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# NAIC celebrates its past, looks to the future

**SAN DIEGO, CA**—There was some reason to celebrate at the 2016 Summer National Meeting of the National Association of Insurance Commissioners (NAIC), even beyond the stunning beauty of the San Diego waterfront and the perfect weather that greeted attendees.

“This year we celebrate the 10th anniversary of the Interstate Insurance Product Regulation Commission (IIPRC), the 20th anniversary of the National Insurance Producer Registry (NIPR), and the 145th anniversary of the first meeting of the National Insurance Convention, the precursor of today’s NAIC,” NAIC President Missouri Insurance Director John M. Huff told those assembled at the welcome reception.

Midway through Huff’s term at the helm of the organization, it is becoming apparent that state regulators have managed to remain empowered in the post-Dodd Frank era as few might have expected shortly after the enactment of that legislation.

In Washington DC, Congressional sentiment has clearly favored state regulation in the midst of a climate of regulatory globalization that for a while seemed aimed at federalizing US insurance regulation. Even in Basel, where regulators from the European Union have long seemed to hold the upper hand in the battle for insurance capital standards and other global insurance issues at the International Association of Insurance Supervisors (IAIS), the NAIC’s position seems stronger than ever, its influence clearly felt.

As some members of industry complained to state regulators about what numerous industry representatives said were anti-competitive measures undertaken by

some European jurisdictions in the wake of the implementation of Solvency II, the NAIC seemed poised to fortify its position as representative and defender of the US insurance industry.

Another reason for the NAIC to celebrate was the adoption of the top item on its agenda—Principle-Based Reserving (PBR) for life insurers. After a contentious adoption debate at its December 2012 meeting, the NAIC plenary adopted PBR. It could not go into effect, however, until the enabling legislation was adopted by a supermajority of states representing a supermajority of the affected premium.

For a while, that prospect seemed uncertain as some big states expressed strong opposition, but time marched on, states fell in line, and the NAIC was able to announce by this meeting that the requirements had been fulfilled and PBR would go into effect on January 1, 2017.

In many ways though, this meeting was much like any other midterm meeting of the NAIC—agenda items enumerated at the first meeting of the year are usually worked on throughout the year and decisions are made at the year-end meeting.

That sense of transition was evident on some of the bigger items discussed at the meeting. The NAIC still has no CEO, but a decision was made at this meeting to hire a search firm. The unclaimed benefits brouhaha has led the NAIC to create a National Insurance Policy Locator, now available, but in rudimentary form.

The organization continues to investigate big data, finding less common ground with industry than it might have liked. A more obvious rift concerned a cybersecurity

model law. The NAIC would like one enacted by the end of the year, but industry has not been friendly to the first two exposed drafts.

Consumer affairs remained a big concern. Regulators held a hearing on mandatory arbitration clauses, and the comments from those regulators could not have been heartwarming for members of industry who use those clauses.

In this fast-changing world, the regulators also sought to keep their eye on the future. Autonomous vehicles were the focus of a well-attended and highly informative seminar put on by the NAIC’s Center for Insurance Policy and Research (CIPR).

One takeaway from that seminar was that autonomous vehicles will require infrastructure investment, and coincidentally, that was the focus of another NAIC discussion. As a nation seeks to revitalize its infrastructure and life insurers seek reasonable returns on their investments, the NAIC has begun to dig deep into how best to enable insurers, especially life insurers with long investment horizons, to do well by doing good—helping to build and rebuild the country.



*Courtesy of the NAIC*

# NAIC experience reporting structure for PBR developing

Fifteen companies have said they are planning to move at least one product into PBR in January 2017, according to a survey by the Society of Actuaries (SOA) presented to the PBR Review (EX) Working Group. Dale Hall of the SOA told the working group that his organization had sent out surveys to 218 companies. Responses from 72 companies were received during late July and early August.

PBR is scheduled to go into effect on January 1, 2017, with a three-year phase-in before mandatory use.

Larry Bruning of the NAIC updated the working group on the status of the 2016 PBR pilot project. He told the group that there were 12 companies volunteering, one had dropped out, however one had added a subsidiary keeping the numbers stable.

As of the date of the meeting, three companies still had data submissions outstanding, two had asked for extensions, and the remainder had submitted the required information. NAIC staff and the states of domicile will review the submissions on regulator-only calls in September.

Bruning also updated the working group on the status of the Company Experience Data Collection Project. At the preceding national meeting, the executive committee had issued the charge to explore the option of collecting

company experience data for PBR since that data is a critical element of PBR.

According to the NAIC, regulators were of the opinion that “an outside third party should not be relied upon to collect such vital information.” As part of the pilot program Kansas, had appointed the NAIC as an examination agent to collect company experience data.

Bruning said 17 companies doing business in Kansas had submitted 2014 experience data to the pilot, and that data had enabled the NAIC to develop, evaluate, and test the technology needed to collect and analyze the data while assessing the costs, resources, and confidentiality.

One regulator asked if anyone was looking at what Kansas and New York had received from an outside company that had collected experience data. The answer was unclear, however the NAIC will continue the development of its abilities in the area including hiring the second of two needed actuaries.

After repeated requests, the working group took mercy on the PBR Blanks Reporting (EX) Subgroup and dissolved that subgroup as requested, noting that it had fulfilled its charges.

# Group capital calculation faces scope questions

Should scope of coverage be a primary concern in the creation of a group capital calculation? That was a question raised at the meeting of the Group Capital Calculation (E) Working Group.

Discussing the treatment of certain insurers in the inventory method—a discussion begun by working group chair Commissioner David Altmaier of Florida—Steve Broadie of the Property Casualty Insurers Association of America (PCI) urged exposing the questions raised in a staff memo for at least 30 days, and urged the addition of questions on the scope of the group.

“I think scope is a critical question... In a broader group, when should the boundaries be drawn?” Broadie asked.

The inventory method has been accepted by the working group as the most appropriate approach for the group capital calculation. NAIC staff had questions for the group, including on the use of scalars for non-US insurers.

Michelle Rogers of the National Association of Mutual Insurance Companies (NAMIC) told the working group she supported the overall approach but had questions as well on when the scope should be defined. One working group member agreed the group needed to address the scope, saying, “The tool we come up with may be very different depending on scope.”

A representative of the American Council of Life Insurers (ACLI) asked for a forum for meaningful dialogue about that scope. Given the discussion, the working group agreed to a request from Broadie to further extend the comment to 60 days.

