination (E) Working Group
Virtual Meeting
February 27, 2024

The National Treatment and Coordination (E) Working Group of the Financial Condition (E) Committee met Feb. 27, 2024. The following Working Group members participated: Debbie Doggett and Kelly Hopper, Co-Chairs (MO); Cameron Piatt, Co-Chair (OH); Cindy Hathaway (CO); Ana Broderick and William Mitchell (CT); Sherry Wilson (DE); Jennifer Milam (FL); Stewart Guerin (LA); Karen Feather (PA); Amy Garcia and John Carter (TX); Jay Sueoka (UT); Ron Pastuch (WA); Amy Malm (WI); and Doug Melvin (WY).

1. Exposed Proposal 2024-01

Doggett said that proposal 2024-01 (Domestic Corporate Amendments) includes modifications to the instructions and Form 2 (General Information) to include a change type for pre and post redomestication notification for the domestic corporate amendment application. Doggett suggested a 30-day comment period, ending March 22nd.

Carter made a motion, seconded by Guerin to expose Proposal 2024-01 (Domesticate Corporate Amendment) for a 30-day comment period, ending March 22. The motion passed unanimously.

2. Discussed the Electronic Redomestication Application

Piatt explained that modifications to the electronic redomestication application will be made to allow simultaneous submission for licensure and redomestication based on feedback of the current process, which is to not allow a company to start a redomestication application if they are not currently licensed or have an expansion application pending. A survey has been sent to all states requesting their state requirements for this initial filing and for the pre and post notifications. Information provided will be used to develop the electronic application.

3. Heard Update on the Legacy Application Ad Hoc Group

Barr (NAIC staff) said that the ad hoc group met Jan. 29th, Feb. 12th and Feb. 26th to discuss the processes for the applications included in Phase II of the UCAA project, which includes domestic and foreign corporate amendments and expansion application. During the discussions it was determined that another change type needed to be included for the domestic corporate amendment application for pre and post notifications or a redomestication. The Legacy Ad Hoc Group will continue to meet when development begins for Phase II, to view, test and provide feedback on the applications as they are developed. Anyone wishing to join should contact Jane Barr via email.

Doggett asked when the transition of the new database and legacy database would take place. Barr said that plenty of notice will be given, and during testing of the new application, there will be a freeze in the legacy portal to prevent new application from being created and the state will be notified to process any outstanding application prior to the database no longer being available.

4. Heard Update on Biographical Affidavit Ad Hoc Group

Barr said the ad hoc group met Feb. 6 and Feb. 20th to discuss the biographical affidavit, addendum pages and cover letter to clarify completion and how these addendum and cover letter should be completed. The group will continue to meet, and recommendations will be sent to the Working Group for consideration. Updates made will be in conjunction with the future development of the biographical database.

4. Discussed Other Matters

Barr said that the Form A Ad Hoc Group will resume meeting this summer to continue developing the Form A application and instructions for Phase III of the UCAA rewrite project.

Having no further business, the National Treatment and Coordination (E) Working Group adjourned.

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Draft: 3/20/24

Risk-Focused Surveillance (E) Working Group
Phoenix, Arizona
March 16, 2024

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met in Phoenix, AZ, March 16, 2024. The following Working Group members participated: Amy Malm, Chair (WI); Lindsay Crawford, Vice Chair (NE); Blase Abreo and Todrick Burks (AL); Laura Clements and Michelle Lo (CA); William Arfanis and Jack Broccoli (CT); Jane Nelson (FL); Daniel Mathis (IA); Cindy Andersen (IL); Roy Eft (IN); Stewart Guerin (LA); Dmitriy Valekha (MD); Vanessa Sullivan (ME); Steve Mayhew and Judy Weaver (MI); Debbie Doggett (MO); Pat Gosselin (NH); John Sirovetz (NJ); Puran Bheamsain (NY); Dwight Radel (OH); Andrew Schallhorn (OK); Theresa Borrowman (OR); Diana Sherman (PA); Ted Hurley and John Tudino (RI); Johanna Nickelson (SD); Amy Garcia (TX); Greg Chew (VA); Dan Petterson and Karen Ducharme (VT); and Steve Drutz (WA).

1. <u>Exposed Proposed Additions to the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook Related* to Affiliated Investment Management Services</u>

Malm stated that the first agenda item is to discuss the Working Group's efforts to respond to a 2022 referral from the Macroprudential (E) Working Group. The referral covers multiple topics that the Working Group was asked to consider, including solvency monitoring guidance for affiliated investment management agreements and capital maintenance plans, as well as some concerns related to ownership structures of insurers and surplus notes. The topics were referred to the Working Group due to its ongoing project related to affiliated services, as well as its role in ensuring consistency between financial analysis and examination guidance. After discussing these topics broadly at the 2023 Summer National Meeting, the Working Group formed an Affiliated Investment Management Agreement Drafting Group to discuss further and propose guidance for the full Working Group to consider.

