

NAIC Update Spring 2016



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- Continued low interest rates raise concerns
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- Aug. 26-29: NAIC Summer National Meeting; San Diego, CA

NAIC spring meeting shows highlights, challenges for state regulation

NEW ORLEANS, LA — The distance from paradise to purgatory can be remarkably short.

At the spring 2016 meeting of the National Association of Insurance Commissioners (NAIC) in New Orleans, that distance was a matter of days. The meeting was book ended by two external happenings that illustrated the changing nature of US insurance regulation.

The first news item popped up just before the meeting began. A federal court ruled in favor of an insurer designated a systemically important financial institution (SIFI) by the Financial Stability Oversight Council (FSOC), rescinding that designation and removing that insurer from the regulatory scrutiny of the Federal Reserve System (Fed).

That brought up a new catchphrase at the NAIC meeting: 12.6%. That would represent the premium volume now under the regulatory oversight of the Fed, a significant reduction. NAIC President Missouri Insurance Director John Huff noted the change. Huff pointed out that state insurance regulators had oversight of 100% of the US insurance market, both before and after the court decision.

Huff also noted speeches made by state regulators at the time of the designation of that insurer, and how many of the arguments made then were echoed in the ruling by the federal court, a statement that would also be true about the dissent filed at the time by the FSOC's sole voting member with insurance expertise, Roy Woodall.

If the court's ruling represented a diminution — however temporary — in federal power in insurance regulation in the US, the news on the last day of the NAIC meeting showed an expansion of that power.

The US Department of Labor (DOL) released its new rule imposing fiduciary standards on retirement advisors. This rule is expected to affect distributors and companies providing certain retirement products, most notably variable annuities. It may possibly be one of most important regulations to date this year for some insurers, and it is not a product of state insurance regulation.

The two items not only illustrate the changes facing US insurance regulation after more than a century and a half of state supremacy, but also evoke the uncertainty still facing insurers in this period of rapid regulatory change, much of it driven by agents outside the insurance community.

International agencies like the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS) have set much of the agenda for regulators since the financial downturn of the last decade. But the distance between the lofty pronouncements of these institutions and the implementation by those actually responsible for regulation is a gap still filled with uncertainty and lack of clarity.

What, for example, will become of insurers designated as global systemically important insurers (G-SIIs) by the IAIS, but not a SIFI in the US? The global bodies have been clear in their expectations of heightened prudential regulation of G-SIIs. Would state regulators now be expected to provide that regulation for a non-SIFI G-SII?

Even where there is convergence, there may be concern. The NAIC has taken numerous steps towards improved group supervision, and is currently working on a group capital calculation based on an RBC plus standard. Group capital oversight is in accordance with currently accepted international norms. One concern raised by industry at this NAIC meeting was how close would the NAIC's calculation and the other standards (such as the IAIS Insurance Capital Standards [ICS] and those of the Fed) be, or would some members of industry end up having to do three different calculations to satisfy each group.

But any thought this evolution signals the death knell of state insurance regulation could easily be refuted by the attendance at the spring meeting. The spring meeting is traditionally the quietest and least attended of the NAIC meetings, but more than 1900 stakeholders showed up for this one, demonstrating the ongoing interest in and importance of the work of the NAIC and its member state regulators.

That work continued at the spring meeting. Big data and cyber security were among the top topics. The NAIC adopted a white paper on price optimization, with a negative take on the practice. The organization also issued the first draft of its proposed Insurance Data Security Model Act. That draft received less than favorable reviews from industry representatives.

Movement on other issues also continued. The NAIC took another step toward a full implementation of a catastrophe risk component in the RBC calculation. The lack of a cat risk component had been the source of concern for some international regulators and others.

One major uncertainty remained: leadership. The NAIC announced that it was about to begin a search for a CEO to replace Sen. Ben Nelson, whose contract expired at the end of 2015. A proposal to block any state commissioner less than two years removed from membership in the NAIC from being considered for the CEO spot failed.

Regulator turnover continues to be an issue. Two of the leading NAIC voices on international issues attended their last meeting as the state commissioner. Florida’s Kevin McCarty and Vermont’s Susan Donegan both announced their resignation prior to the meeting. McCarty had been a leading American voice and had chaired the NAIC’s International Committee. Donegan had been named to

the executive committee of the IAIS and was scheduled to replace McCarty as chair of the NAIC’s International Committee.

The NAIC had a major positive announcement at the spring meeting. President Huff noted, “The NAIC has made great progress on a number of key structural enhancements to our system in recent years. One such improvement is the continued transition to Principle-Based Reserving or PBR in the life insurance area. Regulators have carefully refined the PBR concepts so that they are ready to replace the formula-based approach. As of late last week, 42 states representing 75% of the applicable premium have enacted the revised Standard Valuation Law.”

If, as expected, the adopted laws are deemed substantially similar by July 1, that paves the way for adoption of PBR on January 1, 2017. For state insurance regulators, that may serve as a significant argument that despite its sometimes cumbersome nature, state insurance regulation still works.

Major items		
Item	Status	Possible reaction
PBR	Met the approval threshold; subject to verification, should go into effect on 1/1/2017	Insurers may wish to prepare by analyzing systems, actuarial support, pricing, products and human capital to ensure PBR is properly supported and its impact understood
Big data	Whitepaper opposed to price optimization adopted	Big data use is quite likely too important to not continue, but insurers may more closely consider political and public relations impact
Cybersecurity	Proposed model data security law exposed	Issues include uniformity, duplication, federal issues, and challenges in implementation. Insurers may engage in ongoing dialog with the NAIC to convey concerns, suggestions
Insurance capital calculation	NAIC emphasizes this is a calculation, not standard	Still questions on usage and possible duplication of effort

PBR almost adopted; new supporting resources acquired

The big news came early at the spring national meeting of the NAIC. Before noon on Saturday morning, the audience at the PBR Review (EX) Working Group was told that the required supermajority of 42 states representing 75.003% of premium had passed legislation adopting the new Standard Valuation Law. Adoption was pending in five more states.

This apparently clears the way for the adoption of the new Valuation Manual on January 1, 2017, and the implementation of PBR for life insurance companies over the next three years. According to the NAIC, “the operative date of the Valuation Manual is January 1 of the first calendar year following the first July 1 date in which the Standard Valuation Law as amended by the NAIC in 2009 has been enacted” by the required supermajority.

However, there is still at least one intermediate step required.

The adopted legislation must be “substantially similar” to the NAIC model act. “Substantially similar” is not defined in the NAIC model act. In practical terms, this means that the states — with an assist from the NAIC — must decide if the statutes adopted in the 42 states meet the standard.

In a subsequent meeting, Kay Noonan of the NAIC’s legal staff said the NAIC staff would use an “objective third-party” standard. The organization would share its evaluation with the states before the cutoff date of July 1, 2016, required for the January 2017 implementation of PBR.

The working group also heard a report on the status of the PBR pilot program. The NAIC created the pilot project in order to evaluate the PBR regulatory process. Focus areas include PBR calculations, VM-20 reserve supplement and instructions, and VM-31 actuarial reporting.

The pilot project was scheduled to begin on April 15 with a kickoff webinar for the 12 volunteer companies. Required calculations will be due to each company’s states of domicile by August 19.

