



NAIC update: Fall 2021 National Meeting

The National Association of Insurance Commissioners (NAIC) held its Fall National Meeting from the host city of San Diego, Calif., representing a second return to national in-person meetings, again with a hybrid virtual option. NAIC President and Florida State Insurance Commissioner David Altmaier welcomed participants, and California Governor Gavin Newsom provided his own welcome. Governor Newsom thanked the commissioners, directors, and superintendents for their hard work and highlighted the importance of insurance. With a reference to these “unprecedented times,” his comments focused on the issue and intensification of climate change; natural disasters like wildfires, hurricanes, and flooding; and the protection and preservation of homes, properties, and lives, while balancing affordability, protection, and services.

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- Climate update
- Life and Actuarial Task Force update
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What's next

- April 4-8, 2022
- Spring National Meeting
- Kansas City, MO
- In-person and virtual format

Accelerated Underwriting (A) Working Group

The Working Group held a virtual meeting (in lieu of meeting at the 2021 Fall National Meeting) on December 6, 2021. The purpose of the meeting was to review the current draft of the Accelerated Underwriting Educational Report and comments received. This was the first time the entire report had been exposed for public comment. Given this is a newer area of insurance regulatory attention, it is important to note the areas of focus from the comments received and the ongoing consideration of all stakeholders including regulators and industry alike. The comments and discussion included the differences between traditional underwriting and accelerated underwriting, the use of traditional

and nontraditional underwriting data, the application of machine learning and algorithms along with the NAIC's artificial intelligence principles, and whether current market conduct examination practices are sufficient for reviewing accelerated underwriting practices. There is clearly more work required before all parties are comfortable with the proposed approaches and ultimately whether benefits to all, including consumers, can be realized. Commissioner Arnold noted that the plan is to take the comments received and issue a revised draft for another round of public comment prior to the 2022 Spring National Meeting.

The Climate and Resiliency (EX) Task Force

The Task Force received a presentation from Commissioner Andrew Stolfi (OR) concerning the redesign of the NAIC's Climate Risk and Disclosure Survey. The current survey, now more than 10 years old, has been subject to evaluation and possible redesign based on current regulatory needs and consideration of other sectors and emerging international standards. The survey is currently required by 15 participating states and impacts any insurer underwriting more than \$100 million in any of the participating states. In 2021, more than 1,400 companies representing close to 80% of the market by direct written premium were required to submit the survey. The review work considered the current eight questions posed by the Climate Risk and Disclosure Survey and compared these to the [Financial Stability Board's Task Force for Climate-related Financial Disclosure \(TCFD\) recommendations](#).

The presentation noted "growing support for using the TCFD Framework internationally and domestically." It is recognized that some states allow insurers that produce a TCFD report to submit it in lieu of the NAIC Climate Risk and Disclosure Survey.

The review suggested a redesign to the Climate Risk and Disclosure Survey to include two parts: narrative questions and close-ended questions. Narrative questions could be answered by attaching existing files (e.g., PDF files) such as a TCFD report. The exposure draft for the changes was made with comment period ending in January 2022, with a next review at the Spring National Meeting.

Governance

Disclose the organization's governance around climate-related risks and opportunities.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

Risk management

Disclose how the organization identifies, assesses, and manages climate-related risks.

Metrics and targets

Disclose the metrics and targets used to access and manage relevant climate-related risks and opportunities where such information is material.

Life Actuarial Task Force

The Life Actuarial Task Force (LATF) held a session on December 8, 2022, in lieu of the Fall Meeting.

The Mortality Improvements Life Work Group (MILWG) gave an update on the development of Future Mortality Improvement (FMI) factors for VM-20 products to be included in the 2022 Valuation Manual. FMI scales (best estimate and loaded) will be developed, updated, and made available to practitioners annually.

LATF heard an update on Society of Actuaries (SOA) research and education. A presentation on both a recent SOA US Post-Level Term Lapse and Mortality Predictive Modeling Report and an Analysis of Historical US Population Mortality Improvement Drivers was given.

The Academy Life Practice Council (ALPC) gave an update on its recent activities, including delivery of PBR Boot Camp. Current priorities include support of the Economic Scenario Generator (ESG) transition.

