

FINANCIAL STABILITY (EX) TASK FORCE

Financial Stability (EX) Task Force April 8, 2019, Minutes

Financial Stability (EX) Task Force Feb. 8, 2019 and Nov. 17, 2018, Minutes (Attachment One)

May 31, 2019 Data Call – Data Instructions (Attachment Two)

Draft Pending Adoption

Draft: 4/18/19

Financial Stability (EX) Task Force
Orlando, Florida
April 8, 2019

The Financial Stability (EX) Task Force met in Orlando, FL, April 8, 2019. The following Task Force members participated: Marlene Caride, Chair (NJ); Eric A. Cioppa, Vice Chair (ME); Ricardo Lara represented by Susan Bernard (CA); Andrew N. Mais and Kathy Belfi (CT); David Altmaier (FL); Doug Ommen (IA); Dean L. Cameron represented by Nathan Faragher (ID); Gary Anderson (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Bruce R. Ramge represented by Justin Schrader (NE); Jessica Altman (PA); Raymond G. Farmer (SC); Julie Mix McPeak represented by Michael Humphreys (TN); and Kent Sullivan represented by Mike Boerner and James Kennedy (TX).

1. Heard Opening Remarks

Commissioner Caride reported on the following:

- A) The response period had closed for the International Association of Insurance Supervisors' (IAIS) consultation paper titled, *Holistic Framework for Systemic Risk in the Insurance Sector*. She added that interested parties expressed general support for the overall direction of the framework, but they sought clarification on some details of the activities-based approach (ABA).
- B) The IAIS launched its seventh annual assessment of global systemically important insurers (G-SIIs). She reported that approximately 50 firms, 15 of which are U.S.-based, are expected to participate in the data collection this year. She stressed that the data collection comprises the same data elements collected in 2018, as well as some additional data to support the IAIS' Systemic Risk Assessment and Policy Workplan, including the development of an ABA.
- C) The IAIS is aware of the burden associated with this additional data collection, but she said the IAIS believes it is important to have the information to make progress on the development of an ABA. She suggested that state insurance regulators request that firms domiciled in their states that are participating in the IAIS data collection also submit that data to state insurance regulators.
- D) The Financial Stability Board (FSB) will later this year assess the IAIS recommendation to suspend identification of G-SIIs; and, in 2022, the FSB will consider whether to discontinue or reestablish an annual identification of G-SIIs. She noted that the NAIC welcomes the pivot by the IAIS and FSB to place greater emphasis on the ABA and less emphasis on the identification of G-SIIs.

2. Adopted its Feb. 8, 2019, and 2018 Fall National Meeting Minutes

Ms. Belfi made a motion, seconded by Superintendent Cioppa, to adopt the Task Force's Feb. 8, 2019 (Attachment One) and Nov. 8, 2018 (*see NAIC Proceedings – Fall 2018, Financial Stability (EX) Task Force*) minutes. The motion passed.

3. Heard an Update on FSOC Developments

Superintendent Cioppa reported that since the 2018 Fall National Meeting, the Financial Stability Oversight Council (FSOC) has released for comment its revisions to the nonbank financial designation guidance. He summarized that the proposal: 1) prioritizes an ABA to identification and mitigation of risks to financial stability; 2) makes changes to the designation process, including increasing transparency around the process; and 3) creates a clearer off-ramp to designation. He added that the NAIC is currently considering whether to file comments on the proposal by the May 13 deadline.

4. Received the Report of the Liquidity Assessment (EX) Subgroup

Mr. Schrader reported that the Liquidity Assessment (EX) Subgroup formed an informal study group comprised of state insurance regulators, five insurance groups and NAIC staff, and the study group held its first meeting March 22. He noted that the Subgroup met March 26 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to be briefed by the study group. He added that the study group is discussing: 1) what questions the stress test should answer; 2) initial thoughts on liquidity stress test scenarios; 3) the time horizons for the liquidity stress test; and 4) which entities within the group should be included in the liquidity stress test. The study group intends to deliver initial proposals to the Subgroup before the Summer National Meeting.

Draft Pending Adoption

5. Received an Update from the Receivership and Insolvency (E) Task Force on its Work to Address the Financial Stability (EX) Task Force's Referral Letter to Undertake Analysis Relevant to the MPI

Mr. Kennedy reported that the Receivership and Insolvency (E) Task Force continues to work to address the Financial Stability (EX) Task Force's referral letter to undertake analysis of resolution and recovery concerns important to financial stability as part of the Macroprudential Initiative (MPI). He reported that the current laws, regulations and guidance cover the recommendations of the FSB's "Key Attributes of Effective Resolution Regimes for Financial Institutions," as well as the IAIS' Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and its Insurance Core Principles (ICPs). However, few states have adopted the latest receivership laws, and several issues were identified: 1) the *Receiver's Handbook for Insurance Company Insolvencies* may need to be amended for circumstances where a bridge institution is needed; 2) continuity of essential services of non-regulated entities; and 3) variances of state receivership laws.

