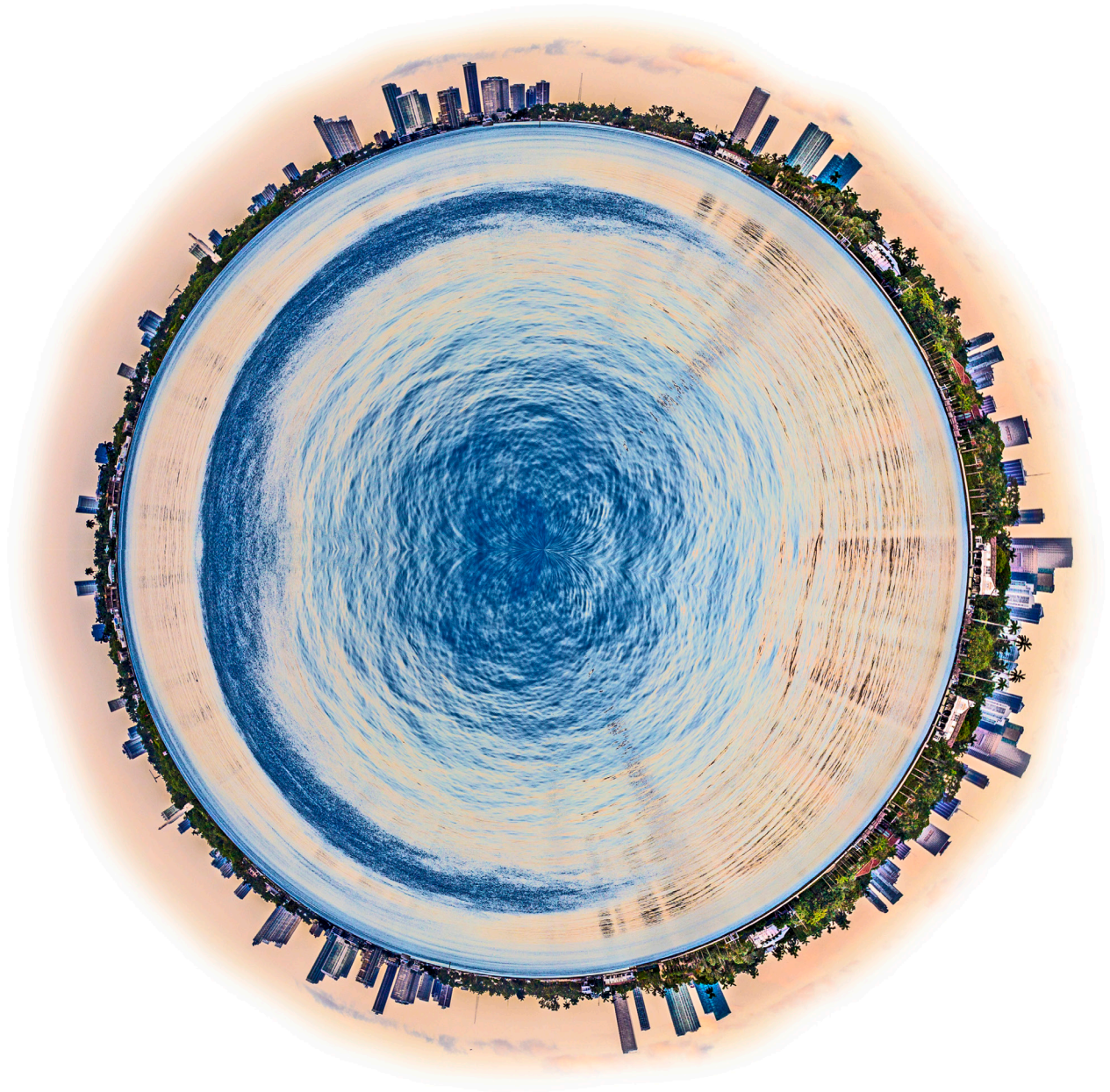


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NAIC update: Winter 2016

Contents

New leadership takes the helm at the NAIC	1
PBR implementation work on track	2
Catastrophe risk charge on the way	3
“Incorporated by reference” work product raises concerns	4
Group capital calculation focuses on scalars, inventory	5
Form F Guidance Manual draft discussed	6
ICS, Solvency II remain major issues	7
Workers' comp is first terror data analyzed	8
Qualified jurisdiction status under review	9
In brief	10
Health care update	11
Accounting update	12

New leadership takes the helm at the NAIC

MIAMI BEACH — The final National Association of Insurance Commissioners (NAIC) meeting of any given year is always a time for change. This is when the work done throughout the preceding months of the year is completed, the baton of the organization's presidency is passed, and the priorities for the incoming president's term are set.

The 2016 NAIC meeting was already expected to be different. In addition to these normal changes, regulators, industry and consumer groups, and other stakeholders had to begin planning for changes at the federal level, where eight years of the policies of one administration were about to give way to the term of a different administration with a very different set of policy priorities.

That all happened. As expected, the outgoing NAIC president, Missouri Insurance Director John Huff, demitted office during the meeting. He is succeeded by Wisconsin Commissioner Ted Nickel. The surprising-to-some result of the presidential election meant that Federal Insurance Office (FIO) Director Michael McRaith was quite possibly attending his last meeting in that role, leaving very little time to successfully complete negotiations for a covered agreement on reinsurance with the European Union.

But the uncertainty at the end of the meeting was perhaps greater than that at its beginning. Regulators heard concerns expressed by numerous industry representatives about what they perceived as discriminatory treatment at the hands of Solvency II regulators. Without a clear indication of a positive dénouement to the covered agreement negotiations, talk of a trade war was heard on the convention floor.

Throughout the year, regulators and NAIC officials had indicated that possibly the biggest single item on this year's agenda—a cybersecurity model act—would be completed by the Miami Beach meeting. Anticlimactic may be the word that best describes the actual result. The final proposal was postponed to 2017 with work continuing in the meantime.

