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Work continues as all wait for federal changes

DENVER, CO — The Mile High City was a gracious host to the National Association of Insurance Commissioners' (NAIC) spring national meeting. Beautiful weather and a backdrop of snowcapped mountains framed more down-to-earth discussions on insurance issues that often were fraught with uncertainty.

Changes in Washington were clearly a major factor in this uncertainty. Nowhere was this more obvious than in the discussions on the future of the Affordable Care Act and the impact of potential changes on the states assembled.

The future of the Dodd-Frank Act and its attendant institutions may also be in doubt. While members of the US Department of the Treasury's Federal Insurance Office (FIO) attended meetings, that office now operates without a director. Representatives of the Federal Reserve Board of Governors (Fed) were in attendance, but that organization may also see changes with the departure of Governor Daniel Tarullo, who was responsible for creating insurance capital standards for the institutions regulated by the Fed.

However, not all the uncertainty could be laid at the feet of the federal government. The NAIC is still working on creating a cybersecurity model law. Some commissioners expressed concern about the current status of the long-term care (LTC) sector. Innovation and technology still promise change not yet imagined.

Still, the tendency to equate uncertainty with doom and gloom should be resisted. State insurance regulation in this new political era seems reascendant. Commissioners expressed openness towards innovation and technology as they moved to address consumer concerns over issues as varied as annuity sales and auto insurance. The future seemed manageable.

Perhaps, as it is for baseball fans, spring will be a season of hope for insurance regulators and stakeholders.

Some central issues

What it is	What happened	What may be next
Cybersecurity	Model law comments are still being received. Drafting group chair sees increased acceptance of latest version. New innovation task force chair urges finalizing the delayed proposal.	New York's superintendent urges NAIC adoption of its first-in-the-nation law. Insurers may need to anticipate varying compliance requirements before uniformity is achieved.
Big data and innovation	Regulators express openness to innovation and to big data use by both insurers and regulators.	Some regulators worldwide have formed regulatory sandboxes enabling limited, consumer-safe innovation. Consumer protection will be a big focus. Big data used by regulators could be transformational (especially for market conduct), creating information asymmetry with industry unless industry is prepared.
Annuity sales	A "best interest" standard seems to be on its way to widespread acceptance.	No matter what happens to the DOL rule, annuity sales seem destined to face heightened regulatory scrutiny.
Group capital calculation	Work continues on developing calculation.	Openness to industry input should lead to a solution acceptable to all. Buried concern is that a calculation could become a requirement.
Long-term care	Concerns were expressed about the financial health and future status of the LTC market and a task force was formed.	Insurers may wish to focus on any changes with guaranty funds and assessment issues.
Principle-based reserving (PBR)	Implementation continues on track.	As regulators focus on training and staffing needs, so too may affected insurers as they prepare for the full transition to PBR.
Corporate governance disclosure	Models were forwarded for adoption at the summer meeting.	Following Own Risk and Solvency Assessment (ORSA) implementation, corporate governance disclosure is the next big compliance change for insurers. Building on the ORSA may be one way for insurers to prepare for disclosure.

Innovation and Technology Task Force hits the ground running

At the first meeting of the Innovation and Technology (EX) Task Force, Chair Director Patrick McPharlin of Michigan told those assembled that he wanted an “open, educational experience” for task force members. Thoughts McPharlin shared included a trip to Silicon Valley for commissioners, a visit to M city in Michigan to see autonomous vehicles testing, and a number of additional meetings.

“The main goal is to have commissioners and staff understand innovation,” said McPharlin, adding that he similarly sought to have innovators understand regulators. The task force discussed its charges, the working groups currently reporting to it, and the possibility of new working groups.

The Cybersecurity Working Group will now report to this task force. Its modified charge includes the creation of the Insurance Data Security Model Act. In response to stakeholders’ feedback on the most recently exposed model, new working group chair, Director Ray Farmer of South Carolina, said “None of those comments was positive.” Work continues.

Oklahoma Commissioner John Doak proposed micro insurance as a charge for a possible subgroup. Mobility was another suggestion for the task force to investigate. A representative of a major European reinsurer proposed the creation of a Future Insurance Technology (FIT) Lab, telling regulators her company would like to help get it off the ground.

Consumer representative Birny Birnbaum of the Center for Economic Justice (CEJ) told the commissioners he had three points to share with them. He said big data held tremendous promise for empowering consumers, but these benefits would not happen without regulatory guidance. He also stated that consumer protection was essential for rapid adoption of these new technologies.

Birnbaum asked regulators to consider not just insurtech, but regulatory innovation. He gave the example of using more granular data collection to show consumer outcomes and thus performance. How did companies perform in terms of settling claims, litigations, etc.? The answers to questions like these could be used to empower consumers, and are just a few of the many opportunities for regulatory innovation, Birnbaum said.

Philip Carson of the American Insurance Association (AIA) told regulators there should be three guiding principles: a level playing field for both new entrants and incumbents; a focus on protecting consumers and not business-to-business; and innovation that does not encourage risky behavior.

A representative from the American Council of Life Insurers (ACLI) told the regulators his organization looked forward to partnering with them on innovation.

A startup founder told the regulators that tech provides an opportunity to close the gap for underserved communities—specifically citing a micro insurance initiative as one that regulators may wish to support.

Dave Snyder of the Property Casualty Insurers Association of America (PCI) urged regulators to think long and hard before deconstructing the pillars that have formed the US insurance market. New entrants should be regulated and prove they will have a long-term presence, Snyder said.

The task force is charged with studying mobility-related insurance issues and will work to develop a new charge to study micro insurance.

New York urges Cybersecurity Working Group to adopt its model

Should the NAIC jettison its efforts to create a cybersecurity model law and instead adopt the one recently implemented in New York? That was the suggestion from New York Superintendent Maria Vullo, who presented to the Cybersecurity (EX) Working Group on the New York State Department of Financial Services' (NYDFS) implementation of its Cybersecurity Requirements For Financial Services Companies.

The working group also heard from Rhode Island's Superintendent of Banking and Insurance Elizabeth Dwyer, who now leads the Insurance Data Security Model Law drafting group.

Dwyer told the working group that a third version of the model was released on February 27 and the working group had received comments from interested parties. She said there was consensus regarding the risk-based security requirements in the current version of the draft. The group has set clear timelines for receiving final comments on the third draft. Working group chair Ray Farmer of South Carolina told the drafting group that he would like this next step to be the last one in the process. The original timeline for adoption of that model had been the final NAIC meeting of 2016.

