Comments of the Center for Economic Justice

To the NAIC Financial Stability Task Force

Regarding the Liquidity Assessment Subgroup Blanks Proposal

January 23, 2017

The Center for Economic Justice (CEJ) supports the Liquidity Assessment Subgroup (LAS) Blanks proposal for modifying and adding schedules to the Annual Statement for improved analysis of liquidity risk as well as for improved regulatory analytics in other areas. We agree with and support the rationale provided by the Subgroup. We recommend that an additional product category be added to the annuity schedules for contingent deferred annuities.

Better Data Allows Better Analytics

Better data – generally, more granular data – allows better analytics. In some cases the improvement in analytics is exponential and not linear, meaning better data generate massive improvements on analytic opportunities. We believe that will be the outcome of if the LAS blanks proposal is adopted.

Insurers have been utilizing increasingly granular data and increasingly sophisticated analytics of those data for managing all sorts of risks – policyholder characteristics, market risk, and physical risk, for example – for improved underwriting, pricing, reserving, risk management and more.

It is logical that regulators would also seek to collect more, and more-granular, data on various aspects of insurers' business operations to improve regulatory analytics. The LAS Blanks proposal is a perfect example of such a regulatory improvement.

The LAS Blanks Proposal is Reasonable and Necessary

The thrust of the proposal is to gather certain types of information for more specific product types than the current reporting in which a variety of disparate life insurance products are reported together and a variety of annuity products are grouped together. This LAS Blanks proposal is reasonable and necessary. Life insurance and annuity categories now comprise a variety of significantly different products sold in different markets with different types of exposures and, most relevant for the LAS Blanks proposal, different types of liquidity risk.

For example, just as the Capital Markets Bureau is able to quickly evaluate the impact of a significant economic or political event on insurer investment value and, consequently, insurer financial condition, by virtue of insurers reporting granular information on their investments, so will the proposed LAS Blanks proposal allow regulators to evaluate activities-based risks to the financial system – whether that is aggregation risk to the system, to segments of the insurance industry or to individual insurers based on important as a result.

Further, we see no major impediment to insurers reporting the requested data. The proposal does not require insurers to create new data elements or new data collection categories for their systems and operations. Rather, the proposal asks insurers to report experience by categories already used -- the major product groupings for life insurance and annuities used for product filing and current business practices.

The reasonableness of the LAS Blanks proposal is vividly demonstrated by comparing the product break-outs in the property / casualty Annual Statement with the product break-out in the life Annual Statement. The table below shows the product break-outs in the current Analysis of Operations by Line of Business in the Life blank to a variety of schedules in the P/C Blank requiring reporting by line of business.

The current life lines of business in the Annual Statement are clearly too aggregated and the break-outs that do exist are not particularly helpful for liquidity assessment. The following life insurance products are currently grouped as life insurance – term, whole, universal, variable, variable universal, indexed universal and supplementary contract. This aggregation masks significant differences in product exposures, liquidity risk and markets served. In contrast, the current break-outs for individual versus group offer limited analytic opportunities. The same over-aggregation is found for annuities with the current single product category aggregating simple fixed and deferred income annuities, variable annuities, fixed indexed annuities, guaranteed investment contracts and more.

It is important to note that seeking more data for liquidity assessment does not create any presumption of liquidity risk – any more than collecting data on insurer reserves creates a presumption that insurers are under-reserved. The LAS Blanks proposal represents enhanced tools for regulators to monitor, inquire further and intervene in the unusual instances where liquidity might become an issue. It should be evident that such monitoring is reasonable and necessary given the massive amount of assets held by life insurers and the equally massive promises related not to pooling of risk, but investment guarantees and hedging strategies.

Life Annual Statement	**Property/Casualty Annual Statement**
Industrial Life	Fire
Ordinary Life Insurance	Allied Lines
Ordinary Individual Annuities	Farmowners Multi-Peril
Ordinary Supplementary Contracts	Homeowners Multi-Peril
Credit Life (Group & Individual)	Commercial Multi-Peril
Group Life	Mortgage Guaranty
Group Annuities	Ocean Marine
Group Accident & Health	Inland Marine
Credit Accident & Health (Group &Individual)	Financial Guaranty
	Medical Professional Liability – Occurrence
	Medical Professional Liability – Claims Made
	Earthquake
	Group Accident and Health
	Credit Accident and Health
	Other Accident and Health
	Workers' Compensation
	Other Liability – Occurrence
	Other Liability – Claims Made
	Excess Workers Compensation
	Products Liability – Occurrence
	Products Liability -- Claims Made
	Private Passenger Auto Liability
	Commercial Auto Liability
	Private Passenger Auto Physical Damage
	Commercial Auto Physical Damage
	Fidelity
	Surety
	Burglary and Theft
	Boiler and Machinery
	Credit
	International
	Warranty
	Reinsurance

Contingent Deferred Annuities Should Be Added as a Product Category

In brief, a CDA is essential a guaranteed lifetime withdrawal benefit rider without the underlying annuity. A CDA is a combination mortality/financial guaranty wrapped around assets not owned or held by the insurance company. The CDA represents a highly leveraged risk. The NAIC has determined that CDAs are a unique product – neither a fixed annuity nor variable annuity. Given the unique nature of and risks associated with CDAs, we recommend that CDAs be broken out as a separate product column in the annuity exhibits.

We note that CDAs are defined on page 47 of the proposal, but there is no guidance on how CDAs should be treated for purposes of reporting.

> **Contingent Deferred Annuity (CDA)**
> An annuity contract that establishes a life insurer's obligation to make periodic payments for the annuitant's lifetime at the time designated investments, which are not owned or held by the insurer, are depleted to a contractually defined amount due to contractually permitted withdrawals, market performance, fees and/or other charges. A CDA is an insurance product that provides protection against underperforming and downward performing markets in the form of an income guarantee on outside investment accounts owned by an insured. The income guarantee is provided through the collection of ongoing fees from within these outside investment accounts. The insured must agree to certain portfolio restrictions and must first deplete their outside investment account assets at the CDA guaranteed income amount and rate according to the contract and prior to the insurer's assumption of this amount. A CDA is considered a living benefit added to an investment account.