NAIC update: Summer 2019 National Meeting

More than 2,300 attendees gathered in New York City for the 227th session of the National Association of Insurance Commissioners (NAIC). NAIC President and Maine Insurance Superintendent Eric A. Cioppa kicked off the 2019 Summer National Meeting, noting, "You could say that the NAIC is a lot like New York City. It is an organization comprised of people, ideals, and ideas. We are a diverse group determined to build a lasting foundation that can support new styles, and fresh thinking, amid changing demands."

With the backdrop of the bright lights of Broadway, regulators and attendees were treated to a performance by the Broadway Youth Ensemble during the NAIC opening session, and while the temperatures in the city that never sleeps were steamy over the August weekend, the dialogue within the sessions was equally as intriguing.

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The NAIC continues to make progress on the strategic priorities that President Cioppa laid out at the 2019 Spring National Meeting, which he highlighted during his opening remarks:

1. **Long-term care insurance:** Since the 2019 spring meeting the new task force has held regulator-only sessions. The task force held its first open meeting in New York, and President Cioppa reiterated "I have great faith in the ability of this group, and its leadership, to collaborate and find a sustainable path forward."
2. **Annuity Suitability and Best Interest Standard:** The Securities and Exchange Commission (SEC) finalized its Regulation Best Interest on June 5, 2019. As a result, the NAIC is working to understand how those rules impact the updates they are making to the Suitability in Annuity Transactions Model Regulation. President Cioppa reiterated that the NAIC should seek to harmonize the two to the greatest extent possible.
3. **Health insurance:** The NAIC is continuing to advocate for customers with continued uncertainty in the health insurance marketplace. "When the NAIC can offer guidance, and weigh in on federal regulations and pending legislation, we should—and will continue to do so. Our engagement has shown results through the inclusion of air ambulance provisions, which are part of the larger debate about surprise medical bills, taking place on Capitol Hill."
4. **Climate risk:** Data show that the strength, severity, and cost associated with natural disasters is increasing and has global effects. Climate Risk and Resilience Working Group met to discuss these issues. NAIC has additionally partnered with the Federal Emergency Management Agency (FEMA) to spread knowledge on insurance benefits. This is intended to help educate consumers about the risks and the marketplace available to them to help mitigate their risks. It was noted that only half of the $160 billion cost of natural disasters last year was insured.
5. **Data, innovation, and cyber:** Cybercrime continues to be a risk for insurers. The NAIC is midway toward completion of its cloud computing transition as part of its State Ahead program. In addition, the NAIC is beginning to explore uses for artificial intelligence (AI) by insurers and possible regulatory implications. The Center for Insurance Policy and Research (CIPR) held a program during the summer meeting on the use of AI in insurance. President Cioppa also highlighted the NAIC's progress on the State Ahead initiative. Of the 94 projects in the State Ahead plan, 32 have been completed, and the remaining 62 projects are either in progress or about to get started.
6. **Group capital:** Development of the group capital calculation continues with 33 groups participating in this year's field testing. Field testing volunteers will submit their completed templates to their lead states shortly. Those results will inform the final calculation, and it is the NAIC's intent to complete its work next year.
7. **Macroprudential initiative:** "The most significant issue is the construction of a liquidity risk assessment framework for life insurers. This work is primarily meant to inform the task force regarding the material impact, if any, the life insurance industry could have on the broader financial markets in the event of certain stresses," Mr. Cioppa stated. In addition, Mr. Cioppa commented that the NAIC is following the industry's investments in leveraged loans and collateralized loan obligations and has implemented a change that dis-incentivizes holdings of many structured finance products.
8. **International:** "Our responsibilities to our markets don't stop at the borders of our respective states or nation." The NAIC continues to be supportive of the International Association of Insurance Supervisor's (IAIS) strategic plan for 2020–2024. The NAIC continues to advocate for the state-based approach to insurance supervision for companies operating outside of the United States as the IAIS develops international regulatory standards. New York Department of Financial Services (NY DFS) Superintendent Linda Lacewell also spoke during the Opening Session, and highlighted NY DFS accomplishments. She started by describing the history of the NY DFS in which New York merged the banking and insurance departments after the financial crisis in 2008. Superintendent Lacewell then emphasized New York's commitment to promoting economic and community development.

Superintendent Lacewell detailed how NY DFS worked to achieve this goal by creating the Consumer Protection and Financial Enforcement Division. Additionally, a Consumer Advocate will be appointed in the department.

Superintendent Lacewell also highlighted the NY Best Interest Standard, which was recently upheld by the New York State Supreme Court[1]. She also emphasized the threat of cybersecurity to insurers. New York currently has a cyber regulation (23 NYCRR) which, as Superintendent Lacewell described, has helped create the basis for other model laws in other states. In addition, New York is also the first to create a cybersecurity division. She also discussed New York's efforts to have life insurers prove that they are not discriminating when using big data. During her opening speech, Superintendent Lacewell challenged her fellow commissioners to act as aggressively as New York in these areas.

Superintendent Lacewell's remarks ended with a call to action for more women within insurance leadership. She noted that out of the 56 NAIC territories, only 12 leaders are women, and women are 18 percent of the insurance C-suite. During the NAIC Summer National Meeting, the first women's leadership breakfast for regulators was held.

Long-term care looking to the future

For the first time, the Long-Term Care Insurance (EX) Task Force met during the NAIC Summer 2019 National Meeting. The task force outlined six workstreams: multi-state rate review practices, restructuring techniques, reduced benefit options and consumer notices, valuation of long-term care insurance (LTCI) reserves, non-actuarial variance among states, and data call design and oversight. The task force chair and commissioner from Virginia, Scott A. White, stated that he anticipates some of these workstreams will become their own working groups.

The task force then received comments from industry and other interested parties, including California Health Advocates, the Center for Economic Justice, and American Council of Life Insurers (ACLI) on the task force's charge to develop a consistent national approach for reviewing long-term care rates.

