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# NAIC update: Summer 2018

## NAIC meeting has consumer victories, quiet progress

BOSTON, MA—The city that calls itself the hub of the universe certainly was the hub of the insurance universe this summer as the National Association of Insurance Commissioners (NAIC) held its midyear meeting in Beantown.

As with almost all midyear meetings, this was a time of quiet progress. Priorities set in place at the beginning of the year are usually scheduled for completion at the last meeting of the year, normally leaving the middle meeting with lots of work but little glamour.

Possibly the biggest single event at the Boston meeting—short of the Red Sox sweep of the Yankees—was the adoption of a bulletin banning pre-dispute mandatory arbitration and choice of venue and law clauses in personal lines contracts. This seemed to be a clear victory for consumers.

A much quieter change came when the life insurance and annuities committee agreed to discuss the possibility of new standards for life insurance sales as soon as new standards for annuity sales are complete.

In the ongoing issues basket, items such as long-term care rate setting methods, a group capital calculation for US insurers, and revisions to the credit for reinsurance models continued on track. New issues were few. Climate change made the spotlight and cannabis got a working group. Now the focus turns to the fall meeting in San Francisco, where a number of outstanding items are scheduled for resolution.

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# Annuity suitability working group works on definitions

The Annuity Suitability (A) Working Group spent almost all of its meeting in a discussion of basic definitions contained in the proposed Suitability in Annuity Transactions Model Regulation (#275). The discussion revealed differences among stakeholders. The model regulation is expected to create revised standards for annuity sales and replacements.

In one example, a life insurance trade group wanted "existing" stricken from the definition of consumer, with only "prospective" purchasers listed. A representative of a trade association for the retirement income industry agreed. Regulators discussed whether discussions focusing on existing products and relationships—and perhaps adding to them—should be covered.

The retirement income industry representative said that while he was not advocating for full exclusion, he was concerned about inadvertent interference with the ability of contract owners to exercise their contract rights. Regulators disagreed, informally adopting a modified New York standard defining consumer as "the owner or prospective purchaser of an annuity contract."

The definition of material conflict was another issue. California shared its thoughts that it was wrong to put an agent's interest at the same level as the consumer's interest and was concerned that by not having the notion of putting the consumers first, the new regulation would not be much different from the old. The old regulation is based on the concept of suitability, whereas its replacement is expected to focus more on the best interests of consumers.

The working group will continue meeting through the year in an effort to complete its work in time for the fall national meeting in San Francisco.

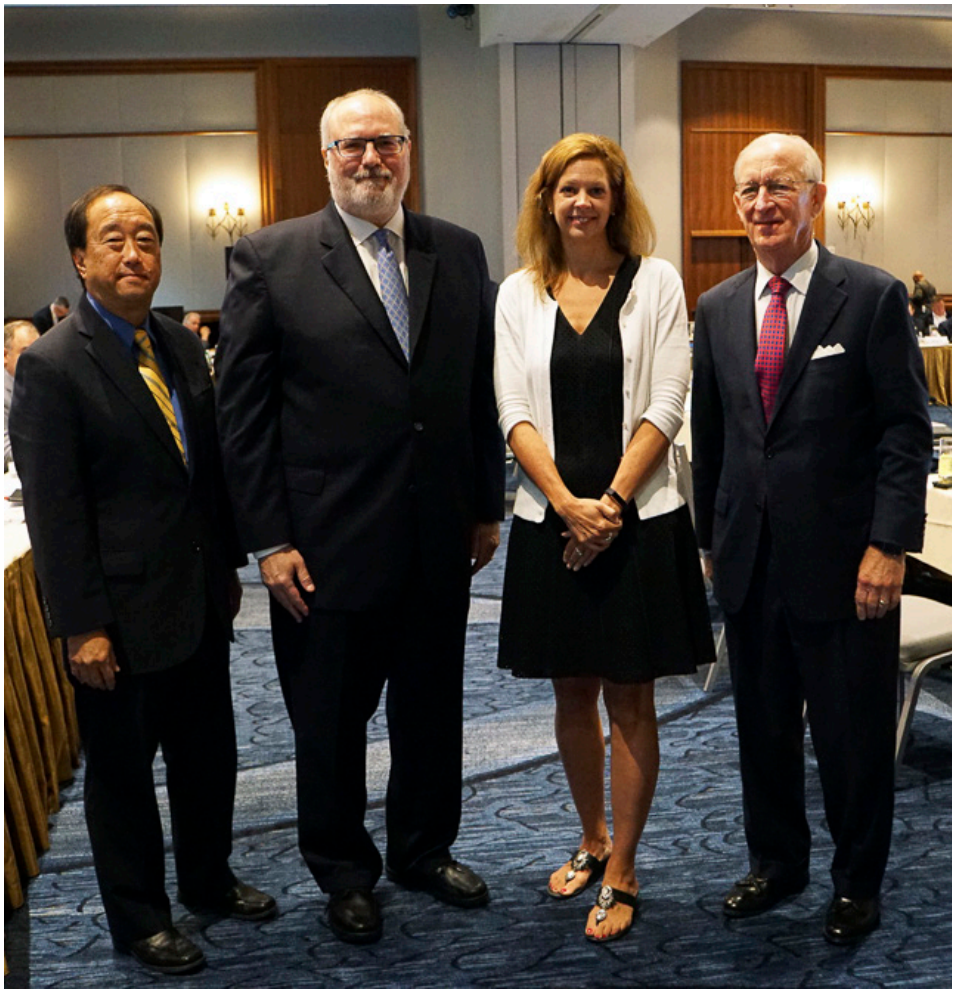

Photo courtesy of the NAIC

# Life sales standards to be examined

The Life Insurance and Annuities (A) Committee agreed to take a look at standards for life insurance sales after the Annuity Suitability (A) Working Group completes its task of creating a new standard for annuity sales.

New York had previously sought the inclusion of life insurance sales in the working group's charge, and that state's new regulation on sales standards covers both life insurance and annuities. New York Superintendent Maria Vullo expressed a willingness to wait until the working group completed its current task, saying that life should be included under best interests and suitability.

Vullo also said certain standards in the current draft were not strong enough. Both California and the District of Columbia supported New York, and the committee agreed to a discussion of the topic at the agreed-upon time.


Photo courtesy of the NAIC

# No more mandatory pre-dispute arbitration

The Pre-Dispute Mandatory Arbitration Clauses (D) Working Group is no more, having worked itself out of existence. Before its parent committee dissolved the working group, however, it adopted the group's work product—a bulletin banning the use of pre-dispute mandatory arbitration as well as choice of law and choice of venue clauses in personal lines.

The working group adopted the draft bulletin regarding "Arbitration and Choice of Law/Venue Provision in Personal Lines Insurance." The bulletin provides that, except where the state legislature "has determined that arbitration provisions are appropriate in certain specifically defined situations…the [state insurance commissioner] finds the inclusion of 'pre-dispute mandatory arbitration clause' in 'personal lines insurance' policies to be unfair and injurious to the buying public. 'Pre-dispute mandatory arbitration clauses' in 'personal lines insurance' products are prohibited."

