

# Examiner<sup>®</sup>

Volume 39  
Number 3  
**Fall 2014**



Official Publication of the Society of Financial Examiners<sup>®</sup>

## **Publisher**

Society of Financial Examiners®  
12100 Sunset Hills Road | Suite 130  
Reston, Virginia 20190  
703.234.4140  
800.787.SOFE (7633)  
Fax 703.435.4390

## **Society Executive Committee**

Eric Dercher, CFE | **President**  
Richard Nelson, CFE | **Treasurer**  
James Kattman, CFE | **Secretary**  
Richard Foster, CFE | **Past President**

## **Vice Presidents**

Susan Bernard, CFE  
Joanne Campanelli CFE  
Joseph Evans, CFE  
Jenny Jeffers, AES, CISA  
James Kattman, CFE  
Annette Knief, CFE  
Mark Murphy, CFE  
Colette Hogan Sawyer, CFE, CPM  
Eli Snowbarger, CFE  
Tarik Subbagh, CFE  
Virginia West, CFE  
Tian Xiao, CFE

## **Legal Counsel Pro Bono**

William D. Latza, Esq.

## **Editorial and Publications Committee**

Joseph Evans, CFE, | **Chair**  
Lewis D. Bivona, Jr., AFE CPA  
Rich Fidei  
Neal Foster, CFE  
Glenn LeGault, CFE, CPA  
Jan Moenek, CFE, CIA  
Robert H. Moore, CFE  
P. Sean O'Donnell, CFE, CPA  
Joanne Smith, CFE  
Colette Hogan Sawyer, CFE  
April Spevak, CFE  
Mary Steward

© Society of Financial Examiners

## IN THIS ISSUE

### **6 Annual Report on the Insurance Industry**

*By Federal Insurance Office, U.S. Department of Treasury*

### **7 Reputational Risk or Risks to Reputations?**

*By Wa'el Bibi, CPA, CIA, CISA*

### **13 Options Facing Congress in Renewing the Terrorism Risk Insurance Act (TRIA): A Quantitative Analysis**

*By Howard Kunreuther and Erwann O. Michel-Kerjan, Penn-Wharton, University of Pennsylvania*

### **21 NAIC Summer 2014 Meeting Notes**

*By PWC*



Articles in The Examiner reflect the views of the individual authors and do not necessarily represent the official position or views of the Society of Financial Examiners nor any state or federal agency.



## CRE READING PROGRAM INSTRUCTIONS

### The Society of Financial Examiners has a Reading Program for Earning Continuing Regulatory Education Credit by Reading the Articles in *The Examiner*.

You can earn 2 CRE credits for each of the 4 quarterly issues by taking a simple, online test after reading each issue. There will be a total of 9–20 questions depending upon the number of articles in the issue. The passing grade is 66%. To take the test, read all of the articles in the issue. Go to the Members section of the SOFE website to locate the online test. This is a password protected area of the website and you will need your user name and password to access it. If you experience any difficulty logging into the Members section, please contact [sofe@sofe.org](mailto:sofe@sofe.org).

**NOTE:** The Reading Program Test from this issue and future issues of the Examiner will be taken online. You will no longer print out the test and send it in for scoring. Each new test will be available online as soon as possible within a week of the publication release. The Reading Program online tests are free. Scoring is immediate upon submission of the online test. Retain a

*Earn Continuing  
Regulatory Education  
Credits by Reading  
The Examiner!*

copy of your online test score in the event you are audited or if you need the documentation for any other organization's CE requirements. Each test will remain active for one year or until there is a fifth test ready to be made available. In other words, there will only be tests available for credit for four quarters at any given time.

The questions are on the following page. Good luck!



## CRE READING PROGRAM QUESTIONS

All quizzes **MUST** be taken online

### **Earn Continuing Regulatory Education Credits by Reading the Examiner!**

The Reading Program Test from this issue and future issues of the *Examiner* will be offered and scored online. Please see the details on the previous page.

*Please see the details on the previous page.*

#### **“2014 Annual Report on the Insurance Industry”**

True or False Questions — [Submit Answers Online](#)

1. Aggregate written premiums for the life and health sector declined slightly in 2013, from their record high in 2012, due to the Affordable Care Act.
2. As of July 2013, nine U.S. Based Insurers were identified as G-SIIs.
3. Concerns with the use of captive reinsurers include: 1) reinsurance captives allow insurers to receive credit against reserve and capital requirements by transferring risk to the captive even though the captive is not bound by rigorous or consistent capital rules across the states; and 2) a lack of transparency and consistent oversight of reinsurance captives from state to state.
4. Concerns relating to the acquisition of annuity writers by private equity firms relate to the fact that the private equity firms are not regulated by the state insurance departments.
5. Examples of reinsurance-like risk transfer vehicles and insurance-linked securities include sidecars and cat bonds.

#### **“Reputational Risk or Risks to Reputations?”**

True or False Questions — [Submit Answers Online](#)

6. In the corporate and academic communities, reputational risk is only viewed as a standalone risk category.
7. Reputational risk management is the responsibility for a certain subset of people within an organization.
8. Reputational risks that have been established within an organization may increase due to factors such as fraud, theft and cutting corners on quality.
9. Work of internal auditors has not included involvement with reputational risks for companies.
10. An organization’s risk management plan should be integrated with the organization’s reputational risk management processes.



## CRE READING PROGRAM QUESTIONS

All quizzes **MUST** be taken online

(continued)

### “Options Facing Congress in Renewing the Terrorism Risk Insurance Act (TRIA): A Quantitative Analysis”

True or False Questions — [Submit Answers Online](#)

11. Terrorism exclusions were virtually non-existent after September 11th, 2001.
12. TRIA was forced upon insurers with the government taking no responsibility for the federal government to share in potential losses.
13. The key issue with deductible and surplus ratios, according to AM Best, is that many insurers D&S ratios are high enough that severe hardship or insolvency could occur in another terroristic event.
14. Program triggers under TRIA of \$100M could be exceptionally adverse to smaller companies covering terror risks.
15. Commercial policyholders never have to pay a portion of loss under the current program if the loss is less than \$80M.

### “NAIC Summer 2014 Meeting Notes”

True or False Questions — [Submit Answers Online](#)

16. As a result of the adoption by the Executive Committee of the XXX/AXXX Reinsurance Framework, transactions which would cede XXX term life insurance business or AXXX universal life with secondary guarantees business are now prohibited.
17. Based on new states which adopted the principles-based reserving requirements during 2014, and additional states expected to introduce legislation in 2014 or 2015, the Principles-Based Reserving Implementation Task Force estimates the earliest probable PBR Valuation Manual effective date would be January 1, 2017.
18. The Health Risk-Based Capital Working Group clarified that the excessive growth charge, which has been part of the health RBC formula since it was first implemented in 1998, is not intended to impact a start-up company.
19. The Group Solvency Issues Working Group determined no further revisions are needed to the Insurance Holding Company System Regulatory Act (#440) and Insurance Holding Company System Model Regulation (#450) to address recent issues regarding group-wide supervision.
20. As a result of a proposal adopted by the Blanks Working Group, insurers will be required to include zip codes in Schedules A, B and BA.

# ANNUAL REPORT ON THE INSURANCE INDUSTRY

---

FEDERAL INSURANCE OFFICE, U.S. DEPARTMENT OF THE TREASURY

*Completed pursuant to Title V of the Dodd-Frank Wall Street Reform and Consumer Protection Act*

SEPTEMBER 2014



**Access the FIO Annual Report at the Link Below**

[http://www.treasury.gov/initiatives/fio/reports-and-notice/2014\\_Annual\\_Report.pdf](http://www.treasury.gov/initiatives/fio/reports-and-notice/2014_Annual_Report.pdf)







## Reputational Risk or Risks to Reputation

By Wa'el Bibi, CPA, CIA, CISA

Reputation is the soul of any business. Without it there is, basically, no business. Many factors, internal and external, may lead to the destruction of reputation. These factors are called risks.

Professionals have been debating whether there is such thing as reputational risk (category of risk by itself), or simply there are risks to reputation. In this article, I will attempt to shed some light on these two schools of thoughts.

*"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."*  
– Warren Buffet

Before I start the discussion, let's familiarize ourselves with the related terminologies:

### *What is reputation?*

Rep·u·ta·tion/rep'yətāSHən/ Noun

The Merriam Webster dictionary defines reputation as "overall quality or character as seen or judged by people in general".

Would this simple definition apply to corporate reputation as well? And what is the difference between reputation, corporate identity, image and brand?

Peter W. Roberts and Grahame R. Dowling define corporate reputation as follows:

*"A perceptual representation of a company's past actions and future prospects."*

In other words, reputation is created when an organization's experience meets or exceeds stakeholders' expectations.

*Reputation = experience - expectations*  
– Oonagh Mary Harpur

Corporate identity, image and brand are all ingredients of corporate reputation.

@2011 Bibi Consulting Inc.  
All rights reserved.



## Reputational Risk or Risks to Reputation

(continued)

### *What is risk?*

Risk is the possibility of an event occurring that will have a negative impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

### *What is reputational risk?*

The Committee of European Banking Supervisors defines reputational risk as follows:

“Reputational Risk is the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution **(organization)** on the part of customers, counterparties, shareholders, investors or regulators.”

### *Does reputational risk exist?*

Some risk managers believe that reputational risk is a risk of itself (standalone category) and that it can be isolated and measured.

Greg Shields, Partner at Mitchell Sandham Insurance Brokers in Toronto, writes in his blog:

“My support would go to the ‘standalone category’. Damage to reputation is a very real secondary risk to every primary risk, however, since it can also be a direct loss, with no primary risk cause, the risk has to have its own policies, procedures, measurements (prioritize if not quantify) and unique solutions. This means, crisis management plans, dedicated ‘category owners’, internal (separate from) external communication plans, oversight/policing of Reputational Risk Management component of every divisional/category Risk Committee, involvement in executive level Reputation Planning (including establishment, maintenance and monitoring.)

*“Reputational risk is the starting point of all risks.”*

*– Dr. Guruswami Raghavan*

On the other hand, there are those who do not believe that reputational risk is a category by its own right, among them is Dr. Jean Paul Louisot, Professor of Risk Management at the Sorbonne University, who says:

“There is no such thing as reputational risk, only risks to reputation.” He adds: “The term ‘reputational risk’ is a convenient catch –all for all those risks, from whichever source that can impact reputation. The source could be legal, non-compliance, a data security lapse, an unexpected profit warning or unethical behavior in the boardroom.”

@2011 Bibi Consulting Inc.  
All rights reserved.





## Reputational Risk or Risks to Reputation

(continued)

*There is no such thing as reputation risk; rather all risks may have an impact on an organization's reputation.*

And there are those who believe that reputational risk status is determined by the organization's ability to identify and manage first-tier risks, an example of this opinion is represented in a Deloitte publication, it reads as follows:

"Notwithstanding the fact that the majority of reputational damage can be described as a second order impact, a number of reputational risks can nevertheless be classified as 'independent risks' meaning that reputational damage could be considered as a first order impact. These independent risks can often be associated with ethics. Organizations that do not abide by high ethical standards and that ignore principles of market conduct are vulnerable to losing their customers' trust and confidence. In short, each organization has a social responsibility that it cannot ignore and that it must address in its corporate governance."

A 2005 Economist Intelligence whitepaper further explains this:

"Risk managers are divided on whether reputational risk is an issue in its own right or simply a consequence of other risks. The latter view predominates where there is a tradition of well structured risk measurement and management. In industries where risk managers feel they have identified the key first-tier risks facing their business, they may be more inclined to consider reputational damages as simply a failure to manage these risks properly. In contrast, in sectors where first-tier risk is less quantifiable they are more likely to see reputational risk as a class in their own right."

According to same study, 52% of respondents consider reputation risk as a risk by itself, while 48% consider it as a consequence of other risks.

### *What do I think?*

In researching for this article, I have read a large volume of materials concerning reputational risk. I have concluded that all risks may have an impact on reputation and that reputational risk, in most cases, is a consequence of other risks.

When I think about the demise of Arthur Andersen, I am a former partner, I remind myself that what destroyed the firm's reputation was a regulatory risk. Using the same argument, what tarnished British Petroleum's reputation recently was an environmental risk.

@2011 Bibi Consulting Inc.  
All rights reserved.



## Reputational Risk or Risks to Reputation

(continued)

### *So What?*

What difference does it make if reputation risk is considered a separate risk or not? Risk is risk regardless of what you call it or how you classify it. Isn't this just a formality and we should look at substance over form? The difference is in the organization's response to this risk and how it is managed. If the reputational risk is categorized as a risk of itself, management may tend not to integrate it within the Enterprise Risk Management (ERM) or any other risk management framework, but rather treat it as a public relation issue and assign it to public relations to manage it. If this is the case, one would expect a reactive reaction to risk in the form of damage management.