Vullo told the working group that NYDFS regulates financial services companies of different shapes and sizes and any cyber regulation had to be able to cater to all of them. She said there is no greater threat to our institutions than cybersecurity and that the issue keeps her up at night.

All financial institutions are vulnerable to cyberattacks—either foreign or domestic, internal or external to the organization—said Vullo, which is why NYDFS went through an extensive two-year process for creating the regulation. The cybersecurity law went into effect on March 1, 2017.

Vullo said that the comment period was critical for New York. NYDFS received more than 200 comments from chief information security officers (CISOs), law enforcement agencies, cybersecurity board members, and others. The resulting cybersecurity law put forth a minimum compliance standard for companies with the focus on risk-based assessment.

Each company assesses its own risk and creates its own cyber policy and program, Vullo explained. Some of the elements of the program are as follows:

- The law expects senior management to be involved in the program and to certify compliance.
- Companies need to ensure the cybersecurity program is adequately funded and staffed.
- There has to be a CISO in every organization, either on the payroll or through an external service provider.
- The CISO must report to the board or senior management periodically.
- Companies are responsible for staff and management training.
- Multifactor authentication must be in place.
- Personal data must be encrypted.

- Third-party vendors should be a part of the solution.
- Cyber risk management should be a priority at the highest levels of the organization.

In the event of a material cyber breach, regulators must be notified within 72 hours of first knowledge of the breach. The word “material” was perceived as somewhat subjective. In response to a question about this, Vullo said that she does not want to get a notification for every data phishing email. In addition to reporting the breach, documents and information had to be retained so that the conditions of the breach could be reconstructed.

Vullo then suggested adopting the New York regulation as the NAIC model.

When pressed to talk about the differences between the New York and NAIC models, she spoke about how the state has taken a risk-based approach. There are also differences in incident reporting, she said. Under the New York regulation, companies only have to inform their regulators if a breach has definitively occurred. Under the NAIC draft law, regulators would have to be notified if a breach “may” have occurred. She said the rules for encryption of personal data for wireless transfer are more specific in the New York regulation.

She reiterated that New York has gone through the same issues in forming the regulation as the NAIC drafting and working groups. And she again suggested the NAIC adopt the New York for the sake of consistency.

Speakers clash on positive effects of big data

The Big Data (EX) Working Group discussed its work plan at the NAIC spring meeting. It also heard a presentation on big data and regulation and responses to that presentation. Working group members expressed some concern about the tasks facing them.

The Florida regulator noted that the scope of the working group was broad and the issues enormous, asking, "Do we have bandwidth in this timeframe or should there be some reconsideration? Seems impossible." Oregon Insurance Commissioner Laura Cali Robinson, the working group chair, agreed, saying there needed to be prioritization within the timeline.

The chair also sought to clarify items in the work plan, suggesting that "unfair discrimination" be used in lieu of "disparate impact." She also suggested modifying the plan to enable the balanced understanding of innovations that are impactful to consumers in their markets, acknowledging that innovation is not all problematic.

A PCI representative commented that all stakeholders had a common interest in working together constructively. The representative suggested that regulators invite companies and service providers in to help educate regulators on their use of big data. The representative also mentioned issues surrounding data collection and data use by vendors.

Consumer representative Birny Birnbaum urged the working group to continue, telling regulators that the details of the work plan were important. There should be a listing of all issues so that consumers could see them, he said.

Birnbaum supported the idea of disparate impact inasmuch as it reduced the potential to use proxies for protected classes. He pushed back on the idea that regulation hindered innovation.

A presentation on big data and regulation in the insurance industry by Lawrence S. Powell, Ph.D., noted the numerous benefits of big data including more efficient pricing, more accurate and appropriate data use, increased consumer satisfaction, increasing coverage, a more effective and less fraudulent claims process, improved accuracy, and increased efficiency. He also noted changes to the regulation of insurance products, disclosure concerns, price segmentation, and regulatory resources.

Birnbaum disputed Powell's findings, saying the paper contains badly flawed and erroneous market data. He gave a number of examples where he said markets and products were crossed. In response to a question, Powell said that the paper was funded by PCI. He added that while his time and effort was for sale, his opinion was not.



Courtesy of the NAIC

SVO manual rewrite is delayed

A proposal to modify the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* in order to increase the discretion accorded to the NAIC Securities Valuation Office (SVO) in rejecting ratings from credit rating agencies hit a snag at the meeting of the Valuation of Securities (E) Task Force. As a result of numerous concerns expressed by stakeholders—including the lack of sufficient time to review the proposed changes—discussion of proposed amendments was deferred pending collection of these concerns and a discussion by the task force members.

Stewart Guerin of Louisiana, who chaired the task force, sought to reassure stakeholders that the intention of the amendments was not to give the SVO unbounded discretion, but the ability to utilize some discretion was needed. Acknowledging concerns, he said, “We need to have more time.”

One regulator noted there had already been significant discussion around the issue. “We worked on it for a long time,” he said, and that the task force risked paralysis by analysis instead of moving ahead. He advocated “learning by doing instead of continually nibbling over this word or that word.”

Guerin, mentioning that many comments were recently received, spoke to the rationale behind the proposed changes. “We’re blindly relying on credit ratings,” he said, adding that no regulator wanted to do that.

The representative of the Private Placement Investors Association (PPIA) told the task force that if the discretionary element remained, they would like to see specific changes included. The representative also expressed concern with other issues including timelines and confidentiality.



Courtesy of the NAIC

Industry presents perspectives on macro prudential monitoring and group supervision

As it expanded its charge to include analyzing “existing post-financial crisis regulatory reforms for their application and identifying macroeconomic trends, including identifying possible areas of improvements or gaps,” the Financial Stability (EX) Task Force heard presentations on macro prudential monitoring and group supervision from three different industry representatives.

Speaking primarily on stress testing, the chief risk officer (CRO) of a major European insurance group shared with regulators lessons learned from stress testing, among other things. The representative said that one common challenge was that expert judgment tended to be “always wrong” in the details. Other difficulties included agreeing on scenarios that fall outside of “normal experience,” and converging on a scenario tree because of the multiplicity of opinions. Consequently, not only is analysis challenging, but taking action is even more difficult because of the perceived remoteness of the scenarios.

