Joint Life Actuarial (A) Task Force and Life RBC (E) Working Group Discussion

April 9th, 2025

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

GOES Model Governance: Fallback Plan

Interested Party Comments

- There should be a well-defined communication, escalation, and fallback plan if something unexpected occurs during scenario generation (as well as a business continuation plan for other potential disruptions). Year-end and quarter-end valuations are typically the most critical and require tighter recovery / resolution times.
- In what situations would NAIC pause the release of scenarios? How would the process be handled after escalation to reach resolution?
- …up to a one-day delay would be acceptable. If there is a significant issue identified after scenarios are posted, then there is a larger discussion to be had beyond having a contingency plan such as allowing companies to revert back to the previous month's scenarios with any appropriate adjustments…

Ideas for Discussion

- Different approaches for different situations:
  - Interim month-end vs. quarter/year-end
  - Minor issue in which corrected scenarios can be released on EOM + 2 vs. prolonged posting delay
  - Issue caught during standard Conning/NAIC review or days later by interested party
- Potential Resolutions:
  - Use of prior month-end scenarios
  - Additional day delay to post scenarios with communication to industry
  - NAIC using Conning software to produce and post scenarios

GOES Model Governance: Scenario Review

Interested Party Comments

- The latest set of acceptance criteria includes "targeting criteria" and "evaluation statistics." These should be defined in the governance framework to clarify how they will be used in determining whether scenario sets are acceptable.
- Validation reports need to show how well the model performs against acceptance criteria and stylized facts. It may be helpful to provide more detail on the process / thresholds to determine whether a scenario set is acceptable, while still allowing for appropriate use of judgment.

Ideas for Discussion

- Idea of "Dashboard" has been proposed to allow for the quick review of the scenarios against the acceptance criteria.
- Many of the regulator adopted targeting criteria and evaluation statistics are not dependent on the starting economic environment.
  - For example, Targeting Criteria T1.T defines how many high rates that are permissible. In starting environments with higher interest rates, these criteria may not be appropriate.
- Development of more robust thresholds and dynamic criteria could be considered as a "Day II" item.

GOES Model Governance: Periodic Updates

Interested Party Comments

- ACLI would suggest regularly scheduled meetings for discussion about whether there is a need for model or calibration updates. Such discussions could also make it easier to identify items for the 5-year recalibration and model revisions (or sooner if deemed necessary) and off-cycle model updates as described in the draft framework.
- The 5-year review should be a comprehensive model review and include assessing the continued suitability of the model form/structure (which may include evaluation of vendor limitations) and not limited to the recalibration of the existing model.
- The 5-year review process should commence well before 5 years has elapsed. (Starting the process in 5 years would delay any update significantly beyond 5 years.)

Ideas for Discussion

- A 5-year calibration cycle, annual back testing report, and situational off-cycle updates are all currently envisioned as part of the model governance framework. The annual back testing report could illustrate the need for an off-cycle update.
- Next draft of model governance framework should establish a timeline for work on the five-year recalibration.
- Conning routinely performs research on economic scenario generators and adds or revises features to their economic scenario generator offerings. The timing and process for accepting model enhancements should be clearly defined.

GOES Model Governance: Alternative Models

Interested Party Comments

- While not specifically related to governance, we would appreciate a future opportunity to discuss whether proprietary models that comport with the stylized facts and are within the thresholds for targeting criteria and evaluation statistics facts would be acceptable for valuation purposes. We note that developing these thresholds is something ACLI and our team of subject matter experts are currently working so this is a topic we would be willing to present on in the coming weeks.

Ideas for Discussion

- Current Valuation Manual requirements allow for the use of alternative economic scenario generators. For example, VM-21 allows for the use of non-prescribed generators provided that the Total Asset Requirement (TAR) is not materially understated.
- Prior to VM-21 as adopted for 2020, proprietary equity models were allowed provided that they met calibration criteria.

GOES Model Governance: Proprietary Bond Model

Interested Party Comments

- ACLI members have also identified questions due to the proprietary nature of certain aspects of the model, particularly the Corporate Model.
  - It is common practice for companies to replicate models to help manage their business (e.g., projecting future reserves / capital requirements for capital / risk management). We are concerned that an NDA would restrict this ability; we would be comfortable if the NDA explicitly prohibits the documentation from being used for any purpose external to the company or for commercial purposes.
  - Further, it is unclear how ACLI could have discussions related to aspects of the generator that are proprietary. If not all of our members have signed an NDA, it would seem we would not be able to discuss those items at all. This would also be an issue for any public discussions.

Ideas for Discussion

- Companies are not restricted from developing models that could produce scenarios similar enough to meet their needs.
- Companies could bring issues to Conning, NAIC Staff, and state insurance regulators.
- Conning could consider partial release from the NDA to discuss particular issues on a case-by-case basis.