Parties can still arbitrate "after the dispute arises." The bulletin was approved without a single **no** vote—albeit with two abstentions—and went to the D Committee, where it was adopted.


Photo courtesy of the NAIC

# States consider new ways to address LTC rate hike requests

With LTC premiums, availability, and solvency in the news, a huge crowd gathered for the 7:30 Sunday morning meeting of the Joint Long-Term Care Insurance (B/E) Task Force, which is considering a contested proposal to provide for multi state rate reviews of insurer requests to raise rates on existing policies.

As it stands, 40 states now participate in an interstate insurance compact to jointly review rates and form filings for policies written after 2010. The compact then produces an Advisory Findings Report that may be used by individual states to assess filings for rate increases.

The new proposal would establish an NAIC - supervised subgroup to review rates for older policies. This new subgroup would develop the process for coordinated reviews of rate increase requests and, when such a request comes in, would call for an examination of the request. States could elect to participate, just as they can in any multi-state examination, but will not be required to do so.

The intent, according to the NAIC, is that "pooling of resources can streamline the process and allow both the states and the insurers involved more resources to focus on other aspects of managing risk... A multi-state process would leverage state resources and expertise and would provide mentorship by actuaries with stronger long-term care knowledge to actuaries in states with less experience."

This proposal generated conceptual support from a number of states, some wanting to proceed sooner rather than later because of the challenges surrounding rate increases for long-term care insurance. Nonetheless, there were dissenters.

Commissioner Dave Jones of California argued that policyholders should not now pay for the failure of insurance companies to properly price these policies. NAIC consumer representative Birny Birnbaum argued that the proposal usurped the authority of individual states in favor of the NAIC, something that both the states and the insurance industry are not willing to accept in other circumstances. He questioned why the industry did not object to this "significant misuse of market conduct authority."

Proponents of the proposal, including some industry representatives, countered that this approach just allowed the actuaries to "get together on the math"—leaving states free to participate or not, and to accept or reject the outcome.

The task force asked proponents of the plan to develop a more formal proposal for its consideration.

The task force also is making revisions to the LTC "Shoppers Guide," working on a new model act for short-duration policies, and coordinating with the Long-Term Care Pricing Subgroup on two models for states to use in evaluating rate increases.

Photo courtesy of the NAIC

# Differences evident over group capital calculation

The Group Capital Calculation (E) Working Group continued its efforts to develop a group capital metric for US insurance groups, with Chairman Florida Commissioner David Altmaier noting that there had been several rounds of exposures of the working group's drafts thus far. Given the response of industry groups, this may not be a final draft.

Discussing a June 26 joint memo, representatives of the property-casualty industry told regulators they wanted to make the process more principles-based and less prescriptive. The focus should be on the risk to insurance operations from areas in the broader group affecting such operations, they said.

The representatives urged regulators to focus on the "scope of application," which should include the insurance group, financial entities, and other areas that would affect insurance. Nonmaterial entities in the group should be excluded, they said.

They called for urgency in moving forward with field testing and mentioned a proportionality threshold. One regulator asked about the covered agreement between the US and the EU, and whether any US group doing business in the EU should be covered regardless of the proportionality principle.

A representative of a European reinsurer expressed some support but asked the NAIC to consider exemptions before field testing or implementation.

A coalition of insurers said the group capital calculation must be founded on and in complete fidelity with domestic state legal entity rules. The concern is the creation of a second capital regime with attendant burdens, they told the regulators, noting that the covered agreement required the group capital calculation to have regulatory consequences.

Regulatory tools should harmonize, not conflict, the coalition's representative said. All subsidiaries of US entities should always be included in the scope, they said, and treatment should be equal to the RBC treatment. Any changes should be made by the relevant RBC committees and not through the group capital calculation, they urged.

The representative of a life insurance trade group suggested core principles that regulators should follow. These included that the group capital calculation should stay true to state laws, principles, and regulations, and that there should be one capital standard for each group. The association supported a robust, iterative field-testing regime.

Speakers representing a number of health insurers expressed agreement with the life insurance representative and said that templates for field testing should be publicly available. They supported a two-step inventory approach.

Representatives of two large insurers said the group capital calculation is creating a new paradigm even though it may be based on RBC. The representative said similarly situated companies and risks should be treated similarly and wondered if the expanded Schedule Y used in supervisory colleges duplicated the inventory approach. Another large insurer's representative said the group capital calculation should be applied to all groups required to complete an ORSA.

A representative of a major health insurer was critical, saying the group capital calculation could materially restate the capital of certain groups. "We are not persuaded by the argument that this is just a tool," the representative said, expressing concern that the discretion given to lead states could result in venue shopping.

Regulators responded that the group capital calculation was an analytical tool, not a standard or requirement, and needed to be extremely confidential. "Every holding company is different. You can't use it (group capital calculation) to compare groups," said one regulator.

Altmaier exposed a joint property-casualty trades memo. He asked for stakeholder viewpoints on the inclusion or exclusion of a materiality threshold. He also asked for thoughts on exemptions or alternative calculations for mutual companies, how to treat insurers that file with the Federal Reserve, different approaches to the inventory method, and the importance of scalars.

The memo was exposed for a 45-day comment period.

# Reinsurance model revisions still on track for fall adoption

Discussing exposed revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) to align with the EU-US-covered agreement, Reinsurance (E) Task Force Chair Superintendent Maria Vullo of New York noted that the task force had seen a number of concerns expressed.

Among these were the use of commissioner discretion, possible discrimination against some non-EU qualified jurisdictions, and mechanics, including inconsistent requirements. Vullo said the task force will review and address these concerns during the process of revision, with the goal being for the revisions to be completed by year end.

A representative of Bermuda reinsurers expressed concerns about possible disparate treatment between bilateral agreement signatories and qualified jurisdictions. He also cautioned that continued commissioner discretion references should be reviewed so that standards are substantially and functionally similar, and called on the NAIC to work on improving the passporting process.

A representative of a US insurer said that his biggest concern was that there was too much contained in the model regulation and not in the law. "Regulatory flexibility is no longer compatible with the credit for reinsurance paradigm," he said, referring to the post-covered agreement era. "There can be no room allowed for tinkering."

He urged consolidation of the law and regulation into the law with the exception of the forms. He noted that trade groups have expressed similar concerns. Having the standards and requirements in the law would prevent attempts to tinker with or game the system, he suggested.

A representative of the US reinsurance industry said the group capital recognition language did not seem to require complete acceptance of the US regulatory model. The representative suggested regulators find a way to make sure US reinsurers are not disadvantaged as compared to non-US reinsurers.

