NAIC update: Summer 2020 National Meeting

The National Association of Insurance Commissioners (NAIC) successfully hosted its Summer Meeting in a virtual environment. NAIC President and South Carolina Insurance Director Ray Farmer, in his written welcome to NAIC meeting participants, noted that there continued to be much to do and that NAIC priorities in 2020 were shifting. The Summer 2020 National Meeting held not just its regular agenda, but also **three special sessions** focused on the following (this publication will focus on the first two):

1. COVID-19 lessons learned
2. Race and insurance
3. Hurricane preparedness

Traditionally, meeting participants would have witnessed the mingling of insurance leaders, insurance regulators, and numerous other stakeholders in the hosting city. The in-person meeting offers the opportunity to network, conduct business, and enjoy the location's restaurants and attractions. In this first-time virtual environment, it was an opportunity to support the NAIC as its team worked hard to make the meeting a success and allow participants the chance to attend from the comfort of a chosen location anywhere in the world. For a participant of this event, there was the normal activity associated with the NAIC committee structure. This edition focuses on two of those special sessions, "COVID-19 lessons learned" and "Race and insurance," both having very real societal impacts. The NAIC and regulators were not shy in addressing these topics in their special sessions.

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December 3–4 and 7–9, 2020, Fall National Meeting (virtual format)

COVID-19 lessons learned

As part of the NAIC National Meeting, three special sessions were hosted, including "COVID-19 lessons learned for the insurance sector." The intention of the meeting was to provide a snapshot of how the insurance industry had been affected and what lies ahead. The session included three panels:

Panel 1: Impact on insurance coverages and policyholders

Panel 2: Impact on the insurance sector

Panel 3: Regulatory response and the road ahead

Describing COVID-19 as a "black swan event," Mike Consedine, NAIC CEO, and regulators set out to discuss short-term pandemic impacts that are being understood, as well as emerging longer-term impacts.

Panel 1: Impact on insurance coverages and policyholders

Superintendent Dwyer of Rhode Island hosted the panel to discuss the impact of COVID-19 on insurance coverages and the resulting economic impact. The panel representatives included policyholders, producers, and businesses. From business interruption insurance to workers' compensation, the panel sought to understand the impact on insurance coverages. It was clear that the economic impact has been significant, with several businesses closing permanently and businesses deemed "nonessential" closing temporarily; businesses suffering economically; and others outperforming, all of which has affected the need for insurance products. Many policyholders have had to be educated on the type of coverage they have, what is covered, and what is not, along with their ability to continue the payment of premiums and what regulatory actions have been taken to support policyholders. The need to move quickly to remote working accompanied the need for health care to move to telemedicine and affected agents who could not get licenses (at the time of COVID-19, only one state allowed exams for licenses to be taken remotely; now there are more than 20 states that allow this). Insurance carriers have had to work with regulators, resulting in moves to waive some policy deductibles along with significant falls in claims experience, which has led some carriers, such as auto underwriters, to return premiums.

Panel 2: Impact on the insurance sector

Director Jillian Froment of Ohio hosted the panel to discuss the impact of COVID-19 on the operations, finances, and regulation of a life, health, property, and casualty insurer. Panelists included Dr. Daniel Knecht, VP, transformation and clinical product, CVS; Todd Henderson, SVP and chief risk officer, Western & Southern Financial Group; and TJ Obrokta, president and CEO, Encova Insurance.

Work from home and return to work

Initially, COVID-19 resulted in a move to working from home along with a need for employers to support the work-from-home environment. Some initial observations of companies by regulators included testing the capacity of a business to work from home, adding technology and capacity capabilities, and improving employee communication to support connectivity in a remote environment, such as through townhalls. As companies have responded to the COVID-19 pandemic, the focus has shifted to return-to-work strategies. There has been a mix of return-to-work strategies, but for those that have started to return to work at office locations, there has been a generally slow ramp-up. Return to work has followed state, federal, and CDC measures, at least meeting, if not exceeding, these recommendations. The return to the workplace has been a careful process, using a combination of mitigation methods such as self-assessment, attestations, face coverings, social distancing, handwashing and sanitization, and reducing employee congregation, gatherings, and meetings.

Operational and business challenges

Hiring and recruiting has been challenging, particularly at the senior level when not meeting individuals face-to-face.

The nature of the customer relationship has also had to change along with changes in underwriting techniques, which will continue. New product sales were supported by existing pipeline, but third-quarter new business and beyond has been more challenging. Additionally, many commercial-line products have been affected. When businesses shrink or shut down due to the economic impact, premiums are affected. This affects insurance carriers, who may have made new business sales commitments to their board or external stakeholders, such as rating agencies.

Regulatory environment

Companies had to incorporate the regulatory response within their business continuation program and execution. There was and is a need to continue to work with regulators, including responding to regulatory inquiries. There were some specific requirements that need to be addressed, namely states' COVID-19-related actions and responding to governors' orders. Initially, the regulatory requirements were focused on the health industry, but the focus then started to shift. While the markets have presented challenges, particularly the low-interest-rate environment, panelists noted that the regulatory framework for solvency has worked well and been supportive. The regulatory capital framework does not consider liquidity, so companies have also undertaken additional liquidity stress testing. Historic stress testing for pandemics is considered to have been more severe than the current pandemic experience, so the general view is that the industry has stood up well.

Panel 3: Regulatory response and the road ahead

Michael Consedine, NAIC CEO, moderated the third and final panel session, joined by Director Lori Wing-Heier of Arkansas, Commissioner Marlene Caride of New Jersey, Commissioner Jon Godfread of North Dakota, and Commissioner Scott White of Virginia.

The regulatory response started once the governors of each state started to issue their orders in response to COVID-19 and the impact on departments, as well as the support the industry and consumers would need, became clear. What was not clear was the length of time that COVID-19 would affect the industry.

The move to working from home had different challenges for each state, including working with processes that still existed in a paper-based format. The good news was that many states had started to improve their technology capabilities and/or were able to quickly adapt to the remote environment.

The early focus of the response was on the consumer and the ability of consumers, particularly on the health care side, to access what they needed from health providers. This required working with companies to adapt the regulatory framework to support consumer needs. There was also a need to monitor the impact on regulated companies concerning solvency, stress testing, liquidity needs, market impacts, underlying investments, and operations. The most obvious issues once health care needs had been addressed were insurance coverage, ongoing coverage, and the issue of coverage related to the pandemic, such as business interruption.

In conclusion, the panel noted that going forward, regulators, and industry and consumer groups will need to consider learnings from the pandemic. This includes understanding how the industry can be modernized, what is no longer needed, and what we can develop to make the industry better. As regulators continue to manage through the crisis, implications will continue to emerge.

Race and insurance

Hosted jointly by NAIC President Farmer and President-elect and Florida Commissioner David Altmaier, a third special session covered race and insurance, with a focus on the role of the insurance sector in addressing racial inequality and promoting diversity in the insurance industry. This session had three distinct panels:

Panel 1: Historical context of perceived racial discrimination within the insurance sector

Panel 2: Current racial bias challenges within the insurance sector

Panel 3: Increasing diversity and inclusion within the insurance sector

The meeting highlighted the work the NAIC was undertaking on this critical societal issue. NAIC members have agreed to form a commissioner-level special committee on race and insurance, which has several charges to "effect real, meaningful, and lasting change." Fifty member states of the 56 member jurisdictions have signed up to be part of this committee and are committed to taking meaningful action. President Farmer continued to note the need for this to be a collaborative initiative with stakeholders.

