

C-3 Phase 1 Alternatives

Presentation to NAIC LRBC Work Group

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C-3 Phase 1 vs. Other Phases

- ESG differs by phase
- Processes differ by phase
 - C3P1 considered to be an addition to adequate reserves; C3P2 derived from a total asset requirement
 - C3P1 capital requirement based on selected scenarios that estimate CTE 90 (12/50 sets) vs. fully stochastic process for C3P2
 - Minimum C3 amount differs by phase (50% of RBC C3P1 factors vs. standard scenario)
- AVR/IMR treatment differs by phase



Range of Alternatives to Update C3

- Update mean reversion parameter in the C3P1 ESG and rework scenario selection (12/50)
- Modify C3P1 methodology to be consistent with C3P2
 - Use VM20 ESG
 - Allow use of proprietary generators with calibration criteria
 - Move Phase 1 to a full stochastic process with C3 required capital based on explicit CTE 90
- Include missing products in Phase 1
- Establish C3P1 capital requirements using a fully integrated model or total asset approach (details TBD)
- Create common methodology for all C-3 risks
- Make all C3 phases consistent using current approach
- Evaluate stress testing approach for C3 determination (details TBD)



C3WG Recommendation

- Short term: 2013 RBC Calculation
 - Make no changes due to timing
- Medium term: 2014 RBC Calculation
 - Consider adding missing products to C3P1 calculation (e.g., EIAs)
 - Scenarios generated from either the VM20 ESG or a proprietary ESG that satisfies calibration criteria
 - MRP will update dynamically per VM20 formula
 - Actuary will determine the number of scenarios to run; the set of 12/50 will be eliminated. Actuary will justify number of scenarios, similar to VM20 requirements.
 - C3P1 capital set at CTE 90 instead of weighted scenarios
- Long term: 2015 RBC Calculation and beyond
 - Evaluate combining C3 Phases
 - Evaluate total balance sheet approach
 - Evaluate stress testing approach



Implementation Issues

- Consider phased implementation
- Should EIAs be added to C3P1?
- Clarify consistency of AVR/IMR usage
- Need for field testing to estimate impact?
- Need to update factors for non-tested products (NYDFS)?
Or, consider eliminating the minimum C3P1 floor?
- Resources: regulators, Academy, and individual companies
- Need to update RBC instructions



Questions

