

# REGULATORY UPDATE

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

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# TOPICS

- **PBR Status**
- **PBR – What’s your status?**
- **Health Reform**
- **IASB Insurance Contracts Exposure**
- **Recent Rules**
- **Other Topics**

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## PBR Status

- **Delay to 1/1/2014**
  - **ACLI Letter – May 4<sup>th</sup>, 2010**
  - **Stressed need for PBR Testing**
- **Life PBR Scope Expanded**
- **Steps to 1/1/2014**
- **Feedback Loop**

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## PBR Testing

- **NAIC RFP for consultant**
- **Towers-Watson selected**
- **Report due March 2011 (unless extended)**
- **Consultant to work with:**
  - **RTS (Regulatory Testing Subgroup)**
  - **ATS (Participating Company Actuarial Task Force)**
  - **PIL (Professional Industry Liaisons)**

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## PBR Testing – Product Types

- **UL with secondary guarantees (SG)**
- **Fixed Premium UL – no SG**
- **Flexible Premium UL – no SG**
- **Competitive Term**
- **Non-Competitive Term**

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## PBR Testing – Product Types

- **Traditional Large Face WL**
- **Simplified Issue Term or WL**
- **Variable Universal Life**
- **Other Life**

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## PBR Testing

- **Training**
- **Data Request**
- **Modeling**
- **Support**
- **Objectives**

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## PBR – What's Your Status

- **Survey Results Provided in the American Academy of Actuaries' PBA Seminar Held in Chicago on 9/22/2010.**
- **Texas Department of Insurance Survey of Appointed Actuaries for Domestic Life Insurance Companies.**

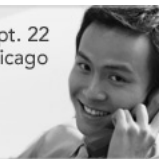
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## PBR – What's Your Status

- **The following 16 slides are from the Academy of Actuaries / Society of Actuaries PBA Seminar held in Chicago on 9/22/2010. Dave Neve presented these 16 slides which summarize results of a survey to companies regarding PBA and their status.**

