# NAIC update: Spring 2019

## The NAIC sets out its strategy for the year ahead

ORLANDO, FL—With the theme parks just a short distance away and the constant search for the next thrilling ride, the need to keep pace with industry developments and innovation has continued. Following several state appointments and elections, the National Association of Insurance Commissioners (NAIC) has a lot of new members who will need to quickly get up to speed with current issues and the three-year strategic plan—State Ahead—as set out at the beginning of 2018. State regulators grappled with often contentious topics, and the need for state leadership was clear.

As 2019 progresses with the NAIC summer meeting in New York City and the fall meeting in Austin, Texas, it will be interesting to see how much of the NAIC's 2019 plan and strategic priorities will progress. Particularly with an already heavy workload, including the ongoing work on annuities suitability, a long discussion was held regarding the definition of "best interest," and work was done on the insurance capital standard (ICS); we'll see by the end of 2019 how the International Association of Insurance Supervisors (IAIS) plans to move forward with ICS version 2.0.

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August 3–6: NAIC Summer Meeting, New York, NY

December 7–10: NAIC Fall Meeting, Austin, TX

The spring 2019 meeting of the NAIC welcomed more than 2,000 attendees to Orlando, Florida—described as "the happiest place on earth" by NAIC President and Maine Insurance Superintendent Eric A. Cioppa. Mr. Cioppa's opening remarks reminded attendees that this year marks the 50th anniversary of the Apollo 11 spaceflight. Mr. Cioppa noted that the NAIC is not attempting a lunar landing, but the NAIC's three-year strategic plan—State Ahead—is ambitious. In the area of innovation, Mr. Cioppa said, "We are enhancing our software and technology services to create a more flexible system that will not only enable but encourage innovation that provides new insights for regulators."

In support of the strategic plan, Mr. Cioppa stated during his opening session remarks that the NAIC membership decided that, in 2019, the following eight areas will take focus:[1]

1. **Long-term care insurance** – Ensuring policyholders receive the benefit of their policies when they need it most seemed appropriate in Florida, with its large retirement community. The NAIC voted unanimously to create a task force focused on long-term care insurance market stability.
2. **Annuity suitability** – Progress was made in amending the Suitability in Annuity Transactions Model Regulation promoting a higher standard of care. However, the NAIC is working with its federal-level counterparts to harmonize various regulations, with a number of states already contributing.
3. **Health insurance** – Mr. Cioppa shared "the NAIC continues to provide nonpartisan advice to Congress and the administration and to identify bipartisan reforms that will stabilize the health insurance market." The NAIC sees this as an opportunity to develop approaches to support health insurance market stability.
4. **Climate change** – The NAIC recognizes the number of lives impacted, the disruption, and the cost of weather events, which are all realities that need to be addressed. The NAIC continues to press for long-term reauthorization of the National Flood Insurance Program (NFIP) while pursuing a more robust private market for flood insurance.
5. **Cyber** – The NAIC "continue(s) to look for a balance between the benefits and perils for consumers in how insurers use their data … The global market for cyber insurance purchased by businesses is expanding, and we must manage that growth responsibly," said Mr. Cioppa. Noting the link between cyber and innovation, the NAIC discussed this at its June Insurance Summit in Kansas City, held as this report was going to press.
6. **Group capital** – Mr. Cioppa stated, "We still have quite a bit of work to do before implementation, but the revised field testing template and instructions are near completion. Our target for field testing is May 1, 2019. We anticipate more than 30 insurance groups will participate by completing the template and working with their lead state regulator to test its effectiveness. The test results will improve our process before we finalize the group capital calculation (GCC), likely next year."
7. **Macroprudential initiative** – The focus is on four areas: liquidity, resolution and recovery, counterparty exposures, and capital stress testing. The NAIC plans to finalize a liquidity risk assessment framework for select life insurers this year.
8. **International** – Mr. Cioppa pointed out that the United States is the world's largest insurance market, and there is a need for stakeholders to engage regulators globally. And while the IAIS ICS is not binding in the United States, it is the first attempt at a globally harmonized approach to capital for insurance groups.
   A. Mr. Cioppa stated that there are three objectives the NAIC is pursuing: (1) to "make improvements to reference ICS where we can, for those US insurers who may have to comply with ICS or ICS-like standards in other markets, (2) secure comparable outcome status for our aggregation method; and (3) engage bilaterally and secure mutual recognition of our system with key jurisdictions such as the EU, the UK, Japan, Bermuda, Switzerland, and others."