Regulators will complete their review of the VM-20 calculations VM-20 supplements and VM-31 actuarial reports from the participating companies by November 30, 2016. A final report will be provided to the task force at the fall national meeting in December, with an interim status update to be delivered at the summer national meeting in August.

The working group also heard that the NAIC is expanding its actuarial resources to support the Valuation Analysis (E) Working Group and the states as PBR is implemented. The organization is currently searching for two new actuaries with expertise in financial modeling, valuation, and financial reporting. The NAIC is also in the middle of contracting with a vendor to acquire modeling software.



Courtesy of the NAIC

PBR pilot project timeline (from NAIC)

The NAIC’s Kay Noonan explained to the Principle-Based Reserving Implementation (EX) Task Force the next steps towards PBR implementation now that legislatures in an apparent supermajority of states have adopted the model.

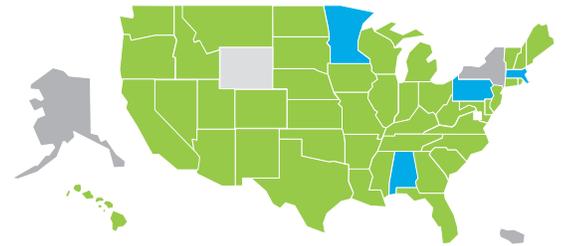
The model requires that the adopted statutes be “substantially similar” to the model. The act provides no definition of “substantially similar” or any prescribed process to make that determination. Noonan said NAIC staff will analyze the adopted statutes through the framework of “an objective third-party.”

She told the task force that staffers would need more guidance and feedback on specific issues, and that a regulator-only call could lead to resolution. The goal is to complete the evaluation and make a recommendation prior to the July 1 trigger date.

The task force would then make a recommendation, to be followed by a NAIC vote on a recommendation to the states. Noonan suggested that all states take actions to notify stakeholders that the action level has been triggered.

The NAIC’s Andy Beal told the task force that the PBR Experience Reporting Framework data collection will use the Securities Valuation Office (SVO), but examination authority could be used if necessary to maintain confidentiality. Beal said the NAIC has done a lot of work and will do more on evaluating technical and human capital needs.

Implementation of Principle-Based Reserving Revised Standard Nonforfeiture Law for Life Insurance (Model #808) Revised Standard Valuation Law (Model #820) [status as of April 19, 2016]



- Adopted #808 & #820**
(43: AR, AZ, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, MD, ME, MI, MO, MS, MT, NC, ND, NE, NH, NJ, NM, NV, OH, OK, OR, RI, SD, TN, TX, UT, VA, VT, WA, WI, WV)
- Action under consideration** (4: AL, MA, MN, PA)
- No action to date**

Courtesy of the NAIC

This map represents state action or pending state action regarding NAIC amendments to the model(s). This map does not reflect a determination as to whether the pending or enacted legislation contains all elements of NAIC amendments to the model(s) or whether a state meets any applicable accreditation standards.

Industry opposes model cybersecurity act

It was a bad meeting for proposed cybersecurity laws. In his opening address to the NAIC national meeting, Pres. John Huff of Missouri noted state regulator opposition to the proposed federal Data Security Act of 2015. Chair Adam Hamm of North Dakota was on the other side at the Cybersecurity (EX) Task Force meeting, with his first draft of the proposed Insurance Data Security Model Law receiving almost universal thumbs down from industry.

Wes Bissett of the Independent Insurance Agents and Brokers of America (Big I), the largest insurance agent and broker association in the US, led the charge against the model.

"The Big I has strong concerns with a draft model... We are frankly taken aback by the nature of this document," Bissett said. He said they would oppose the inappropriate,

unreasonable, and costly mandates that would be imposed by the act. He decried the one-size-fits-all requirements on all licensees, calling the act overly broad and applying to non-sensitive data.

Robbie Meyer of the American Council of Life Insurers (ACLI) expressed "serious and fundamental concerns with the laws." He called for uniform, workable, risk-based regulation, saying several of the draft provisions are not workable or risk-based.

Justin Ailes of the American Land Title Association (ALTA) said there needed to be discussions, a call echoed by Paul Tetrault of National Association of Mutual Insurance Companies (NAMIC) who said there should be in-person roundtable discussions.

Lauren Packman of Professional Insurance Agents (PIA) said they could not support the model and had concerns about the process as well. Angela Gleason of the American Insurance Association (AIA) was another to say there needed to be conversations about the goal. She said that in the consumer rights section, there was duplication and conflict with existing laws — "one example of the many concerns that we have." She said everyone wanted to protect consumers and fight the same bad actors.

Consumer advocate Birny Birnbaum of the Center for Economic Justice (CEJ) expressed gratitude to the NAIC for doing this work and said that he was supportive of some provisions. He was however concerned about preempting other laws and hoped that the proposal would be a floor, not a ceiling.

"We just don't think that the current draft is workable, but that doesn't mean we can't get it done," said Robert Woody of Property Casualty Insurers Association of America (PCI). A representative of America's Health Insurance Plans (AHIP) said, "What is missing...is sufficient time and opportunity."



Adam Hamm of North Dakota leads the efforts to create a data security model act

Courtesy of the NAIC

Federal flood insurance reform will help private market develop, regulators told

Presentations regarding the reauthorization of the National Flood Insurance Program (NFIP) took center stage at the meeting of the Property and Casualty (C) Insurance Committee. The program is authorized through September 30, 2017, and the NAIC sought opinions on potential reforms.

Industry representatives expressed varying levels of support for the program, with most calling for a gradual transition to a market-based program. PCI said the flood market has not been normal for 48 years. Its representative called the NFIP flawed but essential to the development of a private market.

"The product itself is quite complicated," said a representative of the AIA, calling for the program to be made simpler. The AIA also called for the NFIP to give experience data to the market.

NAMIC thought it necessary to continue authorization of the flood program long-term until it could move to risk-based rates. It suggested the Federal Emergency Management Agency (FEMA) set up a targeted, means tested program for people facing affordability issues, remove the noncompete clause, and incentivize mitigation.

The Association of Bermuda Insurers and Reinsurers (ABIR) said there was a unique opportunity for coverage, given the availability of flood models, the NFIP's glide path toward a market model, and the availability of alternative capital. ABIR's representative called for support of the Ross-Murphy bill. The Ross-Murphy bill mandates that private insurance be treated the same as federal flood insurance for homeowners with mortgages backed by Fannie Mae or Freddie Mac who are required to buy flood insurance. *(Editor's note: The House of Representatives adopted Ross-Murphy by a 419-0 vote on April 28.)*

PIA expressed support for gradual implementation of risk-based rates, but said the private market was not currently in a position to supplant the NFIP. Its representative supported the glide path to a private market.

The representative of SmarterSafer.org, a national coalition including insurers and other organizations, said the NFIP should be reauthorized, but with a path for the federal flood insurance to become the residual market.

"There is significant interest in the private market for flood insurance," the representative said, adding that the NFIP will continue. "Some properties will never make it into the private market," the representative added, citing high risk properties such as those with repeated floods.

The representative also called for states to see what barriers currently exist in their own markets and to consider regulatory flexibility. He told the committee that the NFIP was trying to get information to the market, but needed to manage privacy and other concerns.

