STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

Circular Letter No. 35 (1999)
November 24, 1999

TO: All licensed life insurers, fraternal benefit societies, charitable and segregated gift annuity societies, employee welfare funds, retirement systems, viatical settlement companies, governmental supplemental annuity funds, savings bank life insurance departments, accredited life reinsurers, property/casualty insurers, co-operative property/casualty insurers, financial guaranty insurers, mortgage guaranty insurers, reciprocal insurers, accident and health insurers, Article 43 Corporations, Public Health Law Article 44 health maintenance organizations, title insurers, the State Insurance Fund, the Medical Malpractice Insurance Association and accredited property/casualty reinsurers; all hereinafter referred to as "insurers".

RE: ***Issues Regarding Liquidity and Asset/Liability Management***

The State of Missouri recently placed General American Life Insurance Company into administrative supervision. Subsequently, an auction process was conducted by the Missouri Insurance Department, and the Board of Directors of General American agreed to a sale of the insurer to the Metropolitan Life Insurance Company. These developments stemmed from a debt and financial strength ratings downgrade by Moody's and an ensuing spate of redemption requests on over $4 billion of funding agreements with embedded put options issued by General American.

Under the terms of the funding agreements, investors, mainly professional money managers, held the option to exchange their contracts for the nominal cash value within seven days of the request. In the days following the rating agency's action and the redemption requests, it became clear that the funding liabilities were substantially shorter than their stated maturities. It also became evident that the assets General American had matched against the funding agreements were not sufficiently liquid to service the redemptions.

This situation highlights the need for enhanced asset/liability management (ALM) practices by insurers, and improved disclosure of the risks associated with options affixed to liabilities.

By this Circular Letter, this Department is requesting specific information from life insurers in order to assess their potential short term cash requirements and the liquid assets available to service these requirements. Furthermore, the Department is eliciting input from all insurers as regards the development of improved ALM practices and reporting by insurers. In the year 2000, the Department may be requiring enhanced reporting from insurers to facilitate better monitoring of liquidity risks deriving from asset/liability mismatches.

Life Insurers – Pursuant to Section 308 of the New York Insurance Law, all licensed life insurers and accredited life reinsurers shall file with the Department a report, as of September 30, 1999, in the format of the attachment to this Circular Letter. The report shall be filed by December 31, 1999 and shall be signed by an officer of the insurer. An electronic version of the attachment, along with this Circular Letter, shall be posted on the Department's website (www.ins.state.ny.us). If an insurer submitting information pursuant to this Circular Letter deems such information to be a trade or business secret or contends that such information, if disclosed, would cause substantial injury to the competitive position of the insurer, it may, at the time the report is submitted, request that the Department except such information from disclosure. Such request shall be determined in accordance with the procedures set forth in Section 89(5) of the Public Officers Law and Insurance Department Regulation No. 71 (11 NYCRR 241).

The report from licensed life insurers and accredited life reinsurers should be submitted to:

Michael Cebula
Supervising Actuary – Life Bureau
New York State Insurance Department
Agency Building One
Empire State Plaza
Albany, NY 12257

All Insurers – Other than the report to be filed by life insurers and accredited life reinsurers, no additional reporting will be required at this time. The Department is considering enhanced reporting for future financial statements filed by all insurers. The intent of this reporting will be to strengthen risk assessment capability. In addition, the Department will be reviewing the general area of insurer asset/liability management practices. The Department encourages input in this process.

Any such input can be directed to:

Michael Moriarty
Director of Financial Solvency Strategy
mmoriart@ins.state.ny.us

For ease of distribution and review, it is requested that the input regarding enhanced reporting and asset/liability management practices be sent via E-mail.

Very truly yours,

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Neil D. Levin
Superintendent of Insurance

Attachment to Circular Letter No. 35 (1999)
(in pdf Format)

ATTACHMENT TO CIRCULAR LETTER NO. 35

COMPANY____

Is the maximum possible institutional cash demand by March 31, 2000 less than the cash and market value of United States Government Treasury Securities held by the company as of September 30, 1999?