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# Continued discussion on the proposed revisions to the Suitability in Annuity Transactions Model Regulation (MDL-275)

During a joint meeting of the Life Insurance and Annuities (A) committee and the Annuity Suitability (A) Working Group, Doug Ommen, chair and Iowa Insurance Commissioner, thanked the Working Group for its progress to date on revising model regulation MDL-275; however, he noted several issues remain. One of those issues noted was the difference between the Security and Exchange Commission's (SEC) proposed Best Interest regulation and the NAIC's proposed model regulation MDL-275—further detailing that the SEC's regulation does not define "best interest." Commissioner Ommen expressed that the Working Group has discussed "best interest" and its possible meaning extensively, with a significant number of interested parties pressing the Working Group and the Committee to go further than the draft's current language on the issue.

The group heard a presentation from the law firm Husch Blackwell, retained by the Iowa Insurance Division, outlining the differences between the SEC's proposed Best Interest regulation, the NAIC's proposed model regulation MDL-275, and the Financial Industry Regulatory Authority (FINRA) Rule 2111 on suitability.

The discussion focused on the comparison of (1) definitions of best interest, (2) conflicts of interest, and (3) customer profiles.


Photo courtesy of the NAIC

The conversation turned to a legal discussion of how the presenting firm believed courts would interpret a broker-dealer's recommendation: "A court would not require the broker-dealer to show that it was actually the best recommendation; only that it was reasonable to believe this was the case."

One interested regulator asked the presenter if there was a concern that the broker-dealer will shy away from making recommendations and provide a bunch of information to consumers in order for the consumers to make a determination for themselves. The presenter suggested it is a definite outcome.

The Committee adopted a motion to have the Working Group continue its work to revise the Suitability in Annuity Transactions Model Regulation (MDL-275). The Working Group is to consider the law firm presentation from the spring meeting; the comments received on the current draft of revisions; the comments from Working Group members; interested state insurance regulators; and interested parties who spoke during its discussions. The Working Group is to complete its work as soon as possible and will plan to meet in person sometime in May or June.

# Flood insurance

During the Catastrophe Insurance (C) Working Group session, Brooke Stringer from the NAIC provided an update on what has been happening on Capitol Hill regarding federal legislation and reauthorization of the National Flood Insurance Program (NFIP) since the latest short-term extension of the NFIP expired May 31, 2019. Ms. Stringer highlighted the issue of a divided Congress in getting a long-term reauthorization of the NFIP through both chambers. There is a current version of the long-term reauthorization drafted by Chairwoman Maxine Waters (D-CA), which proposes:

1. An extension of the NFIP until September 30, 2024
2. Cancellation of the NFIP's debt, and authorization for NFIP premiums to be paid monthly
3. Establishment of a state loan fund and a mitigation program
4. A reduction of fees and surcharges
5. A five-year demonstration program for means-tested assistance

She released separate proposals for improvements to floodplain mapping, mitigation, and management, as well as a proposal seeking to improve the claims process.

In addition to the NFIP, Ms. Stringer highlighted that the Federal Emergency Management Agency (FEMA) recently announced a new underwriting system, Risk Rating 2.0, going into effect in 2020. Risk Rating 2.0 overlays the current mapping system and provides more precise underwriting of flood risks.

After six years of deliberation, the federal banking regulators have finalized their rule related to the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters), which will take effect July 1, 2019. The final rule requires insurers to certify that their private flood insurance policies meet the necessary requirements set forth in Biggert-Waters in order for banks to be required to accept such policies. It would also provide banks the option to accept private flood insurance policies that did not meet the mandatory acceptance requirements set forth in Biggert-Waters, subject to certain conditions.

When asked by Chair Mike Chaney, Mississippi Commissioner of Insurance, about take-up rates for private flood insurance in Louisiana and Alabama, those Working Group members said the take-up rates are very low. Jerry Workman from Alabama reiterated that it is going to require continuous education to change the paradigm and thinking of policyholders regarding insurance and mitigation.

Photo courtesy of the NAIC

# Risk and capital continue their domestic and international evolution

Domestic development of both risk and capital continued in Orlando; and while some developments were wrapping up, others remain very much open. The Capital Adequacy Task Force adopted its Risk Based Capital (RBC) Working Group reports. Reference was made to the previously agreed operational risk charge of 3% and that it may need to be kept under review with international risk charges ranging from 6% to 10%. Further analysis may be needed, along with continued consideration of operational risks.

The Financial Condition (E) Committee noted significant work to both the Credit for Reinsurance Model Law (MDL-785) and the Credit for Reinsurance Model Regulation (MDL-786).