From the ACLI, customers value their long-term care coverage, and 90 percent will accept rate increases while less than 8 percent will choose to reduce benefits. Three elements were mentioned for contributing to a consistent national approach for long-term care filing: single point of review, uniform checklist, and uniform methodology.

Long-term care was also the focus of discussion in the Senior Issues (B) Task Force. The Society of Actuaries (SOA) presented on innovative, hybrid long-term care products. The first hybrid product highlighted was LifeStage Protection, which has a focus on providing life insurance during working years then flexing to long-term care. The SOA also highlighted the Retirement Plus hybrid long-term care product, which has a tax beneficial basis to accumulate and fund long-term care needs and benefits.

These hybrid products are quickly growing in popularity. In 2018, there were 461,000 policies with long-term care solutions, versus 228,000 policies with long-term care solutions in 2015. Additionally, in 2018, combination products represented 27 percent of the overall US individual life insurance market.

Photo courtesy of the NAIC

Consumers' need for insurance continuation for both the uninsured and the underinsured

Customers remaining uninsured and underinsured in both their retirement funds and home insurance was a common theme at the Summer 2019 National Meeting.

During the Life Insurance and Annuities (A) Committee, the Insurance Retirement Institute (IRI) presented on consumer retirement funds. Per the IRI, more than 40 percent of Baby Boomers have no retirement savings at all, and only 25 percent are confident they will have enough money to last throughout retirement. Retirement can last 30 years with an average spending of $46,000 per year. Most retirees do not have a formal written retirement plan, with only 27 percent of retirees having a plan.

The IRI research shows that having financial advisors and purchasing annuities helps prepare consumers for retirement. More than six in ten retirees work with a financial advisor. Those with a financial advisor saved more money than those without, and the majority believe they would be financially worse without their advisor. Eight in ten annuity owners receiving lifetime income payments are reported to be very to somewhat satisfied with their annuity.

Similarly, during the Property and Casualty Insurance (C) Committee, there was a presentation on consumer home insurance by United Policyholders. Most homes in the United States are underinsured and cannot cover reconstruction costs in the event of total loss. Fifty to sixty percent is the consistent figure of homes destroyed in wildfires that are uninsured and aligns with the United Policyholders Roadmap to Recovery survey results, which showed two-thirds of respondents do not have enough insurance to repair, rebuild, and replace the cost of their home. The rise of deductibles further contributes to the lack of insurance.

Some solutions that have been tried to date include disclosures, public education, mandatory insurance, accurate estimating at point of sales, and mandated minimum and extended coverages. There is a desire to maintain home insurance quality, availability, and affordability in order to encourage the purchase of home insurance sufficient to cover losses.

Photo courtesy of the NAIC

Innovation and technology improving existing processes and leveraging new approaches

Innovation and technology in insurance continues to be a topic of frequent at the NAIC.

Claims analytics was emphasized during presentations by National Insurance Crime Bureau (NICB) and Insurance Services Office, Inc. (ISO) during the Big Data (EX) Working Group. Each presented on utilizing analytics in the claim settlement process and fraud detection. As claims is an important touchpoint with the consumer, and has a financial impact to insurers, it is important to continuously improve the claims settlement process. The presentations emphasized the use of innovative technology such as aerial imagery to help identify damage and process claims more efficiently. Additionally, analytics can be used to reduce fraud in insurance claims. Per the ISO presentation, the annual fraud estimate for all lines of insurance is $80 billion, and 66 percent of insurers feel that fraud has increased. In addition, regulators continue to express questions and concerns on the utilization of credit scores, ZIP codes, and other criteria that could have a disparate impact to consumers. During the Life Insurance and Annuities (A) Committee session, the discussion turned to the use of external data being used in underwriting, with the impact extending beyond just life and health insurance, and that the third-party data agencies are not regulated entities. During this session a motion was passed to appoint the Accelerated Underwriting (A) Working Group with the following charge: "Consider the use of external data and data analytics in accelerated life underwriting, including consideration of the ongoing work of the Life Actuarial (A) Task Force on the issue and, if appropriate, drafting guidance for the states."

Utilizing artificial intelligence in the insurance industry was a recurring topic throughout the meeting. Most notably, CIPR held a session called "Demystify the Usage of AI in Insurance." Two presentations on AI were heard—the first by Halo Insurance CEO Satadru Sengupta on how AI has transformed the insurance industry, and the second by Carpe Data CEO Max Drucker on AI and next-generation data. The two presenters were then joined by Peter Kochenburger (associate clinical professor of law at University of Connecticut School of Law) and North Dakota Insurance Commissioner Jon Godfread for a panel on the impact of AI on the future of insurance. Topics of conversation included how AI is built, how AI can be trusted, how AI can be used in insurance, and the prevention of biased decision making based on potential bias in the underlying data. Additionally, the NAIC will continue to explore the topic of AI as the Artificial Intelligence (EX) Working Group was adopted in the meeting of the Innovation and Technology (EX) Task Force to be chaired by Commissioner Godfread.

In the Casualty Actuarial and Statistical Task Force, two sections of the Best Practices for Regulatory Review of Predictive Analytics were exposed: proposed changes to the *Product Filing Review Handbook* and proposed state guidance. The remaining sections are in progress, and any remaining issues can likely be resolved in one exposure as the remaining sections are less controversial. During the Innovation and Technology (EX) Task Force, there was a focus on anti-rebating. Commissioner Godfread expressed the difficulty InsurTech companies have found with the anti-rebating law interpretation. Compliance challenges exist due to the inconsistencies in law interpretation. After discussing the process for pursuing model law and model regulation, a presentation from the National Council of Insurance Legislators (NCOIL) was heard on its anti-rebating activity. The task force then adopted a motion to develop a Model Law Request (MLR) to pursue an amendment to NAIC's Unfair Trade Practices Act.