Panel 1: Historical context of perceived racial discrimination within the insurance sector

Missouri Insurance Director Chlora Lindley-Myers moderated the panel, joined by Dr. Robert Klein, consultant, Robert W. Klein and Associates; George Nichols III, president and CEO, American College of Financial Services; and Dr. Leroy D. Nunery II, founder and principal, PlusUltre LLC. In kicking off the discussion, Director Lindley-Myers noted that this was not the first time that regulators have confronted this issue and that progress to address racial discrimination has been made in the past. Lindley-Myers noted the importance of understanding the historical context in addressing any subtle, less obvious forms of racial discrimination that may remain. Following introductions of the panel members, the discussion went on to look at historical context of race-based premiums, including pricing practices; coverage practices; and how these issues were addressed in part by the NAIC, insurance industry, legislative changes, and related court case actions. A key challenge for the industry noted here was the issue of trust and how long the "trust factor" can take to rebuild. A focus area for the panel was that, while regulatory measures have precluded consideration of race and ethnicity in property and casualty insurance for many years, external reviews have been performed where potential evidence of discriminatory practices may exist, and more work needs to be done, such as in the areas of products, pricing, and factors taken into consideration that may contain bias.

Panel 2: Current racial bias challenges within the insurance sector

Connecticut Insurance Commissioner Andrew N. Mais moderated the panel discussion, joined by Birny Birnbaum, executive director, Center for Economic Justice; Dora Hughes, MD, MPH, associate research professor of health policy and management, Milken Institute School of Public Health, The George Washington University; and Sanja Larkin-Thorne, consumer advocate and retired insurance executive. Commissioner Mais opened the panel, noting the importance of insurance to this country and economy as being a means of wealth transfer between generations, wealth accumulation, and providing protection should something adverse happen. The panel discussion focused on current racial bias challenges within the insurance sector, looking at potentially disadvantaging practices, including big data and algorithmic models; access to high-quality and affordable health care; and financial literacy and access to health products. Regarding big data, the panel considered where data was drawn from, the level of consumer knowledge and understanding of this data, the lack of transparency as to its use or impact, the extent to which this data (when used) has been checked for accuracy or validated, and how it is used to price products. The panel acknowledged that the insurance industry is built on big data, but also that a number of industry sources of third-party data that may be used are unregulated. The discussion included consideration being given to "looking through" the use of algorithms to the underlying data providers.

In considering access to high-quality and affordable health care, Hughes noted that there are significant problems in the health insurance industry. Before the onset of COVID-19, we knew that there were 30 million Americans uninsured, and those numbers are likely higher today. We know that minorities and people of color are disproportionately more likely to be uninsured—including almost 15% of African Americans, 25% of Latinx, and 25% of American Indians and Alaskan Natives, compared with about 8% of Whites. Hughes noted that if it were possible to equalize the rates of coverage across groups, about a third of the disparities in access could be eliminated, with health insurance being the No. 1 contributing factor. The good news is that expanding health insurance coverage has a positive impact; studies show that uninsured people are far more likely to delay health care treatment. An area being considered now is coverage discrimination and the ability to obtain coverage or afford the treatment.

As the discussion moved to financial literacy and access to health care products, Larkin-Thorne noted that an educated consumer is an empowered consumer. There was encouragement for regulators to collect not just financial data, but also other market conduct forms of data, such as racial and demographic, that would allow them to identify and address potentially discriminatory practices. In addition, developing a set of best practices and standards, such as those developed by the National Committee for Quality Assurance, would help evaluate how well care is provided to diverse populations.

Panel 3: Increasing diversity and inclusion within the insurance sector

NAIC President-elect and Florida Insurance Commissioner David Altmaier introduced the final panel. Director Dean L. Cameron (ID) served as moderator, and panel members included Commissioner Ricardo Lara (CA), Commissioner Andrew N. Mais (CT), Director Robert H. Muriel (IL), Commissioner Mike Chaney (MS), Commissioner Jessica K. Altman (PA), Executive Deputy Superintendent My Chi To (NY), and Commissioner Hodgen Mainda (TN). Commissioner Lara set out a couple of areas in which California has been leading the way on racial and economic justice and making insurance more equitable for every Californian. Last year began the first investigation into auto insurance discounts and those that receive affinity group discounts. Furthermore, legislation is being sponsored to outlaw discrimination based upon a person's HIV status in the writing of life and disability income insurance. Commissioner Mais highlighted the inequality of issues such as pay between people groups as an example of why regulators need to continue to look at issues of diversity and inclusion within insurance and their impact on consumers. "We may be all created equal, but we are not all placed within equal circumstances," Mais said, adding that this needs to be considered when regulators review the availability of insurance products to all consumers. In concluding, Mais went on to note that, just as regulators had considered artificial intelligence (AI) principles and climate risk, we should be looking at the management of inclusion as a risk type.

This closed out a set of extremely informative and candid panels addressing very real issues, with more to come from the recently established special Executive Committee on Race and Insurance.

Health care update

As one would expect, the summer 2020 meeting of the Health and Insurance Managed Care (B) Committee reflected of the times. The resounding theme of the meeting was education and monitoring of the current environment and regulatory events created by the COVID-19 pandemic. Regulators were attuned to actions taken by health insurers as a result of the economic impacts of COVID-19, with a focus on racial and other socioeconomic disparities that continue to exist throughout the country, exacerbated by COVID-19. As widely reported by national media outlets, it is no secret that many of the nation's health insurers turned significant profits in Q2 2020 as a result of the effects of COVID-19. Insurers have had the benefit of substantially fewer medical claims in recent periods due to the cancellation or postponement of elective surgeries, compounded with an overall fear of the virus causing the general population to hesitate before going to doctors' offices or emergency rooms. But this impact is expected to be temporary.

However, in this environment of profits for insurers, there are still many people who do not have access to high-quality medical care. The COVID-19 pandemic has exacerbated existing health care disparities. Studies performed by the Henry J. Kaiser Family Foundation indicate that minorities account for a disproportionate share of COVID-19 cases and deaths in most states' reporting data. Obviously, there are many factors that play into this fact pattern; however, among the most significant are the cost of care and insufficient insurance coverage.

Both the Affordable Care Act (ACA) and Medicaid expansion have served to somewhat narrow those disparities by providing better access to broader insurance coverage. Despite those efforts and the efforts of many community organizations to improve social determinants of health, there remains a significant population of uninsured in states where Medicaid expansion has not occurred or where sufficient insurance coverage is not achievable due to cost constraints. Additionally, the spike in unemployment rates due to COVID-19 has compounded the issue of affordability.

Certain health insurers have acknowledged the paradox of this economic environment by offering some forms of relief directly to customers. Several large health insurers announced they would waive deductibles and copays for COVID-19 testing and treatment. In addition, some insurers have provided policyholders with premium rebates or refunds. Many health plans offered this premium assistance earlier in 2020, but given continued strong financial results, several health insurers are providing a second round of refunds. As related to the act of issuing refunds of premiums as a result of the current economic environment related to COVID-19, the Financial Condition (E) Committee discussed previous disparity in the practice of recording such premium refunds. After numerous points of view and discussions, there was consensus on INT 20-08, which specified that health insurer refunds (not required by the policy), because of decreased claims experience related to COVID-19, shall be accounted for as immediate adjustments to premium. The refunds shall be recognized as a reduction to written or earned premium and the unearned premium reserve adjusted accordingly.