Although communication with stakeholders is a key to a successful reputational risk management, it should not be the only one. Reputational risk is the responsibility of every one. This applies to an employee posting his/her status and thoughts on social websites to the dealings and behavior of management.

Reputational risk management should be integrated with the organization's risk management plan.

Key elements of managing reputational risks are:

- Prompt and effective communications with all categories of stockholders.
- Strong and consistent enforcement of controls on governance, business and legal compliance.
- Continuous monitoring of threats to reputation.
- Ensuring ethical practice throughout the supply chain.
- Establishment and continual updating of crises management plan and establishment of a crises management team, empowered with specific power and authority.

A white paper by Deloitte suggests that "Traditional risk management techniques aren't adequate for countering today's killer risks, because they focus almost exclusively on risk avoidance and an inside-out perspective on threats." The paper calls for a new approach it calls "outside - in perspective of threats". Under this approach, effective management of risks to reputation involves a three-step process of internal discovery, analysis of stakeholder and marketplace threats and opportunities, and proactive management of actions designed to protect and enhance reputation and value.

*What is new today is the need for a 360-degree risk overview that effectively incorporates an outside-in risk perspective with inside-out Risk Intelligence.*  
– Deloitte

@2011 Bibi Consulting Inc.  
All rights reserved.



## Reputational Risk or Risks to Reputation

(continued)

### *Role of Internal Auditors*

An article published in the IIA's internal auditor magazine in June 2009 provides a comprehensive view on the internal auditors' role in managing reputational risk:

"Internal auditors have long been involved with reputational risks at companies, monitoring these risks in ongoing audit engagements and in ad hoc consulting activities. With the growing prominence of reputational risks to organizations, internal auditors should ensure their level of involvement is adequate to assist the organization in dealing with these risks appropriately. There are several ways in which internal auditors can accomplish this level of involvement:

- Identifying risk champions throughout the organization, whose roles include monitoring and reporting on reputational risks
- Having a place at the table when the committee in charge of risk management in the organization is discussing reputational risks
- Regularly discussing reputational risk as part of the risk universe at an organization
- Being aware of reputational risks and identifying areas that represent threats because they are not being managed correctly
- Ensuring organizations examine reputational risks at the inherent level as well as at the perceived residual level
- Increasing monitoring of social networking websites to track the public mood
- Maintaining awareness of changes to reputational risks; for example, environmental responsibility is a relatively new reputational risk impacting organizations
- Updating and adjusting risk assessments throughout the year as circumstances change

While new reputational risks are continually coming to light, other established reputational risks still exist and are often enhanced. Established reputational risks that may increase due to the economic downturn include fraud, theft, and quality corner-cutting. Furthermore, the economic downturn has increased many reputational risks because companies may not be able to recover as quickly from the financial impacts of a misstep."

*Reputational risk management is everyone's responsibility.*

@2011 Bibi Consulting Inc.  
All rights reserved.



## Reputational Risk or Risks to Reputation

(continued)

### *The last Word!*

The reputation of an organization is very important to its success and existence. All risks may have an impact on reputation on a way or another. The reputation risk management is the responsibility of every one with management having top lead on it. Internal auditors play an important role in ensuring that reputational risks are identified and managed on timely basis.

### *References*

- **Corporate Reputation Review Vol. 9, 1**, 26–38 © 2006 Palgrave Macmillan.
- **Managing Risks to reputation – From theory to practice.** Jean-Paul Louisot, Jenny Rayner.
- Koenraad van Hasselt, Do we know all the risks?
- Deloitte, Risk management brief September 2008
- Economist Intelligence 2005 whitepaper, **Reputation: Risk of risks.**
- **The Importance of Reputation**, by Ansi Vallens.
- **Reputational risk**, Greg Shields, Partner, Mitchell Sandham Insurance Brokers
- Russell A. Jackson, “Keeping Your Reputation Clean,” Internal Auditor, June 2009
- **Without reputation, you have no business**, By Bob McDowall. The register 2006
- **Deloitte’s** “A risk Intelligence view of reputation –An outside –in perspective”

### **About the Author**

**Wa’el Bibi, CPA,CIA,CISA** is the president of Bibi Consulting, a Canadian internal audit and risk management consultants. He is a strong advocate of internal audit and corporate governance. Prior to establishing Bibi Consulting he has been a partner with Arthur Andersen.

Mr. Bibi can be contacted at:  
wael@bibiconsulting.net  
www.bibiconsulting.net  
Tel: 613-986 3884  
Ottawa ,Ontario -Canada

*Reprinted by permission of the author.*



[www.bibiconsulting.com](http://www.bibiconsulting.com)

@2011 Bibi Consulting Inc.  
All rights reserved.



# ISSUE BRIEF



JULY 2014

[PUBLICPOLICY.WHARTON.UPENN.EDU](http://PUBLICPOLICY.WHARTON.UPENN.EDU)

VOLUME 2, NUMBER 7

## OPTIONS FACING CONGRESS IN RENEWING THE TERRORISM RISK INSURANCE ACT (TRIA): A QUANTITATIVE ANALYSIS

HOWARD KUNREUTHER  
AND ERWANN O. MICHEL-KERJAN

### PUBLIC POLICY CONTEXT

On July 17, 2014, the U.S. Senate passed S. 2244<sup>1</sup>, as amended, to extend the Terrorism Risk Insurance Act (TRIA) for seven years. The House is also expected to bring H.R. 4871<sup>2</sup>, which reauthorizes TRIA for five years with different provisions, to the floor for a vote before the end of the summer. TRIA, a public-private partnership, was established in 2002 when most insurers and reinsurers stopped covering losses from terrorism attacks after they paid claims of \$32 billion (2001 prices; \$44 billion in 2014 prices; 2/3 of which was reinsured) from the damage caused on September 11, 2001 (9/11 hereafter).

The claims from 9/11 dwarfed those from previous terrorism-related property losses. By comparison, the truck bomb

detonated by Al Qaeda in the garage of the North Tower of New York City's World Trade Center in February 1993 caused just over \$750 million in insured losses; the bomb discharged by Timothy McVeigh outside the Alfred Murrah Federal Building in downtown Oklahoma City in April 1995 resulted in damages totaling \$650 million.

In the wake of the devastating coordinated attack by Al Qaeda on 9/11, most insurers and reinsurers—faced with the sudden realization that terrorist attacks could be catastrophic—stopped offering coverage for terrorism in the United States unless required to do so. As a result, many businesses operating in the U.S. found it increasingly difficult to purchase commercial property insurance that included the risk of terrorism. Real estate and commercial ventures stalled because of an inability to

### BRIEF IN BRIEF

- In determining the future of TRIA in the coming weeks and months, Congress and the Administration will be making important decisions on the nature of risk-sharing arrangements between the public and private sectors.
- The authors perform an analysis of the exposure of 764 insurers to terrorism risk using the ratio of TRIA deductible over surplus as a proxy, and indicate how that exposure would change for different deductible levels.
- Using a terrorism risk model developed in collaboration with the modeling firm Risk Management Solutions, the authors also analyze how economic losses under different terrorist attack scenarios would be shared among key stakeholders, comparing the arrangements under the current TRIA program to alternative terrorism risk insurance designs articulated recently by the U.S. Senate and House.
- Renewing TRIA may limit the amount of disaster relief the federal government would contribute after a terrorist attack, but the different options under which TRIA might be renewed carry implications for how losses from any attack would be spread between commercial policyholders, insurers, and taxpayers.

obtain the requisite insurance protection. By law, insurance companies offering workers' compensation insurance cannot exclude the peril of terrorism, nor can insurers exclude terrorism from the "fire following" coverage in certain states. As a result, workers' compensation insurance premiums increased significantly after the 9/11 attack and many carriers did not renew some of their policies in major metropolitan areas.

Responding to these concerns, the Terrorism Risk Insurance Act (TRIA) was enacted at the end of 2002 as a temporary measure to increase the availability of coverage for terrorist acts. TRIA was designed to achieve a balance of risk sharing between the insurance industry, commercial policyholders and the federal government (taxpayers). TRIA requires that all U.S. insurance companies offer terrorism coverage to commercial firms—on the same terms and conditions provided by their commercial insurance policies for other perils—in exchange for free up-front reinsurance from the federal government against catastrophic losses. Firms may be required to purchase this coverage by state law. In fact, there was a strong demand for coverage by commercial firms due to lending requirements and/or a desire to be protected against losses from future attacks.<sup>3</sup> TRIA was renewed for two years in 2005, and again for seven years in 2007, with the private sector assuming more of the risk with each extension of the program but with the federal government still providing reinsurance against catastrophic terrorist attacks at no charge. As a result of TRIA's passage, terrorism insurance is now widely available and many businesses in the United States have protected themselves against these losses. Market analysis by two large insurance brokers, Aon and Marsh, indicates that on average 60% of their clients (typically large firms) have purchased terrorism insurance today. But insurers have also indicated that they could not cover that risk on their own, so a large private market has not yet emerged.

To assist Congress and the Administration in their evaluation of renewal options before the program expires at the end of 2014, this Issue Brief presents an analysis of how economic losses from terrorist attacks would be shared among the different stakeholders under the current TRIA program and the Senate and House alternative designs. To do this, we examined three different terrorist attack scenarios in four large cities located in different parts of the United States: Chicago, Houston, Los Angeles and New York. Our analysis complements recent publications on terrorism risk and insurance, several Congressional hearings that took place in the House and the Senate in 2012, 2013 and 2014, reports by the President's Working Group, the U.S. Government Accountability Office, the U.S. Congressional Budget Office, the Congressional Research Services, the Organization for Economic Cooperation and Development, as well as insurance industry studies on take up rates and terrorism pricing based on their portfolios of clients. A fuller discussion of the findings summarized in this brief can be found in the Wharton Risk Center's larger report, *TRIA After 2014*,<sup>4</sup> available free of charge on the website of the Wharton Risk Center: <http://www.wharton.upenn.edu/riskcenter>.

## RISK-SHARING STRUCTURE OF THE TRIA PARTNERSHIP AND PROPOSED LEGISLATION

We now contrast the current TRIA program with the legislation proposed by the Senate and House.

### CURRENT DESIGN

Under TRIA's current design, the costs from "certified" terrorism events that result in over \$100 million (the *program trigger*) in insured industry losses in TRIA-eligible lines of business are shared as follows:

- Commercial policyholders are responsible for paying any losses within their standard

insurance policy deductibles.

- Insurance companies then provide coverage for all losses in excess of these policy deductibles, if total industry losses do not exceed \$100 billion.
- The federal government reinsures the insurer's terrorism loss in excess of a TRIA deductible percent ( $D^*$ ) for losses equal to 20% of that company's prior year's direct earned premium (DEP) for the lines covered under the program.  $D^*$  has increased from 1% in 2002 to 20% since 2007.
- Losses in excess of each insurer's deductible ( $D^*$ ) are shared 15/85 between the insurers and the federal government. This coinsurance arrangement was 10/90 when TRIA was first passed.
- Should total insurance industry losses exceed \$100 billion, primary insurers are responsible for reimbursing policyholders only for their proportionate share of losses up to \$100 billion, and Congress shall determine the procedure and source of any payments for the uninsured losses.
- The federal government recoups its payments under TRIA by levying surcharges on all commercially insured policyholders at a rate of 133% of its payments below the *insurance marketplace aggregate retention* – an amount currently set at \$27.5 billion – and above the aggregate insurers' uncompensated outlays (i.e., insurer losses within the deductible and coinsurance) during the calendar year.

### PROPOSED LEGISLATION

The Senate bill modifies the current program in several ways:

- Insurers' coinsurance percentage on certified terrorism events would gradually increase over 5 years **from the current 15% to 20%**.
- The marketplace aggregate retention would increase from the current \$27.5 billion by \$2 billion annually until it reaches **\$37.5 billion**.<sup>5</sup>

<sup>1</sup> "Terrorism Risk Insurance Program Reauthorization Act of 2014," <https://beta.congress.gov/bill/113th-congress/senate-bill/2244>.

<sup>2</sup> "TRIA Reform Act of 2014," <https://beta.congress.gov/bill/113th-congress/house-bill/4871>.

<sup>3</sup> Kunreuther, H., and Michel-Kerjan, E. (2004). "Policy Watch: Challenges for Terrorism Risk Insurance in the

United States," *Journal of Economic Perspectives*, 18: 4, pp. 201-214.