The working group also heard a presentation from a major health insurer regarding possible construction of the group capital calculation that would leverage the existing RBC formulas and is conceptually similar to the ACLI/AIA presentation in places. An interested party highlighted that the health RBC formula did not contain an epidemic/pandemic charge, and encouraged the working group to consider contagion implications for the health group.

The working group also discussed a memo from NAIC staff regarding: 1) treatment of U.S. insurers that are not subject to RBC requirements; 2) permitted and prescribed practices; 3) adjustment for top-tier companies that utilize GAAP.

# Big data, big concerns, big opportunities

Whatever the definition may be, big data certainly drew high interest at the meeting of the Big Data (D) Working Group. The working group heard presentations on the uses of and concerns about big data.

Consumer advocate Birny Birnbaum suggested to the working group that biases within data collected may result in biases against consumers. As an example, he said that for insurance fraud, a target variable may be biased because of historical data for various social and economic reasons.

Birnbaum said that while independent variables may reduce the impact of bias with the data, insurance use of big data has a huge consumer impact, favoring the insurer. Birnbaum said insurance use of 21<sup>st</sup>-century data analytics is out of balance with 20<sup>th</sup> century regulations.

Asked for suggestions, Birnbaum said among other things that it may not be necessary for insurers to ask consumers about race and income. He said that census data could be used as a proxy, and noted that other models are currently being developed with this proxy.

The representative of a large credit information company had a more positive view of the use of big data. He said that the use of big data would not only give insurers the opportunity to expand coverage, but

also provide a deeper understanding of the consumer and of consumer behavior.

The representative said the use of big data could result in more accurate pricing and predictability of risk, increased objectivity in insurance underwriting instead of bias, expanded market availability, and the opportunity to reduce fraud and lower cost to consumers. The use of big data would provide more choice for consumers, he said.

Among the numerous questions the representative answered was one on cybersecurity. He said cybersecurity was his company's number one priority. It has the equivalent of a war room supported by substantial resources, and had moved to eliminate any unnecessary access to data.

Birnbaum and the representative had a difference of views on the effect of the use of big data on insurance in general. Birnbaum said that while insurance is about risk pooling, the model is shifting to segmentation and is thus no longer pooling. The counterpoint from the representative was that big data provides a better correlation and more accurately rates like risks. One concern expressed was the number of organizations that provided these services, and whether having them all file and having regulators review those filings would be a daunting and unrealistic task.

Regulators agreed to a number of charges and timelines for final recommendations on big data in 2017. Among these would be the creation of a definition of big data. Such a definition would be put out for public comment.

Birnbaum suggested that in addition, the working group should add three new charges. One would deal with regulatory use of big data and resources. Another would create a framework for insurer responsibilities, and the third would look at the use of data generated from telematics. Birnbaum said the National Conference of Insurance Legislators (NCOIL) is currently looking at the issue of who owns and can license data received from telematics, and it may be timely for regulators to do so also.

Industry representatives generally supported the use of big data, with the representative of one information provider noting that there had been a shift in consumer culture, and that millennials—the next big generation of consumers—want automated, efficient access and customer experience, and are not that concerned with privacy if it brings cheaper, more efficient products.

# Fed approach gets measured approval

Presentations on proposed Federal Reserve capital requirements and enhanced prudential standards for insurers it oversees, including Systemically Important Financial Institutions (SIFIs), dominated the meeting of the Financial Stability (EX) Task Force.

In a related issue, North Dakota's Insurance Commissioner Adam Hamm, speaking as his term on the Financial Stability Oversight Council (FSOC) came to an end, called his experience on FSOC positive, but noted the need for improvements.

New Jersey's Insurance Director Peter Hartt reviewed for the task force the progress and timeline of work on regulation of Global Systemically Important Insurers (G-SII) at the IAIS. Hart said work continued on the recovery and resolution phase, with revisions to ICP 12 and to ComFrame Module 3 Element 3 proposed.

Representatives of two major insurers discussed the proposals by the Federal Reserve. Speaking on the prudential standards proposed by the Fed, the representative of one insurer said that the "proposed standard does represent some tailoring (from banks)... in limited and modest ways."

"We do believe that the definition of what should be considered highly liquid and readily marketable (should be adjusted)," said the representative, noting that cash was not considered liquid. The representative argued that cash should be diversified to avoid concentration risk but not eliminated.

Similarly, the representative noted that lines of credit would not be considered part of a liquidity strategy, arguing again that such use should be diversified but considered.

Cash flow projections and stress testing frequencies should be reduced from bank levels, the representative said. This should be done instead on an activities basis, with comprehensive testing done quarterly, annual assessment of risk and liabilities, and faster than quarterly testing of some activities if indicated, the representative said.

The representative noted the company was supportive of the basic principles and elements of the plan, but believed more tailoring was still needed. On capital standards however, the representative expressed a preference for the building block approach as the most appropriate approach for SIFIs, not the consolidated approach proposed by the Fed.

The representative of another major US insurer began by noting that her company was not regulated by the Fed and was not an Internationally Active Insurance Group (IAIG), but was active in the process "because we remain concerned about spillover effects." The representative expressed concern that whatever was developed would become the de facto standard.

The representative said she was encouraged by the Fed's commentary on tailoring standards to be appropriately sensitive to insurance, and said it was also encouraging that the Fed recognized the volatility of market consistent value approaches such as Solvency II.

The representative noted that the consolidated approach appears to be compatible with current internal practices at major insurers and the IAIS. Volatility and comparability are concerns, she said.

The representative closed by noting that surplus notes have many attributes that should qualify them as group capital, and that participating products should either have their capital adjusted or their liabilities restated to reflect the risk profile.



# Form F, ORSA, ICPs among discussion topics

The Group Solvency Issues (E) Working Group heard questions about activities at the IAIS and the results of the Form F survey.

Nebraska's Christy Neighbors told the group that ICPs 3 and 25 were being reviewed and the focus of a work stream at the IAIS. A representative of a US insurer asked if the insurance capital standards (ICS) were becoming Financial Sector Assessment Program (FSAP) standards through inclusion in the ICP. Neighbors said she did not think so. This was important because the International Monetary Fund (IMF) assesses insurance jurisdictions on their compliance with ICPs.

Steve Broadie of PCI asked if the IAIS was looking at scope issues. He cited as an example ICP 23, which defines the scope of insurance groups. Neighbors said the IAIS workgroup did not want to reopen issues they did not have to. They are looking at entities within the group that should be part of the group for regulatory purposes.