He further added that NAIC guidance may need to be revised due to the impact of a federal rule recognizing temporary stays on terminating master netting agreements for qualified financial contracts, which does not recognize stays in a state receivership proceeding.

6. Discussed the FSOC's Proposed Interpretative Guidance Regarding Nonbank Financial Company Designations

Commissioner Caride said interested parties should provide comments on the FSOC's proposed interpretative guidance regarding nonbank financial company designations to the Task Force, which will be forwarded to the Government Relations (EX) Leadership Council to help inform the NAIC as it continues to evaluate whether to submit its own comments on the proposal by the May 13 deadline.

Steve Broadie (American Property Casualty Insurance Association—APCIA) said the APCIA is still in the process of internally evaluating the FSOC proposal, but it is generally pleased with the approach, including increased coordination with the primary regulator and a pivot toward an ABA. He requested further clarity on how much of an activity would meet the threshold of being systemically important, the policy measures to be considered for those activities and the due process involved.

David Leifer (American Council of Life Insurers—ACLI) said the ACLI is supportive of the ABA but noted that there are almost 40 questions embedded for which the ACLI will submit responses. He highlighted a few concerns: 1) some insurers own savings and loan entities that they would want to ensure state insurance regulators are responsible for handling; and 2) prior nonbank financial designation guidance used statutory accounting principles (SAP) accounting for those firms that do not use generally accepted accounting principles (GAAP).

Superintendent Cioppa asked the ACLI to clarify, as he said his understanding is the Collins Amendment addressed the issue of using SAP accounting. Mr. Leifer responded that in case the FSOC returns to an entity-based designation process that such guidance on SAP accounting, which impacts mutual insurance companies, would still be relevant.

Jonathan Bergner (National Association of Mutual Insurance Companies—NAMIC) said the ABA is a step in the right direction but noted the importance of: 1) developing a distinct definition of systemic risk that is widely accepted at the state, federal and international level; 2) establishing the types of activities that are systemic; 3) determining the magnitude of those activities; and 4) applying some proportionality and materiality.

Joe Engelhard (MetLife) said the FSOC is now emphasizing macroprudential surveillance to identify two transmission channels: asset liquidation and counterparty exposure. He added that depending on the type of activity, there could be as many as six different regulators, but any policy recommendations from the FSOC would rely on the primary regulator. He said he would seek clarity on the section where the FSOC proposal indicates that if the primary regulator does not have the authority, then there could be a switch to the nonbank financial designation process.

Roman Gabriel (Prudential) said Prudential agrees with the FSOC's prioritization of an ABA over an entity-based designation process. In terms of the entity-based designation process, he expressed support for a switch from a three-stage to a two-stage process, along with enhancement of due process allowing for an off-ramp.

Draft Pending Adoption

7. Discussed Any Other Matters

Todd Sells (NAIC) provided an update on the data and filing instructions for the May 31 data call and clarified that the data received would be for state insurance regulator use only (Attachment Two).

Mr. Sells stated that regulators from the Missouri Department of Insurance submitted a blanks proposal to the Blanks (E) Working Group to address concerns held by professional life reinsurers with regard to reporting business in the product category columns established by this Task Force's blanks proposals created as part of the liquidity risk work of the MPI. He requested comments from interested parties on the contact person for the data call and the modifications to the filing. He added that the May 31 data call is for the Task Force, but the data could be used for other regulatory purposes, including a state requesting such information.

Having no further business, the Financial Stability (EX) Task Force adjourned.

W:\national meetings\2019\spring\tf\financialstability\4-8FSTFmin.docx

Draft: 2/20/19

Financial Stability (EX) Task Force
Conference Call
February 8, 2019

The Financial Stability (EX) Task Force met via conference call Feb. 8, 2019. The following Task Force members participated: Marlene Caride, Chair, (NJ); Ricardo Lara represented by Susan Bernard (CA); Paul Lombardo represented by Kathryn Belfi (CT); David Altmaier (FL); Doug Ommen (IA); Dean L. Cameron (ID); Gary Anderson (MA); Eric A. Cioppa, Vice Chair, (ME); Chlora Lindley-Myers and John Rehagen (MO); Bruce R. Ramage represented by Justin Schrader (NE); Jessica Altman (PA); Raymond G. Farmer (SC); Julie Mix McPeak (TN); Kent Sullivan (TX); and Scott A. White (VA).

