

Regulatory Update

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Regulatory Update

- **Texas Rules**
- **NAIC Developments (PBR)**
- **IIPRC (Interstate Compact)**

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Pre-Need Rule

- **Provides the 1980 CSO table as the minimum standard for reserves and nonforfeiture values for pre-need policies issued on and after 1/1/09.**
- **Otherwise the 2001 CSO table would have been the reserve minimum for such policies.**
- **Pre-Need Rule found in TAC, Subchapter OO, Sections 3.9601 thru 6.**

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Credit Rule

- **Implements HB 1761 for credit policies issued on and after 1/1/09.**
- **Provides 2001 CSO mortality for minimum reserves for credit life.**
- **Provides the 85 CIDA morbidity tables for single premium credit disability contract reserves.**

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Credit Rule

- **Includes the requirement to put up additional reserves to cover the excess of the net premium refund liability over contract reserves for all credit contracts in the aggregate.**
- **The net refund liability may include consideration of commission, premium tax, and other expenses recoverable.**
- **Rules prior to this rule provide such requirement only for all credit life contracts in the aggregate.**

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Credit Rule

- **This aggregate requirement for all credit contracts is similar to SSAP 59, Paragraph 13, as found in the March 2009 NAIC Accounting Practices & Procedures Manual.**
- **The proposal was exposed in the Texas Register with the comment period ending 10/26/09.**
- **Commissioner adoption and Texas Register adoption publication expected before year end.**

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Market Disruption Rule, 1a & 2

- **The Department is working to adopt life insurance proposals 1a and 2 for this year end..**
- **Life insurance proposal 1a allows retroactive use of the 2001 Preferred CSO mortality tables subject to a reinsurance accounting condition.**
- **In Texas such retroactivity can apply to issues on and after 5/1/2003 and prior to 1/1/2007.**

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Market Disruption Rule, 1a

- **Life proposal 1a based on changes to NAIC model 815.**
- **Intent of accounting condition is to disallow retroactivity if excessive reserve credit is taken in relation to corresponding asset adjustments.**
- **Example of Intent: For mean reserves retroactivity is disallowed if deferred premium assets, corresponding to mean reserve credit taken, are retained and exceed the reinsurance premium that could be refunded on termination of reinsurance.**

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Market Disruption Rule, 1a

- **Estimated aggregate entry allowed to offset shortfall to meet the accounting condition for retroactive use.**
- **Texas implementation of life insurance proposal 1a will include changes to the Preferred Mortality Tables rule in TAC, Subchapter MM.**
- **ACLI survey to companies indicated a reserve reduction of 17.8% to direct reserves of \$4.1 bil.**

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Market Disruption Rule, 2

- **Life insurance proposal 2 removes the 20% “X factor” constraint and allows “X factors” to decrease in future durations.**
- **There is no additional condition imposed for the use of these rule changes similar to the reinsurance accounting condition imposed for life insurance proposal 1a.**

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Market Disruption Rule, 2

- **The Department is working to reflect this proposal in changes to TAC, Subchapter EE. Disclosure changes are being reflected in TAC, Subchapter EE & Subchapter Q.**
- **ACLI survey to companies indicated a reserve reduction of 37.8% to total direct deficiency reserves of \$3.7 billion. 10 companies responded where 9 of 10 said they would use this proposal.**

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Market Disruption Rule, 1a & 2

- **The Department is working to have these rules effective for this year end reserves.**
- **Initial Texas Register exposure of these rules may not occur until mid to late December, 2009.**
- **Adoption and Texas Register adoption notice likely not to occur until late January or early February.**
- **Any adoption after this year end would still apply to reserves for year end 2009.**

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Health AO Revisions

- **Department working to adopt NAIC Health Annual Statement Instructions which include revisions to 2009 Health AO instructions.**
- **Requires actuary rendering 12/31/09 AO to be appointed.**
- **Appointed actuary must indicate whether opinion is qualified, unqualified, adverse or inconclusive.**

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Health AO Revisions

- **Inconclusive: Conclusion cannot be reached due to deficiencies or limitations in data, analyses, assumptions, or related information.**
- **Adverse: Determination is made that reserves and liabilities are not good and sufficient.**
- **Qualified: A reserve item cannot be reasonably estimated or opined.**
- **Unqualified: None of the above.**

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Health AO Revisions - Replacement