Neighbors also discussed the results of the Form F/ORSA survey. Questions raised included how to revise the filings to capture both issues posing risk and all parties involved. Suggestions included the creation of a guidance manual, an instruction to include the ultimate controlling person

(UCP), and a split in the Form F/ORSA requirements to reduce duplication.

The discussion seemed to be moving to a consensus on the creation of a guidance manual surrogate, based on concerns about the timing required to develop a formal guidance manual.



*Courtesy of the NAIC*

# Solvency II causing major difficulties for US-domiciled insurers and reinsurers

Emerging difficulties facing US insurers and reinsurers doing business in some European jurisdictions under Solvency II in the absence of an equivalence agreement or a covered agreement was the focus of a panel presentation to the International Insurance Relations (G) Committee. Insurers expressed concern about the uncertainties they now face, and the need for equivalence to mitigate—if not eliminate—those concerns.

“The current situation as we see it is really untenable between the US and EU,” said the representative of a major US insurance group. “On the European side, we see a situation that is deteriorating.”

The representative said the group had a subsidiary in the United Kingdom and direct operations in 19 EU member states. He called the waiver process, under which the firm was required to send information to the Prudential Regulatory Authority (PRA) of the Bank of England, onerous. The representative also said it was a “super uncertain environment for US insurers operating in the market.” He cited various externalities including differing interpretations of the Solvency II regulations, Solvency II revision, and Brexit.

“We would urge any step... Right now we see the covered agreement as the only way to address these issues,” the representative said.

A representative of a US-based reinsurer doing business in the EU since 1988 said, “We now look at Europe with a lot of concern.” The representative said Solvency II countries had raised barriers in the run up to and after the implementation of Solvency II.

These changes included increased discrimination against US companies, with demands to post 100% collateral, he said. He complained that companies such as his were forced to apply for an expensive and time-consuming waiver that could be revoked at will, and said there were inconsistent results for US reinsurers because of the manner of application of Solvency II.

He further charged that other restrictions were being applied, resulting in either exclusion from the market or increased costs for US companies. The representative noted that in 2009, UK regulators had wanted the company to convert its UK branch into a subsidiary instead. The company did not wish to do so.

He then said that in 2012, the UK regulators said they did not consider New York’s Department of Financial Services (DFS) an equivalent regulator, and forced the formation of a UK subsidiary. In 2015, the PRA claimed there was no US equivalent regulator and demanded that his company set up a trust covering certain contracts at significant cost.

The representative told the committee that the United States should receive full and unconditional recognition of the state-based regulatory system, and full and unfettered access to the European market.

A representative of a US-based company with a European holding company domiciled in the UK and operating throughout Europe by passporting said that the lack of equivalence for group supervision introduced a tremendous amount of uncertainty. “From our perspective, equivalence is necessary,” he said.

A global reinsurer with nine EU offices operating in the EU through an Irish subsidiary lamented “the uneven and discriminatory rollout of Solvency II.” The representative of one large US insurer summed up the prevailing feeling: “Today there is real uncertainty as to what happens... This really is uncharted territory.”

# Changes coming to market conduct annual statement?

The Market Analysis Procedures (D) Working Group heard discussions of potential changes to the market conduct annual statements (MCAS) possibly affecting life and annuity providers and dental and disability providers among others.

Consumer advocate Birny Birnbaum said he was supportive of the data elements as defined and described in a possible revision to the life and annuity MCAS to reflect information on the use of the Social Security Death Master File and unclaimed benefits. He suggested adding information on retained asset accounts (RAA), and said the data elements reflected both the National Conference of Insurance Legislators (NCOIL) model and a proposed NAIC model.

A representative of the ACLI called the proposal “largely a document that he (Birny) has drafted.” The ACLI saw the change as unnecessary, but would help as much as possible. However, the representative also noted that the model law had not yet been adopted by A Committee and called for discussions to resume after Labor Day.

Birnbaum replied that the elements had been prepared by Iowa, the working group had worked to ensure no duplication, and that more than 20 states already had unclaimed benefits laws in place. The working group chair said the group would continue to accept comments on the issue until late September.

The chair also asked if new lines of business should be added to the MCAS. One regulator suggested that adding dental and disability lines would be helpful. Birnbaum proposed adding flood and lender placed insurance to the MCAS. He said

the two sat at the intersection of lending and insurance, and had federal interest and some oversight. Birnbaum said the FIO has noted some of these issues and expressed concern that this would give the FIO an opening to get more authority over insurance regulation.

Asked how state regulators would be able to get information on public flood insurance, Birnbaum suggested asking the National Flood Insurance Program (NFIP) to work cooperatively with the NAIC. He said that would benefit the NFIP, regulators, and insurers.

A representative of the American Bankers Association (ABA) asked for some time in which to comment and was granted until September 20.



*Courtesy of the NAIC*

# Certification, mandatory arbitration raise hackles at D Committee

Would a rose by any other name still smell as sweet? What about an accreditation program? If accreditation becomes certification, what difference does it make?

These were the questions many wondered about at the meeting of the Market Regulation and Consumer Affairs (D) Committee and they sparked strong disagreement among regulators attending. By contrast, regulators seemed united in reaction to the other major issue before the committee—mandatory arbitration—with industry on one side and consumer advocates on the other.

The committee has been working on a market regulation accreditation program for state regulators. That was expected to ensure states adhered to a certain minimum level of market regulation capabilities, and had been expected to function for market conduct in a similar manner to financial accreditation for solvency.

Instead, the committee was presented with a market regulation certification program, which Nebraska Director Bruce Rame said would have no penalty for not following, and would be a tool for the states to use.

Pennsylvania Commissioner Teresa Miller expressed “broad, overarching concerns about this program,” particularly the utility of it. New York Superintendent Maria Vullo said she had concerns about certification. If it were voluntary, that would be fine, she said. Guidelines were fine, she said, however certification suggested consequences.

“We knew that we’d never satisfy everyone,” committee chair Stephen Robertson of Indiana said. Rame noted that the original

charge of the committee was to develop an accreditation program, but based on concerns expressed (especially about confusion with the solvency accreditation program) the decision was made to change the name, but perhaps not much else, to a certification program.

Who’s doing the certification, asked California Commissioner Dave Jones? Robertson said the NAIC would appoint those responsible for making the determination. The timing was discussed and the plan is for a staggered introduction over 3 to 5 years.

