April 8, 2021

Mr. Philip Barlow
Chair, Life Risked Based Capital E Working Group
National Association of Insurance Commissioners
Kansas City, Missouri

Re: Bond Factors and Companion Portfolio Adjustment Formulas

Dear Mr. Barlow:

I am the Executive Director of the National Alliance of Life Companies (the NALC), a trade group of more than fifty (50) members and associates that represents the interests of small life insurance companies in the United States. We have closely followed the work of the American Academy of Actuaries regarding proposed changes in the bond factors and the portfolio adjustment factors (herein new bond factors) for investments held by life insurance companies. We have also read the preliminary report of Moody's Analytics commissioned by the American Council of Life Insurers (the ACLI) on the impact of such changes.

We felt it would be helpful for the Working Group to hear real-world examples of the impact of these proposed bond factor changes, so we surveyed a number of small life insurance companies around the country to better assess the impact. In our survey, we looked at the Required Change in Company Capital Level based on new bond factors, as well as the RBC Ratio Percentage Change using the new bond factors. The survey was done prior to the Academy update for the decrease in the corporate tax rate.

Of the twelve companies responding to the survey, all but one reported the new factors would require a change of company capital between 7% and 17%. Those same companies reported a negative impact on their RBC Ratio of between 6.6% and 11.14%. This clearly demonstrates that the proposed bond factor changes would have a significant adverse impact on the capital position of smaller life insurance companies without any change in portfolio or risk.

One other important point is worth making - it does not appear that the impact of these proposed changes on commercial transactions for life insurance companies has been adequately explored. Many commercial transactions, such as loan documents, reinsurance agreements and other agreements, contain RBC covenants which provide for defaults to be declared if RBC covenants are violated. Of course, those provisions were negotiated and agreed to under current bond factors and RBC calculations. We are very concerned that the proposed changes would force some companies into non-compliance with those covenants, triggering a material and adverse impact on these companies. We would note further that this an issue for companies of all sizes with such covenants in place.

Based upon these and other considerations, the NALC urges the Task Force to closely examine the potential adverse business consequences of the proposed changes on small life insurance companies and their policyholders. We appreciate the positive comments that have been made about regulatory discretion as a means to mitigate the adverse effects of these changes. That approach could reduce the negative impact of the changes on a company by company basis. An additional approach would be to allow a generous phase in period that would allow companies sufficient time to make the necessary adjustments to their bond portfolios.

Thank you for allowing us to comment. We are happy to provide summary details regarding our surveys if helpful.

Sincerely,

Jim Hodges

Jim Hodges
Executive Director
NALC