- **Provides reporting for replacement of appointed actuary similar to P&C AO instructions.**
- **Requires disclosure of any disagreements with a replaced appointed actuary within last 24 months.**
- **Disagreements relate to content of opinion on material adverse deviation risk, required disclosures, scopes, procedure or data quality.**

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Health AO Revisions - Replacement

- **Insurer must include disagreements resolved as well as unresolved.**
- **Insurer must request responsive letter from replaced actuary stating whether the replaced actuary agrees or disagrees with statements contained in the insurer letter on disagreements.**
- **Insurer must provide their responsive letter and any responsive letter received from the replaced actuary to the commissioner.**

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Rule to Adopt NAIC APPM

- **Department working to adopt NAIC APPM (March 2009 Version with updates during year)**
- **Includes 12/31/09 replacement of Actuarial Guidelines 34 & 39 with AG 43.**
- **Also includes revisions to Actuarial Guideline 33 which provides more guidance for the reserve interest rate. Changes started with Guaranteed Living Income Benefit (GLIB) discussions.**

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Rule to Adopt NAIC RBC

- **Department working to adopt NAIC RBC instructions for 2009.**
- **C3 Phase 3 RBC requirements will not be in the NAIC Life RBC instructions for 2009.**
- **Mortgage Experience Adjustment Factor (MEAF) contains revisions to avoid large RBC due to low default activity.**

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Model Audit Rule

- **The Department is working to adopt the NAIC Model Audit Rule (MAR) to be effective for 2010.**
- **MAR is a 2010 NAIC Accreditation Standard.**
- **All or virtually all states to adopt for 2010.**
- **Reflects updates to prior MAR to incorporate 2002 SOX best practices and standards.**

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Model Audit Rule

- **Small and medium size insurers will be exempt from certain provisions.**
- **Biggest impact to large, non-public insurers (\$500 million or more in premium)**
- **Numerous provisions to maximize impact at lowest cost to insurers.**
- **Example is public insurers may file copies of SEC reports rather than duplicate efforts.**

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NAIC Developments

- **Principle-based Reserves**
 - * **Standard Valuation Law Amendments**
 - * **Valuation Manual**
- **Life RBC**
 - * **C3 Phase 3**
 - * **C2 Phase 2 Subgroup**

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SVL Amendments

- **NAIC adopted SVL amendments to enable principle-based reserves and the Valuation Manual (VM).**
- **NAIC adopted at the Fall 2009 meeting subject to the condition that the VM is completed by this year end.**

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When Could PBR Begin?

- **Principle-based Reserve requirements can be in effect for new issues beginning January 1st following the July 1st where a supermajority of states have adopted the amendments to the SVL.**
- **Possible for PBR to be in effect for new issues starting 1/1/2012.**

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PBR 1/1/2012 Start Requires:

- **NAIC completion and adoption of the VM by the Summer of 2010.**
 - **Significant VM PBR technical issues including the net premium approach must be resolved before NAIC VM adoption. Initial PBR scope must also be resolved.**
- and,**

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PBR 1/1/2012 Start Requires:

- **SVL 2011 adoption by at least 42 of the 55 jurisdictions (ie - the 50 states, American Samoa, American Virgin Islands, District of Columbia, Guam, & Puerto Rico); plus,**
- **SVL 2011 adoption by States representing greater than 75% of direct premiums written as reported in the life, health, and fraternal statements.**

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Overall Game Plan

- **For contracts issued prior to VM operative date the accounting reserve requirements are provided by APPM, Appendices A & C. State reserve requirements are whatever states require which may or may not be the APPM, Appendices A & C.**

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Overall Game Plan

- **For contracts issued on and after the VM operative date state reserve requirements are provided by the VM where accounting reserve requirements are provided by the APPM which references the VM reserve requirements.**

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Overall Game Plan Results

- **State reserve requirements and accounting reserve requirements for contracts issued on and after the VM operative date would be in place at the same time with the same cites.**
- **Changes to reserve requirements would be made with same timing and uniformity across states.**
- **Greater Efficiencies.**

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VM-0: Table of Contents

- I. Introduction**
- II. Reserve Requirements**
- III. Actuarial Opinion and Report Requirements**
- IV. Experience Reporting Requirements**
- V. Valuation Manual Minimum Standards**