“This is a way of trying to impart a status ... We know they at least meet this particular standard,” said Washington Commissioner Mike Kreidler.

After an impassioned speech by Robertson, the committee adopted the proposal with the chair casting a tie-breaking vote. Even after adoption, it was still unclear to many observers whether the certification proposal was a step toward standards, if or how states would be required to meet the standards, and what the potential fallout would be of not meeting the standards.

Mandatory arbitration has become an important consumer protection concern after the Consumer Financial Protection Bureau (CFPB) announced its intention to ban mandatory arbitration clauses from financial services agreements over which it has regulatory authority. Industry does not necessarily share that agency’s concern.

The NAIC should be promoting the benefits of mandatory arbitration as “a streamlined, effective, consumer friendly tool,” a

representative of the American Insurance Association (AIA) told the committee.

Robertson asked in response why companies required consumers to do arbitration in states other than that in which the policy was issued. A PCI representative noted that binding arbitration was rare in personal lines policies except for two areas: uninsured motorists, and the appraisal process for the value of a property claim. The representative said PCI believes banning these provisions made little sense.

A NAMIC representative said regulators can object to any policy clause before approving it, and that banning arbitration would simply expand litigation and increase costs. A representative of America’s Health Insurance Plans (AHIP) said that ever since ACA approval, policies have been reviewed and approved at least three times. The organization wanted “to promote an expedited method of dispute resolution,” and should be able to do so.

An ACLI representative added that there has been nothing that proves there is a better method than arbitration.

Both regulators and consumer representatives expressed serious concerns with the current process, much of it regarding requirements that arbitration take place in countries distant from the US, under laws different from those of the state in which the policy was issued, with arbitrators chosen to reflect the views of the insurers. The committee will continue its discussion.

# Market regulation accreditation issue, NFIP reauthorization pop up at plenary

There was more than the usual excitement at the usually sedate closing session, a joint meeting of the Executive Committee and the plenary. Concerns previously expressed over the discussion on flood insurance reform in C committee and market regulation certification in D Committee reemerged during the session.

Louisiana Insurance Commissioner Jim Donelon expressed concern over the “so-called discussion” on NFIP reform in C Committee. He noted only one minute was allowed for discussion for each interested party.

“That truly was a great disappointment for me,” said Donelon, calling for a separate

public hearing on the issue at the Miami meeting. Mississippi Insurance Director Ray Farmer agreed, saying, “We do need to have further consideration.”

In her report to the session, Oregon Insurance Commissioner Laura Cali informed the group that the market regulation certification program had been adopted 7-6 on a roll call vote. She described it as a “state self-certification program that addresses 12 requirements,” and said she was not asking for adoption by plenary now, but would be coming back in December.

North Dakota Insurance Commissioner Adam Hamm asked if certification was an intermediate step to accreditation, and what

force and effect it would have. Nebraska Insurance Director Bruce Ramage replied that it was just a way to help with the uniform process.

One regulator noted that in the subcommittee, it was the NAIC that would do the certification, it would not be self-certification. That is similar to what was said in the C Committee.

Ramage suggested this would be discussed in the next phase. “We hope to have all that ironed out before the winter national meeting,” he said.



*Courtesy of the NAIC*

# New version of cybersecurity model law faces industry opposition

The search for a new cybersecurity model law continues. The second discussion draft of the NAIC's Insurance Data Security Model Law was released for comment on August 17, but the 30-day window would not be needed to discern industry response.

The ACLI said it continued to have fundamental concerns, and that it was

most important that a proposed model address the different breach notification laws, providing for uniform standards. PCI expressed uniformity concerns as well. It noted there was no harm standard for breach notice, and a very broad definition of personal information. RAA echoed other comments and asked how implementation

would be accomplished in the event of breach and multiple notices by different parties. How would coordination among commissioners occur in the event of breach, RAA asked?

Numerous other trade organizations expressed opposition, often in similar terms.



*Courtesy of the NAIC*

# In brief

## A Committee tells CFPB MYOB

NAIC staffer Brooke Stringer told the Life Insurance and Annuities (A) Committee that on November 28, the final rule covering access to the Social Security Death Master File (DMF) will replace the temporary rule in place since 2014. The file is used by insurers to search for life insurance or annuity covered persons who may have died.

Stringer said the Consumer Financial Protection Bureau (CFPB) wants to remove mandatory arbitration from financial services transactions, including policy loans against insurance policies. The NAIC has sent a comment opposed, asking the CFPB to withdraw its proposal as this is the business of insurance, and thus of the states. The A Committee also heard that a life insurance policy locator has been launched by the NAIC.

## C Committee discusses NFIP reauthorization

Property and Casualty Insurance (C) Committee Chair Pennsylvania Commissioner Teresa Miller expressed disappointment at consumer advocate Birny Birnbaum for what she called the hostile tone in his remarks. Birnbaum expressed opposition to the C Committee's recommendations on NFIP reauthorization saying, "There is a way to

solve these problems, but with respect, the principles that were drafted don't solve this." By contrast, a representative of the Professional Insurance Agents of America (PIA) said they supported the principles enumerated by the committee, including a private flood market, long-term reauthorization of the NFIP, and mitigation planning. An AIA representative said, "Meaningful reform will require risk-based pricing." The committee will consider all received comments and hold a conference call for further discussion.

## VOS hears infrastructure plans

The Valuation of Securities (E) Task Force got presentations from various stakeholders on how insurers, especially life insurers, could profitably invest in infrastructure projects. Panelists noted these are or should be attractive to life insurers, but NAIC action on capital treatment and other matters may be required. This is the beginning of a discussion on ways to enable profitable infrastructure investments.

## E Committee discusses consumer protection contingencies

The Financial Condition (E) Committee discussed contingency planning options regarding consumer protection collateral

as a result of the charge to protect US consumers and US ceding insurance companies from potential adverse impact resulting from covered agreement negotiations. The three methods included expanding the certified reinsurer process, requiring additional capital of US ceding insurers and requiring reinsurers to file additional information under the certified reinsurer provisions to enhance consumer protection. Key observations and questions highlighted by regulators during the discussion included: whether reinsurers should file rate and form information; possible changes to the treatment of reinsurance recoverables in RBC; whether a new reinsurance license could address risks to policyholders and alleviate certain requirements that are common for traditional insurers; and, whether major philosophical changes the solvency framework may be needed in order to regulate reinsurance properly.

