NAIC Update Winter 2014

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NAIC closes year with quiet advances

WASHINGTON, DC – The Fall 2014 National Meeting of the National Association of Insurance Commissioners (NAIC) was the last presided over by North Dakota Commissioner Adam Hamm. The first meeting since the November elections, it also marked the last to be attended by more than 10% of the sitting commissioners.

New commissioners joining the NAIC at its next meeting may enter a world very different from that first seen by many of those leaving. The unchallenged supremacy of state insurance regulation has given way to unprecedented influence on US regulation by both federal and multinational actors. But as regulation has evolved, the NAIC has sought to adapt, and advances at this meeting represented examples of successful adaptation.

Corporate governance enhancements were adopted. Changes to the regulation of life insurer-owned captives and the process for designating group supervisors moved along merrily. Perhaps the single biggest example of the NAIC's movement in response to international pressure was its unveiling of two proposed group capital frameworks after years of opposition to the European- and banking-influenced idea.

One of the few new items was a recognition of the importance of cyber security. The NAIC established a new executive task force on cyber security, a topic already high on the agenda of most financial services regulators, and an area for which New York regulator Benjamin Lawsky has prescribed a laser focus.

Still, this meeting was generally calm – after some of the fireworks of the preceding few meetings, a time mainly for consolidation as opposed to major advancement. For the NAIC, this could well have been a time for a victory lap, as major elements of its Solvency Modernization Initiative (SMI) are now firmly in place.

But there is little time for celebration. The 2008 financial downturn that triggered the NAIC's movement towards SMI also unleashed a wave of national and international regulatory interest in the state-regulated insurance industry. Whether that will end in the continued supremacy of state insurance regulation as the NAIC might wish, or in the hybrid system Federal Insurance Office (FIO) Director Mike McRaith has said already exists, or in something yet to be imagined, is yet to be decided, but in the meantime, as it did in Washington, the NAIC steadily advances its new regulatory agenda.

Lead supervisor selection, powers, subject of debate

Who will be the lead group supervisor and what powers they will possess has stirred much discussion at the meeting of the Group Solvency Issues (E) Working Group.

The working group discussed the draft *Revised Insurance Holding Company System Regulatory Act,* seeking to incorporate language to give the lead state the authority to act as the group-wide supervisor. Each trade association was requested to highlight the number of members impacted by the model.

Working group chair Danny Saentz of Texas told attendees that there needed to be a lot of discussion at the meeting, because the group wanted to get the revisions done by the end of the year. Issues of concern included whether a commissioner should be able to decide that a holding company system would likely qualify as an internationally active insurance group (IAIG) in the near future and be subject to the regulations governing such a group.

"We're not going to go crazy trying to take control of holding companies…but we do need some language in this law that gives us a certain level of control," Saentz said.

A representative of America's Health Insurance Plans (AHIP) expressed concerns about the vagueness of the "likely qualify" criterion that could be used to designate a potential IAIG as an IAIG.

The draft still includes language to narrow the scope of authority to IAIGs as defined by criteria substantially similar to the IAIS ComFrame Module 1, but allows for an opt-in solution for non-IAIGs.

During the meeting, interested parties expressed mixed views on how to address the lead state concept within the model. While some trade associations expressed support for making the lead state supervisor the groupwide supervisor, others including the American Insurance Association (AIA), the American Council of Life Insurers (ACLI), and the RAA, disagreed. While saying they were not calling for regulators to move away from the current lead state determination, they said regulators should look at and rank other important factors – tiering – in determining who should become the groupwide supervisor. In response, regulators expressed concerns with any language that created winners and losers.

A NAMIC representative expressed concern that if through "tiering…some criteria have more value than others," it would begin to essentially create new criteria and uncertainty. This could raise confusion and lead to inappropriate decisions, the representative said, while agreeing that there should be a single lead state/groupwide supervisor.

One insurer noted that while the lead state model had worked, the statute might be better if it were more precise. If the location of the executive office were to be used as a criterion, this insurers said, though it is now regulated by state A, it could find its groupwide supervisor being either state B or state C with just a 35-mile move in either direction.

Saentz noted that regulators needed flexibility to have a state step-up and perform as a groupwide supervisor if the primary state could not.

The working group temporarily removed the controversial language from the model involving supervisory discretion related to the scope of groups subject to IAIG criteria and referred the topic to the ComFrame Development and Analysis (G) Working Group.

Task Force gives thumbs-up to AG 48

The Principle-Based Reserving Implementation (EX) Task Force discussed and adopted Actuarial Guideline 48 (AG 48), *Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation.*

According to the NAIC, "The purpose and intent of this Actuarial Guideline are to establish uniform, national standards governing XXX or AXXX reserve financing arrangements and, in connection with such arrangements, to ensure that Primary Security, in an amount at least equal to the Required Level of Primary Security, is held by or on behalf of the ceding insurer."

As it had throughout work on this proposal proposal – aimed at life insurer-affiliated captives – New York New York vigorously disagreed and voted no. Rhode Island Commissioner Joseph Torti said he agreed with some of the concerns raised by New York, but the problem had been created by the NAIC and its slowness in reacting to XXX/AXXX reserving issues.

Asked by a regulator if the adoption of Valuation Manual 20 (the associated Valuation Manual) would eliminate captive use, the NAIC's consultant Neil Rector, who created the framework, said that there still would be incentive prior to the adoption of PBR to continue using such captives.

The task force discussed a proposed PBR Small Company Exemption. Members agreed to eliminate zero premium companies from the results of the proposal and to evaluate the characteristics of companies meeting the proposed criteria in closed session. Most of the members acknowledged there were political reasons to include the exemption. The task force also agreed to expose the proposal until January 15, 2015.

The task force exposed until January 15, 2015 sections of the Standard Valuation Law (#820) proposed as substantially similar language needed to determine the Valuation Manual's operative date.

The task force also received written status reports on XXX/AXXX Reinsurance Framework charges sent to other NAIC committee groups and a report on the company experience reporting framework. In addition, the Task Force received written status reports on PBR implementation activities from the Life Actuarial (A) Task Force and PBR Review (EX) Working Group.

Two group capital frameworks unveiled

The increased power of international standard-setting organizations was evident as the ComFrame Development and Analysis (G) Working Group unveiled a draft NAIC group capital conceptual framework at its November meeting.

US regulators and industry had long been opposed to proposed capital standards, however, in light of the seemingly unstoppable international movement toward such standards, the NAIC and many in industry had begun to move to propose a capital standard that would accurately reflect the US operating environment.

The working group was presented with and discussed advantages and disadvantages of two group capital methodology concepts. One was labeled RBC Plus, and the other the Cash Flow methodology. Some interested parties and regulators proposed merging the methodologies. For example, the Cash Flow approach could be added as a supplement to an RBC Plus approach in order to strengthen the group capital assessment. Regulators agreed that a hybrid approach was a possibility.

Speaking first on the RBC Plus methodology, Ramon Calderon of the NAIC told the group that this was a design option, not a full framework. It would be similar to how the legal entity framework operates, would use US GAAP as a basis (statutory accounting would be adjusted), and would be consolidated not aggregated. Additional risk categories would be included, including operational risk and catastrophe risk.

Calderon said this would be largely a factor-based approach, but could change to a non-factor-based approach on the liability side, for example by using models. One drawback may be the concern that modeling in a cash flow approach would allow for quicker responses to newly developed risk factors.

