8/1/17 Draft

NAIC Financial Stability (EX) Task Force

Macro Prudential Initiative (MPI): A Proposed Framework

Background:

Macro prudential monitoring furthers regulatory objectives

Macro-prudential monitoring involves analyzing how the insurance sector is impacted by, reacts to, and contributes to financial, economic and other common risk exposures. Understanding these relationships is critical to maintaining strong and competitive insurance markets. Doing so ensures the availability of sound insurance products that meet consumer needs, achieves core

Relationship of macro with micro prudential tools

MPI involves undertaking a review of the state regulators' toolbox and assessing what existing data, metrics and analysis is available to support macro-prudential monitoring and what enhancements or additions might be needed to serve this purpose. This initial step recognizes that many of the same tools used for micro-prudential surveillance at the legal entity level are also useful for macro-prudential analysis. It also recognizes that the NAIC has already developed tools and analytics that focus on the sector more broadly and are thus macro prudential in nature. These include various work products of the Capital Markets Bureau, Financial Regulatory Services Department (FRS), Financial Analysis Working Group (FAWG) and the Center for Insurance Policy & Research (CIPR). These include for example analysis of financial data and solvency metrics on an aggregated basis which we have used for purposes of benchmarking individual insurer's results (more of a micro perspective) as well as for evaluating the health of the industry as a whole (more of a macro perspective).

The goal of MPI is to consider some new or improved tools that we can use to:

- Better monitor and respond to the impact of external financial and economic risks on the firms we supervise
- Better monitor and respond to risks emanating from or amplified by the firms we supervise that might be transmitted externally, and which may result in significant market impacts of financial, reputational, litigation or regulatory risks for them.
- Increase public awareness of NAIC/state monitoring capabilities regarding macro prudential trends within the US insurance sector and their implications

macro-prudential trends, including identifying possible areas of improvement or gaps, and propose to the Financial Condition E Committee or other relevant committee enhancements and/or additions to further improve the ability of state insurance regulators and industry to address macro-prudential impacts; consult with such committees on implementation as needed."

There are several existing NAIC work products that may be a beneficial starting place for macro analysis. These products are inventoried in Appendix I along with a brief description of each.

Potential way-forward:

For discussion purposes, staff has outlined a number of areas for consideration and potential development.

1) Improving the effectiveness and use of existing tools
- As an initial step, combine some parts of the existing reports -10 (s)-D 9 >>BDC.49 0 Td [(s)-1 (

and resolution planning process could be most valuable to regulators and insurers, and see if enhancements are needed to the current information collected by regulators. One area where resolution related enhancements might be useful is in ORSA guidance, particularly as it relates to understanding the functioning of-affiliate agreements in a resolution. Another area to consider is providing further guidance to regulators-for pre receivership situation, potentially through enhancements to the troubled company handbook. A third area for focus could be preparation of a comprehensive guide on best practices for states to handle cross-border coordination in troubled company and her coohe aompreoi cne ooiom

- Capital Markets Special Reports
  - Distribution list includes non

- o Constructed from studies of reported financial results, monitoring of insurance and capital markets, monitoring of news stories and current events, etc.
- o The process to identify and select risks

Macro Prudential Initiative (MPI) Work Plan

- Key Objectives: 1) Better monitor and respond to the impact of external financial and economic risks on the firms we supervise 2) Better monitor and respond to risks emanating from or amplified by the firms we supervise that might be transmitted externally, and which may result in significant market impacts of financial, reputational, litigation or regulatory risks for them. 3) Increase public awareness of NAIC/state monitoring capabilities regarding macro prudential trends within the US insurance sector and their implications.

  Proposed deliverables and timelines for key areas of scope in the MPI Framework:

    Further develop MPI Framework based on input from regulators and interested parties. Initiate work in 2017.

    Liquidity: See the separate attachment "FSTF Proposal for Liquidity Assessment Subgroup." Initiate work in 2017.

    Capital Stress Testing: FSTF will consider the regulator need for stress testing in the context of macro prudential surveillance including scope. Conclusions to be outlined in a letter to Group Capital Calculation (E) WG by the Winter of 2017.

    Recovery and Resolution: Identify those elements of resolution planning exercises that provide insights for facilitating a smooth resolution. Produce discussion paper for consideration by the FSTF including assessment of the need for potential guidance on pre-receivership planning, identifying if there are recommended areas to be covered in ORSAs, and developing further explanations on cross border coordination and receivership processes. Make a recommendation/referral to the appropriate Committees/Task Forces potentially including Receivership and Insolvency (E) Task Force, Group Solvency Issues (E) Working Group, and Troubled Company Handbook (E) Working Group. Initiate work in 2018.

    Counterparty exposure/concentration: NAIC staff to review best practices regarding counterparty concentration and disclosures and return with recommendations, if any. Initiate work in the Spring of 2018.