NAIC staff was directed to draft additional methods to accompany the other three options in the memorandum, so that a document can be exposed for comment. The Reinsurance Association of America (RAA) stated that it would be happy to work with the committee to better evaluate the options. PCI recommended the committee completely understand and document all the issues before it looks at alternatives.

### What's next

Nov. 10-11: IAIS Annual Meeting; Asunción, Paraguay

Nov. 17-20: NCOIL Annual Meeting; Las Vegas, NV

Dec. 10-13: NAIC Fall National Meeting; Miami, FL

# Actuarial update

PBR related activities continue, however, an updated version of the Life Valuation Manual (VM-20) was released on August 29 and will be the version in effect as of the 1/1/17 PBR operative date. Other activities include further work on principle-based annuity reserving standards (VM-22), and accelerated work and discussion on longevity risk. Following are highlights from LATF from the Summer 2016 NAIC Meeting:

## Life PBR (VM-20)

The NAIC released an [updated version](#) of VM-20 incorporating all changes adopted through 8/29/16. This will be the version in effect as of the 1/1/17 operative date for PBR.

As the Valuation Manual is a “living document,” VM-20 related activities continue, including the following:

- **Default Costs and Spreads** – The NAIC gave an update on the latest VM-20 default costs and investment spreads for the second quarter of 2016. Per the data presented, annual default costs and spreads for 2015 have declined across the board for each rating category and weighted average life when compared to the 2014 default costs. Also, the ACLI proposed revisions to the default cost and spread methodology to be performed with a one-month lag. LATF will consider such proposal once it is formally submitted by the ACLI.
- **PBR Pilot** – The NAIC gave an update on a pilot project with 9 companies to perform a “dry run” of submitting VM-20 related reserves and reports for a sample of term and ULSG policies. Each of the companies are to perform the required VM-20

modelling and complete “mock” VM-20 blanks and VM-31 reports for review by NAIC. Regulators will then review the data and present results and recommendations at the Winter NAIC meeting.

- **PBR Streamlined Reporting** – The NAIC hired a consultant to review the various regulatory actuarial reports required (19 in total) and make recommendations to “streamline” such reporting via a reporting template which, among other things, will share common elements across the reports. The consultant provided an update on activities which are expected to result in specific recommendations for refinement of these reports.

## Joint Longevity Risk (A+E) Subgroup

The chair of the Joint Longevity Risk Subgroup presented results from a survey from 2015 AAT, activities of the AAA Longevity Risk Task Force and proposed plans to size the exposure of longevity risk to the industry.

The AAA Longevity Risk Task Force is assisting LATF with research and industry input in this area. Thus far the task force has performed some modeling with some initial observations including the following:

- Mortality improvement is highly variable by age, gender, and time period.
- Emergence of longevity risk builds slower over time (than mortality risk) as the impact on the generally longer term cash flows is more gradual
- However, risk becomes reflected in reserves sooner than the resulting cash flows due to Asset Adequacy Testing (AAT)
- The shorter term “RBC Horizon” does not

appear to fully reflect longevity risk at this point.

Work and discussions will continue, including how such risk is handled internationally (i.e. Solvency II).

## Society of Actuaries (SOA) PBR Survey

The SOA conducted a survey on PBR readiness. The survey was sent to 218 companies and 72 responded. Responses were anonymous and were received over July and August. Dale Hall presented an overview of the results which included the following:

- 15 of the 72 companies plan to move at least one product over to PBR effective 1/1/17
  - All 15 companies are larger sized and have significant Term and/or ULSG business
  - All are performing their own mortality studies, most are performing their own lapse/surrender studies
  - 13 of these 15 companies have some sort of reinsurance associated with PBR policies
- The remaining 57 companies have no plans to move to PBR. Of those 57:
  - Many will be using the 3-year transition
  - 11 will be using the small company exemption
  - 11 indicated they are delaying implementation due to tax reserve issues or uncertainty
- 44% of companies plan to use the 2017 CSO as of 1/1/17, 38% do not, 18% are undecided.

The SOA plans to publish full survey results by the end of September.



### 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.

In response, the AAA formed a Deposit Fund Working Group which is proposing changes to the discount rate used in the calculations. Currently the working group is working toward a discount rate methodology which would converge with AG 43 reserving requirements, with a floor reserve and a modeled reserve.

John Bruins from ACLI provided an update on voluntary testing performed by nine companies on various reserve alternatives. To date three companies have submitted results with early indication that the simplified method is producing the highest reserves. Next steps are to complete the analysis and recommend revisions, if any.

*This update was prepared by Russ Menze. For your comments and suggestions please contact the author – [rmenze@deloitte.com](mailto:rmenze@deloitte.com).*



*Courtesy of the NAIC*



*Courtesy of the NAIC*

# Healthcare update

The Health Insurance and Managed Care (B) Committee and its task forces and workgroups continued their focus on factors driving the cost of insurance and implementation issues around the Affordable Care Act during the NAIC Summer Meeting.

The Health Care Reform Regulatory Alternatives (B) Working Group (HCRRA) discussed regulator concerns on the automatic enrollment of members of health plans no longer participating in the marketplace into new plans. Wisconsin noted that such a practice would likely violate its state contract laws.

The HCRRA further heard a presentation from America's Health Insurance Plans (AHIP) on pending problems with rate setting for Silver Plans due to Cost Sharing Reduction (CSR) payment uncertainty.

Under the Affordable Care Act (ACA), CSR payments to insurers were designed to reduce the out of pocket expenses

(deductibles, co-pays, etc.) of income-qualified individuals purchasing a Silver Plan. The ACA requires insurers to enhance the benefit design for these income qualified members and provides for the reimbursement of the insurers by the federal government. In May 2016, a federal court judge sided with the US House of Representatives in a suit against the Obama Administration seeking to block the disbursement of CSR payments to insurers which have not been appropriated. The court decision was stayed pending appeal, so payments are continuing, but an appellate ruling upholding the lower court decision could impact the availability and/or timing of future CSR payments to insurers.

As the ACA requires insurers to offer the lower co-pays and deductibles to income qualified individuals without regard to the subsidy received from the federal government, a reduction or elimination of CSR payments would become part of the cost structure of Silver Plans—by AHIP's

estimate increasing the cost of Silver Plans approximately 20%. As the outcome of litigation is unlikely to be known prior to rate submissions for 2017, insurers may be challenged to appropriately set rates for Silver Plans in the exchanges.

No action or recommendation was taken by the HCRRA with regard to CSR payments, but it remains an issue to continue to monitor.