<sup>4</sup> Kunreuther, H., Michel-Kerjan, E., Lewis, C., Muir-Wood, R. and G. Woo (2014). *TRIA After 2014. Examining Risk Sharing Under Current and Alternative Designs*. Center for Risk Management, The Wharton School, University of Pennsylvania, Philadelphia, PA.

<sup>5</sup> For purpose of our analysis we assume a \$37.5 billion market retention for the Senate bill. This figure might vary depending on the date of the attack, since the bill increases the retention incrementally by \$2 billion a year over 5 years up to \$37.5 billion.



The House bill differs from the Senate bill in the following ways:

- It would increase the **program trigger** from **\$100 million to \$500 million**.
- The **marketplace aggregate retention amount** would now be calculated as the sum of the deductible amounts of all insurers participating in TRIA for the year in which a terrorist attack occurs, rather than a fixed amount (as an example, this amount would be **\$32 billion** for the 764 insurers we analyzed if based on 2012 market data).
- The **percentage that the federal government recoups** against all commercial policyholders would increase from **133% to 150%** for losses subject to mandatory recoupment.

## AN ANALYSIS OF INSURERS' DEDUCTIBLE/SURPLUS (D/S) RATIOS

One measure of particular interest to insurers, regulators and rating agencies alike is the ratio of the insurer's TRIA deductible amount in relation to its surplus. A higher deductible/surplus (*D/S*) ratio implies that the insurer is more exposed to losses from a terrorist attack. While there is no specific threshold that applies to all insurers given their different portfolios, a *D/S* ratio greater than 0.15 is generally regarded as a high measure of relative exposure to terrorism.

Accessing market data from the rating agency AM Best, we were able to determine the *D/S* ratios of 764 insurance companies operating in the United States and then calculate changes in the *D/S* ratio for each of the top 30, top 50, top 100, and top 450 insurers as the TRIA deductible percent (*D\**) is varied from 15% (2005 level) to 20% and 25%.

- Only 3 insurers among the top 30 would have a *D/S* ratio of 0.15 or greater when *D\**=15%; this increases to 7 insurers under the current *D\**=20% and to 11 insurers should *D\**=25% (see Table 1).
- For our sample of 450 insurers, when *D\**=15%, 95 of them would have a *D/S* ratio greater than 0.15; this would increase to 140 insurers when *D\**=20% and to 175 insurers if *D\**=25%.

Should *D\** be increased from its current 20% level, some insurers could face a significant risk of insolvency or financial distress after a severe terrorist attack if they do not increase their levels of capital or obtain private reinsurance in response to the policy change.

## QUANTIFYING LOSS SHARING UNDER DIFFERENT TRIA DESIGNS

We worked closely with modeling firm Risk Management Solutions (RMS), which constructed the following three specific attack mode scenarios based on their terrorism risk model: (a) a 10-ton truck bomb; (b) 1-ton Sarin gas release; and (c) 1-kiloton nuclear detonation bomb. Key high-profile targets were identified in the central business districts of the four major cities of Chicago, Houston, Los Angeles and New York.

Using the 10-ton truck bomb scenario, we undertake a series of analyses varying four TRIA design parameters: (a) insurers' deductibles; (b) level of coinsurance for insurers; (c) insurance industry retention level, to determine what part of the insured losses paid by the federal government will be mandatorily recouped against all commercial policyholders in the U.S.; and (d) percentage of the federal payment that is mandatorily recouped.

## ASSUMPTIONS ON TERRORISM INSURANCE MARKET SHARE AND TAKE-UP RATES

We have utilized *market shares* of insurers in individual states in which the four cities are located to allocate losses from a terrorist attack among the 764 largest insurers. These firms account for virtually 100% of the terrorism insurance policies placed with U.S. licensed primary insurance carriers at the end of 2012. Property insurance lines have been separated from workers' compensation lines.

As discussed earlier, terrorism cannot be excluded from workers' compensation insurance, which is required for all firms, so we assume a 100% take-up rate for terrorism-related workers' compensation losses. Based on studies by insurance brokers, we assume a 50% take-up rate for terrorism insurance

for the property lines, recognizing that the actual percentage may vary from one city to another as well as by the type of firm.

## KEY FINDINGS

Figures 1, 2 and 3 depict the distribution of terrorism losses between non-insured firms, insurers, all commercial policyholders (recoupment) and taxpayers under the current TRIA program, and the Senate and House bills respectively. In the analysis below, we use the case of an attack (10-ton truck bomb) in New York City. The full report, *TRIA After 2014*, shows the results from Chicago, Houston and Los Angeles as well.

**Based on TRIA's current design**, our analysis reveals that under the current loss-sharing arrangement, the federal government (taxpayers) will not be responsible for any payments after mandatory recoupment until the losses from a terrorist attack exceed \$40 billion, as shown in Figure 1.

Commercial policyholders will always have to pay a portion of the cost of a terrorist attack under the current TRIA program if the total loss to all industrial firms is less than \$80 billion, and they could end up paying as much as \$11.3 billion. The significant exposure of commercial policyholders has not been widely discussed.

**Based on the Senate bill**, American taxpayers would not be responsible for any payments after mandatory recoupment by the federal government until the total losses from a terrorist attack (insured or not) exceed **\$59 billion**.

When damage reaches \$100 billion, the federal government will be responsible for nearly \$31 billion in payments, insurers for \$33 billion, commercial policyholders for over \$5.7 billion, and the remaining \$30 billion would be uninsured.

Commercial policyholders could pay more than \$10 billion when total losses from terrorist attacks are in the range of \$38 billion to \$82 billion, with a maximum of \$17.9 billion when total losses are \$54 billion, as shown in Figure 2.

**TABLE 1: D/S ANALYSIS FOR THE TOP 30 INSURERS (2012 DATA)**

Insurers	Surplus (in \$ billion)	Direct Earned Premiums in TRIA Eligible Lines (in \$ billion)	20% TRIA Deductible (in \$ billion)	D/S Ratio (20% Deductible)	D/S Ratio (25% Deductible)
1. Liberty Mutual Insurance Companies	\$16.8	\$12.0	\$2.39	14.26%	17.82%
2. Travelers Group	\$19.3	\$10.9	\$2.18	11.29%	14.12%
3. American International Group	\$29.2	\$10.4	\$2.08	7.14%	8.93%
4. Zurich Financial Services NA Group	\$7.7	\$6.7	\$1.35	17.57%	21.97%
5. Hartford Insurance Group	\$14.2	\$5.8	\$1.17	8.22%	10.28%
6. Chubb Group of Insurance Companies	\$13.8	\$4.9	\$0.98	7.10%	8.87%
7. CNA Insurance Companies	\$10.0	\$4.6	\$0.92	9.23%	11.54%
8. Nationwide Group	\$13.8	\$4.5	\$0.89	6.45%	8.06%
9. ACE INA Group	\$5.7	\$4.1	\$0.82	14.41%	18.02%
10. State Farm Group	\$65.3	\$3.1	\$0.62	0.95%	1.19%
11. Allianz of America Companies	\$3.6	\$3.0	\$0.61	16.93%	21.17%
12. FM Global Group	\$7.5	\$3.0	\$0.60	7.99%	9.98%
13. W. R. Berkley Insurance Group	\$4.7	\$2.7	\$0.54	11.64%	14.55%
14. Assurant P&C Group	\$1.4	\$2.7	\$0.53	38.09%	47.61%
15. Farmers Insurance Group	\$5.6	\$2.6	\$0.53	9.33%	11.66%
16. Philadelphia Ins Cos/Tokio Marine US	\$4.2	\$2.3	\$0.46	11.00%	13.76%
17. QBE Americas Group	\$2.3	\$2.2	\$0.44	19.08%	23.84%
18. Cincinnati Insurance Companies	\$3.9	\$2.1	\$0.43	10.90%	13.63%
19. Berkshire Hathaway Insurance Group	\$106.7	\$1.9	\$0.38	0.35%	0.44%
20. Fairfax Financial (USA) Group	\$5.2	\$1.9	\$0.38	7.24%	9.05%
21. NY State Insurance Fund WC Fund	\$3.1	\$1.9	\$0.38	12.01%	15.01%
22. Old Republic Insurance Group	\$2.8	\$1.8	\$0.35	12.77%	15.96%
23. Auto-Owners Insurance Group	\$6.6	\$1.7	\$0.34	5.15%	6.43%
24. Great American P& C Insurance Group	\$2.1	\$1.6	\$0.32	15.14%	18.93%
25. Hanover Insurance Group P&C	\$1.5	\$1.6	\$0.31	20.63%	25.79%
26. Citizens Property Insurance Corporation	\$6.3	\$1.5	\$0.30	4.79%	5.99%
27. Allstate Insurance Group	\$17.1	\$1.2	\$0.24	1.42%	1.77%
28. Munich-American Holding Corp	\$5.9	\$1.2	\$0.24	4.06%	5.08%
29. Erie Insurance Group	\$5.6	\$1.1	\$0.22	3.84%	4.80%
30. Selective Insurance Group	\$1.0	\$1.1	\$0.21	20.10%	25.12%

Based on the House bill, American taxpayers would not be responsible for any payments after mandatory recoupment by the federal government until the total losses from a terrorist attack (insured or not) exceed \$52 billion (Figure 3).

At a \$100 billion loss, the insurers will be responsible for the same \$33 billion as they would be under the Senate bill, but the commercial policyholders will not pay anything because the industry retention of \$32 billion is below the value of insurers' payments. Hence, the government recoups nothing from the policyholders and is left paying the entire \$36.84 billion.

Despite the higher 150% recoupment rate, commercial policyholders would typically be less exposed to the mandatory recoupment under the proposed House legislation than the Senate bill. They could pay more than \$10 billion when losses from terrorist attacks are between \$36 to \$59 billion, with a maximum of \$15.3 billion when losses are \$46 billion, as shown in Figure 3. We used \$32 billion as market retention in the above analysis based on the sum of insurer deductibles for the 764 insurers we analyzed.

The actual mandatory recoupment threshold may be higher than \$32 billion depending on actual market conditions at the time of the attack and if other risk-bearing entities, such as captives, had been included in our study. For instance if one considers market retention of \$44 billion (estimates by the Congressional Budget Office for the year 2016) instead of \$32 billion, then the House bill would be such that American taxpayers would not be responsible for any payments after mandatory recoupment by the federal government until the total losses from a terrorist attack (insured or not) exceed \$74 billion; the maximum payment by the commercial policyholders would then be much higher at \$26.8 billion.

FIGURE 1: AMOUNT PAID BY STAKEHOLDERS FOR DIFFERENT LOSSES FROM TERRORIST ATTACKS TO NEW YORK CITY UNDER CURRENT TRIA LOSS-SHARING ARRANGEMENTS