Data privacy and cybersecurity was also a discussion topic during the Innovation and Technology (EX) Task Force. Director Farmer of South Carolina discussed the tabletop exercises that have been held in conjunction with the US Department of the Treasury. He also emphasized the importance of the Insurance Data Security Model Law and that six states have adopted this model law to date. The NAIC also highlighted its legal efforts on the three model laws governing privacy: the Health Information Privacy Model Act, the Insurance Information and Privacy Protection Model Act, and the Privacy of Consumer Financial and Health Information Regulation. A charge was referred to the Market Regulation and Consumer Affairs (D) Committee to review state insurance privacy protections of the collection, use, and disclosure of information gathered and to recommend changes to the model laws if needed.

Annuity suitability and “best interest”: The work continues

In the meeting of the Annuity Suitability (A) Working Group, discussions were continued on the Suitability in Annuity Transactions Model Regulation. Chair Jillian Froman from Ohio stated the group was working toward a model that was “less than the fiduciary standard but more than suitability.” James Regalbuto of New York highlighted that Insurance Regulation 187 was recently upheld by the New York State Supreme Court.

The group discussed language for the care obligation, documentation obligation, and supervision obligation in the Suitability in Annuity Transactions Model Regulation. The discussion started with the care obligation regarding both “reasonable basis to believe consumer would benefit from features of annuity” and “reasonable basis to believe product as a whole would address consumer’s needs.” A suggestion was made to update the language in the first statement to “annuity and its features.” According to Iowa Commissioner Doug Ommen, elements of suitability are in best interest, so the concept of suitability cannot be disregarded.

The discussion then moved to the documentation obligation to “obtain customer signed statement of customer’s refusal to sign profile.” This discussion surrounded the balance of consumers providing information and receiving adequate information about the annuity. They want to avoid the customer receiving little information, and the advisor is guiding toward a recommendation while claiming that no recommendation was made.

The final discussion topic was the supervision obligation for “Carrier only has to supervise its own products (does not have to take into account other carrier’s products).” While there was limited time remaining in the session for this topic, the discussion focused on the agent being licensed to sell the different products and having the knowledge to make recommendations.

The meeting adjourned with the working group stating that additional wordsmithing will continue on all three topics discussed. The next steps for the group are to have an initial draft in September, which would be reviewed on weekly conference calls beginning in October. The goal is to complete drafting of the Model Regulation prior to the NAIC Fall 2019 National Meeting held in December.

Photo courtesy of the NAIC

International regulatory developments and US involvement

The International Insurance Relations (G) Committee meeting included IAIS Secretary General Julian Dixon. The committee discussed a number of important topics. At the conclusion of the meeting it was noted that time had expired to cover the full agenda and a written update was included as an appendix to the meeting minutes of the additional international items not covered.

International Monetary Fund (IMF) has launched its third Financial Sector Assessment Program (FSAP) of the US financial regulatory system that includes the insurance sector. Previous assessments were carried out in 2009–10 and 2014–15. The third assessment will take place and report for 2019–2020. IMF will visit with several states during its assessment.

The majority of the committee meeting focused on IAIS initiatives:

Holistic Framework for Systemic Risk

Revised IAIS policy measures for targeting systemic risk in the insurance sector are set in the November 2018 consultation document. IAIS is now seeking to set its timeline for the development and finalization for implementation of the holistic framework. IAIS noted general support for the decision to suspend the current identification process for Global Systemically Important Insurers (G-SIIs). The revised framework for the insurance sector will look to focus on activities, looking across sectors and leveraging existing tools and frameworks.

The Insurance Capital Standard (ICS)

2019 field testing of a global capital standard for insurance, aiding supervisory comparison across jurisdictions, is nearing its conclusion. Over the next five years the ICS will enter a monitoring period when Internationally Active Insurance Groups (IAIGs) will submit a confidential filing that references ICS allowing the IAIS to monitor its design performance. During this time the ICS will not be used as a Prescribed Capital Requirement (PCR). At the end of the monitoring period the IAIS will be in a position to decide whether the aggregation method, which will be considered in parallel to the ICS during the monitoring period, provides comparable outcomes to the ICS. The IAIS meeting in November, hosted in Abu Dhabi, will be important in deciding comparability criteria.

IAIS Strategic Plan 2020–2024

Jonathan Dixon set out the new IAIS Strategic Plan 2020–2024. The plan reflects a number of new strategic priorities which see the IAIS pivot from its post financial crisis reform agenda to focus on implementing those reforms and to increasingly focus on emerged/emerging trends. IAIS will work with regulators around the world to build increased supervisory capacity through sharing of supervisory best practices. Emerged/emerging risk examples include FinTech, cyber risk, and climate risk. The NAIC noted that these topics are important workstreams that the NAIC will continue to discuss through 2019 and beyond.

Photo courtesy of the NAIC

Healthcare update

The mission of the Health Insurance and Managed Care (B) Committee is to consider issues relating to all aspects of health insurance, one of those specific charges being the examination of factors that contribute to rising health care costs and insurance premiums, including the review of initiatives to address those cost drivers. During the Summer 2019 meeting the Health Insurance and Managed Care (B) Committee continued to focus on the individual health plan market environment in light of recent proposed government regulation related to the need for greater transparency surrounding hospital pricing.

In accordance with the current Centers for Medicare & Medicaid Services proposal, effective January 1, 2020, hospitals would be required to publicly post their standard prices for medical services. Further, hospitals would be required to post all of their negotiated rates with individual health plan payors in order to generate more meaningful pricing information for the consumer. The deadline for submitting comments on the proposed rule is September 27, 2019. The proposed rule (CMS-1717-P) can be downloaded from the Federal Register at: https://www.federalregister.gov/public-inspection.

The current administration seeks to provide consumers the information they need to make more informed decisions, with the goal of ultimately creating greater market competition, and driving down healthcare costs for consumers, which will in turn decrease healthcare costs for the individual health plan. This proposed legislation comes on the heels of rising public scrutiny surrounding the ever-increasing cost of healthcare and private insurance premiums attributable to those rising costs, which tend to vary significantly by region, hospital, and payor.