There was one moment of closure that marked a new beginning for the NAIC. At the opening session, Huff named the new CEO for an organization that had gone all year without one in the midst of a turbulent period for insurance regulation. Based on reaction at the conference, the selection of former Pennsylvania regulator Michael Consedine was both expected and popular.

Consedine, a highly respected former regulator, had been president-elect of the NAIC when he resigned in January 2015 from his post as Pennsylvania's chief insurance

overseer. That resignation followed the election of the governor of a different party than the one that had appointed him.

That new beginning was coupled with a surprise ending. In the speech announcing Consedine's appointment, Huff also announced his own departure, saying this would be his last meeting in his current capacity. In the absence of an NAIC CEO during much of 2016, Huff had served very visibly as the primary face of state insurance regulation to both federal and international officials.

Huff's departure followed within weeks of the announcement of the departure of another highly visible state insurance regulator. Iowa Commissioner Nick Gerhart had announced that he would be leaving his post as well. These departures were in addition to the already expected farewells from regulators that usually happen after an election.

As their colleagues depart, Nickel and Consedine may be preparing for an interesting year. New federal leadership may mean increased authority and fewer challenges for state insurance regulators. But it may also mean challenges between regulators if some seek to ramp up activity in the new environment while others do not.



Courtesy of the NAIC

PBR implementation work on track

Work on principle-based reserving (PBR) implementation for life insurers continued smoothly, according to reports to the PBR Review (EX) Working Group.

Pete Weber of Ohio told the working group that guidance in the financial analysis handbook had been updated as necessary, including providing information on how to contact NAIC actuaries.

Larry Bruning of the NAIC told the group that work on the 2016 PBR pilot project was not quite complete. Bruning said he had expected to be able to report the results to this meeting, but there would be a slight delay.

Eleven companies participated in the pilot project, which tested term or universal life with secondary guarantees (ULSG) products. Regulators held a one-hour conference call to review each company's data submission before reaching out to each company's home state regulator with any further questions. Reviews had been completed for all 11 participants, but a few more follow-up calls still had to be made.

Bruning noted that regulators may need to make changes to the Valuation Manual (VM-20) supplement to appropriately capture the ceded portion of reserves. He said that participants had provided varying levels of detail in their VM-31 overviews.

Dale Hall of the Society of Actuaries (SOA) updated the group on the PBR survey that was sent out in July and whose results would be available on the SOA website.

There were 72 respondents to the survey, 15 of whom provide policies under VM-20 in 2017. None of these were traditional whole life.

Working group chair Mike Boerner of Texas asked about the level of continuing captive use to be expected. A representative of the American Council of Life insurers (ACLI) said the primary reason for ongoing captive use would be tax uncertainties. He said that the US Department of Treasury or the IRS was expected to answer the necessary questions sometime in 2017.



Courtesy of the NAIC

Catastrophe risk charge on the way

A catastrophe risk charge looks set for implementation into the risk-based capital (RBC) calculation for 2017 reporting. The Catastrophe Risk (E) Subgroup voted without discussion to expose the proposal to implement the RBC charge for 30 days.

More discussion took place on internal catastrophe models other than the five already approved commercially available models. Two options were presented, one by an industry representative and the other by Dan Daveline of the NAIC.

The industry representative agreed with subgroup chair Ron Dahlquist of California that the NAIC option was an expansion of the one originally proposed by his organization. The representative further stated that although he had drafted the first option, he fully supported the option presented by Daveline.

Citing experience with other issues, Daveline said that NAIC staff preferred that companies do the validation of the models and states do the review. Dahlquist wondered how regulators would determine whether a third party was qualified. Daveline said that would be up to the regulators to create the standard for evaluation.

"I really doubt we have the ability to review the information properly," said one regulator. Dahlquist noted that this

was not the end but the beginning of the conversation, as the working group moved to expose related material for 45 days.

Discussing catastrophe risks for possible inclusion in the property-casualty RBC formula was carried over to the next meeting agenda.



Courtesy of the NAIC

“Incorporated by reference” work product raises concerns

A spirited discussion around NAIC administrative due process issues took the forefront at the meeting of the Governance Review (EX) Task Force. Before that discussion took place however, there were calls for changes to the organization’s letter committee conference call voting procedures.

Consumer advocate Birny Birnbaum of the Center for Economic Justice spoke about conference calling procedures. He said the NAIC should have a roll call on substantive issues such as model laws and regulations voted on during conference calls. Kay Noonan of the NAIC staff suggested in a memo that the difficulty of defining “substantive” suggested that it might be better to list the specific circumstances under which a roll call vote would be required.

Birnbaum largely agreed with the suggestion, however he also suggested adding “work products incorporated by reference” to the list of items for which roll call votes would be required. This procedure proposed by NAIC staff was adopted.

“Work products incorporated by reference” was the center of the due process discussion. Concerns were expressed by interested parties that major NAIC changes were being implemented through this process without the safeguards that would

accompany any such changes in a legislative arena. NAIC staff responded in a memo with a set of action items that were discussed at the task force meeting.

Birnbaum said he was opposed to the suggestion that cost-benefit analyses be done for “incorporated by reference” (IBR) work product. A representative of the National Association of Mutual Insurance Companies (NAMIC) pushed back, suggesting that should be important as “the data calls continue to mount.”

“Anytime we’ve been asked to do a cost analysis, we’ve responded,” said one regulator. California Insurance Commissioner Dave Jones said, “I think it’s important to put all this in context.” He cited a study by the Property Casualty Insurers Association of America (PCI) saying the cost of NAIC regulations went from 0.17 percent to 0.19 percent of overall premiums written during the period from 2013 to 2015.