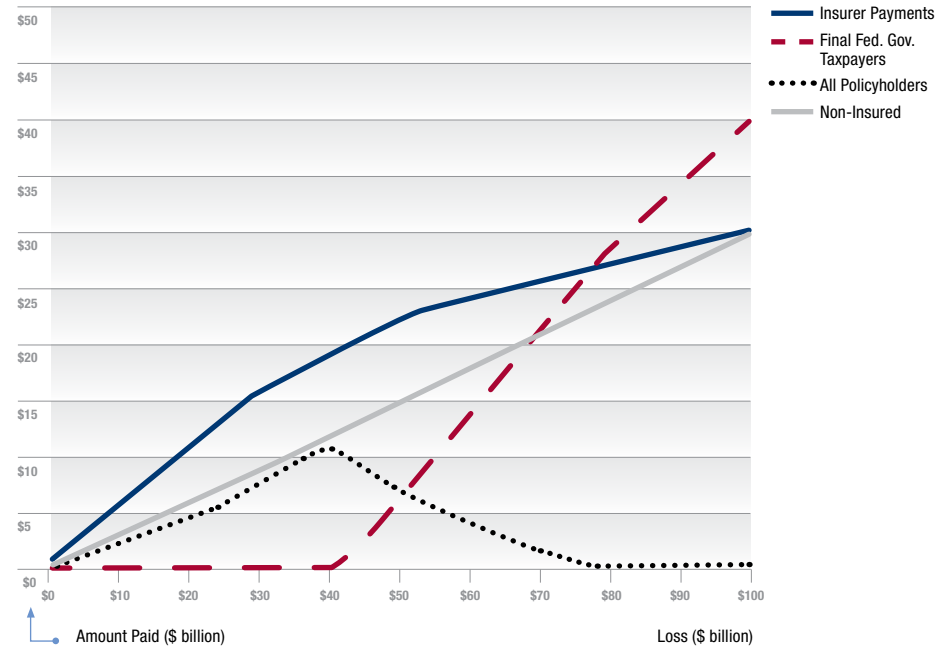
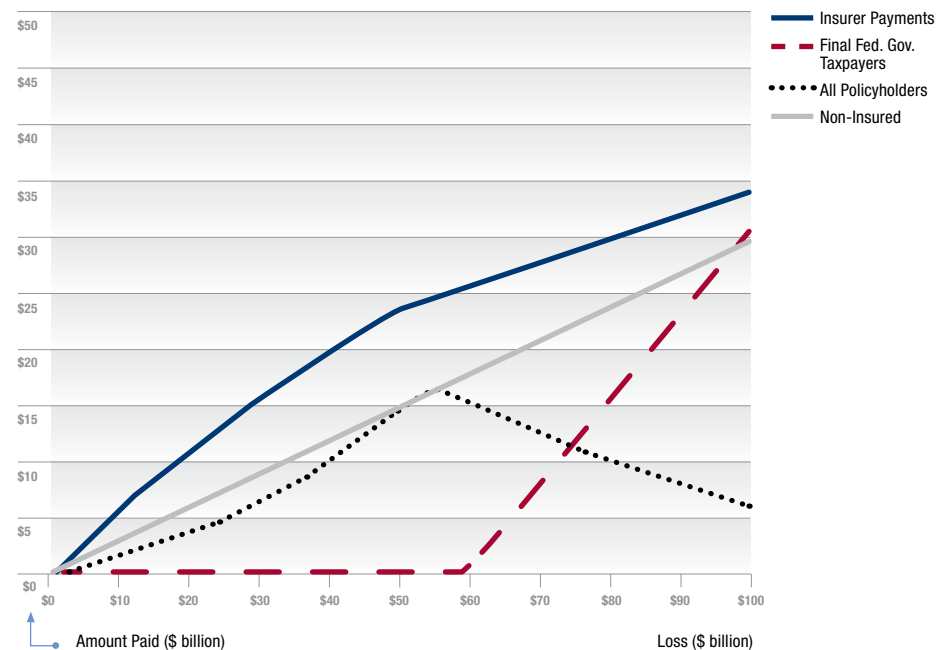
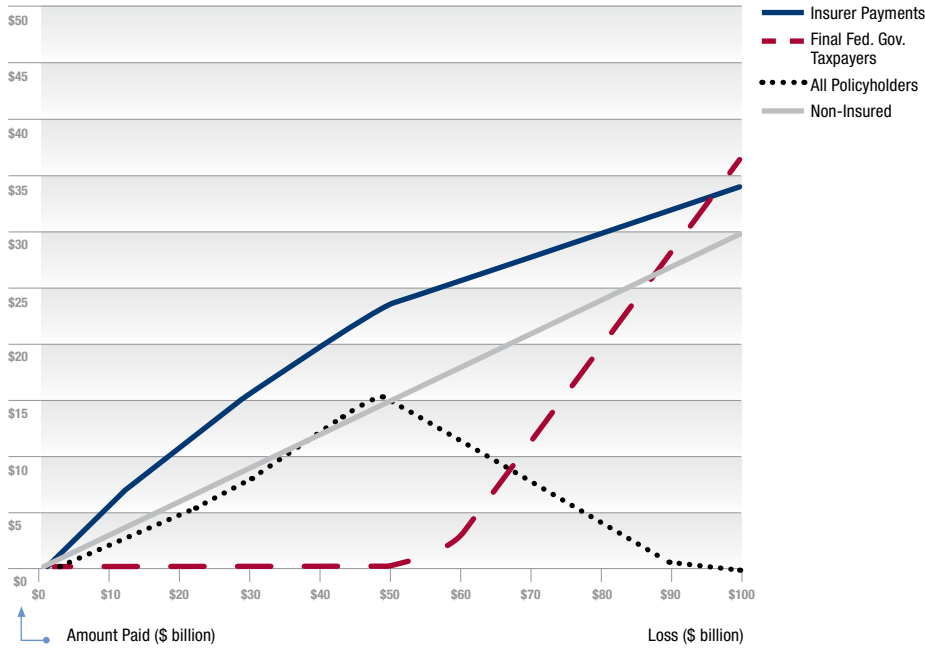


FIGURE 2: AMOUNT PAID BY STAKEHOLDERS FOR DIFFERENT LOSSES FROM TERRORIST ATTACKS TO NEW YORK CITY UNDER SENATE BILL S. 2244



**FIGURE 3: AMOUNT PAID BY STAKEHOLDERS FOR DIFFERENT LOSSES FROM TERRORIST ATTACKS TO NEW YORK CITY UNDER HOUSE BILL H.R. 4871**



## CONCLUSIONS

Our analysis assumes that firms suffering losses from a terrorist attack will not receive compensation from the federal government for the uninsured portion of their loss. However, experience from 9/11, the financial crisis and recent natural disasters suggests that the government may assist firms suffering uninsured losses, and the amount of federal disaster relief is likely to depend on the magnitude of the losses.

In analyzing each of these scenarios, we have focused solely on the insurable losses under the scenario and not the broader economic loss that would have to be addressed. To the extent that a terrorist attack causes indirect impacts, one needs to consider the

role that insurance and other protective measures undertaken by firms can play in cushioning these longer-term economic effects.

In the coming weeks and months, Congress and the Administration will make a decision about the future of TRIA after 2014 and the nature of the risk-sharing arrangements between the private and public sectors. Over the past decade, our research team at the Wharton Risk Center has published over 20 studies on terrorism insurance markets based on discussions with many of the key stakeholders interested in these issues in the United States and abroad. We hope the analysis in this brief helps to inform decision makers.

## **ALSO AVAILABLE: PENN WHARTON PPI ISSUE BRIEFS, VOLUME 1**

### **THE MILITARY-ENVIRONMENTAL COMPLEX**

Sarah Light (The Wharton School)  
Volume 1, Number 12

### **OPTIMIZING OUTCOMES ON THE HEALTH INSURANCE EXCHANGES**

Tom Baker (Penn Law School), Jonathan Kolstad (The Wharton School), Amanda Starc (The Wharton School),  
and Kevin G.M. Volpp (Perelman School of Medicine and the Wharton School)  
Volume 1, Number 11

### **TAX POLICY AND THE DIVIDEND CLIENTELE EFFECT**

Laura Kawano (Department of the U.S. Treasury / The Wharton School)  
Volume 1, Number 10

### **IMPLEMENTING THE NATIONAL FLOOD INSURANCE REFORM ACT IN A NEW ERA OF CATASTROPHES**

Howard Kunreuther (The Wharton School) and Erwann Michel-Kerjan (The Wharton School)  
Volume 1, Number 9

### **THE URGENCY OF REFORMING ENTITLEMENT PROGRAMS: THE CASE OF SOCIAL SECURITY DISABILITY INSURANCE**

Mark Duggan (The Wharton School)  
Volume 1, Number 8

### **SHOULD WE BROADEN THE FUEL TAX BASE?**

Justin Marion (UC-Santa Cruz / The Wharton School)  
Volume 1, Number 7

### **DISCLOSURE OF BANKS' STRESS-TEST RESULTS**

Itay Goldstein (The Wharton School)  
Volume 1, Number 6

### **WHY FRACKING WON'T BRING BACK THE FACTORIES (YET)**

Ann Harrison (The Wharton School), Chad P. Bown (The World Bank), and Michele de Nevers (Center for Global Development)  
Volume 1, Number 5

### **REGULATING "TOO BIG TO FAIL"**

Kent Smetters (The Wharton School) and Christopher Pericak (The Advisory Board Company)  
Volume 1, Number 4

### **REGULATION AND UNEMPLOYMENT**

Cary Coglianese (Penn Law School and School of Arts & Sciences)  
Volume 1, Number 3

### **DO CAPITAL INCOME TAXES HINDER GROWTH?**

Chris William Sanchirico (Penn Law School and the Wharton School)  
Volume 1, Number 2

### **TAXATION OF BUSINESS INCOME**

Jennifer Blouin (The Wharton School)  
Volume 1, Number 1

## ABOUT THE AUTHORS

### Howard Kunreuther, PhD

*The Wharton School*

Howard Kunreuther (kunreuther@wharton.upenn.edu) is the James G. Dinan Professor; Professor of Decision Sciences and Business and Public Policy at the Wharton School, and Co-Director of the Wharton Risk Management and Decision Processes Center. He has a long-standing interest in ways that society can better manage low-probability, high-consequence events related to technological and natural hazards. He has written extensively on terrorism insurance and testified before Congress on TRIA. He is a Fellow of the American Association for the Advancement of Science and a Distinguished Fellow of the Society for Risk Analysis. Recent books include *Insurance and Behavioral Economics: Improving Decisions in the Most Misunderstood Industry* (with M. Pauly and S. McMorrow, Cambridge University Press, 2013).

### Erwann O. Michel-Kerjan, PhD

*The Wharton School*

Erwann O. Michel-Kerjan (erwannmk@wharton.upenn.edu) is the Executive Director of the Wharton Risk Management and Decision Processes Center and teaches in the graduate and executive programs at the Wharton School. His research and advisory role focuses on how to better manage and finance extreme events and strengthen resilience through business and policy innovation. He has authored numerous studies on terrorism insurance markets and testified before both the U.S. House of Representatives and the U.S. Senate on TRIA. He chairs the OECD Secretary-General Board on Financial Management of Catastrophes, which advises the governments of the 34 member countries on these issues, including terrorism insurance. Recent books include *The Irrational Economist* (with P. Slovic, 2010), and *At War with the Weather* (with H. Kunreuther, 2011), which received the Kulp-Wright award for the most influential book on risk management.

*Support for this research was provided by the Wharton Risk Management and Decision Processes Center.*

## ABOUT THE PENN WHARTON PUBLIC POLICY INITIATIVE


The Penn Wharton Public Policy Initiative (PPI) is a hub for research and education, engaging faculty and students across University of Pennsylvania and reaching government decision-makers through independent, practical, timely, and non-partisan policy briefs. With offices both at Penn and in Washington, DC, the initiative provides comprehensive research, coverage, and analysis, anticipating key policy issues on the horizon.

## ABOUT PENN WHARTON PPI ISSUE BRIEFS

Penn Wharton PPI publishes issue briefs at least once a month, tackling issues that

are varied but share one common thread: they are central to the economic health of the nation and the American people. These Issue Briefs are nonpartisan, knowledge-driven documents written by Wharton and Penn faculty in their specific areas of expertise.

**For additional copies, please visit the Penn Wharton PPI website at [publicpolicy.wharton.upenn.edu](http://publicpolicy.wharton.upenn.edu).**

 Follow us on Twitter:  
[@PennWhartonPPI](https://twitter.com/PennWhartonPPI)



Penn Wharton Public Policy Initiative  
The Wharton School  
University of Pennsylvania

*Reprinted by permission of the authors.*

Founded in 1881 as the first collegiate business school, the Wharton School of the University of Pennsylvania is recognized globally for intellectual leadership and ongoing innovation across every major discipline of business education. With a broad global community and one of the most published business school faculties, Wharton creates economic and social value around the world.

////////////////////////////////////  
KNOWLEDGE FOR POLICY IMPACT  
////////////////////////////////////



---

# ***NAIC Meeting Notes***

Global Insurance Industry Group, Americas

## **NAIC 2014 Summer National Meeting**

The National Association of Insurance Commissioners held its Summer National Meeting in Louisville August 16-19. This newsletter contains information on activities that occurred in some of the committees, task forces and working groups that met there. For questions or comments concerning any of the items reported, please feel free to contact us at the address given on the last page.