Consumer advocate Sonja Larkin Thorne expressed frustration with the current process, citing as an example her own recent experience with flood insurance. Consumer advocate Birny Birnbaum called for numerous reforms to the NFIP and for the return of flood insurance to the states. Among his suggestions were transitioning the NFIP from a direct provider of insurance to a mega catastrophe reinsurer utilizing the Terrorism Risk Insurance Program model, and requiring that flood peril be included in residential and commercial property insurance policies that are currently sold by private insurers.



Vermont Commissioner Susan Donegan announced her impending departure before the spring meeting

Courtesy of the NAIC

RBC cat risk charges move closer to inclusion

The NAIC moved a step closer toward including catastrophe risk in the P/C RBC formula at the Catastrophe Risk (E) Subgroup meeting. The failure to include catastrophe risk in the RBC formula for property-casualty companies has been regarded as a significant shortcoming of the current RBC regime.

But first the group had to decide what catastrophes count in its annual catastrophe event list. Subgroup vice chair David Altmaier of Florida revealed that currently he creates the list of catastrophes for the NAIC. Altmaier sought a more formalized process and the request was referred to NAIC staff.

Discussion continued on the current information-only P/C RBC cat risk filing. Since reporting year 2013, P/C companies have had to report the R6 and R7 (earthquake and hurricane) cat risk charges on an informational basis. In New Orleans, the group evaluated the effects of the R6 and R7 charges on regulatory action levels.

Based on analysis of 2015 data, the subgroup noted that there would be no changes to the number of companies

at current RBC action levels if the 1-in-100-year standard for cat risks was used. Even if the earthquake requirement were to move to a 1-in-250 year event from a 1-in-100 year event, the impact would be minimal. The subgroup will continue evaluating and developing the proposal.

Reporting year 2017 is probably the earliest for actual implementation of cat risk charges in RBC.

The subgroup also discussed the feasibility of adding other cat risks, including terrorism, wildfire after earthquake, and tornado. Factors to be considered include the extent of insurance coverage of these risks, effect on solvency, and ability to model. The subgroup's next step will be to review filed ORSAs to study the cat modeling used by insurers (for the additional risks).

The subgroup also seemed favorably disposed towards allowing the use of cat risk models additional models other than the five previously approved commercially available models. The discussion seemed to indicate that such use would be predicated on insurers having a history of using a particular model for its own internal use.



Commissioners make a New Orleans memory

Courtesy of the NAIC

Group capital calculation working group begins its work

A group capital calculation using an RBC aggregation methodology may reflect current state-based insurance regulation methodology better than other suggested group capital metrics, but that does not mean there are not still concerns, the new Group Capital Calculation (E) Working Group was told.

Based on a recommendation from the ComFrame Development and Analysis (G) Working Group (CDAWG), this new working group is charged to “(c)onstruct a US group capital calculation using an RBC aggregation methodology; liaise as necessary with the ComFrame Development and Analysis (G) Working Group on international capital developments and consider group capital developments by the Federal Reserve Board, both of which may help inform the construction of a US group capital calculation.”

Bruce Ferguson of the ACLI presented a proposed aggregation and calibration model to the working group on behalf of the ACLI and the AIA. Ferguson explained the principles behind the RBC aggregation methodology as supported by the ACLI and AIA, but also raised certain concerns, including due process and the need for regulator to regulator confidentiality.

Ferguson asked the regulators how the group capital calculation would be applied and would there be any exemptions. Responding to questions from regulators about why the ACLI/AIA proposed Basel III application to all significant entities, Ferguson said Basel III standards were the most appropriate standards.

Regulators noted that the calculation needed to capture every significant entity within a group, and what would that mean for entity that is not subject to RBC. Ferguson responded that there would need to be a gap analysis. Working group Chair David Altmaier of Florida announced that discussions would follow, including with the Federal Reserve, and invited interested parties to participate.

Asked how regulators would use the new group capital calculation, Altmaier said it would be used to identify groups as a whole that may not have as much capital as they should. Another regulator asked interested parties if there had been any change in industry from their previous stance of supporting the RBC aggregation methodology.

There did not seem to be. Michelle Rogers of NAMIC said that organization supported RBC aggregation. Steve Broadie of the PCI noted the continued development and evolution of the RBC formula, with upcoming additions, including operational risk and cat risk, thus making the RBC formula more accurate and responsive.

Asked if the NAIC’s group capital calculation were intended to meet the insurance capital standards (ICS) or satisfy the questions raised in the International Monetary Fund’s (IMF) Financial Sector Assessment Program (FSAP) report on the United States, Altmaier said the goal was to develop this group capital calculation based on the US perspective of what was needed. If it met other goals, that would be fine but if not, “that’s not what we’re concerned about.”

One industry representative noted that could result in a lose-lose situation. Some insurers were concerned about having to make multiple calculations. Altmaier said regulators would work to reduce redundancies.

Asked for a timeframe, Altmaier did not provide a specific one, but said the “expectation is that we will try to get done as expeditiously as possible.” He said that regulators were “working quickly to get it done as soon as possible.”



Host commissioner Jim Donelon welcomed attendees to New Orleans

Courtesy of the NAIC

Resolution planning, low interest rates concern regulators

Chair Peter Hartt of New Jersey told the Financial Stability (EX) Task Force that there was significant work going on at the IAIS and FSB level where those organizations are considering resolution procedures for insurance companies. State regulators are not represented at the FSB discussions, he said.

California's John Finston added that the FSB guidance document was not in alignment with the US system. Finston commented on the difference in goals, with US regulators holding policyholder protection as their primary goal, while the FSB and the IAIS sought financial stability primarily. He objected to the proposed use of policyholder protection schemes in a solvent runoff.

Under US state regulation, insurance companies are placed in liquidation or receivership before guaranty association protections kick in.

The IAIS is considering resolution at the G-SII, ComFrame and insurance core principle (ICP) levels. Crisis management groups and resolution plans would be required. ICPs 6 and 12 will be subject to proposed revisions.

The FSB is working to identify non-bank/non-insurers – e.g. asset managers and structural vulnerabilities of asset managers. The NAIC is reviewing as some US insurers have large asset managers as part of their groups and this may impact them.

The NAIC's Larry Bruning also presented an update on monitoring interest rate risk. Bruning noted that from 2007 through 2014, net portfolio yields for life insurers declined 86 basis points, while guaranteed reserve rates declined 31 basis points. This resulted in a spread decline of 55 basis points and meant an aggregate loss in the spread and thus reduction in potential profit of \$99.4 billion in that period.