Yes____ No____.

If Yes, Tables One through Three need not be completed. Instead, skip to the Interrogatories following Table Three.

TABLE ONE – Cash Demands (in thousands)
As of 9/30/99

	0 to 7 days	**8 to 14 days**	**15 to 30 days**	**31 to 90 days**	**91 to 180 days**	**Over 180 days**
(A) Institutional cash demands						
(A1) Statutory liability of (A)						
(A2) Reinsurance receivable on amounts in (A)						
(B) Retail cash demands						
(B1) Statutory liability of (B)						
(B2) Amount of B deferrable for 6 months						
(B3) Reinsurance receivable on amounts in (B)						
Itemize other cash demands. 1.						

2. 3. 4.						

Footnotes to Table One:

- Provide the maximum possible contractual cash demand on the company (through surrender, loan or other contractual options) for business in-force as of the end of the quarter. Report demands from direct and reinsurance assumed business. Report reinsurance ceded offsets separately in A2 and B3. Report cash demands in the earliest period payable if the demand were made immediately (e.g., if $80 can be demanded now or $100 in 90 days, report the $80 in the 0 to 7 days column).
- Assume the company exercises any contractual rights with institutional customers to defer, limit, restrict or make payments in installments and report each such payment in the appropriate period.
- Exclude from Table One that portion of any business where cash demands are contractually restricted to the contractholders'/policyholders' interest in assets allocated to one or more separate accounts (e.g., non-guaranteed separate account products).
- In rows A1 and B1 provide the reduction in the statement value of liabilities resulting from meeting the cash demand. This value may differ from the cash demands due to surrender charges, withdrawal charges, market-value adjustments or statutory valuations in excess of account values. Use end of quarter market conditions where needed to determine the reduction in the statement value of liabilities, for example, to calculate a market value adjustment.
- Exclude associated changes in AVR or IMR in line A1 and B1.
- Retail demands include demands where the solicitation occurs at the individual or participant level. Institutional demands are all other demands (e.g., COLI products). In line B and B1, report retail demands before any contractual deferral rights and report amounts deferrable for six months under Sections 4223(a)(1)(B) or 4221(a)(9) separately in B2.
- Other itemized demands would include, but are not limited to, investment commitments, off balance sheet risk, credit guarantees and support agreements for affiliates.

TABLE TWO – Cash Resources (in thousands)
As of 9/30/99

Investment Category	**Market Value**	**Statement Value**
Total Cash (as reported in Schedule E - Part 1)		
Investments maturing within one month		
US Gov't Treasury Notes		
US Gov't Treasury Bonds		
Other US obligations (e.g., Agency Pass-		

Throughs)		
Investment grade publicly traded debt instruments		
Publicly traded non-affiliated equity investments		
Investment grade commercial mortgages		
Publicly traded investments		
Investments maturing within 6 months		
Investment grade private placements		
Private placements and commercial mortgages		
Itemize other cash resources and invested assets: 1. 2. 3. 4.		

Footnotes to Table Two:

- Exclude from Table Two that portion of any cash resources that are restricted to contractholders'/policyholders' liabilities attributable to one or more separate accounts (e.g., non-guaranteed separate account products).
- Indicate the market value (e.g. FAS 115 estimates) and statement value for each cash resource at quarter end. Report each cash resource only once in the first applicable category.
- Other cash resources could include but are not limited to lines of credit, support agreements from affiliates, or contractually required premiums and considerations.

TABLE THREE – Largest Institutional Clients (in thousands)
As of 9/30/99

Institutional Clients	**Maximum Contractual Cash Demand**
1.	
2.	
3.	
4.	
5.	

Footnote to Table Three:

- List the five institutional clients with the largest contractual rights to cash in the next seven days and the maximum contractual cash demand of each.

INTERROGATORIES:

1. Provide commentary and/or analysis on information not captured above as it relates to potential cash demands.

2. Identify contract-holders, brokers, consultants, or other intermediaries who have potential ability to influence the withdrawal of more than 1% of company liabilities.

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Signature

____
Printed Name and Title of Officer

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Date