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VM-0: I. Introduction

- **Authority and Applicability**
- **Background**
- **Description of Valuation Manual**
- **Operative Date of Valuation Manual**
- **Process for Updating Valuation Manual**
- **Overview of Reserve Concepts**
- **Corporate Governance Requirements for PBR**

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VM-0: II. Reserve Requirements

- **This section does not contain the reserve requirements but rather assigns reserve requirements by product type and references where requirements are found.**
- **Product types include life, annuity, health, and credit.**

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VM-0: III. Actuarial Opinion and Report Requirements

- **This section also does not contain these requirements but references the requirements to be followed for the actuarial opinion and memorandum and for PBR reporting.**

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VM-0: IV. Experience Reporting Requirements

- **This section references the experience reporting requirements and format for experience reporting to be used.**

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VM-0: V. Valuation Manual Minimum Standards

- **These minimum standards are all the minimum reserve, reporting and other standards used by the Valuation Manual.**
- **Contained within this section of VM-0 there is just a reference to these standards.**
- **Following VM-0 are each of the documents and standards used by the Valuation Manual.**

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V. VM Minimum Standards

VM-1 Definitions for Terms in Requirements

VM-5 NAIC Model SVL

VM-20 Life PBR Requirements

VM-21 Variable Annuity PBR Requirements

VM-26 Credit Life and Disability Reserve Requirements

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V. VM Minimum Standards cont'd

VM-30 AO & Memorandum Requirements

VM-31 PBR Reporting & Documentation Reqs

VM-50 Experience Reporting Requirements

VM-51 Experience Reporting Formats

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V. VM Minimum Standards cont'd

VM - Appendix A Non-PBR Requirements

VM - Appendix C Actuarial Guidelines

**VM - Appendix G Corporate Governance
Requirements for PBR**

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Other PBR Related Tasks

- **Training**
- **PBR Impact to Blanks**
- **Examination Procedures**
- **Centralized Effort - At a minimum to enhance state uniformity in areas of PBR judgment during examinations.**

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Life PBR Scope – Poll the Audience

- **Limited or Broad Initial Scope**
- **All Term**
- **Limited Scope on Term**
- **All UL**
- **Just UL with Longer Secondary Guarantees**
- **Transition Period (& Length)**

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Keeping Up With PBR

- **NAIC Website for VM drafts & exposures:**
http://www.naic.org/index_committees.htm
- **American Academy of Actuaries PBA 101.**
http://www.actuary.org/pdf/life/pba101_sept09.pdf
- **Society of Actuaries' Recent PBR Study**
<http://www.soa.org/research/life/research-pba.aspx>

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Life Risk Based Capital

- **C3 Phase 3**
 - * **Targeted for 2010.**
- **C3 Phase 2 Subgroup**
 - * **Texas chairs subgroup to review requirements and selected submissions for possible changes.**

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Request For Input or Questions Principle-based Reserves / RBC

- **Call or Email Actuarial Division, TDI**
 - * **512-322-5067**
 - * **Actuarialdivision@tdi.state.tx.us**

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Interstate Compact

- **IIPRC - “Interstate Insurance Product Regulation Commission” or “Compact”.**
- **Website: www.insurancecompact.org**
- **36 states have joined the IIPRC representing half the premium volume nationwide.**
- **Product filing standards or status on website.**

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Interstate Compact

- **Texas chairs IIPRC Product Standards Committee**
- **54 product standards have been adopted which can be found under the IIPRC website “Record” tab.**
- **“Record” tab also provides 4 product standards currently going through the process.**
- **Several LTC standards in discussion can be found on the website under the Draft Uniform Standards Under PSC Review of the Industry page.**

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IIPRC Survey Report - Milliman

Report can be found at the following link:

http://www.insurancecompact.org/documents/iiprc_survey_milliman.pdf

- **69 companies registered as of August 2009**
- **106 submissions filed in 2008.**
- **144 submissions as of August 2009.**
- **2009 submissions expect to double that in 2008.**
- **Survey asked companies 17 questions.**

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IIPRC Survey Report - Milliman

- **Overall the survey indicated a high level of satisfaction for companies filing IIPRC submissions.**
- **Getting high marks included speed of approval, accessibility and ease of working with reviewer, one filing results in multiple state approvals, and ease of administering a single generic contract for 30+ states.**

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Key TDI Contacts - IIPRC

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