One positive is that the use of US GAAP and the leveraging of existing RBC elements could help constrain cost for US industry and state insurance regulators. One negative could be that since it does not use an internationally consistent balance sheet as a starting point, it may make it more difficult to meet the objective of the IAIS' ICS principle on comparability.

The Cash Flow concept would be accounting independent, and would avoid putting assets at either market or book value. It would eliminate or at least minimize the use of discount rates that may be viewed differently in different jurisdictions. Cash flow in and out would be projected forward on an annual basis, and all cash flows attaching to all risks would be taken into consideration for both assets and liabilities, then stressed to the calibrated level. It would encompass all the downstream material entities within an insurance group.

One positive is that life insurance companies are already familiar with this methodology, and it encompasses asset liability matching. It would leverage the model now used for PBR, though some might consider the significant use of internal modeling a concern. In addition, the working group was told that international reaction to this approach had been less than positive.

The speaker from one insurance company called this approach a departure from what property-casualty insurers now do, and would have significant costs associated with it. Another speaker from an insurance company said that some stresses, for example, a Miami hurricane, cannot be applied equally to all insurers. While this approach could theoretically be applied to nonlife companies, there may be difficulty in standardizing and in comparability across the industry.

The representative of one life insurance company noted that she was very pleased that RBC Plus was being considered. She noted her company was committed to GAAP with adjustments, and would like to be as true to GAAP as possible. The factor-based approach worked well as a floor, she noted, but the factor-based approach cannot incorporate asset liability matching as well as hedging strategies and diversification.

The representative of another insurer noted they would support the Cash Flow approach as supplemental information to RBC Plus.

Seeking comments from regulators and the industry, working group chair Florida's Kevin McCarty noted, "I think it's going to be a heavy lift with the international community with a cash flow approach." Calderon said concerns included significant assumptions with regard to its use, for example, how to translate real estate to cash. He also said there were questions about ICP 14 on valuation and how that would be incorporated.

The representative of one insurer suggested separate approaches be taken for life and nonlife insurers. Steve Broadie of Property Casualty Insurers Association of America (PCI) asked the regulators what would happen if the capital standards were breached. Broadie said he would support the standards as a discussion trigger, but not as an action trigger.

Michelle Rogers of NAMIC told the working group that she was pleased with the direction of the draft. She asked about the 99.5 confidence level vs. the current RBC standard and said there was a need to understand the difference – how does it map to various RBC action levels. Tracey Laws of the RAA said there was a need for clarity on if standards would apply beyond IAIGs.

The working group also discussed progress on ComFrame, including an update on the field testing process where the IAIS had agreed to continue to use a GAAP plus adjustment approach along with the market consistent approach. However, the IAIS Secretariat noted concerns with meeting future deadlines with an additional valuation approach given limited resources.

The working group also received an update on the IAIS capital developments, including the Financial Stability Board's (FSB) recent adoption of the basic capital requirements (BCR) that was drafted by the IAIS for implementation by G-SIIs.

Figure 1. Comparison of potential group capital methodology concepts

	RBC Plus	Cash Flow
Summary	The RBC Plus methodology would retain the current valuation basis under U.S. GAAP, would use a consolidated rather than aggregated approach and would retain current segmentation. Thus it would incur less additional ongoing effort and costs than other possible methodologies.	The Cash Flow methodology would use internal models (similar to those to be used in PBR) but parameters for such models would be approved by the regulators and include all the risks as shown in the ORSA documentation. In this methodology diversification would be a function of the stresses of the cash flows. While the cash flows would be the central actuarial estimate, the effect of the stresses may vary depending on the inherent allowance for diversification.
Advantages	• RBC Plus type methodology would be familiar to U.S. state insurance regulators being based on an existing framework for legal entities which has proven to be effective; • Largely factor-based methodology should lend itself to verifiable and auditable information; • Use of U.S. GAAP financial statements provides for an audited consolidated balance sheet; • Use of GAAP and leveraging off existing RBC elements should help constrain costs for the U.S. industry and state insurance regulators; • Segmentation of asset and liability risk categories could build on existing RBC segmentation; and • Relationship of group RBC results to legal entity RBC requirements is likely to be more intuitive.	• Accounting independent over the lifetime of the cash flows; • Avoids concerns associated with the proposed market-adjusted balance sheet, particularly related to long-term life insurance liabilities; • Segmentation independent, which helps in aggregating various international operations; • Retains the existing valuation basis; • Life companies are familiar with the methodology as there is an existing structure in place; • Applies group-wide to all geographical locations and jurisdictions; and • Inherently encompasses ALM.
Drawbacks	• Upfront resource and time needed to calibrate new factors; • Not all data elements are readily available; it may be challenging to integrate overseas operations into the methodology; • Would require significant work to arrive at an appropriate diversification/co-variance approach; and • Does not use an internationally consistent balance sheet as its starting point which may make it more difficult to meet the objective of the IAIS' ICS principle on comparability.	• Would be significant use of internal models; this is a major shift from existing practices within the • current RBC framework; • Approach may not be as transparent or easily understood compared to a factor-based approach; • Translation to a comparable capital ratio is not straightforward; • Defining and calibrating stresses is not an easy task; and • The scenarios would have to be updated periodically.

Source: NAIC, *U.S. Group Capital Methodology Concepts Discussion Paper ComFrame Development and Analysis (G) Working Group,* November 16, 2014.

SEC representative says private equity may be good with proper regulation

The Private Equity Issues (E) Working Group heard a presentation from Igor Rozenblit of the Securities and Exchange Commission (SEC) on considerations for insurance regulators related to private equity firms' acquisitions of insurance companies.

Rozenblit noted that acquisition of life companies provided several benefits to private equity firms, including: 1) Increased fee income because fees are based on asset balances; 2) dividend recapture through related party transactions or near related party transactions or ancillary fees and expenses; and 3) reinvestment of life assets into the private equity businesses (e.g. separate accounts).

Rozenblit also acknowledged that private equity firms brought several benefits to insurers, as well, including access to capital, experienced talent and excellent asset management expertise.

About 50 to 60% of revenues for private equity firms come from management fees, Rozenblit said, with 30% based on performance and approximately 10% on ancillary fees. That may mean there is not necessarily a real alignment between performance and revenue. Rozenblit said private equity firms could thus boost revenue by buying insurers and managing their investments.

Rozenblit said he saw two basic strategies from private equity firms. One he called a growth strategy. There, a private equity firm moved in and an undercapitalized insurer is capitalized. He called that a win-win situation.

He referred to the second basic strategy for private equity firms as the buyout strategy. He said half the value created by these private equity firms came from "financial engineering," 20% from operational improvements and 30% from buying and selling at the right time.

He did note the difference between private equity firms and hedge funds, saying that private equity firms did allow for operational improvements that hedge funds did not.

Rozenblit told regulators it was difficult to regulate private equity firms prescriptively, calling principles-based regulation a better bet.

Discussing operations, Rozenblit said one PE strategy was loss ratio improvement. One way to do that would be through better underwriting, but that may be difficult in practice, Rozenblit said. Another and perhaps surer option would be through focusing on a particular niche, buying a platform insurer, and then buying its competitors in that niche. That would give the purchasing entity market pricing power in that niche. Cost reductions could come through managing claims tighter, he said, or through cutting customer service.