The socioeconomic environment created by COVID-19 is truly uncharted territory. Insurance regulators continue to monitor the actions of insurers as the pandemic unfolds. Though the United States and the world have been widely affected by this virus, and the future remains uncertain, insurers and insurance regulators are making a demonstrated effort to focus on policyholders and effectively lower barriers to securing adequate care for the future.

Actuarial update

Life Actuarial Task Force (LATF)

The Life Actuarial (A) Task Force (LATF) adopted:

1. Changes to the Standard Nonforfeiture Law for Individual Deferred Annuities (#805);
2. Amendment proposal 2020-05, which modifies the net premium reserve (NPR) to reflect continuous deaths and immediate payment of claims;
3. AG-49-A, the Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest to Policies Sold After November 25, 2020;
4. Amendment proposal 2020-06, which establishes a process for replacing the LIBOR;
5. Amendment proposal 2020-07, which modifies VM-02, Minimum Nonforfeiture Mortality and Interest, by replacing the fixed 4% floor for the nonforfeiture interest rate used to determine the minimum funding for the cash value accumulation test in IRC 7702.

LATF heard an update from the YRT Field Test Project Oversight Group (POG)

The update was related to the possibility of companies having differing interpretations of how to model YRT reinsurance premiums under VM-20. Oliver Wyman was engaged to put together a model office and shared initial insights from the model in 2019. NAIC provided a review of the proposed solutions in amendment proposals 2019-40, 2019-41, and 2019-42, which are respectively associated with principles, best estimates, and prescribed margins. The field test submissions were used to refine the granularity in places that were identified as the most significant drivers: mortality, reserves, and the properties of reinsurance. The biggest driver of the variation in results was the relationship between current scale of rates and anticipated mortality. The range of interpretation survey was used to provide insight into how reinsurers would handle the various proposals and to investigate the total reserve impact between the ceding and assuming companies. A key observation is that differing modeling approaches between the ceding and assuming companies can result in differences between the reserve credit and the assumed reserve. The intent of the presentation is not to recommend a solution, but to provide the dimensions on which the decision can hinge.

LATF exposed revisions to Model #805 that sets the floor for the interest rate used to determine minimum nonforfeiture to 0%

On June 11, LATF adopted a revision to Model #805. On July 10, the Life Insurance and Annuities (A) Committee asked LATF to consider a minimum nonforfeiture rate between 0% and 1%. The New York Department of Financial Services favors a rate higher than 0%, considering that a company having a 0% crediting rate is not palatable. Examples of the minimum nonforfeiture values under various interest scenarios are requested. For filings under the Compact, state adoption of a revised Model #805 is not required. The Compact Uniform Standard requires only NAIC adoption. A state could opt out of the Uniform Standards, but that has never happened for annuities. The chair released an exposure of Model #805 that provided four options for the minimum nonforfeiture interest rate (0.15%, 0.25%, 0.35% and 0.5%) for a 21-day public comment period ending August 25.

LATF heard an update from the Academy ARWG on elements of the framework for fixed-annuity PBR

The objective is to propose a new statutory reserve methodology for fixed annuities that uses an actuarial framework to determine reserves based on the level and type of risk inherent in the contract. The recent revisions to VM-21 will be the starting point for development of the new fixed-annuity framework. The target effective date for the new framework is January 2023. ARWG recommends that the framework scope cover both payout and deferred annuity contracts for individual and group business. Guaranteed investment contracts, synthetic stable value contracts, and funding agreements are not be included in the scope. Exclusion tests will be developed to allow products with less risk to continue using the current requirements. Field tests being conducted by Willis Towers Watson will help determine the appropriate ratio for the exclusion test. Use of the exclusion test will be voluntary. ARWG recommends reinvestment assumptions be consistent with the current VM-22 investment quality percentage allocation, which is reflective of industry experience. Other asset assumptions should be consistent with VM-20 and VM-21, as appropriate. ARWG recommends allowing aggregation across contracts consistent with the risks inherent in the products and how the risks are managed. Consistent aggregation principles should be applied for stochastic processes and exclusion tests. ARWG believes that there is merit to applying the framework to all in-force business, regardless of issue date.

LATF adopted the report of the IUL Illustration (A) Subgroup

The report was related to index product innovations that were leading to illustrations with higher credited rates than contemplated when the original guideline was developed. LATF instructed the Subgroup to add conservatism to the constraints of illustrated credited rates instead of focusing solely on disclosures. The Subgroup also allow products with multipliers to illustrate no more favorably than products without multipliers and reduce by half the illustrated benefit of borrowing at a certain rate and illustrating at a higher rate. These decisions were reflected in the guideline that was adopted. While significantly more conservative than the existing guideline, it provides guidance aligned with Model #582. If, after observing the results and practices following adoption of AG 49-A, there remain substantial concerns about unrealistic illustrations, the Committee will need to consider changes to Model #582.

LATF heard an update on SOA research and education

The Society of Actuaries (SOA) provided a presentation identifying recent and upcoming topics related to COVID-19, crossing all areas of practice. The pandemic has had an impact on claims, assets, interest rates, operational risk, and underwriting.

LATF exposed the 2020 Life Mortality Improvement Scale Recommendation for a 21-day public comment period ending August 25

For 2020, there has been much discussion of how shocks like the COVID-19 pandemic affect the historical mortality improvement scale. The Subgroup decided to treat shocks as capital planning events, as opposed to treating them as impacts on reserves. COVID-19 issues to be considered in the future are whether its impact on the insured population will be similar to its impact on the general population and what, if any, will be its long-term impact on mortality improvement rates.

LATF heard an update from the Academy PBR Governance Work Group on PBR resources available

The Academy is surveying appointed actuaries to get information on the impact of COVID-19 on 2020 year-end asset adequacy testing, including assumptions for mortality, lapses, interest rates, and long-term care (LTC).

LATF heard an update from the Academy Council on Professionalism

The Academy has COVID-19 resources available on its website, including links to federal rules and regulations, congressional resources, Academy resources, and the NAIC Coronavirus Resource Center. One general request for guidance received by ABCD asked whether Precept 1, covering integrity and honesty, applies only to actuarial work or applies to all activities. The answer is that it applies to all activities. Precept 13 requires Academy members to report material violation of the code if they cannot correct it.

LATF exposed the following Valuation Manual amendments:

- **2019-33** for a 60-day public comment period ending October 5. The amendment proposes to bring into scope a group insurance product that has attributes of individualized products that should be subject to VM-20. The amendment was modified to more clearly define the policies it covers so that true group insurance business would not be swept in; VM-51 was modified to accommodate a certificate number and add an individual or group indicator; and a clarifying edit was made to the language format. Two additional recommendations were made: (1) a request to the Blanks (E) Working Group to separately identify the premiums for these products and (2) a "group contract number" data element to be added to VM-51.
- **2020-03** for a 21-day public comment period ending August 25, which clarifies that the NPR can be calculated using the mean or mid-terminal method or using a more direct method. The language in the proposal has been aligned with the language in the Accounting Practices and Procedures Manual (AP&P Manual) since its previous exposure.
- **2019-34** for a 45-day public comment period ending September 18, which clarifies that cash-flow testing is the responsibility of the ceding company, regardless of whether the liability has been ceded to a reinsurer. This applies to modified coinsurance (Modco) business, where the ceding company holds the reserves while the assuming company is responsible for the liability, thus imposing a challenge in holding either company responsible for cash-flow testing. Expanding the amendment to include other forms of reinsurance, such as funds withheld, is also suggested.
- **2021 generally recognized expense tables (GRET)** for a 21-day public comment period ending August 25. SOA provides a deeper overview of the methodology that attempts to minimize large jumps from one year to the next. There are no material changes in the process as compared with past years.