Among the numerous studies performed on this topic, in conjunction with the Health Innovations (B) Working Group, RAND Corporation presented its findings from an employer-led hospital price transparency study. Results of the RAND study indicate that, on average, the private health plan payor pays over 200% of Medicare inpatient and outpatient healthcare rates. However, there is significant disparity among the population of states surveyed, whereas many states' healthcare rates exceed the study average. For example, Michigan is trending on average at 150% of Medicare rates, staying relatively unchanged over the course of the past three years. In stark contrast, Indiana soared to as much as 400% of Medicare rates, with rates steadily on the incline.

Complex and secretive pricing strategies formulated by hospitals contribute to this dichotomy. Unlike Medicare rates, the rates hospitals negotiate with private health plan payors are often calculated based on tens, if not hundreds, of factors, some of which are intangible.

Under the proposed legislation private health plan payors will have an opportunity to disrupt historical healthcare pricing methodologies. Through more informed decision making and better leveraging of negotiated hospital contracts, health plan payors could achieve lower healthcare costs. However, more importantly, health plan payors will have an opportunity that could directly result in overall better patient experience through more affordable quality care.

Actuarial update

Life Actuarial Task Force (LATF)

Exposure of the 2020 Generally Recognized Expense Tables (GRET)

The SOA presented on the 2020 Generally Recognized Expense Tables (GRET) for use with individual life insurance sales illustrations. The Task Force exposed the GRET report for a 30-day public comment period, ending September 9.

Adoption of the July 11 minutes of the VM-22 (A) Subgroup

The Task Force adopted the minutes of the VM-22 Subgroup, which discussed drafted revisions to Section 2 of VM-22, Maximum Valuation Interest Rates for Income Annuities. The purpose of these revisions is to add assumption and methodology guidance for income annuities, and to provide clarity about how to consider the methodology and assumption guidance in AG IX-A, AG IX-B, and AG IX-C, alongside the valuation interest rate guidance in VM-22.

Highlights of the proposed guidance are as follows:

1. Level and non-level payment contracts will be treated the same for purposes of setting the maximum valuation interest rate.
2. A minimum standard reserve is defined, based on a seriatim calculation.
3. Companies may use methods other than the seriatim calculation defined in the minimum standard reserve, provided a qualified actuary certifies that the reserve does not fall below the minimum standard.
4. Reinvestment risk is addressed by re-determining the maximum valuation interest rate on every thirtieth anniversary of the contract's premium determination date.

Adoption of Actuarial Guideline LII—Variable Annuity Early Adoption (AG 52)

The Task Force adopted AG 52, which provides for the option of early adoption of the Variable Annuities Framework for year-end 2019 as provided in the Variable Annuities Framework requirements.

Adoption of the report and minutes of the IUL Illustration (A) Subgroup

There was significant discussion around considerations for illustration of indexed universal life (IUL) policies with interest rate multipliers. There is concern around assets subject to a multiplier allowed to accumulate at the excess 45 percent disciplined scale rate resulting in favorable illustrated scales that are unlikely to occur.

The subgroup exposed two questions related to the treatment of interest rate multipliers for a 30-day public comment period.

Adoption of the report of the Experience Reporting (A) Subgroup

The subgroup has focused on accelerated underwriting experience and appropriate structure for collection of variable annuity policyholder behavior experience. Experience reporting under VM-51 will be submitted during 2020, and related trainings are available.

Valuation Manual amendments

Adopted

- Amendment proposal 2019-25, which clarifies when the capping of face amounts in mortality-related experience study calculations is appropriate.
- Amendment proposal 2019-45, which clarifies the VM-20 explanation of rules for grading from company experience to industry table.
- Amendment proposal 2019-55, which replaces references to "product group" with "VM-20 Reserving Category."
- Amendment proposal 2019-38, which reverts to the 2001 Commissioners Standard Ordinary (CSO) Mortality table for guaranteed issue.
- Amendment proposal 2019-32, which reduces the allocation of a deterministic or stochastic reserve in excess of the net premium reserve to policies that did not generate such excess.
- Amendment proposal 2019-31, which removes the condition for a nonqualified actuarial opinion from the life principle-based reserving (PBR) exemption.
- Amendment proposal 2019-36, which suspends experience reporting in the event of a material deficiency or breach.
- Amendment proposal 2019-39, which provides for an interim solution to the yearly renewable term (YRT) reinsurance reserve credit issue. The proposal limits the reserve credit to ½ cx and includes a three-year carve-out for policies issued in 2017–2019 to avoid disrupting the market.
- Various amendment proposals to incorporate the VA Framework into the Valuation Manual:
  1. Actuarial Guideline XLIII—CARVM for Variable Annuities (AG 43).
  2. Amendment proposal 2019-26, which relates changes to VM-01, Definitions for Terms in Requirements.
  3. Amendment proposal 2019-27, which relates changes to VM-21, Requirements for Principle-Based Reserves for Variable Annuities.

4. Amendment proposal 2019-55, which relates changes to VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Reserve Valuation.

Other

- Agreed to proceed with the development of a request for proposal (RFP) for an economic scenario generator to replace ESGs currently used in the Valuation Manual.

Other topics of discussion

- The American Academy of Actuaries (Academy) Annuity Reserves Work Group gave an update on the proposed timeline and approach for the development of a PBR framework for non-variable annuities.
- The Academy SVL Interest Rate Modernization Work Group gave an update on the treatment of valuation interest rates for payout annuities with non-level payments and approaches for adjustment to valuation interest rates for payout annuities.
- The Academy Life Reserves Work Group gave an update on a proposal for the Valuation Manual treatment of conversion mortality. There is currently a range in practice for companies determining reserves for conversions (e.g., group term to individual or from individual term to permanent). The goal of this proposal will be to clarify whether a conversion reserve is required, and to provide for additional disclosure in VM-31.