Insights from Bruning's presentation included:

- Net asset portfolio yield of the industry has declined 86 basis points between 2007 (6.00%) and 2014 (5.14%). Major impacting factors included:
 - Slope of reinvestment yield curve;
 - Credit quality of invested assets;
 - Amount of net insurance cash flows (new business, current income on assets, asset maturities, benefits and expenses);
 - Life insurance industry is in a positive cash flow environment (income exceeds benefits), but that drags overall yield down as the reinvestment rate is lower than the past average; and
 - Current reinvestment yields (below portfolio).
- \$622.3 billion of book value maturing in the next 0-5 years (22.57% of the total investments with average returns of 4.44%). Reinvestment rate is now at 2% in the short term.
- ALM reserves are being driven up due to the low interest rate environment.
- The low interest rate environment is impacting insurance company results.
- In a recent study, the low interest rate environment is the number one concerns of chief risk officers.
- Countries that are considered most at risk are those where guarantees are at the interest rate (Germany, Taiwan, Netherlands, Norway, Japan, South Korea, etc.). The US is considered at moderate risk, the UK is considered low risk.
- Company actions in response include lower credited rates, reduced use of guarantees, use of interest derivatives, extended investment duration, and reduced credit quality.
- Most US companies are challenged with the low interest environment test.

Regulators also received a presentation from a representative of a major insurer which had already filed a resolution plan with the Fed and the Federal Deposit Insurance Corporation (FDIC). This provided some insight into the US system. This plan was for an orderly resolution in case of failure, including sale options or winding down without government support. Process steps enumerated included:

- Identify core business lines, critical operations;
- Map core business lines to key legal entities;
- Develop a scenario that would cause one of the insurers to fail. There was noted difficulty in bringing the business along with an idiosyncratic dislocation without a wider market disruption. This insurer used a mortality assumption;
- Develop a recovery plan in response for all legal entities over a year;
- First test from the Fed was – is this informationally complete, and second test will be is this credible?
- You actually have to consider who would buy your blocks of business and what value you might get for them;
- You need to think through the impediments to the resolution for example, e.g., IP rights and information systems;
- Consider what happens in an adverse and severely adverse scenario and develop those balance sheets;
- Fed and FDIC then provided additional scenarios, e.g., there is no global cooperation/multiple failures.

One regulator noted that this represents a massive project and a resource drain on a business. It is a useful tool for regulators to understand the critical structures of the business, but there seemed to be a predisposition to think of it from a banking scenario, which is not always workable for an insurance company. Differences include no bank bridge structure for funding for insurers, and liabilities and assets play out over time, so this can't be resolved over a weekend as it could be with banks, the regulator observed.



Florida Insurance Commissioner Kevin McCarty announced his impending departure before the meeting

Courtesy of the NAIC

Terrorism data calls come from feds, states

Martha Lees of New York, chair of the Terrorism Insurance Implementation (C) Working Group, discussed with attendees circumstances surrounding the NAIC data call on terrorism risk insurance.

Participating states will issue two data calls, with one for workers compensation data in the spring to be followed by one for commercial lines data in the fall. The NAIC data call comes at the same time when the FIO has issued its own data call to insurers.

The NAIC data call request is generally more granular than the FIO's request, except for reinsurance, Lees said. The NAIC is issuing one data call per insurer with only one response needed.

PCI expressed disappointment that the FIO had not been more cooperative, and hoped for more coordination going forward. Lee said state regulators were open to cooperating with FIO. She said the NAIC data was at a ZIP Code™ level so it could be aggregated for the FIO's purposes, although the reverse would not be possible.



State regulators met in New Orleans for their spring meeting

Courtesy of the NAIC

In brief:



ComFrame field testing continues

The NAIC's Ramon Calderon told the ComFrame Development and Analysis (G) Working Group that the third round of quantitative field testing would be held in May 2016. US-based volunteers will be required, both using and not using NAIC designations. The IAIS had combined several working groups to form the Capital, Solvency and Field Testing Working Group. The next round of field testing will begin May 20, 2016 with the goal of developing ICS Version 1.0 by the end of the year. Version 1.0 allows the use of either a market adjusted valuation (MAV) approach or a GAAP Plus approach. NAIC staff reviewed some of the critical issues under consideration in applying a margin over current estimate (MOCE) and MAV approach, including the MAV discount methodology. A three-month public consultation on the ICS will take place in July 2016. Interest rate risk is also a major focus of the construction of ICS, the working group was told.

Covered agreement triggers charge

The NAIC has widely voiced its discomfort with the covered agreement currently being negotiated with the EU by the FIO and the US Trade Representative (USTR). At the meeting of the Financial Condition (E) Committee, state regulators took the next step, adopting a new charge for the committee. The charge reads: "Consider and develop contingency regulatory plans to continue to protect US consumers and US ceding companies from potential adverse impact resulting from covered agreement negotiations."

Captive shortfall questions raised

In discussing the 2016 XXX/AXXX Captive Reinsurance Consolidated Exhibit draft, the Life Risk-Based Capital (E) Working Group was made aware of industry concerns with potential adoption of the RBC shortfall letter. One commenter whose company has been very involved in the development of the shortfall calculation noted that a paragraph had been deleted in the proposal and they disagreed with that deletion. The commenter provided a worked example of a captive using non-traditional surplus assets under this deletion which it would otherwise not be able to use. The working group will continue its review.

Contingent Deferred Annuity (CDA) Working Group disbanded

The Life Insurance and Annuities (A) Committee voted to disband the CDA Working Group and take responsibility for the two remaining items. One challenge from industry was that a CDA buyers guide needed to be developed, and with CDAs prohibited in NY, there should be a different home for this issue. A cancellation benefit has been suggested and needs further work to see if these are consistent with the intent of the working group as expressed in the Guidance Document it created. There were concerns that the buyer's guide document was too general and needed to be enhanced so information to consumers is clearer.

Actuarial update

Life Actuarial Task Force (LATF)

Still more amendments to the Life PBR Valuation Manual (VM-20) continue. More technical issues are being addressed prior to the expected 1/1/2017 operative date, including adjustments to the net premium reserve “floor” as industry representatives indicate some concerns over reserve levels for certain products. As of the date of the meeting, 42 states and jurisdictions with 75% of industry premiums had passed the model law enabling PBR, which meets the 42 state/75% premium requirement for a 1/1/2017 operative date. Other activities include revisions to the indexed universal life model regulation, further work on principles based annuity reserving standards, and a PBR pilot project. Following are highlights from LATF from the Spring 2016 NAIC Meeting:

Life PBR (VM-20)

Work continues on more refinements to the Life portion of the Valuation Manual. Proposed/adopted amendments to VM-20 at the Spring 2016 meeting included the following:

- The ACLI presented changes regarding the VM-20 Deterministic Reserve exclusion test for clarity on how certain assumptions apply, and changes to PBR Reporting (VM-31) regarding disclosure requirements for stand-alone results for reserves which are aggregated across certain product lines. These changes were exposed for comment by LATF.
- Representatives from a major insurer presented a discussion paper detailing analyses and concerns over the VM-20 Net Premium Reserve (NPR) and low levels and anomalous results for certain products such as level term. The paper outlines considerations toward revising the NPR methodology to mitigate these concerns, including removal of “stopgap” adjustments made based on the 2001 CSO table which are not needed under the 2017 CSO table anticipated to be in effect on 1/1/2017. LATF scheduled a conference call to discuss the paper and possible next steps.
- The American Academy of Actuaries (AAA) proposed to remove provision for unisex rates as they apply to reserves. Unisex rates have been authorized for nonforfeiture purposes under certain conditions, but have not been prescribed for reserves. The amendments were adopted by LATF.