The Drafting Group consists of regulators from Connecticut, Florida, Iowa, Maryland, Michigan, Missouri, Nebraska, Ohio, Oklahoma, Pennsylvania, Texas, Virginia, and Wisconsin. The Drafting Group met several times in late 2023 and early 2024 to discuss the referred issues and to develop guidance for the full Working Group to consider.

In discussing the capital maintenance agreement, ownership structure, and surplus note issues highlighted in the referral, the Drafting Group noted that these topics are not directly related to affiliated services, nor do they necessitate consistency in analysis/exam guidance as they are primarily financial analyst considerations. Therefore, the Drafting Group decided to refer these issues to the Financial Analysis Solvency Tools (E) Working Group for consideration.

After addressing these issues, the Drafting Group turned its attention to affiliated investment management services and investment management agreements. In discussing this topic, the practice of insurers using both investment advisors and sub-advisors came up repeatedly, which led the Drafting Group to review NAIC reporting requirements related to investment advisors. In reviewing the instructions for General Interrogatory 29.05 in the Annual Statement, Drafting Group members noted that the instructions for disclosing investment advisors do not make it clear that sub-advisors should also be disclosed. As such, the Drafting Group sponsored a blanks proposal that was referred to the Blanks (E) Working Group in January and is currently exposed for a 45-day public comment period ending April 23.

David Vacca (Vacca Regulatory Consulting) recommended that the Drafting Group consider amending its blanks proposal to require additional disclosure around the assets that each investment advisor has under management. Vacca noted that obtaining this information from insurers, which is already disclosed in public company filings, could assist regulators in aggregating exposures to investment advisors at an industry-wide level, as well as assist regulators in individual company monitoring efforts. Malm stated that the Working Group had discussed this need in its deliberations and would take this recommendation under advisement.

After completing the blanks proposal, the Drafting Group turned its attention to the guidance available for financial analysis and examination use in evaluating affiliated investment management services. In reviewing the current guidance in the NAIC's *Financial Analysis Handbook*, the Drafting Group noted some general procedures and background information on external investment advisors, but nothing specific to affiliated or related party investment services. Some additional guidance was noted on external investment advisors in the NAIC's *Financial Condition Examiners Handbook*, but it also failed to discuss unique issues in reviewing and monitoring affiliated investment management services.

Therefore, the Drafting Group developed proposed additions to both handbooks to provide additional direction to regulators in reviewing affiliated investment management services and agreements. Bruce Jenson (NAIC) provided an overview of the proposed additions, which include updates to the Credit, Market and Liquidity Repositories and the Form D review procedures in the *Financial Analysis Handbook*. The additions also include updates to the Outsourcing of Critical Functions section and the Investments Repository in the *Financial Condition Examiners Handbook*. Jenson thanked Ed Toy (Risk and Regulatory Consulting LLC) for his efforts in assisting the Drafting Group in the development of the guidance.

Eft made a motion, seconded by Doggett, to expose the proposed additions to the NAIC handbooks for a 45-day public comment period ending April 30. The motion passed unanimously.

2. <u>Received an Update on 2024 Peer Review Sessions</u>

Crawford stated that the NAIC Peer Review Program provides an opportunity for a group of experienced financial analysts and examiners to participate in reviewing each other's recently completed analysis and examination files. The peer review discussions provide an opportunity to identify both best practices and opportunities for improvement within individual files and on an aggregate level across the country.

Crawford stated that the Working Group has already held one financial analysis peer review session in January with a total of nine states participating. The participants were very well prepared, which led to a very valuable session that identified several new sound practices that will be incorporated into regulatory guidance. Crawford stated that a financial examination session is scheduled to occur the week of Aug. 26, with another financial analysis session scheduled for the week of Oct. 14.

Crawford stated that there has been a lot of discussion about conducting another Own Risk and Solvency Assessment (ORSA) peer review session after the ORSA analysis session that was conducted last summer. However, because that session was analysis-focused, the Working Group is interested in getting a better understanding of how financial examinations are using and validating information and processes outlined in the ORSA. Because ORSA examination guidance was significantly changed in 2022, with additional updates in 2023, the Working Group plans to wait until 2025 to allow more examinations to be completed under the new guidance before holding an ORSA examination session.

Andersen asked whether there was still room for participants in the examination session scheduled for the week of Aug. 26. Crawford stated that none of the participant slots had been allocated yet and that the application would be released in the coming weeks.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.

Https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2024_1Spring/Risk Focused/Attachment XXX-Surveillance WG 3-16-24 Minutes.docx

