





Qualitative Review and Research

In addition to quantitative analysis, the process of Macroprudential Risk Assessment uses various qualitative tools and resources to identify emerging risk exposures, market conditions, and industry activities that have the potential to impact the Macroprudential Risk Assessment. These tools and resources may include results of company surveillance efforts, industry news, and internal/external research, as well as insights from federal and international resources. By conducting ongoing study and research in these areas, topics for consideration in the overall macroeconomic risk assessment may be identified, as well as additional indicators for incorporation into the quantitative assessment. The qualitative assessment and research may also result in the identification of factors that could potentially influence the quantitative assessment of exposures discussed above.



Qualitative Review Sources *(subject to ongoing review and adjustment):*

- a. Results of Microeconomic Surveillance - Incorporation of findings and takeaways from the NAIC Financial Analysis (E) Working Group process, Own Risk and Solvency Assessment (ORSA) reviews, input from chief financial regulators, etc.
- b. Industry News - Ongoing review and tracking of issues identified through a review of news feeds including rating agency reports and outlooks, industry periodicals, etc.
- c. Internal/External Research & Studies – Ongoing review and consideration of research performed by the NAIC's Capital Markets Bureau (CMB), the NAIC's Center for Insurance Policy and Research (CIPR), rating agencies, and various external research agencies and sources (i.e., academics, *Journal of Insurance Regulation* [JIR], Insurance Information Institute [III]), etc.
- d. Federal Resources - Review of information highlighted in FSOC reports and inquiries, Federal Reserve/Federal Insurance Office (FIO)/Office of Financial Research (OFR) reports, etc.
- e. International Resources - Review of information highlighted in the International Association of Insurance Supervisors' (IAIS') Global Monitoring Exercise (GME) reports and other reports (i.e., Global Insurance Market Report [GIMAR]), FSB data and reports, IMF data and reports, etc.



Overall Conclusions and Presentation of Results

Insights from both the quantitative and qualitative reviews are aggregated to reach a baseline assessment of industry exposure to various macroprudential risks. The baseline assessment will then be evaluated, adjusted as needed, and approved by the Macroprudential (E) Working Group. The assessment considers how each risk aligns with the three transmission channels, identified by the FSOC as most likely to facilitate the transmission of risk across firms or markets. Those transmission channels are interconnectedness, asset liquidation, and critical function. The final assessment will consist of an overall level and trend for each risk category.

- . Assessment Levels – Assessment levels are documented on a four-tier scale consisting of High, Moderate-High, Moderate-Low, or Low. Assessments are based on current and historical risk indicators and expert judgment.



Trend Levels – Trend levels are documented on a five-tier scale consisting of Rapidly Increasing, Increasing, Static, Decreasing, or Rapidly Decreasing. Trends are based on the changes in risk indicators and expert judgment.

The Macroprudential Risk Assessments are compiled and presented in a public report describing state insurance regulator views on risk exposures (i.e., risk dashboards), ongoing supervisory efforts to address exposures, and additional policy considerations in response to higher risk assessments, if warranted. The public report will also highlight specific quantitative and qualitative elements that support the overall assessments.

Use in Ongoing Macroprudential and Microprudential Surveillance

The results of the Macroprudential Risk Assessment process can be used by state insurance regulators for various purposes, including the identification of sector-wide risks and potential systemic risks within the financial system related to insurance sector activities. The risk dashboard may be used to identify interplays between industry-wide risks identified in the dashboard and individual insurer risk analysis.

State insurance regulators may also consider using the risk dashboard in a top-down, risk-focused, supervisory approach. Starting at the top with a sector-wide risk dashboard, state insurance regulators may wish to channel their supervisory resources towards identifying individual insurers who contribute to higher assessed sector-wide risks and potential systemic risk or activities. Further analysis may warrant additional supervision and oversight of select insurers. When monitoring an individual insurer, the state insurance regulator should be aware of the broader market in which the insurer operates to be able to better understand the context of certain risk factors. To assist state insurance regulators in this regard, the results may be used to complement the NAIC's Solvency Monitoring Risk Alert and act as a regulator-only supplement to NAIC handbooks for use in addressing risk exposures and industry trends in conducting financial analysis and examinations.