1. Heard Opening Remarks

Commissioner Caride said the Task Force will build on prior decisions to use a cash-flow approach with certain regulator defined parameters as the design approach for the liquidity stress test. She acknowledged the concerns of interested parties with respect to confidentiality of the liquidity stress test results and requested that with respect to confidentiality and regulatory authority that interested parties focus questions and comments to members of the Task Force.

2. Considered Reappointment of the Liquidity Assessment (EX) Subgroup, the Subgroup's Charges, and the Subgroup's Chair and Members

Ms. Belfi made a motion, seconded by Commissioner Altman, to reappoint the Subgroup, adopt the Subgroup's charges, and reappoint the Subgroup's chair and members (*see NAIC Proceedings – Fall 2018, Financial Stability (EX) Task Force*). The motion passed unanimously.

3. Considered Revised Workplan for the Liquidity Assessment (EX) Subgroup

Commissioner Caride said the original workplan had aggressive deadlines, so the Subgroup chair requested that the target date to complete the liquidity stress testing framework be shifted to the 2019 Fall National Meeting and the target date for completion of any enhancements or additions to liquidity disclosures be shifted to the 2020 Summer National Meeting.

Mr. Schrader made a motion, seconded by Susan Bernard, to adopt the revised workplan of the Subgroup (*see NAIC Proceedings – Fall 2018, Financial Stability (EX) Task Force*). The motion passed unanimously.

4. Considered Adoption of the Scope Criteria of Liquidity Stress Test

Commissioner Caride said the initial scope criteria were exposed by the Liquidity Assessment (EX) Subgroup in July 2018 and then jointly re-exposed at the 2018 Fall National Meeting by the Subgroup and the Task Force with comments due by the end of December 2018. The Task Force has noted one comment with respect to a future blanks statement, but no other comments were received. Commissioner Caride requested adoption of the scope criteria.

Commissioner Ommen made a motion, seconded by Ms. Belfi, to adopt the scope criteria of the liquidity stress test (*see NAIC Proceedings – Fall 2018, Financial Stability (EX) Task Force*). The motion passed unanimously.

5. Considered Adoption of the Excel Template for the May 2019 Data Call

Mr. Rehagen asked what firms are expected to fill out the excel template. Todd Sells (NAIC) responded that the re-insurance issue will be resolved at a later date, but the initial data call is for all life insurers.

Superintendent Cioppa made a motion, seconded by Mr. Schrader, to adopt the excel template for the May 2019 data call (*see NAIC Proceedings – Fall 2018, Financial Stability (EX) Task Force*). The motion passed unanimously.

Having no further business, the Financial Stability (EX) Task Force adjourned.

W:\National Meetings\2019\Spring\TF\FinancialStability

Draft: 12/3/18

Financial Stability (EX) Task Force
San Francisco, California
November 17, 2018

The Financial Stability (EX) Task Force met in San Francisco, CA, Nov. 17, 2018. The following Task Force members participated: Marlene Caride, Chair, and Kristine Maurer (NJ); Katharine L. Wade, Vice Chair, and Kathryn Belfi (CT); Dave Jones represented by Susan Bernard (CA); Stephen C. Taylor represented by Philip Barlow (DC); David Altmaier represented by Susanne Murphy (FL); Doug Ommen (IA); Gary Anderson represented by Robert Macullar (MA); Chlora Lindley-Myers (MO); Mike Causey represented by Jackie Obusek (NC); Bruce R. Ramge represented by Justin Schrader (NE); Maria T. Vullo represented by Jim Everett (NY); Jessica Altman represented by Joe DiMemmo (PA); Kent Sullivan represented by Mike Boerner and James Kennedy (TX); and Ted Nickel represented by Randy Milquet (WI).

6. Heard Opening Remarks

Commissioner Wade reported that the International Association of Insurance Supervisors (IAIS) released for consultation a paper titled, *Holistic Framework for Systemic Risk in the Insurance Sector*, with comments due Jan. 25, 2019. She added that the NAIC will be providing comments that will be considered with input from International Insurance Relations (G) Committee.

Commissioner Wade said the consultation paper is built on the premise that systemic risk can arise both as a result of distress or disorderly failure of an individual firm and as a result of the collective actions of firms that have common risk exposures. She added that key elements of the framework include an enhanced set of policy measures designed to pre-empt the sector vulnerabilities from becoming systemic issues, and a sector-wide data collection and global-monitoring exercise intended to detect the buildup of systemic risk.