During the main meeting of the Health Insurance and Managed Care (B) Committee, the focus was on the balance between cost reduction and quality of care, with the committee hearing presentations on Value Based Insurance Design (altering co-pay and deductible structures to encourage individuals to make high quality care decisions), and on the air ambulance market.

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*Courtesy of the NAIC*

# 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 Summer 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 *substantive* amendments as final during the June 9, 2016 Interim Conference Call:

Ref#	Title	Sec.	Amendments Adopted	F/S Impact	Disclosure	Effect. Date
2015-47	<b>SSAP No. 51—Life Contracts</b>	Life Health	Revisions add reference to the Valuation Manual as part of Principle-Based Reserving implementation.	N	N	2017
2015-02	<b>SSAP No. 86—Derivatives</b> <b>SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</b> <b>Issue Paper No. 152—Short Sales</b>	P&C Life Health	Revisions add accounting guidance on short sales, as well as guidance for secured borrowing transactions. These revisions adopt the US-GAAP 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.  Additionally, revisions adopt 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.	Y	Y	2017

**Interim Developments:** The Statutory Accounting Principles Working Group (SAPWG) adopted the following *nonsubstantive* amendments as final during the June 9, 2016 Interim Conference Call:

Ref#	Title	Sec.	Amendments Adopted	F/S Impact	Disclosure	Effect. Date
2015-41	<b>SSAP No. 1— Accounting Policies, Risks &amp; Uncertainties, and Other Disclosures</b>	P&C	Revision adopts a new disclosure to capture current and prior period information on the number of 5* securities and the book adjusted carrying value (BACV) and fair value for those securities.	N	Y	2016
2016-09		Life				
2016-11		Health	Revision adopts a new 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.			
			Revision incorporates an updated data-capture disclosure template for insurance-linked securities and language clarifying how disclosure components should be completed.			
2016-05	<b>SSAP No. 2— Cash, Drafts, and Short-Term Investments</b>	P&C	Revisions adopted:	Y	Y	2016
		Life	<ul style="list-style-type: none"> <li>Clarify guidance related to investments in mutual funds, whether accounted for as a bond, common stock or preferred stock;</li> </ul>			
		Health	<ul style="list-style-type: none"> <li>Removes the Class 1 Money Market Mutual Fund listing from these statements; and</li> </ul>			
	<b>SSAP No. 26— Bonds;</b>		<ul style="list-style-type: none"> <li>Clarify that Money Market Mutual Funds are short-term investments. In addition, the Working Group exposed a substantive revision to require money market mutual funds to be classified as cash equivalents. See Ref # 2016-18 in the substantive exposure section of this bulletin.</li> </ul>			
	<b>SSAP No. 30— Unaffiliated Common Stock; and</b>					
	<b>SSAP No. 32— Preferred Stock</b>					
2015-23	<b>SSAP No. 26— Bonds; and</b>	P&C	Revisions add a new disclosure to capture the number of CUSIPs and aggregate amount of investment income generated as a result of prepayment penalties and/or acceleration fees. Additional revisions clarify the amount of investment income and/or realized gain/loss to be reported upon disposal of an investment.	Y	Y	2017
		Life				
	<b>SSAP No. 43R— Loan-Backed and Structured Securities</b>	Health				

Ref#	Title	Sec.	Amendments Adopted	F/S Impact	Disclosure	Effect. Date
2015-43	<b>SSAP No. 86— Derivatives</b>	P&C Life Health	Revisions adopt the GAAP definition and illustration related to weather derivatives, with modification 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. Weather derivatives are required to be valued and reported consistent with other derivatives under this statement.	Y	N	2016
2016-08	<b>SSAP No. 92— Postretirement Benefits Other than Pensions; and SSAP No. 102— Pensions</b>	P&C Life Health	Revisions adopt new guidance to allow the Spot Rate method for measuring service cost and interest cost components of net periodic benefit cost.	Y	Y	2016
2016-04	<b>SSAP No. 97— Subsidiary, Controlled and Affiliated Entities</b>	P&C Life Health	Revisions adopt a 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	2016
2016-07	<b>SSAP No. 101— Income Taxes</b>	P&C Life Health	Revisions reject the 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

**Current Developments:** The SAPWG adopted the following *substantive* amendment as final during the 2016 Summer Meeting:

Ref#	Title	Sec.	Amendments Adopted	F/S Impact	Disclosure	Effect. Date
2016-15	<b>SSAP No. 51—Life Contracts</b>	Life Health	<p>Revisions provide guidance on accounting for the change in valuation resulting from adoption of principle-based reserving.</p> <ul style="list-style-type: none"> <li>• <b>Reporting</b> – Continue current reporting of the impact of a change in valuation basis in surplus in the change in valuation basis annual statement line.</li> <li>• <b>Items included as a change in valuation basis</b> – Items that represent changes in methodology or voluntary choices in the application of the methodology.</li> <li>• <b>Items excluded from a change in valuation basis</b> – Updates to reserving assumptions based on experience as required under the existing methodology are not proposed to be reflected as a change in valuation basis. For example, a change from any of the three calculated reserves types (net premium reserve, deterministic or stochastic) to another as required by the principle-based reserving methodology would not be considered a valuation basis change.</li> <li>• <b>Transition Guidance</b> - Explicit guidance on the initial adoption and application of principle-based reserving is provided to assist with implementation questions. The Valuation Manual requires prospective application for policies issued on or after the operative date (January 1, 2017). Therefore, the change in valuation basis is not expected to result in a day one impact to surplus. <ul style="list-style-type: none"> <li>– Companies are allowed to elect a three-year transition period.</li> <li>– Revisions to the Blank for principle-based reserving are currently exposed.</li> </ul> </li> </ul>	Y	N	2016