Indexed Universal Life (IUL) Subgroup

The chair of the IUL Subgroup presented revisions to Actuarial Guideline 49 (AG 49) to address unintended consequences on policy designs with dual accounts. The current AG 49 prescribes illustration of one crediting rate for a particular fee/floor/cap combination, however there may be different fee/floor/cap combinations available which would produce differing illustrations. The proposed revisions would allow illustration of the different fee/floor/cap combinations.

The proposed changes were previously exposed by the IUL Subgroup for discussion by LATF on March 17 for a 21-day comment period. LATF discussed the applicability of any changes – would they apply to inforce or to new issues only. LATF indicated that such a decision might need to be discussed as a policy decision by the A committee, and indicated they would make the A committee aware of this before the comment period ends.

Fixed Annuity (VM-22) Subgroup

Felix Schirripa, chair of the VM-22 subgroup, gave an update on subgroup activities. The subgroup had asked the AAA to help with modernization of the valuation interest rates for fixed annuities, particularly with fixing the negative margin at low interest rates under the current method.

Based on the AAA work, the subgroup gave a presentation outlining the valuation interest rate modernization methodology, and plans to submit recommendations to LATF by the end of June. Notable issues they are addressing include determination of a “model” investment portfolio for valuation purposes, caps to assumed spreads to Treasuries, and simplifications to valuation of optional benefits. In addition, the subgroup is developing a floor reserve with an “exclusion test” specific to fixed annuities.

Non-Forfeiture Modernization

The AAA Non-Forfeiture working group provided an update on their activities. The group previously proposed a Gross Premium Nonforfeiture Method (GPNM) framework which is being analyzed by the group for the appropriate level and application of factors. LATF members expressed concern over the length of time the process has taken and would like to know an effective process going forward to bring this to resolution. The AAA indicated that they would develop a “white paper” for discussion by the August meeting to present the methodology and move the process along.

PBR Review Working Group

There is a subgroup working on proposed changes to the Annual Statement Blanks for PBR. Further revisions were exposed for comment by LATF, and work will continue via conference calls. NAIC staff will also be making appropriate edits to the Financial Examiner’s Handbook.

The PBR Implementation task force provided an update. The task force is implementing a pilot project for which 12 companies have been recruited to participate and have the project completed prior to the anticipated 1/1/2017 operative data for PBR. The companies will perform PBR calculations for applicable term and universal life secondary guarantee (ULSG) policies as required by VM-20, file a VM-20 reserve supplement per the revised Life Annual Statement Blank, and file a VM-31 PBR report, all as of December 31, 2015 for 2015 issues of these products. A status report with preliminary results will be reported at the August 2016 NAIC meeting, and a final report will be presented at the December 2016 NAIC meeting.

This summary was prepared by Russ Menze. For your comments and suggestions please contact the author – rmenze@deloitte.com.

Health Care Update

The focus of the Health Insurance and Managed Care (B) Committee continues to be health care costs and the committee's 2016 charges reflect that focus. The spring meeting for the committee and its task force and working groups was filled with gathering of viewpoints, data and information – hearing from many interested parties on key issues being addressed, including the continued impact of the Affordable Care Act (ACA). The actions to be taken on those viewpoints will develop through interim calls and the fall meeting, so stay tuned.

The meeting of the Health Care Reform Regulatory Alternatives (B) Working Group focused on surprise billings impacting rising health care costs, including the NAIC Health Benefit Plan Network Access and Adequacy Model Act (#74) recently adopted and the US Department of Health and Human Services' (HHS) Notice of Benefit and Payment Parameters for 2017. The model act includes provisions to attempt to hold consumers harmless if they have performed their own due diligence to utilize their provider network to seek medical care and the HHS final rule reduces an enrollee's annual limitation in the event of a surprise billing.

The Medical Loss Ratio Quality Improvement Activities (B) Subgroup was recharged to review quality improvement (QI) reporting and new initiatives for the implementation of ACA medical loss ratio reporting requirements. The subgroup discussed interest party comments received during an interim call and requested additional information on the impact of requested changes to the medical loss ratio reporting and estimated rebates, anti-fraud expenditures, incentives and allocation of certain administrative costs.

The subgroup did not meet during the spring meeting, but a conference call is planned after receiving the additional information, so it remains to be seen whether there will be revisions to the current reporting definitions.

Consumer Oriented and Operated Plans (CO-OPs) and the status of their solvency has received significant attention in the media in recent months and the committee took action on the topic adopting the CO-OP Solvency and Receivership (B) Subgroup's charge to provide a forum for state regulators to discuss and share information on the status of the CO-OPs created under the ACA through conference calls and meetings. The subgroup held a regulator-to-regulator session during the spring meeting.

The Regulatory Framework (B) Task Force previously appointed two new subgroups to work on possible revisions to model acts – the Accident and Sickness Insurance Minimum Standards (B) Subgroup and the Model #22 (B) Subgroup. For those not familiar with model acts by number, the Model #22 Subgroup is addressing the Health Carrier Prescription Drug Benefit Management Model Act and the committee charges related to this model act are to address issues related to: 1) transparency, accuracy and disclosure regarding prescription drug formularies and formulary changes during a policy year; 2) accessibility of prescription drug benefits using a variety of pharmacy options; and 3) tiered prescription drug formularies and discriminatory benefit design. At the spring meeting, the Model #22 Subgroup heard comments from a number of industry, consumer, agent and pharmacy representatives and the discussion will continue.

This summary was prepared by Lynn Friedrichs. For your comments and suggestions please contact the author – lfriedrichs@deloitte.com.

NAIC Accounting Update

This section of the National Association of Insurance Commissioners (NAIC) Update focuses on accounting and reporting changes discussed, adopted and exposed by the Statutory Accounting Principles (E) Working Group, the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee during the 2016 spring meeting and interim conference calls. Substantive changes finalized during these meetings have explicit effective dates as documented below. All nonsubstantive changes finalized during these meetings are effective upon adoption unless otherwise noted.

Statutory Accounting Principles Working Group

Interim Developments: The Statutory Accounting Principles Working Group (SAPWG) adopted the following **nonsubstantive** amendments as final during the December 10, 2015 and February 22, 2016 Interim Conference Calls:

Reference number	Title	Sector	Amendments adopted as final	Financial statement impact	Disclosure	Effective date
2015-40	SSAP No. 15—Debt and Holding Company Obligations	P&C Life Health	Revisions reject <i>ASU 2015-15 – Debt Issuance Costs Associated with Line of Credit Arrangements</i> .	NA	NA	NA
2015-53	SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance	P&C Life Health	Revisions add annual disclosures for the impact to Risk-Based Capital related to the XXX/AXXX Reinsurance Framework beginning year-end 2015.	N	Y	2015
2015-08	SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities	P&C Life Health	Clarifies accounting for SCAs; adds disclosure of permitted or prescribed practices for insurance SCAs; and clarifies adjustments for noninsurance SCAs meeting the revenue and activity test. No revisions for noninsurance SCAs that do not meet the revenue and activity test (i.e., paragraph 8.b.iii. entities).	Y	Y	2015
2015-49	SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities	P&C Life Health	Revisions clarify that ownership in an Exchange-Traded Fund (ETF) or mutual fund does not represent ownership in an underlying entity within the scope of SSAP No. 97, unless ownership of an ETF actually represents control per SSAP No. 97.	Y	N	2016
2015-54	SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act	P&C Life Health	Revisions expand the risk corridors program roll forward disclosures to include recoverables by program benefit year and to also require additional information to improve the transparency of the recoverable amounts, specifically the amounts requested from the program and amounts reported gross and net of nonadmission.	N	Y	2016
2015-44	Appendix A-695 – Synthetic Guaranteed Investment Contracts Model Regulation	P&C Life Health	Revisions incorporate changes previously adopted by the Life Insurance and Annuities (A) Committee. The revisions (1) preclude application of the model to contingent deferred annuities (CDAs); (2) changes the discount rate used in the determination of the reserve to be more reflective of the risk profile of the contract. These changes are to be applied to inforce synthetic GICs; (3) Eliminates the deduction from market value of assets required by Paragraph (2) of Section 10A provided that the asset default risk is borne by the policyholder; (4) define specified types of spot rates, clarifies the definition of synthetic (GIC) to clearly exclude CDAs, defines a pooled fund; (5) specifies additional information to be included in the plan of operation; (6) modifies the valuation requirements for synthetic GICs issued to pooled funds; and (7) expands the actuarial memorandum requirements related to withdrawal risks. The change is effective January 1, 2016.	Y	N	2016

Reference number	Title	Sector	Amendments adopted as final	Financial statement impact	Disclosure	Effective date
2015-38 2015-39 2015-42 2015-48 2015-50	Appendix D—GAAP Cross Reference to Statutory Accounting Principles	P&C Life Health	Revisions reject the following GAAP items as not applicable to statutory accounting: <ol style="list-style-type: none"> ASU 2015-12 – Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); and Health and Welfare Benefit Plans (Topic 965). (Ref #2015-38) ASU 2015-13 – Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets. (Ref #2015-39) ASU 2015-11 – Inventory (Topic 330) – Simplifying the Measurement of Inventory (Ref #2015-42) EITF 98-10: Accounting for Contracts Involved in Energy Trading and Risk Management Activities (Ref #2015-48) EITF 99-1: Accounting for Debt Convertible into the Stock of a Consolidated Subsidiary (Ref #2015-48) EITF 99-3: Application of Issue No. 96-13 to Derivative Instruments with Multiple Settlement Alternatives (Ref #2015-48) EITF 00-7: Application of Issue No. 96-13 to Equity Derivative Instruments that Contain Certain Provisions that Require Net Cash Settlement if Certain Events Outside the Control of the Issuer Occur (Ref #2015-48) ASU 2014-06 – Technical Corrections and Improvements Related to Glossary Terms (Ref #2015-50) Revision also addressed the following GAAP item: <ol style="list-style-type: none"> EITF 98-12: Application of Issue 00-19 to Forward Equity Sales Transactions <ul style="list-style-type: none"> Notes that <i>FAS 150: Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity</i>, supersedes this EITF and was adopted as outlined in <i>SSAP No. 104R—Share-Based Payments</i> 	NA	NA	NA
2014-28	Issue Paper No. 153—Counterparty Reporting Exception for Asbestos and Pollution Contracts in SSAP No. 62R—Property and Casualty Reinsurance	P&C	This item adopts the issue paper providing background discussion and basis of conclusions for guidance previously adopted in SSAP No. 62R related to reductions of the provision for reinsurance liability and related disclosures.	NA	NA	NA

Current Developments: The SAPWG adopted the following substantive amendments as final during the 2016 Spring Meeting:

Reference number	Title	Sector	Amendments adopted as final	Financial statement impact	Disclosure	Effective date
2014-25	SSAP No. 41R—Surplus Notes	P&C Life Health	Revisions change the measurement guidance of surplus notes and provide that if the capital or surplus note has been rated by an NAIC credit rating provider (CRP) with a designation equivalent of NAIC 1 or NAIC 2, then it shall be reported at amortized cost. If the capital or surplus note is not CRP rated or has an NAIC designation equivalent of NAIC 3 through NAIC 6, then the balance sheet amount shall be reported at the lesser of amortized cost or fair value, with fluctuations in value reflected as unrealized valuation changes. The related issue paper was also adopted (Issue Paper No. 151). In addition, this item was referred to the Valuation of Securities (E) Task Force for incorporation of these measurement changes in the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> .	Y	N	2017

Current Developments: The SAPWG adopted the following nonsubstantive amendments as final during the 2016 Spring Meeting:

Reference number	Title	Sector	Amendments adopted as final	Financial statement impact	Disclosure	Effective date
2015-19 2015-52	SSAP No. 1— Accounting Policies, Risks & Uncertainties, and Other Disclosures	P&C Life Health	Revisions clarify that the restricted asset disclosure shall be included in the annual financial statements and in the interim financial statements if significant changes have occurred since the annual disclosure. Revisions increase reporting of permitted and prescribed practices disclosed in Note 1. These revisions clarify that the disclosure should specify if more than one SSAP or financial statement line is impacted by permitted or prescribed practices.	N N	Y Y	2016 2016
2016-01	INT 16-01: ACA Section 9010 Assessment 2017 Moratorium as an interpretation of SSAP No. 106—Affordable Care Act Section 9010 Assessment	P&C Life Health	Interpretation of SSAP No. 106 addressing the Health Insurance Provider Fee: 2017 Moratorium. Based on the Internal Revenue Service Q&A on the moratorium that was recently issued, the Working Group provided a similar Q&A document related to the accounting and reporting for the program under SSAP No. 106 to promote consistent application of the guidance for the 2016-2018 reporting period.	Y	Y	2016

The SAPWG exposed the following items for written comments (due by May 20, 2016, except or agenda item 2016-03, which have a comment deadline of June 5, 2016) by interested parties:

Reference number	Title	Sector	Amendments exposed	Financial statement impact	Disclosure	Effective date
2016-02	SSAP No. 22—Leases	P&C Life Health	<p>Substantive – Exposed item related to new US GAAP accounting guidance for leases under <i>ASU 2016-02: Leases</i>. This guidance generally requires recognition of the leased asset (right to use) and lease liability (present value of lease payments) and requests comments related to three proposed options for addressing this new guidance:</p> <ol style="list-style-type: none"> 1. Maintain existing statutory accounting guidance for financing and operating leases, however add disclosures related to the leased asset and lease liability required under US GAAP. 2. Adopt the new lease guidance with modification requiring recognition of the leased asset and lease liability but require nonadmission of the leased asset. 3. Adopt the new lease guidance but allow admission of the leased asset. This option is inconsistent with existing guidance related to admitted and non-admitted assets. 	Y	Y	TBD
2015-47	SSAP No. 51—Life Contracts	Life Health	<p>Substantive – Exposed proposed revisions to the life insurance guidance to incorporate references to the Valuation Manual and to facilitate the implementation of principle-based reserving (PBR).</p>	Y	Y	TBD
2015-02	SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	P&C Life Health	<p>Substantive – Concurrently exposed a revised Issue Paper No. 152—Short Sales and substantively revised SSAP No. 103R, proposing accounting guidance on short sales, as well as guidance for secured borrowing transactions.</p> <p>Proposes adoption of FASB ASC guidance for short sales with modification to require the short sale obligation to be reflected as a contra-asset rather than a liability. Other modifications require valuation changes to be recognized as unrealized gains and losses, rather than directly to net income under US GAAP.</p> <p>Additionally, this item proposes adoption of the US GAAP guidance in determining whether short sales are considered a derivative instrument, including the regular-way security trade exceptions. As a result, short sales shall generally be accounted for in accordance with SSAP No. 103R. Contracts that may resemble “short sales” but do not meet the criteria, may be in scope of SSAP No. 86 as forward contracts.</p>	Y	Y	TBD
2016-03	SSAP No. 86—Derivatives; or New SSAP	Life Health	<p>Substantive – Requests comments for a “special accounting provision” drafted in response to the charge to consider “hedge accounting treatment” for certain limited derivatives related to variable annuity products that do not meet hedge effectiveness requirements.</p>	Y	TBD	TBD
2016-09 2016-11 2015-52	SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures	P&C Life Health	<p>Nonsubstantive – Exposed the following items related to SSAP No. 1:</p> <ul style="list-style-type: none"> • Proposed disclosure to capture the aggregate total of collateral assets reported as assets on the insurer’s financial statement and the corresponding recognized liability to return the collateral. • Proposed data-capture disclosure template for insurance-linked securities and language clarifying how disclosure components should be completed. • Clarifications to the disclosure requirements for prescribed or permitted practices, identifying that disclosure shall occur for practices that affect statutory surplus, RBC or that result in different statutory accounting reporting (such as gross or net reporting). 	N	Y	TBD