Calling that expenditure small overall, Jones said, “I’m not convinced that these sorts of analyses are really worth the effort we would expand on them ... I just don’t think the case has been made that it’s necessary.”

Kate Kiernan of the ACLI said that the organization supported the development of written procedures and the posting of those procedures on the NAIC’s website.

“This almost has a feeling of being adversarial ... That was not our goal,” said National Conference of Insurance Legislators (NCOIL) CEO Tom Considine. He suggested that the NAIC should have “an analogous level of independent review” to the Administrative Procedures Act (APA). The APA is a federal law governing how administrative agencies of the federal government may propose and establish regulations.

After a number of motions on various suggestions failed for lack of a second, the task force adopted two changes:

1. All groups with responsibility for maintaining NAIC work product incorporated by reference into state law prepare a written procedures document (if one does not currently exist) and post those procedures to the NAIC website,
2. Formally incorporate NAIC work product updates into state legislator briefings during NAIC national meetings and as otherwise requested.

Louisiana’s Jim Donelon expressed continuing concern over IBR, while California’s Jones objected to proposed independent third-party review of NAIC work product.

Group capital calculation focuses on scalars, inventory

Possible approaches to developing scalars and reviewing the inventory approach were among the subjects of discussion at the Group Capital Calculation (E) Working Group.

Julie Garber of the NAIC led off by discussing the “relative ratio” approach. This approach, Garber said, was “based on what we’ve heard from interested parties.”

This approach could be based on the relative ratio of a jurisdiction’s aggregate industrywide total available capital to its industrywide regulatory intervention capital. NAIC staff noted in a memo that “providing an accurate definition of regulatory intervention level capital will be a key determination.”

Garber noted that there would be different scalars for property-casualty and life companies because of different capital requirements. She also said that the current proposal would need to be field-tested and adjusted based on the results of that field testing.

Lou Felice of the NAIC discussed the “distance to intervention” approach. The distance to intervention approach would

assess the “raw strength of the capital ratio as a buffer to avoid intervention.”

A representative of the American Insurance Association (AIA) said one requirement should be a single groupwide supervisor, and steps that should be taken include determining the appropriate scope of the group capital calculation. A number of trade groups requested more time to review and comment on the memo.

A representative of the ACLI agreed that any approach would have to be field-tested. A representative of a major US insurer said there were questions, including whether any given regime was at a certain level of rigor. That representative noted that the distance to intervention approach was US RBC-centric and may not properly reflect jurisdictional capital frameworks that are tailored to particular operating environments.

One speaker said there needed to be transparent reserving and capital standards, among other issues. The memo was exposed for 45 days.

Felice also discussed a proposed baseline test for the group capital calculation. That “inventory approach” could require

deconstructing a “group to a greater extent than is currently done in RBC,” a memo from Felice to the working group said.

In the memo, Felice explained that the purpose of the exercise would be to “drill down to the entity inventory level and apply current RBC treatment in an effort to identify and evaluate areas where the inventory granularity requires access to data and/or where the RBC treatment for specific entities should be modified to better calculate and assess capital at the group level.”

“The main point of this is what data do we need to do the calculation, and do we have that data,” Felice said, reiterating that RBC did not provide enough information.

Lastly, the working group discussed a possible timeline for developing a calculation, which included five different phases. It contemplates performing field testing exercises during 2017 and 2018 and plans to expose, adopt, refer, and monitor a proposal during November and December 2018.

Form F Guidance Manual draft discussed

A discussion of comments on the Form F Guidance Manual exposure draft was a central topic at the meeting of the Group Solvency Issues (E) Working Group.

A number of comments were received by mail, with California and New York among those speaking at the meeting. New York's comments seemed to center on the enterprise risk management framework. New York asked the working group to encourage the reporting company to discuss the ERM framework in its report.

New York also noted that not every insurer filed an Own Risk and Solvency Assessment (ORSA) report, and called on the working

group to encourage that the format be signed and certified by the chief risk officer or other executive having responsibility for the oversight of the ERM framework. They also called for a copy to be given to the board of directors or its equivalent.

Connecticut's Kathy Belfi said this may be going beyond the intent of the Form F. Working group chair Christy Neighbors of Nebraska said that was a difference between the Form F and the ORSA, and the NAIC should avoid blurring lines.

A representative of the AIA agreed that it was important not to bleed one into the other by asking for information similar

to that in the ORSA. The representative noted there were reasons that there were exclusions from ORSA.

An ACLI representative said that interested parties were generally opposed to the term "guidance manual," because that implied it was a requirement, and suggested the use of a memo instead. Neighbors replied that the name could always be changed. A regulator suggested that it be renamed an implementation guide.



Courtesy of the NAIC

ICS, Solvency II remain major issues

Concerns about the treatment of some US reinsurers in certain Solvency II jurisdictions and the next steps for insurance capital standards (ICS) development were among the topics of discussion at the International Insurance Relations (G) Committee.

Montana Commissioner Monica Lindeen mentioned, and Tracey Laws of the Reinsurance Association of America confirmed, that Belgium was implementing new requirements for US companies in the wake of Solvency II. Other Solvency II jurisdictions are also implementing requirements some US companies consider discriminatory and anticompetitive.

US reinsurers have to post collateral in Belgium beginning January 1, 2017 with no indication yet of the details (how much, how,

etc.) the committee was told. US regulators are considering possible responses even as the FIO and the US Trade Representative (USTR) continue negotiations with the EU on a covered agreement with the EU that could resolve the issue.

Paolo Cadoni, John Maroney, and Peter Windsor of the IAIS updated the committee on the current status of the IAIS work on the ICS. Windsor said the IAIS is taking input and working out what options to consider for ICS 1.0. Among the items being reviewed are the valuation bases: market adjusted value + or GAAP + with adjustments.