**PBA Implementation Seminar:**  
Getting a Rock Solid Start

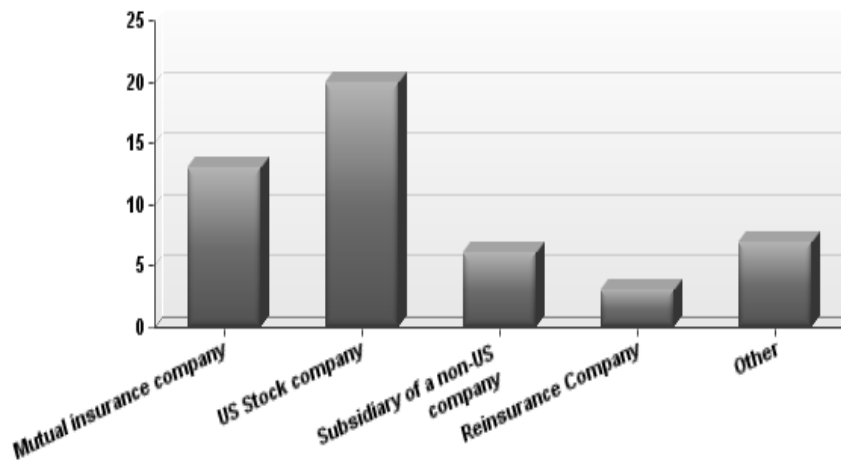
Sept. 22  
Chicago



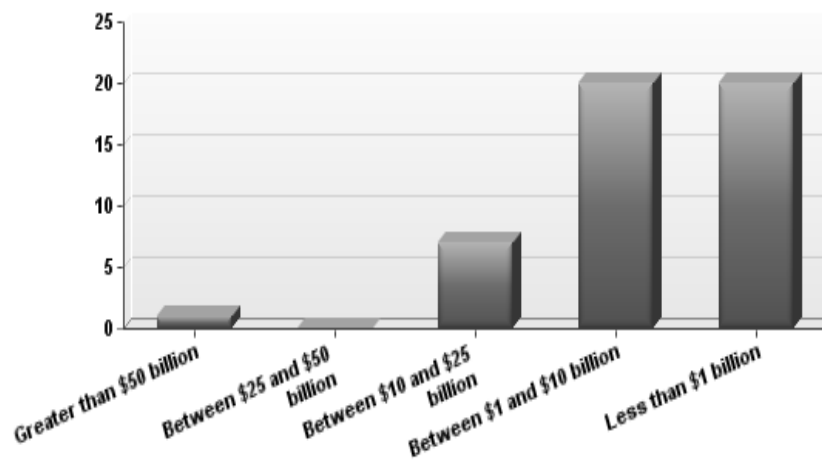
PBA Seminar Survey

09/22/2010

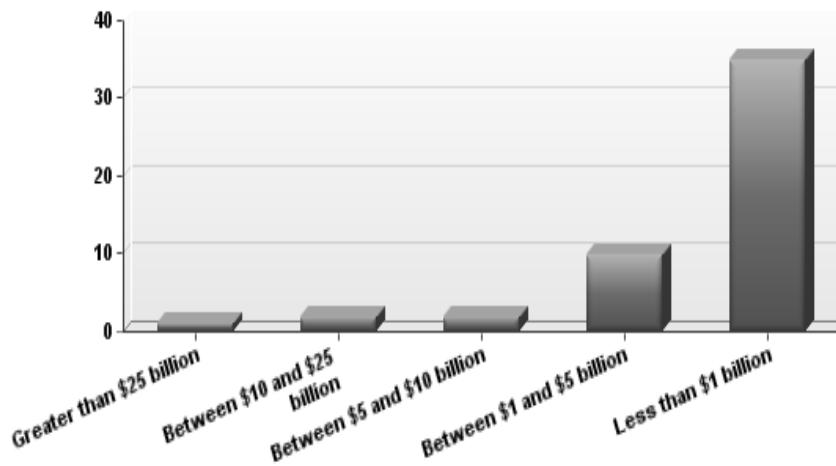
## 1. Your company is a



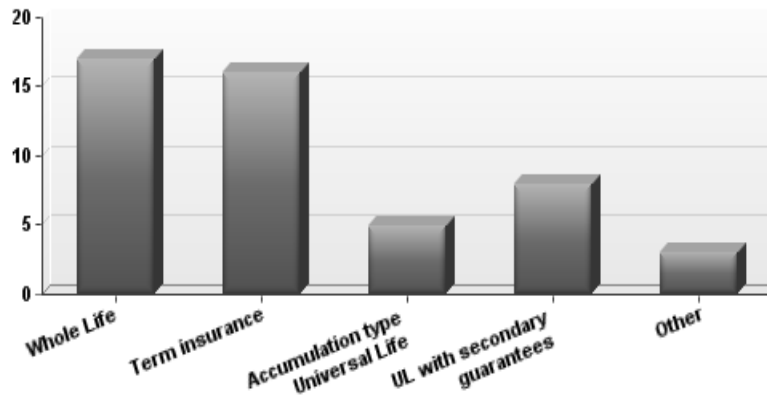
## 2. Your company's life reserves in total as of December 31, 2009 were



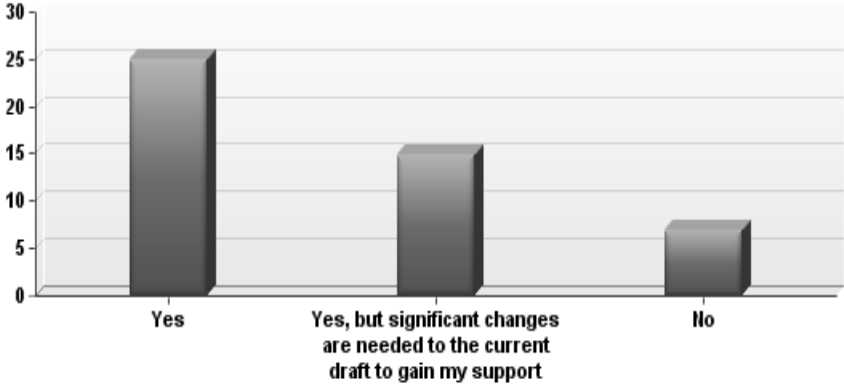
3. Your company's total universal life block as of December 31, 2009 had an account value of



