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Justin C. Schrader, CFE
Chief Financial Examiner, Nebraska Department of Insurance
Chair, Liquidity Assessment (EX) Subgroup
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Re: Comments Scope of Insurers Subject to Liquidity Stress Test

Dear Mr. Schrader:

The American Council of Life Insurers (ACLI) advocates on behalf of approximately 290 member companies dedicated to providing products and services that contribute to consumers' financial and retirement security. ACLI members represent 95 percent of industry assets, 93 percent of life insurance premiums, and 98 percent of annuity considerations in the United States. 75 million families depend on our members' life insurance, annuities, retirement plans, long-term care insurance, disability income insurance and reinsurance products. Taking into account additional products including dental, vision and other supplemental benefits, ACLI members provide financial protection to 90 million American families.

Thank you, as always, for the opportunity to comment on the important work of the NAIC Liquidity Assessment Subgroup. Our comment letter is divided into two parts. In the first section we highlight some

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Our view is that any data published should not identify individual groups. Liquidity stress testing and the risk profile of any particular group will vary based on, among other factors, market conditions/fluctuations and the potential role of risk mitigation tools. Without a complete understanding of these myriad factors, dissemination of individualized data could lead to misunderstandings by analysts as well as public policy makers. As is the case with the NAIC

SPIAs, and the group fixed annuities includes pension risk transfer, neither of which typically presents liquidity risk as cash values cannot be withdrawn on a discretionary basis.

Derivatives:

The majority of life insurance derivative use is for hedging purposes only, with state regulations limiting the overall size of a life insurer's derivatives book relative to the amount of admitted assets a life insurer holds. This is a key mitigating factor to liquidity risk because these assets can be used to satisfy derivative collateral requirements. Typically, most life insurers require customized derivatives to hedge the market risks inherent in some products offered to clients and in the assets purchased for the general account. Customized derivatives trade in the bi-lateral over-the-counter market where the assets eligible for pledging to dealers in a collateral arrangement are broad and include most of the high-quality assets insurers own. Therefore, it is unlikely life insurers would need to liquidate a large block of assets to satisfy over-the-counter derivative margin calls. Instead, life insurers would typically pledge high-quality fixed income general account securities, mitigating liquidity risk arising from life insurer's hedging activities. Life Insurers retain legal ownership rights of assets pledged under these arrangements and these assets continue to be included in Life Insurers' Admitted Assets.

Funding Agreements and GICs

The inclusion of all elements of these instruments appears overly broad based on what we know currently. Some examples for further consideration: Funding agreements and GICs only expose companies to material liquidity risk if the policyholder has the right to surrender the instrument. Typically, FHLB funding agreements cannot be surrendered by the FHLB. The GIC definition likely sweeps in both institutional and retail GICs (such as GICs within a 401K plan). The liquidity relevance would only extend to institutional GICs. There are many products within these broad categories, such as annuities certain and supplemental contracts that also do not in our view contain any liquidity risk. Synthetic GICs do not pose liquidity risk at the magnitude of the amount of business wrapped. As these examples illustrate, the appropriate products in this category should be carefully investigated prior to any decision of inclusion. pr9T7t 5.9 (t)5.7 60.o5 84 8[(10.4.5 407