The CRO recommended that regulators and others leverage historical scenarios and engage in reverse stress testing, but also focus more attention on management toolkit and contingent actions instead of scenarios. He said stress testing and scenario analysis should be embedded into the regular capital management processes, and that market-wide stress testing should be the fact-based starting point of macro prudential supervision.

The vice chair of a major US insurance group observed that the attention to group supervision following the financial crisis was an appropriate response and a natural complement to strong, existing legal entity oversight. He hailed the development of tools such as the ORSA, and growing regulatory attention to activity-related risk.

He called for frequent and candid communication between insurers and supervisors. And while recovery and resolution plans may be helpful, he said they may not be necessary. He noted that liquidity was more likely than capital to create challenges for an insurance group, and that having the right tools for group assessment was important. He praised “effective state-based group oversight” as “fundamental to the credibility of insurance supervision in the industry.”

The third presenter, a representative of another major US insurer, supported the use of risk transmission channels to identify potential threats to financial stability, suggesting asset liquidation, interconnectedness, and substitutability as the criteria to assess insurance sector activities from the macro prudential perspective.

A representative of a US-based insurer expressed concern that an initiative by the International Association of Insurance Supervisors (IAIS) to broaden the Global Systemically Important Insurer (G-SII) criteria from an entity-based approach to an activities-based approach was primarily an attempt to broaden regulatory coverage.

Form F implementation guide goes too far for all

"F" stood for "fail" at the meeting of the Group Solvency Issues (E) Working Group. A proposed Form F implementation guide, while regarded as well intended, stirred dissension among stakeholders who thought the guide went beyond the Form F requirements.

John Bauer of the NAIC described the main themes of the comments received on the exposed guide. These included the extension of the guide beyond the express requirements of Form F, as well as questions about how guidance like this would be implemented.

Bauer agreed with these concerns to a certain extent, saying, "This guide does appear to go beyond the requirements...that may exist." He said there were issues in the guidance manual that may not be consistent with the Form F intentions or expectations. He noted various areas of specific concern, but concluded, "Having said all that, I believe that you as regulators retain your full scope of action."

Joe Zampano of the North American Chief Risk Officer's Council said his counsel was very supportive of the objective, but "the current form may be a bit too broad." Other trade group representatives echoed sentiments such as those expressed by Michelle Rogers of the National Association of Mutual Insurance Companies (NAMIC), who said her group supports the analysis and stands ready to work with regulators to create an acceptable product.



Courtesy of the NAIC

One regulator said he was getting the impression that industry was asking for prescribed requirements when this was supposed to be a principles-based document. Working group chair Christy Neighbors of Nebraska said the definition of enterprise risk would need to be reevaluated if the model were open for other reasons.

"The problem really lies in the definition of enterprise risk," she said.

Working group vice chair Doug Slape of Texas said maybe the group should put the document aside and try to figure out the way forward. One regulator suggested that adoption of the implementation guide be put to a vote. Connecticut Insurance Commissioner Kathy Belfi said she would have to vote "no" because the guide went beyond the law.

A motion was put forward to adopt the guide, but it failed for lack of a second. After some discussion, the working group chose to form a drafting group to continue working on the issue.

ACLI presents proposed group capital calculation approaches for noninsurance entities

Representatives of the American Council of Life Insurers (ACLI) presented a proposal for the treatment of noninsurance non-regulated entities within the proposed group capital calculation to the Group Capital Calculation (E) Working Group. This proposal updated the ACLI's December 2016 proposal and provided three possible approaches for regulators.

The ACLI's three approaches were a derivation of the aggregation and calibration approach, a second approach similar to previously proposed NAIC methodology, and a modified, simplified version of the first approach.

The ACLI noted that all three approaches shared underlying features. This included having the group capital calculation focused on capturing the capital requirements of all material financial entities and those nonfinancial entities with demonstrable recourse to the group, while excluding most immaterial financial entities and nonfinancial services entities with no demonstrable recourse to the group. Also common to all three approaches was that the assets and liabilities of excluded entities would be excluded from the group capital calculation.

The first approach relied on the use of appropriate regulatory regimes, with minimal adjustments and an indifference to corporate structure, the ACLI said. Insurance-related entities would be treated under their parent's solvency regime, while entities from other sectors would use their own sectoral regimes such as Basel III for banks. Asset managers and nonfinancial services entities with demonstrable recourse to the group would have an operational risk charge applied.

The second approach was described as largely consistent with the NAIC staff memo that proposed excluding most nonfinancial services entities with no demonstrable recourse to the group and nonmaterial financial services entities. Sectoral capital regimes would be applied to entities subject to such a regime (for example, banks), and a 22.5 percent US risk-based capital (RBC) charge would be added to any material financial services entity in any nonfinancial services entity with demonstrable recourse to the group.

The third simplified approach would not differentiate between those noninsurance entities covered or not covered by a parent regime. All nonmaterial financial services entities would be excluded and an operational risk charge added to nonfinancial services entities with demonstrable recourse to the group. The most significant difference between the first and third approaches according to the ACLI is that the first approach uses two materiality thresholds—a higher one if an entity is covered by a parent regime—which endeavors to provide deference to the parent regime and limit changes to existing regimes.

The ACLI called on regulators to explore these approaches through field testing.

The working group also exposed a proposed approach to US insurers that do not file RBC and/or do not use statutory accounting, as well as covering prescribed/ permitted practices.

PBR pilot project was a success, regulators hear

California will lead a Life Actuarial Task Force (LATF) Drafting Group that will propose changes to Valuation Manual (VM) 31 effective January 2018, the PBR Review (EX) Working Group was told at the NAIC spring meeting. VM-31 establishes the minimum reporting requirements for policies or contracts subject to principle-based reserve (PBR) valuation under the Standard Valuation Law.

The working group also heard status reports on various aspects of PBR preparation as well as the results of the PBR pilot project.

Larry Bruning of the NAIC brought regulators and stakeholders up to date on the progress of PBR review support for state insurance regulators. Bruning said that the NAIC had completed the training involved for its newly acquired software and set up a standard portfolio model. It plans to share the result of sensitivity testing using the standard portfolio model at the summer national meeting.

Bruning also noted that there were still two open actuarial positions that the NAIC needed to fill.

The Society of Actuaries (SOA), Actuarial Compass, and the American Academy of Actuaries (AAA) are all providing training for regulators in preparation for the ongoing adoption of PBR for life insurance companies.