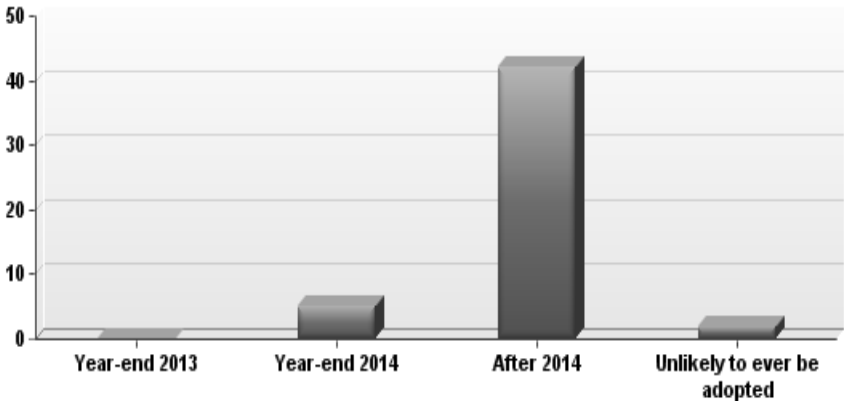
4. Most of your company's life insurance sales over the last 12 months are in which of the following products:



5. Do you support adoption of VM-20?

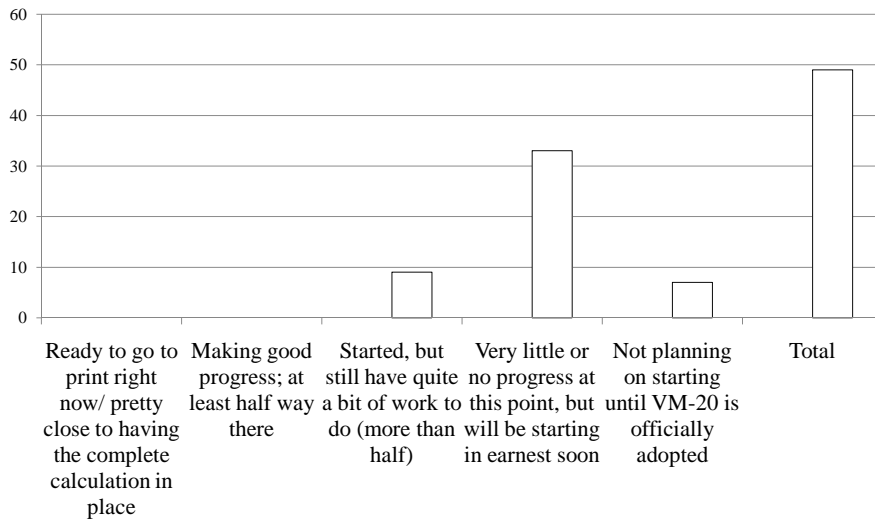


6. At what date do you think VM-20 will be in place?

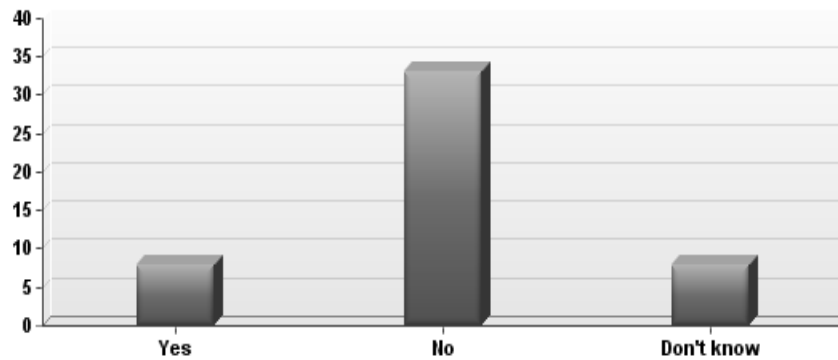




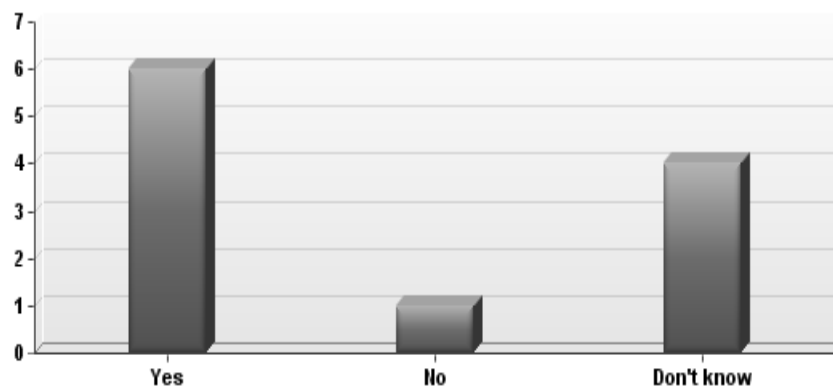