Another speaker representing a property-casualty insurance trade group suggested that the definition of "reciprocal jurisdiction" in the model law needed to be clarified as it was in the regulation, and that discretion for commissioners to temporarily delay sanctions should be included. The representative of a large global reinsurer called on the regulators to move to promptly implement provisions such as the filing requirements in the covered agreement and the 20 percent year-over-year phase-out of collateral.

A speaker from a trade group representing mutual insurers suggested regulators should avoid preemption and do as much as possible in the model law. On one specific item, a speaker from a reinsurer said the provisions regarding the solvent state of arrangement should be with the regulator, not a part of the contract.

Another representative of the US property-casualty industry said his organization would like a broader recognition of the US system, and not just of group capital. The representative also said too many variations between states could be frustrating for foreign reinsurers.

A representative from another global reinsurer said the effective date provisions should be simplified and suggested an evergreen application rather than having to do one each year. This would mean an annual filing instead of an annual renewal.

A speaker representing nonlife Japanese insurers said Japan did not apply any kind of group supervision outside of its jurisdiction and this was unlikely to change in the future. Therefore, groups operating in the US should be subject to US group supervision and not require extraterritorial Japanese supervision.

A US insurance company's representative characterized the task force's work thus far as mission accomplished in many ways. The representative said they would usually support regulatory discretion, but not in this context as actions by one state could threaten the entire framework. The representative also agreed with previous suggestions to include more in the model law as opposed to the regulation.

Vullo told attendees the task force will need to make changes to the draft, but she saw the changes as mainly technical so they should stay on track. The comments would be evaluated and incorporated into a revised draft where possible, and the goal is to have the new draft revisions publicly available by mid-September for comment, she said. Vullo closed by reiterating that she hoped to remain on track for a fall national meeting rollout.

# Liquidity stress testing to continue development into 2019

Liquidity stress testing was the subject of a report at the Financial Stability (EX) Committee. Liquidity stress testing is supposed to aid regulators in macro prudential surveillance. Some questions were raised by various stakeholders.

Attendees were told that the NAIC decided to use a cash flow approach because of concerns about the balance sheet approach, and that a decision on scope would be made within the next few months. Field testing should take into 2019, and thus the previous target date of 2018 completion may not be feasible.

The representative of a large US subsidiary of a European insurer asked why decisions about how to proceed after the last exposure draft were discussed in a regulator-only call and not publicly. Regulators said the presence of confidential, company-specific material precluded an open discussion.

A representative of the American Association of Actuaries asked what would be the concluding activity and was told that the deliverable may be a framework and template.


Photo courtesy of the NAIC

# Climate change risk, disclosure discussion heats up

The increasing significance of climate change and moves toward disclosure of associated risks were evident at the meeting of the Climate Change and Global Warming (C) Working Group. The group heard two presentations, one on responsible investment and the other on best practices regarding climate risk for insurance regulators.

The first presentation was by Principles for Responsible Investment (PRI) on the G-20's Financial Stability Board (FSB) Task Force on Climate-Related Financial Disclosures (TCFD) "Recommendations for Investors." The FSB is charged with mitigating systemic risk and maintaining financial stability globally, and in December 2015 the FSB launched the industry-led TCFD to develop recommendations on climate-related financial disclosures.

According to the TCFD, "Disclosure of climate-related financial information is a prerequisite for financial firms not only to manage and price climate risks appropriately but also, if they wish, to take lending, investment, or insurance underwriting decisions based on their view of transition scenarios."

"Financial markets require high-quality and timely data on climate-related risks to operate efficiently through the energy transition," said Martin Skancke, chair of the PRI Board. The TCFD recommendations were described as providing a common international framework for investors to make informed decisions about exposure.

Benefits of the framework were said to include decision-useful, consistent disclosures; a means to improve risk management that is on the radar of financial regulators (Italy recently released regulations covering insurance companies); a comparable, flexible framework; and a means to help build financial trust and respond to beneficiaries.

The core elements of disclosure are governance, strategy, risk management, and metrics and targets. Risks and opportunities cited included physical risk and transition risks. The metric used is a climate scenario analysis, which offers guidance on getting started, determining influencing factors, utilizing special tools, and identifying the responses and reporting.

Numerous insurers have already signed on to participate. TCFD will assist in implementing material risk disclosure regulation. Companies and investors should disclose based on TCFD recommendations, while regulators and exchanges should update guidance, the regulators were told.

There is a five-year time frame for implementation of these recommendations, beginning with the report's release. Companies will report under existing frameworks, with organizations disclosing the risks in their financial filings. Climate-related issues are expected to be viewed as mainstream, with greater adoption and further development of the disclosure principles during this time. The goal was more complete, consistent, and comparable information from market participants, transparency, and pricing, with a broad understanding of the concentration of carbon-related assets in the financial system.

California said ignoring the work of the task force would be a huge risk, while Oklahoma said it wanted the letters to the task force included in the minutes.

The second presentation was the "United Nations Sustainable Insurance Forum's (SIF) Development of Best Practices Regarding Climate Risk for Insurance Regulators." Presenters noted that the International Association of Insurance Supervisors (IAIS) had recently approved a white paper on climate change.

Numerous climate change issues requiring financial risk assessment were cited, and current physical risk assessments were challenged. Among the reasons for those challenges were that changes in extremes were driving catastrophe outcomes, there was a confluence of events forming cumulative threats (i.e., combinations of drought and heat waves), and there was no precedent for certain events in insurers' risk models.

Responding to the presentations, Oregon said that ignoring the risks of climate change would be like ignoring the risks of technology change.

# New medical policies cause concern

Regulators discussed a new Market Conduct Annual Statement (MCAS) line for "Health Other" at the meeting of the Market Analysis Procedures (D) Working Group. This discussion was largely driven by concerns about short-term medical policies.

Regulators want to determine how certain policies are marketed, with the focus mainly on complaints for "not fully ACA-compliant products." Some regulators said since the relaxation of federal rules, there are more available plans, and more marketing, including robocalls. That may be leading to many more complaints.

West Virginia noted that it was having trouble finding out who was marketing these products. Regulators agreed on the need to determine the impact of these new short-term medical products on the current marketplace. Nebraska said it was very supportive. Montana also stated it was supportive and believed that most of these products are a package of multiple companies with different types of care versus different coverages from a single carrier.

Regulators suggested that a data call may be more appropriate than the MCAS, as this is a "right now" issue that may not be able to wait for the MCAS. The working group will send a notice with a timeline to receive comments.

The working group also received an update regarding automated MCAS analysis techniques. There is a small group of subject-matter experts using analytics software currently; however, there are technical issues with getting the software to the states. The experts plan to meet again to determine state regulator notification. One note was that the analysis so far was not finding a strong correlation between complaints and what was reported in the MCAS.

Photo courtesy of the NAIC

# Private flood, data collection top catastrophe group's agenda

Post-disaster data collection and private flood insurance were the major topics of discussion at the meeting of the Catastrophe Insurance (C) Working Group.