# Executive Summary

---

- The Executive Committee approved the XXX/AXXX Reinsurance Framework in concept, with a goal of having new disclosures for ceding companies in place by year-end 2014 and other aspects of the Framework effective for 2015.
- The Statutory Accounting Principles Working Group continued its discussion on accounting for and disclosures related to the ACA's risk sharing provisions effective January 1, 2014 and adopted a new disclosure for structured notes. The working group also discussed proposed areas of focus with respect to its comprehensive investment classification review project.
- The PBR Implementation Task Force adopted a proposed new Supplemental XXX/AXXX Reinsurance Exhibit for 2014 reporting; a vote to consider final adoption has been scheduled for September 18.
- The Capital Adequacy Task Force adopted new RBC factors for broker receivables and discussed upcoming work related to XXX/AXXX Reinsurance Framework.
- The Life RBC Working Group adopted a proposal to update the C-3 Phase I interest rate generator. The Stress Testing Subgroup identified next steps in the development of its stress testing proposal.
- The Investment RBC Working Group discussed the AAA's recommended factors for public corporate bonds used in the Life RBC calculation. The working group is also considering whether real estate factors should be adjusted for property type or geographic region, and an educational session was held on bond ETFs.
- The Operational Risk Subgroup adopted a revised proposal and instructions for the 2014 operational risk RBC, and discussed a timeline of future work with implementation of an initial operational risk charge in 2016 and a risk sensitive operational risk approach in 2018 or 2019.
- The Property/Casualty RBC Working Group discussed 2013 RBC results and re-exposed the revised RAA proposal on the reinsurance credit risk charge.
- The Catastrophe Risk Subgroup exposed an industry proposal for calculating the R6 and R7 charges and discussed the modeling basis for calculating these charges.
- The Health RBC Working Group exposed a Medicare Advantage and Medicare Part D medical loss ratio proposal.
- The Valuation of Securities Task Force adopted five amendments to the SVO Purposes and Procedures Manual and approved adoption of a new Structured Notes FAQ document; the 2014 RMBS and CMBS modeling timeline was also discussed.
- The Corporate Governance Working Group adopted the *Corporate Governance Annual Disclosure Model Act* and *Annual Filing Model Regulation*, and discussed comments received on potential reporting redundancies created by the Model Act and Regulation.
- The ORSA Subgroup adopted revisions to the ORSA Guidance Manual as a result of feedback from the 2013 pilot project.
- The Group Solvency Issues Working Group continued discussions surrounding potential amendments to the *Insurance Holding Company System Regulatory Act*, as well the next steps in drafting language relative to the group-wide supervisor.
- The ComFrame Development and Analysis Working Group discussed the proposed IAIS global capital standard and related NAIC International Capital Standards Forum held at the Summer National Meeting.
- The Reinsurance Task Force adopted amendments to the Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions, and continued discussion of its Uniform Application Checklist for Certified Reinsurers.
- The Blanks Working Group adopted seventeen blanks proposals as final this summer.
- The Life Actuarial Task Force exposed proposed Valuation Manual amendments regarding small company exemptions, proposed changes to Actuarial Guideline 33, and engaged in a lengthy discussion on proposed guidance regarding Indexed Universal Life policy

illustrations, deferring exposure of this item until more industry perspective is gathered. In light of adoption of the XXX/AXXX Reinsurance Framework, the task force voted to expose draft Actuarial Guideline 48 to provide interim guidance for the Actuarial Opinion Memorandum Regulation as it relates to XXX/AXXX reinsurance transactions.

- The Emerging Actuarial Issues Working Group adopted an exposed AG 38 interpretation confirming the basis for calculating the gross deterministic reserve and YRT reinsurance reserve credit.
- The Separate Account Risk Working Group finalized its recommendations memo regarding the need to modify existing regulatory guidance related to separate accounts.

- The Financial Regulation Standards and Accreditation Committee added the *Model Risk Retention Act* as an accreditation standard. The committee took no action on the controversial “multi-state insurer” issue.
- The Risk-Focused Surveillance Working Group developed guidance for examiners and analysts for review of ORSA Summary Reports.
- The Mortgage Guaranty Insurance Working Group continued discussing comments on its proposed revised *Mortgage Guaranty Insurance Model Regulation* and related risk-sensitive capital model.

## Executive Committee and Plenary

---

Note: All documents referenced in this Newsletter can be found on the NAIC's website at [naic.org](http://naic.org).

The Executive Committee and Plenary adopted the following items which were the subject of public hearings and debate as they were considered by various groups of the NAIC:

- Amendments to the *Long-Term Care Insurance Model Regulation* (#641)
- Amendments to the *Annual Financial Reporting Model Regulation* (#205) to require an internal audit function for insurers with annual premium in excess of \$500 million.

### Executive Committee

In Louisville, Rhode Island Superintendent Joe Torti and Tennessee Commissioner Julie Mix McPeak presented the PBR Implementation Task Force report and its action items, including a request for the Executive Committee to approve the XXX/AXXX Reinsurance Framework in concept, related charges for other NAIC groups, and three model law development requests for an XXX/AXXX *Reinsurance Model Regulation* and amendments to the *Credit for Reinsurance Model Law* and to the *Actuarial Opinion and Memorandum Regulation*.

Superintendent Torti provided an overview of the long process undertaken to arrive to the current status. He stated that the NAIC noted concerns during its study of XXX/AXXX transactions and that the Framework aims to set standards for these transactions and provide uniformity. North Carolina Commissioner Wayne Goodwin voiced concerns noting inadequate time to discuss issues and encouraged a delay for a vote to the next NAIC meeting. Both Superintendent Torti and Commissioner McPeak responded that the issues have been discussed at length and it is time to take action. Superintendent Torti commented that “delaying will rehash what we have been through for the last three years.” New York Deputy Superintendent & General Counsel Robert Easton expressed opposition noting concerns over implementation timelines and concerns over the replacement of the hazardous financial condition presumption with an actuarial report. He noted that revised Framework has been “watered down and neutered, with no teeth to it” and as regulators “we need to do what is right.”

Superintendent Torti responded that there is still a tight time schedule for implementation with the actuarial guideline anticipated in a few months. He also stated that a ceding insurer’s actuary cannot issue an unqualified actuarial opinion unless it is justified to do so. Following the discussion, the Committee adopted the proposal in which only North Carolina voting against adoption.

For additional discussion of the Framework and related projects, see the summary of the PBR Implementation Task Force.

The Executive Committee then approved model law development requests for amendments to the *Health Insurance Reserves Model Regulation (#10)* referencing a new table for individual long-term disability liabilities and new standards for the valuation of long-term care insurance liabilities.

## Governance Review Task Force

Following the Spring National Meeting, where there were initial discussions related to engaging a consulting firm to make recommendations on the NAIC's corporate governance policies, the task force met publically via conference call on June 27 to discuss a draft Request for Proposal. There was broad support for the initiative overall, as well as the draft scope of work. Per the final RFP, the scope of work includes "a review of [the NAIC's] governing documents, organizational structure, management and decision-making processes and recommend revisions or improvements to comply with best practices for comparable organizations and to enhance the NAIC's ability to support and improve state regulation of insurance." With a bid deadline of August 15, Commissioner Huff stated that he expected a final decision on the consultant will be made by mid-September.

In the evening prior to this task force's meeting, A.M. Best released an article discussing Commissioner Leonardi's view that the task force's decision-making powers on selecting an external consultant had been "hijacked." During the meeting, he reiterated these concerns regarding the recent creation of a subcommittee by the Executive Committee to determine which consultant to appoint. The subcommittee is chaired by Wisconsin Insurance Commissioner Ted Nickel and includes President-elect Monica Lindeen, Vice President Michael Consedine and past NAIC presidents Roger Sevigny of Vermont and Jim Donelon of Louisiana. Although three of the five members of the subcommittee are on this task force, Commissioner Leonardi thought the decision-making process surrounding this appointment should be in the hands of the entire task force.

After spirited discussion in Louisville, Commissioner Goodwin of NC proposed, and Commissioner Leonardi seconded, a motion to rescind the Executive Committee's creation of the newly-formed subcommittee to appoint the consultant. Although further discussion ensued, ultimately Leonardi, Goodwin and Donelon were the only supporters of

the motion, and therefore it did not pass. As a result, the newly appointed subcommittee will decide on which consultant is appointed. The chair pointed out that the subcommittee is only selecting the consultant; the work of the entire task force will continue once the firm is selected.

Interested parties expressed their continued support to the NAIC undergoing this process, highlighting the importance of state-based regulation and the need for the NAIC to work together to better itself.

## Financial Condition Committee

The committee exposed for comment until October 1 a proposed modification to *Actuarial Guideline 38, Application of the Valuation of Life Insurance Policies Model Regulation*, to delete the existing annual requirement for companies to file the Actuarial Memorandum with the Financial Analysis Working Group, effective for 2015 reporting years and later. After 2015, the state of domicile would provide copies upon request by the Financial Analysis Working Group.

## Statutory Accounting Principles Working Group

The working group held three conference calls in May and June and met in Louisville to discuss the following projects.

(After each topic is a reference to the Statutory Accounting Principles Working Group's agenda item number.)

### Insurer Accounting for the Affordable Care Act

The SAP Working Group discussed ACA accounting throughout the spring and summer and appeared to reach a consensus on the admitted asset issue related to "the 3Rs" at the Summer National Meeting, as discussed below.

SSAP 106 - ACA Guidance in a Separate SSAP (2014-01) – The SAP Working Group adopted SSAP 106 during its June 12 conference call, which had been exposed at the Spring National Meeting. This moves the guidance on the ACA fee from SSAP 35R to a standalone SSAP. It is expected that all ACA accounting guidance will be included in this SSAP when that guidance is finalized.

Accounting for the Risk-Sharing Provisions of the Affordable Care Act (2012-14) – During its May 7 conference call, the working group heard a lengthy

presentation on how companies estimate ACA risk sharing receivables. On May 19, the working group exposed for comment and “information gathering purposes” Issue Paper 1xx, which would require any net receivable in excess of payables for the risk adjustment and risk corridor programs to be non-admitted, given some regulators’ view of the difficulty in estimating the receivables. (California, New Hampshire and Pennsylvania voted against exposure of the issue paper.)

The working group received 16 comment letters on the issue, most of which strongly objecting to the proposal to non-admit the net receivable. During the meeting in Louisville, the working group member from Virginia noted that he had met with a domiciliary health insurer who had reviewed in detail how they estimate the receivable, and as a result Virginia would agree to a revised issue paper with certain parameters. After additional discussion, the working group asked NAIC staff to redraft the exposed issue paper to address: 1) replacing the non-admission guidance with criteria that incorporates “conservatism and sufficiency of data” in estimating the risk adjustment and risk corridor receivables, and 2) removing the exposed 90-day aging guidance and adding language to be consistent with other government receivables. The working group also asked for input from industry on balance sheet presentation. The working group expects to release the revised issue paper by the end of September with an interim conference call in October to hear comments.

Risk Sharing Disclosures of the Affordable Care Act (2013-28 and 2014-13) – At the Spring National Meeting, the SAP Working Group exposed for comment a proposed rollforward of the ACA risk sharing balances for both quarterly and annual financial statements beginning with the year-end 2014 financial statements. The rollforward includes disclosure of explanations for adjustments to balances, e.g. adjusted due to federal audit, revised participant count or due to experience in the pool. The disclosure was adopted June 12 with some modifications including a requirement to disclose even when balances are zero. The disclosure will also be data captured in the annual statement.

At its June 12 conference call, the working group adopted additional ACA disclosures for year-end 2014 which had been discussed on the May 19 call: 1) a prior year column for estimated amounts; 2) a current year fee paid amount; and 3) a current year and prior year total for premiums written that are the basis for the Section 9010 fee. This disclosure will also be data captured.

During the June 12 conference call, NAIC staff noted that “issues have been identified with the compliance of the first quarter 2014 ACA disclosures.” The chair asked the trade organizations to communicate with their members the requirement to complete these disclosures in accordance with the instructions. Guidance is also included on the Blanks Working Group webpage.

## **Adoption of New Standards or Revisions to SSAPs**

Disclosure for Structured Notes (2014-02) – The working group adopted a new disclosure in SSAP 26 for structured notes for 2014 year-end financial statements, which will provide regulators with information regarding the volume of activity in these notes, and which will be data captured. This information will assist the Invested Assets Working Group in determining if additional accounting or reporting revisions (including valuation and RBC) are necessary. The working group also adopted an amendment to paragraph 48 of SSAP 43R to replace the term “structured note securities” with “structured securities.” See the Valuation of Securities Task Force summary for additional discussion on the structured note issue.

Derivatives: Schedule DB to Balance Sheet Agreement – Per NAIC staff, a “significant percentage of companies” did not correctly report derivatives on Schedule DB and the balance sheet for year-end 2013. The cause was generally due to companies reporting derivative assets or liabilities on the balance sheet and not on Schedule DB or vice versa. As a result, the working group exposed for comment June 12 and then adopted in Louisville clarifying guidance that derivatives reported in Schedule DB should agree to the balance sheet. Guidance was adopted in SSAP 86, Derivatives, and crosschecks were added to Schedule DB.

SSAP 11—Clarification of Adopted GAAP (2014-07) The working group adopted proposed revisions to SSAP 11 to incorporate paragraphs 6A and 7 of APB 12 that were not carried over from SSAP 14 when it was superseded by SSAP 92. As a separate project, the working group will reconsider SSAP 11 disclosure requirements that are based on GAAP pension and other postretirement benefit guidance, as these disclosures are not generally completed under GAAP for postemployment benefits or compensated absences.