**7. What is the status at this point of your preparation for VM-20?**



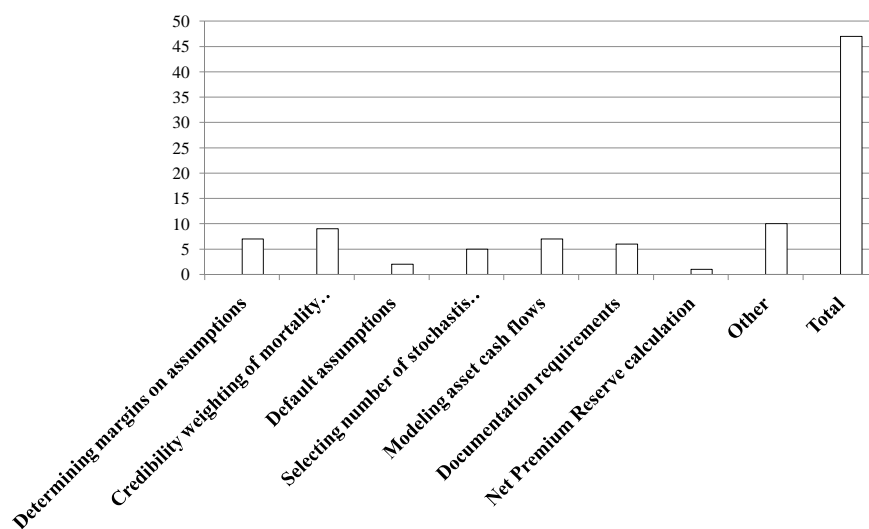
**8. Has your company been asked to participate in the field testing this fall?**



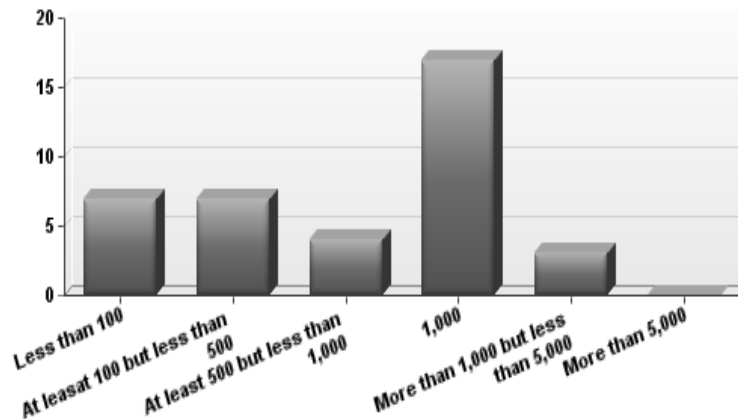
9. If the answer to question 8 is yes, will your company elect to participate in the VM-20 field testing?