LATF exposed one Valuation Manual amendment:

- **APF 2021-11** adds a section for the other assumptions requirement in VM-21, which covers general guidance and requirements for assumptions and expense assumptions.

Casualty Actuarial and Statistical Task Force

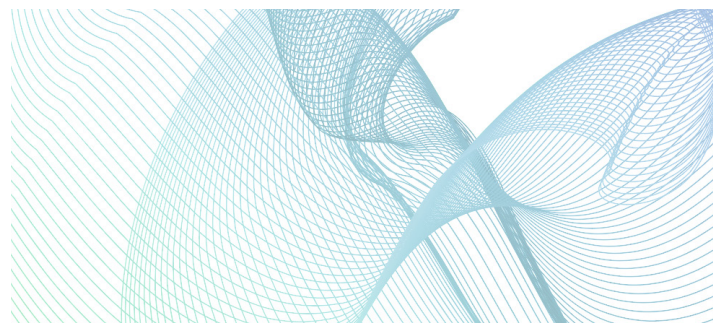
The Casualty Actuarial and Statistical Task Force (CASTF) heard a report from the Actuarial Opinion Working Group, which adopted the 2021 Regulatory Guidance¹ for the Statement of Actuarial Opinion (SAO) Instructions. A key change within Regulatory Guidance is a note that regulators plan to establish a deadline for the submission of the Appointed Actuary's qualification documentation to the insurer's Board of Directors within the 2022 SAO Instructions.

The Statistical Data Working Group reported that the group researched the ability to collect and publish auto and home premium and exposures under an accelerated timeline. CASTF acknowledged that because proposal 2021-11BWG was not adopted by the Blanks Working Group, it is expected that the Property and Casualty Insurance Committee will charge the Statistical Data Working Group with expediting the collection and publication of the auto and home premium and exposure data from statistical agents.

CASTF discussed Project #2019-49: Retroactive Reinsurance Exception. The presentation included background information about a disconnect between the Schedule P Instructions and SSAP No. 62R for intercompany pooling agreements. A proposal² to address the disconnect was exposed for comment through January 20, 2022.

Regulators received a presentation on random forest models. A proposal to include the random forest information items³ and glossary⁴ in the Appendix of the *Regulatory Review of Predictive Models* white paper was exposed for comment through February 4, 2022.

Finally, CASTF heard presentations from the American Academy of Actuaries Casualty Practice Council and Committee on Property and Liability Financial Reporting. The presentation included discussion of comment letters to the Federal Insurance Office, expanded content in the cyber insurance toolkit, a new medical professional liability issue brief on COVID-19 impacts, and an update to the risk transfer practice note.



NAIC accounting update

This section of the NAIC update focuses on accounting and reporting changes discussed, adopted, and exposed by the Statutory Accounting Principles (E) Working Group (SAPWG), the Accounting Practices and Procedures (E) Task Force, and the Financial Condition (E) Committee during the 2021 Fall and Interim Meetings. New Statutory Accounting Principles (SAP) concepts (formerly known as substantive changes or changes in accounting principles or method of applying the principles) finalized during these meetings have explicit effective dates as documented below. All SAP clarifications (formerly known as nonsubstantive changes or changes that clarify existing accounting principles) finalized during these meetings are effective upon adoption unless otherwise noted.

Statutory Accounting Principles Working Group

Current developments: The SAPWG adopted the following **new SAP** concept during the 2021 Fall and Interim Meetings:

Ref#	Title	Sector	Amendments adopted	F/S impact	Disclosure	Effective date
2019-24	<i>Appendix E— Issue Papers Issue Paper 165—Levelized and Persistency Commission</i>	P&C Life Health	The Working Group adopted an issue paper that documents the discussion and adopted clarification for levelized and persistency commissions.	N	N	2021

Current developments: The SAPWG adopted the following **SAP clarification** items as final during the 2021 Fall and Interim Meetings:

Ref#	Title	Sector	Amendments adopted	F/S impact	Disclosure	Effective date
INT21-02	<i>Appendix B— Interpretations of Statutory Accounting Principles SSAP No. 6— Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers</i>	P&C Life Health	Hurricane Ida caused loss of life and property. The Federal Emergency Management Agency (FEMA) lists Louisiana, New Jersey, and New York as having emergency declarations because of the hurricane. The Working Group adopted an interpretation to SSAP No. 6 covering storm impacted policies in areas in which a state of emergency was declared. <ul style="list-style-type: none"> • 60-day extension of the 90-day rule for uncollected premiums • Automatic nullification on January 24, 2022 	Y	N	2021
2021-17	<i>SSAP No. 32R— Preferred Stock</i>	P&C Life Health	The Working Group adopted a revision to remove the reference to the cost valuation method for redeemable preferred stock as this is no longer allowed under the revised statement.	Y	N	2021

Ref#	Title	Sector	Amendments adopted	F/S impact	Disclosure	Effective date
2021-15	SSAP No. 43R— <i>Loan-Backed and Structured Securities</i>	P&C Life Health	<p>During another project related to a principles-based bond proposal, the Working Group identified that there is current inconsistency in practice for reporting of non-rated residual tranches for structures captured with the scope of SSAP No. 43R.</p> <p>Non-rated, first loss layers without contractual principal or interest (residual tranches or interests) have been incorrectly interpreted to comply with the legal-form structure of the statement and are being reported inconsistently.</p> <p>Given that the principles-based bond proposal project will likely add substantial time for development and finalization, the Working Group developed interim guidance to address the above-mentioned inconsistency.</p> <p>The Working Group adopted a revision that requires reporting of non-rated residual tranches or interests on Schedule BA at the lower of cost or fair value, with changes reported as an unrealized gain or loss.</p> <p>Effective date: December 31, 2022, with early adoption permitted.</p> <p>NOTE: If the residual tranches or interests continue to be reported on Schedule D-1 for 2021 reporting, these items must be rated NAIC 6.</p>	Y	Y	2022
2021-11	SSAP No. 43R— <i>Loan-Backed and Structured Securities</i>	P&C Life Health	<p>The Valuation of Securities (E) Task Force recently adopted revisions to the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> (P&P Manual) to clarify that the definition of a credit tenant loan (CTL), which defines CTLs as mortgage loans, is specific to mortgage loans in the scope of <i>SSAP No. 37—Mortgage Loans</i> (SSAP No. 37). This amendment clarifies the application of the structural assessment to identify CTLs is limited to direct mortgage loans and relates to the potential reclassification of investments reported on Schedule B – Mortgage Loans to Schedule D – Long-Term Bonds for qualifying investments.</p> <p>Revisions to the P&P Manual also clarify that security structures that are excluded from SSAP No. 37 are not subject to structural assessment.</p> <p>Upon review of these revisions, the Working Group adopted the following:</p> <ul style="list-style-type: none"> • Nullification of <i>INT 20-10: Reporting Nonconforming CTLs</i> <ul style="list-style-type: none"> – This temporary interpretation provided reporting exceptions for year-end 2020, which permitted continued reporting on Schedule D for nonconforming CTLs if filed with the Securities Valuation Office by February 15, 2021. Given the revisions to the P&P Manual, this INT is no longer necessary. • Disposal of existing agenda items related to CTLs. • Adoption of revisions to SSAP No. 43R to explicitly include SVO-identified CTLs within the scope of the statement. 	Y	N	2021