Health Actuarial Task Force

Adoption of the Health Care Reform Actuarial Working Group report

The task force adopted the report of the Health Care Reform Actuarial Working Group. Included was an update from the Federal Center for Consumer Information and Insurance Oversight (CCIIO) including updates on federal Affordable Care Act (ACA) issues.

Other topics of discussion

- Kathy Riley (Actuarial Standards Board [ASB]) and Godfrey Perrott (Actuarial Board for Counseling and Discipline [ABCD]) gave an update from the Academy Council on Professionalism. Included was some discussion on proposed and current ASOPs:
    - Modeling and Setting Assumptions Proposed ASOP, fourth exposure draft released earlier this year.
    - Setting Assumptions Proposed ASOP draft will be revisited in 2020.
    - ASOP No. 28, Statements of Actuarial Opinion Regarding Health Insurance Liabilities and Assets will be reviewed in September.
    - ASOP No. 3, Continuing Care Retirement Communities will be reviewed in December.
    - ASOP No. 18, Long-Term Care Insurance will be reviewed in the near future.
- Dale Hall (SOA) gave an update on SOA health insurance research.

Casualty Actuarial and Statistical Task Force

Adoption of the Actuarial Opinion Working Group report

The task force adopted the report of the Actuarial Opinion Working Group. The Working Group adopted a response to the prior referral from the Financial Examiners Handbook Technical Group to review the property and casualty (P/C) reserves and claims handling exam repository. Another exposure of proposal is expected in August or September.

A proposed Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion (Regulatory Guidance) document contains guidance on actuarial qualification documentation to align with proposed changes to the 2019 Statement of Actuarial Opinion (SAO) instructions. The document was exposed for a public comment period ending July 8.

Adoption of the Statistical Data Working Group report

The Task Force adopted the report of the Statistical Data Working Group. The Working Group is reviewing the calculations for the profitability report.

Discussed the predictive analytics white paper

The Task Force discussed comments received on its white paper on best practices for regulatory review of predictive analytics. The white paper will be re-exposed for comment.

Other topics of discussion

- AS/SOA Task Force's Appointed Actuary CE Verification Process
- Academy's Committee on Property and Liability Financial Reporting (COPLFR) identified ambiguities in guidance for reporting portfolio retroactive reinsurance or loss portfolio transfer.

Big Data Working Group

Insurance Services Office (ISO) presented on the use of big data in fraud detection and claim settlement. Included was an overview of the ISO's ClaimSearch system (insurance fraud detection), Verisk Weather (provides historical weather data and loss exposure analysis), and ClaimXperience (policyholder collaboration portal).

The National Insurance Crime Bureau (NICB) presented on its efforts to identify fraud, including an overview of the NICB's Geospatial Intelligence Center, which provides aerial imagery to identify post-catastrophe losses, identify potential fraud, and speed up the claim settlement process.

The Casualty Actuarial and Statistical Task Force gave an update on revisions to its draft white paper on best practices for the regulatory review of predictive analytics.

NAIC accounting update

This section of the NAIC update focuses on accounting and reporting changes discussed, adopted, and exposed by the Statutory Accounting Principles (E) Working Group (SAPWG), the Accounting Practices and Procedures (E) Task Force, and the Financial Condition (E) Committee during the Summer 2019 National Meeting. Substantive changes finalized during these meetings have explicit effective dates as documented below. All non-substantive changes finalized during these meetings are effective upon adoption unless otherwise noted.

Statutory Accounting Principles Working Group

Current developments: The SAPWG adopted the following ***substantive*** items as final during the 2019 summer meeting:

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date

2016-02	*SSAP No. 22R—Leases*
	
	Issue Paper No. 161—Leases
		P&C
		Life
		Health
			SAPWG adopted a revised statement of statutory accounting principle (SSAP) that rejects ASU 2016-01, Leases. Statutory accounting maintains the operating lease concept. The key statutory conclusions are as follows:
			• Rejection of U.S. GAAP treatment for the following:
			  · Financing leases, except for sale-leaseback transactions that fail sale accounting requirements.
			  · Recognition of the right to use assets and related liabilities
			• Effective: January 1, 2020
			
			Applied prospectively, with early adoption permitted.
				Y	Y	2020

2017-28	*Issue Paper No. 162—Reinsurance Credit*	P&C	SAPWG adopted the substantive revisions to SSAP No. 62R—Property and Casualty Reinsurance in 2018. This item adopts the related issue paper that documents the discussion and conclusions clarifying requirements for recognizing credit for reinsurance.	N	N	2018

Current developments: The SAPWG adopted the following ***substantive*** items as final during the 2019 Interim Period and Summer Meeting:

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-06	*Preamble* *SSAP No. 50—Classifications of Insurance of Managed Care Contracts* *SSAP No. 51R—Life Contracts* *SSAP No. 52—Deposit-Type Contracts* *SSAP No. 54R—Individual and Group Accident and Health Contracts* *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* *SSAP No. 56—Separate Accounts* *SSAP No. 71—Policy Acquisition Costs and Commissions* *SSAP No. 86—Derivatives*	P&C Life Health	Revisions reject U.S. GAAP guidance related to ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts for statutory accounting.	N	N	2019
2018-04	*SSAP No. 21R—Other Admitted Assets*	P&C	Revisions clarify that even though an investment may be collateralized, it cannot be accounted for and reported as a collateral loan.	N	N	2018
2019-03	*SSAP No. 25—Affiliates and Other Related Parties* *SSAP No. 26R—Bonds* *SSAP No. 32—Preferred Stock* *SSAP No. 43R—Loan-Backed and Structured Securities* *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*		Revisions clarify the scope of SSAP No. 25 applies to transactions between affiliates and related parties even when a non-affiliate, non-related party acts as an intermediary in transactions. For example, if an insurer transfers invested assets to an independent trustee under SSAP No. 43R, any acquisition of securities issued from the independent trust that are backed by the original transferred assets are considered affiliated transactions and within the scope of SSAP No. 25.	N	N	2019