10. Which element of the calculation do you think represents the greatest challenge to implement VM-20?

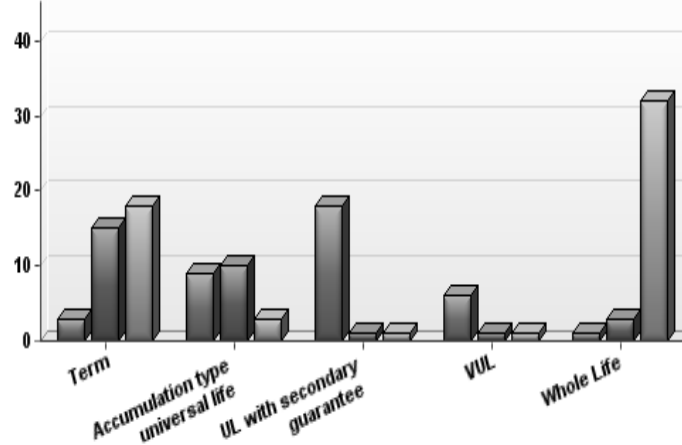


11. How many stochastic scenarios do you think your company will use to perform the stochastic reserve calculation?

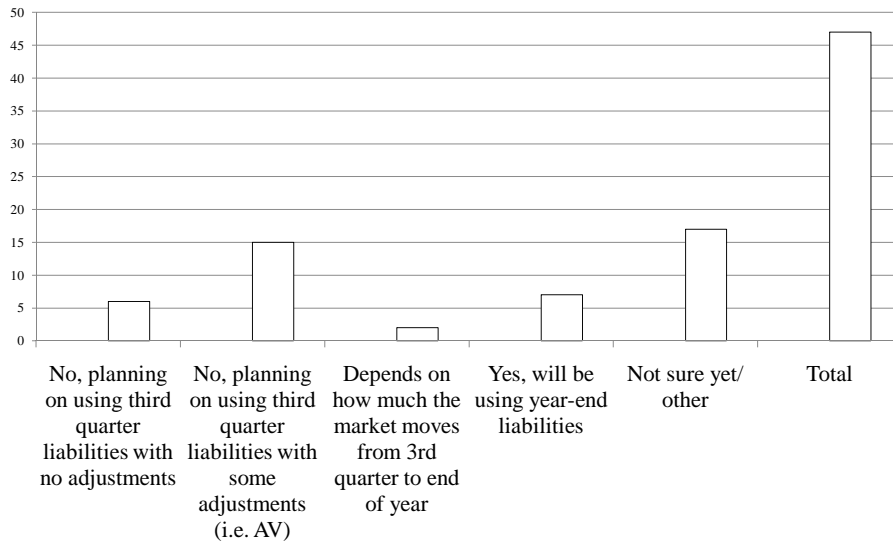


12. For each of the following, please check the box for what reserve amount you think you will hold as required by VM-20:

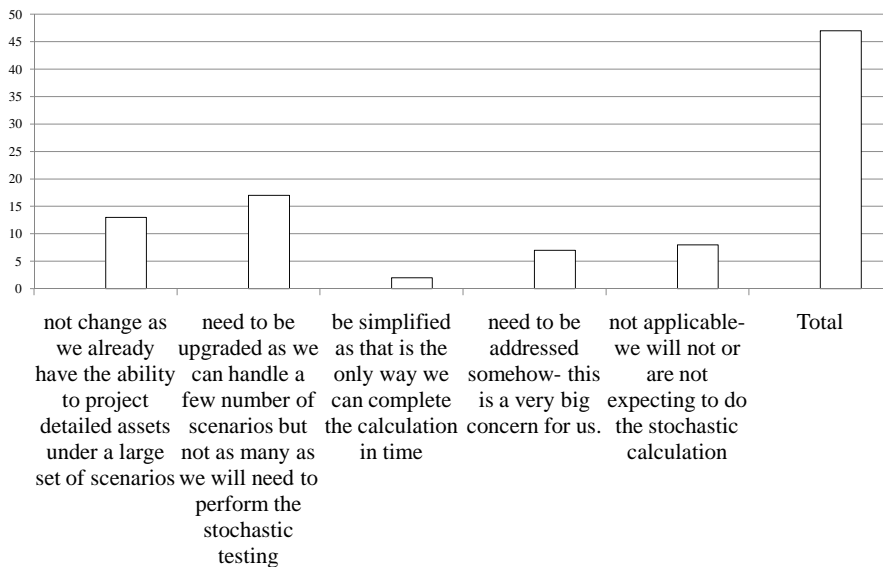
Stochastic Reserve   
 Deterministic Reserve (pass SET)   
 Net Premium Reserve (pass both SET and DET)