Commissioner Wade reported that the Financial Stability Board (FSB) issued a press release on these developments and their implications for the identification of global systemically important insurers (G-SIIs) and G-SII policy measures. She noted that the FSB indicated that in light of the IAIS' progress in developing the holistic framework, the FSB has decided not to engage in an identification process of G-SIIs in 2018. She added that once the holistic framework is finalized in November 2019, the FSB will assess the IAIS recommendation to further suspend G-SII identification and, in 2022, the FSB will review the need to discontinue or reestablish an annual identification of G-SIIs.

Commissioner Wade reported that the IAIS released a draft *Application Paper on Recovery Planning*, which is out for consultation for 60 days, with comments due Jan. 7, 2019. She added that the IAIS will begin work on an application paper that will focus on resolution planning.

7. Adopted its Summer National Meeting Minutes

Commissioner Ommen made a motion, seconded by Mr. Boerner, to adopt the Task Force's Aug. 5 minutes (*see NAIC Proceedings – Summer 2018, Financial Stability (EX) Task Force*). The motion passed.

8. Adopted the Report of the Liquidity Assessment (EX) Subgroup

Commissioner Wade reported that the Subgroup met Nov. 8 via conference call to discuss comments received on the "Scope of Insurers Subject to Liquidity Stress Test." She also noted that the Subgroup met Oct. 26 and Sept. 18 via conference call, in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to continue to discuss confidential company-specific information pertaining to revised criteria for the scope of insurers subject to liquidity stress testing.

Mr. Schrader made a motion, seconded by Mr. Barlow, to adopt the report of the Liquidity Assessment (EX) Subgroup, including its Nov. 8 minutes (Attachment One). The motion passed.

9. Heard an Update on FSOC Developments

Superintendent Cioppa reported that since the last national meeting, the Financial Stability Oversight Council (FSOC) has met three times. He added that at its most recent meeting, the FSOC rescinded the designation of Prudential as a systemically

important financial institution. Superintendent Cioppa said his predecessors had long taken issue with the decision to designate Prudential and the FSOC's underlying analysis. He concluded that with this most recent decision, the FSOC revised its analysis to better reflect the insurance business model and its regulation. He also noted that the FSOC recognized the work of the New Jersey Department of Banking and Insurance in implementing its authorities as a group-wide supervisor of Prudential. He also reported that topics at the FSOC's open meeting included Brexit and the potential effects on U.S. financial markets, as well as alternative reference rates such as the adoption of the Secured Overnight Financing Rate.

10. Exposed "Scope of Insurers Subject to Liquidity Stress Test" for Public Comment Period

Mr. Schrader reported that the Subgroup prioritized work on the scope criteria for determining the large life insurers that would be subject to the liquidity stress test. He added that the "Scope of Insurers Subject to Liquidity Stress Test" was released July 31 for a public comment period ending Aug. 31. He said the Subgroup members discussed the comments Oct. 26 and Sept. 18 via conference call in regulator-to-regulator session, followed by an open call held Nov. 8.

Mr. Schrader clarified the NAIC process for applying the scope criteria: numbers are for all life insurance legal entities from the annual statutory financial statements. He added that if two or more life insurers are part of an insurance group with an NAIC group code, then the numbers for each of those legal entity life insurers were summed together to represent an insurance group result. He concluded that a legal entity life insurer not in an insurance group can meet the threshold on its own, or the sum of legal entity life insurers in a group can meet the threshold. Mr. Schrader stated that the primary objective of the NAIC liquidity stress testing framework is to provide insights for macroprudential surveillance, but the secondary objective is to provide insights regarding the liquidity risk of insurers and thus provide utility to legal entity and group oversight, as well.

Mr. Schrader said the Subgroup decided to include notional values of derivatives instead of the previously exposed fair value criteria for derivatives in response to industry comments, and set a threshold of greater than \$75 billion. He said the other activity-based criteria have not changed, noting that Subgroup members support using the most current single-year activity. He added that application of the new criteria results in 23 entities within scope. Mr. Schrader noted that all industry comments with respect to design of the liquidity stress test will be addressed at a later time.

Mr. Schrader said no decision has been made on the frequency of stress testing, confidentiality of results and use of results by state insurance regulators. He noted that the liquidity stress test would most likely be performed annually. He added that individual legal entity life insurer's or the sum of legal entity life insurers in a group would not be made public, but the Task Force may decide to report publicly on aggregate sector results and its impact on the broader financial markets. He said a field test exercise is expected to be performed in 2019 before the cash flow approach design for liquidity stress testing is implemented. He reported that entities that are within scope shall be informed through the lead state regulators and are encouraged to participate in the field test exercise.