Rozenblit detailed several regulatory risks for the working group. The first among those was capitalization, with debt and reinsurance into opaque pools among the concerns. He also warned of related or near related party transactions and ancillary fees and expenses that drag capital. Another risk would have to do with declining service levels which might involve claims denial or headcount reduction. Market risk was the third regulatory risk, he said.

He told the insurance regulators to look for transparency, as that would serve as an early warning system and deter bad conduct. He called for them to look at key personnel and relationships, earmarks and clawbacks, and to regulate service levels.

Private equity investment could be good if properly regulated, Rozenblit said. It may reduce costs, bring new professionalism to the industry, and increase asset management skills.

The working group postponed the discussion on transactions between preferred investors of private equity and insurance companies until the next call. Lastly, the working group postponed the review of draft procedures added to the *NAIC Financial Analysis Handbook* that regulators can use when considering ways to mitigate or monitor risks associated with private equity/hedge fund ownership or control of insurance company assets.

Members of the working group were requested to provide comments by January 15, 2015. Subsequent to that date, interested parties will be provided an opportunity to comment.

Cat risk subgroup gets input on R3, R6, R7 charges

As it continued its work on developing catastrophe risk charges, the Catastrophe Risk Subgroup, chaired by Florida's David Altmaier, received comments from industry on some of the key factors now being considered.

Discussing the basis to be used in modeling, Altmaier told the group that current instructions are to report on an aggregate basis. Concerns had been expressed by companies and trade associations, he said. One company noted in its presentation that the Occurrence Exceedance Probability (OEP) was a more appropriate factor to use than the Aggregate Exceedance Probability (AEP). The company said that was more consistent with how most companies managed their gross and net catastrophe exposures.

According to the company, a 2013 study of 96 reinsurers showed that 70% of them used net OEP PML (Probable Maximum Loss). Net OEP PML has a tighter confidence interval, the representative said. In addition, the OEP PML was easier to communicate to shareholders and more transparent.

Scott Williamson of the Reinsurance Association of America (RAA) agreed, saying that OEP was more practical and AEP added lots of complexity.

The consensus in the subgroup seemed to be to move to the use of OEP. Altmaier suggested a possible middle ground whereby companies could use the measures they use for internal risk management. That would be discussed more on an upcoming call, and if the subgroup decides to make a change, it would probably expose new instructions for comments.

The subgroup also heard issues raised by industry on its calculation of R6 and R7 charges. The representative of one insurer told the subgroup there needed to be clarity as to what the subgroup's measurement objective was. Altmaier replied the objective was to discern the capital cushion for catastrophe events. There were two ways to do it, he said, one was more volatile, and there could be different results.

The contingent credit risk charges for the R6 and R7 components were also discussed. Altmaier said the R6 and R7 could mirror the R3 charge, as opposed to the flat 4.8% now in the proposal. The RAA's Williamson said he agreed in principle that varying the charge would make sense, but practically it could be very difficult. Williamson said that while the 4.8% charge was based on empirical study, it could still be too high. Altmaier closed by saying the consensus was to stick to the 4.8% charge, with the possibility of an adjustment.

The subgroup also heard from the National Association of Mutual Insurance Companies (NAMIC), which sought to create exemption criteria for some companies from the calculation of the catastrophe risk charge. While the trade group's proposal, which used an absolute number for premium as one criterion, was regarded as not appropriate, subgroup members indicated a willingness to explore the concept. Discussions will continue.

Cat bonds for life insurers?

About 1% of the US catastrophe bond market now goes to life insurers, but that could change if the NAIC adjusts its rules, according to a presentation to the Catastrophe Insurance (C) Working Group endorsed by the North American CRO Council.

According to the presentation, cat bonds offer life insurers "a mechanism to diversify their portfolio to take advantage of the inherent diversification between catastrophe risk and credit risk." Current RBC treatment of cat bonds, however, militates against life insurer participation in the space.

Presenters called on the NAIC to modify the risk-based capital treatment of cat bonds and provide a more appropriate measure of the underlying risk. According to the presentation, property-casualty insurers would benefit from a larger, more stable capital source and thus a lower cost of capital, while life insurers would benefit from improved risk adjusted asset returns. Given the lack of correlation between cat risk and systemic investment risk, solvency concerns would be reduced and consumer cost could be lowered.

According to the presentation, life insurance investment is limited because of numerous existing barriers, including the capital charge which could be as high as 19.5%; the accounting treatment, where unrated cat bonds are marked to market under statutory accounting; and information asymmetry. Revising the capital treatment could reduce these barriers and increased demand, the presenter said.

Under their proposal, the capital charge would be placed under the C2 – insurance risk component – because the underlying contract behind the cat bond is an insurance contract. That would result in a capital charge reduction for a $500 million BB rated cat bond from $16.9 million to $2.4 million.

New jurisdictions added to “Qualified” list for reinsurance

Five jurisdictions – France, the United Kingdom, Germany, Ireland and Bermuda – are expected to be added to the list of qualified jurisdictions, according to a report to the Reinsurance (E) Task Force from the Qualified Working Group, with similar reports later provided for Switzerland and Japan.

All seven jurisdictions were subsequently approved by the full NAIC membership, and were placed on the NAIC List of Qualified Jurisdictions effective Jan. 1, 2015.

Adopted by the NAIC in August 2013, the process was developed to evaluate the reinsurance supervisory systems of non-US jurisdictions for reinsurance collateral reduction purposes. Reinsurers licensed and domiciled in these five jurisdictions are eligible to be certified for reduced reinsurance collateral requirements under the NAIC's Credit for Reinsurance Model Law.

The NAIC List of Qualified Jurisdictions will be sent to FIO and the Office of the United States Trade Representative (OTR) for consultation. Qualified jurisdictions are subject to re-evaluation every five years, unless there are material changes.

The task force discussed the reinsurance passporting process and adopted the report from the Reinsurance Financial Analysis Working Group. The task force received nine comment letters on the working group’s draft Uniform Application Checklist for Certified Reinsurers, but the letters were referred back to working group due to the nature of the comments. California stated it had a passporting application on its website that is available for use.

The task force received a report on states’ implementation of the revised NAIC Credit for Reinsurance Model Law and Model Regulation (#785 and #786). The Chair stated that 23 states have passed the law, representing over 60% of direct written premium across all lines. There is legislation pending in other states. Additionally, more than 30 reinsurers have been certified by states, of which, 26 have been approved for passporting.

The task force heard comments from an interested party on the importance of the uniformity of the States’ adoption of certified reinsurer revisions. The interested party requested the task force recommend the revised Credit for Reinsurance Model Law be an accreditation requirement. The task force said it would consider the proposal at a later date.

Hamm calls for federal, international focus

NAIC President and North Dakota's Insurance Commissioner, Adam Hamm

Photos courtesy of the NAIC

Addressing his last opening session of the NAIC as president, North Dakota's Insurance Commissioner Adam Hamm reviewed the successes of his tenure and called on stakeholders in the industry to stand united against shared concerns.

Among other items, Hamm noted that he was shocked that the International Association of Insurance Supervisors (IAIS) had chosen a different course than to increase transparency, and he called on industry to join and opposition.

"We remain wary of one-size-fits-all regulation," Hamm said, referring to ongoing NAIC opposition to certain proposed international standards.