Other issues being considered include capital resources concerns, such as what will count as Tier 1 capital and what will be Tier 2. Credit risk, market risk, margin

over current estimate, tax issues, and risk mitigation are all on the table.

“There is a lot going on, so what we really need to do is stage the decision-making,” Windsor said. He went on to say that was why the focus was now on valuation and capital resources with a January meeting set in La Jolla, California. He said the organization would want stakeholder comments on ICS 1.0.

Windsor said that by the end of April, most substantive issues should have been dealt with, preparing the way for approval of ICS 1.0 at the June meeting. New Jersey regulator Peter Hart asked if there had been any discussion of moving the date of that meeting, but there had not.



Courtesy of the NAIC

Workers' comp is first terror data analyzed

The Terrorism Insurance Implementation (C) Working Group discussed the results of workers' compensation data received and plans for the rest of the terrorism risk insurance data call.

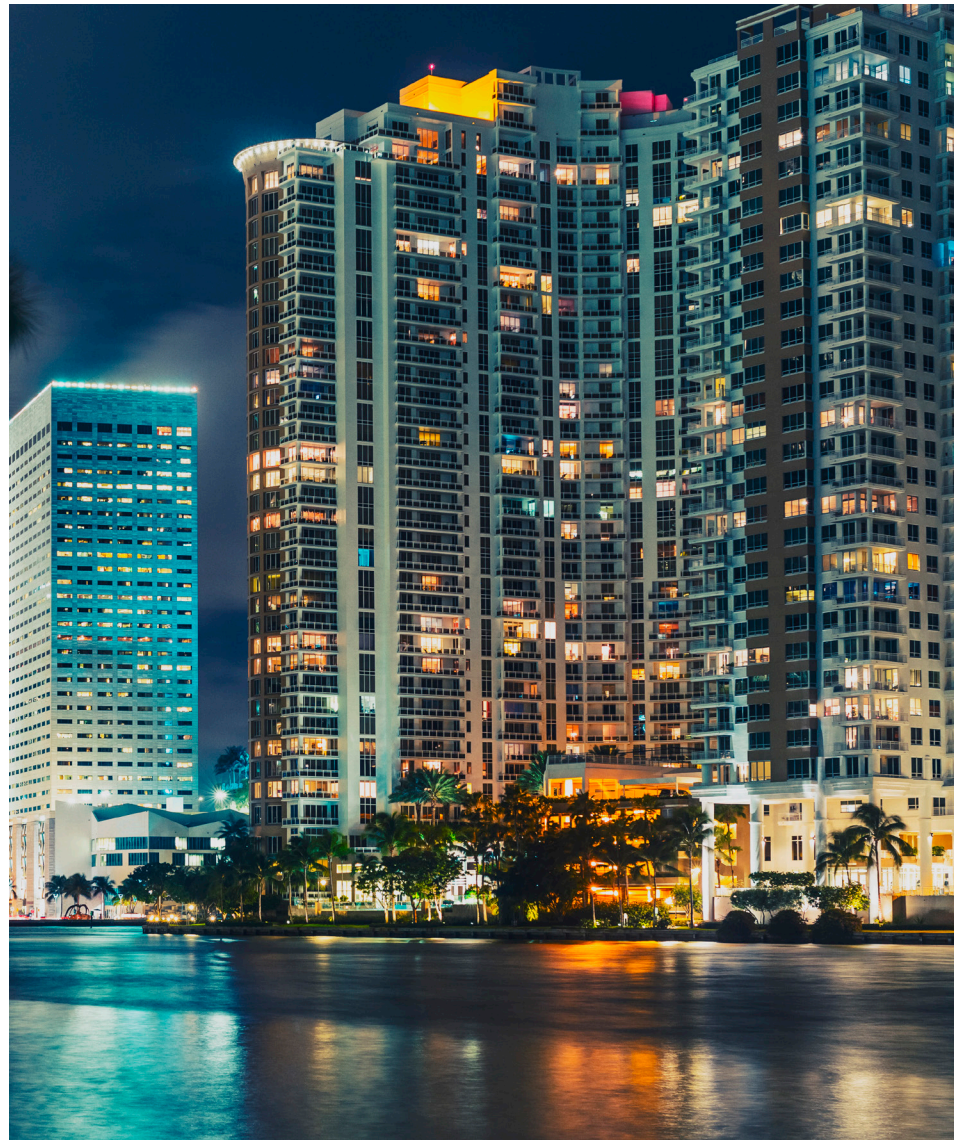
The group received data from 47 jurisdictions from the National Council on Compensation Insurance (NCCI) and California. The data covered the years 2011 to 2013.

About 17 percent of the policies examined have no explicit terrorism charge. This varied by geography. At the high end, 99.66 percent of policies in New York had a charge, while in Idaho 24.69 percent had no charge. The Northeast was the highest in terms of having policies with explicit terrorism charges, while the Western zone was the lowest.

The terror premium on average was about 1.4 percent in 2011, dropping to 1.3 percent in 2013. Washington DC had the highest premium at about 11 percent, with New York and Massachusetts at 2.54 percent and 2.89 percent respectively. Oklahoma was lowest at 0.49 percent.

The state regulator terrorism risk insurance data call was sent originally to approximately 1,600 companies, with files to be received from approximately 800. More than 300 companies were not responsive—the working group will send out a follow-up request.

The group is working through the current data and hopes to have a provisional analysis available by the spring meeting.



Qualified jurisdiction status up for review

EU member state implementation of Solvency II and the effect on the qualified jurisdiction status of certain members was the primary topic of discussion at the Reinsurance (E) Task Force meeting. Most recently, Belgium has implemented new requirements for US insurers, and some other EU members have taken steps that have raised concerns among US stakeholders.

A representative of the RAA noted that one concern was timing, given current uncertainties and the then-soon upcoming renewal period for many reinsurance contracts. Noting that FIO Director Michael McRaith had said talks on a covered

agreement with the EU—which might alleviate concerns—were at a critical stage, a PCI representative raised the “possibility of a trade war.”