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date

2018-32	*SSAP No. 26R—Bonds*	P&C
		Life
		Health
			Revisions provide guidance for called bonds when the amount received is less than par. Previous guidance only addressed situations when amounts received exceeded par. The revisions provide explicit guidance and may impact the asset valuation reserve (AVR) and/or the interest maintenance reserve (IMR) and net income. Updated guidance is as follows:
			• Amount to be recognized in investment income:
			  ◦ If existing book adjusted carrying value (BACV) is greater than the consideration received resulting from the call, the entire difference between the consideration received and the BACV.
			  ◦ Otherwise, the amount explicitly identified by the reporting entity as prepayment penalty or acceleration fee from its identification process, if such a process exists at the reporting entity, consistently applied.
			• Amount to be recognized as realized capital gain:
			The difference (or remaining difference if the reporting entity identified prepayment penalties or acceleration fees) between the consideration received from the called bond and the existing BACV and is subject to SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve.
				Y	N	2019

2019-07	*SSAP No. 26R—Bonds* *SSAP No. 72—Surplus and Quasi-Reorganizations*	P&C Life Health	Revisions clarify the initial valuation of the bond received as a property dividend or as a capital contribution in an economic transaction to be recorded at fair value. Non-economic transactions are valued under SSAP No. 25—Affiliates and Other Related Parties or SSAP No. 95—Nonmonetary Transactions.	N	N	2019

2018-22	*SSAP No. 37—Mortgage Loans*	P&C
		Life
		Health
			Revisions clarify the scope of the guidance for mortgage loans focusing on those acquired by participation agreements. The updated guidance makes the following clarifications:
			• Guidance only applies to participation agreements in a single mortgage loan.
			• Description of participation agreements that are within the scope of the guidance.
			• Requires a signed participation agreement with the lender of record, including recording requirements in the books and records of the lender.
			• Requires pari-passu interest with the lender of record.
			• Excludes "bundled mortgage loans" and explicitly requires the participation agreement to invest in a single mortgage loan.
			  ◦ Can have more than one lender.
			  ◦ Can have more than one borrower.
			Cannot have more than one mortgage loan in a sole transaction.
				N	N	2019

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2018-03	*SSAP No. 43R—Loan-Backed and Structured Securities*	P&C Life Health	Revisions require securities with differing NAIC designations by acquisition lot to be reported in aggregate at either the lowest NAIC designation or reported in groupings by differing NAIC designation.	N	N	2019
2019-11	*SSAP No. 62R—Property and Casualty Reinsurance*	P&C Life Health	Revisions clarify that the effective date for 2018 revisions to SSAP No. 62R that incorporated U.S. GAAP guidance previously adopted by reference applies to contracts in effect as of January 1, 2019. If a change is required to prior application, it shall be applied as a change in accounting principle.	Y	N	2019
2019-09 2019-10	*SSAP No. 101—Income Taxes*	P&C Life Health	Revisions to the statement Implementation Q&A address the following items: • Examples and other guidance updated to reflect impact of the federal Tax Cuts and Jobs Act. • Clarification to the admittance guidance for deferred tax assets that can be offset by deferred tax liabilities, noting that scheduling is only required to the extent that it was necessary to review reversal patterns of deferred tax items when determining the need for a statutory valuation allowance adjustment. • Effective: December 31, 2019 Any change resulting from these nonsubstantive revisions is treated as a change in accounting principle under *SSAP No. 3—Accounting Changes and Corrections of Errors.*	Y	N	2019
2019-05	*SSAP No. 103R—Transfers and Servicing of Financial Assets and Extiguishments of Liabilities*	P&C Life Health	Revisions reduce the disclosure requirements for repurchase and reverse repurchase transactions as follows: • Remove the counterparty information from the disclosure. • Remove the default disclosure from the data-captured disclosure. Remove "minimum" balances and "average daily balance" from the disclosure. (Maximum activity and ending balance continue as disclosure requirements for each reporting date.)	N	Y	2019
2019-16 2019-17	*Appendix D—Nonapplicable GAAP Pronouncements*	P&C Life Health	Revisions to reject the following U.S. GAAP Accounting Standards Updates (ASU) as not applicable to statutory accounting: • *ASU 2015-08, Pushdown Accounting – Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115* • *ASU 2019-02, Entertainment, Improvements to Accounting for Costs of Films and License Agreements for Program Materials (a consensus of the FASB Emerging Issues Task Force)*	NA	NA	NA

The SAPWG exposed the following items for written comments (due by October 11, 2019) by interested parties:

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-04	*SSAP No. 32—Preferred Stock*	P&C Life Health	***Substantive*** – Proposed revisions to accounting and reporting guidance for preferred stock reflect the following key elements, as noted within the issue paper: • Proposed changes to the definition of preferred stock to be consistent with the NASDAQ definition (as it is more encompassing of the characteristics of preferred stocks), with inclusion of information from U.S. GAAP for classifying preferred stock as redeemable or perpetual. The proposed revisions also incorporate a new exhibit to capture various terms prevalent in preferred stock. • Proposed revisions to the measurement guidance to ensure appropriate, consistent measurement based on the type of preferred stock held and the terms of the preferred stock (generally fair value with applicable limits). The revisions also incorporate guidance for mandatory convertible preferred stock. Incorporates revisions to clarify impairment guidance as well as guidance for dividend recognition and redemption of preferred stock with the issuer.	Y	N	TBD
2019-20	*SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*	P&C Life Health	***Nonsubstantive*** – Proposed revisions to restrict investments from being reported as cash equivalents or short-term investments when maturities are designed to continuously roll into another period. Existing guidance requires classification to be determined based on maturity at acquisition date. When investments of this design continue to be reported as cash equivalent or short-term investments but roll into another maturity period past the original maturity date, unintended effects to risk-based capital and NAIC designation can occur.	TBD	Y	TBD

