AMERICAN ACADEMY of ACTUARIES

August 31, 2018

Justin Schrader
Chair, Liquidity Assessment (EX) Subgroup
National Association of Insurance Commissioners

Re: Scope of Insurers Subject to Liquidity Stress Test

Mr. Schrader,

The American Academy of Actuaries[1] Life Practice Council's Macroprudential Task Force (MPTF) offers the following comments, including answers to the questions posed to interested parties, to the July 31st exposure of the National Association of Insurance Commissioners

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

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inherently an entity-specific concern, which makes it difficult to conclude whether the subgroup's apparent intent is met. Moreover, liquidity concerns are not necessarily related to the six noted activities. Consequently, the Subgroup may wish to explore how the selected 21 life insurance groups compare to the broader industry in terms of assets, risk capital, or other holistic size metrics.

It is somewhat less clear that the scope criteria are congruent with the microprudential objectives of the framework. It may be useful to review historical significant liquidity-related events (above a certain size) to determine whether the scope criteria would have captured these entities within the exercise. For example, neither cash-outs of life insurance policies nor contractual downgrade provisions are included within the proposed scope criteria.

In what way, if any, should the scope criteria be modified? Please explain the rationale for your recommendation.

Because the MPTF lacks access to the underlying data set, it is not possible for us to determine whether a practical benefit exists from modifying the scope criteria. We would, however, like to offer some considerations for the benefit of the subgroup. These considerations should be assessed in light of the objectives of the work plan, as they continue to be clarified and refined.

- Consideration should be given to the impact of potential year-to-year variations in the listing of groups subject to the stress test. Some variation will inevitably arise due to the evolution of the industry's profile. The use of fixed minimum thresholds, particularly for volatile indicators such as those based on fair-value measurements, could result in groups toggling in and out of scope. These variations may be problematic if the stress testing is intended to identify industry trends. If this is the case, we encourage an evaluation of historical data to determine whether the outcomes would be compromised by the proposed scope criteria.
- Consideration should be given to the discretion afforded to individual domestic regulators to include an entity which would not otherwise be within scope because of potential liquidity risk drivers outside of the scope criteria (e.g., downgrade triggers).
- A process for scope-criteria review and revision should also be contemplated as experience or new developments emerge.
- Depending on the assumptions and approach used to define the liquidity stress -2 (s)-2 (hos)-(ndi)-2 (ce2

The Macroprudential Task Force looks forward to discussing these comments further with you if you so choose, and working with the Liquidity Assessment Subgroup on the development of a liquidity stress test. If you have any questions, please contact Ian Trepanier, life policy analyst at the American Academy of Actuaries. (Trepanier@actuary.org)

Sincerely,

Jeff Johnson, MAAA, FSA
Chairperson, Macroprudential Task Force
American Academy of Actuaries