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

Ref#	Title	Sec.	Amendments Adopted	F/S Impact	Disclosure	Effect. Date
2015-52	<b>SSAP No. 1— Accounting Policies, Risks &amp; Uncertainties, and Other Disclosures</b>	P&C Life Health	Revisions increase reporting of permitted and prescribed practices disclosed in Note 1 and clarify that the disclosure should specify if more than one SSAP or financial statement line is impacted by permitted or prescribed practices and includes gross/net items.	N	Y	2016
2016-06	<b>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</b>	P&C Life Health	Revisions reject the new US-GAAP recognition and measurement guidance for financial instruments under <i>ASU 2016-01: Financial Instruments</i> . In addition, revisions to SSAP No. 100 exclude deposit liabilities with no defined or contractual maturities from the fair value financial instruments disclosure.	N	Y	2016
2015-21	<b>SSAP No. 55— Unpaid Claims, Losses and Loss Adjustment Expenses</b>	P&C Life Health	Revision clarifies reporting of salvage and subrogation as estimated recoveries, net of associated expenses.	Y	N	2016
2016-14	<b>SSAP No. 86— Derivatives</b>	P&C Life Health	Revisions incorporate information on swaptions.	N	N	2016
2015-25	<b>SSAP No. 97— Subsidiary, Controlled and Affiliated Entities</b>	P&C Life Health	Revision adds a new appendix detailing the subsidiary, controlled and affiliated entities (SCA) reporting and filing process previously included in the Purposes and Procedures Manual.	N	N	2016

The SAPWG exposed the following items for written comments (due by October 10, 2016, except for agenda items 2016-03 and 2016-20, which have a comment deadline of November 28, 2016) by interested parties:

Ref#	Title	Sec.	Amendments Exposed	F/S Impact	Disclosure	Effect. Date
2016-18	<b>SSAP No. 2—Cash, Drafts and Short-term Investments</b>	P&C Life Health	<b>Substantive</b> – Exposed an Issue Paper and revised SSAP changing classification of money market mutual funds to cash equivalents. The proposal recommends a prospective adoption with an effective date of January 1, 2018.  There are two issues arising from NAIC staff’s proposal:  01. Changing classification of money market mutual funds to cash equivalents will likely increase RBC requirements.  02. The RBC impact issue was forwarded to the Blanks Working Group and the Capital Adequacy Task Force for review.	Y	N	TBD
2015-47	<b>SSAP No. 51—Life Contracts</b>	Life Health	<b>Substantive</b> – Exposed an Issue Paper to document the substantive revisions and other changes necessary to facilitate the implementation of principle-based reserving.	Y	N	TBD
2016-03	<b>SSAP No. 86—Derivatives</b>	P&C Life Health	<b>Substantive</b> – Exposed an Issue Paper proposing special accounting treatment for certain limited derivatives (macro hedges) related to variable annuity products for a 90-day exposure period. This proposed special accounting treatment is separate and distinct from the guidance in SSAP No. 86 and most likely reside in a new SSAP.  This item relates to the work performed by the Variable Issues Working Group and the charge from that group to the Statutory Accounting Principles Working Group to consider “hedge accounting treatment” for certain limited derivatives (macro hedges) related to variable annuity products that do not meet hedge effectiveness requirements.	Y	Y	TBD
2016-20	<b>Credit Losses</b>	P&C Life Health	<b>Substantive</b> – Exposed agenda item detailing <i>ASU 2016-13: Credit Losses</i> , for a 90-day exposure period, with a request for comments on how the ASU should be considered for statutory accounting and on specific discussion points identified in the agenda item.	Y	Y	TBD



Ref#	Title	Sec.	Amendments Exposed	F/S Impact	Disclosure	Effect. Date
2016-24	SSAP No. 2—Cash, Drafts, and Short-Term Investments  SSAP No. 26—Bonds  SSAP No. 43R—Loan-Backed and Structured Securities	P&C Life Health	<b>Nonsubstantive</b> – Exposed item clarifies the scope of the annual audited disclosure requirements on bond categories, bond maturity distributions and proceeds from sales of bonds.	Y	Y	TBD
2015-46	SSAP No. 3—Accounting Changes and Corrections of Errors	P&C Life Health	<b>Nonsubstantive</b> – Exposed clarifications to the guidance relating to the recognition of accounting errors.	N	N	TBD
2015-15	SSAP No. 16R—Electronic Data Processing Equipment and Software	P&C Life Health	<b>Nonsubstantive</b> – Exposure requests comments on whether guidance on cloud computing arrangements is necessary for statutory accounting.	N	N	TBD
2016-25 2016-26	SSAP No. 23—Foreign Currency Transactions and Translations	P&C Life Health	<b>Nonsubstantive</b> – Exposed the following: <ul style="list-style-type: none"> <li>• Additional clarification for the translation of Canadian insurance operations.</li> <li>• Proposal to adopt the US-GAAP guidance in <i>ASU 2013-05 – Parents Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity</i> to incorporate guidance on when a parent reporting entity shall realize foreign currency translation changes in an investment of a foreign entity.</li> </ul>	Y	N	TBD
2016-27	SSAP No. 56—Separate Accounts	Life Health	<b>Nonsubstantive</b> – Exposed the recommendation from the Variable Issues Working Group to remove the disclosure of total maximum guarantees for separate account products.	N	Y	TBD

Ref#	Title	Sec.	Amendments Exposed	F/S Impact	Disclosure	Effect. Date
2016-28	<b>SSAP No. 61R— Life, Deposit-Type and Accident and Health Reinsurance</b>	Life Health	<b>Nonsubstantive</b> – Exposed the recommendation from the Variable Issues Working Group to update the variable annuities captive disclosure, and modify the effective date to be for 2016 and thereafter (eliminating the prior sunset language).	N	Y	TBD
2016-23 2011-44	<b>SSAP No. 84— Health Care and Government Insured Plan Receivables</b>	P&C Life Health	<b>Nonsubstantive</b> – Exposed the following: <ul style="list-style-type: none"> <li>• Clarification that receivables must originate from the government to qualify within the government plan exception and allowed admittance within 90 days past due. Requests comments on whether a longer time frame is needed for collection of performance network rebate receivables that do not originate from government plans, before nonadmittance.</li> <li>• A request for comment on whether there are other issues involving pharmacy rebates that need to be considered for statutory accounting.</li> </ul>	Y	N	TBD
2015-51 2016-29 2016-30 2016-32	<b>SSAP No. 86— Derivatives</b>	P&C Life Health	<b>Nonsubstantive</b> – Exposed the following: <ul style="list-style-type: none"> <li>• A request for comment on two approaches to define “notional amount.”</li> <li>• Proposed adoption, with modification, of <i>ASU 2016-05 – Effective of Derivative Contract Novations on Existing Hedge Accounting Relationships</i>, clarifying that a change in the counterparty to a derivative instrument does not, by itself, result in a termination of the derivative instrument.</li> <li>• A proposal to reject ASU 2016-06 and ASU 2016-03.</li> </ul>	N Y N	N N N	TBD TBD TBD
2016-21 2016-22	<b>SSAP No. 97— Subsidiary, Controlled and Affiliated Entities</b>	P&C Life Health	<b>Nonsubstantive</b> – Exposed the following: <ul style="list-style-type: none"> <li>• A proposed update to the references to the identified exchanges allowed under the market valuation method.</li> <li>• A clarification that subsidiary, controlled and affiliate supporting documentation submitted to and reviewed by the NAIC must be in English.</li> </ul>	Y	N	TBD
2016-16	<b>SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</b>	P&C Life Health	<b>Nonsubstantive</b> – Exposed a proposal to enhance disclosure requirements for repurchase and reverse-repurchase agreements with disclosure templates referred by the Restricted Assets Subgroup.	N	Y	TBD