Definition of a Public Business Entity (2014-03) The working group rejected adoption of ASU 2013-12, *Definition of a Public Business Entity*, as statutory guidance does not differentiate between public and non-public entities. Interested parties



had expressed concern about rejecting the guidance because of the auditors' GAAS requirements to consider all relevant GAAP disclosures in statutory financial statements, should a non-public entity standard be issued in the future that might include disclosures applicable to insurers. NAIC staff committed to working with industry to discuss these situations should they arise in the future.

Inconsistent Audit Requirement in SSAP 16R (2014-04) – The working group adopted a change to SSAP 16R to require disclosure of the written capitalization policy in both the annual statement and audited financial statements.

ASU 2014-03, Derivatives and Hedging—Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach (2014-08) – The working group voted to reject the FASB Private Company Council's ASU, which provides a practical expedient to apply cash flow hedge accounting for certain types of swaps, as it specifically scoped out financial institutions including insurance entities.

ASU 2014-15, Service Concession Arrangements (2014-05) – The working group adopted a modification to SSAP 22 to incorporate guidance from ASU 2014-05 that service concession arrangements are not within the scope of the definition of a lease. The working group also adopted revisions to SSAP 19 to clarify that these arrangements should not be recognized as property, plant or equipment.

## Exposure of New Guidance and Discussion of New and On-going Projects

Comments on exposed items are due to NAIC staff by October 17 unless otherwise noted.

Investment Classification Review (2013-36) – In 2013, the working group agreed to a new comprehensive project to review the investment SSAPs and clarify definitions, scope, accounting methods and reporting guidance. On April 18, the SAP Working Group exposed for comment until June 7 an investment matrix which identifies various investments within the SSAPs and related reporting information. The working group is looking to gather information from regulators and interested parties on the issues that should be discussed. At the Summer National Meeting, the working group discussed comments on the matrix. Industry believes that “key elements” are missing: analysis as to whether the staff believe the current accounting or valuation is appropriate, discussion of the original

rationale for the current requirements during codification and why that rationale has changed, and magnitude of industry holdings for each type of instrument. The working group's response was that such analysis will be done if the regulators decide to propose changes.

The working group then voted to expose a memo from NAIC staff entitled “Identification/Prioritization of Discussion Topics” which focuses on eight key issues:

- Bond definition and accounting and reporting guidance for investments under SSAP 26
- Consider requirements for SSAP 26 investments to have a “contractual amount of principle due”
- Review whether the measurement method and valuation should be based on the type of company that holds the investment (AVR/non-AVR) and whether existing allocations for accounting and reporting based on NAIC designation are still appropriate
- Review non-bond SSAP 26 investments, particularly bank participations and CAPCO investments, to clarify the investment structure, and assess if different or additional accounting or reporting is needed.
- Common stock and preferred stock definitions and accounting and reporting guidance for investments under SSAPs 30 and 32
- Loan-backed and structured securities definitions and accounting and reporting for investments under SSAP 43R
- Scope of SSAP 48 accounting and reporting

The working group also voted to disband the SSAP 43R Subgroup since the issues of the scope and definition of SSAP 43R securities will be addressed as part of the investment classification project.

Statement of Cash Flows (2014-23) – The working group added to its agenda a project to gather information on non-cash items currently included in the statement of cash flows. The annual statement cash flow worksheets appear to require that certain non-cash items are included in the statement, such as the repayment of intercompany payables through a capital contribution. The working group asked both industry and regulators to comment on their preferences on what should be included.



**Primary Security Definition** – The working group discussed a referral from the PBR Implementation Task Force related to XXX/AXXX Reinsurance Framework. The referral includes the charges to develop a proposed definition for “primary security” for reinsurance collateral and an audited note to financial statements. There was no substantive discussion in Louisville; however, the working group expects the project to be a priority item this fall. See the summary of the PBR Implementation Task Force for additional discussion of the Framework.

**Restricted Asset Subgroup** – The subgroup held two conference calls in May and July to discuss repurchase agreements. These calls focused on the following topics: short-term vs long-term repos and whether the prohibition on long-term repos should be removed, should the guidance on repos be clarified with expanded disclosures, what is the impact of automatic stay provisions, should restrictions be established for all elements of a repo transaction and considerations for related party repurchase agreements.

As a result of these discussions, the subgroup has asked NAIC staff to: 1) solicit information from states regarding long-term repurchase transactions; 2) conduct additional research on key topics; and 3) begin drafting guidance for disclosures and short-term transactions. The SAP Working Group also referred ASU 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures* (2014-15) to the subgroup for its consideration.

**Restricted Assets Disclosure (2014-16)** – As a result of analysis performed on the 2013 restricted asset disclosures filed by insurers, the working group exposed for comment proposed revisions to SSAP 1 to clarify the definition of restricted assets and the related disclosure requirements. Some insurers incorrectly excluded pledged assets from the disclosure if those assets were admitted. Per the Form A, determining that an asset is admitted (e.g. when assets are pledged as collateral in accordance with INT 01-31) does not preclude it from being considered and reported as “restricted.”

**Single-Member and Single-Asset LLCs, Underlying Asset is Real Estate (2013-17)** – In 2013, interested parties requested a change in accounting for real estate held by certain LLCs from SSAP 48 (valued using an equity method) to SSAP 40 (primarily valued at cost). This change would require appraisals for the real estate in accordance with SSAP 40, but the RBC charge is lower for Schedule A assets. With the support of the Capital Adequacy Task Force, the working group agreed to the proposal at the Summer National Meeting and directed NAIC staff to draft guidance to move these assets into SSAP 40 with a

caveat that the accounting could change as a result of the investment classification project.

**Holdings of Surplus Notes (2014-25)** – The working group asked for comment whether paragraph 10 of SSAP 41 related to the valuation of surplus notes by the holders needs to be clarified. As part of that discussion, the working group asked for comments as to whether the thresholds used when applying a statement factor for valuation should be revised; the \$5 %/\$6 million thresholds have not been reviewed in 16 years.

**Medicare Advantage and Medicare Part D Adjustment Premium Receivables and Payables (2014-27)** – NAIC staff has received questions as to the appropriate annual statement lines to report Medicare risk adjustment receivables and payables. Because increased amounts are expected to be reported for these balances as a result of the ACA, the working group asked for comments as to whether additional guidance should be provided in SSAP 54 related to these balances and whether additional guidance in general is necessary for Medicare Part D and Medicaid Advantage programs in addition to that provided by INT 05-05.

**Separate Notes Disclosures (2014-18)** – The working group exposed for comment proposed changes to SSAP 56 and annual statement notes 32 and 34 (related to reserves by withdrawal characteristics) to make them consistent.

**Clarifications of INTs Incorporated into SSAP 55 (2014-19)** – The working group exposed for comment clarifications to SSAP 55 so that the original intent of the guidance from INT 02-21, Accounting for Prepaid Loss Adjustment Expenses and Claim Adjustment Expenses, and INT 03-17, Classification of Liabilities from ECO Lawsuits, would be clear. NAIC staff noted that when the INT guidance was transferred to SSAP 55, some of the detail and nuances were not fully integrated.

**Clarification of the Income Tax Footnote (2014-20)** In response to questions to NAIC staff, the working group has proposed a revision to SSAP 101, footnote 3, that the RBC ratio for purposes of the year-end DTA admissibility test is the ratio from the current reporting period being filed.

**ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects (2014-24)** The working group voted to expose revisions to SSAP 93, Accounting for Low Income Housing Tax Credit Property Investments, to adopt ASU 2014-01 with modifications to limit optionality. SSAP 93 will continue to require a modified amortized cost methodology and gross presentation in investment

income (whereas the ASU allows a cost or equity method and net presentation in income taxes).

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 (2014-17) – The working group exposed for comment proposed revisions to SSAP 104 effective January 1, 2016, with early adoption permitted to adopt the ASU.

2012 Group LTD Table and Health Actuarial Guideline XLVII (2014-21 and 2014-22) – The working group exposed revisions to incorporate changes to Appendix A-010, Minimum Reserve Standard for Individual and Group Health Insurance Contracts, recently adopted by the Health Actuarial Task Force, and the related actuarial guideline, Application of Company Experience in the Calculation of Claim Reserves Under the 2012 Group Long-Term Disability Valuation Table, effective January 1, 2016, with early adoption permitted.

Asbestos and Environmental Exception Reporting (2011-45) – In 2012, the working group adopted accounting guidance for SSAP 62R related to the Schedule F penalty for asbestos and pollution contracts that have duplicate coverage, but is still struggling to finalize the guidance and instructions for Schedule F. At the Summer National Meeting, working group exposed for comment two reporting options: option 1 is the current Blanks proposal and option 2 omits the original reinsurers detail from Schedule F. The comment deadline is September 16 and the working group also requested withdrawal of BWG 2014-15 while this issue is being resolved.

SSAP 57 -Title Insurance Premium Classifications (2014-06) – The working group re-exposed amendments to the disclosure requirements of SSAP 57 to delete the categories for Gross All Inclusive Premiums and Gross Risk Rate Premiums based on comments from the Title Insurance Financial Reporting Working Group and the title industry.

ASU 2014-10, Development Stage Entities (2014-14) The working group exposed for comment a proposal to reject this ASU as not applicable to statutory accounting; their view is that a development stage entity would not be treated differently than any other reporting entity under statutory accounting.

## Principles-Based Reserving Implementation Task Force

The task force has been very active this spring and summer, convening five times since April, including a September 4 conference call to adopt a proposed

new Supplemental XXX/AXXX Reinsurance Exhibit for consideration by the Blanks Working Group.

### XXX/AXXX Reinsurance Framework

The task force held a conference call April 14 to hear additional comments on Framework recommendations included in the February 17 Rector Report. The task force then met June 12 and voted to expose for comment a revised Rector Report dated June 4. Changes between the two reports include 1) replacing the *Model Regulation to Define Standards and Commissioner’s Authority for Companies Deemed to be in Hazardous Financial Condition* as the enabling legislation to revising the *Actuarial Opinion and Memorandum Regulation*; 2) modifying the definition of “other securities;” and 3) requiring an “RBC cushion” as opposed to requiring a full RBC calculation by the ceding or assuming company.

The task force held a conference call June 30 and adopted the XXX/AXXX Reinsurance Framework “in concept,” which was then adopted by Executive Committee at the Summer National Meeting as discussed on page 2. As summarized in the proposal for Executive Committee, the Framework “seeks to address concerns regarding reserve financing transactions and to do so without encouraging them to move off-shore.” The changes would be prospective, applicable only to new transactions which cede XXX term life insurance business and AXXX universal life with secondary guarantees business. “The Framework does not change the statutory reserve requirements applicable to a ceding insurer; rather, the Framework addresses the types of security that can back those reserves in connection with reserve financing transactions.”

“The Framework would require the direct ceding company for reinsurance financing transactions, in most instances, to:

- Collateralize a portion of the total statutory reserve approximately equal to the principle-based reserving level with hard assets such as cash and securities listed with the SVO.
- Collateralize the remainder of the statutory reserve with other assets and forms of security identified as acceptable by regulators.
- Disclose the assets and securities used to support the reserves.
- Hold an RBC cushion as required for other business.”

Executive Committee also adopted the task force’s proposed charges to other working groups (14

separate charges to 8 working groups, which are discussed in the individual group summaries) and approved requests for the development of new or revised NAIC models as follows:

- New Model – *XXX/AXXX Reinsurance Model Regulation*
- Amendments to the *Credit for Reinsurance Model Law (#785)* to reference the *XXX/AXXX Reinsurance Model Regulation*.
- Amendment to the *Actuarial Opinion and Memorandum Regulation (#822)* to specify that, in order to comply with Model #822, the opining actuary must issue a qualified opinion as to the ceding insurer’s reserves if the ceding insurer or any insurer in its holding company system has engaged in a reserve financing transaction that does not adhere to the *XXX/AXXX Reinsurance Model Regulation* and other aspects of the *XXX/AXXX Reinsurance Framework*.

The task force hopes to have some of the proposed new requirements effective for 2015 transactions.

#### Supplemental XXX/AXXX Reinsurance Exhibit

As discussed in the Blanks Working Group summary, the supplemental exhibit was not adopted at the Summer National Meeting due to objections from interested parties that it requires disclosures for year-end 2014 of concepts not yet adopted by the NAIC, e.g. the proposed Actuarial Guideline 48. On August 22, the task force released a revised Blanks proposal 2014-18BWG and amended that proposal with clarifying guidance three hours prior to call scheduled to consider adoption on September 4.

