

# **REGULATORY UPDATE**

**ACSW FALL 2005 MEETING**

**Mike Boerner, ASA, MAAA  
Managing Actuary  
Actuarial Division, Financial  
Program**

# REGULATORY UPDATE

## Topics

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- **2005 TEXAS REQUIREMENTS**
- **PRINCIPLES BASED ERA**
- **LHATF / AHWG ACTIVITY**
- **OTHER NOTES**

# **REGULATORY UPDATE**

## **2005 Texas Requirements**

- **New AOMR Requirements**
- **APPM Adoption & AG 38**
- **Life Risk Based Capital C3P2**

# **REGULATORY UPDATE**

## **New AOMR Requirements**

- **TAC 3.1601 – 3.1608**
- **Asset adequacy opinion (AAO) required**
- **Texas only companies exempted from AAO**
- **Commissioner can still require AAO from any Texas only company**

# **REGULATORY UPDATE**

## **New AOMR Requirements**

- **Regulatory Asset Adequacy Issues Summary (RAAIS)**
- **RAAIS treated as confidential**
- **RAAIS submitted to TDI Actuarial Division**
- **RAAIS required by March 15<sup>th</sup>**

# REGULATORY UPDATE

## AOMR – RAAIS Disclosure Highlights

- **Description of scenarios tested**
- **Materially different assumptions**
- **Methods to recognize reinsurance impact**
- **Reserves and products previously but not currently subjected to asset adequacy**

# **REGULATORY UPDATE**

## **AOMR – RAAIS Disclosure Highlights**

- **Comments on any interim results of a significant concern to the actuary**
- **Whether the actuary is satisfied that all options in any asset or liability, and equity-like features in any investments have been appropriately considered in asset adequacy analysis**

# **REGULATORY UPDATE**

## **APPM Adoption & AG38**

- **Annually TDI adopts the NAIC Accounting Practices and Procedures Manual (APPM)**
- **APPM provides SSAPs and appendixes which include reserve requirements of model laws and actuarial guidelines**
- **However, any conflicting Texas law or rule supersedes APPM requirements**



# REGULATORY UPDATE

## APPM Adoption & AG38

- **March APPM hard copy adopted each year with any changes noted in adopting rule**
- **Prior AG38 in March 2005 APPM does not match recent NAIC AG38 adoption**
- **Proposed rule (TAC 7.18) updates AG38 to provide the 7% compromise but without the sunset provision**

# **REGULATORY UPDATE**

## **APPM Adoption & AG38**

- **AG38 7% compromise to be effective for policies issued on or after 7-1-2005**
- **Proposed rule expected to be exposed November 18, 2005 in the Texas Register**
- **Exposure occurs for 30 days prior to consideration for adoption**

# **REGULATORY UPDATE**

## **Life Risk Based Capital**

- **Texas provides for Life Risk Based Capital Requirements pursuant to NAIC instructions**
- **NAIC recently adopted life instructions for 2005 which includes the new C3 Phase 2 requirements**
- **C3P2 is applicable to variable annuities with guarantees and similar products per the instructions**

# **REGULATORY UPDATE**

## **Life Risk Based Capital**

- **C3P2 is a principles based approach**
- **Provides for a modeling approach, an alternative minimum approach, and a standard scenario floor**
- **Texas is a member of the NAIC Joint LHATF/CADTF subgroup which will analyze C3P2 results for 2005**

# REGULATORY UPDATE

## PRINCIPLES BASED ERA

- **A whole new paradigm**
- **Coordination of reserves and RBC**
- **Better matching of risks to requirements**
- **Greater exercise and latitude for judgment**
- **Prominent role for actuaries**

# **REGULATORY UPDATE**

## **Principles Based Ingredients**

- **Changes to SVL to enable principles based approach (PBA)**
- **Development of PBA details in model rule and actuarial guidelines**
- **Need for data and studies**
- **Preferred mortality studies can be used for interim relief, PBA, and transitional needs**

# **REGULATORY UPDATE**

## **Enabling Law Change**

- **NAIC Joint LHATF/CADTF Subgroup working on a draft change to the SVL**
- **LHATF may expose this draft for comment at the NAIC Winter meeting this December**

# **REGULATORY UPDATE**

## **Enabling Law Change - Draft Includes**

- **Life, annuity, and health contracts**
- **Implementation through requirements adopted by commissioner**
- **Peer review requirements**
- **Corporate governance requirements**



# **REGULATORY UPDATE**

## **PBA Details For Rule(s) & Guidelines**

- **Variable Annuities With Guarantees: Draft Actuarial Guideline VACARVM**
- **Life Insurance: American Academy of Actuaries Life Working Group to submit proposal at NAIC December meeting**
- **Health Insurance: Initial discussions beginning at the Academy level for LTC**

# **REGULATORY UPDATE**

## **PBA Details For Rule(s) & Guidelines**

- **NAIC Joint LHATF/CADTF Subgroup identified several avenues to support regulatory oversight**
- **Some of these directions will impact rules and examination procedures**
- **Draft rule on Corporate Governance currently being discussed**

# **REGULATORY UPDATE**

## **Need For Data Studies**

- **Principles based approaches will allow greater judgment and types of assumptions**
- **Data studies conducted by the professional organizations can contribute greatly to sound assumption setting in PBA**
- **A key assumption is mortality for preferred and super select risks**

# **REGULATORY UPDATE**

## **Preferred Mortality Study – AAA, SOA**

- **AAA Preferred Mortality Project Oversight Group (POG)**
- **Addresses a charge from LHATF to develop valuation mortality by 2007**
- **Also addresses a resolution from LHATF to support data needs through studies**

# REGULATORY UPDATE

## Preferred Mortality Study – AAA, SOA

- Experience tables produced can be used in a principles based approach (PBA)
- Valuation mortality produced can be used prior to implementation of PBA
- Valuation mortality produced can also be used post-PBA for companies who wish to continue current reserving but with relief

# **REGULATORY UPDATE**

## **PBA Possible Timeline**

- **2006 Possible NAIC enabling SVL adoption**
- **2006-2007 Provide preferred mortality for valuation either from AAA study or other**
- **2007-2009 States adopt enabling SVL**
- **2007-2009 Produce PBA rules/guidelines**
- **2008-2010 Adopt rules/guidelines to implement PBA and provide transition**

# REGULATORY UPDATE

## NAIC LHATF Notes

- **Annuity Nonforfeiture Rule, Adopted**
- **Actuarial Guideline ABC, New Exposure**  
**Key Formula:  $NI = \min(\max(VI, CNI), 3\%)$**
- **Actuarial Guideline VACARVM**

# **REGULATORY UPDATE**

## **NAIC AHWG Notes**

- **Long Term Care Experience Exhibit**
- **Alternatives for Individual Medical Rate Regulation**



# REGULATORY UPDATE

## Other Notes

- **Merger of TDI with TWCC**
- **Interstate Compact Status**
- **Miscellaneous**

# REGULATORY UPDATE

**TDI Website – [tdi.state.tx.us](http://tdi.state.tx.us)**

**Mike Boerner, ASA,MAAA**

**Managing Actuary**

**Actuarial Division**

**Financial Program**

**Texas Department of Insurance**