Working group members were told that there were few research papers available on private flood insurance, and that the Blanks (E) Working Group had started a data collection process. Regulators had heard significant interest from carriers, both admitted and non-admitted, in participating in private flood, even with federal barriers. However, in Florida, where there are 6.2 million homeowners' policies, the 30 private writers had approximately 30,000 policies in force.

Regulators said they wanted ideas from stakeholders on the subject and will seek to have a follow-up discussion in the months ahead. Connecticut advocated that a private policy should be as broad as or broader than the National Flood Insurance Program (NFIP) policies so that states would not have to try to compare policies. States would not have the staff or the capacity to do that.

The question was raised if states should certify policies, and Connecticut responded that the companies needed to certify the policies and that language should be in the policy. Florida has a law that requires companies to do that. Pennsylvania has looked at certifying policies, and noted that there are complex benefits and language in the NFIP that private insurance could probably replicate. The state asked the non-admitted carriers if they would put this language in their policies, and carriers declined. It was therefore difficult for the state to certify these policies when the companies wouldn't.

Regulators discussed possible options, including a checklist, amending the statute to change the diligent search requirements for surplus lines, and directing consumers to the private market and not the NFIP.

The working group also discussed the NAIC's post-disaster data collection template. This is not intended to replace any current data collection process, but to provide additional data and a resource for states that do not have a template.

Florida uses its own template, which is on its website for insurers to access. The state regulator noted that after Matthew and Irma, claims data started coming in within 24 hours, and advised the working group that the technical process of getting insurers to provide data after a disaster needed to be thought through.

A trade group representative urged regulators to recognize that when catastrophes happened, resources are stressed, so it was important to know what was required of insurers. Regulators should make sure industry knows what data elements should be reported, and how, the representative suggested. He also said states should conduct stress-tests of the reporting portals so that they would not crash, causing delays and frustration. Regulators asked for input on the subject.

The task force received an update regarding the Post-Disaster Claims Document that had been referred to the Transparency and Readability of Consumer Information (C) Working Group. The current version has been reorganized into a consumer-friendly format. Information in the document now includes what should be done if there is damage, what records to keep, suggestions on drugs and medical equipment, what consumers need to know and who to call, information needed on claim, what an adjuster is and what they do, what a contractor is and what consumers should know prior to hiring, what consumers can do if they aren't satisfied with a settlement, and how to prepare for the next disaster.

The current document is in handout format, and the working group is also considering distributing it in smaller chunks to share on the Web or social media.

# Auto insurance study raises hackles again

As has become usual, the meeting of the Auto Insurance (C/D) Working Group provided a lively debate over the collection and distribution of data analyzing the availability and affordability of auto insurance.

The working group discussed the current status of the NAIC's data collection. Data received from statistical agents is being analyzed using business intelligence and analytics software to look at various factors, including coverage, frequency, and severity of incidents. The analysis can be done by ZIP code and should enable regulators to see outliers.

Potential next steps outlined included sharing the results more broadly with regulators to see what other functionality may be desired. The working group also discussed the creation and outline of a public report, with the first step being to decide on the metrics.

Regulators once again discussed the difficulty of measuring affordability, with the term not being well defined. One option suggested was to present the data for regulators and consumers to be able to see premiums, but without any opinion on affordability.

NAIC consumer representative Birny Birnbaum noted that the outline was produced for the public just days before. He asked for and was given a two-week comment period. As he had in the past, Birnbaum asked what prevented the NAIC from posting the raw data online for interested parties to review. Responses included that not all states have provided data, and that the raw data would be released after the public report is issued, as previously stated by the working group chair and vice chair.

Birnbaum pressed the working group on why it would not post the data. He said the only people without the data are consumer stakeholders. Both industry and regulators have the data, so what was the public policy behind not posting the data, he asked.

One trade group representative disagreed, saying there was no reason to simply post raw data as that may not be helpful to the public. Birnbaum's counterpoint was that as he saw it, the trade group was suggesting that the only people with the expertise to review the raw data were regulators and industry. He strongly disagreed. The trade group representative in turn strongly disagreed with Birnbaum, saying that such comments illustrate exactly why regulators needed to put the data in a legal and regulatory context because otherwise it might be misused.

Earlier, the working group heard a report on two recent Missouri studies related to auto insurance. According to the first study, there was no evidence of discrimination, and across the state, premiums have declined approximately 17 percent since 1998, adjusted for inflation. The conclusion of that study was that the Missouri market was competitive. Some working group members expressed concerns about faulty methodology in the second report.

Responding to the presentation, Birnbaum asked about policy fees and incidental fees. He was told those were reported as premium in Missouri. Installment fees and finance fees were probably also reported as premium.

Photo courtesy of the NAIC

# In brief

### Travel insurance model adopted

Its work done, the Travel Insurance Working Group was sent off into the sunset, disbanded at the meeting of the Property and Casualty (C) Committee after completing work on the Travel Insurance Model Act. The working group used the National Conference of Insurance Legislators (NCOIL) Travel Insurance Model Law as its basis. The new NAIC model does not deviate significantly from NCOIL's but includes definitions and language that adds regulatory certainty. Anything that would duplicate already existing laws was removed, and the working group deliberately made a distinction regarding insurance vs. non-insurance (e.g., travel assistance).

### Travel on MCAS? No

The Market Regulation and Consumer Affairs (D) Committee rejected a consumer representative's request to add travel insurance to the MCAS, echoing an earlier working group rejection. New York said it deserved inclusion and was the sole **no** vote.

### How many IAIGs?

The number of US insurers to be designated as internationally active insurance groups (IAIGs) and thus subject to ComFrame is still unknown, but at least now there is an upper limit. An IAIS representative told the NAIC there are a dozen IAIGs in North America. Though he did not specify, if one presumes the representative was referring only to the continental landmass, that would mean the 12 must be collectively headquartered in Mexico, Canada, or the US. Note for geography teachers: The authors are aware that the islands of the Caribbean are considered part of North America, but why complicate things?

### Accreditation issues

South Dakota and New Hampshire saw their accreditation renewals announced at the meeting of the Financial Regulation Standards and Accreditation (F) Committee. Regulators also gave themselves an extension on ORSA review requirements, moving the effective date for time-limited reviews one year to January 1, 2020. Regulators supported the change because many departments were not yet staffed to handle the large volume of ORSA reports received, and needed time to staff up and train that staff.

### Not easy being green

The Executive (EX) Committee, acting on a request by California, added a charge to the Property and Casualty Insurance (C) Committee to appoint a Cannabis Insurance (C) Working Group. Given the spread of state legalization of marijuana and federal resistance, California wanted the NAIC to examine insurance issues related to the industry and prepare a white paper including best practices.