The PBR company pilot project involved 11 volunteer companies across nine states, with more than 1.2 million term life or universal life with secondary guarantees policies with a total face amount of more than \$829 billion and a reported reserve of more than \$3.6 billion tested. The pilot was designed to assess the completeness and clarity of the valuation manual and the adequacy of the VM-20 reserve supplement and instructions for reporting the reserves. It also determined company compliance with the requirements of the PBR valuation and company perspective on the project.

Findings included:

- Three of the 11 companies participating said they would value products issued in 2017 under PBR. One said it would possibly value products under PBR depending what tax reserve allowed under PBR by treasury.
- Two of the 10 companies testing term products had a negative deterministic reserve, which regulators said could happen if premiums are set so that when combined with investment income on invested assets, the resulting cash flows are more than sufficient to pay all the claims and expenses on the product. However, this could also be a result of unrealistic assumptions, pointing to a challenge regulators may face in examining companies.
- Of the eight companies reporting reinsurance ceded reserves, one reported a pre-reinsurance ceded reserve that was less than the post-reinsurance ceded reserve. The regulators said this pointed to the need to review the reinsurance accounting rules.

Both regulators and companies involved found the pilot project to be valuable.

Higher standards for annuity sales loom

Against the backdrop of the US Department of Labor's (DOL) fiduciary rule, a lively meeting of the Annuity Suitability (A) Working Group heard a variety of suggestions from stakeholders on its proposed work for the year, many agreeing with the concept of a new standard for annuity sales.

NAIC consumer representative Birny Birnbaum of the Center for Economic Justice told the working group that he agreed with industry that there was a retirement security crisis. However, he thought more complex and hybrid products posed a challenge.

He asked the regulators to consider establishing a fiduciary standard for asset-based insurance products. He said that would be a demonstration that the state-based system can protect consumers, and thus federal involvement would not be needed. In addition, he asked that the role of compensation structures—as well as methods to empower consumers to promote market discipline—be considered.

Birnbaum suggested that clear information and disclosure would help, as would a disclosure to relatives of possibly impaired consumers. Finally, Birnbaum suggested that regulators consider making suitability an accreditation standard.

Gary Hughes of the ACLI said he was in agreement with many of the comments Birnbaum made. He said the ACLI wanted to replace the DOL rule with one offering elevated standards of care, not simply repeal the rule. Hughes said that he thought there was a limited role for the DOL, and that states were the only entities with authority over all annuities. He noted agreement with the consumer representative on his expressed concern about the host of different standards now existing, saying there should be one standard across all platforms.

According to Hughes, states should have a leading role in setting and enforcing the consistent standard. He said states could do it quickly as they did with PBR. Jason Berkowitz of the Insured Retirement Institute (IRI) agreed that federal authorities did not have the level of knowledge about fixed and variable annuities that states possessed.

New York regulator James Regalbuto asked about interest by industry in a "best interest" standard of care. Hughes responded positively, saying he would like it modeled on suitability standards. Gary Sanders of the National Association of Insurance and Financial Advisors (NAIFA) said his members would support a suitability model.

"NAIFA is not afraid of the best interest standards," he said. His primary concern was mid- to lower-level market participants having access to products and services. Any standard had to preserve the ability to sell linked company products. He pointed out that for his members, success depends on long-term relationships so they would naturally operate in their clients' best interests.



Courtesy of the NAIC

Woodall calls for FSOC changes

Attendees at the meeting of the International Insurance Relations (G) Committee heard updates on various international activities—including those at the IAIS—as well as concerns expressed about current systemic risk assessment procedures.

After an update from regulators on the work at the IAIS on revised insurance core principles (ICP) and ComFrame—recently released for public consultation—one stakeholder noted that while the revised ICPs seem to be simpler, ComFrame was quite dense and had serious issues.

Robert Neill of the ACLI said his organization agreed streamlining and providing more clarity would be useful. Speaking for the Global Federation of Insurance Associations (GFIA), Michelle Rogers noted that the number of ICPs affected was very large, as was the scope.

Representatives of two major insurers—one from the US and one from Europe—gave a presentation on an activities-based approach to systemic risk assessment. In response, Roy Woodall, the Financial Stability Oversight Council (FSOC) voting member with insurance expertise, noted that his dissents in cases where insurers had been named systemically important was based on the fact that activities were not the criterion considered.

“I was distressed they (FSOC) didn’t make a recommendation that we fix the Collins Amendment,” Woodall said. The Collins Amendment to the Dodd-Frank Act required the Fed to set capital standards for the institutions it oversees. It had been interpreted as requiring that insurers be subject to bank-centric standards. A fix to that amendment, which clearly exempted insurers in the business of insurance and those already regulated by state insurance regulators from inclusion in these capital standards—and allowed the continued use of statutory accounting—was signed into law by President Barack Obama in 2014.

Woodall called for the FSOC to fill the role envisioned for it under the Dodd-Frank Act. According to the US Department of the Treasury, “The Financial Stability Oversight Council has a clear statutory mandate that creates for the first time collective accountability for identifying risks and responding to emerging threats to financial stability. It is a collaborative body chaired by the Secretary of the Treasury that brings together the expertise of the federal financial regulators, an independent insurance expert appointed by the president, and state regulators.”

Woodall said the Dodd-Frank Act should pose no undue burden on smaller companies.

Turbulence hits travel insurance discussion



Courtesy of the NAIC

At the meeting of the Travel Insurance (C) Working Group, a variety of trade organizations expressed support for the proposed NCOIL Limited Lines Travel Insurance Model Act currently being created by the National Conference of Insurance Legislators (NCOIL). However, both a consumer representative and a representative of insurance agents and brokers expressed concern.

Among the trade groups, a PCI representative expressed support, with a representative of the AIA saying they shared the PCI comments and considered the NCOIL model a good foundation that provided uniformity.

In various presentations and comments, the working group was told that travel insurance was a different type of product. It is a limited line and providers were asking for clarity, which would include adopting a model act that protected consumers with a workable compliance structure.

Travel protection is considered a blend of insurance, noninsurance, and waiver plans, a trade group presenter said, referring to a white paper that showed the product is sold as a bundle based on consumer demand. Consumers would pay more and get less if the product were unbundled, regulators were told. The presenter said in commenting on the NCOIL model that travel and tourism are regulated by other industries that have to be recognized. He concluded by saying that consumers do not care if the product is considered insurance or a waiver, only that it solves the problem.