Long-Term Care Actuarial Working Group

The Long-Term Care Actuarial Working Group (LTCAWG) adopted revisions to the Long-Term Care Experience Reporting Forms (Forms) found in the annual financial statement and instructions for the revised Forms and the reports of the Long-Term Care Pricing (B) Subgroup and Long-Term Care Valuation (B) Subgroup. Included was discussion of pricing considerations for LTCI cash-value buyouts (CVBs) to policyholders in lieu of rate increases.

LTCAWG heard an update from the Academy on LTCI Work Group activities and an update from the SOA on LTCI research.

LTCAWG exposed a draft reduced benefit option (RBO) principles document for a 30-day public comment period ending August 3 and a draft 2020 subgroup charges for a 14-day public comment period ending July 17.

Health Actuarial Task Force
The Health Actuarial Task Force (HATF) adopted a 2021 federal Affordable Care Act (ACA) rates COVID-19 guideline. During its April 23 meeting, HATF discussed issues related to the impact of COVID-19 on the pricing and regulatory review of 2021 ACA-compliant health insurance policies. HATF heard the report of the Health Care Reform Actuarial (B) Working Group. The Federal Center for Consumer Information and Insurance Oversight (CCIIO) gave an update on ACA rate filings for the 2021 plan year. The CCIIO has observed occurrences of unintentional market withdrawals. Each issuer should have renewing plans in the system, and an issuer that does not will be classified as withdrawing from the market. The CCIIO recently issued guidance on premium holidays. HATF heard an update from the SOA on health insurance research, an update from the Academy Council on Professionalism, and an update from the Academy Health Practice Council on recent activities and publications.

Casualty Actuarial and Statistical Task Force
The Casualty Actuarial and Statistical Task Force (CASTF) adopted a recommendation to defer implementation of the CAS/SOA continuing education (CE) log for 2020 and allow appointed actuaries to add a column to their existing CE log, indicating the categorization approved by the Task Force. The CASTF also adopted a response on Project #2019-40 regarding SSAP No. 53 - Property Casualty Contracts - Premiums to the Statutory Accounting Principles (E) Working Group and a response to the ASB's request for input on a potential P/C rate filing ASOP on the *Best Practices for Regulatory Review of Predictive Analytics* white paper for a public comment period ending November 22.

CASTF adopted the report of the Actuarial Opinion (C) Working Group and the Statistical Data (C) Working Group. CASTF discussed Proposal 2019-49 (Retroactive Reinsurance Exception) where there are RBC issues and implications, as well as potential changes to SSAP No. 62R - Property and Casualty Reinsurance might need to be proposed. CASTF heard reports from professional actuarial organizations and a report on a proposed COVID-19 data call.

Big Data Working Group
The Big Data (EX) Working Group received an update from the Casualty Actuarial and Statistical (C) Task Force. The Task Force is drafting a *Regulatory Review of Predictive Models* white paper to provide best practices for the review of predictive models and analytics filed by insurers to justify rates. The priority question being addressed is whether state insurance regulators can determine whether predictive models, as used in rate filings, are compliant with state laws and regulations. The Big Data (EX) Working Group received an update from the Accelerated Underwriting (A) Working Group. The next step is to make a recommendation on a final work product. The Working Group will circulate a first draft by the end of 2020 and complete by the 2021 Summer National Meeting. The Big Data (EX) Working Group received an update on NAIC technical and nontechnical rate review trainings.

The Big Data (EX) Working Group received an update on NAIC technical services to state insurance regulators for the review of P/C rate models. State insurance regulators will be able to share information through a confidential model database and obtain NAIC technical assistance when reviewing a specific company's filed P/C rate model.

NAIC accounting update

This section of the NAIC update focuses on accounting and reporting changes discussed, adopted, and exposed by the Statutory Accounting Principles (E) Working Group (SAPWG), the Accounting Practices and Procedures (E) Task Force, and the Financial Condition (E) Committee during the 2020 spring, summer, and interim meetings. Substantive changes (changes in accounting methods) finalized during these meetings have explicit effective dates, as documented below. All nonsubstantive changes (changes that clarify existing accounting methods) finalized during these meetings are effective upon adoption unless otherwise noted.

Statutory Accounting Principles Working Group

Current developments: The SAPWG adopted the following ***substantive*** items during the 2020 spring, summer, and interim meetings:

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-04	***SSAP No. 32R—Preferred Stock*** ***Issue Paper 164—Preferred Stock***	P&C Life Health	Adopted revisions to accounting and reporting guidance for preferred stock to reflect the following key elements, as noted within the revised SSAP: • Revised definitions to be consistent with US GAAP for classifying preferred stock as redeemable or perpetual. The revisions also incorporate a new exhibit to capture various terms prevalent in preferred stock. • Revised definition of restricted preferred stock incorporating increased detail from both NASDAQ and the SEC, noting restricted preferred stock generally qualifies as an admitted unless the restrictions limit the ability of the insurer to use its investment to satisfy policyholder claims. • Revised the measurement guidance to ensure appropriate, consistent measurement based on the type of preferred stock held (redeemable or perpetual) and whether the insurer maintains an asset valuation reserve (AVR). o Redeemable preferred stock – Amortized cost or fair value based upon NAIC designation and whether the insurer maintains an AVR (no change) ▪ Eliminates "cost" as a valuation ▪ Clarifies amortization of discount or premium is reported through investment income o Perpetual preferred stock – Fair value ▪ NO LONGER based on NAIC designation ▪ Fair value cannot exceed stated call price from prospectus or any currently effective buyback rates or call prices ▪ Must continue to report NAIC designation for risk-based capital purposes o Mandatory convertible preferred stock – Fair value not to exceed any stated call price in periods prior to conversion (NEW) o Exchange-traded funds qualifying for preferred stock treatment by the NAIC SVO are treated as perpetual preferred stock • Revised and clarified impairment guidance based on type of preferred stock o Redeemable preferred stock – Same, but added clarification that an assessment is required when mandatory redemption rights or sinking fund requirements do not occur as scheduled o Perpetual preferred stock – Revised impairment guidance to be consistent with stock investments under SSAP No. 30R	Y	N	2021

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-25	***SSAP No. 105R—Working Capital Finance Investments*** ***Issue Paper No. 163—Working Capital Finance Investment Updates***	P&C Life Health	The Working Group adopted substantive revisions and the applicable Issue Paper related to the following: • Functionally Equivalent Foreign Regulators – Removed the requirement that the SVO determine if the International Finance Agent is the functional equivalent of the US Regulator; • Commingling Prohibitions – Removed the finance agent prohibitions on commingling; • Requirements for Filer to Certify First Priority Perfected Interest – Removed requirements, with revisions allowing the SVO to determine if first-priority perfected interest has been obtained; • Finance Agent Validation Requirements – The independent review requirements were broadened to allow independent review of the finance agent by either audit or through an internal control report; • Default Date – Changed the default provisions from 15 to 30 days so the default date and the cure period are consistent. This has the effect of changing the date of nonadmission for an investment in default for a period up to 30 days instead of up to 15 days; • Investor Rights Edit – Removed duplicative text regarding exercise of investor rights. **Effective date:** June 30, 2020.	Y	N	2020

Current developments: The SAPWG adopted the following ***nonsubstantive*** items as final during the 2019 interim period and fall meeting:

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-20	***SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*** ***SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities***	P&C Life Health	Adopted revisions to clarify that, regardless of maturity date, related party or affiliated investments that would ordinarily be accounted for under *SSAP No. 26—Bonds* or *SSAP No. 43R—Loan-Backed and Structured Securities* or would be reported as "Other Invested Assets" MUST be reported as long-term investments if any of the following conditions apply, unless the reporting entity has re-underwritten the investment, maintained applicable documentation, and each participating party had the ability to independently review the terms and terminate the transaction prior to renewal: • Investment is not expected to terminate on the maturity date. • Investment was previously reported as a cash equivalent (or short-term investment) and initial maturity time frame has passed. • Reacquired the investment within a one-year. Additionally, short-term investments are not permitted to be subsequently reported as a cash equivalent. However, reporting entities are allowed to report such investments as long-term investment at initial acquisition regardless of initial maturity date.	Y	Y	2020

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-42	***SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments***	P&C Life Health	Cash pooling (also known as liquidity bunding or liquidity pools) is a special form of liquidity management in which groups pool cash resources in order to make a more efficient use of idle cash. Adopted revisions specify that cash pooling structures that have obtained domiciliary regulatory approval and meet the following criteria are within the scope of SSAP No. 2R: • Members or participants in the pool are limited to affiliated entities. • Investments held by the pool are limited to nonaffiliated investments. • The pool must permit each participant to withdraw, at any time, cash up to the amount it has contributed. All affiliates' interests in the pool shall be of the same class, with equal rights, preferences, and privileges. • All membership interests shall be fully paid and nonassessable and shall have no preemptive, conversion, or exchange rights. • The liability of a participant's debts and obligations of the pool shall be limited to the amount of its contributions, and no participant shall be obligated to contribute money to the pool for any reason other than to participate in the pool's investments. • Participants shall not cover the debits or credits of another participant. • Reporting entity shall receive monthly reports from the pool manager, which identifies the participant's investment (share) in the cash pool and the dollar value of its share of cash, cash equivalents, and short-term investments. • Reporting entity shall report its total balances in the cash pool on Schedule E – Part 2, using the line number specified for other "Cash Equivalents." • The reporting entity shall independently determine if the investments would have qualified as cash, cash equivalents, or short-term investments had the entity independently acquired the investments. To the extent the pool holds investments that do not meet the definition of cash, cash equivalents, or short-term investments, the pool does not qualify within scope of this statement. • Valuation of pool assets remain consistent with requirements of SSAP No. 2R. Reporting entities that must reclassify qualifying cash liquidity pools to a cash equivalent from a different investment schedule may elect to complete these reclassifications effective January 1, 2021, with early adoption permitted.	Y	Y	2020

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2020-16EP	***SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments***	P&C Life Health	Revisions update the reporting line for qualifying cash pools (line number as specified in the Annual Statement Instructions).	N	N	2020
2019-47	***SSAP No. 3—Accounting Changes and Corrections of Errors*** ***SSAP No. 51R—Life Contracts***	P&C Life Health	Section 21 of the Valuation Manual Requirements for Principle-Based Reserves for Variable Annuities (VM-21), which provides comprehensive updates to the Commissioners Annuity Reserve Valuation Method of reserving for variable annuities, was revised earlier this year. In addition, Actuarial Guideline XLIII CARVM For Variable Annuities (AG 43) was also revised, providing overall enhancements to the variable annuity framework. These revisions require changes to SSAP No. 51. These changes to the variable annuity reserving framework update the principles and methodology **and apply retroactively.** Adopted the following revisions: • Accounting guidance related to the phase-in provisions included in VM-21, section 21; • Disclosure requirements consistent with disclosure for a change in valuation basis. **Effective date:** January 1, 2020	Y	Y	2020
2018-26	***SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*** ***SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities***	P&C Life Health	Adopted revisions expanding guidance regarding financial guarantees and the use of the equity method when losses exceed the equity value. With the adopted revisions, the equity value of an SCA would not be reported as a negative value, and guarantee liabilities would be reported to the extent that there is a financial guarantee or commitment at the greater amount of the fair value of the guarantee or the negative equity position, limited to the maximum amount of the financial guarantee or commitment. An example of the application of the guidance was inserted into SSAP No. 97 as Exhibit F.	Y	N	2020

2019-43	***SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets; SSAP No. 72—Surplus and Quasi-Reorganizations; and SSAP No. 86—Derivatives***	P&C
		Life
		Health
			This agenda item is addressing US GAAP guidance included in *ASU 2017-11, Accounting for Certain Financial Instruments with Down Round Features;* Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Noncontrolling Interests with a Scope Exception.
			
			ASU 2017-11 addresses issues with certain financial instruments having characteristics of both liabilities and equity, specifically down round features allowing for the reduction in the strike price generally associated with conversion options.
			
			Adopted revisions to:
			• Reject ASU 2017-11 in SSAP No. 86;
			• Include guidance within SSAP No. 5R related to US GAAP guidance for financial instruments with characteristics of both liabilities and equity:
			  o Issuers – Liability recognition if meeting certain criteria
			  o Holders – Determined based on the applicable investment SSAP
			• Clarification of Capital Stock in SSAP No. 72 referring to SSAP No. 5R for liability recognition requirements. No equity recognition.
				Y	N	2020

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-33	***SSAP No. 25—Affiliates and Other Related Parties***	P&C Life Health	Adopted revisions to data-capture existing disclosures for details of affiliated and related party transactions, which were previously completed in a narrative format.	N	Y	2020
2020-14	***SSAP No. 26R—Bonds***	P&C Life Health	Revisions clarify that assessment of other than temporary impairment requires the use of modified contract terms.	N	N	2020
2020-01	***SSAP No. 26R—Bonds*** ***SSAP No. 30R—Unaffiliated Common Stock***	P&C Life Health	Revisions eliminate references to the NAIC Bond Fund List in SSAP No. 26R and add reference to the "NAIC Fixed Income-Like SEC Registered Funds List" in SSAP No. 30R.	N	N	2020
2020-02	***SSAP No. 26R—Bonds***	P&C Life Health	A bond tender offer occurs when the bond issuer repurchases some, or all, of a particular bond issuance prior to its scheduled maturity date, where the holder must elect to accept the offer or reject it. Revisions clarify that the accounting and reporting of investment income and capital gain or loss, due to early liquidation either through a called bond or a tender offer, shall be similarly applied. **Effective date:** January 1, 2021, with early adoption permitted.	Y	N	2021
2019-37	***SSAP No. 41R—Surplus Notes***	P&C Life Health	This agenda item relates to agenda item 2018-07, which is considering the impact on scope when an "associate asset" is received by the surplus note issuer rather than cash. While 2018-07 continues to be reviewed and deliberated, this agenda item (2019-37) adopts enhanced disclosures to identify issuances that are structured in a manner in which typical cash flows have been reduced or eliminated.	N	Y	2020
2020-08 2020-09	***SSAP No. 47—Uninsured Plans***	P&C Life Health	Adopted revisions rejecting the following US GAAP accounting standards updates (ASU) as not applicable to statutory accounting principles: • *ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* • *ASU 2018-18, Collaborative Arrangements (Topic 808), Clarifying the Interaction between Topic 808 and Topic 606*	N	N	NA
2019-35	***SSAP No. 51R—Life Contracts; SSAP No. 56—Separate Accounts*** ***SSAP No. 61R—Life, Deposit Type and Accident and Health Reinsurance***	Life	Adopted revisions to the recently adopted liquidity disclosures regarding withdrawal characteristics for life and deposit-type contracts to match reporting clarifications.	N	Y	2020
2019-08	***SSAP No. 51R—Life Contracts*** ***SSAP No. 52—Deposit-Type Contracts***	Life	Adopted revisions add a footnote to aggregate deposit-type contracts, which are captured in annual statement Exhibit 5 – Life Contracts. This item did not result in statutory revisions, but instead in a blanks proposal.	N	N	2020
2020-04	***SSAP No. 51R—Life Contracts*** ***SSAP No. 52—Deposit-Type Contracts*** ***SSAP No. 54R—Individual and Group Accident and Health Contracts***	Life Health	Revisions clarify that voluntary decisions to change between allowable reserving methods, which require commissioner approval under the Valuation Manual, is considered a "change in valuation basis" for accounting and reporting purposes.	Y	N	2020