**What's next:**

- **November 5–9: IAIS Annual General Meeting and Annual Conference—Luxembourg**
- **November 15–18: NAIC Fall Meeting—San Francisco, CA**
- **December 5–8: NCOIL Annual National Meeting—Oklahoma City, OK**

# NAIC healthcare update

As outlined in its 2018 charges, the mission of the Health Insurance and Managed Care (B) Committee is to consider issues relating to all aspects of health insurance. Some of the charges in support of this mission include analyzing policy implications and effect on states of proposed and enacted federal legislation and regulations, as well as examining factors that contribute to rising health care costs and ultimately insurance premiums, and how state initiatives can address those cost drivers.

Monitoring the impact of the federal regulation, including the Affordable Care Act and its ongoing evolution, and analyzing cost drivers was the continuing focus of the summer meeting for the B Committee, its subgroups and task forces.

The cost of pharmaceuticals and understanding the sector dynamics—explicitly the role of pharmaceutical benefit managers (PBMs)—had been a focus of the spring meeting in Milwaukee. In Boston, the Regulatory Framework Task Force continued the PBM discussions.

Provider association reports detailed what each health insurance dollar pays for, and a presentation from a major hospital center on prescription drug costs covered the impact on the market of rebates from drug manufacturers both to pharmacy benefits managers (PBMs) and directly to patients. This latter report generated much discussion. Connecticut and California pointed out that their laws require specific reporting of the impact of rebates on rate filings by insurers, and other states are considering whether they can do the same without specific legislative approval by using their rate-making authority.

The task force established a new subgroup to explore the PBM regulatory issue and to provide recommendations on next steps, if any, to the task force. Subgroup members have not yet been named. Regulator viewpoints and recommendations presented to the task force will be something for all stakeholders, including PBMs, to monitor as the year unfolds.

*This summary was prepared by Lynn Friedrichs and Jay Cohen. For your comments and suggestions, please contact the authors — lfriedrichs@deloitte.com and jaycohen@deloitte.com.*

Photo courtesy of the NAIC

# NAIC actuarial update

## Adoption of the Framework of the Variable Annuities Issues (E) Working Group & C - 3 Phase II/ AG43 (E/A) Subgroup

In the days leading up to the LATF meeting, the Variable Annuity Issues Working Group and the Financial Condition (E) Committee adopted the framework for C3 Phase II and VA CARVM reform. The framework had been exposed for comment and was the topic of much debate over the last nine months, with industry and regulators coming together in a series of meetings and phone calls. VAIWG ultimately made some changes to the initial recommendations, resulting in a list of 28 changes to VA CARVM (VM-21), C-3 Phase II, disclosures, and other topics.

Next steps will include updating the edits made to Actuarial Guideline 43 and the C3 Phase II instructions to reflect the final framework. Additionally, an implementation task force will be formed, and a drafting group has been formed to begin making required updates to the Valuation Manual (VM-21).

## Valuation Manual amendments

With PBR for Life Insurance effective for all companies by January 1, 2020, work continues on amendments to VM-20.

***Adopted amendments***

Amendment Proposal Form ("APF") 2017-70, Updating the Valuation Manual for the Treatment of Term Riders, was adopted. This APF provides more clarity to the treatment of riders for the model reserve in the "Reserve Requirements" section of the Valuation Manual, and also clarifies the treatment of term life insurance riders when valued separately from the base contract in VM-20 Sections 2 and 3.

APF 2018-03 was also adopted. This amendment makes non-substantive clarifying changes to the definition of "Starting Assets" in VM-20 Sections 7.D.1 and 7.D.3.

***Amendments exposed for comment period***

APF 2018-08 contains proposed changes to the Introduction to Section II, most notably removal of the 450 percent RBC requirement. Other changes include removal of Guaranteed Issue premiums from Exhibit 1 premiums in the exemption test, since Guaranteed Issue business is not subject to PBR. Other clarifying definitions and references were also proposed. The APF will be exposed for a 45-day comment period.

APF 2018-44 covers prescribed equity returns used in valuation of indexed universal life business. The 2 percent that is currently prescribed is viewed by some as overly conservative, falling over two deviations from the mean. Several alternatives were considered and discussed at the 2018 spring meeting. The APF will be exposed for a 30-day comment period.

APF 2018-45 addresses adjustments to company experience mortality rates when company experience is worse than the industry table used for grading. This APF is intended to be a clarification, restoring the original intent of VM-20, as improving mortality in this situation was not intended. The APF will be exposed for a 30-day comment period.

APF 2018-46 includes proposed definitions to be added to VM-01 for "Term Life Insurance Policy," as well as "Product Group" for "Term," "ULSG," and "All Other" products. The APF will be exposed for a 30-day comment period.

***Proposed amendments under review***

Several APFs were presented and discussed, with revisions under consideration. APF 2018-15 proposes non-substantive changes to add definitions for certain terms: "Indexed Life Insurance Policy" and "Shadow Account." Additional terms were included in the APF presented that will instead be covered by APF 2018-45 ("Term Life Insurance Policy" and "Product Group"). This APF will be adjusted and exposed for comment again at a later date.

APF 2018-17, Use of Aggregate Mortality for VM-20 Credibility, was discussed at length. This APF addresses conditions under which experience from different mortality segments may be aggregated for determination of credibility. One concern among the industry is that companies may be reluctant to innovate and adapt new underwriting processes or platforms, such as automated underwriting, if a new mortality segment will automatically be required. Some regulators, on the other hand, expressed concern about the degree of actuarial judgment allowed when combining experience from different underwriting processes.

The APF also would require additional reporting to facilitate regulatory oversight and require additional margins to reflect any increased uncertainty due to changes in underwriting processes. The APF will be revised following the discussion and feedback, followed by a short exposure period and a goal of adoption at the 2018 fall meeting.

APF 2018-39 is intended to stress the meaning of "materiality" in the context of the materiality threshold. As described in the APF, a material change in PBR reserve may not seem material in the context of a company's overall life reserves, and clarifying the intent of the Valuation Manual would be helpful. The intent is that materiality is a function of the Modeled Reserve, determining risks that are material to the Modeled Reserve. Edits to the APF presented will be considered, to clarify the intent.

## Update on the Delphi Study of Accelerated Underwriting and on Accelerated Underwriting Data Elements and VM-51

***Study of accelerated underwriting***

A study was conducted by the Academy Life Experience Committee and the SOA Preferred Mortality Oversight Group to better understand emerging underwriting practices and the impact on observed mortality under emerging practices. The objective was to clarify possible categorization of different underwriting practices and benchmark any appropriate adjustments to base mortality tables for different underwriting practices. Revisions to VM-20 would then be considered.

The study found there are a wide variety of accelerated underwriting programs with differing cost and mortality targets. Both increases and decreases in mortality results may be expected under different programs. Refinements to accelerated underwriting programs are expected as quality and availability of data increases.

Next steps include APF 2018-17 and possible additions to the PBR practice note, though a new mortality table for accelerated underwriting is not appropriate at this time, given the wide variety of approaches and program targets.