Concern was expressed about the competitive nature of the market, to which the presenter responded that competition existed, but at a different point on the distribution chain than is normal with insurance products.

A representative of the Independent Insurance Agents and Brokers of America (Big I) expressed various concerns about the NCOIL model act. The Big I plans to submit comments, but said that among its concerns were:

- Location: Was the location of the governing jurisdiction that of the buyer or the seller?
- Accountability: Who is accountable when a product is sold by unlicensed individuals?
- Consumer protection: This is unclear with potential conflicts between the Unfair Trade Practices Act (UTPA) and the model.
- Suitability: The product doesn't have clear disclosures in a timely manner. That is provided in fulfillment material provided after purchase, which may be considered too late.

Consumer representative Birny Birnbaum said he would not support the adoption of the NCOIL model and did not consider the market competitive. Birnbaum said his concerns included what he described as bait-and-switch tactics, the lack of information on the loss and compensation ratios among other matters, and incomplete complaint statistics. Birnbaum complained about the concept of bundling, noting that insurance consumers have rights that other consumers do not. The question then became: When the products were bundled, where would the demarcation be? Birnbaum also described the products as complex and expensive.

The working group will consider the comments and continue to discuss the NCOIL model.

Data collection on auto insurance almost ready to roll

With the federal report on the availability and affordability of auto insurance in the rearview mirror, the Auto Insurance (C/D) Working Group has moved to begin data collection for the NAIC's own study of the affordability and availability of auto insurance.

At the working group's meeting, the discussion began with a review of the comments received and a suggestion to commission the report on affordability and availability. One regulator questioned if affordability was really part of the working group's charge.

"What if the working group found out auto insurance was not affordable?" he asked. "Would it then get into providing subsidies?" He also questioned the need for collecting this premium data by transaction level or at the ZIP code level.

There were strong reservations expressed about using the word affordability. One regulator suggested the working group should look at collecting data at the ZIP code level to find out if there is someone who is being unfairly priced. This was welcomed by the chairman.

One regulator suggested efforts should not be limited to premium data collection. There are several reasons for loss costs which are driving up the price of auto insurance. The cost of repairs is going up due to sensors in cars now, he said. A tail light that would have cost \$150 to replace now costs \$1,200 due to all the sensors in it. Consequently, if you regulate prices, insurers are simply going to walk away, which then turns the affordability issue into an availability issue.

Consumer representative Birny Birnbaum pushed hard for regulators to start collecting the data. David Snyder of PCI resisted the move and wanted regulators to use statutory bodies such as ISO, PCI, and NISS to gather this information, perhaps at a little broader level.

The same regulator suggested collecting data not only on premiums, but on loss costs and loss costs reasons. While there did not seem to be consensus on what parameters to set exactly, the regulator moved the motion that NAIC should collect the data, with the exact parameters to be decided at a later stage. This was met with agreement and the motion was passed.



Courtesy of the NAIC

Title insurance gets new tech tools

Now there's an app for title insurance. The Title Insurance (C) Task Force adopted the Title Insurance Consumer Shopping Tool at the NAIC meeting. The app can be adapted for each state and answers consumers' questions on a range of topics from "What is title insurance?" to "Can I sue my insurer?"

A representative of the American Land Title Association (ALTA) presented to the task force on the state of the market. He spoke on various topics including:

- Industry best practices
 - They have created a Title and Settlement Company Best Practices maturity model.
 - The maturity model measures the strength of procedures and whether they are followed consistently.
 - Unlike a pass/fail report, it features five benchmark levels. It can also help identify ways to improve and better meet best practices.
 - It can be used by regulators, including the Consumer Financial Protection Bureau (CFPB), in compliance assessments.
- Information security/cyber fraud
 - This is a big problem in title insurance.
 - One of the basic, but most common types of fraud is business email compromise. By compromising emails, wire transfers are redirected.
 - Hackers monitor email exchanges between the parties of a real estate transaction and gain specific information, such as buyer and seller names, subject property address, and file numbers.
- A scammer will send a last-minute email from a hijacked account or similar email address providing "updated" wiring instructions and requesting the money be transferred into a fraudulent bank account.
- The email appears legitimate and often contains the transaction-specific information the hackers obtained in the body of the email or as an attachment.
- Innovations in mortgage finance
 - Remote Electronic Notarization is an innovation that enables witness signing by video. ALTA wants states to ensure that an electronically notarized document will receive the same certainty and provide effective constructive notice under state law as a traditional, wet-signed, personal appearance notarization. This has been passed in two states and 10 states have pending legislation on the issue.

Consumer representative Birny Birnbaum of the Center for Economic Justice suggested that insurance companies engage realtors and lenders to nurture innovation. He said there is a wide variation in title insurance in different states and there are 30 different endorsements. "Can we standardize these products?" he asked. He also wondered about innovation for multifamily home coverage and the use of machine learning to analyze electronic title records.



Courtesy of the NAIC

In brief

New accreditation standards get closer to adoption

The Corporate Governance Annual Disclosure Model Act (#305) and the Corporate Governance Annual Disclosure Model Regulation (#306) are headed for adoption as accreditation standards at the summer national meeting of the NAIC. The Financial Regulation Standards and Accreditation (F) Committee approved their addition at the spring meeting. Also for consideration as accreditation standards at the summer meeting will be revisions to the Annual Financial Reporting Model Regulation (#205) concerning risk retention groups (RRGs) and internal audit functions, as well as the Insurance Holding Company System Regulatory Act (#440). No RRGs currently meet the premium threshold required under number 205. One question to be resolved on 440—which provides authority to a designated state to act as a group-wide supervisor for an internationally active insurance group (IAIG)—is if the changes will apply to all the states, the lead state supervisor of the IAIG, or any state that is a regulator of the IAIG.

Regulators also wondered if under PBR the valuation manual and standard valuation law should be applied to fraternal benefit societies. Fraternal are excluded from Part A laws. Wisconsin, Connecticut, New York, and Nebraska are the only states that would have fraternal covered under the valuation manual. The consensus approach appeared to be that the Part A preamble should be rewritten.

Long-term care task force formed

After a meeting during which some commissioners expressed concern about the status of long-term care insurance and insurers, the NAIC's plenary session voted to appoint a joint task force of the Health Insurance and Managed Care (B) Committee and the Financial Condition (E) Committee to study the issue. This appointment came over the objection of California Deputy Commissioner John Finston, who said his state had concerns (for reasons previously stated) that an additional layer of oversight—and thus this task force—was not needed.