Mr. Schrader said the Subgroup will provide input into a revised timeline, which will be presented to the Task Force for consideration and approval in the near future. Mr. Schrader requested a joint exposure at the Subgroup and the Task Force of the modified scope criteria so that the Subgroup can further develop the cash flow approach design of the stress test.

Mr. Schrader made a motion, seconded by Mr. Barlow, to expose the "Scope of Insurers Subject to Liquidity Stress Test" for a joint Task Force and Subgroup 30-day public comment period ending Dec. 17 (Attachment Two). The motion passed.

11. Received an Update from the Receivership and Insolvency (E) Task Force on its Work to Address the Financial Stability (EX) Task Force's Referral Letter to Undertake Analysis Relevant to the MPI

Ms. Maurer reported that the Receivership and Insolvency (E) Task Force continues to work to address the Financial Stability (EX) Task Force's referral letter to undertake analysis of resolution and recovery concerns important to the financial stability Macroprudential Initiative (MPI). She added that all three drafting groups have met since the last national meeting, either in open or regulator-to-regulator session.

Ms. Maurer said the first drafting group has completed an evaluation of the powers of the receiver under the IAIS' Insurance Core Principle (ICP) 12 (Winding-up and Exit from the Market) compared to the current NAIC Insurer Receivership Model Act (#555). She concluded that with few exceptions, Model #555 includes most of the powers identified in ICP 12 either generally or explicitly, but will expand the evaluation of those same ICP 12 powers in comparison to older NAIC receivership models.

Ms. Maurer reported that the second drafting group held one conference call to review information and processes in recovery and resolution planning in the FSB's *Key Attributes for effective Resolution Regimes for Financial Institutions*, as well as the IAIS' Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and will review the IAIS' application paper, once publicly available.

Ms. Maurer said the third drafting group is evaluating the treatment of qualified master netting agreements as it relates to stays on termination rights for qualified financial contracts (QFCs) in receivership. She added that the third drafting group held one regulator-to-regulator informational call with federal banking authorities to gain an understanding of how stays on QFCs are used in banking resolutions in order to better identify options for resolving how stays should be treated in insurance receivership.

12. Discussed Other Matters

Todd Sells (NAIC) reported that the work of the Blanks (E) Working Group with respect to a referral of liquidity disclosures adopted at the Financial Stability (EX) Task Force is still being discussed due to concerns about reporting from reinsurers on information from their ceding insurers. He said if any proposed changes go beyond the adoption parameters, he would come back to the Task Force. He also indicated a revised draft of the data call template would be posted shortly after the national meeting.

Having no further business, the Financial Stability (EX) Task Force adjourned.

W:\national meetings\2018\fall\tf\financialstability\11-17FSTFmin.docx

FSTF May 31 Data Call - Data Instructions (Filing Instructions Still Outstanding)

Utilize the associated FSTF blanks proposals for instructions and reporting guidance. Amounts are to be reported in whole dollars, as of December 31, 2018, and should include the General Account and Separate Accounts. The due date for the data call is May 31, 2019.

There are 5 tabs for capturing premium/consideration amounts, reserve, CSV, and policy loans for Individual Life, Group Life, Individual Annuities, and Group Annuities.

There is a single tab for completing the New Note 33 information for life policies.

Premiums are to be presented based on Line 1 of the Analysis of Operations by Line of Business. Since this schedule includes both General Account and Separate Accounts Net Premium amounts, no further adjustments are needed.

Reserve, CSV, and Amount available for Policy Loans are all to be presented based on the appropriate items from the Analysis of Increase in Reserves. Since this schedule does not combine the General Account and Separate Accounts amounts, reporting insurers will need to add the General Account amounts with the Separate Accounts amount when presenting these items for this data call.

INSTRUCTIONS FOR ASSUMED REINSURANCE:

- YRT mortality only reinsurance business may be reported in the Other Life column (Individual Life tab and/or Group Life tab). If reported in the Other Life column, a note should be provided on the Summary tab indicating this type of business is so included.
- A reporting legal entity insurer may use an appropriate allocation methodology for non-YRT business and describe the methodology in the note. If that is not feasible, then amounts should be reported in the Other columns.
- In addition to YRT mortality reinsurance, separately identify each type of product included in the Other Life Column in a note on the Summary tab.