Ref#	Title	Sec.	Amendments Exposed	F/S Impact	Disclosure	Effect. Date
2016-17	<b>Appendix A-010— Minimum Reserve Standards for Individual and Group Health Insurance Contracts</b>	P&C Life Health	<b>Nonsubstantive</b> – Exposed the proposed incorporation of the 2013 individual disability income valuation table with an effective date of January 1, 2020, with early adoption allowed beginning January 1, 2017.	Y	N	TBD
2016-19 2016-31 2016-33	<b>Appendix D— Nonapplicable GAAP Pronouncements</b>	P&C Life Health	<p><b>Nonsubstantive</b> – The following US-GAAP pronouncements are proposed to be rejected as not applicable to statutory accounting:</p> <ul style="list-style-type: none"> <li>• <i>ASU 2014-09 – Revenue from Contracts with Customers</i>: Partial rejection, revisions to Accounting Standards Codification (ASC) 606-10-55 and ASC 505-50 will be discussed in separate agenda items.</li> <li>• <i>ASU 2015-14 – Deferral of the Effective Date</i></li> <li>• <i>ASU 2016-04 – Recognition of Breakage for Certain Prepaid Stored-Value Products</i></li> <li>• <i>ASU 2016-10 – Identifying Performance Obligations and Licensing</i></li> <li>• <i>ASU 2016-11 – Rescission of SEC Guidance</i></li> </ul>	N	N	NA
2015-27	<b>Investment Schedules</b>	P&C Life Health	<p><b>Nonsubstantive</b> – Exposed alternatives for quarterly investment reporting, expanded from previously exposed options to include the possibility of a mid-year collection of investment data and a data-only (non-PDF) submission of Schedule D investments, with information detailing CUSIP, par value, book/adjusted carrying value and fair value to be received with the second quarter statutory financial statements.</p> <ul style="list-style-type: none"> <li>• Previously exposed alternatives received from interested parties:</li> <li>• NAIC to hire a consultant to aggregate NAIC investment data</li> <li>• Increase time to complete quarterly filings to complete electronic-only supplemental investment information OR</li> <li>• Replace quarterly acquisition and disposition schedules with a schedule of owned holdings</li> </ul>	N	Y	TBD

The SAPWG provided updates and provided direction to NAIC staff on the following items:

Ref#	Title	Sec.	Amendments Adopted	F/S Impact	Disclosure	Effect. Date
2013-36	Investment Classification	P&C Life Health	<p><b>Substantive</b> – The SAPWG provided the following direction:</p> <ul style="list-style-type: none"> <li>• Prepare an issue paper for bond-approved exchange-traded funds (ETFs) and bond mutual funds in scope of SSAP No. 26 to require measurement at fair value (using net asset value as a practical expedient), unless the reporting entity elects to use a domiciliary state approved documented “systematic value” approach.</li> <li>• Included in the issue paper the definition of a “security,” as well as definitions for non-bond items (e.g., loan participation, loan syndication).</li> <li>• Working Group also agreed to publicly post BlackRock’s responses to “Questions Raised on BlackRock’s Calculated Amortized Cost Valuation Proposal,” as well as BlackRock’s suggested systematic value calculation, and agreed to send a referral to the Valuation of Securities (E) Task Force requesting a review of BlackRock’s suggested calculation.</li> </ul>	Y	N	TBD
2016-02	SSAP No. 22—Leases	P&C Life Health	<p><b>Substantive</b> – The Working Group provided the following direction:</p> <ul style="list-style-type: none"> <li>• Prepare a draft issue paper to document actions and discussion on <i>ASU 2016-02—Leases</i></li> <li>• Although the existing accounting treatment for operating and financing leases by the lessee is recommended to be retained, this issue paper will also review other elements of the ASU (e.g., sale-leaseback accounting).</li> </ul>	Y	Y	TBD

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# Acronyms

**AAA**

American Academy of Actuaries

**ABA**

American Bankers Association

**ACLI**

American Council of Life Insurers

**AG**

Actuarial Guideline

**AHIP**

America's Health Insurance Plans

**AIA**

American Insurance Association

**BCR**

Basic Capital Requirements

**CARVM**

Commissioners' Annuity Reserve Valuation Method

**CAS**

Casualty Actuarial Society

**CDA**

Contingent Deferred Annuity

**CFPB**

Consumer Financial Protection Bureau

**ComFrame**

Common Framework for the Supervision of Internationally Active Insurance Groups

**FEMA**

Federal Emergency Management Agency

**FIO**

Federal Insurance Office

**FSAP**

Financial Sector Assessment Program

**FSB**

Financial Stability Board

**GAAP**

Generally Accepted Accounting Principles

**G-SII**

Global Systemically Important Insurer

**HLA**

Higher Loss Absorbency

**IAIG**

Internationally Active Insurance Group

**IAIS**

International Association of Insurance Supervisors

**ICP**

Insurance Core Principle

**ICS**

Insurance Capital Standard

**IMF**

International Monetary Fund

**MAV**

Market Adjusted Valuation

**MCAS**

Market Conduct Annual Statement

**MOCE**

Margin Over Current Estimate

**NAIC**

National Association of Insurance Commissioners

**NAMIC**

National Association of Mutual Insurance Companies

**NFIP**

National Flood Insurance Program

**PBR**

Principle-Based Reserving

**PRA**

Prudential Regulatory Authority of the Bank of England

**PCI**

Property Casualty Insurers Association of America

**RAA**

Reinsurance Association of America

**RBC**

Risk-Based Capital

**SSAP**

Statement of Statutory Accounting Principles

**SVL**

Standard Valuation Law

**SVO**

Securities Valuation Office (of the NAIC)

**TLAC**

Total Loss Absorbing Capacity

**VM**

Valuation Manual

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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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