Drowning in data calls

Representatives of the ACLI and PCI told the NAIC/Industry Liaison Committee meeting of the burdensome nature of the data calls currently swamping industry. PCI noted one company recently did a compliance cost survey and found that compliance costs increased 19% over the past two years, with data calls a factor. These data calls placed a strain on insurance company infrastructure, and speakers suggested a system be put in place to ensure these data calls are needed for effective consumer protection and insurance regulation. Speakers reminded the NAIC that their numerous data requests to insurers included not just traditional data calls, but others such as the lost policy locator.

Can they hear you now?

Indiana Commissioner Stephen Robertson spoke to the Market Regulation and Consumer Affairs (D) Committee about insurers' use of cell phone tower data to identify the location of claimants. He described a case where a woman was refused a claim based on cell phone tower data and instead accused of arson. The claimant was actually arrested and spent three nights in jail before being acquitted. This is not acceptable, he said, and asked if cell phone data is accurate enough for such use. He pointed out that many consumers would not even know that their claim was being rejected based on cell phone tower data. Consumer representative Birny Birnbaum said that regulators need to know when insurers are using cell phone data to deny claims.

The committee also adopted a two-year pilot program for the voluntary market regulation certification program. The certification program is an effort to enhance uniformity in market conduct regulation. Twelve states are expected to participate in the pilot in 2017, with an additional six volunteers expected in 2018.

Baby boomers bringing fraud?

Will baby boomers be the next frontier of insurance fraud? In a presentation to the Anti-Fraud (D) Task Force, Matthew Smith of the Coalition Against Insurance Fraud told regulators that baby boomers, the largest population bubble, may move into the "culture" of insurance fraud when faced with various economic pressures including not having proper retirement income and the rising cost of prescription drugs. "They won't think they are doing anything wrong," he said. Smith called insurance fraud a cultural issue and said society is ingrained to think that insurance fraud is inevitable. Smith said that needed to change, citing examples of US cultural changes towards issues such as drunk driving. He called for a multipart, cooperative effort from all stakeholders in various areas including:

- Education
- Public outreach/personalization
- Legislative action
- Court decisions

Discussion on adding credit life to MCAS continues

The Market Analysis Procedures (D) Working Group heard a discussion on the feasibility and desirability of adding credit life reporting to the Market Conduct Annual Statement (MCAS). This had been proposed by the Center for Economic Justice. In response, the credit life trade association said credit life represented a small and declining portion of the market. As a group product, it would not have the required data points, and complaints were extremely low in any event. There was discussion regarding competition and consumer choice. Consumer representative Birny Birnbaum responded that the purpose of the MCAS was to monitor proactively and that complaints did not fulfill that function. He added that the MCAS is more efficient and effective in smaller lines of insurance given the lack of resources for exams and enforcement actions. The working group will receive more comments before making any decisions.

Changes coming for large deductible Workers' Comp?

Deputy Commissioner John Finston of California discussed the *2016 Workers' Compensation Large Deductible Study* recommendations at the meeting of the Financial Condition (E) Committee. Finston noted that insolvency in this market was a big issue before 2006. He spoke about two insolvencies: Lumber Insurance and Reliance Insurance. To ensure solvency for both the insurer and the insured, Finston suggested collecting additional data for such policies. He said RBC charges needed to be enhanced to reflect both the risk associated with reserves that are unsecured or undersecured and the risk of adverse development of reserves. Retrospective rating plans should also be subject to the standards that apply to large deductible programs, Finston said.

Catastrophic risk charge becomes real

The Catastrophe Risk (E) Subgroup adopted a proposal to implement the catastrophe risk charge (Rcat) into the RBC calculation, effective year-end 2017. A version of the component had previously been included within RBC for information only and was the result of a 10-year project to add a catastrophic risk charge to RBC. The subgroup continued discussing additional perils that could be included in Rcat, and exposed a Rcat calculation methodology proposal for 30 days that is intended to clarify the methodology that insurers should use to calculate the risk charges (e.g. disclosures for the 1-in 50, 1-in-250, and 1-in-500 worst-year exposure amounts). The subgroup also discussed an alternative proposal to establish requirements for the use of models other than the five approved vendor models for Rcat purposes. It voted to allow one company a provisional exemption to use its internal model for Rcat purposes for year-end 2017 while it continues work on developing procedures for allowing the use of internal catastrophe models.

LTC assessment issues to get a closer look

The Receivership Model Law (E) Working Group discussed its 2017 charges and the relevance and prioritization of charges. The working group discussed assessment and coverage issues for LTC insurance and indicated that it would evaluate pending legislation in both Colorado and Florida on these matters. The working group also exposed for a 30-day period a draft referral to the Financial Analysis Handbook and Financial Condition Examiners Handbook to ensure analysts and examiners review and compare language in management, service, and cost-sharing agreements with requirements in state law that address when an insurer is placed into receivership.

Reinsurance action awaits covered agreement completion

The Reinsurance (E) Task Force received an update on the US-EU Covered Agreement. The NAIC does not intend to take any action related to the agreement unless and until it is finalized. The task force adopted the Qualified Jurisdiction Working Group report, which had reviewed the status of the four approved EU jurisdictions (Ireland, UK, France, and Germany). The working group will not complete the review until the Covered Agreement matters are resolved. The task force also discussed the creation of the Reinsurance Investment Security Subgroup, which will consider the need to clarify the concept of investment security as used in the Credit for Reinsurance Model Law and Regulation.

ComFrame field testing to expand

At an IAIS Secretariat Q&A session with interested parties, the IAIS representatives repeated the organization's intention to increase the number of IAIGs participating in field testing from 40 to all IAIGs. There would also be an increase in the data requested. ComFrame is scheduled for adoption at the IAIS annual meeting in late fall 2019. There will be consultations on ICP 18 (Intermediaries) and ICP 19 (Market Conduct) in July 2017. Lastly, the IAIS is working on a broader strategy to support emerging markets and expanding its work on fintech, given its recent paper.