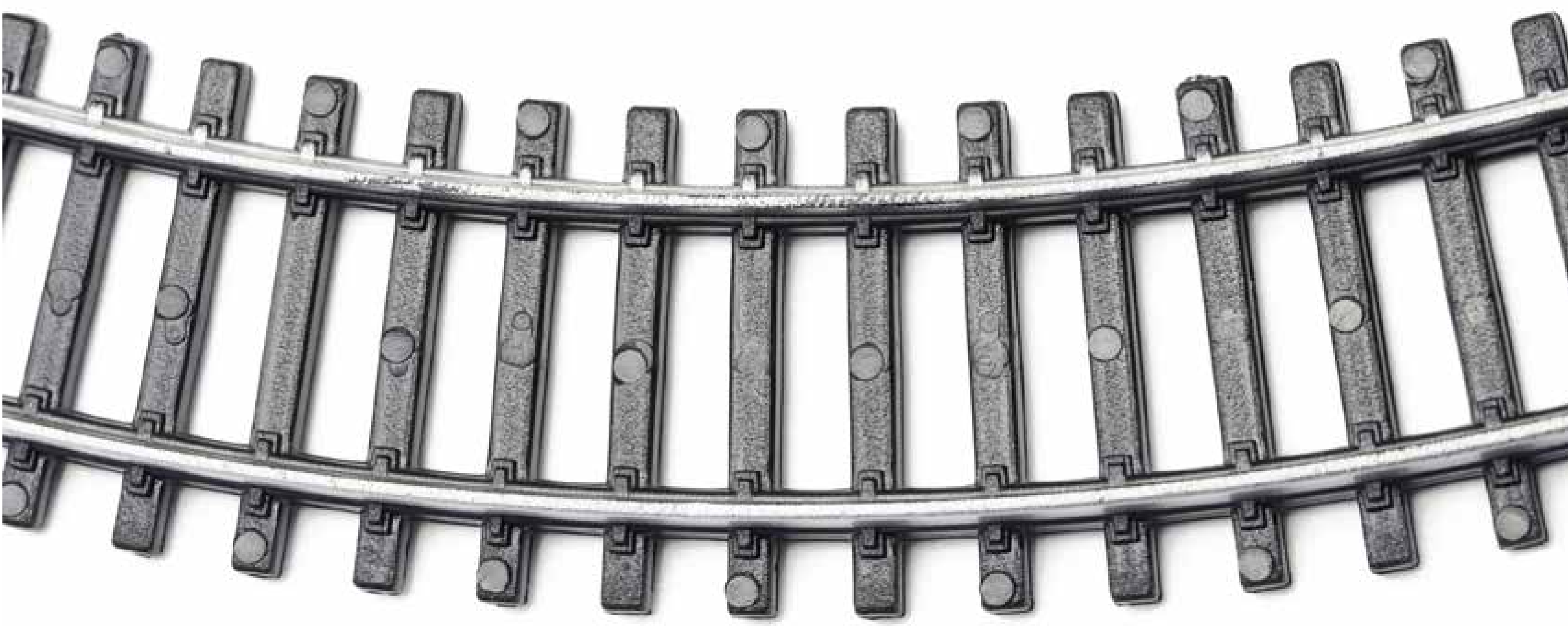
At the Washington meeting, Hamm called for a focus on DC itself, with a "long-term, let me stress that, long-term reauthorization of TRIA." Hamm also called for support of the Policyholder Protection Act to limit fungibility of capital for insurers with thrifts, and measures to address the Federal Reserve and its views of capital standards.

Governance review continues on track

While Connecticut Insurance Commissioner Thomas Leonardi, who stirred the pot with an open letter a year prior, will not be around to see the conclusion of his actions, the Governance Review (EX) Task Force continued its work on the NAIC's governance practices.

The task force approved its proposed charges for 2015, which relate primarily to providing input to the Executive Committee with respect to the retention of an outside consultant to assist with the review of NAIC governance practices. Six applicants responded to the NAIC RFP for consultants, and three will be selected as finalists. The goal to provide a recommendation to the Executive Committee by the end of the year.

The task force heard a presentation from NAIC legal staff regarding an ongoing review of administrative due process issues at the NAIC, and whether there needed to be broader consistency across the organization. Some task force members stated that it may not be prudent to make uniform changes now because certain processes evolved due to specific circumstances. This evaluation is ongoing and no decisions were made.



International bank regulators break up with insurance, securities counterparts

Even as banking regulations move into the insurance world, banking regulators sought to move out, sparking a rare moment of unity between US and international insurance supervisors.

New York Superintendent of Financial Services Benjamin Lawsky told the International Insurance Relations (G) Committee that the Joint Forum would disband early next year, as the Basel Committee no longer desired to participate.

The Joint Forum was established in 1996 under the aegis of the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the IAIS to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates. It is comprised of an equal number of senior bank, insurance and securities supervisors representing each supervisory constituency.

Lawsky told the group the Joint Forum did not wish to be closed. Connecticut insurance Commissioner Thomas Leonardi call that move a step in the wrong direction, and IAIS Secretary-General Yoshihiro Kawai informed the committee that the IAIS had wanted to maintain the Joint Forum.

Chair Michael Consedine, Pennsylvania's Insurance Commissioner, reported on international developments in the EU-US Project, BCR, ComFrame, ICS, and the US FSAP. Six US states have been approved as signatories to the IAIS Multilateral Memorandum of Understanding (MMOU) for information sharing and several others have applications pending.

FIO is committed to moving ahead with a covered agreement in consultation with the NAIC. The NAIC remains open to the idea but needs more information, the committee heard. For example, NAIC CEO Senator Ben Nelson noted that the treatment of the US under Solvency II was still not clear.

Kawai discussed additional developments at the IAIS, including elimination of the Observer status and changes to the consultation process. The IAIS will hold public hearings in the US in February and May on the international capital standards. The IAIS is also launching a new communication program for stakeholders, including changes to the IAIS website, a newsletter, and circulation of certain meeting summaries and/or materials.

The committee heard an update on the OECD and requested interested party and regulator comments on the NAIC's recently circulated group capital documents.

Pennsylvania's Insurance Commissioner, Michael Consedine

Photos courtesy of the NAIC

NAIC CEO Senator Ben Nelson

Photos courtesy of the NAIC

CDA group revises model regs

The Contingent Deferred Annuity (CDA) Working Group adopted revisions to four model regulations at its meeting, but not before consumer representative Birny Birnbaum raised concerns.

The regulations revised were the *Annuity Disclosure Model Regulation, Suitability in Annuity Transactions Model Regulation, Advertisements of Life Insurance and Annuities Model Regulation,* and the *Life Insurance and Annuities Replacement Model Regulation.*

Speaking on the suitability model. Birnbaum told the working group that there should be a one page CDA-specific disclosure. This should list lifetime fees, benefits, and note that higher risk, higher return investments are best suited for CDAs.

Iowa's Jim Mumford noted that the Securities and Exchange Commission (SEC) has control over these annuities, so these disclosures would have to be in the prospectus and determined by the SEC.

The changes to the model regulations were adopted unanimously.

Birnbaum later shared with the working group his concerns about guaranty fund coverage for CDAs. The National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) general counsel replied that a supplement to a recent presentation to the NAIC on CDAs did show that there was coverage, and the question thus had been asked and answered.

Confidentiality standards in governance models too much for Florida

Florida objected to and voted against the successful adoption of proposed Part A Accreditation Recommendations for the Corporate Governance Annual Disclosure Models at the meeting of the Corporate Governance Working Group.

