To: Marlene Caride, Financial Stability (EX) Task Force Chair,
Justin Schrader, Liquidity Assessment (EX) Subgroup Chair

cc: Elise Liebers (eliebers@naic.org), Mark Sagat (MSagat@naic.org), Todd Sells (tsells@naic.org), and Tim Nauheimer (tnauheimer@naic.org)

From: Risk & Regulatory Consulting, LLC

Date: March 31, 2021

Dear Commissioner Caride and Mr. Schrader:

Risk & Regulatory Consulting, LLC ("RRC" or "we") supports the efforts of the Financial Stability (EX) Task Force and the Liquidity Assessment (EX) Subgroup ("Subgroup") to provide additional tools to enable an assessment of macroprudential impacts on the broader financial markets of a liquidity stress impacting a number of insurers simultaneously.

In December 2019, RRC sent the Subgroup detailed comments on its December 2019 draft "2019 NAIC Liquidity Stress Test Framework for Life Insurers Meeting the Scope Criteria LST Framework" ("LST Framework") and is appreciative that the Subgroup took our input into consideration. We have also reviewed the 2020 version draft document, dated as of March 1, 2021, and offer the following comments; these represent our thoughts and observations on the LST Framework that are broader in nature. We welcome the opportunity to provide our views and would be happy to address any questions you may have regarding them.

Overall, we believe that the draft LST Framework is fairly robust in seeking to achieve the Subgroup's objective to "better monitor and respond to both the impact of external financial and economic risks on supervised firms, as well as the risks emanating from or amplified by these firms that might be transmitted externally." That is, the LST Framework approach and construct, and the annual requirement for the in-scope companies to perform LST and submit information, will enhance the regulators' ability to surveil macroprudential risks that may emerge from the insurance industry during periods of high financial stress. As company balance sheets have become increasingly more complex over the last couple of decades on both the investment and product sides, with more intertwining with financial markets, we view the LST as a welcome addition to the NAIC's toolkit. In addition, we believe monitoring of LST will help put insurance regulation on a more level playing field with the US banking regulatory macroprudential oversight by the Federal Reserve.

Further, we think the LST Framework will prove to be beneficial to the industry itself for a number of reasons. First, the stress testing exercise will likely be complementary to the in-scope companies' existing liquidity risk management practices. This will provide them with added insight into vulnerabilities they may be facing during times of financial stress. Secondly, the LST exercise and results will help those outside the insurance industry who are less experienced with the insurance business model and operations to gain a better understanding of, and a greater degree of comfort with, the potential interplay between the industry and the markets during a financial stress, thereby reducing any unfounded concerns they may have.

Regarding the scope of companies to which the LST applies, you could consider whether some sort of exception application or exclusion testing may be appropriate. We support the option shown on page 10 indicating that the "lead state regulators should have the ability to consult with the Task Force and require the LST from an insurer not meeting the scope criteria," since an Annual Statement based scope definition may inadvertently miss companies with high liquidity risk exposure. The reverse may also be true, i.e. an insurer with a relatively low liquidity risk profile may be inadvertently included. The use of a more simplified exclusion test, that could be performed using the insurer's existing tools, may therefore be appropriate.

We also support the specific requirements that the Chief Investment Officer provide oversight and commentary regarding the approach to determining asset market values upon sale in an adverse liquidity scenario (p. 27). This will be particularly important for illiquid securities, since market prices in a crisis will be hard to establish. You could also consider whether a certification from the CIO might also help ensure that careful consideration is given to the appropriateness of the asset valuation results.

We would be glad to discuss our comments with the Subgroup at your convenience.