During the September 4 call, the task force acknowledged that interested parties and regulators had submitted thoughtful, substantive comments, but that given the time constraints to finalize the annual statement schedules for 2014 as soon as possible, the task force would only be able to address clarifying guidance. The chair promised that the substantive comments will be addressed “immediately” after 2014 disclosures are finalized to avoid similar time constraints for 2015. After a walk-through of the latest changes, the task force then voted to adopt the exhibit, with one state (Alabama) abstaining due to lack of time to review the final proposal.

The new annual statement supplement includes four sections: Part 1, All XXX and AXXX Cessions; Part 2, Transactions Subject to Part 2 Disclosure; Part 3, Collateral for All XXX/AXXX Reinsurance Transactions Reported on Part 2, and Part 4, Non-

Collateral Assets Supporting Reserves for All Affiliate XXX/AXXX Reinsurance Transactions Reported on Part 2.

The task force will hold a joint conference call September 18 with the APP Task Force and the Blanks Working Group to consider final adoption.

#### PBR Adoption by States

Since the Spring National Meeting, nine new states adopted the principles-based reserving requirements: Connecticut, Florida, Hawaii, Iowa, Ohio, Oklahoma Nebraska, Virginia and West Virginia, bringing the total to 18 states which represents 28% of direct U.S. premium. Twelve additional states have or are expected to introduce legislation in 2014 or 2015, representing 60% of premium. There are some additional states that plan to introduce legislation soon but do not yet know the exact timing. The task force co-chair recommended using January 1, 2017 as the earliest probable PBR Valuation Manual effective date.

#### PBR Statistical Agent Framework

Comments were received on the PBR Statistical Agent Framework exposed at the Spring National Meeting. NAIC staff noted there was not industry consensus with the task force proposal to have a single statistical agent warehousing certain data using three to five states contracting with the statistical agent. Industry also expressed confidentiality concerns. One alternative discussed would be to use the NAIC to contract with the statistical agent on behalf of the states. The task force hopes to have a revised recommendation prior to the Fall National Meeting.

## **Capital Adequacy Task Force**

The task force met June 30 to give final approval to 2014 RBC formula and instructions; details of adopted proposals are discussed in the RBC working group summaries below. The task force also met in Louisville.

#### XXX/AXXX Reinsurance Framework Charges

The following charges from the PBR Implementation Task Force were discussed by the task force and referred to the Life RBC Working Group, which will begin working on the projects this fall.

- Develop an appropriate “RBC Cushion” for an insurer ceding XXX/AXXX policies when the assuming reinsurer does not file an RBC report using the NAIC RBC formula and instructions.
- Develop appropriate asset charges for the forms of “Other Security” used by insurers under the



proposed *NAIC XXX/AXXX Reinsurance Model Regulation*. These charges should then be considered for incorporation into the “RBC Cushion” discussed above.

- Determine whether the current RBC C-3 treatment of qualified actuarial opinions is adequate for the purposes of the risks of XXX/AXXX reinsurance transactions that receive qualified actuarial opinions.

The task force’s goal is for the first two charges to be implemented together with the 2015 RBC filings and the third proposed requirement to be effective no later than December 31, 2015.

#### Modification of RBC Requirement

The task force was informed that some companies have modified the RBC requirement amount for the calculation of Authorized Control Level when permitted by the domiciliary state. The task force adopted guidance at the Summer National Meeting reaffirming that permitted practices are not allowed for RBC; this guidance was added to the Management Discussion and Analysis RBC instructions.

#### Broker Receivables

The task force has been discussing for several years an ACLI proposal to lower the RBC charge for these assets, which are classified as “receivables for securities” in the RBC calculation. During its June 30 conference call, the task force adopted a revised proposal based on a weighted average calculation of bonds, common, preferred and hybrid stock investments. As a result, the Life factor was reduced to 1.4% from 6.8% and the P/C and Health factors were reduced to 2.4% from 5%, effective for 2014 RBC filings.

#### Proposal to Extend Deadline for Changes to RBC

The task force discussed in both meetings a proposal to extend the deadline after April 30 for adjustments to structural changes adopted in concept before April 30, when there are annual statement or accounting changes that affect the RBC structural pages. There were significant comments from industry related to the effect of extending the deadline on capital planning and the ability of software vendors to incorporate accurately these revisions. No changes were adopted; some suggestions being considered are evaluating each exception separately or requiring a super majority vote to adopt a change after the April 30 deadline.

## Life Risk-Based Capital Working Group

The working group held conference calls in April, June and August and met in Louisville to discuss the following topics.

#### C-3 Phase I Modifications

After hours of discussion at numerous meetings, the working group adopted on June 27 a new section to the Interest Rate Risk and Market Risk schedule to include alternative calculations of C-3 cash flow testing on an informational basis only for 2014 RBC filings for fixed annuities and single premium life insurance. The working group had originally planned to include indexed annuities but had to exclude them from the scope in order to complete the revisions in time for 2014 filings; indexed annuities are expected to be included for 2015.

The information is required for companies doing C-3 Phase I calculations in relation to reserves of at least \$1 billion and with statutory general account admitted assets in excess of \$10 billion as of year-end 2014 (which is approximately 80-90 companies). The working group hopes to make the calculations a mandatory part of the formula for these large life insurers in 2015 and filed on an informational basis for all other insurers in 2015.

#### “Conflicting Use” of AVR

During its April 25 conference call, the working group adopted its proposal that the amount of AVR that can be included in Total Adjusted Capital for RBC purposes would be limited to the amount not used in asset adequacy testing; the change is effective for 2014 RBC filings. The chair has noted that AVR is not often used by companies in asset adequacy testing.

During its June 27 conference call, the working group concluded that the portion of AVR excluded from TAC (and used to support reserves) could be used to support a company’s C-3 analysis. At the Summer National Meeting, the working group confirmed that the excluded AVR could be included in both Phase I and Phase II of a company’s C-3 analysis. This clarification is too late to make the 2014 Life RBC instructions but will be posted on the working group’s website as additional guidance.

#### Stress Testing Subgroup

The subgroup held two interim conference calls, which included the following discussions and observations:

- The subgroup’s proposal is focusing on insurance risk and testing is expected to be

performed at the legal entity level. Criteria for exemption was also discussed and the chair conceded that the initial exemption criteria resulted in very few companies needing to perform the stress testing analysis so that criteria has since been modified to include more companies.

- The subgroup will leverage work with the newly formed AAA Stress Testing Group; during the interim calls, the subgroup discussed with the AAA group use of a combination of company-designed scenarios and common scenarios.
- The possible outcome of stress testing may require an increase to current RBC control levels, possibly requiring a change to the model act; initially, however, the stress testing submission is expected to be informational only.
- The current proposed timeline for the stress testing proposal calls for field testing by the end of this year. The AAA Stress Testing Group thought this would be a challenging deadline, and the subgroup chair indicated that given the current status, changes to the timeline will likely need to be made. The overall goal is to have something in place when PBR is adopted, likely in 2017.

In Louisville, the working group received an update from the Stress Testing Subgroup, which identified the next steps to be taken. Those include drafting illustrations for the RBC instructions and formula page.

#### C-3 Phase II/AG 43 Subgroup

This joint subgroup of the Life Insurance and Annuities Committee and Financial Condition Committee is charged with evaluating the overall effectiveness of capital and reserve requirements for variable annuities and presenting recommendations to improve the effectiveness of those requirements.

The subgroup provided a draft letter concluding that, by itself, the subgroup does not have the means, ability or expertise to effectively address the mandate of an in-depth analysis and resulting recommendations in a reasonable period of time. The subgroup also believes that the responsibility for this reserve and capital analysis falls within the scope of PBR implementation as C-3 Phase II and AG 43 were the first PBR-type processes adopted by the NAIC. The subgroup believes that a series of case studies analyzing reserves and capital requirements under a range of products evaluated by risk level, operating in a range of economic environments would lead to great insight into the underlying causes of existing “ineffectiveness.” The subgroup

would like to request NAIC support, including support of its parent committees, similar to the support the NAIC provides in the PBR Implementation Plan. The Life RBC Working Group plans to hold a joint call with LATF to begin the process.

## **Investment Risk-Based Capital Working Group**

The Investment RBC Working Group continues to consider the recalibration of C-1 (asset) factors used in the life RBC calculation. The working group generally meets twice a month.

#### Corporate Bond Factors

In July, the AAA announced that it had decided to abandon the matrix approach (based on both credit ratings and the level of subordination) in establishing public corporate bond C-1 factors, due to implementation challenges, in favor of the vector approach (based only on credit ratings). The AAA had pursued the matrix approach because in its review of the recovery studies, it found that recoveries were highly dependent on the lien position (level of subordination) of the security within the capital structure. The AAA representative also noted concerns that a matrix approach that considered the lien position might encourage “creative” investment structures, leading to unintended consequences. As a result of this significant decision, the default assumptions used in the model were updated to include the entire universe of default rates, rather than using default rates that corresponded to particular lien positions; 2013 default experience was also included in the model.

At the Summer National Meeting, the AAA presented updated base factors for the 19 S&P/Moody’s credit rating classifications used in the bond model. The AAA further recommended compressing these 19 classifications into 14 categories, retaining the current 6 NAIC designations, but utilizing “+” and “-” indicators to expand the number of designations (e.g., 1+, 1, 1-). Under the AAA’s recommendation, NAIC 6 and NAIC 5 designated bonds would not have +/- indications. The recommended factors are generally higher for investment grade bonds, and generally lower for below investment grade bonds, as compared to the current C-1 factors. For example, the current factor for an NAIC 1 designated corporate bond is 0.40%, while the recommended factor for a Moody’s rated Aa2 bond is 0.61%. Moody’s rated A1 – A3 bonds, currently categorized as NAIC 1 bonds would be notched to NAIC 1- with a

recommended factor of 1.13%. The current C-1 factor for an NAIC 5 designated corporate bond is 23.0%, the AAA recommends reducing this to 18.66%. While the AAA's recommended base asset factors for corporate bonds held by life insurance companies have not been formally exposed for public comment, the chair of the working group welcomes questions and comments on the AAA's factors prior to October 1. The AAA's presentation with recommended base factors for corporate bonds can be viewed at the Investment RBC Capital Working Group page on the NAIC's website.

The AAA plans to complete its documentation supporting its base factor recommendations by the end of 2014. This documentation is expected to include a reconciliation of the proposed factors to the current factors established in 1991 to identify the specific drivers of changes. The AAA will also be developing recommendations for AVR.

#### Other Fixed Income Factors

The AAA's bond modeling has focused on the public corporate bond life C-1 factors; the working group also needs to determine how C-1 factors for non-modeled fixed income classes (municipal bonds, private placements, preferred stock, and other invested assets) should be developed. The working group has discussed an approach which would compare the default statistics for these investment classes to those of public corporate bonds; factors could then be adjusted accordingly. NAIC staff agreed to research which vendors could provide the best default statistics for these investment classes.

#### Real Estate Factors

The working group has previously exposed a proposal which, among other changes, would reduce the current base factor of 15% to 8% for all real estate categories. The recommended base factor was developed using a price variation analysis of the National Property Index of the National Council of Real Estate Investment Fiduciaries and is supported by actual life insurance industry loss experience; it has been acknowledged that the current base factor in effect since 2000 was established somewhat arbitrarily. While real estate investment holdings represent approximately 1% of insurance industry holdings, concerns have been expressed that the significance of the decrease in the base factor may incentivize insurance companies to increase their exposure to this asset class which is less liquid than other asset classes. The working group is considering whether the base factor should be adjusted based on property types or geographic regions. Additional data is being reviewed to assess whether greater

price variation exists for any particular property types or regions. The working group is expected to release a revised proposal once it has completed this consideration.

#### Bond ETF Factors

Acknowledging that certain bond exchange-traded funds are classified as bonds for statutory accounting purposes, the working group discussed whether it was appropriate to assign RBC factors developed for individual bonds, based on the risk of a bond's default and loss severity, to these ETFs. The working group noted that bond ETFs have no par value, no maturity and no scheduled principal payments. It was also noted that the SAP Working Group is discussing possible changes to the valuation and reporting of ETFs. On August 8, the working group held an education session on ETFs to better understand the similarity and differences between bonds and bond ETFs. Presentations were provided by NAIC staff, bond ETF managers, and federal regulators; members of the Valuation of Securities Task Force, SAP Working Group, and Emerging Accounting Issues Working Group were also invited to participate.