The Qualified Jurisdiction (E) Working Group’s report regarding EU member state implementation of Solvency II and the potential impact on the qualified jurisdiction status of France, Germany, Ireland, and the UK was exposed for comment for 30 days.

NAIC staff was directed to reach out to the EU for clarity and for possible changes during the exposure period. The working group was asked to make a recommendation on actions to be taken

with regard to the four EU qualified jurisdictions.

The NAIC will convey its concerns to EU states in question. Missouri’s John Huff also asked for a review of the retroactive applicability of the qualified jurisdiction status.

The task force also heard a status update on state adoption of the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786). Thirty-five states have adopted the model law and 27 states have adopted the model regulation.



Courtesy of the NAIC

In brief

New version of cybersecurity model not yet ready

Rhode Island Superintendent Elizabeth Dwyer told the Cybersecurity (EX) Task Force that work would continue on the draft Insurance Data Security Model Law until outstanding issues were resolved. The work is being conducted by a group of volunteers assembled by the task force. It had been expected that a new version of the model law—the third—would be available for this meeting.

Dwyer said there were six key issues on which the group is focused:

- A. State uniformity and exclusivity
- B. Exemptions for entities subject to federal provisions such as HIPAA
- C. The use of a harm trigger
- D. The definition of personal information
- E. Scalability and the effect on smaller companies
- F. Third-party service provider oversight

Financial stability concerns overstated?

Anna Maria D’Hulster of The Geneva Association told the Financial Stability (EX) Task Force that her organization’s research had found relatively low impact on financial stability of stresses on insurance sector investments. The report had examined three scenarios: one that would require 10 percent of bonds be sold, another with all equity assets having to be sold, and a third with redemption pressures requiring the sale of five percent of assets, all happening within 21 working days. The organization found that there would be some but not a major impact on financial stability and disputed the claim that pro-cyclical behavior by insurance groups causes systemic

exposure. The study used OECD data, but excluded the Asia markets due to various uncertainties. The study concluded:

- A. The business model of insurers does not trigger pro-cyclical investment behavior that is likely to cause systemic distortions.
- B. Policymakers should avoid creating incentives that weaken the ability of the insurance sector to absorb financial market distress.
- C. There is a need for further research into the implications of prudential regulatory regimes based on market adjusted valuations.
- D. Policymakers should reflect about the potential for unintended consequences of regulation.

PBR ready to roll

Tennessee Commissioner Julie Mix McPeak, co-chair of the Principle-Based Reserving Implementation (EX) Task Force, noted that it was the last meeting for the task force before PBR went live. The task force was told that training was available from the Society of Actuaries, the American Academy of Actuaries, and from the NAIC for regulators.

Big plans for big data

The Big Data (D) Working Group will morph into the Big Data (D) Task Force, tackling one of the thorniest issues facing regulators. A work plan will be exposed for comment. The group’s mission and charges for 2017 as adopted are:

The mission of the Big Data (D) Task Force is to gather information to assist regulators in obtaining a clear understanding of what data is collected, how it is collected, and how it is used by insurers and third parties in the

context of marketing, rating, underwriting, and claims. This includes an evaluation of both the potential concerns and benefits for consumers and the ability to ensure data is being used in a manner compliant with state insurance statutes and regulations. The task force will also explore opportunities for regulatory use of data to improve the efficiency and effectiveness of regulation. The task force will coordinate with other NAIC committees and task forces, as appropriate.

- A. Review current regulatory frameworks used to oversee insurers’ use of consumer and noninsurance data. If appropriate, recommend modifications to model laws/regulations regarding marketing, rating, underwriting and claims, regulation of data vendors and brokers, regulatory reporting requirements, and consumer disclosure requirements.
- B. Propose a mechanism to provide resources and allow states to share resources to facilitate states’ ability to conduct technical analysis of and data collection related to states’ review of complex models used by insurers for underwriting, rating, and claims. Such mechanism shall respect and in no way limit states’ regulatory authority.
- C. Assess data needs and required tools for regulators to appropriately monitor the marketplace and evaluate underwriting, rating, claims, and marketing practices. This assessment shall include gaining a better understanding of currently available data and tools and recommendations for additional data and tools as appropriate. Based upon this assessment, propose a means to collect, house, and analyze needed data.

What's next

- March 3-5: NCOIL Spring Meeting in New Orleans, LA
- April 8-11: NAIC Spring National Meeting in Denver, CO
- June 2017: IAIS Committee meetings, global seminar, and stakeholder dialogue in London, UK

Health care update

Rising health care costs: what are the drivers and what is the role of state programs and insurance regulators? That complicated topic was the focus of the December meeting as the Health Insurance and Managed Care (B) Committee continued its examination of the factors that contribute to rising health care costs and insurance premiums impacting consumers across the country.

The committee heard from representatives of the pharmaceutical drug industry, the pharmaceutical benefit management industry, health insurers, and consumer representatives. Each provided its perspective and education on the complicated workings of the pharmaceutical industry as it has developed over time. The panel discussions and questions from regulators sparked debate on both the causes and potential solutions, including whether transparency in drug pricing could address the issue of cost. There was

agreement on the fact that there is an issue, but clarity as to the root cause and the potential solutions are answers yet to be resolved.

The Regulatory Framework (B) Model #22 Subgroup continued its discussion of the comments received on the Health Carrier Prescription Drug Benefit Management Model Act (#22) and made preliminary decisions on what revisions to include in an initial draft of proposed revisions to the model. The subgroup discussion focused on the Scope of the Model Audit as well as Section 5—Requirements for the Development and Maintenance of Prescription Drug Formularies and Other Pharmaceutical Benefit Management Procedures, and Section 6—Information to Prescribers, Pharmacies, Covered Persons and Prospective Covered Persons. As the comments were debated, it was clearly evident that the complexity of pharmacy

benefits and the challenges in educating consumers and providing them with data to make decisions in its simplest form was clearly evident. Consumer advocacy groups would like consumers to be able to evaluate drug coverage and cost in a “one-click” process on a website, but the interplay of formularies and benefits may render that difficult.