Reference number	Title	Sector	Amendments exposed	Financial statement impact	Disclosure	Effective date
2015-46	SSAP No. 3—Accounting Changes and Corrections of Errors	P&C Life Health	Nonsubstantive – Exposed proposed clarifications that the guidance in SSAP No. 3 pertains to accounting errors and shall not preclude companies from amending their annual or quarterly financial statement filings due to reporting errors identified. Working group comments indicated this is intended to address reporting errors identified during the NAIC quality control process for database submissions/filings.	Y	N	TBD
2015-41	SSAP No. 26—Bonds	P&C Life Health	Nonsubstantive – Exposed proposed new disclosure to capture current and prior period information on the number of 5* regulatory designation securities and the book adjusted carrying value (BACV) and fair value for those securities.	N	Y	TBD
2016-05	SSAP No. 26—Bonds; SSAP No. 30— Unaffiliated Common Stock; and SSAP No. 32—Preferred Stock	P&C Life Health	Nonsubstantive – Due to recently adopted regulations by the US Securities and Exchange Commission (SEC), institutional prime money market funds are required to report a floating net asset value (NAV) instead of a stable net asset value (NAV). As a result, the Class 1 Money Market Mutual Fund List was removed from the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> . Given this change, Class 1 Money Market Mutual Funds are no longer within the scope of SSAP No. 26 or SSAP No. 32 and are now recognized and reported under the guidance in SSAP No. 30.	Y	Y	TBD
2016-06	SSAP No. 26—Bonds; SSAP No. 30— Unaffiliated Common Stock; SSAP No. 32—Preferred Stock; SSAP No. 43R—Loan- Backed and Structured Securities; and SSAP No. 100—Fair Value	P&C Life Health	Nonsubstantive – Exposed proposed rejection of new recognition and measurement guidance for financial instruments under <i>ASU 2016-01: Financial Instruments</i> , with a request for comments on whether elements of the new guidance should be considered for statutory accounting.	N	N	TBD
2015-23	SSAP No. 26—Bonds; and SSAP No. 43R—Loan- Backed and Structured Securities	P&C Life Health	Nonsubstantive – Exposed a proposed clarifying guidance and a new disclosure related to the amount of investment income and/or realized capital gains/losses to be reported upon disposal of an investment.	Y	Y	TBD
2015-21	SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses	P&C Life Health	Nonsubstantive – Exposed updated revisions to clarify reporting of salvage and subrogation expenses.	Y	N	TBD
2015-43 2015-51	SSAP No. 86—Derivatives	P&C Life Health	Nonsubstantive – Exposed updated clarification for the following items: <ul style="list-style-type: none"> GAAP language and illustration to clarify that the guidance on weather derivatives does not apply to insurance contracts that entitle the holder to be compensated only if, as a result of an insurable event, the holder incurs a liability or there is an adverse change in the value of a specific asset or liability for which the holder is at risk. Proposed definition of “notional principal” reflecting language revisions suggested by industry. 	Y	N	TBD

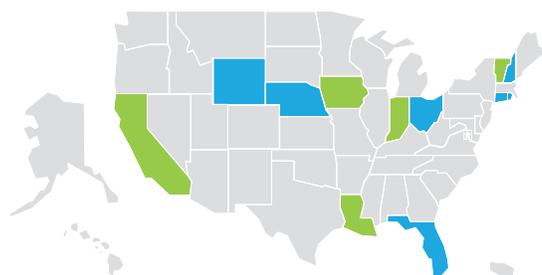
Reference number	Title	Sector	Amendments exposed	Financial statement impact	Disclosure	Effective date
2016-08	SSAP No. 92— Postretirement Benefits Other than Pensions; and SSAP No. 102—Pensions	P&C Life Health	Nonsubstantive – Exposed new guidance to allow the Spot Rate method for measuring service cost and interest cost components of net periodic benefit cost.	Y	Y	TBD
2015-25 2016-04	SSAP No. 97—Subsidiary, Controlled and Affiliated Entities	P&C Life Health	Nonsubstantive – Exposed revisions to for the following items: <ul style="list-style-type: none"> Proposes new appendix detailing the subsidiary, controlled and affiliated entities (SCA) reporting and filing process previously included in the Purposes and Procedures Manual. Proposes data-capture disclosure template for detailing the reported value for SCAs, as well as information received after filing the SCA with the NAIC. 	N	Y	TBD
2016-07	SSAP No. 101—Income Taxes	P&C Life Health	Nonsubstantive – Exposed proposed rejection of updated US-GAAP guidance related to presentation of current and non-current deferred tax assets and liabilities, as this guidance is not applicable to the insurance industry which does not report a classified statement of financial position.	NA	NA	NA
2016-10	Appendix A-820— Minimum Life and Annuity Reserve Standards	Life	Nonsubstantive – Exposed revisions to incorporate portions of the 2009 revisions to the <i>Standard Valuation Law (#820)</i> , which includes references to the <i>Valuation Manual</i> .	Y	N	TBD
2016-12 2016-13	Appendix F—Policy Statements	P&C Life Health	Nonsubstantive – Exposed policy statement revisions as follows: <ul style="list-style-type: none"> Update requirements for voting requirements; concurrent exposures; definitions of types of revisions, adoption of revisions, editorial process; issue papers for nonsubstantive revisions; and various editorial revisions. Establish requirements coordination with the P&P Manual and the Valuation of Securities (E) Task Force. 	NA	NA	NA
2015-27	Investment Schedules	P&C Life Health	Nonsubstantive - Exposed three alternatives received from interested parties quarterly reporting of investment holdings. With the exposure, comments are specifically requested from regulators regarding the third alternative and whether full Schedule D information on investments held should replace quarterly acquisition/disposition information. The alternatives are as follows: <ol style="list-style-type: none"> NAIC to hire a consultant to aggregate NAIC investment data; Increase time to complete electronic-only supplemental investment information; or Replace quarterly acquisition and disposition schedules with a schedule of owned holdings. 	N	Y	TBD

This summary was prepared by John Tittle, Lynn Friedrichs, and Ed Wilkins. For your comments and suggestions please contact the authors – johnntittle@deloitte.com, lfriedrichs@deloitte.com or ewilkins@deloitte.com.