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-40	***SSAP No. 53—Property and Casualty Contracts–Premiums***	P&C	Adopted revisions clarify that the installment fee guidance should be narrowly applied and not analogized, allowing other fees to be excluded from premium.	Y	N	2020
2018-38	***SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses***	P&C Life Health	Adopted revisions clarifying the following: • Loss and loss adjustment expense and related liabilities are established regardless of payments to third parties (except for capitated health claim payments). The liabilities are not recognized as paid until the losses are paid to claimants or claims are adjusted. Prepayments to third-party administrators, which are not related to claims or loss adjusting expense, are considered "miscellaneous underwriting expenses." The adopted revisions also add cross-references to SSAP No. 84 regarding prepayments to providers.	Y	N	2020
2019-48	***SSAP No. 62R—Property and Casualty Reinsurance***	P&C	In June 2019, the NAIC adopted updates to the credit for reinsurance model law and model regulation to incorporate relevant provisions from the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" and the "Bilateral Agreement Between the United States of America and the United Kingdom Regarding Insurance and Reinsurance" (collectively referred to as the Covered Agreement). These agreements introduce an additional type of reinsurer in SAP – reinsurer from a reciprocal jurisdiction. Adopted disclosure revisions to include this additional type of reinsurer in the required disclosure to provide information on unsecured aggregate recoverable for losses, paid and unpaid (including IBNR, loss adjustment expenses, and unearned premium), that exceed 3% of the entity's policyholder surplus and list each individual reinsurer and the unsecured aggregate recoverable pertaining to that reinsurer.	Y	Y	2020
2020-03	***SSAP No. 68—Business Combinations and Goodwill***	P&C Life Health	Revisions add disclosure as follows: • Original amount of goodwill at acquisition • Each SCA investment book value • Total admitted goodwill • The subcomponents and calculation of adjusted surplus and total admitted goodwill as a percentage of adjusted surplus • NOTE: Disclosures will be in the form of data-captured tables and updates to Schedule D, part 6. **Effective date:** Year-end 2021, which corresponds with blanks changes.	N	Y	2021

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-38	***SSAP No. 86—Derivatives***	P&C Life Health	A financing derivative transaction is one in which the premium to acquire the derivative is paid throughout the derivative term or at maturity of the derivative. Revisions require derivatives to be reported "gross" (i.e., without the inclusion of financing components). • Financed derivatives shall be reported in accordance with the following provisions: o At acquisition and subsequently, the gross reported fair value of the derivative shall exclude the impact of financing premiums. Only market changes in the actual fair value of the derivative shall be reflected as unrealized gains or losses. o At acquisition and subsequently, premiums payable (acquired derivative) and premiums receivable (written derivatives) shall be separately reported as "payable for securities" and "receivables for securities." This change may affect risk-based capital and interest maintenance reserve resulting from changes to recognized assets (receivables for securities) and changes to unrealized and realized gain/loss. **Effective date:** January 1, 2021.	Y	Y	2021
2019-32	***SSAP No. 97—Subsidiary, Controlled and Affiliated Entities***	P&C Life Health	Adopted revisions to clarify that a look-through of a more-than-one holding company structure is permitted if each of the holding companies within the structure complies with the requirements in SSAP No. 97.	N	N	2020
2019-45	***SSAP No. 101—Income Taxes***	P&C Life Health	Adopted revisions to reject *ASU 2013-11, Income Taxes – Presentation of an Unrecognized Tax Benefit,* as statutory accounting requires immediate recognition of unrecognized tax benefits through current income tax expense.	N	N	2020
2020-05	***SSAP No. 106—Affordable Care Act Section 9010 Assessment***	Health	Revisions supersede SSAP No. 106 and nullify Interpretation (INT) 18-02: ACA Section 9010 Assessment Moratoriums. With this adoption, a blanks proposal will be sponsored to incorporate reporting changes for 2021 reporting and recommend guidance for 2020 year-end reporting.	N	Y	2020
2020-12	***INT 20-01: ASU 2020-04 - Reference Rate Reform*** ***SSAP No. 15—Debt and Holding Company Obligations*** ***SSAP No. 22R—Leases*** ***SSAP No. 86—Derivatives***	P&C Life Health	This interpretation has been issued to provide statutory accounting and reporting guidance for the adoption with modification of *ASU 2020-04 – Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. Reference rate reform typically refers to the transition away from referencing the London Interbank Offered Rate (LIBOR) and other interbank offered rates (IBORs) and moving toward alternative reference rates that are more observable or transaction based. This interpretation provides optional expedient guidance, allowing for the continuation of certain financial contracts that are modified in response to reference rate reform. Additionally, this interpretation provides waivers from derecognizing hedging transactions and exceptions for assessing hedge effectiveness as a result of transitioning away from certain interbank offering rates. **Effective date:** April 15, 2020, and corresponds to the ASU effectiveness period (March 12, 2020–December 31, 2022).	Y	N	2020

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
	INT 20-02: Extension of Ninety-Day Rule for the Impact of COVID-19 ***SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*** ***SSAP No. 47—Uninsured Plans*** ***SSAP No. 51—Life Contracts*** ***SSAP No. 65—Property and Casualty Contracts***	P&C Life Health	Due to Coronavirus Disease (COVID-19), several states and cities have issued "stay home" orders and forced all nonessential businesses to temporarily close. This interpretation provides a one-time optional extension of the 90-day rule before nonadmitting uncollected premium balances, bills receivable for premiums, and amounts due from agents and policyholders, as well as for amounts due from policyholders for high-deductible policies and amounts due from nongovernment uninsured plans. Applies to existing policies that were current as of March 13, 2020, and new policies written on or after March 13, 2020. **Extension only applied to first and second quarter of 2020 and expired September 29, 2020.** ***NOTE: In August, this interpretation was updated to include the third quarter and will expire December 30, 2020.***	Y	N	2020
	INT 20-03: Troubled Debt Restructuring Due to COVID-19 ***SSAP No. 36—Troubled Debt Restructuring***	P&C Life Health	This interpretation clarifies that a modification of terms for a mortgage loan or bank loan in response to COVID-19 must follow the provisions detailed in the April 7, 2020, "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" and the provisions of the CARES Act in determining whether the modification is to be reported as a troubled debt restructuring. This interpretation does not apply to loans that were greater than 30 days past due as of December 31, 2019. As determined in the CARES Act, this interpretation will only be applicable for the period beginning on March 1, 2020, and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the novel coronavirus disease (COVID-19) outbreak declared by the president on March 13, 2020, under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates.	Y	N	2020
	INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19 ***SSAP No. 26—Bonds*** ***SSAP No. 30R—Unaffiliated Common Stock*** ***SSAP No. 37—Mortgage Loans*** ***SSAP No. 43R—Loan-Backed and Structured Securities*** ***SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies***	P&C Life Health	This interpretation provides limited-time exceptions to defer assessments of impairment for bank loans, mortgage loans, and investments (which predominantly hold underlying mortgage loans) that are affected by forbearance or modifications in response to COVID-19. Does not apply to loans greater than 30 days past due as of December 31, 2019. These exceptions are applicable for the March 31 and June 30, 2020 financial statements and only in response to mortgage loan forbearance or modifications granted in response to COVID-19. As such, the exceptions provided in this interpretation were not applicable in the September 30, 2020 (third quarter) financial statements. ***NOTE: In August, this interpretation was updated to include the third quarter and will expire December 30, 2020.***	Y	N	2020