The NAIC's initiative to develop a group capital calculation (GCC) continues with field testing commencing in May 2019 involving more than 30 volunteers. Field testing will run approximately 150 days, allowing 90 days for completion of the field-testing template and 60 days for lead state review and NAIC aggregation. Confidentiality concerns remain regarding the submissions. The field testing for the NAIC GCC runs in very close parallel to the IAIS field testing of the ICS.

The spring meeting's international focus was on the continued development of ComFrame (including ICS) and the holistic framework for systemic risk—all of which are international projects that have implications for domestic insurers.

Former Commissioner Julie Mix McPeak welcomed representatives from the industry and interested parties to speak at the International Insurance Relations (G) Committee. The last year of field testing before ICS version 2.0 design elements are finalized is 2019. Following the conclusion of 2019 field testing, ICS version 2.0 is expected to be adopted, with the ICS transitioning to a five-year monitoring period. There are several concerns about the monitoring process, including how the ICS will be used by supervisors and how ICS reporting will be held confidential to supervisory colleges.

Photo courtesy of the NAIC

# Health care update

On April 10, 2019, the US Senate Finance Committee called five pharmacy benefit managers (PBMs) to testify on the rising cost of prescription drugs. In an industry historically wrought in secrecy, the federal government is probing for solutions to a popular, growing concern. PBMs have recently been an area of focus for the Trump administration, which is calling for increased drug pricing transparency and disclosure.

Similarly, state regulators face concerns surrounding increasing health care costs, including prescription drug costs, and they are actively pursuing initiatives to make an impact.

During the spring 2019 meeting, the Health Insurance and Managed Care (B) Committee discussed and adopted a request for the development of an NAIC model law, establishing a registration and/or licensing process for PBMs. Though some states have already implemented laws and regulations surrounding PBM registration and/or licensing, the NAIC model law development is in response to an outcry from markets and states where PBMs lack clear regulatory authority and to rising prescription drug pricing and costs experienced by those health plans.

The primary purpose of a PBM is to negotiate prescription drug prices between the health plan and the drug companies, in order to procure prescription drugs at lower prices, typically through the use of discounts. The current issue lies principally in the PBM's ability to raise prices to benefit from greater discounts, meanwhile passing along higher costs to the health plan.

Thus, the Pharmacy Benefit Manger Regulatory Issues (B) Subgroup of the Regulatory Framework (B) Task Force was formed to develop a new NAIC model to establish a licensing and registration process for PBMs, considering prescription drug pricing, cost transparency, and disclosure requirements in order to facilitate greater consistency across the states for oversight over PBMs.

However, the focus of the spring 2019 meeting was not limited to reducing only prescription drug costs; rather, the committee is focused on analyzing and discussing actions states can take with the goal of reducing overall health care costs.

One such method centers on the use of transparent health care claims information as a driver of cost reduction—transparency being the key to a solution.

Several organizations presented to the committee demonstrating success in managing rising health care costs through the use of data analytics and analysis. These organizations and states have developed claims databases to use actual claims data incurred to identify trends and major cost drivers, including chronic disease, opioid use, service type (i.e., inpatient, outpatient), pharmacy cost, and age, among many other health and demographic factors, to manage future health care costs. Such transparency has allowed these organizations to better negotiate with providers and drug companies and create greater clarity regarding potential policy reform to facilitate lower health care costs.

In an environment where health care costs continue to rise, health plans can arm themselves with the power of information—not only to improve health plan operations but to effect legislation more positively as it develops at both state and federal levels.

Photo courtesy of the NAIC

# Actuarial update

## Life Actuarial Task Force (LATF)

### Guaranteed Issue Mortality

Rhonda Ahrens (NE) discussed some problems with the 2017 Commissioners Standard Guaranteed Issue Mortality Tables (2017 CSGI), originally approved by LATF in 2018. The development of this table (based on experience related to dissimilar companies) failed to recognize the guaranteed issue market is not homogenous. As a result, the use of this table in valuation is likely to disrupt the guaranteed issue market by making the products less viable due to pricing, cross-subsidization, nonforfeiture, and other concerns. The Task Force exposed amendment proposal 2019-28, which replaces the implementation of the 2017 CSGI with the 2001 CSO.

### Adoption of the Variable Annuities Capital and Reserve Subgroup Report

The Task Force adopted the report of the Variable Annuities Capital and Reserve Subgroup, including its minutes and updates on revisions to AG 43, VM-01, VM-21, and VM-31. The VM-21 update focused on discussion of the standard projection (SP) mortality assumption. John Bruins of the American Council of Life Insurers (ACLI) suggested that industry experience differs from the prescribed SP mortality assumption (2012 IAM w/G2) by product type (living and non-living benefits) and age. Mortality adjustments or graded factors by age and product type should be considered.

