GCCWG – FIELD TESTING KICK-OFF PRESENTATION

Thursday, May 9, 2019, Friday May 10, 2019, Monday May 20, 2019
“Volunteers”

- 15 States / 33 Insurance Groups:
  - 13 Life focused
  - 11 P/C focused
  - 2 Composite (focus split between Life & P/C)
  - 2 with Reinsurance focus
  - 5 health
  - 5 Potential IAIGs
  - 2 or more with U.S. depository entities
Purpose and Scope

• Purpose is to Inform the Development of GCC Version 1:
  ➢ Collect data that will be used to field test alternative risk metrics.
  ➢ Conduct impact analysis for alternative entity risk measures (and possibly different levels of aggregation).
  ➢ Leverage Lead-State knowledge of the volunteer

• Scope of the Group:
  ➢ All entities under the ultimate controlling person

• Initial Scope of GCC Application
  ➢ All entities within the scope of the group except:
    ▪ Schedule BA subsidiaries will remain in parent insurer values
    ▪ Entities designated by the volunteer as “exclude” will be tested as both within and outside of the scope of application
Inventory Approach (Available Capital)

- Carrying Values:
  - All HC layers and affiliate entities broken out and listed on look thru basis (consistent with Schedule Y and supplemental State-based information)
  - Schedule BA Treatment
  - Entities not-admitted for RBC purposes shown at zero value
  - Initially includes duplication
Inventory Approach (Calc Capital)

• Capital Calculation:
  - Starting point is required capital under RBC at trend test level (i.e. 300% of ACL / 150% of CAL).
  - Table of required capital to use for other regimes is provided
  - All HC layers and affiliate entities broken out and listed on look thru basis (consistent with Schedule Y and supplemental State-based information)
  - Capital calculations for RBC filers and non financial affiliates initially reported based on RBC treatment
    - Entities not-admitted for RBC purposes shown at zero capital calculation
  - Initially includes duplication
Adjusting & Eliminating Duplication

• Carrying Values Adjusted:
  - Non-admitted entities reported at accounting basis values
  - Duplication eliminated (e.g. ownership; surplus notes; intra group transactions not including reinsurance; etc.)
  - Specified alternative values to be tested (e.g. U.S. banks and foreign insurers)

• RBC Treatment Adjusted:
  - RBC being tested at levels of 100% and 150% of CAL.
  - Adjustments to the capital calculation to be tested for all except U.S. RBC filing entities
  - Capital calculations assigned to all material entities (including those currently with no regulatory capital calculation)
Key Testing Alternatives

- Entities to Exclude
- Non-Admitted Entities
- Calibration Level
- Additional Allowance for Senior Debt
- Scaling
- Materiality
- Grouping
- Large Number of Combinations to be Tested
Template Tab 1 - Schedule 1

• Primary Source of:
  ➢ Background data
  ➢ Entities to be excluded per Volunteer
  ➢ Inputs for tests for non-financial entities
  ➢ Calculations applying testing options for specified other and non-financial entities
  ➢ Data to support an alternate grouping option
Template Tab 2 - Inventory

• Primary Purpose is to:
  ➢ Bring forward basic entity identifying information from Schedule 1
  ➢ Make adjustments to each entity’s initial carrying value to eliminate intra-group double counting of carrying value
  ➢ Make adjustments to each entity’s initial required capital to eliminate intra-group double counting of capital calculations and add values for those with no capital requirements
Template Tab 3 – Capital Instruments

• Primary purposes is to:
  ➢ Provide data on capital instruments issued
  ➢ Reflect amount already recognized as capital by the local regulator for the issuing entity
  ➢ Identify intragroup leveraging of capital instruments
  ➢ Provide support for later calculations of various levels of recognition of capital instruments as additional available capital
Template Tab 4 – On Top Adjustments

• Primary purpose is to:
  ➢ Test options for adjusting asset and liability balances for XXX / AXXX captives (specified Term Life and U.L. business only)
  ➢ Support calculations using the alternative values
Template Tab 5 – Questions & Information

• Primary purposes is to provide additional information from the volunteer related to:
  ➢ Materiality standard used for non-financial entities
  ➢ Intercompany guarantees, capital maintenance agreements, and intra-group assets
  ➢ Detail for “other adjustments to carrying value or capital calculations in the Inventory Tab
  ➢ Other pertinent information to assist in the analysis of the Volunteer’s submission
  ➢ Prescribed / Permitted Practices
  ➢ Schedule BA Assets
Template – Calculation Tabs

• Primary purpose is to:
  ➢ Apply scalars to calculated capital
  ➢ Perform calculations for different testing options including impact of various levels of recognition of capital instruments as additional available capital
  ➢ Allow selection of a base option to be used in later summaries
Template - Summary Tabs

• Primary purpose is to:
  ➢ Provide overview of results for different testing options
  ➢ Provide insight into issues that will be investigated in Field Test review
  ➢ Summary 1: Detailed results by entity category
  ➢ Summary 2: Sample summaries of group-level results
  ➢ Summary 3: Results under different options for treatment of sub debt
  ➢ Summary 4: Alternate summary developed by Health industry
Confidentiality and Sharing of Data

- Info-sharing Agreement Executed between Lead-State and NAIC based on State Law
- NAIC Will Participate in Analysis with Reliance on Reasonableness of Data and Other Input on Substance from the Lead-State
- Specific Individual Company Data Points and other Summarized Information May be Shared Only with GCCWG Members in Regulator Session
- Results can be Segregated for Company Types (e.g. Life / PC / Health focused Groups)
Process / Timing of the Exercise

- Data thru Y.E. 2018 (Hardship requests for 2017 Y.E. Data)
- All submissions requested by mid-August (Earlier Submission Encouraged)
- Q & A Process with Public Access Version
- Planned Meetings (Primarily Calls) Upon Submission
- Initial Analysis Expected During August and September.
- Meetings (Primarily Calls) to go Over Findings and Get Feedback
- GCCWG Regulator Session to be Scheduled as Necessary to interact with the GCCWG Members on Progress and Analysis
- Exercise Ends with Development of GCC Version 1 for Additional Field Test or Other Course as Determined by the GCCWG Members
Q & A