Florida expressed concern that the confidentiality provisions in the models needed to be softened for accreditation as they would run afoul of Florida's Constitution as written. Bob Ridgway of AHIP, speaking for the trade organizations, said these confidentiality concerns were critical to their support of the models and should be consistent model to model, state to state.

After the adoption of the accreditation recommendations, Chair Susan Donegan of Vermont sought and received a motion to recommend disbanding the working group now that its work is done.

No reinsurance G-SIIs till 2015

The Financial Stability (EX) Task Force heard an update from its Chairman, Commissioner Kenneth Kobylowski of New Jersey on the implications related to the IAIS financial stability initiatives. The NAIC's Elise Liebers remains the acting chair of the IAIS Financial Stability Committee and the IAIS delayed any determinations of reinsurance G-SIIs to 2015.

On November 10, the FSB issued a public consultation until February 2, 2015 on a proposal for a common international standard on total loss absorbing capacity (TLAC) for global systemic banks. Some insurance regulators believe the direction of TLAC could influence HLA discussions for G-SIIs.

Commissioner Adam Hamm provided the task force an update on the US Financial Stability Oversight Council (FSOC) process. Hamm was elected to replace former NAIC representative John Huff on the Council. He said the FSOC is considering more transparency and whether SIFIs should be provided an exit ramp in order to give all designated groups the ability to reduce or eliminate certain activities that pose systemic risk.

The task force heard a presentation from the representative of a major insurance company regarding implications of cyber security on insurance companies. The presenter told the task force true preparedness included an incident response plan, tabletop exercises, and board briefings.

NAIC structures PBR support

Seven full-time NAIC actuaries as well as consultants will provide PBR support, the PBR Review (EX) Working Group was told.

The working group discussed NAIC support for PBR review and the Valuation Analysis (E) Working Group (VAWG), including the PBR modeling process and standardized reporting formats for VM-31 actuarial reporting requirements. The update highlighted that the VAWG procedures manual is confidential, seven full time NAIC actuaries and possible contractual actuaries would be used to assist the VAWG, and VAWG might include up to 20 regulatory members.

The working group adopted a report from the PBR Blanks Reporting (EX) Subgroup. The Chair of the subgroup stated the second exposure of the draft principle-based reserving (PBR) blanks changes, supplements and revised blanks instructions, was helpful and he is working with NAIC staff to incorporate changes into the proposal. Based on the report, the working group agreed to send a referral to the Life Actuarial (A) Task Force and Statutory Accounting Principles (E) Working Group to determine the change in valuation basis (SAP 51) for PBR as it involves both actuarial and accounting considerations.

The working group adopted a report of the PBR Review Procedures (EX) Subgroup Report. The subgroup had five closed meetings to discuss technical and confidential items with NAIC staff, including potential changes to the NAIC's ISITE profile report and Financial Analysis Handbook.

The working group heard status updates on the Company Experience Reporting Framework. Comments received from the previous exposure on the project had been incorporated into the report and would to be reviewed by the Commissioners Roundtable during the National meeting to ensure the framework is implementable. For example, were there any entities a state could not share information with or would non-submitting companies need to share in the costs. Based on the feedback, the report will be adjusted and re-exposed to regulators and interested parties.

Lastly, the working group heard status updates on the PBR Company Outreach. Solid data has been received from 38 insurers and will help shed light on readiness. The draft report will be distributed soon. The working group is considering an RFP to hire a consultant to work with a small number of insurers as a pilot.

Actuarial education hits the spotlight

The Casualty Actuarial Task Force discussed core elements of actuarial education for appointed actuaries largely in response to a request for regulatory approval for an educational track being offered by the Society of Actuaries (SOA) for a General Insurance designation for actuaries.

The discussion included consideration of an independent study that might be funded by the SoA or the NAIC, as well as other possible considerations related to how the study should be conducted, if performed. The task force requested members and interested parties provide names of independent candidates for the study to NAIC Staff.

The task force received presentations from the Casualty Actuarial Society (CAS) and American Academy of Actuaries (AAA) regarding price optimization in auto policies and discussed Actuarial Standards Board (ASB) and CAS exposures regarding ratemaking standards and principles.

The task force adopted the report of the Actuarial Opinion (C) Subgroup, Appointed Actuary (C) Subgroup, Profitability (C) Working Group and the Statistical (C) Subgroup. Lastly, the task force received reports from the AAA regarding ongoing projects at Committee on Property and Financial Reporting (COPLFR) and on actuarial professionalism.

Accreditation of multi-state reinsurers

A year ago, the Financial Regulation Standards and Accreditation (F) Committee had asked NAIC staff to clarify the language in the NAIC's Accreditation Manual to cover certain captive reinsurers used by life insurers for XXX/AXXX reserving purposes. The staff informed the committee substantial revisions will be required to the preamble, so that work has been delayed.

Receivership model laws being examined

The Receivership Model Law (E) Working Group discussed its progress in identifying key provisions of receivership-related model acts and guidelines. The working group's efforts stem from comments in the Federal Insurance Office (FIO) modernization report related to gaps in insurance law on multi-state receiverships. With regard to the *Life and Health Guaranty Association Model Act* (#520) and the *Property and Casualty Guaranty Association Model Act* (#540), the working group concluded that the model acts are substantial similar across state laws, with a few exceptions. Regarding the *Insurer Receivership Model Act* (IRMA), the working group stated that more work needed to be performed to identify provisions or concepts relevant to efficient and effective multi-state receiverships that should be substantively consistent among states. The working group agreed to work with the International Association of Insurance Receivers (IAIR) and other interested parties to identify key receivership concepts for consistency.

Task force dissolves working groups as Mumford retires

The Receivership and Insolvency (E) Task Force adopted the reports of the Receivership Model Law Working Group, Federal Home Loan Bank Legislation Subgroup, and the Receivership Financial Analysis Working Group Report. The task force agreed to disband several working groups, including the Federal Home Loan Bank Legislation (E) Subgroup, Receivership Separate Accounts (E) Working Group, SEC Consideration (E) Subgroup, and the Receivership Reinsurance Recoverables Working Group. The Task Force heard presentations and reports on federal issues, guaranty fund issues related to technology, and new ISDA protocol impacting IRMA 711 on qualified financial contracts. The Chair, Jim Mumford, announced his retirement from the Iowa Insurance Department.

Mortgage guaranty work awaits capital rules

The Mortgage Guaranty Insurance Working Group discussed the draft *NAIC Mortgage Guaranty Insurance Model Act* (#630) and the Mortgage Guaranty Insurance Standards Manual. A few changes were accepted based on comments received during the summer NAIC National Meeting. The working group discussed the use of reinsurance and whether a contingency reserve and/or other requirements should be required to be held by reinsurers. Currently, the draft states that captive reinsurers cannot be utilized. Additionally, the chair noted there are many placeholder provisions in the model act that are on hold pending completion of the industry capital model work.

E Committee has quick meeting

The Financial Condition (E) Committee adopted the reports of its subsidiary task forces and working groups without discussion. The Chair stated that among these reports, the more significant actions included adoption of Actuarial Guideline AG38; adoption of the 2014 XXX/AXXX reinsurance supplement to be filed by April 1, 2015 by US ceding insurers; a new NAIC Group Code assignment procedures; and disbanding the Corporate Governance Working Group. The committee stated a call would be held in December to consider a new charge relating to evaluating the sufficiency of risk transfer in reinsurance contracts that have adjustable features.