***Accelerated underwriting data elements and VM-51***

Mandatory collection of experience data forming the basis of assumptions is required under VM-51. However, VM-51 does not currently capture all of the data necessary to understand and differentiate between the accelerated underwriting programs. Additional data elements will be collected, even though many programs are in their infancy, in order to avoid a mismatch in what is collected and what is used to determine mortality. Additional elements collected may include: marketing channel data, definitions, data sources used, lab data, and certain application data. Work will continue to complete the guidance and to draft an APF.

## Reinsurance

***Academy work on reinsurance allocation***

The Reinsurance Work Group of the American Academy of Actuaries is working with the Life Reserve Working Group on issues around the allocation of pre-reinsurance reserves and reinsurance credit when blocks are combined into product groups for the purposes of calculating the Modeled Reserve. An example was presented where two blocks were combined, one having reinsurance and the other not reinsured. Under some allocation methodologies, the block having no reinsurance may end up with a higher pre-reinsurance reserve than it would when there is no reinsurance on either block.

The working groups are exploring the impact of multiple allocation strategies. At the appropriate time, LATF will schedule a call to discuss developing a document for exposure.

***Yearly Renewable Term (YRT) under PBR***

Another important issue in the treatment of reinsurance under PBR is the assumption around future YRT reinsurance premiums between the ceding company and the reinsurer. There is concern among some regulators that, under certain circumstances, YRT reinsurance premiums assumed in PBR by the ceding company may be different from those assumed by the reinsurance company, to the extent that the resulting total reserves are inappropriately low (in other words, aggressive views being taken in one or both sides of the treaty).

The Life Reinsurance Work Group of the American Academy of Actuaries summarized the issues in a November 2017 letter to LATF, and included six approaches to be considered when modeling is done by the ceding company or the reinsurer. Following industry comments and discussion, variations on the six recommendations were also considered, ranging from requiring the same method for both ceding company and reinsurer, requiring one specific method for all companies, or requiring a prescribed reserve.

Concern was raised that overly prescriptive methodology may lead to a return to some of the reinsurance structures that PBR was meant to address. Next steps include developing a set of principles to then be discussed on a future LATF call, possibly before the fall meeting.

***Other items exposed for comment***

The 2019 Generally Recognized Expense Table (GRET) was approved for exposure for a 30-day comment period. The recommendation was based on an average of 2016 and 2017 Annual Statement data, and the methodology used in creating the recommended 2019 GRET is largely unchanged from prior tables.

*This summary was prepared by David A. Armstrong. For your comments and suggestions, please contact the author—daarmstrong@deloitte.com.*

# NAIC accounting update

This section of the NAIC update focuses on accounting and reporting changes discussed, adopted, and exposed by the Statutory Accounting Principles (E) Working Group, the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee during the 2018 Summer Meeting and interim conference calls. Substantive changes finalized during these meetings have explicit effective dates as documented below. All non-substantive changes finalized during these meetings are effective upon adoption unless otherwise noted.

## Statutory Accounting Principles Working Group

**Current Developments:** The SAPWG did not adopt any ***substantive*** items as final during the 2018 summer meeting and interim conference call held May 24, 2018:

**Current Developments:** The SAPWG adopted the following ***non-substantive*** items as final during the 2018 spring meeting and interim conference call held May 24, 2018:

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-05 | *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*<br>*SSAP No. 32—Preferred Stock* | P&C<br>Life<br>Health | Revisions adopt the updated administrative symbols that are used along with the NAIC designation for reporting invested assets. The revisions also update reporting requirements for preferred stocks and 5* securities that are self-reported as NAIC 6. | N | N | 2018 |
| 2018-16 | *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*<br>*Appendix A-001—Investments of Reporting Entities* | P&C<br>Life<br>Health | Revisions align reporting classifications of the investment schedule lines with the Summary Investment Schedules, allowing for cross-checks and less manual allocations. | N | Y | 2019 |
| 2018-08 | *SSAP No. 21—Other Admitted Assets*<br>*SSAP No. 56—Separate Accounts* | P&C<br>Life<br>Health | Revisions restrict application of accounting guidance to clarify when reporting entities that are the owner and beneficiary of a life insurance contract or as otherwise obtained rights to control the policy can admit its value in their financial statements. The restriction requires that the life insurance policy be in compliance with Internal Revenue Code Section 7702 (including policies with terms that allow the owner to pay variable premium based on a variable investment vehicle) and acquired for the primary consideration of costs for employee benefit obligations or the loss of a key person.<br><br>Adopted new disclosures related to this item that provide information on non-registered products issued by insurers required for year-end 2018 reporting. | Y | N | 2018 |

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-12 | *SSAP No. 26R—Bonds*<br><br>*SSAP No. 30—Unaffiliated Common Stock*<br><br>*SSAP No. 32—Preferred Stock*<br><br>*SSAP No. 43R—Loan-backed and Structured Securities*<br><br>*SSAP No. 86—Derivatives*<br><br>*SSAP No. 100R—Fair Value* | P&C<br>Life<br>Health | Revisions reject ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, which clarifies guidance included in ASU 2016-01 regarding the same topic. | N | N | 2018 |
| 2017-35 | *SSAP No. 49—Policy Loans*<br><br>*SSAP No. 56—Separate Accounts* | P&C<br>Life<br>Health | Revisions provide explicit accounting and reporting guidance for policy loans, as follows:<br>• All policy loans are reported in the general account;<br>• All policy loans that originate in the separate account are reflected with an expense transfer between the separate and general account;<br>• All policy loans that originate in the separate account must be funded (a transfer of assets (generally cash) from the separate account to the general account to fund the policy loan) in order for the policy loan to be admitted by the reporting entity; and<br>• Separate account and general account reserves must be adjusted to reflect the policy loan.<br>– Separate account—reserves are reduced<br>– General account—reserves are increased | Y | N | 2018 |
| 2018-09 | *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* | P&C<br>Life<br>Health | Revision adds disclosure requirements for subsidiaries, controlled or affiliated entities whose shares of losses exceed its investment value. This disclosure also includes a loss-tracking schedule. | N | Y | 2018 |
| 2018-01 | *SSAP No. 101—Income Taxes* | P&C<br>Life<br>Health | Revisions update guidance resulting from the federal Tax Cuts and Jobs Act.<br>• Reflect guidance from adopted interpretation (INT 18-01—Updated Tax Estimates under the Tax Cuts and Jobs Act) that addressed how the impact of reform should be reported.<br>• Clarifies differences in carry-back provisions between life and non-life entities.<br>• Updates the implementation guide to reflect impact of changes resulting from tax reform. | Y | Y | 2018 |