What's next

- June 29–30: IAIS global seminar and stakeholder dialogue – London, UK
- July 13–15: NCOIL Summer Meeting – Chicago, IL
- August 6–9: NAIC Summer National Meeting – Philadelphia, PA

Health care update

Uncertainty was the watchword at the spring meeting. The Health Insurance and Managed Care (B) Committee and its task forces and workgroups focused their attention on the possibilities associated with the repeal, replace, and/or repair of the federal Affordable Care Act (ACA).

A federal legislative and regulatory update on the efforts of the US Congress regarding ACA and next steps kicked off the B committee. The committee also heard from the Center on Health Insurance Reforms regarding its continued work related to ACA—including the impact of ACA-related proposals and state legislative and regulatory actions. How to stabilize the individual market was the focus of a panel discussion featuring recommendations from representatives of health insurers, actuaries and consumers. The importance of continuing uninterrupted funding of Cost Sharing Reduction (CSR) payments was not lost on regulators.

The Regulatory Framework (B) Task Force discussed existing NAIC models and the evaluation of possible next steps for those affected by the ACA repeal, replacement, or repair proposals. The discussions were just the beginning and will continue in future calls as they monitor developments.



Medicaid was the focus of the Health Care Reform Regulatory Alternatives (B) Working Group. Representatives from Wisconsin and New Hampshire discussed their Medicaid programs—how they are structured and their impact on residents. Questions and discussion focused on the interaction of federal and state regulations, including the ACA Section 1332 State Innovation Waivers, which provide states flexibility to implement alternative models of health care coverage with federal funding.

No significant action or recommendation was taken on these discussions, but it is clear that the uncertainty associated with the repeal, replace, and or repair of the ACA and the resulting impact on state programs will continue to dominate future agendas.

This summary was prepared by Lynn Friedrichs. Lynn is a Deloitte partner with more than 17 years of experience in health insurance. She is a regular speaker on emerging accounting and financial reporting issues to external organizations including accounting matters resulting from health care reform and changing regulatory governance requirements. For your comments and suggestions please contact the author at lfriedrichs@deloitte.com.

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 2017 Spring 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 (E) Working Group (SAPWG) adopted the following **substantive** amendments as final during the March 16, 2017 interim conference call:

Ref#	Title	Sector	Amendments adopted	F/S Impact	Disclosure	Effect. date
2017-01	SSAP No. 35— Guaranty Fund and Other Assessments	P&C Life Health	Revisions permit discounting of guaranty fund assessments resulting from insolvencies of insurers that wrote long-term care contracts.	Y	Y	2017

Current developments: The SAPWG adopted the following **substantive** amendments as final during the 2017 Spring Meeting:

Ref#	Title	Sector	Amendments adopted	F/S Impact	Disclosure	Effect. date
2013-36	SSAP No. 26R— Bonds Issue Paper 156— Bonds	P&C Life Health	<p>Revisions clarify the scope of the statement and other matters, as follows:</p> <ul style="list-style-type: none"> • Equity and fund investments, such as mutual funds and exchange-traded funds, do not meet the definition of bonds. • Certain bond mutual funds and exchange-traded funds identified in the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> remain within the scope of the statement but have explicit guidance: <ul style="list-style-type: none"> – Fair value – Valued and reported at fair value (net asset value as a practical expedient); or – Systematic value – If the bond mutual fund or exchange-traded fund qualifies—and the reporting entity elects to use the documented systematic value approach—the investment is valued and reported at the systematic value, which is based on expected cash flows. • Adds a definition of “security,” “non-bond,” and “fixed-income” within the statement. • Removes the term “bank participations” and replaces it with “bank loans acquired through a participation assignment or syndication.” 	Y	Y	2017

Current developments: The SAPWG adopted the following *nonsubstantive* amendments as final during the 2017 Spring Meeting:

Ref#	Title	Sector	Amendments adopted	F/S Impact	Disclosure	Effect. date
2016-47	SSAP No. 30— Unaffiliated 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	Revisions adopt recent US-GAAP updates that eliminate the requirement to make retroactive adjustments when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence.	Y	N	2017
2015-37	SSAP No. 55—Unpaid Claims, Losses, and Loss Adjustment Expenses SSAP No. 65— Property and Casualty Contracts	P&C Life Health	Rejected recent US-GAAP updates for short-duration contracts related to claim development disclosures, as detailed claim development information is already provided by insurers in the annual statement. However, revisions did incorporate the following disclosures from the update related to unpaid claims and claim adjustment expenses as follows: <ul style="list-style-type: none"> • SSAP No. 55 – Information related to significant changes in methodologies and assumptions used in calculating the liability for unpaid claims and claim adjustment expenses, including the reasons for the change and the effects on the financial statements. • SSAP No. 65 – Also related to claims and claim adjustment expenses, the amount of interest accretion, and line item classification. 	N	Y	2017
2016-46	SSAP No. 69— Statement of Cash Flow	P&C Life Health	Revisions adopt recent US-GAAP updates related to specific cash flow activities in order to minimize differences between the accounting bases related to cash flow presentation. Effective Date: <ul style="list-style-type: none"> • Public – 1/1/2018 • All others – 1/1/2019 • Retrospective transition 	Y	Y	2018
2016-43	INT 01-25: Accounting for US Treasury Inflation-Indexed Securities	P&C Life Health	Revisions 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.	Y	N	2017

Current developments: The SAPWG adopted the following *nonsubstantive* amendments as final during the 2017 Spring Meeting:

Ref#	Title	Sector	Amendments adopted	F/S Impact	Disclosure	Effect. date
2016-44	Appendix A-791: Life and Health Reinsurance Agreements	P&C Life Health	Revisions incorporate additional guidance from the <i>Life and Health Reinsurance Agreements Model Regulation #791</i> for consistency and note that the reinsurance agreement must address all elements of the business being reinsured (no related agreements or understandings between the parties), and that any amendments must be signed by all parties.	Y	N	2017
2010-08	Appendix F—Policy Statements	P&C Life Health	Added a policy statement on coordination with the Valuation Manual related to principle-based reserving.	N	N	2017

The SAPWG exposed the following items for written comments (due by May 19, 2017) by interested parties:

Ref#	Title	Sector	Amendments exposed	F/S Impact	Disclosure	Effect. date
2016-40	SSAP No. 43R—Loan-Backed and Structured Securities	P&C Life Health	Substantive – Re-exposed intent to dispose the original proposal to update the name and definition of loan-backed and structured securities as recommended and referred by the Valuation of Securities (E) Task Force.	NA	NA	NA
2016-03	Special Accounting Treatment for Limited Derivatives Hedging Variable Annuity Guarantees	Life	<p>Substantive – This item relates to the work performed by the Variable Annuity Issues (E) Working Group and the charge from that group to the SAPWG to consider “hedge accounting treatment” for certain limited derivatives (macro hedges) that do not meet hedge effectiveness requirements related to variable annuity products and associated guaranties.</p> <p>The working group re-exposed guidance on current discussion related to the following areas:</p> <ul style="list-style-type: none"> • Amortization period for deferred loss • Regulatory review and approval process • Special accounting treatment for other derivatives included in the “clearly defined hedging strategy” • Termination guidance <p>Discussion is expected to continue during the interim period.</p>	Y	Y	TBD
2017-04	SSAP No. 86—Derivatives	P&C Life Health	Substantive – The Chicago Mercantile Exchange (CME) amended its rulebook to legally characterize variation margin payments for over-the-counter derivatives to be settlement payments, as opposed to collateral. The Securities Exchange Commission did not object to accounting for variation margin payments as settlements. This item requests comments related to the statutory accounting response to this information.	TBD	TBD	TBD

The SAPWG exposed the following items for written comments (due by May 19, 2017) by interested parties:

Ref#	Title	Sector	Amendments exposed	F/S Impact	Disclosure	Effect. date
2017-10	SSAP No. 26—Bonds	P&C Life Health	Nonsubstantive – Proposes different accounting and reporting guidance for bank loans issued by an insurer rather than from a bank and acquired via participation, syndication, or assignment. Currently, bank loans are accounted for under SSAP No. 26 and reported on Schedule D. This item considers including bank loans issued by insurers to be within the scope of another SSAP with separate guidance and reported on Schedule BA. Interested parties object to this proposal. The working group referred the item to the Valuation of Securities (E) Task Force requesting comments regarding risk and exposed several questions requesting regulator input illustrating a preference to update reporting in accordance with the substance of the investment and address risk-based capital treatment separately.	Y	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. Revisions also include examples relating to multiple lenders to illustrate the intent of the guidance. Discussion will continue during the interim period and address the interpretation of a participation agreement and a co-lending agreement.	Y	N	TBD
2017-12	SSAP No. 41R—Surplus Notes	P&C Life Health	Nonsubstantive – Proposes revisions to incorporate guidance for surplus notes issued at a discount or premium.	Y	N	TBD
2017-11	SSAP No. 65—Property and Casualty Contracts	P&C	Nonsubstantive – Proposes expansion of disclosure to facilitate data capture of information related to high-deductible policies for year-end 2017.	N	Y	TBD
2017-02	SSAP No. 69—Statement of Cash Flow	P&C Life Health	Nonsubstantive – Proposes adoption of recent US-GAAP update related to including restricted cash and restricted cash equivalents in the beginning and ending balance of the cash flow statement, including related disclosure. The proposal also requests comments on whether a definition of restricted cash and restricted cash equivalent is necessary. Comments are also requested regarding proposed retrospective adoption.	Y	Y	TBD
2016-48	SSAP No. 86—Derivatives	P&C Life Health	Nonsubstantive – Exposed revisions for accounting and reporting of derivative contracts with deferred or financing premiums. The revisions are intended to 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	Y	TBD

The SAPWG exposed the following items for written comments (due by May 19, 2017) by interested parties:

Ref#	Title	Sector	Amendments exposed	F/S Impact	Disclosure	Effect. date
2017-08	SSAP No. 97— Investments in Subsidiary, Controlled and Affiliated Entities	P&C Life Health	Nonsubstantive – Proposal revises the deadlines for Sub 1 and Sub 2 filings and requests comments on the proposed time frames, including whether the proposed time frames will improve compliance with filing requirements.	NA	NA	TBD
2016-45	SSAP No. 101— Income Taxes	P&C Life Health	Nonsubstantive – Proposes revisions to reject the US-GAAP guidance in <i>ASU 2016-16 – Intra-Entity Transfers of Assets Other than Inventory</i> that requires reporting entities to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. Comments requested on whether rejection would create a timing difference.	NA	NA	TBD
2017-05	SSAP No. 104R— Share-Based Payments	P&C Life Health	Nonsubstantive – Proposes adoption, with modification, of recent US-GAAP updates to accounting for employee share-based payments. This item includes separate and distinct elements with transition guidance applicable for each. As such, this proposal requests comments related to transition.	Y	Y	TBD
2017-09	Appendix A-010: Minimum Reserve Standards for Individual and Accident and Health Insurance Contracts	P&C Life Health	Nonsubstantive – Proposes revision incorporates the 2016 Cancer Claim Cost Valuation Tables.	Y	N	TBD
2017-03 2017-06 2017-07	Appendix D— Nonapplicable GAAP Pronouncements	P&C Life Health	Nonsubstantive – Proposes rejection of US-GAAP updates as not applicable to statutory accounting: <ul style="list-style-type: none"> • <i>ASU 2017-06 – Plan Accounting – Master Trust Reporting</i> • <i>ASU 2017-02 – Clarifying When a Not-for-Profit Entity that Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity</i> • <i>ASU 2017-03 – Amendments to SEC Guidance</i> 	NA	NA	NA
2016-13	Appendix F—Policy Statements	P&C Life Health	Nonsubstantive – Proposes a new policy statement regarding coordination and collaboration between the Purposes and Procedures Manual of the Investment Analysis Office (P&P Manual) and Accounting Practices and Procedures Manual (AP&P Manual).	NA	NA	NA

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

Ref#	Title	Sector	Amendments exposed	F/S Impact	Disclosure	Effect. date
2016-41	SSAP No. 26—Bonds	P&C Life Health	Substantive – Draft proposed guidance related to allocation of 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
2013-13	SSAP No. 86—Derivatives	P&C Life Health	Nonsubstantive – Disposed this item relating to derivative investment reporting without modification to existing guidance.	NA	NA	NA
2015-27	Investment Schedules	P&C Life Health	Nonsubstantive – Referral is currently being reviewed by the Accounting Practices and Procedures (E) Task Force. This item details 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
2016-20	Credit Losses	P&C Life Health	Substantive – Assess comments received and how rejection of US-GAAP guidance included in <i>ASU 2016-13 – Financial Instruments – Credit Losses</i> 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
2016-42	Appendix C—Actuarial Guidelines	P&C Life Health	Nonsubstantive – Deferred action on the 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

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