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
	INT 20-05: Investment Income Due and Accrued ***SSAP No. 34—Investment Income Due and Accrued***	P&C Life Health	This interpretation provides an exception for the nonadmittance of recorded investment income due and accrued that exceeds 90 days past due. This exception does not encompass accrued interest on mortgage loans that are in default. Mortgage loans in default shall continue to follow the SSAP No. 34 guidance. *SSAP No. 37—Mortgage Loans* identifies that determining that a loan is in default is per the contractual terms of the loan. For mortgage loans modified, determination of default shall be based on the modified contractual terms. The Working Group considered the FASB technical guidance and reached a consensus consistent with the FASB staff on how interest should be recognized when a payment holiday is given, and interest is not accrued. With this guidance, either of the following methods could be applied: • A new effective interest rate is determined that equates the revised remaining cash flows to the carrying amount of the original debt and is applied prospectively for the remaining term. With this approach, interest income is recognized during the payment period holiday. • The reporting entity should recognize interest income on the loan in accordance with the contractual terms. Under this view, the reporting entity would recognize no interest income during the payment holiday and would resume recognizing interest income when the payment holiday ends. Reported investment income interest due and accrued that exceeds 90 days past due in the first or second quarter were allowed to be admitted in the June 30, 2020 financial statements. As the exceptions provided in this interpretation are not applicable in the September 30, 2020 (third quarter) financial statements, as this interpretation automatically expired as of September 29, 2020. ***NOTE: In August, this interpretation was updated to include the third quarter and will expire December 30, 2020.***	Y	N	2020

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
	INT 20-06: Participation in the 2020 TALF Program	P&C Life Health	The Federal Reserve reestablished the Term Asset-Backed Securities Loan Facility (TALF) on March 23, 2020, to support the flow of credit to consumers and businesses. The TALF program will enable the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and certain other assets. *For Reporting Entity Borrowers - Insurance Reporting Entity Received the Loan* • Cash received – Corresponding liability for borrowed money under *SSAP No. 15—Debt and Holding Company Obligations,* including related disclosures. • Cash received reinvested – Accounting, disclosure, and reporting requirements under applicable invested assets SSAP. • Asset-backed securities pledged to the TALF program are reported as restricted assets with the appropriate code in the investment schedules and disclosed in accordance with *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* and in General Interrogatory, Part 1: 25.30 – Pledged as Collateral. Assets pledged to the TALF program are subject to the underlying asset risk-based capital charge but are excluded from an additional "restricted asset" risk-based capital charge. • This interpretation provides an exception to allow admission for pledged securities, even though the TALF program does not permit the pledged assets to be generally substitutable if qualifying for admission prior to pledging and not in an uncured contract default. • No net presentation of liability for borrowed money with pledged asset-backed securities. Not analogized as a repurchase transaction. *For reporting entity investors - Insurance reporting entity does not receive the loan but is an "Investor" to an entity that was the direct TALF borrower* • Borrower is typically a limited liability company (LLC), private equity (joint venture or JV), or affiliate. As such, *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or *SSAP No. 97—Subsidiary, Controlled and Affiliated Entities* is applied to these investments as applicable for initial recognition, valuation, and reporting. • If reporting entity investments are pledged on behalf of the investor borrow, such pledged investments are nonadmitted consistent with *SSAP No. 4—Assets and Nonadmitted Assets,* footnote 2.	Y	N	2020

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
	INT 20-07: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19 ***SSAP No. 36—Troubled Debt Restructuring*** ***SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities***	P&C Life Health	This interpretation provides practical expedients in assessing whether modifications in response to COVID-19 are insignificant under *SSAP No. 36—Troubled Debt Restructuring* and in assessing whether an exchange is substantive under *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* requiring extinguishment and new debt recognition. • Does not apply to insignificant modifications (a concession) that reflects a 10% or lesser shortfall amount in the contractual amount due or payment terms extensions of less than three years. • Does not apply to assessment or recognition of impairment for debt instruments that have been modified as assessment of other than temporary impairment is based on current contract terms of the debt instrument. • Does not apply if restructurings only affect debt covenants. As determined in the CARES Act, this interpretation will only be applicable for the period beginning on March 1, 2020, and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the novel coronavirus disease (COVID-19) outbreak declared by the president on March 13, 2020, under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates.	Y	N	2020

	INT 20-08: COVID-19 Premium Refunds, Limited-Time Exception, Rate Reductions and Policyholder Dividends	P&C
		Life
		Health
			The Financial Condition (E) Committee (parent committee of the Statutory Accounting Principles Working Group) returned the previously adopted Interpretation to the Accounting Practices and Procedures Task Force with the direction to consider revising the Interpretation to allow flexible reporting (premium adjustment and expense recognition).
			
			Adopted revisions are as follows:
			
			• Premium adjustment is the default method of accounting and reporting
			
			• Limited-scope exception to allow underwriting expense reporting, if meeting the following criteria:
			  o Property and casualty insurance policy
			  o A manual rate filing or policy endorsement was filed or issued prior to June 15
			
			• Disclosures of all COVID-19–related payments required to be provided as an unusual or infrequent item by category under guidance in *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items.*
			
			• Application of the limited exception proposed to require similar disclosures to a permitted practice
			
			• Defers to each jurisdiction's premium tax requirements for purposes of determining taxable amounts
				Y	Y	2020

	INT 20-09: Basis Swaps as a Result of the LIBOR Transition	P&C Life Health	Basis swaps are compulsory derivatives issued by central clearing parties (CCPs) in response to the marketwide transition away from LIBOR to the Secured Overnight Financing Rate (SOFR). The interpretation directs that the basis swaps be reported as "hedging – other" and at fair value, thus qualifying for admittance. To be considered or reported as an "effective" hedging, the instrument must qualify as a highly effective hedge under SSAP No. 86.	Y	N	2020

Ref#	Title	Sec.	Amendments adopted	F/S impact	Disclosure	Effect. date
2019-46	***Appendix D—Nonapplicable GAAP Pronouncements***	P&C Life Health	Adopted revisions to reject *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities* as not applicable for statutory accounting.	N	N	2020
2020-10 2020-11	***Appendix D—Nonapplicable GAAP Pronouncements***	P&C Life Health	The following ASUs were rejected as not applicable to statutory accounting principles: • *ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topics 605, and Topic 606* (2020-10) • *ASU 2020-02—Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topics 842)* (2020-11)	N	N	2020

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

Ref#	Title	Sec.	Amendments exposed	F/S impact	Disclosure	Effect. date
2020-20	***SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments***	P&C Life Health	***Nonsubstantive*** – Proposed revisions would require identification and disclosure of cash equivalents, or substantially similar investments, that remain on the same reporting schedule for more than one consecutive reporting period. This is consistent with newly adopted disclosure requirements for rolling short-term investments. The disclosure is satisfied using a special code on the investment schedules.	N	Y	TBD
2020-23	***SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*** ***SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities***	P&C Life Health	***Nonsubstantive*** – Revisions update the amortization guidance for leasehold improvements. The exposed revisions allow leasehold improvements to have lives that match the associated lease term, which agrees with US GAAP.	Y	N	TBD