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-14 | *INT 05-05—Accounting for Revenues Under Medicare Part D Coverage* | P&C<br>Life<br>Health | Revisions add a description of the Coverage Gap Discount Program and amend the existing guidance to provide guidance that the program payments should be accounted for similar to the existing guidance for the low-income subsidies as uninsured plan payments under *SSAP No. 47—Uninsured Plans*. In addition, adopted revisions update certain existing definitions. | Y | N | 2018 |
| 2018-10 | *INT 18-02—ACA Section 9010 Assessment Moratoriums* | Health | Revisions adopted provide guidance for the 2019 moratorium and future moratoriums for the federal Affordable Care Act (ACA) Section 9010 fee. In addition, the revisions remove the reference to 2019 fee accruals payable in INT 16-01—ACA Section 9010 Assessment 2017 Moratorium and nullifies the interpretation effective December 31, 2018. | TBD | TBD | 2018 |
| 2018-15 | *INT 18-03—Additional Elements Under the Tax Cuts and Jobs Act* | P&C<br>Life<br>Health | The adopted interpretation of *SSAP No. 101—Income Taxes* provides guidance for certain elements of tax reform, as follows:<br>• Repatriation Transition Tax (RTT)—The RTT is considered a current tax to be reported on the current federal and foreign income tax expense line, even if paid on installments.<br>• Alternative Minimum Tax (AMT) Credit—The AMT credit qualifies as a current year recoverable; however, companies may elect to report this item as a deferred tax asset.<br>• Global Intangible Low-Taxed Income (GILTI) Tax—Reporting entities are not allowed to recognize deferred GILTI tax for basis differences in foreign entities unless it is expected to reverse as GILTI in future years if reporting entity has recognized deferred tax items for basis differences expected to reverse as GILTI under US GAAP. | Y | Y | 2018 |
| 2018-11 | *Appendix D—GAAP Cross-Reference to SAP* | P&C<br>Life<br>Health | Revision to reject *ASU 2017-15, US Steamship Entities, Elimination of Topic 995,* as not applicable to statutory accounting. | N | N | NA |

The SAPWG exposed the following items for written comments (due by October 5, 2018, unless otherwise noted) by interested parties:

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2016-02 | *SSAP No. 22—Leases* | P&C Life Health | ***Substantive***—Exposed an issue paper and substantively revised SSAP No. 22R in response to *ASU 2016-02, Leases.* The exposed revisions incorporate the US-GAAP guidance with modifications to continue following the "operating lease" approach for statutory accounting for lessees. Statutory accounting for lessors, as exposed, remains largely unchanged. | TBD | TBD | TBD |
| 2017-32 | *SSAP No. 30—Unaffiliated Common Stock* | P&C Life Health | ***Substantive***—Exposed a proposed issue paper and substantively revised SSAP No. 30R revisions to: 1) improve the common stock definition; 2) include closed-end funds and unit-investment trusts within scope; and 3) incorporate enhancements to capture NAIC designations on Schedule D-2-2—Common Stocks. | Y | N | TBD |
| 2017-28 | *SSAP No. 62R—Property and Casualty Reinsurance* | P&C | ***Substantive***—Exposed revisions that incorporate US-GAAP guidance from *EITF 93-6, Accounting for Multiple-Year Retrospectively Rate Contracts by Ceding and Assuming Enterprises* and from *EITF D-035, FASB Staff Views on Issue No. 93-6.* This US-GAAP guidance was previously adopted by reference, with elements included in various sections of SSAP No. 62R. The guidance incorporated is intended to clarify the statutory requirements. | TBD | TBD | TBD |
| 2016-03 | *New SSAP and Issue Paper* | P&C Life Health | ***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.<br><br>Re-exposed an issue paper and draft SSAP that prescribes specific accounting and reporting treatment for derivatives hedging variable annuity guarantee benefits subject to fluctuations as a result of interest rate sensitivity. | Y | Y | TBD |
| 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 Life Health | ***Non-substantive***—The focus of this agenda item is on instruments that combine characteristics of a debt instrument with a derivative component. More specifically, this agenda item is focused on investment products that are structured to resemble debt instruments, where the investor assumes a risk of principal loss based on an underlying component unrelated to the credit risk of the issuer.<br><br>The Working Group exposed revisions to indicate that structured notes, except for mortgage-referenced securities, for which (1) the contractual principal amount is to be paid at maturity, or (2) the original investment amount is at risk for other than failure of the borrower to pay the contractual amount due, shall be reported as derivatives within the scope of SSAP No. 86. The proposed revisions note that mortgage-referenced securities will be in scope of SSAP No. 43R. | TBD | TBD | TBD |

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-06 | *SSAP No. 4—Assets and Nonadmitted Assets* | P&C<br>Life<br>Health | ***Non-substantive***—Re-exposed modified revisions that propose to identify items reported as invested assets acquired as part of "regulatory transactions" as defined in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) that meet the definition of an asset:<br>• Shall only be admitted with approval of the domestic state insurance department as a permitted or prescribed practice; and<br>• If adopted, the Working Group will submit a referral to the Blanks (E) Working Group and the Valuation of Securities (E) Task Force to incorporate a new administrative symbol (RT) to identify the invested asset as admitted pursuant to a regulatory transaction as a permitted or prescribed practice. | Y | Y | TBD |
| 2018-20 | *SSAP No. 15—Debt and Holding Company Obligations*<br><br>*SSAP No. 25—Affiliates and Other Related Parties* | P&C<br>Life<br>Health | ***Non-substantive***—Exposed proposed revisions to reference existing guidance in SSAP No. 25 and *SSAP No. 72—Surplus and Quasi-Reorganizations* when there has been a forgiveness of an amount owed. The exposure also requests comments related to questions on collectability and related-party service transactions. | TBD | TBD | TBD |
| 2018-17 | *SSAP No. 21—Other Admitted Assets* | P&C<br>Life<br>Health | ***Non-substantive***—Exposed revisions to provide explicit accounting and reporting guidance for investments in structured settlements where the reporting entity acquires the legal right to receive payments. | Y | N | TBD |
| 2018-25 | *SSAP No. 22—Leases* | P&C<br>Life<br>Health | ***Non-substantive***—Exposed revisions to reject new US-GAAP guidance included in *ASU2018-01, Leases—Land Easement Practical Expedient for Transition to Topic 842.* | N | N | TBD |
| 2018-22 | *SSAP No. 37—Mortgage Loans* | P&C<br>Life<br>Health | ***Non-substantive***—Exposed revisions to clarify that a mortgage loan acquired through a mortgage loan participation agreement is limited to a single mortgage loan agreement with a sole borrower. | Y | N | TBD |
| 2018-07 | *SSAP No. 41R—Surplus Notes* | P&C<br>Life<br>Health | ***Non-substantive***—Re-exposed revisions to clarify:<br>• Surplus notes linked to other structures are not subordinate and do not qualify for reporting as statutory equity by the issuer;<br>• Assets linked to issued surplus notes are not available for policyholder claims and shall be nonadmitted; and<br>• Incorporate accounting guidance that prevents situations in which an issued surplus note can be linked to a reported asset or agreement and still qualify for surplus note reporting. *[New]* | Y | TBD | TBD |
| 2018-19 | *SSAP No. 43R—Loan-Backed and Structured Securities* | P&C<br>Life<br>Health | ***Non-substantive***—Exposed revisions to eliminate the modified filing exempt process in determining the NAIC designation for assets in the scope of this statement. | N | N | TBD |