In 2017, the Health Insurance and Managed Care (B) Committee will continue to focus the balance between cost reduction and quality of care combined with the unknowns related to change over to the Trump administration and the fiscal year 2017 budget resolution, which has the attention of everyone in the health care industry.

This update was prepared by Lynn Friedrichs. You may reach her at lfriedrichs@deloitte.com.



Courtesy of the 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, the Accounting Practices and

Procedures (E) Task Force, and the Financial Condition (E) Committee during the 2016 Fall Meeting and interim conference calls. Substantive changes finalized during these meetings have explicit effective dates as

documented below. All nonsubstantive changes finalized during these meetings are effective upon adoption unless otherwise noted.

Statutory Accounting Principles Working Group

Interim developments: The Statutory Accounting Principles Working Group (SAPWG) adopted the following *nonsubstantive* amendments as final during the November 3, 2016 Interim Conference Call:

Ref#	Title	Sector	Amendments adopted	F/S Impact	Disclosure	Effect. date
2016-24	SSAP No. 2—Cash, Drafts, and Short-Term Investments; SSAP No. 26—Bonds; and SSAP No. 43R—Loan-Backed and Structured Securities	P&C Life Health	Revisions clarify the scope of the annual audited disclosure requirements on bond categories, bond maturity distributions and proceeds from sales of bonds. Ensures that disclosure requirements included in SSAP No. 26 are also required for all bonds reported as bonds on Schedule D of the NAIC Annual Statement.	N	Y	2016
2015-46	SSAP No. 3—Accounting Changes and Corrections of Errors	P&C Life Health	Revisions clarify the guidance in SSAP No. 3 regarding the recognition of accounting errors. Changes now require material accounting errors to be refiled unless otherwise directed by the domiciliary regulator. It should be noted that NAIC staff applies a tolerance level of materiality, which is ½ percent of surplus for annual statement corrections and ½ percent of the authorized control level for risk-based capital related numeric corrections. If the error difference is less than ½ percent or otherwise considered immaterial (e.g. non-numeric), the NAIC staff does not contact the company.	Y	Y	2016
2016-30	SSAP No. 3—Accounting Changes and Corrections of Errors SSAP No. 68—Business Combinations and Goodwill SSAP No. 86—Derivatives	P&C Life Health	Revisions reject the US-GAAP guidance related to private company accounting alternatives. US statutory accounting principles are not differentiated by public or private classifications.	N	N	2016

Ref#	Title	Sector	Amendments adopted	F/S Impact	Disclosure	Effect. date
2015-15	SSAP No. 16R— Electronic Data Processing Equipment and Software	P&C Life Health	Revisions clarify that reporting entities that license internal-use computer software are required to follow <i>SSAP No. 22—Leases</i> .	Y	N	2016
2016-25	SSAP No. 23— Foreign Currency Transactions and Translations	P&C Life Health	Revisions clarify the translation of Canadian insurance operations. Previous updates to the guidance related to the optional one-line adjustment to net assets of the Canadian insurance operation. Also clarifies that all three limitation criteria must be met.	N	N	2016
2016-27	SSAP No. 56— Separate Accounts	P&C Life Health	Revision removes the disclosure of total maximum guarantees for separate account products, as recommended by the Variable Annuities Issues (E) Working Group.	N	Y	2016
2016-28	SSAP No. 61R— Life, Deposit-Type and Accident and Health Reinsurance	P&C Life Health	Revisions update the variable annuities captive disclosure and modify the effective date to be for 2016 and thereafter (eliminating the prior sunset language) as recommended by the Variable Annuities Issues (E) Working Group.	N	Y	2016
2016-29 2016-32 2016-30	SSAP No. 86— Derivatives	P&C Life Health	Revisions adopt, with modification, ASU 2016-05—Effective of Derivative Contract Novations on Existing Hedge Accounting Relationships, clarifying that a change in the counterparty to a derivative instrument does not, by itself, result in a termination of the derivative instrument. Other revisions reject US-GAAP guidance related to embedded derivative bifurcation, which is rejected by statutory accounting principles.	Y	N	2016
2016-21 2016-22	SSAP No. 97— Investments in Subsidiary, Controlled, and Affiliated Entities	P&C Life Health	Revisions update references to identified exchanges allowed under the market valuation method. Other changes clarify that SCA supporting documentation shall be provided in English.	N	N	2016
2016-17	Appendix A-010— Minimum Reserve Standards for Individual and Group Health Insurance Contracts	P&C Life Health	Revision incorporates the 2013 individual disability income valuation table with an effective date of Jan. 1, 2020, with early adoption allowed beginning Jan. 1, 2017.	Y	N	2017
2016-31 2016-33	Appendix D— Nonapplicable GAAP Pronouncements	P&C Life Health	The following US-GAAP pronouncements were rejected as not applicable to statutory accounting: <ul style="list-style-type: none"> ASU 2016-04—Recognition of Breakage for Certain Prepaid Stored-Value Products ASU 2016-11—Rescission of SEC Guidance 	N	N	NA

Current developments: The SAPWG adopted the following *substantive* amendments as final during the 2016 Fall Meeting:

Ref#	Title	Sector	Amendments adopted	F/S Impact	Disclosure	Effect. date
2016-18 2016-35	SSAP No. 2R— Cash, Cash Equivalents, Drafts, and Short-Term Investments Issue Paper No. 155—Classification of Money Market Mutual Funds as Cash Equivalents	P&C Life Health	Revisions reclassify money market mutual funds from short-term investments to cash equivalents. Revisions also require money market mutual funds to be reported at fair value (Net Asset Value as a practical expedient). Unrealized gains and losses accounted for under SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve (for insurers required to maintain an asset valuation reserve (AVR) or recorded as a direct credit or charge to surplus (for insurers that are not required to maintain an AVR).	Y	N	2017
2016-38	SSAP No. 35R— Guaranty Fund and Other Assessments	P&C Life Health	Revisions allow expected renewals of short-term contracts to be considered in determining the assets recognized from accrued guaranty fund liability assessments. This item impacts health insurers as they write short-duration business but may be assessed for long-term care insolvencies. <ul style="list-style-type: none"> • Currently, for retrospective premium assessments for long-duration contracts, an asset is recognized if it is probable that accrued liability assessment will result in a recoverable amount. • This guidance was adopted from US-GAAP and currently excludes consideration of renewals for short-term contracts. • Adopted guidance now allows expected renewals of in-force short-term contracts to be considered in determining the assets recognized (premium tax credits) from accrued guaranty fund liability assessments on long-duration contracts (e.g., long-term care). • Based on comments received during the exposure period, the regulators will separately consider discounting guaranty fund reserves. 	Y	N	2017
2015-47 2018-34	SSAP No. 54R— Individual and Group Accident and Health Contracts Issue Paper No. 154— Implementation of Principle-based Reserving	P&C Life Health	Adopted substantive revisions related to principle-based reserving as follows: <ul style="list-style-type: none"> • Adds reference to the Valuation Manual for health reserving requirements. The first phase of PBR implementation for health does not change health reserving. • Updates the change in valuation basis guidance to allow use of the company's own experience as reflected in actuarial guidelines. 	Y	N	2017

Current developments: The SAPWG adopted the following *nonsubstantive* amendments as final during the 2016 Fall Meeting:

Ref#	Title	Sector	Amendments adopted	F/S Impact	Disclosure	Effect. date
2016-25	SSAP No. 23—	P&C	Revisions adopt the US-GAAP guidance in ASU 2013-05—	Y	N	2016
2016-26	Foreign Currency Transactions and Translations	Life Health	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 to incorporate guidance on when a parent reporting entity shall realize foreign currency translation changes in an investment of a foreign entity.			
2016-23	SSAP No. 84—	P&C	Revisions clarify that receivables must originate from	Y	N	TBD
2011-44	Health Care and Government Insured Plan Receivables	Life Health	the government to qualify within the government plan exception and allowed admittance after 90 days past due. The working group discussed and agreed with comments received from interested parties that stated there was not a need to extend admission for non-government receivables from 90 to 120 days. The working group also received comments requesting application guidance for a particular performance network rebate program (to clarify whether it should be captured within paragraph 10 of SSAP No. 84 as a pharmaceutical rebate receivable, or within paragraph 20 as a risk-sharing receivable). The working group agreed that the state of domicile should be the final authority regarding the substance of this actual contract. In addition, the 2011 item related to pharmacy rebates under Medicare Part D Gap Discount was disposed of by the working group as both regulators and industry agree with existing guidance.			
2015-51	SSAP No. 86—	P&C	Revisions incorporate a definition for notional	N	N	2017
	Derivatives	Life Health	(face amount).			
2016-21	SSAP No. 97—	P&C	Revisions provide exceptions for filing requirements of	Y	N	2016
2016-22	Subsidiary, Controlled and Affiliated Entities	Life Health	subsidiary, controlled that are nonadmitted, zero-value or immaterial. Clarified initial filing requirements.			
2016-16	SSAP No. 103—	P&C	Revisions enhance disclosure requirements for	N	Y	2017
	Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	Life Health	repurchase and reverse-repurchase agreements with disclosure templates referred by the Restricted Assets Subgroup with a December 31, 2017 effective date.			
2016-36	A-200—Separate Accounts Funding Guaranteed Minimum Benefits Under Group Contracts Model Regulation	Life Health	Revisions provide consistent guidance in Model #200 and Model #695—Synthetic Guaranteed Investment Contracts Model Regulation used in determining the discount rate applied to the calculation of the minimum value of guaranteed contract liabilities. Also defines the blended spot rate.	Y	N	2017

The SAPWG exposed the following items for written comments (due by February 10, 2017) by interested parties:

Ref#	Title	Sector	Amendments exposed	F/S Impact	Disclosure	Effect. date
2016-41	SSAP No. 26— Bonds	P&C Life Health	Substantive – Requested regulators and the industry to provide information on the current practices of allocating gains and losses between the AVR and the interest maintenance reserve (IMR), as well as information on the recognition of other-than-temporary impairment (OTTI) if the security is sold in the same reporting period in which the OTTI is first identified.	TBD	TBD	TBD
2016-40	SSAP No. 43R— Loan-Backed and Structured Securities	P&C Life Health	Substantive – Received a referral from the Valuation of Securities (E) Task Force, exposed proposed revisions and directed a referral to the NAIC Structured Securities Group requesting comments on the potential impact to securities subject to financial modeling. The revisions proposed to SSAP No. 43R are summarized as follows: <ol style="list-style-type: none"> 1. Revised definitions for investments within scope of SSAP No. 43R. Under the proposed definition, it is intended that securities with a single obligor will no longer be in scope of SSAP No. 43R, but will instead be captured within SSAP No. 26. 2. A title change of SSAP No. 43R, as well as a broad change from “loan-backed and structured securities” to “structured finance securities” throughout the SSAP. 3. Revisions to clarify admitted asset requirements. 4. Revisions to update the “effective” date guidance, removing explicit guidance on transition from the adoption of the 2009 SSAP No. 43R substantive revisions. 5. Revisions to update the Question and Answer Implementation Guide to remove outdated guidance. 	TBD	TBD	TBD
2016-39	SSAP No. 37— Mortgage Loans	P&C Life Health	Nonsubstantive – Proposes revisions to clarify that a reporting entity providing a mortgage loan as a “participant in a mortgage loan agreement” shall consider the mortgage loan in scope of SSAP No. 37.	Y	N	TBD
2016-47	SSAP No. 30— Investment in Common Stock SSAP No. 48— Joint Ventures, Partnerships and Limited Liability Companies SSAP No. 97— Investments in Subsidiary, Controlled and Affiliated Entities	P&C Life Health	Nonsubstantive – Proposes revisions to adopt with modification the US-GAAP guidance in ASU 2016-07—Simplifying the Transition to the Equity Method of Accounting and provides guidance when an investment qualifies (or no longer qualifies) for the equity method.	Y	N	TBD