### Adoption of the VM-22 (A) Subgroup Report

The Task Force adopted the report of the VM-22 (A) Subgroup, including its minutes. John Miller (Academy) gave an update on the proposed timeline and approach for non-variable deferred annuities (VM-23). The Annuity Reserves Work Group hopes to make its recommendation by the end of this year, leveraging VM-20 and VM-21, with a target implementation date of January 1, 2022, and a three-year transition option (similar to VM-20). Chris Conrad (Academy) gave an update on the Standard Valuation Law Interest Rate Modernization, focusing on the development of valuation interest rates for payout annuities with non-level payments. The Work Group is expected to provide further guidance and to consider drafting a VM-22 practice note.

### Update from the Academy PBR Strategy Subgroup

Linda Lankowski (Academy) spoke on behalf of the PBR Strategy Subgroup about perceived over-prescription in recently proposed amendments to VM-20 and VM-31. She encouraged the LATF to consider less prescriptive amendment proposal forms (APFs) and to acknowledge the level of prescriptiveness in areas where subjective professional judgment is involved.

### Comments regarding the Valuation Analysis (E) Working Group Report

Brian Bayerle (ACLI) expressed some concerns about perceived excess documentation requirements. He asserted that VM-31 should have appropriate disclosure requirements and that more robust documentation should be driven by an increase in communication.

### Valuation Manual amendments

#### Exposed for comment period

- Amendment proposal 2019-32 provides best efforts to avoid allocation of a DR or stochastic reserve (SR) in excess of the net premium reserve (NPR) to policies that did not generate such excess.
- Amendment proposal 2019-35 clarifies whether a reinsurance agreement involves a captive.
- Amendment proposal 2019-07 addresses recommendations No. 11 and No. 17 from the Valuation Analysis (E) Working Group memorandum titled, "Principle-Based Reserves (PBR) Recommendations and Referrals to LATF."
- Amendment proposal 2018-53 requires that the duration of investments used within an alternative investment strategy be of similar duration to the investments of the actual investment strategy.
- Amendment proposal 2019-11 clarifies the requirements for documentation of actual to expected ratios and the tests for the sufficiency of lapse margins.
- Amendment proposal 2019-31 removes the condition for a nonqualified actuarial opinion from the life PBR exemption and provides greater domiciliary commissioner discretion in granting the exemption.
- Amendment proposal 2019-36 clarifies Section II, Reserve Requirements, for deposit-type contracts.
- Amendment proposal 2019-37 clarifies the VM-G, Appendix G – Corporate Governance Guidance for Principle-Based Reserves requirements for products passing both the deterministic exclusion test (DET) and the stochastic exclusion test (SET).

- Amendment proposal 2018-45 defines adjustments to company experience mortality rates required when company experience is higher than the industry table used for grading.
- Amendment proposal 2019-29 allows groups of policies to be eligible for exclusion from SR requirements if a clearly defined hedging strategy (CDHS) supports a feature of the product that has such low utilization that it is not modeled due to immateriality.

#### Adopted

- Amendment proposal 2018-66 deletes VM-20, Section 2.D to clarify that a group of policies that pass the DR exclusion test and the SR exclusion test are considered subject to PBR.
- Amendment proposal 2019-10 addresses recommendation No. 28 from the Valuation Analysis (E) Working Group memorandum titled, "Principle-Based Reserves (PBR) Recommendations and Referrals to LATF" and clarifies VM-20 Section 8.D.2.
- Amendment proposal 2019-13 provides a guidance note to clarify how the numerator of the stochastic exclusion ratio test (SERT) is determined.
- Amendment proposal 2019-09 addresses recommendation No. 22 from the Valuation Analysis (E) Working Group memorandum titled, "Principle-Based Reserves (PBR) Recommendations and Referrals to LATF."
- Amendment proposal 2019-08 addresses recommendation No. 14 from the Valuation Analysis (E) Working Group memorandum titled, "Principle-Based Reserves (PBR) Recommendations and Referrals to LATF."
- Amendment proposal 2019-15 addresses recommendation Nos. 18, 29, and 30 and the third consideration in recommendation No. 5 from the Valuation Analysis (E) Working Group memorandum titled, "Principle-Based Reserves (PBR) Recommendations and Referrals to LATF."
- Amendment proposal 2019-12 revises the language describing the allocation of the pretax interest maintenance reserve (PIMR).
- Amendment proposal 2018-43 provides a definition of "insurance department" for VM-01.
- Amendment proposal 2019-04 clarifies the expense allowance formulas for universal life policies with secondary guarantees (ULSG).
- Amendment proposal 2018-64 clarifies that the requirements of VM-A, Appendix A – Requirements, and VM-C, Appendix C – Actuarial Guidelines, are not limited to reserves.