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-27 | *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* | P&C Life Health | ***Non-substantive***—Exposed revisions similar to item 2018-09 that suspend application of the statutory equity method accounting with the reporting entity's share of SSAP No. 48 entity losses exceed its recognized value. The proposed guidance explicitly addresses this requirement and adds a loss tracking disclosure. | N | Y | TBD |
| 2018-28 | *SSAP No. 51—Life Contracts*<br><br>*SSAP No. 52—Deposit-Type Contracts*<br><br>*SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* | P&C Life Health | ***Non-substantive***—Exposed proposed life liquidity disclosures and expanded variable annuity liquidity disclosures to enhance the ability of the NAIC to address its role in macro prudential surveillance of the insurance industry. | N | Y | 2019 |
| 2017-28 | *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*<br><br>*Appendix A-791—Life and Health Reinsurance Agreements* | Life Health | ***Non-substantive***—This item relates to regulator concerns for reinsurance contracts that include risk-limiting features related to short-duration contracts and the appropriate amount of reinsurance reserve credit that should be taken by ceding entities.<br><br>Exposed proposed disclosure to identify risk-limiting features for assumed and ceded reinsurance. The exposure also proposes language in A-791 to clarify intent for guidance to apply to proportional reinsurance and to refer to SSAP No. 61R for guidance for non-proportional reinsurance. | TBD | Y | TBD |
| 2018-23 | *SSAP No. 68—Business Combinations and Goodwill* | P&C Life Health | ***Non-substantive***—Revisions clarify that scenarios in which the ownership (stock) of a subsidiary, controlled or affiliated (SCA) is canceled, with the parent entity directly reporting the SCA assets and liabilities on its financial statements, should be considered statutory mergers. | TBD | TBD | TBD |
| 2018-21 | *SSAP No. 72—Surplus and Quasi-Reorganizations* | P&C Life Health | ***Non-substantive***—Exposed revisions to clarify the difference between a dividend and other distribution to a parent or shareholders and incorporate appropriate statutory accounting and reporting guidance. | TBD | TBD | TBD |
| 2018-26 | *SSAP No. 97—Subsidiary, Controlled and Affiliated Entities* | P&C Life Health | ***Non-substantive***—Exposed proposed revisions related to situations where the reporting entity's share of losses exceed its value and the reporting entity has guaranteed obligations or committed further financial support to the subsidiary, controlled or affiliated entity requiring valuation and reported less than zero. | TBD | TBD | TBD |
| 2018-29 | *Appendix A-820—Minimum Life and Annuity Reserve Standards* | Life | ***Non-substantive***—Exposed revisions remove the phrase "good and sufficient reserve" from the guidance to be consistent with the *related NAIC Standard Valuation Law Model 820.* | N | N | TBD |

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

| Ref# | Title | Sec. | Amendments adopted | F/S impact | Disclosure | Effect. date |
|---|---|---|---|---|---|---|
| 2018-03 | *SSAP No. 43R—Loan-Backed and Structured Securities* | P&C Life Health | ***Non-substantive***—The Working Group deferred discussion on this item until the item addressing the removal of the modified filing exempt designation and process is finalized:<br><br>This item originally exposed revisions to clarify that if a loan-backed or structured security has different NAIC designations by lot, then<br>• The reporting entity shall either report the entire investment on a single reporting line with the lowest applicable NAIC designation; or<br>• Report separately by purchase lot. | TBD | TBD | TBD |
| 2018-04 | *SSAP No. 26R—Bonds* | P&C LifeHealth | ***Non-substantive***—The Working Group deferred discussion on this item.<br><br>This item originally exposed proposed response to the Valuation of Securities (E) Task Force on its draft guidance for bank loans. This response suggests revisions to indicate that investments shall follow the guidance in the Accounting Practices and Procedures Manual (AP&P Manual), which would classify borrowing base loans and debtor in possession (DIP) financings as collateral loans. | TBD | TBD | TBD |
| 2017-33 | *SSAP No. 86—Derivatives* | P&C Life Health | ***Substantive***—This item originally exposed an issue paper to consider that statutory response for *ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* The issue paper considers whether there is a reason to differ from US-GAAP and whether current inconsistencies will be continued.<br><br>The Working Group expressed the intent to consider the documentation revisions of the exposure as a non-substantive change in the interim, with a separate agenda item to consider potential substantive revisions to the accounting and reporting of derivatives. | TBD | TBD | TBD |
| 2016-20 | *Various SSAPs* | P&C Life Health | ***Substantive***—This item originally exposed a concept paper considering adoption of the US-GAAP guidance included in *ASU 2016-13: Credit Losses.*<br>• Considers replacing the "incurred loss model" with an "expected credit loss" concept.<br><br>It should be noted that other statutory elements already consider credit risk (e.g., Risk-Based Capital and the Asset Valuation Reserve).<br><br>UPDATE: The Working Group directed additional work and coordination with interested parties prior to further Working Group discussion. | TBD | TBD | TBD |

This summary was prepared by John Tittle, Lynn Friedrichs, Diane Craanen, and Ed Wilkins. For your comments and suggestions, please contact the authors – johntittle@deloitte.com, lfriedrichs@deloitte.com, dcraanen@deloitte.com or ewilkins@deloitte.com.

# Contacts

**For more information, please contact**


**Gary Shaw**
Vice Chairman
US Insurance Leader
Deloitte LLP
+1 973 602 6659
gashaw@deloitte.com

**Ed Wilkins**
Partner
Deloitte & Touche LLP
+1 402 444 1810
ewilkins@deloitte.com

**George Hanley**
Managing Director
Deloitte & Touche LLP
+1 973 602 4928
ghanley@deloitte.com

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

**Howard Mills**
Managing Director
Global Insurance Regulatory Leader
Deloitte Services LP
+1 212 436 6752
howmills@deloitte.com

**Rick Sojkowski**
Partner
Risk Manager & Quality Control
Deloitte & Touche LLP
+1 860 725 3094
rsojkowski@deloitte.com

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


## Contributors


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

**Bryan Berkowitz**
Senior Manager
Deloitte & Touche LLP
+1 973 602 4578
bberkowitz@deloitte.com

**David Armstrong**
Senior Manager
Deloitte Consulting LLP
+1 804 343 8569
daarmstrong@deloitte.com

**Jay Cohen**
Managing Director - Advisory
Deloitte & Touche LLP
+1 203 423 4438
jaycohen@deloitte.com

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


## Senior editor


**Andrew N. Mais**
Senior Manager
Deloitte Center for Financial Services
Deloitte Services LP
+1 203 761 3649
amais@deloitte.com


Deloitte.