The SAPWG exposed the following items for written comments (due by February 10, 2017) by interested parties:

Ref#	Title	Sector	Amendments exposed	F/S Impact	Disclosure	Effect. date
2016-46	SSAP No. 69— Statement of Cash Flow	P&C Life Health	Nonsubstantive – Proposes revisions to adopt ASU 2016-15—Classification of Certain Cash Receipts and Cash Payments to improve consistency in reporting under statutory accounting principles (SAP) and minimize differences between SAP and US-GAAP on cash flow classifications.	Y	N	TBD
2016-45	SSAP No. 101— Income Taxes	P&C Life Health	Nonsubstantive – Proposes revisions to adopt with modification the US-GAAP guidance in ASU 2016-16—Intra-Entity Transfers of Assets Other than Inventory and require reporting entities to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs.	Y	N	TBD
2016-43	INT 01-25— Accounting for U.S. Treasury Inflation-Indexed Securities	P&C Life Health	Nonsubstantive – Proposes revisions to restrict investments in foreign inflation-indexed securities from applying the guidance in INT 01-25, requiring the security to follow the applicable SSAP (e.g., SSAP No. 26) without recognition of unrealized gains or losses based on the inflation factor. The exposure requests input on the volume of foreign inflation-indexed securities held by insurance reporting entities and whether specific statutory accounting guidance should be developed for these securities.	Y	N	TBD
2016-44	Appendix A-791— Life and Health Reinsurance Arrangements	Life Health	Nonsubstantive – Proposed revisions incorporate additional language from the Life and Health Reinsurance Agreements Model Regulation (#791) to note that the reinsurance agreement shall constitute the entire agreement and that amendments need to be signed by all parties to be effective.	Y	N	TBD
2016-42	Appendix C—Actuarial Guidelines	P&C Life Health	Nonsubstantive – Proposed revisions update the introduction page of Appendix C in the Accounting Practices and Procedures Manual to promote consistent application of the actuarial guidelines.	N	N	TBD
2010-08	Appendix F— Policy Statements	P&C Life Health	Nonsubstantive – Proposed revisions adds a new policy statement on coordination with the Valuation Manual, which is consistent with the policy statement in the Valuation Manual.	N	N	TBD

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

Ref#	Title	Sector	Amendments adopted	F/S Impact	Disclosure	Effect. date
2016-48	SSAP No. 86— Derivatives	P&C Life Health	Nonsubstantive – Draft changes to reflect the staff recommendation on the accounting and reporting of derivative contracts with deferred or financing premiums. The revisions will clarify liability recognition for the cost to acquire derivatives with a deferred or financing premium, as well as disclosure and specific reporting for these premiums.	Y	N	TBD
2015-27	Investment schedules	P&C Life Health	Nonsubstantive – Develop and send a referral to the Accounting Practices and Procedures (E) task force detailing past discussions and exposures, noting support for the Task Force to make a policy change that facilitates collection of second-quarter, electronic-only investment information capturing CUSIP, par, book/adjusted carrying value (BACV), and fair value for Schedule D investments.	N	Y	TBD
2016-03	Special accounting treatment for limited derivatives hedging variable annuity guarantees	P&C Life Health	Substantive – 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. Review and consider comments received, following a dedicated process to prevent unnecessary delays, but to take efforts to ensure adequate assessment of changes and Working Group member discussion on proposed statutory accounting guidance. NAIC staff shall continue to work with key stakeholders to consider revisions to the proposal, with the potential for an interim exposure and/or conference calls to allow for continued progress on the development of statutory accounting provisions.	Y	Y	TBD
2016-20	Credit losses	P&C Life Health	Substantive – Assess comments received and how rejection of US-GAAP guidance included in ASU 2016-13—Financial Instruments—Credit Losses would align with statutory accounting concepts. NAIC staff shall work with interested parties and representatives of the American Institute of Certified Public Accountants (AICPA) to obtain further assessments on how the ASU shall be considered for statutory accounting. As the FASB may subsequently address comments on the ASU, or on the initial application of the standard, the working group agreed to forego active discussion of this agenda item at this time, with plans to conduct additional discussion on this agenda item during the second half of 2017. This time frame will allow NAIC staff to complete the recommended assessments, as well as evaluate whether additional FASB guidance may be forthcoming.	Y	Y	TBD
--	SSAP No. 61R— Life, Deposit- Type and Accident and Health Reinsurance	Life Health	Research and prepare an interpretation for subsequent discussion regarding risk-transfer requirements.	TBD	TBD	TBD

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

Ref#	Title	Sector	Amendments adopted	F/S Impact	Disclosure	Effect. date
2013-36	Investment classification	P&C Life Health	<p>Substantive – The SAPWG provided the following direction:</p> <ul style="list-style-type: none"> • 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. • Included in the issue paper the definition of a “security,” as well as definitions for non-bond items (e.g., loan participation, loan syndication). • A conference call would occur in January 2017 for detailed discussion on comments received. 	Y	N	TBD

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