#### Other

- Heard a report from the ACLI that it withdrew amendment proposal 2019-03.
- Discussed amendment proposal 2019-33, which adds language to clarify the definition of individually underwritten life insurance and the applicability of PBR requirements for group insurance contracts with individual risk selection issued under insurance certificates.

### Adoption of the Experience Reporting Subgroup Report

Included was some discussion on APF 2018-59, which revises VM-51 to realign aspects of certain products, especially those that are newer and more complex, with their associated mortality risks.

### Adoption of the IUL Illustration Subgroup Report

Included was some discussion of considerations related to further development of AG 49 to address IUL policies with interest rate multipliers.

### Other topics of discussion

- Marianne Purushotham (SOA) gave an update on life mortality improvement factors.
- Dale Hall (SOA) gave an update on SOA research and education.
- Donna Claire (Academy Life Practice Council) gave an update on behalf of the Academy PBR Governance Work Group.
- Mary D. Miller (Academy), 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.

## Long-Term Care Actuarial Working Group

The working group adopted the reports of both the Long-Term Care Pricing Subgroup and the Long-Term Care Valuation Subgroup. Included was some discussion of an all-state Long-Term Care Insurance (LTCI) rate increase review survey, company solvency considerations used in LTCI rate reviews, and potential cross-state policyholder rate subsidization. The Academy also provided an update on LTCI Working Group activities.

## 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).

**Other topics of discussion**

- Mary D. Miller (Academy), Kathy Riley (ASB), and Godfrey Perrott (ABCD) gave an update from the Academy Council on Professionalism.
- Dale Hall (SOA) gave an update on SOA health insurance research.
- Update from the SOA and Academy on the 2005 Group Life Waiver of Premium Table.
- Update from the Academy Health Practice Council.

## 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 received a referral from the Financial Examiners Handbook Technical Group to review the property and casualty (P&C) reserves and claims handling exam repository.

**Adoption of the Statistical Data Working Group Report**

The task force adopted the report of the Statistical Data Working Group, which is reviewing the calculations for the Profitability Report.

**Discussed the predictive analytics white paper**

The task force discussed its white paper on best practices for regulatory review of predictive analytics. The volunteer drafters will continue discussion of submitted comments to propose changes to the white paper for future public exposure.

**Other topics of discussion**

- Kathleen C. Odomirok (Academy) gave an update from the Academy's Committee on Property and Liability Financial Reporting (COPLFR).
- Lisa Slotznick (Academy) gave an update from the Academy's Casualty Practice Council.
- Kathy Riley (ASB) and Godfrey Perrott (ABCD) gave an update on actuarial professionalism.
- Dale Hall (SOA) gave an update on SOA actuarial research.

## Big Data Working Group

The Casualty Actuarial and Statistical Task Force has exposed a draft of its white paper regarding the review of insurer rate models for a public comment period.

The working group heard recommendations from NAIC management for the following:

1. To hire a technical staff resource to provide technical support for insurance regulators, including predictive risk correlation, actuarial review, and experience, as well as education and training.
2. To develop a tool for state insurance departments to share information with other state insurance departments about their review of models.
3. To develop a training and education program for state insurance regulators (as needed, for actuaries and front-line rate and form review staff).

The working group discussed next steps regarding the use of data for life insurance underwriting. A motion was adopted to request that the Life Insurance and Annuities Committee study the use of external data and data analytics in accelerated life underwriting and draft and propose appropriate state guidance or best practices.

Addressing another area of regulatory concern in the use of big data, the working group agreed to consider the use of big data in insurer claim practices such as claim valuation and antifraud efforts.


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# 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 2019 spring meeting. Substantive changes finalized during the meeting have explicit effective dates as documented below. All nonsubstantive changes finalized during the meeting are effective upon adoption unless otherwise noted.