Taxes and international issues head industry concerns

The NAIC/Industry Liaison Committee discussed the new IRS rules regarding the tax treatment of longevity annuities within the 401(k). The committee also heard industry representatives discuss various international issues, including: global insurance capital standards; covered agreements; the lack of IAIS transparency and the need for state and federal representatives to work together on international matters.

Actuarial Update

Life Actuarial Task Force (LATF)
LATF continues to push through additional amendments to the PBR Valuation Manual. A 1/1/2017 operative date for PBR is still the current "best estimate," but LATF is moving the "top 10" priority amendments forward for adoption by early to mid-2015. Other activities include further work on new life mortality tables, principles based annuity reserving standards, an update to the Synthetic GIC model regulation, refinement to the small company VM-20 exemption, and adoption of the new Actuarial Guideline 48. Following are highlights from LATF from the Fall 2014 NAIC Meeting:

New Actuarial Guideline 48
The Principle-Based Reserving Implementation (EX) Task Force adopted Actuarial Guideline 48 (AG 48) with a few minor edits from the version exposed last August. The Guideline has now been forwarded to the NAIC Executive/Plenary Committee for adoption.

AG 48 sets forth standards that must be satisfied for an insurer ceding XXX and AXXX risks to certain reinsurers, including captive reinsurers, as conditions for an unqualified actuarial opinion under the Actuarial Opinion and Memorandum Regulation. The guideline is in response to Rector Report recommendations and subsequent NAIC discussion of the report. Under the proposed guideline, ceding insurers will need to calculate minimum reserves and such reserves will need to be secured by "hard" invested assets instead of "softer" assets such as letters of credit (LOCs). The proposed minimum reserves for term are 85% of the NPR (per the latest draft of VM-20). For universal life with secondary guarantees (ULSG), the proposed minimum reserve is the minimum of deterministic, stochastic, or 85% of NPR (again, per VM-20).

Once the NAIC Executive and Plenary Committee adopts AG 48 (which is expected on a conference call prior to the end of December 2014), the effective date for the guideline will be 1/1/15 for new policies or for inforce policies under new reinsurance agreements entered into on 1/1/15 or later. Following the effective date of PBR (expected to be 1/1/17), regulators expect the use of XXX/AXXX captives will end or be significantly curtailed.

New Mortality Tables
The American Academy of Actuaries (AAA) gave another update of the mortality table work being performed by the Society of Actuaries (SOA) and AAA toward developing the 2014 VBT/CSO mortality tables, and tables for PreNeed and Simplified Issue products.

Regarding the 2014 VBT, the AAA is seeking company volunteers to help with a testing phase toward a spring 2015 target completion date. Work on the 2014 CSO table will follow with an adoption date expected during the summer of 2015, resulting in a 1/1/2016 operative date. Work is continuing on the PreNeed and Simplified Issue tables, with an expected completion date of spring 2015.

Life PBR (VM-20)
Work continues on more refinements to the Life portion of the Valuation Manual, including completion of the "top 10" priority amendments.

Proposed/adopted amendments to VM-20 at the fall 2014 meeting included the following:

- Simplification of the Stochastic Exclusion Test – the current draft language is not clear whether cash flow testing models would be acceptable. Changes were proposed to include such clarifying language, and to refine parameters to the exclusion test such that fewer companies would be required to perform the stochastic test. The changes were adopted by LATF.
- An update to the credit spreads to use for invested assets was discussed and exposed for comment.
- The ACLI is working on proposals to update default costs, refine volatility assumptions (based on moving average rather than point-in-time), refine reporting requirements under VM-31, and incorporating commercial mortgages into the VM-20 modeling framework.

VM-20 Small Company Exemption

The PBR Implementation Task Force exposed a small company exemption proposal for 60 days. The proposal includes a chart indicating how many companies would be exempt based on varying premium thresholds. In the proposal, small companies are defined as those with less than $300 million of ordinary life premium, and if the company is a member of an affiliated life insurance group of companies reporting to the NAIC, the group has less than $600 million of ordinary life premium. The exemption also requires the following:

- Risk-based capital of at least 450% of the authorized control level (ACL),
- An unqualified actuarial opinion, and
- No material universal life secondary guarantee (ULSG) policies inforce following the PBR effective date.

Overall, the ACLI indicates that less than 5% of the industry's premiums would be exempted using the thresholds summarized above.

General Account Annuity PBR (VM-22) Subgroup

The VM-22 Subgroup provided another update on activities from LATF and from the AAA. The subgroup summarized results of the Kansas field test of a proposed reserving methodology for non-variable deferred annuities. They observed that the modeled reserve showed reasonable results in that a "richer" product (i.e. a product with more generous minimum guarantees) produced higher reserves than a "moderate" product. Further tests on the modeled reserve will be performed before the methodology is recommended to LATF for consideration.

Synthetic GIC Model Regulation

The Academy of Actuaries presented proposed changes to the Synthetic GICs Model Regulation. The changes included a refined definition of "spot rate" (blend between a US Treasury Rate and a "corporate bond index" based rate), and some edits to the required Plan of Operation that must be filed for operation of the Synthetic GIC separate account. LATF voted to expose these changes to comment for 60 days.

The actuarial update was prepared by Russell Menze. For your comments and suggestions please contact the author – **rmenze@deloitte.com**.

Health Care Update

The mission of the Health Insurance and Managed Care (B) Committee is to consider issues relating to all aspects of health insurance and the focus of the November meeting was the consumer and the impact related to the Affordable Care Act (ACA). In particular, there was a focus on health insurance exchanges as the second year of open enrollment has now begun.

The federal Center for Consumer Information and Insurance Oversight (CCIIO) provided an update on ACA implementation activities and the improvements observed in the early stages of open enrollment of the health insurance marketplaces. A representative from Georgetown University's Center on Health Insurance Reforms (CHIR) provided information about the Navigator Resource Guide, which has been developed for use related to the health insurance exchanges. The guide is intended to supplement training available for navigators from the US Department of Health and Human Services (HHS) and help answer questions consumers may have about the private insurance reforms within the ACA. This guide addresses more than 230 enrollment questions about topics from tax credits and cost standards to enrollment periods and post-enrollment matters such as understanding coverage decisions.

Network adequacy continued to receive significant attention within B Committee and that of its Working Groups and Task Forces. CHIR discussed its work through the State Health Reform Assistance Network on an updated network adequacy planning tool (**www.statenetwork.org**). The tool is intended to assist states in maximizing coverage expansion under the ACA.

The Committee was also briefed by consumer representatives on the results from the survey of state insurance departments on network adequacy, including findings and recommendations. The survey included responses from 36 states and 3 territories addressing general approaches to network adequacy regulation and operational processes related to network adequacy oversight. The survey found that most states have not adopted the NAIC Managed Care Plan Network Adequacy Model Act and that while states have complaint codes to identify network adequacy related issues the codes vary from state-to-state and often are not detailed enough to determine the specific concern. Additionally, states noted that the biggest challenge is ensuring consumers understand the costs and risks of out-of-network care.

Recommendations provided by consumer representatives included standardizing the use of complaint codes, but also moving to enforce network adequacy requirements on the front end rather than a reactive review based upon complaints. The New York State Department of Financial Services provided briefed the Committee on its out-of-network legislation – Part H of Chapter 60 of the Laws of 2014 – which attempts to tackle some of the out-of-network issues including surprise bills out-of-network benefits.

