



The AOMR in Texas

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June 9, 2005



Agenda

- The Basics
- Current Status
- Highlights of the New Rule
- Impact of New AOMR on Texas Domestic
- Additional Information



The Basics

- AOMR = Actuarial Opinion and Memorandum Regulation
- Current Texas cite for the AOMR is 28 TAC 3.1601-3.1611



Current Status

- 28 TAC 3.1601-3.1611 will be repealed
- New AOMR will be 28 TAC 3.1601-3.1608
- Effective date for both the repeal and the new rule will be June 20, 2005
- Applies to the 2005 Annual Statement and Annual Statements filed thereafter



Highlights of the New Rule

- General Overview
 - No more “Section 7” opinions and ratios
 - Asset adequacy analysis required of all companies unless exempted
 - Companies required to submit a Regulatory Asset Adequacy Issues Summary to the Department



Highlights of the New Rule (cont.)

- Domestic single-state companies are exempted from performing asset adequacy analysis
 - Exemption is automatic
 - The Department can request that a Company perform asset adequacy analysis if the Commissioner believes it is necessary



Highlights of the New Rule (cont.)

- Regulatory Asset Adequacy Issues Summary (RAAIS)
 - Must be submitted to the Actuarial Division no later than March 15 of the year following the year for which a statement of actuarial opinion based on asset adequacy is required.
 - Will be treated as confidential

Highlights of the New Rule (cont.)



- RAAIS – continued
 - The RAAIS must contain the name of the Company and must be signed and dated by the appointed actuary rendering the actuarial opinion
 - Foreign companies must also file a RAAIS with the department, even though they may not be required to file a hard copy of the actuarial opinion with the department

Highlights of the New Rule (cont.)



- RAAIS – continued
 - The RAAIS must include:
 - Descriptions of scenarios tested and any sensitivity testing done. If negative ending surplus results under certain tests in the aggregate, a description of those tests and the amount of additional reserve needed as of the valuation date to eliminate the negative aggregate surplus values must be included.
 - Materially different assumptions



Highlights of the New Rule (cont.)

- RAAIS – continued
 - The RAAIS must include (continued):
 - Identity of product lines subjected to asset adequacy analysis in prior opinion but not current
 - Comments on interim results that may be of significant concern



Highlights of the New Rule (cont.)

- RAAIS – continued
 - The RAAIS must include (continued):
 - Methods used to recognize the impact of reinsurance on the company's cash flows under each of the scenarios tested
 - Level of satisfaction that all options in any asset or liability and any equity-like features in any investments have been appropriately considered in the analysis.

Highlights of the New Rule (cont.)



- Three possible alternatives for opinions of foreign insurers are included in the new AOMR, but none are available for use at this time.
 - Alternative 1 – Formal written list of standards and conditions
 - Alternative 2 – Approval of Company's request to file an opinion based on law of the state of domicile
 - Alternative 3 – Required comparison



Impact of the New AOMR on Texas Domestic

- Nineteen multi-state Texas domestics filed a Section 7 opinion for the 2004 Annual Statement filing
- Thirteen single-state Texas domestics filed a Section 8 opinion for the 2004 Annual Statement filing



Additional Information

- Companies that fall under the scope of the AOMR include
 - Life, accident and health insurance companies doing business under Chapter 3 of the Texas Insurance Code
 - Stipulated premium companies writing Chapter 3 business
 - Group hospital service corporations



Additional Information (cont.)

- Amounts not tested
 - Must be able to justify amounts not tested (e.g. if immaterial, what is the materiality measure?)
 - Include a brief explanation for amounts not tested in the Actuarial Opinion or the RAAIS



Additional Information (cont.)

- ASOP 22, *Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life and Health Insurers*, provides guidance on asset adequacy analysis and methods for such analysis.



Additional Information (cont.)

- Format for exempt companies to follow when filing opinions
 - 28 TAC 3.1608(b) (New AOMR)

“Companies exempted ... shall submit with the annual statement an actuarial opinion pursuant to this subchapter but not based on an asset adequacy analysis.”



Additional Information (cont.)

- Status of AOMR in other states
 - March 11, 2005 Van Elsen Report on the AOMR
 - New AOMR adopted and effective 2004 or before – 10 states and District of Columbia
 - New AOMR adopted and effective 2005 – 3 states
 - States planning to adopt for 2005 – 3 states (including Texas)
 - States requiring AOMR provisions without adopting the new AOMR – 2 states
 - States with no current plans to adopt the new AOMR or no position reported – 32 states