Ref#	Title	Sec.	Amendments exposed	F/S impact	Disclosure	Effect. date
2019-34	***SSAP No. 25—Affiliates and Other Related Parties***	P&C Life Health	***Nonsubstantive*** – The proposed revisions significantly broaden the scope and definition of a related party: • Adds directors and officers engaged directly or indirectly in insurer activities • Adds immediate family members of principal owners, directors, and officers • Adds companies under common control • Adds non-controlling ownership that exceeds 10%, regardless of "disclaimer of control" as allowed by state regulations • Adds an example of a situation illustrating where the presumption of control may be in doubt, as follows: o "Agreements where non-controlling ownership interest is less than 10% where the parties have structured the arrangement in this structure to avoid the 10% threshold" • Proposes the following new disclosures: o Ownership interest of the reporting entity and other significant relationships (greater than 10% ownership of the reporting entity) o Each owner's ultimate controlling party and a listing of other US insurance groups or entities under that ultimate controlling party's control.	N	Y	TBD
2020-22	***SSAP No. 26R—Bonds***	P&C Life Health	***Nonsubstantive*** – Proposed revisions clarify that perpetual bonds are reported at fair value, not to exceed any currently effective call price. Proposed effective date of January 1, 2021, with early application permitted.	Y	N	2021
2020-19	***SSAP No. 37—Mortgage Loans***	P&C Life Health	***Nonsubstantive*** – Proposed revision intends to clarify that foreclosure rights referred to within the guidance are intended to be consistent with all colenders of the participation agreement. Current guidance does NOT require individual foreclosure rights be granted to qualify as a mortgage loan investment by participation.	N	N	TBD
2020-21 2020-24	***SSAP No. 43R—Loan-backed and Structured Securities***	P&C Life Health	***Nonsubstantive*** – The Valuation of Securities (E) Task Force originally proposed to eliminate the multistep modeling practice for residential and commercial mortgage-backed securities. However, the task force ultimately adopted revised guidance to the Purposes and Procedures Manual to continue financial modeling, but in lieu of implementing addition price breakpoints, the output of the model is mapped to a specific NAIC designation category. (2020-21) ***Nonsubstantive*** – Current accounting guidance for credit-tenant loans (CTL) is unclear. Proposed exposure includes two options: (2020-24) *(Significant difference in risk-based capital requirements)* • Continue practice: o SVO-approved CTLs (have bond characteristics) under SSAP No. 43R and reported on Schedule D. Nonqualifying CTLs under SSAP No. 37 and reported on Schedule B or Other Invested Asset on Schedule BA. • Alternative option: o All CTLs under *SSAP No. 21—Other Invested Assets* and reported on Schedule BA	Y	TBD	TBD

Ref#	Title	Sec.	Amendments exposed	F/S impact	Disclosure	Effect. date
2020-30	***SSAP No. 53—Property and Casualty Contracts–Premiums*** ***SSAP No. 54R—Individual and Group Accident and Health Contracts*** ***SSAP No. 66—Retrospectively Rated Contracts***	P&C Life Health	***Nonsubstantive*** – Exposed item requesting comments on the development of authoritative guidance for policyholder refunds and other premium adjustments for accident and health and property and casualty lines of business.	TBD	TBD	TBD

2019-24	***SSAP No. 71—Policy Acquisition Costs and Commissions***	P&C
		Life
			Nonsubstantive – Exposed proposed revisions to clarify levelized commissions guidance and provide additional direction regarding commissions that are based on policy persistency.
			
			• The persistency commission is accrued proportionately over the policy period in which the commission relates, based on experience to date, and is NOT deferred until "fully earned."
			• A levelized commission arrangement (whether linked to traditional or nontraditional elements) requires the establishment of a liability for the full amount of the unpaid principal and accrued interest payable to a third party at the time the policy is issued.
			• **Effective date and transition:**
			    ○ *If the insurer has not complied with the original regulator intent (clarified guidance), the change is to be reported as a correction of an error in accordance with SSAP No. 3.*
			
			UPDATE: The Working Group held an interim conference call and took the following actions:
			
			• *Updated exposed revisions clarify existing levelized commissions guidance, which requires full recognition of funding agreement liabilities incurred for commission expenses obligated when an insurance policy is written;*
			• *Updated the description of funding agreements;*
			• *Deleted the previously exposed revisions related to persistency commissions;*
			• *Updated the proposed effective date and transition:*
			    ○ *No longer requires treatment as a correction of an error. Now references SSAP No. 3, allowing for change in accounting principle.*
			    ○ *Proposed effective date of January 1, 2021.*
				Y	Y	TBD

2020-17 2020-18	***SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities***	P&C Life Health	***Nonsubstantive*** – Proposed revisions update the subsidiary, controlled, and affiliated entities (SCA) review process descriptive language and the procedures for availability and delivery of completed SCA reviews for domestic regulators and financial statement filers. (2020-17) ***Nonsubstantive*** – Proposed revisions remove the statement that guarantees or commitments from the insurance reporting entity to the SCA can result in a negative equity valuation of the SCA. (2020-18)	N	N	TBD

Ref#	Title	Sec.	Amendments exposed	F/S impact	Disclosure	Effect. date
2020-26 2020-27 2020-28 2020-29	***Appendix D—Nonapplicable GAAP Pronouncements***	P&C Life Health	***Nonsubstantive*** – The following US GAAP ASUs were exposed, proposing rejection as not applicable to statutory accounting principles: *ASU 2015-10, Technical Corrections and Improvements* (2020-26) *ASU 2019-09, Financial Services–Insurance (Topic 944): Effective Date* (2020-27) *ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815* (2020-28) *ASU 2020-05—Effective Dates for Certain Entities* (2020-29)	N	N	NA

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
2019-20	***SSAP No. 43R—Loan-Backed and Structured Securities***	P&C Life Health	***Nonsubstantive*** – In this agenda item, the NAIC is taking an explicit position that the original intent of the scope of SSAP No. 43R was to include structured securities composed of bond-like investments. As a result, the NAIC has exposed proposed revisions to exclude the following from the scope of SSAP No. 43R: • Equity instruments, investments (or securitizations) with underlying assets that include equity instruments, or structures representing an equity interest (e.g., joint ventures, LLCs, and partnerships). The example investment provided in the exposure is a collateralized fund obligation. o Under exposed guidance, should be reported as an equity interest on Schedule BA—Other Long-Term Invested Assets • Securitization of assets that were previously reported as stand-alone assets by the reporting entity. o Not permitted to repackage existing assets as “securitizations” to move the reporting of the existing assets within scope of SSAP No. 43R. Continue to be reported as the original investment as if securitization or repackaging had not occurred. o The Working Group received an update on the project noting that substantive revisions were exposed with a July 31, 2020, comment letter deadline. A conference call to discuss comments will be scheduled during the interim period. *UPDATE: The Iowa Insurance Division submitted a proposal to (1) identify principles to govern investments reported as “long-term bonds” in the annual statements; (2) determine clarifications to determine whether long-term bonds are capture within the scope of* SSAP No. 26R—Bonds or SSAP No. 43R—Loan-Backed and Structured Securities. *Exposure is not suggesting edits to SSAP No. 26R. This Iowa proposal was exposed for a comment period ending December 4, 2020.*	TBD	TBD	TBD

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