February 19, 2010

Mr. Philip Barlow
Chair, Life Risk Based Capital Working Group
Deputy Commissioner
Dept of Insurance Securities & Banking
810 First Street NE Suite 701
Washington, DC 20002

Re: Scope limitation and materiality test for C-3 Phase III

Dear Philip:

On behalf of our member companies, the American Council of Life Insurers (ACLI) is pleased to submit the following comments on certain aspects of the proposed C-3 Phase III (C3P3) methodology. The American Council of Life Insurers repre5c.a3o5(llogy3(m)7.6(a)d2.4rel s ihy)TJ21.50275 0 TD3(a)-3.8(n)-2.3(300 legtalpree

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At the same time, multiple interested parties—incl

Moreover, if a company is permitted, as we propose, to optionally include policies that it manages together with “in scope” ULSG business, we expect that many companies would strongly consider taking advantage of this optionality in order to avoid the practical problems involved with artificially dividing in-force asset and liability portfolios. This would make it less critical to make a division between “risky”

Unfortunately we did not identify and focus on this change until after we had submitted our proposal to the Working Group in January. Because we are attempting to construct a practical accommodation, not an opportunity for companies to "cherry pick," we believe that language is needed that resembles the earlier, more rigid definition. The latest definition would seemingly allow companies to include any combination of their assets and life insurance liabilities in a Business Segment.

Accordingly, we believe that it is necessary either to amend the latest definition of Business Segment or to define a new term around the same concept.

E. Details on ACLI's proposed materiality test

Although we were disappointed that the Working Group decided not to expose our proposed materiality test on the January 13 call, we came away from the call believing that we had failed to adequately communicate the reasoning behind our proposal. Accordingly, over the past month we have conducted a survey of group of ACLI member companies that allows us to provide greater specificity about our proposal. We request reconsideration from the Working Group.

Our original proposal was:

> *The "ULSG C-3 Materiality Test" is the ratio of factor-based C-3a risk charges for fixed ULSG business over the sum of all risk charges for the company without covariance, i.e. C-0 + C-1 + C-2 + C-3 + C-4. If this ratio is greater than **X**%, the company's C-3 risk is deemed material, and it must do the Phase III modeling.*

We pointed out that, conceptually, this test is similar to the "C-3 Significance Test" that currently exists for C-3 Phase I. We also noted that the value of **X** would require additional research.

ACLI continues to support this concept. After conducting a voluntary survey of a group of member companies, we recommend that that the value of **X** should be 1%, based on our recommended 15-year definition of ULSG. In addition, we are recommending a second test that would scope in companies that have blocks of fixed premium ULSG business greater than $1 billion in reserves—regardless of the value of the ULSG C-3 Materiality Test ratio. Thus, all large blocks of fixed interest ULSG business in the industry would be included in the field test.

Combined, we propose a materiality test that would scope in companies with 15-year ULSG, where such business meets either or both

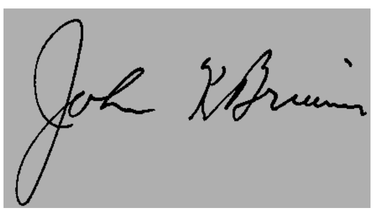
We decided against recommending the C-3 Stress Test concept for this purpose for two primary reasons:

1. The C-3 Stress Test implicitly assumes that the modeling is an accurate and appropriate representation of risk, whereas the factors are not. In this instance, we are not certain whether the proposed modeling methodology produces an accurate and appropriate representation of risk.
2. It is unlikely that a recalculation of RBC after multiplying the C-3 risk charges for fixed-premium ULSG policies by a factor of 6.5 would bring any companies into a regulatory action level.

Also, we would note that the limited modeling performed in the SOA research study suggests that C-3 risk charges for fixed premium ULSG contracts may actually decrease relative to current factors under the proposed approach.

Finally, for completeness purposes, in conjunction with the materiality test, we had also proposed allowing optional application of the proposed Phase III methodology to immaterial amounts of ULSG business. We continue to support this proposal.

We would like to thank the members of the Working Group for their consideration and reconsideration of our proposals. We look forward to continuing to work with you and the other members of the Working Group on this project.



cc: Dan Swanson, NAIC