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July 23, 2015

NAIC ComFrame Development and Analysis (G) Working Group
Discussion Draft on Approaches to a Group Capital Calculation

The NAIC is continuing its work on developing regulatory tools for insurance group capital assessment and oversight by considering construction of a U.S. group capital calculation for U.S. insurance groups. State insurance regulators currently perform group analysis on all U.S. insurance groups, including assessing the risks and financial position of the insurance holding company system; however, they do not have the benefit of a consolidated statutory accounting system and financial statements to assist them in these efforts. A consistent method of calculating group capital for typical group risks could provide a very useful tool for state financial

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2) SAP Consolidated Filing for RBC ±this approach requires establishment of consolidating accounting rules for statutory accounting principles (SAP) and use of consolidated financial statements in the RBC formula.

<u>Potential Variations:</u>

- ¾ SAP consolidation could be limited to just the insurance legal entities, and then using an aggregation approach for all other entities.
- ¾ Separately or additionally, RBC could be adjusted to utilize more going-concern confidence levels and time horizons.

<u>Pros</u>:

- x Establishes a consistent accounting method for all entities
- x Utilizes RBC (same benefits from Aggregation approach, but for ALL entities)

<u>Cons:</u>

- x Establishes yet another consolidated accounting standard on top of GAAP and any others (big impact to industry and regulators)
- x A potential lengthier development process needing more resources, particularly if using the variation of a going-concern adjusted RBC
- x 8VLQJ FRQVHUYDWLYH VWDWXWRU\ DFFRXQWLQJ PRUH ³JRQ modifications to RBC could be viewed as inconsistent

<u>Other Considerations:</u>

- x If regulators and industry were to agree now that this is the approach we should utilize, then this should be developed instead of the Aggregation RBC method.
- x If the NAIC and/or the Federal Reserve adopt a GAAP-based calculation requirement in the longer term, this approach could be used as an exception alternative for insurance groups that do not prepare/file GAAP financial statements ± and this would be more consistent with the Federal Reserve ¶s consolidated approach used for the other financial institutions they regulate.
- x Currently in developing the ICS, the IAIS is taking a consolidated approach and looking at both a market-adjusted and GAAP+ approach to valuation.

3) GAAP Consolidated Filing for RBC-Plus ±this approach utilizes existing Generally Accepted Accounting Principles (GAAP) consolidated financial statement results in an RBC formula that has been adjusted to reflect more going concern confidence levels and time horizons.

<u>Potential Variations:</u>

- ¾ RBC c RXOG UHPDLQ XQDGMXVWHG UHIOHFWLQJ PRUH RI D ³

<u>Pros</u>:

- x Utilizes a consistent accounting method for all entities
- x GAAP consolidated financial statements are already filed by many insurance groups
- x Utilizes RBC structure (similar benefits from SAP consolidated approach, but different factors)

<u>Cons:</u>

- x Does not address those insurance groups that do not prepare GAAP consolidated financial statements
- x Lacks existing granularity of subaccounts that exists in statutory accounting, which would be required for a fulsome RBC formula
- x A potential lengthier development process with higher cost of implementation (system change etc.) and audit costs, unless using the variation of th