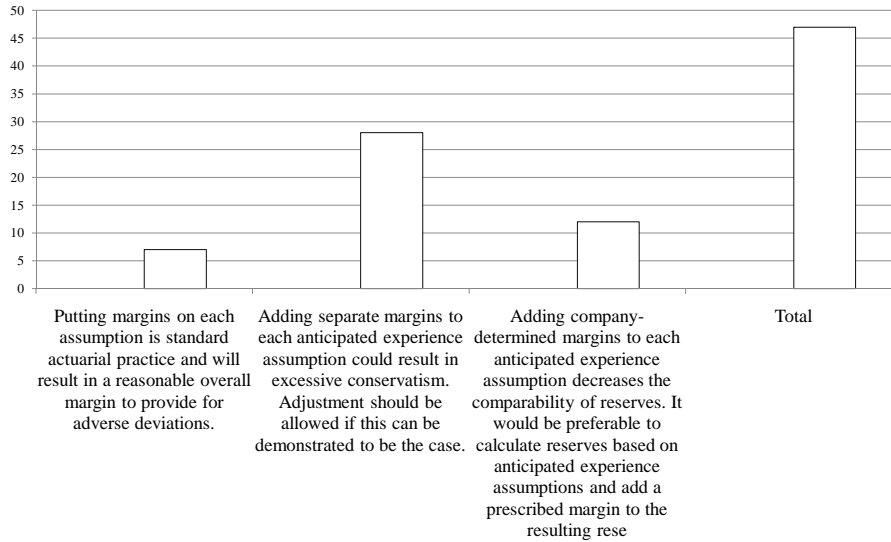
### 13. Will you perform the VM-20 calculation using year-end liability in force data?



### 14. To satisfy the stochastic reserve requirement, our asset modeling will:



15. VM-20 requires margins be added to each of the anticipated experience assumptions. Which of the following best describes your opinion about this requirement?



## PBR – What’s Your Status

- **This slide is a placeholder for either slides to be provided summarizing TDI survey results to Texas domestic life insurance company appointed actuaries or to verbally discuss results.**

## Health Reform

- **NAIC adopted MLR Rule for 2011 - 2013**
  - **PPACA Actuarial Subgroup submitted to parent levels prior to NAIC October 2010 meeting.**
  - **MLR 80%, 80%, & 85% for individual, small group, large group, respectively.**
  - **Generally MLR is calculated based on experience in a state.**

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## MLR Rule

- **Experience for Rebates**
  - **2011 rebates based on 2011 experience.**
  - **2012 rebates based on 2012 experience and includes 2011 if 2012 not fully credible.**
  - **2013 rebates based on the experience of that year and the prior two years.**
  - **Credibility & other adjustments may apply.**

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## Technical Amendment Adopted

- **Reflects any 2011 rebate in the 2012 MLR calculation if 2012 experience is not fully credible on its own and 2011 experience is then included in the 2012 MLR calculation.**
- **Reflects any 2011 and 2012 rebates in the calculation of the 2013 MLR.**
- **This amendment addresses situations where a company may otherwise pay 67% or more than the required rebate.**

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## Not Adopted

- **Proposed amendment to reflect higher credibility adjustment factors based on an 80% confidence level versus the lower factors based on a 50% confidence level.**
- **Such credibility adjustment factors increase the calculated MLR to compensate for volatility when experience is not credible.**

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## IASB Insurance Contracts Exposure

- **IASB – International Accounting Standards Board. Exposure intended to replace IFRS 4.**
- **Exposed for comment to 11/30/2010.**
- **Financial Accounting Standards Board (FASB) issued a “Discussion Paper” which is exposed for comment to 12/15/2010.**
- **Could have significant effect on insurance company GAAP reserves and reporting.**