## Statutory Accounting Principles Working Group (SAPWG)

**Current developments:** The SAPWG adopted the following ***substantive*** item as final during the 2019 spring meeting:

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-17 | *Issue Paper No. 160—Structured Settlements* | P&C Life Health | The working group adopted the substantive revisions to SSAP No. 21R—Other Admitted Assets in 2018. This item adopts the issue paper that documents the discussion and conclusions that provide admission criteria for insurer investments in income streams of structured settlements. | N | N | 2018 |

**Current developments:** The SAPWG adopted the following ***nonsubstantive*** items as final during the 2019 spring meeting:

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-18 | *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*<br><br>*SSAP No. 26R—Bonds*<br><br>*SSAP No. 43R—Loan-Backed and Structured Securities*<br><br>*SSAP No. 86—Derivatives* | P&C<br>Life<br>Health | Revisions clarify accounting and reporting requirements for instruments that combine characteristics of a debt instrument with a derivative component. This item updates the definition of a structured note as an investment product that is structured to resemble a debt instrument, where the investor assumes a risk of principal loss based on an underlying component unrelated to the credit risk of the issuer. The adopted revisions are as follows:<br>• SSAP No. 2R – Derivatives shall not be reported as cash equivalents or short-term instruments regardless of maturity date at acquisition.<br>• SSAP No. 26R – Structured notes are no longer within the scope of this statement.<br>• SSAP No. 43R – Structured notes that are mortgage-referenced securities are within the scope of this statement.<br>• SSAP No. 86 – Structured notes that are NOT mortgage-referenced securities are considered derivative instruments under the scope of this statement.<br><br>In addition, the working group also made related referrals to the Blanks (E) Working Group, the Valuation of Securities (E) Task Force, and the Capital Adequacy (E) Task Force to update the definition of structured notes and consider possible revisions to the asset valuation reserve and risk-based capital.<br><br>Finally, the working group directed the development of an agenda item to consider valuation guidance for these or similar derivative items allowed admission under certain states' investment regulations. | Y | N | 2019 |

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-40 | *SSAP No. 16R—Electronic Data Processing Equipment and Software* | P&C<br>Life<br>Health | Revisions adopt, with modification, ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, related to hosting arrangements. The accounting is dependent on whether the arrangement is considered a service contract.<br>• Not a service contract<br>– The internal-use software is recognized as either operating or non-operating<br>– Ongoing hosting arrangement accounted for under SSAP No. 22—Leases<br>• Service contract<br>– Capitalize implementation costs as non-operating system internal-use software and nonadmit<br>– Amortized over the lesser of the term of the hosting arrangement or five years<br>– Ongoing hosting arrangement accounted for under SSAP No. 22<br><br>Early adoption permitted. | Y | TBD | 2020 |
| 2018-33 | *SSAP No. 30R—Unaffiliated Common Stock* | P&C<br>Life<br>Health | • Revisions clarify that assets pledged to a Federal Home Loan Bank (FHLB) on behalf of an affiliate shall be nonadmitted pursuant to SSAP No. 4—Assets and Nonadmitted Assets. | N | N | 2018 |
| 2018-34 | | | • Other revisions explicitly include foreign-registered, open-end investment funds in scope. | Y | N | 2019 |
| 2018-39 | *SSAP No. 55—Unpaid Claims, Losses, and Loss Adjustment Expenses* | P&C<br>Life<br>Health | Revisions clarify that interest paid on accident and health claims in accordance with prompt pay laws or regulations shall be reported as other claims adjustment expense.<br><br>Early adoption permitted. | N | N | 2020 |
| 2018-46 | *SSAP No. 86—Derivatives* | P&C<br>Life<br>Health | • Revisions add the Securities Industry and Financial Markets (SIFMA) Municipal Swap Rate and Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as US benchmark rates for hedge accounting. | Y | N | 2019 |

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-37 | *SSAP No. 92—Postretirement Benefits Other Than Pensions*<br><br>*SSAP No. 102—Pensions* | P&C<br>Life<br>Health | Revisions adopt, with modification, the disclosure amendments reflected in ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans.<br><br>Certain disclosures are deleted, while others are added or clarified, which corresponds to the requirements for public entities under the ASU. | N | Y | 2019 |
| 2018-35 | *SSAP No. 95—Nonmonetary Transactions*<br><br>*SSAP No. 104R—Share-Based Payments* | P&C<br>Life<br>Health | Revisions adopt, with modification, ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting to eliminate the specific section for nonemployee awards and include guidance for nonemployees with the share-based payment guidance for employees.<br><br>Other revisions to SSAP No. 95 update previously adopted US GAAP guidance to reflect the revisions from ASU 2018-07. | Y | Y | 2019 |
| 2018-36 | *SSAP No. 100R—Fair Value* | P&C<br>Life<br>Health | Revisions adopt, with modification, the disclosure amendments in ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement.<br>• Eliminate information on transfers between level 1 and level 2<br>• Eliminate disclosure of policy for determining when transfers between levels occur<br>• Calculation of net asset value | N | Y | 2018 |
| 2019-01 | *Appendix B—Interpretations of Statutory Accounting Principles*<br><br>*INT 19-01—Extension of Ninety-Day Rule for the Impact of California Cap Fire, Hill Fire, and Woolsey Fire* | P&C<br>Life<br>Health | The interpretation provides a temporary extension to the 90-day rule under SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premium, and Amounts Due from Agents and Brokers.<br><br>INT 19-01 will automatically nullify on April 24, 2019. | Y | N | 2019 |