Ref#	Title	Sector	Amendments adopted	F/S impact	Disclosure	Effective date
2021-13	<i>SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses</i>	P&C Life Health	<ul style="list-style-type: none"> Proposed revisions to clarify that salvage and subrogation estimates and recoveries can include amounts related to both claims/losses and loss adjusting expenses. <ul style="list-style-type: none"> Estimate reported as a reduction of losses and/or loss adjusting expense reserves. Upon receipt of salvage and subrogation and as coordination of benefits are received, they are reported as a reduction of paid losses and loss adjusting expenses determined based on the type of recovery. Editorial edits to existing related disclosure. 	Y	Y	2021
2021-12EP	<i>Editorial Updates</i>	P&C Life Health	<p>Adopted editorial revisions (formatting and readability edits) to the following:</p> <ul style="list-style-type: none"> <i>Preamble</i> – Insertion of paragraph number <i>Appendix A-001: Investments of Reporting Entities</i> – Updates for designation codes for preferred stock <i>Appendix C</i> – Updates for current Working Groups under the Financial Condition (E) Committee <i>Appendix C-2</i> – Updates for current Working Groups under the Financial Condition (E) Committee <i>SSAP No. 21R—Other Admitted Assets</i> – Readability revisions related to receivables for securities 	N	N	2021
2021-19EP	<i>Editorial Updates</i>	P&C Life Health	<p>Adopted editorial revisions (update references) to the following:</p> <ul style="list-style-type: none"> <i>SSAP No. 16R—Electronic Data Processing Equipment and Software</i> – Correct various paragraph references <i>SSAP No. 43R—Loan-Backed and Structured Securities</i> – Remove outdated references to guidance previously deleted 	N	N	2021
2021-14	<i>Appendix F—NAIC Policy Statement on Maintenance of Statutory Accounting Principles</i>	P&C Life Health	<p>This item relates to a referral from the Financial Condition (E) Committee.</p> <p>The Committee noted that the terminology used in the maintenance process for Statutory Accounting Principles (Substantive and Nonsubstantive) could be misunderstood by users that are not familiar with the definitions and application.</p> <p>The Working Group adopted the following revisions to terminology that will be used for the maintenance process on a go-forward basis (no changes to existing guidance):</p> <ul style="list-style-type: none"> Substantive is now referred to as a new Statutory Accounting Principle (SAP) concept. Nonsubstantive is now referred to as an SAP clarification. 	N	N	2021

The SAPWG exposed the following items for written comments by interested parties:

Ref#	Title	Sector	Amendments exposed	F/S impact	Disclosure	Effective date
2021-25	SSAP No. 19— <i>Furniture, Fixtures, Equipment and Leasehold Improvements</i> SSAP No. 73— <i>Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities</i>	P&C Life Health	SAP Clarification – The Working Group exposed proposed revisions to clarify that upon termination of a lease, unamortized leasehold improvements are immediately expensed.	Y	N	TBD
2021-29	SSAP No. 22R— <i>Leases</i>	P&C Life Health	Exposed proposed rejection of ASU 2021-05, <i>Leases (Topic 842), Lessors – Certain Leases with Variable Lease Payments</i> . This ASU provides guidance that applies to lessors with contracts that have variable lease payments that do not depend on a reference index or rate and would result in immediate selling loss if categorized as a sales-type or direct financing. The ASU requires classification as an operating lease, which is already required by SSAP No. 22R.	N	N	TBD
2021-21	SSAP No. 25— <i>Affiliates and Other Related Parties</i> SSAP No. 43R— <i>Loan-Backed and Structured Securities</i>	P&C Life Health	SAP Clarification – Related Party Reporting The Working Group seeks to distinguish accounting and reporting for affiliated investment transactions and those among related parties. • The Working Group exposed proposed clarification for affiliate transactions in the investment schedules and adds additional disclosures for investments acquired from a related party. • In addition, new reporting codes will be recommended for 2022 investment schedules to identify the role of the related party.	Y	Y	TBD
2021-23	SSAP No. 43R— <i>Loan-Backed and Structured Securities</i>	P&C Life Health	SAP Clarification – Financial Modeling – Updated Guidance The Valuation of Securities (E) Task Force revised the financial modeling guidance for residential mortgage-backed securities and commercial mortgage-backed securities. The revised requirements are included in the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> (P&P Manual). This agenda item exposes alternatives for updating SSAP No. 43R for these revisions. • Retain existing guidance in SSAP No. 43R with updates to reflect recent actions; or • Remove the summarized financial modeling guidance and refer users to the P&P Manual	Y	N	TBD