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## FASB Reasons for Discussion Paper

### **Excerpts from the FASB Discussion Paper:**

- **FASB & IASB current accounting guidance varies significantly.**
- **GAAP has comprehensive accounting guidance whereas IFRSs do not.**
- **Whether the IASB exposure would improve current guidance is relative to FASB / IASB starting points. FASB did not evaluate whether this would improve US GAAP and is instead seeking input from its stakeholders.**

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## FASB Discussion Paper Summary

- **Current FASB requirements are based on a two model approach (short term versus long term).**
- **FASB has not determined whether the proposed single model or the two model approach would result in more-useful information.**
- **FASB’s objective for this project is to “improve U.S. GAAP for insurance contracts by developing high quality guidance that addresses recognition, measurement, presentation, and disclosure.”**

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## IAIS Exposed Comments to IASB

- **IAIS – International Association of Insurance Supervisors.**
- **Stressed cost-benefit considerations be endemic in consideration of each proposal.**
- **Small companies may be burdened with costly reporting for niche markets served.**
- **Cautions not to create an illusion of precision. For example, in probability weighted estimates of future cash flows.**

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## IAIS Exposed Comments to IASB

- **Expresses a strong preference for the two model approach with life insurance accounting separate from non-life insurance contracts.**
- **IAIS divided on a risk adjustment & residual margin (IASB) approach versus a single composite margin (FASB).**
- **IAIS agrees the discount rate should reflect the characteristics of the insurance contract liability as opposed to the assets backing that liability.**

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## IAIS Exposed Comments to IASB

- **IAIS identified five families of solutions for the discount rate but no recommendation yet:**
  - **Risk-free discount rate**
  - **Risk-free with specified liquidity adjustment**
  - **Risk-free with principles-based liquidity adjustment.**
  - **Economic default adjusted rate**
  - **A benchmark rate based on IAS 19**

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## Recent Rules - Adopted

- **Pre-Need Rule (TAC, Subchapter OO, Sections 3.9601 thru 6). Allows continued use of 1980 CSO table for reserves. (2009 adoption)**
- **Credit Rule (Implemented HB 1761). (2009 adoption)**
- **Retroactive Use of 2001 CSO Preferred Mortality (TAC, Subchapter MM) (2010 adoption)**
- **Elimination of X factor constraints (TAC, Subchapter EE) (2010 adoption)**
- **Model Audit Rule (2010 adoption)**

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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.**
- **Adoption occurred before year end 2009.**

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## **Retroactive Use of 2001 CSO Preferred Mortality**

- **In Texas such retroactivity can apply to issues on and after 5/1/2003 and prior to 1/1/2007.**
- **Life insurance proposal 1a allows retroactive use of the 2001 Preferred CSO mortality tables subject to a reinsurance accounting condition.**

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## **Reinsurance Accounting Condition**

- **Intent of accounting condition is to disallow retroactivity if excessive reserve credit is taken relative 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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## **Elimination of X factor constraints**

- **Removes the 20% “X factor” constraint.**
- **Allows “X factors” to decrease in future durations in addition to the ability to increase.**

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## **Model Audit Rule**

- **The Department adopted this rule earlier this year.**
- **The Model Audit Rule (MAR) is a NAIC Accreditation Standard 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 are exempt from certain provisions.**
- **Biggest impact is to large, non-public insurers (\$500 million or more in premium)**
- **Numerous provisions are intended 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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## Current Rules In Progress

- **Rule to adopt 2009 and 2010 NAIC Risk Based Capital requirements was exposed for the required 30 day comment period beginning October 8<sup>th</sup>, 2010.**
- **Rule to adopt the March 2010 APPM with updates through October 2010 was exposed for the required 30 day comment period on October 29<sup>th</sup>, 2010.**
- **Rule to adopt blanks instructions currently being developed.**

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## Other Topics

- **Life Risk Based Capital**
- **Health Actuarial Opinion Reminder**
- **Dodd-Frank Bill**
- **2011 Legislative Session**