State progress on adoption of model acts and regulations

The maps below represent state action or pending state action addressing the topic of the model. These maps do not reflect a determination as to whether the pending or enacted legislation contains all elements of the model or whether a state meets any applicable accreditation standards.

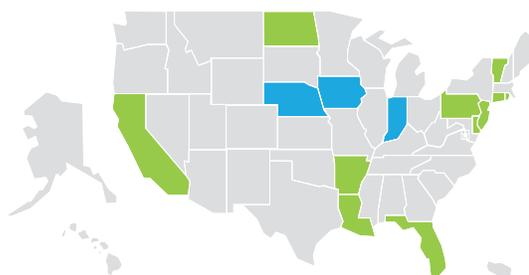
Implementation of Model Act #305
Corporate Governance Annual Disclosure Model Act
 [status as of March 9, 2016]



- Adopted Model #305 (5: CA, IN, IA, LA, VT)
- Action under consideration (7: CT, FL, NE, NH, OH, RI, WY)
- No action to date

Courtesy of the NAIC

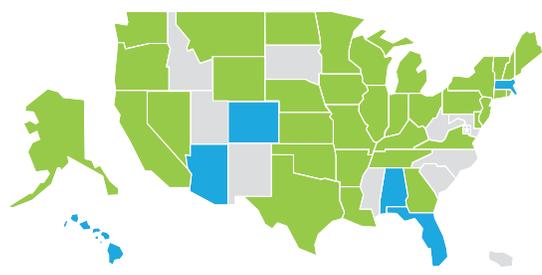
Implementation of 2014 Revisions to Model #440
(Internationally Active Insurance Groups)
Insurance Holding Company System Regulatory Act
 [status as of March 14, 2016]



- Adopted Model #440 (11: AR, CA, CT, DE, FL, LA, NJ, ND, PA, RI, VT)
- Action under consideration (3: IA, IN, NE)
- No action to date

Courtesy of the NAIC

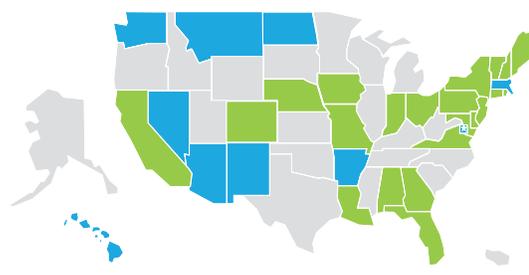
Implementation of Model Act #505
Risk Management and Own Risk and Solvency
Assessment Model Act
 [status as of March 14, 2016]



- Adopted Model #505 (35: AK, AR, CA, CT, DE, GA, IA, IL, IN, KS, KY, LA, ME, MI, MN, MO, MT, ND, NE, NH, NJ, NY, NV, OH, OK, OR, PA, RI, TN, TX, VA, VT, WA, WI, WY)
- Action under consideration (6: AL, AZ, CO, FL, HI, MA)
- No action to date

Courtesy of the NAIC

Implementation of 2011 Revisions to Credit for
Reinsurance Models
Model Law #785
Model Regulation #786
 [status as of March 9, 2016]



- Adopted both 785 & 786 (22: AL, CA, CO, CT, DE, FL, GA, IA, IN, LA, MD, ME, MO, NE, NH, NJ, NY, OH, PA, RI, VA, VT)
- Adopted 785 (10: AR, AZ, DC, HI, MA, MT, ND, NM, NV, WA)
- No action to date

Courtesy of the NAIC

Acronyms

AAA	American Academy of Actuaries	ICP	Insurance Core Principle
ACLI	American Council of Life Insurers	ICS	Insurance Capital Standard
AG	Actuarial Guideline	IMF	International Monetary Fund
AHIP	America's Health Insurance Plans	MAV	Market Adjusted Valuation
AIA	American Insurance Association	MOCE	Margin Over Current Estimate
BCR	Basic Capital Requirements	NAIC	National Association of Insurance Commissioners
CARVM	Commissioners' Annuity Reserve Valuation Method	NAMIC	National Association of Mutual Insurance Companies
CAS	Casualty Actuarial Society	NFIP	National Flood Insurance Program
CDA	Contingent Deferred Annuity	PBR	Principle-Based Reserving
ComFrame	Common Framework for the Supervision of Internationally Active Insurance Groups	PCI	Property Casualty Insurers Association of America
FEMA	Federal Emergency Management Agency	RBC	Risk-Based Capital
FIO	Federal Insurance Office	SIFI	Systemically Important Financial Institution
FSAP	Financial Sector Assessment Program	SSAP	Statement of Statutory Accounting Principles
FSB	Financial Stability Board	SVL	Standard Valuation Law
GAAP	Generally Accepted Accounting Principles	SVO	Securities Valuation Office (of the NAIC)
G-SII	Global Systemically Important Insurer	TLAC	Total Loss Absorbing Capacity
HLA	Higher Loss Absorbency	VM	Valuation Manual
IAIG	Internationally Active Insurance Group		
IAIS	International Association of Insurance Supervisors		

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Lynn Friedrichs is a Deloitte partner with more than 17 years of experience in health insurance and a regular speaker on emerging accounting and financial reporting issues to external organizations, including accounting matters resulting from health care reform and changing regulatory governance requirements.

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Russ Menze, FSA, MAAA is a Specialist Leader with Deloitte based in Hartford, Connecticut. He has more than 25 years of actuarial consulting and company experience including statutory and GAAP financial reporting, financial and actuarial modeling, and regulatory consulting.

David Sherwood, formerly an examiner with the UK Financial Services Authority, has 20 years of risk and regulatory experience. His focus is insurance risk management and regulation, including the issues that affect companies both at an international level (such as Solvency II, systemic risk, and ComFrame), and domestically (ORSA, federal oversight, and the SMI).

John Tittle recently joined Deloitte having previously directed the development and maintenance of statutory accounting principles at the NAIC. He has 19 years of experience in financial services with a focus on insurance, specializing in US statutory accounting principles and also has significant experience in GAAP, IFRS, and Sarbanes-Oxley (SOX).

David Vacca, a senior advisor at Deloitte, spent nearly a decade at the NAIC and has extensive experience in US financial solvency regulation with an emphasis on financial analysis, examination, and intervention practices. He served on several subcommittees and drafting groups of the IAIS, working to develop global standard-setting principles, standards and guidance.



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About this newsletter

The NAIC Update is published after each meeting of the National Association of Insurance Commissioners (NAIC) by Deloitte's Insurance Industry Group. The purpose of this publication is to briefly describe key regulatory, actuarial, accounting, and other developments that occurred at the preceding NAIC national meeting. Readers seeking additional information about a topic may reach out to the contacts listed, and should not rely solely on the descriptions included in this communication.

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