2019-21	*SSAP No. 43R—Loan-Backed and Structured Securities*	P&C
		Life
		Health
			Nonsubstantive – In this agenda item, the NAIC is taking an explicit position that the original intent of the scope of SSAP No. 43R was to include structured securities composed of bond-like investments. As a result, the NAIC has exposed proposed revisions to exclude the following from the scope of SSAP No. 43R:
			• Equity instruments, investments (or securitizations) with underlying assets that include equity instruments, or structures representing an equity interest (e.g., joint venture, LLCs, partnerships). The example investment provided in the exposure is a collateralized fund obligation.
			  ◦ Under exposed guidance, should be reported as an equity interest on Schedule BA—Other Long-Term Invested Assets.
			• Securitization of assets that were previously reported as stand-alone assets by the reporting entity.
			  ◦ Not permitted to repackage existing assets as "securitizations" to move the reporting of the existing assets within scope of SSAP No. 43R.
			Continue to be reported as the original investment as if securitization or repackaging had not occurred.
				TBD	TBD	TBD

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-08	*SSAP No. 51R—Life Contracts* *SSAP No. 52R—Deposit-Type Contracts*	P&C Life Health	***Nonsubstantive*** – This agenda item is in response to identified classification and reporting inconsistencies of guaranteed investment contracts and other deposit-type contracts on the exhibits in the annual statement. The SAPWG re-exposed this item requesting input from industry, state regulators, and the Financial Stability (EX) Task Force regarding the current practice and guidance and whether there is a need to broaden existing guidance to allow for more explicit product types allowing for better regulatory assessment.	TBD	TBD	TBD
2019-20	*SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*	P&C Life Health	***Nonsubstantive*** – Re-exposed proposed revisions clarifying the following: • Loss and loss adjustment expense and related liabilities are established regardless of payments to third parties (except for capitated health claim payments). • The liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted. • Prepayments to third-party administrators, which are not related to claims or loss adjusting expense, are considered "miscellaneous underwriting expenses." The revisions also added a reference to SSAP No. 84 regarding prepayments to providers.	TBD	Y	TBD
2017-28	*SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* *Appendix A-791, Life and Health Reinsurance*	Life Health	***Nonsubstantive*** – Exposed proposed revisions to SSAP No. 61R disclosure requirements and revisions that expand Appendix A-791 question and answer section regarding the following: • Applicability of Appendix A-791 • Treatment of contracts subject to the medical loss ratio (MLR) • An Appendix A-791 question and answer regarding the treatment of group term life yearly renewable term (YRT) agreement	TBD	TBD	TBD
2019-12	*SSAP No. 68—Business Combinations* *SSAP No. 97—Subsidiary, Controlled and Affiliated Entities*	P&C Life Health	***Nonsubstantive*** – Re-exposed the following updated proposed revisions: • Revisions reassess ASU 2014-17, Business Combinations – Pushdown Accounting for statutory accounting with a request for comments on whether pushdown shall be (1) rejected, (2) permitted for non-insurance entities, or (3) permitted only for Securities and Exchange Commission registrants. The exposure also proposes that goodwill resulting from an insurance reporting entity's acquisition of a subsidiary, controlled and affiliated entity (SCA) when pushdown is applied shall be captured in the goodwill admittance limitation.	TBD	TBD	TBD

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-14	*SSAP No. 68—Business Combinations* *SSAP No. 97—Subsidiary, Controlled and Affiliated Entities*	P&C Life Health	***Nonsubstantive*** – This item relates to Working Group concern with goodwill associated with non-insurance holding company investments in other entities when the look-through method of admission is applied to unaudited non-insurance holding companies and their other invested entities. • Re-exposed modified proposed revisions to SSAP No. 68 and SSAP No. 97 only to clarify: ◦ Goodwill attributed to audited downstream entities can be admitted. Goodwill attributed to unaudited downstream entities is non-admitted. The "assignment" of goodwill is a disclosure element, with proposed disclosure revisions related to allocation of goodwill to entities within downstream holding companies.	TBD	Y	TBD
2019-29	*SSAP No. 68—Business Combinations* *SSAP No. 97—Subsidiary, Controlled and Affiliated Entities*	P&C Life Health	***Nonsubstantive*** – Exposed proposed revisions to reject ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities for statutory accounting.	TBD	TBD	TBD
2019-24	*SSAP No. 71—Policy Acquisition Costs and Commissions*	P&C Life Health	***Nonsubstantive*** – Exposed proposed revisions to clarify levelized commissions guidance and provide additional direction regarding commissions that are based on policy persistency. • A levelized commission arrangement (whether linked to traditional or nontraditional elements) requires the establishment of a liability for the full amount of the unpaid principal and accrued interest payable to a third party at the time the policy is issued. • The persistency commission is accrued proportionately over the policy period in which the commission relates to and is not deferred until fully earned. The revisions also clarify that recognition of commission expense is accrued based on experience to date.	TBD	TBD	TBD
2019-18	*SSAP No. 86—Derivatives*	P&C Life Health	***Nonsubstantive*** – This item originated from the guidance for structure notes adopted earlier this year. Re-exposed revisions to clarify that "other" derivatives not used in hedging, income generation or replication shall be reported at fair value and do not qualify as admitted assets.	TBD	N	TBD