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2019-02 | *Appendix B—Interpretations of Statutory Accounting Principles*<br><br>*INT 19-02—Single Security Initiative* | P&C<br>Life<br>Health | The interpretation provides a limited-scope exception to the exchange and conversion included in SSAP No. 26—Bonds for loan-backed and structured securities exchanged under the Freddie Mac Single Security Initiative, allowing continuation of the amortized cost basis of the security surrendered. | Y | N | 2019 |
| 2018-41<br><br>2018-42<br><br>2018-43<br><br>2018-44<br><br>2018-45 | *Appendix D—Nonapplicable GAAP Pronouncements* | P&C<br>Life<br>Health | Revisions reject the following ASUs as not applicable to statutory accounting:<br>• ASU 2017-13, Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017, EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments<br>• ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income<br>• ASU 2018-04, Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980), Amendments to SEC Paragraphs<br>• ASU 2018-05, Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118<br>• ASU 2018-06, Codification Improvements to Topic 942, Financial Services—Depository and Lending | N | N | 2019 |

| Ref# | Title | Sec. | Amendments exposed | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2016-02 | *SSAP No. 22—Leases* | P&C<br>Life<br>Health | ***Substantive*** – Re-exposed a substantively revised SAP No. 22R and corresponding Issue Paper No. 16X—Leases to incorporate the structure of the guidance in ASU 2016-02, Leases, but maintain the operating lease basis under current statutory guidance. | TBD | TBD | TBD |
| 2017-28 | *SSAP No. 62R-Property and Casualty Reinsurance* | P&C | ***Substantive*** – Exposed an issue paper to document the substantive revisions from 2018. | N | N | TBD |
| 2019-06 | *Preamble*<br><br>*SSAP No. 50—Classifications of Insurance or Managed Care Contracts*<br><br>*SSAP No. 51R—Life Contracts*<br><br>*SSAP No. 52—Deposit-Type Contracts*<br><br>*SSAP No. 56—Separate Accounts*<br><br>*SSAP No. 71—Policy Acquisition Costs and Commissions*<br><br>*SSAP No. 86—Derivatives* | Life<br>Health | ***Nonsubstantive*** – Exposed revisions to update the US GAAP references and reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts, for statutory accounting. The exposure also requests comments on the need for revised disclosure reconciliations of liabilities. | N | TBD | TBD |

| Ref# | Title | Sec. | Amendments exposed | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2019-03 | *SSAP No. 25—Affiliates and Other Related Parties*<br><br>*SSAP No. 26R—Bonds*<br><br>*SSAP No. 32—Preferred Stock*<br><br>*SSAP No. 43R-Loan-Backed and Structured Securities*<br><br>*SSAP No. 48—Joint Ventures, Partnerships, and Limited Liability Companies* | P&C<br>Life<br>Health | ***Nonsubstantive*** – Proposed revisions clarify the application of SSAP No. 25, as well as an "affiliated" classification, when a transaction is in substance a related-party transaction, even if the transaction is conducted through a non-related intermediary. | TBD | TBD | TBD |
| 2018-04 | *SSAP No. 21—Other Admitted Assets* | P&C<br>Life<br>Health | ***Nonsubstantive*** – This item relates to a referral from the Valuation of Securities (E) Task Force and proposes to clarify that a security within the scope of SSAP No. 26R—Bonds is not reclassified as a collateral loan under SSAP No. 21 because it is secured by collateral. | TBD | TBD | TBD |
| 2018-32 | *SSAP No. 26—Bonds* | P&C<br>Life<br>Health | ***Nonsubstantive*** – Proposed revisions provide guidance for determining the prepayment penalty for called bonds when consideration received is less than par. | TBD | N | TBD |
| 2019-07 | *SSAP No. 26—Bonds*<br><br>*SSAP No. 72—Surplus and Quasi-Reorganization* | P&C<br>Life<br>Health | ***Nonsubstantive*** – The proposed revisions relate to bonds received as property dividends or capital contributions. The exposed revisions require 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 or SSAP No. 95—Nonmonetary Transactions. | TBD | TBD | TBD |
| 2018-22 | *SSAP No. 37—Mortgage Loans* | P&C<br>Life<br>Health | ***Nonsubstantive*** – Proposed revisions intend to clarify the structure of mortgage loans acquired through a participation agreement intended to be in scope of this statement. | TBD | TBD | TBD |

