

EXPLANATION OF NEED FOR LIQUIDITY ASSESSMENT (EX) SUBGROUP’S BLANKS PROPOSALS

Background:

- The Liquidity Assessment (EX) Subgroup’s charge related to data reads: “Review existing public and regulator only data related to liquidity risk, identify any gaps based upon regulatory needs, and propose the universe of companies to which any recommendations may apply.”
- Oct. 12, 2017, the Subgroup finalized a document listing existing public and regulator only data related to liquidity risk, and also identifying gaps. The following gaps were noted in the document:
 - ““Staff question whether the appropriate level of granularity exists in the lines of business disclosures throughout the life blank to allow regulators to quickly and easily identify where liquidity concerns may be likely and/or exist. Just as we have good category breakouts for the assets to allow bucketing by relative liquidity, regulators need a similar ability to group products/policies based on the relative levels of ability to draw cash”
 - “Staff question whether some reorganization of existing schedules, such as the Analysis of Operations schedules, would, when combined with expanded detail in the lines of business and additional disclosures, better present the information for regulatory use.”
 - Despite the extensive data, there are some missing items to consider. For example, while the policy loans outstanding are captured on the Assets Page, the amount of eligible policy loans is not disclosed. The information on annuities in Note 32 provides a good start for this type of liquidity analysis to be performed by regulators, but there is no equivalent for life insurance policies that have surrender benefits.”
 - Justin Schrader, the Subgroup Chair, stated:
 - “Staff’s review of existing data related to liquidity . . . is a starting point for us in the two applications of our data work: 1) how we can improve and/or streamline regulators’ work in analysis and exams that occurs for all life insurers, and which will support our macro surveillance activities; and 2) what data we will need to collect to support the liquidity stress testing framework we will be developing, which will also lend itself to further informing our macro surveillance efforts.”
 - “I strongly believe the life blank needs improvement in several areas addressed by the baseline draft blanks proposal – for use in our liquidity work, but also to benefit all areas of our analysis and exam work as well as our macro surveillance work. It was this work I asked NAIC staff to develop. But they have also made some liquidity specific changes in response to some of the regulatory comments, including a new note similar to note 32 but with information on life insurance and deposit-type contracts.”

Further Clarification – How the Blanks Proposals Address the Underlined Items Above:

- Existing product categories in the Analysis of Operations by Line of Business:

1	2	Ordinary			6	Group		Accident and Health			12
		3	4	5		7	8	9	10	11	
		Life Insurance	Individual Annuities	Supplementary Contracts	Credit Life (Group and Individual)	Life Insurance (a)	Annuities	Group	Credit (Group and Individual)	Other	Aggregate of All Other Lines of Business
Total	Industrial Life										

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- Within most of these existing categories, for example Ordinary Life Insurance, there are many different types of life insurance products with very different risk profiles, including the existence and significance of potential liquidity risk. Yet the blank does not provide data points regarding premiums, benefits, and other expenses related to those different types of life insurance products. Thus, state regulators are not able to utilize the data in the life blank to perform a risk-focused assessment of the insurance products written by the legal entity life insurer- identifying which lines of business are the profit drivers for the insurer, whether the insurer has significant concentrations in product types with significant potential liquidity risk, etc. Instead, regulators must request additional data to allow them to perform these risk-focused assessments.
- Capturing more granular product data in the Analysis of Operations will allow the regulators to use this data in their automated prioritization and financial analysis tools, allowing them to perform their risk assessments in a more efficient and consistent manner and to avoid asking the companies to produce this data outside of the statutory financial statement. It also will provide the Financial Stability (EX) Task Force with important product level information for its macro surveillance work, for example identifying the significant product types written at the industry level, and consideration of whether those product types contain more potential liquidity risk.
- Additional items in the Baseline Blanks Proposal:
 - Adds specific data points on surrender amounts available as well as policy loan amounts and other contractual withdrawal amounts available, which are explicit data points needed for liquidity risk assessment within the products written.
 - Cleans up and addresses consistency issues for Accident and Health disclosure categories.
 - Eliminates some Supplemental Schedules no longer needed after these changes (for example, the separate supplements on annuity product breakouts are eliminated).
- The smaller Notes Blanks Proposal adds a new Note to Financial Statement #33 to provide disclosures for life insurance that are similar in scope and intent as the annuity disclosures in the existing Note 32.