Ref#	Title	Sector	Amendments exposed	F/S impact	Disclosure	Effective date
2019-21	New SAP Concept — <i>Proposed Bond Definition</i>	P&C Life Health	New SAP Concept – Bond Proposal Project Interested parties, NAIC staff, and Iowa regulators have continued to develop criteria for reporting on Schedule D-1 – Long-Term Bonds, which includes issuer obligations and asset-backed securities. This definition is principles based and provides examples to assist insurer classification. The Working Group exposed: <ul style="list-style-type: none">• Discussion Draft of potential reporting options to revise Schedule D-1 – Long-Term Bonds to capture more granularity and transparency of investments reported as a bond.• Revisions to the proposed principle concepts related to criteria for an asset-backed security to satisfy credit-enhancement requirements.	Y	TBD	TBD
2021-31	<i>SSAP No. 61R— Life, Deposit-Type and Accident and Health Reinsurance</i>	Life Health	SAP Clarification – Disclosures of Risk-Limiting Features in Life and Health Reinsurance Contracts <ul style="list-style-type: none">• Proposed clarifications and, in some cases, narrow the scope of current disclosures.• No additional disclosures are proposed.• Proposed effective date: December 31, 2021.	N	Y	2021
2021-28	<i>SSAP No.68— Business Combinations and Goodwill</i>	P&C Life Health	Proposed rejection of <i>ASU 2021-03, Intangibles—Goodwill and Other (Topic 350)—Accounting Alternative for Evaluating Triggering Events.</i>	N	N	TBD
2021-27	<i>SSAP No.72— Surplus and Quasi- Reorganizations</i>	P&C Life Health	Proposed rejection of <i>ASU 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)—Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options.</i> <ul style="list-style-type: none">• ASU provides guidance on how to account for changes in fair values for written call options.	N	N	TBD
2021-20	<i>SSAP No.86— Derivatives</i>	P&C Life Health	New SAP Concept – Effective Hedging Derivatives The agenda item seeks public comment regarding possible revisions to expand effective hedge relationship guidance to be consistent with US GAAP.	Y	TBD	TBD
2021-18	<i>SSAP No.108— Derivatives Hedging Variable Annuity Guarantees</i>	P&C Life Health	SAP Clarification – VM-21 Scenario Consistency Exposed proposed revisions to remove reference to the “standard scenario” to ensure consistency with VM-21, <i>Requirements for Principle-Based Reserves for Variable Annuities.</i>	Y	TBD	TBD

Ref#	Title	Sector	Amendments exposed	F/S impact	Disclosure	Effective date
2021-30	<i>Appendix D—Nonapplicable GAAP Pronouncements</i>	P&C Life Health	Proposed rejection of ASU 2021-06, <i>Presentation of Financial Statements (Topic 205)</i> , <i>Financial Services—Depository and Lending (Topic 942)</i> , and <i>Financial Services—Investment Companies (Topic 946)</i> , <i>Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786</i> , <i>Amendments to Financial Disclosures about Acquired and Disposed Businesses</i> , and <i>No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants.</i>	N	N	TBD
2021-26EP	<i>Editorial Revisions</i>	P&C Life Health	Exposed revisions to terminology references of “substantive” and “nonsubstantive” to reflect “new SAP concept” and “SAP clarification.”	N	N	TBD

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

Ref#	Title	Sector	Description	F/S impact	Disclosure	Effective date
2021-22 2021-24	<i>Blanks Referral</i>	P&C Life Health	<p>Schedule D-6-1, Supplemental Reporting</p> <ul style="list-style-type: none"> Data captured supplemental information to help regulators identify filing compliance and valuation differences from NAIC-approved values. <p>Blanks Proposal – Cryptocurrency General Interrogatory</p> <ul style="list-style-type: none"> New Annual Statement general interrogatory to require disclosure of cryptocurrencies directly held or permitted for the remittance of premiums. 	N	N	TBD

Endnotes

1. NAIC Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force, [“Regulatory guidance on property and casualty statutory statements of actuarial opinion, actuarial opinion summaries, and actuarial reports for the year 2021.”](#) September 23, 2021.
2. CASTF, [“Schedule P reporting for retroactive reinsurance accounting exceptions.”](#) CASTF response to SAPWG Ref 2019-49, December 2, 2021.
3. CASTF, [“Adaptation of the GLM Information Items in the Regulatory Review of Predictive Models white paper to apply to Random Forest Models \(instead of GLM\).”](#) accessed March 9, 2022.
4. NAIC, [“Casual Actuarial and Statistical \(C\) Task Force – New glossary terms.”](#) December 7, 2021.

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