The Health Care Reform Regulatory Alternatives Working Group received updates on litigation related to ACA from the American Enterprise Institute and the definition of small employer size from the U.S. Chamber of Commerce. The working group and presenters discussed the challenges that if changes to ACA were to come out of these matters, the process would be slow and states would need to evaluate how the federal ACA and state laws interact.

The attention of the Territories Subgroup was on the HHS letters to the territories in July informing them that insurers that market individual insurance policies in the territories are no longer required to comply with the ACA's insurance market reforms, reversing the position previously provided by HHS and discussed where the territories go from here. The challenge for the territories is evaluating the impact on its marketplace of the costs of the ACA such as the health insurer fee, yet not some of the benefits.

While many of the ACA provisions have now been put in place and the health insurance marketplaces are going into their second year, the challenges that states face in regulating and address issues associated with health insurance including the impact of the ACA continues to be dynamic and complex.

The health update was prepared by Lynn Friedrichs. For your comments and suggestions please contact the author – **lfriedrichs@deloitte.com**.

NAIC Accounting Update

This section of the NAIC Update focuses on accounting and reporting changes discussed, adopted and exposed during the 2014 Fall Meeting.

Statutory Accounting Principles Working Group

Current Developments: The SAPWG adopted the following amendments as final during the 2014 Fall Meeting:

Ref#	Title	Sec.	Amendments Adopted as Final	F/S Impact	Disclosure	Effect. Date
2014-12	Issue Paper No. 150 – Accounting for the Risk-Sharing Provisions of the Affordable Care Act	Life Health	Adopted Issue Paper No. 150 to establish statutory accounting and reporting for the risk-sharing provisions of the ACA. SAPWG to expose SSAP No. 107 – *Accounting for the Risk-Sharing Provisions of the Affordable Care Act* with a shortened comment deadline of December 8, 2014 (see table below).	Y	Y	2014
2014-16	SSAPs Nos. 1 and 4 – Disc. of Acct. Policies and Assets and Non-Admitted Assets	P&C Life Health	Nonsubstantive Change – Revisions clarify asset restrictions and the difference between "restricted assets" and "admitted assets" (restricted assets can include admitted assets) as well as clarification of the reporting requirements for "restricted assets".	N	Y	2014
2014-19	SSAP No. 55 – Unpaid Claims, Losses and Loss Adjustment Expenses	P&C Life Health	Nonsubstantive Change – Revisions from incorporation of INT to clarify that claims related losses for extra contractual obligations and bad faith lawsuits are to be included in losses.	Y	N	2014
2014-18	SSAP No. 51 – Life Contracts and SSAP No. 56 – Separate Accounts	P&C Life Health	Nonsubstantive Change – Revisions clarify the disclosure currently captured in Note 34 related to contracts withdrawal characteristics.	N	Y	2015
2014-06	SSAP No. 57 – Title Insurance	P&C	Nonsubstantive Change – Revisions delete the disclosure for premium revenue reported on the Gross-All-Inclusive and Gross-Risk-Rate premium basis, with corresponding revisions to the guidance.	N	Y	2014
2014-20	SSAP No. 101 – Accounting for Income Taxes	P&C Life Health	Nonsubstantive Change – Revisions clarify that the RBC authorized control level used in the annual realization threshold table for the DTA calculation is the RBC ratio for the current reporting period annual statement (i.e., in the process of being filed). For interim periods, the authorized control level RBC filed as of the most recent calendar year should be used.	N	Y	2014
2014-17	SSAP No. 104R – Share-Based Payments	P&C Life Health	Nonsubstantive Change – Revisions adopt *ASU 2014-12: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period* with an effective date of January 1, 2016 (with early adoption permitted).	Y	Y	2016
2014-21 2014-22	Appendices A and C – Updates to allow the 2012 Group Long-Term Disability Table and Actuarial Guideline XLVII	P&C Life Health	Nonsubstantive Change – Revisions incorporate changes to Appendix A-010 adopted by the Health Actuarial Task Force and the related actuarial guideline requiring use of the 2012 Group Long-Term Disability table as of January 1, 2017 (with early adoption permitted).	Y	N	2017
2014-14 2014-26	Issue Paper No. 99 – Nonapplicable GAAP Pronouncements	P&C Life Health	Rejected ASU 2014-10: Development Stage Entities as not applicable to statutory accounting and consolidated previously rejected GAAP items from *INT 99-00 Compilation of Rejected EITFs Into Issue Paper No. 99*.	N/A	N/A	N/A

The SAPWG exposed the following items for written comments (due by January 16, 2015, except Ref # 2014-12 and 2013-17 which are due December 8, 2014) by interested parties – two proposals are **substantive** (see Ref # 2014-12 and 2013-17 below) and all other proposals are categorized as **nonsubstantive**:

Ref#	Title	Sec.	Amendments Exposed	F/S Impact	Disclosure	Effect. Date
2014-12	SSAP No. 107 – Accounting for the Risk-Sharing Provisions of the Affordable Care Act	Life Health	Substantive Change – Revisions create a new SSAP to provide guidance on the three risk-sharing provisions know as risk adjustment program, transitional reinsurance program and temporary risk corridors program. Guidance is currently included in Issue Paper No. 150.	Y	Y	2014
2013-17	SSAP No. 40 – Real Estate Investments (Revised)	P&C Life Health	Substantive Change – Simultaneously exposed Issue Paper No. 149 and substantively revised SSAP No. 40R to move *Single-Member and Single-Asset Limited Liability Corporations (LLCs), Underlying Asset is Real Estate* into SSAP No. 40R as of January 1, 2015; and directed preparation of an annual financial statement blanks proposal.	Y	Y	2015
2014-29	SSAP No. 1 – Disclosure of Accounting Policies, Risk & Uncertainties, and Other Disclosures, SSAP No. 4 – Assets and Nonadmitted Assets and various other statements, and SSAP Nos. 48, 68 and 97	P&C Life Health	Nonsubstantive Change – Exposed revisions to adopt *ASU 2014-15: Presentation of Financial Statements – Going Concern* and incorporate audited disclosure requirements for a reporting entity to evaluate and disclose whether there is substantial doubt on the entity's ability to continue as a going concern. In addition, changes to SSAP Nos. 48, 68 and 97 were exposed that would nonadmit investments in related affiliate holdings whose audited financial statements include going concern disclosures.	Y	Y	2016
2014-35	SSAP No. 11 – Postemployment Benefits and Compensated Absences	P&C Life Health	Nonsubstantive Change – Exposed revisions to delete disclosures that pertain to defined benefit and defined contributions plans, with a reference to complete the disclosures in SSAP No. 92, *Accounting for Postretirement Benefits Other Than Pensions*, as applicable, if the reporting entity is providing special or contractual termination benefits. Simultaneously, a referral was made to the Blanks Working Group to incorporate instructions on when to complete Note 12.	N	Y	2015
2014-36	SSAP No. 25 – Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties	P&C Life Health	Nonsubstantive Change – Exposed revisions to reject *ASU 2013-06: Not-for-Profit Entities; Services Received from Personnel of an Affiliate* as guidance requiring reasonable charges is detailed in Model Act #440. In addition, revisions to incorporate disclosures regarding services for non-for-profit entities.	N	Y	2015
2014-30	SSAP No. 36 – Troubled Debt Restructuring, SSAP No. 37 – Mortage Loans and SSAP No. 40 – Real Estate Investments.	P&C Life Health	Nonsubstantive Change – Exposed revisions to adopt with modifications *ASU 2014-04: Receivables – Troubled Debt Restructuring by Creditors – Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure and ASU 2014-14: Receivables – Troubled Debt Restructuring by Creditors – Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure* to prescribe the accounting and reporting for 1) foreclosed mortgage loans collateralized by real estate and 2) foreclosed mortgage loans guaranteed by a government sponsored program. The proposed modifications to ASU 2014-04 include removal of the restrictions limiting it to residential real estate with a consumer mortgage loan. The proposed modifications to ASU 2014-14 require a "lower-of" valuation method for real estate recognized from a foreclosure.	Y	Y	2015
2014-31	SSAP No. 61R – Life, Deposit-Type Contracts and Accident & Health Reinsurance	P&C Life Health	Nonsubstantive Change – Exposed revisions to require disclosure for the annual audited financial statements indicating compliance with Actuarial Guideline XLVII (AG 48) and XXX/AXXX Reinsurance Model Regulation.	N	Y	2015

