



AMERICAN ACADEMY *of* ACTUARIES

July 24, 2013

Mr. Matti Peltonen
Chair, NAIC Investment Risk-Based Capital Working Group
New York State Department of Financial Services
One State Street Plaza
New York, NY 10004-1511

Re: Exposed Proposal - Life Insurer C-1 Asset Risk-Based Capital Requirement - Common Stock

The American Academy of Actuaries¹ C1 Work Group (C1WG) appreciates the opportunity to comment on the July 10, 2013 Life Insurer C-1 Asset Risk-Based Capital Requirement - Common Stock proposal from Kevin Fry to the Investment Risk-Based Capital Working Group (IRBCWG). The C1WG provides support to the NAIC in reviewing and revising the investment risk component of the Life Risk-based Capital formula (i.e., the C1 component).

We strongly support the revised modeling focus and the use of stochastic modeling as the primary determinant of proposed capital charges. In addition, we agree with the conclusions reached in validating the model output and evaluating the reasonability of the output. We are aware of the tradeoffs and considerations in the selection of a time horizon and support the recommended two-year horizon.

We also support the recommended 90% confidence tail expectation (CTE) statistical calibration. We believe CTE is an appropriate statistical measure that better captures the tail risk of loss. The C1WG will be strongly considering the use of CTE for the corporate bond factors in its recommendations.

While we support the recommended time horizon and the CTE metric, we recognize that the two-year time horizon differs from other asset classes and that the CTE metric is not used in the current RBC and AVR formulas. These differences may produce undesirable results. Longer term, we think the IRBCWG will need to reconcile these differences and develop a coordinated rollout of changes to individual C1 factors for each asset class and AVR. Further, we think the IRBCWG should review the correlation assumptions and methodology used to aggregate individual asset classes to produce the total investment risk component of the Life Risk-Based Capital formula (i.e., the C1 component). The use of different time horizons and different risk metrics complicate the aggregation process.

¹ The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

The Academy's C1WG applauds the thorough analysis and rigorous review of the Common Stock Subgroup. While the recommendations raise consistency issues that need to be considered in implementation, the C1WG endorses the recommendations of the subgroup.

Please contact John Meetz, the Academy's life policy analyst (meetz@actuary.org; 202-223-8196) if you have any questions.

Sincerely,

Nancy Bennett, FSA, MAAA, Co-Chairperson of the C1WG

Jerry Holman, FSA, MAAA, Co-Chairperson of the C1WG

CC: Ed Toy, NAIC

Michele Wong, NAIC

Tricia Matson, Chairperson, American Academy of Actuaries' LCAS

Jeff Johnson, Vice-Chairperson, American Academy of Actuaries' LCAS