Ref#	Title	Sec.	Amendments exposed	F/S impact	Disclosure	Effect. date
2018-26	*SSAP No. 97—Subsidiary, Controlled, and Affiliated Entities*	P&C Life Health	***Nonsubstantive*** – Re-exposed additional clarification of the statutory equity method when losses exceed the investment's carrying value. (Generally, the statutory equity method is suspended when the carrying value of the investment reaches zero, unless there is a financial commitment or guarantee to the entity.) • The latest exposure proposes to require a financial commitment or guarantee for an SCA entity to be recognized as a non-contingent guarantee liability. These proposed revisions differ from the prior exposure by requiring the entire financial guaranty or commitment for an SCA within scope of SSAP No. 5R and report a zero value for SCAs with a negative equity value.	TBD	TBD	TBD
2019-23	*SSAP No. 97—Subsidiary, Controlled and Affiliated Entities*	P&C Life Health	***Nonsubstantive*** – This item is the result of the NAIC discovery that audit opinions of certain SCA entities did not contain a going concern explanation that would trigger non-admission even though the financial statement footnotes included a going concern disclosure. Exposed proposed revisions to clarify that if an unalleviated going concern is noted in the audited financial statements or audit opinion, the SCA shall be non-admitted.	N	N	TBD
2019-28	*SSAP No. 100R—Fair Value*	P&C Life Health	***Nonsubstantive*** – Exposed proposed revisions to reject ASU 2019-05, Targeted Transition Relief related U.S. GAAP guidance for credit losses (CECL), as the guidance is not applicable to statutory accounting.	N	N	NA
2019-22	*SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*	P&C Life Health	***Nonsubstantive*** – Exposed proposed revisions to clarify that only investments that meet the definition of a wash sale in accordance with SSAP No. 103R that cross reporting period-end dates would be subject to the wash sale disclosure.	TBD	Y	TBD
2019-26	*Appendix A—Excerpts of NAIC Model Laws*	P&C Life Health	***Nonsubstantive*** – Exposed proposed revisions to incorporate changes to Appendix A-785, Credit for Reinsurance related to the "Bilateral Agreement Between the United States of American and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (Covered Agreement) adopted to the Credit for Reinsurance Model Law (No. 785) and the Credit for Reinsurance Model Regulation (No. 786).	Y	N	TBD
2019-30 2019-31	*Appendix D—Nonapplicable GAAP Pronouncements*	P&C Life Health	***Nonsubstantive*** – Proposed revisions to reject the following ASUs as not applicable to statutory accounting: • *ASU 2019-03, Updating the Definition of Collections* • *ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*	N	N	TBD

The SAPWG also took the following actions, received updates, and provided direction to the NAIC staff on the following items:

Ref#	Title	Sec.	Amendments exposed	F/S impact	Disclosure	Effect. date
2018-07	*SSAP No. 41—Surplus Notes*	P&C Life Health	The Working Group received a referral from the Reinsurance (E) Task Force and stated it will sponsor a data call to receive additional information on the use of linked surplus notes. The Working Group also directed the preparation of proposed disclosures for data capture in 2020.	TBD	TBD	TBD
NA	*SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*	Life Health	SAPWG received a request from the Life Actuarial (A) Task Force to coordinate the Accounting Practices and Procedures Manual and the Valuation Manual guidance regarding modeling of YRT reinsurance cash flows. The Working Group directed the development of coordinated recommendations for future review and consideration.	TBD	TBD	TBD
NA	*SSAP No. 62R—Property and Casualty Reinsurance*	P&C Life Health	The Working Group received a comment letter from the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries regarding potential ambiguity in the statement related to transfers of portfolio retroactive reinsurance that is accounted for as affiliated prospective reinsurance, which noted that this issue may lead to different annual statement presentations in Schedule P. The Working Group requested the development of examples for use in future discussions of this topic.	TBD	TBD	TBD
2019-13	*SSAP No. 97—Subsidiary, Controlled and Affiliated Entities*	P&C Life Health	Disposed of this agenda item that related to the Look-Through approach guidance. The SAPWG noted that more than one downstream holding company look-through is permitted if all look-through entities meet the look-through criteria. With disposal, the Working Group directed a new agenda item to consider clarifying that a more than one holding company structure is permitted if each of the holding companies complies with SSAP No. 97.	NA	NA	NA
2019-26	*Appendix A—Excerpts of NAIC Model Laws*	P&C Life Health	The SAPWG received a referral regarding industry-recommended revisions related to the following categories: • Changes to program and/or obligor credit quality requirements • Changes to program administration and/or documentation • Changes to regulatory compliance requirements • Changes to statutory reporting requirements The Working Group directed the preparation of revisions for consideration of future exposure.	TBD	TBD	TBD
2016-20	*Current Expected Credit Losses – Various SSAPs*	P&C Life Health	The SAPWG received an update that FASB is considering an extension of the effective date for ASU 2016-13: Credit Losses for certain entities. The Working Group will continue to monitor FASB discussion on this topic.	TBD	TBD	TBD

Contacts

Gary Shaw
Vice chairman
US Insurance leader
Deloitte LLP
+1 973 602 6659
gashaw@deloitte.com

Richard Godfrey
Principal
US Insurance Risk & Financial Advisory leader
Deloitte & Touche LLP
+1 973 602 6270
rgodfrey@deloitte.com

Rick Sojkowski
Partner
Insurance Professional Practice Director
Deloitte & Touche LLP
+1 860 725 3094
rsojkowski@deloitte.com

Contributors

Diane Craanen
Managing Director
Deloitte & Touche LLP
+1 312 486 3625
dcraanen@deloitte.com

Lynn Friedrichs
Partner
Deloitte & Touche LLP
+1 813 273 8342
lfriedrichs@deloitte.com

Sara Gambino
Audit & Assurance Specialist Leader
Deloitte & Touche LLP
+1 313 396 2903
sgambino@deloitte.com

John Tittle
Senior Manager
Deloitte & Touche LLP
+1 312 486 5486
johntittle@deloitte.com

Senior editor

David Sherwood
Managing Director
Deloitte & Touche LLP
+1 203 423 4390
dsherwood@deloitte.com

Endnote

1. Greg Iacurci, "New York best interest rule for annuity, life insurance sales upheld by state court, InvestmentNews, August 5, 2019, https://www.investmentnews.com/article/20190805/FREE/190809974/new-york-best-interest-rule-for-annuity-life-insurance-sales-upheld.

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