Ref#	Title	Sec.	Amendments Exposed	F/S Impact	Disclosure	Effect. Date
2014-28	SSAP No. 62R – Property and Casualty Reinsurance	P&C Life Health	Nonsubstantive Change – Exposed revisions to clarify the amounts to be included in Schedule F related to an asbestos and environmental reinsurance reporting exception for retroactive counterparties.	N	Y	2015
2014-32	SSAP No. 74 – Accounting for the Issuance of Insurance-Linked Securities Issued by a Property and Casualty Insurer Through a Protected Cell	P&C	Nonsubstantive Change – Exposed revisions to update the current blanks disclosure references from aggregate write-ins to the specific designated lines for protected cells.	N	Y	2015
2014-37	SSAP No. 86 – Accounting for Derivative Instruments and Hedging, Income Generation, and Replication Transactions	P&C Life Health	Nonsubstantive Change – Exposed revisions to reject *ASU 2014-16: Derivatives and Hedging, Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share I More Akin to Debt or to Equity* as not applicable to statutory accounting.	N/A	N/A	N/A
2014-33	SSAP No. 92 – Accounting for Postretirement Benefits Other Than Pensions and SSAP 102 – Accounting for Pensions	P&C Life Health	Nonsubstantive Change – Exposed revisions to consolidate the guidance from *INT 13-03 – Clarification of Surplus Deferral in SSAP No. 92 and SSAP No. 102* directly into the applicable SSAPs. Once the guidance is moved into the SSAPs, INT 13-03 would be nullified.	N/A	N/A	N/A
2014-24	SSAP No. 93 – Accounting for Low Income Housing Tax Credit Property Investments	P&C Life Health	Nonsubstantive Change – Exposed revisions to adopt with modification *ASU 2014-01: Accounting for Investments in Qualified Affordable Housing Projects* to prohibit the elective proportional amortization method, reject net reporting and update terminology.	Y	Y	2015
2014-34	Issue Paper No. 99 – Nonapplicable GAAP Pronouncements	P&C Life Health	Nonsubstantive Change – Exposed revisions to reject *ASU 2014-13: Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity* as not applicable to statutory accounting.	N/A	N/A	N/A

The SAPWG discussed, or received an update, on the following outstanding agenda items:

Ref#	Title	
2013-36	Various SSAPs related to investments	Investment Classification Project: Discussed comments received on the exposed memorandum of discussion topics and suggested prioritization. Directed NAIC staff to proceed with the first two issues in the prioritization list of developing a security definition and working on a fund SSAP/schedule.
2014-25	SSAP No. 41 – Surplus Notes	Nonsubstantive Change – Directed NAIC staff to draft revisions to clarify existing guidance around non-rated surplus notes and surplus notes with a designation below an NAIC 1. In addition, the Working Group affirmed that surplus notes with an NAIC 1 designation should continue to be carried at amortized cost.
2014-27	SSAP No. 54 – Individual and Group Accident and Health Contracts	Nonsubstantive Change – Directed NAIC staff to liaison with Working Group members and the industry to develop a recommendation on the reporting for contracts subject to redetermination amounts resulting from Medicare Part D and Medicare Advantage, and risk adjustment receivables under the ACA. In addition, related reporting guidance is to be developed for the Blanks Working Group. Approved a joint referral to the Health Actuarial and Life Actuarial Task Forces to clarify whether the receivables and payables resulting from these items should be included in the scope of the Statement of Actuarial Opinion.
2014-23	SSAP No. 69 – Statement of Cash Flow	Nonsubstantive Change – Directed NAIC staff to draft revisions to SSAP No. 69 to clarify that items included in the cash flow statement should be limited to those that involve cash as defined as cash, cash equivalents and short term investments, and to expand the disclosure requirements to include non-cash operating items. During the discussion, it was concluded that companies that use the worksheets in the annual statement instructions are making the necessary adjustments to the worksheets to ensure the statement of cash flow reflects only cash activity and the nonsubstantive change would be consistent with the annual statement instructions.

This summary was prepared by Amy Alves, Lynn Friedrichs, and Ed Wilkins. For your comments and suggestions please contact the authors – **amalves@deloitte.com**, **lfriedrichs@deloitte.com** or **ewilkins@deloitte.com**.

Definition of acronyms

AAA	American Academy of Actuaries
ACLI	American Council of Life Insurers
AEP	Aggregate Exceedance Probability
AHIP	America's Health Insurance Plans
ASB	Actuarial Standards Board
BCBS	Basel Committee on Banking Supervision
BCR	Basic Capital Requirements
CAS	Casualty Actuarial Society
CDA	Contingent Deferred Annuity
ComFrame	Common Framework for the Supervision of Internationally Active Insurance Groups
FIO	Federal Insurance Office
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
GAAP	Generally Accepted Accounting Principles
G-SII	Global Systemically Important Insurer
HLA	Higher Loss Absorbency
IAIG	Internationally Active Insurance Group
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principle
ICS	Insurance Capital Standard
IOSCO	International Organization of Securities Commissions
NAIC	National Association of Insurance Commissioners
NAMIC	National Association of Mutual Insurance Companies
NOLHGA	National Organization of Life and Health Insurance Guaranty Associations
OEP	Occurrence Exceedance Probability
PBR	Principle-Based Reserving
PCI	Property Casualty Insurers Association of America
PML	Probable Maximum Loss
RAA	Reinsurance Association of America
RBC	Risk-Based Capital
SEC	Securities and Exchange Commission
SOA	Society of Actuaries
TLAC	Total Loss Absorbing Capacity

Contacts

For more information, please contact

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

Steve Foster
Director
Deloitte & Touche LLP
+1 804 697 1811
sfoster@deloitte.com

Ed Wilkins
Partner
US Insurance Audit Leader
Deloitte & Touche LLP
+1 402 444 1810
ewilkins@deloitte.com

Howard Mills
Director & Senior Advisor
Insurance Industry Group
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

Contributors

Bjorn Borgen
Partner
Deloitte & Touche LLP
+1 312 486 5052
bborgen@deloitte.com

Russell B. Menze
Specialist Leader
Deloitte Consulting LLP
+1 860 725 3303
rmenze@deloitte.com

Amy Alves
Audit Senior Manager
Deloitte & Touche LLP
+1 860 725 3152
amalves@deloitte.com

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

David Vacca
Senior Advisor
Deloitte & Touche LLP
+1 913 486 2295
dvacca@deloitte.com

Senior editor

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

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