| Ref# | Title | Sec. | Amendments exposed | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-33 | *SSAP No. 43R—Loan-Backed and Structured Securities* | P&C<br>Life<br>Health | ***Nonsubstantive*** – Proposed revisions require securities with differing NAIC designations by purchase lot to be reported in an overall aggregate at the lowest NAIC designation or with separate aggregations by NAIC designation. | TBD | TBD | TBD |
| 2019-08 | *SSAP No. 51R—Life Contracts*<br><br>*SSAP No. 52R—Deposit-Type Contracts* | P&C<br>Life<br>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. | TBD | TBD | TBD |
| 2018-38 | *SSAP No. 55—Unpaid Claims, Losses, and Loss Adjustment Expenses* | P&C<br>Life<br>Health | ***Nonsubstantive*** – Proposed revisions provide guidance clarifying that prepayments to providers of claims and adjusting services shall be recognized as miscellaneous underwriting expenses, with guidance for reclassification as claims adjustment expense or claims expense, as applicable, as claims are paid. | TBD | TBD | TBD |
| 2019-11 | *SSAP No. 62R—Property and Casualty Reinsurance* | P&C<br>Life<br>Health | ***Nonsubstantive*** – Proposed revisions to further clarify the effective date guidance regarding the updates to SSAP No. 62R that were adopted in 2018 that incorporated US GAAP guidance previously adopted by reference. The exposed guidance clarifies that it 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. | TBD | TBD | TBD |
| 2019-12<br><br>2019-14 | *SSAP No. 68—Business Combinations*<br><br>*SSAP No. 97—Subsidiary, Controlled, and Affiliated Entities* | P&C<br>Life<br>Health | ***Nonsubstantive*** – Exposed the following proposed revisions:<br>• Rejection of ASU 2014-17, Business Combinations – Pushdown Accounting for statutory accounting, and prohibits pushdown accounting for subsidiary, controlled, and affiliated (SCA) entities reported under audited US GAAP.<br>• Clarification that the acquisition of a holding company requires the purchase price and goodwill to be attributed to the downstream entities that the holding company directly owns. | TBD | TBD | TBD |

| Ref# | Title | Sec. | Amendments exposed | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-26<br><br>2019-13 | *SSAP No. 97—Subsidiary, Controlled, and Affiliated Entities* | P&C<br>Life<br>Health | ***Nonsubstantive*** – Exposed the following proposed revisions:<br>• Additional clarification of the statutory equity method when losses exceed the investment's carrying value.<br>• Clarification of the look-through guidance for non-insurance holding companies. These revisions specify that goodwill may be admitted only if its value has been supported by an audit report and that the look-through provision only applies to the downstream level directly below the noninsurance holding company. The exposure requests information on multiple-level shell holding companies for specific consideration. | TBD | TBD | TBD |
| 2019-09<br><br>2019-10 | *SSAP No. 101—Income Taxes* | P&C<br>Life<br>Health | ***Nonsubstantive*** – Exposed the following proposed revisions:<br>• Revisions to the Implementation Q&A update the guidance in response to the federal Tax Cuts and Jobs Act of 2017 (TCJA).<br>• Revisions to the Implementation Q&A clarify the application of the deferred tax admittance calculation, particularly with regard to offsetting deferred tax liabilities. | TBD | TBD | TBD |
| 2019-05 | *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* | P&C<br>Life<br>Health | ***Nonsubstantive*** – Proposed revisions reduce the disclosure requirements for repurchase and reverse repurchase transactions. A concurrent blanks proposal was also recommended to incorporate the proposed revisions. | TBD | Y | TBD |
| 2019-16<br><br>2019-17 | *Appendix D—Non-applicable GAAP Pronouncements* | P&C<br>Life<br>Health | ***Nonsubstantive*** – Proposed revisions to reject the following ASUs as not applicable to statutory accounting:<br>• ASU 2015-08, Pushdown Accounting – Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115.<br>• 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). | | | |

**Meeting:** The SAPWG exposed the following items for written comments (due by June 12, 2019) by interested parties. (NOTE: Items 2018-32, 2019-05, and 2019-07 have a comment letter deadline of May 10, 2019, due to concurrent blanks proposals.)

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# Endnote

1. Quotes provided directly from NAIC President and Maine Insurance Superintendent Eric A. Cioppa's prepared remarks for the Opening Session Spring 2019 NAIC National Meeting.

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