#### Non-AVR RBC Considerations

The working group has discussed whether to recommend that the investment RBC factors developed for life companies should also be applied to health and P&C companies. While there is a view that asset risk is the same regardless of the holder of the investment, a fundamental difference is that life companies hold the Asset Valuation Reserve and other types of insurance companies do not. Other dissimilarities in investment characteristics are driven by differences in the duration of liabilities or the capital structure, as well as differences in statutory accounting requirements. The question regarding the degree to which asset risk factors should be adjusted because of the differences in reserve requirements needs to be addressed. However, the working group and AAA have not been able to obtain the support of individuals with property/casualty and/or health entity expertise to perform comparable analyses to that of AVR companies, on corporate bond holdings in particular, that would reflect the differences described above.

Because investment risk does not significantly impact the RBC formulas for non-AVR companies, the costs of conducting such analyses may outweigh the benefits. However, without valid analyses from which it can develop a recommendation of asset risk factors for non-AVR companies, the working group may have no other viable option than to recommend



the forthcoming proposed AVR company factors with an adjustment to reflect the fundamental differences mentioned above. If the analysis for non-AVR companies could be simplified, as compared to the AVR company analysis, it might still provide useful information to assess whether recent default experience indicates that a change to the existing RBC factors for non-AVR companies is necessary. On its July 31 conference call, the working group adopted a memo formally seeking guidance from to the Capital Adequacy Task Force on this issue. The task force discussed this matter at the Summer National Meeting, and concluded that the Investment RBC Working Group should continue its work in this area and begin analysis of the P/C and Health modeling of investments.

#### Timeline

The timeline for implementing any new life RBC C-1 factors remains uncertain given the significance of the remaining work that remains. The 2015 life RBC calculation would be the earliest any changes could be implemented; however 2016 seems more likely at this stage. The working group has not developed a formal work plan with specific target completion dates or deadlines to finalize its considerations.

## **Operational Risk Subgroup**

The subgroup met by conference call on April 23, June 4, and July 1. During the conference calls, the subgroup discussed the following issues.

#### Operational Risk Proposal

At the Spring National Meeting, the subgroup conceded that more time will be necessary to develop and implement an operational risk charge and as a result, proposed an informational only operational risk data gathering for 2014 RBC. Companies will file premium data as part of their 2014 RBC filing which will be analyzed by NAIC staff.

Subsequent to the Spring National Meeting, the subgroup heard comments on its second exposure of an operational risk proposal which included operational risk examples. Even though the comments were specific for the 2014 filing, they focus on general concepts which may be applied going forward. Five comment letters were received and in general, most comments indicated that operational risk is already embedded in the RBC formulas in some manner. One comment letter suggested looking at other frameworks as an alternative approach, such as a modified Bermuda “capital add-on” method that considers the qualitative impact of corporate governance and enterprise risk management practices. All parties

suggested using net premium instead of direct or gross premium. Based on the comments, the subgroup approved the following non-substantive amendments to the proposal for 2014 filings:

- Change gross or direct premium and reserves to net premium and reserve proxies for determining the basic operational risk
- Remove the combined Life and A&H growth risk option from the Life RBC proposal
- Add data collection for an alternative capital add-on approach

The subgroup discussed suggestions from the Life RBC Working Group chair to enhance the operational risk charge including replacing the current growth risk part of the Life RBC proposal with a more granular line of business approach, and adding new charges for legal risk, complexity of organization and product complexity. However, due to time constraints to finalize the 2014 formula, the subgroup decided to defer these suggestions and consider them for 2015 reporting. During its May 13 call, the subgroup adopted the operational risk proposal and instructions with minor edits.

#### Timeline

The subgroup discussed a work plan for future work noting the following:

- Impact assessment, identifying methods to approximate operational risk, and collection and review of results will occur during 2014 and 2015.
- Development of an operational risk database, refining the operational risk examples, refining the structure of the operational risk proposal and instructions, and implementation of the initial operational risk charge for the 2016 RBC formulas will occur in 2015.
- Evaluation of company specific risk (ORSA, corporate governance, ERM) and implementation of the risk sensitive operational risk approach for the 2018/2019 RBC formulas will occur in 2016 with the implementation work continuing into 2017.

Given the fact that the Capital Adequacy Task Force had originally proposed an operational risk charge for 2014 RBC, the above is a very significant extension of the proposed timetable to implement this risk charge, which is a reflection of the complexity of the task.

## Property/Casualty Risk-Based Capital Working Group

The working group met by conference call on June 17 and met in Louisville to discuss the following:

### 2013 RBC Results

The working group reviewed the results of the 2013 P/C RBC filings noting consistency with prior years. The chair commented that risk retention groups made up a sizable percentage (1/3) of the companies that were flagged by the trend test or in an action level, likely due their use of a different accounting treatment (U.S. GAAP). Of approximately 2,500 companies, 52 companies triggered an action level event without considering the catastrophe risk charge. Refer to the PwC NAIC Spring 2014 Newsletter for discussion of the effect of catastrophe risk on RBC filings.

### 2014 P/C RBC Formula and Instructions Publication

In Louisville, the working group adopted the 2014 P/C RBC Formula and Instructions publication. The following items were discussed by the working group on June 17:

- 2014 Underwriting Risk – Line 4 Factors  
Unlike the Line 1 underwriting risk factors, the Line 4 underwriting risk premium factors are not adjusted annually. The Reinsurance Association of America noted that the current factors are frozen pending the development of a new methodology and this has contributed to punitive treatment for reinsurers that have a substantial amount of business in non-proportional lines. The RAA asked the working group to consider rolling back to factors that were in place before the two consecutive increases, and the working group rejected the suggestion. The chair responded that an interim solution could be explored and will be discussed in future meetings. The working group then adopted the 2014 Line 4 ex-cat factors.
- 2014 Catastrophe Risk Charge R6 and R7 (PRO26) Instructions  
The working group discussed the draft instructions which were exposed until April 11. One comment letter was received from a trade organization questioning how companies that purchase reinsurance on a group basis should allocate that purchase to the individual entities. A working group member responded that companies should allocate the purchase using a logical method that mirrors their internal risk management practices. The working group adopted the 2014 PRO26 instructions.

### Revised Reinsurance Credit Risk Charge Proposal

On June 17, the working group discussed a comment letter received from the American Academy of Actuaries on RAA's updated proposal with respect to the R3 charge. The AAA expressed general support for the proposal along with some suggestions for further refinement. In Louisville, the RAA presented a revised proposal noting that minor changes have been incorporated since the proposal was circulated one year ago. A revision made in the most recent proposal compared to the proposal discussed earlier this year is to decrease the R3 charge for uncollateralized recoverables for Vulnerable 6 reinsurer from 18% to 14%. Following the discussion, the working group exposed the revised proposal until October 1.

### Investment Risk

The working group discussed a referral from the Investment RBC Working Group to the Capital Adequacy Task Force regarding the investment risk reflected in the RBC formula of non-AVR companies. Refer to the Investment Risk-Based Capital Working Group summary for additional discussion.

## Catastrophe Risk Subgroup

Since the Spring National Meeting, the subgroup met in two regulator-only sessions to discuss the 2013 attestation review process. In Louisville, the subgroup discussed the following:

### Calculation of R6 and R7

The subgroup discussed an industry proposal for calculating the R6 and R7 charges which the subgroup had exposed for a 45-day comment period ending September 19. The industry proposal asserts that many interpretations of the PRO25 instructions are possible and illustrates calculation of R6 and R7 charges using two methods. The two methods utilize the Aggregate Exceedance Probability concept that applies modeling the direct loss amount for each event within each simulated year, applying reinsurance terms to the combination of events and ranking the years' aggregated modeled loss. Each of the methods uses a different sort order corresponding to the probability that loss levels will be exceeded. Method 1 uses the net results sort order for both the gross and net AEP curves while in Method 2, the gross results and net results are sorted independently and applied to the respective curves. The result is two RBC charges from two methods that vary significantly due to the ceded recovery charge. The RBC charge for Method 1 is generally lower but significantly more volatile. A subgroup member and a trade organization representative expressed support for Method 2 which they

commented is appropriate regardless of the reinsurance structure.

#### 2013 Attestation Review Process

The chair provided an update that the attestations collected by the states are being formatted for analysis by the subgroup. In its review, the subgroup plans to identify trends whereby a company attested that it deviated in applying the same catastrophe models or combination of models to the same underlying exposure data and assumptions that were used in its own internal risk management process. The subgroup hopes to discuss the results of its analysis without compromising confidentiality.

#### Catastrophe Risk Charge Exemption

The subgroup discussed a proposal raised by industry over a year ago that would exempt certain insurers from the catastrophe risk charge requirements. The chair reported that the subgroup is not opposed to the exemption; however, the issue is the exemption criteria. No action was taken in Louisville.

## **Health Risk-Based Capital Working Group**

Since the Spring National Meeting, the working group met by conference call four times and in Louisville and discussed the following issues.

#### ACA Risk Adjustment and Risk Corridor Test

Following the adoption of the 2014 ACA risk adjustment and risk corridor test proposal on April 8 by the working group, NAIC staff drafted instructions and proposed factors. The sensitivity test is being used to adjust total adjusted capital for the risk adjustment receivable or payable and the risk corridor retrospective premium and reserve for rate credit or policy experience rating refunds. The sensitivity test identifies the potential impact to a company's RBC ratio due to the risk of misestimation of the ACA risk adjustment and risk corridor by the company. During the conference calls, the working group discussed proposed factors and exposed the proposal twice. On June 26, the working group adopted a proposal that applies a factor of overestimation and underestimation of 25% to the annual statement receivable and payable amounts. In addition, the working group adopted a 50% factor to calculate the effect of the misestimation on the RBC ratio. A company can provide an explanation in the Management Discussion and Analysis section of the RBC filing if it believes the factors are not appropriate with reasons why the factors are inappropriate. The test does not change a company's RBC amounts reported in the annual statement. The revised instructions and

factors were also adopted by the Capital Adequacy Task Force during its June 30 conference call.

In Louisville, the working group discussed the ACA risk adjustment and risk corridor test proposal for 2015 noting that the only change from 2014 is formatting whereby a new page XRO23 is being added for the test. There are no proposed changes to the factors or calculations. The new format allows for crosschecks to be added to tie-back to the annual statement. Following discussion, the working group exposed the proposal until September 17.

#### Excessive Growth Charge

The working group continued its discussion on excessive growth charge that is triggered for start-up companies. The working group had received a question from the District of Columbia related to a start-up Medicare company that had triggered the excessive growth charge because it had no written premiums in the prior year. NAIC staff researched archived documents noting that the excessive growth charge has been part of the health RBC formula when it was first implemented in 1998 and noted that the excessive growth charge is not intended to impact a start-up company. On August 29, the working group exposed a proposal clarifying that start-up health companies should use their first year projected underwriting risk revenue and net underwriting risk RBC amounts that were used in the calculation of the projected RBC as approved by the state of domicile. The comment period ends on September 29.

#### AAA Report on Medicare Part D

The working group heard a presentation from the AAA on its "Report on Risk-Based Capital Risk Factors for Medicare Part D Coverage." The report is an update to a March 2009 report which contained recommendations to revisit certain factors in the near future and to use actual experience to further refine the RBC factors, including determining if the supplemental coverage factor was reasonable given that the 35% recommended factor was based on a survey of actuaries within the industry instead of actual supplemental coverage experience. The report recommends no change to the current factors for 2014 and beyond, with a recommendation to reevaluate the factors again in two years.

#### Medicare Advantage and Medicare Part D Medical Loss Ratio Proposal

The working group discussed a proposal to add two new lines, Line (12) Title XVIII-Medicare Net Incurred Claims and Line (19) Title XVIII-Medicare Underwriting Risk Claims Ratio, to the Underwriting Risk section of the 2015 RBC filing. The changes are the result of the implementation of the new MLR requirements for the Medicare Advantage Program

and the Medicare Prescription Drug Benefit Program established under the Affordable Care Act. The addition of the new lines will provide regulators information on a company's MLR. Following the discussion, the working group exposed the proposal until September 17.

#### Investment Risk

The working group discussed a referral from the Investment RBC Capital Working Group to the Capital Adequacy Task Force regarding the investment risk reflected in the RBC formula of non-AVR companies. Refer to the Investment RBC Working Group summary for additional discussion.

#### Pandemic and Biological Risk Interrogatories

The working group discussed the results of the 2013 Pandemic and Biological Risk Interrogatories filings whereby only 8 out of 858 companies have allocated surplus for pandemic and biological risks. Based on the results, the working group discussed the need to continue to assess these risks. The working group then adopted a proposal to remove the Pandemic and Biological Risk Interrogatories which will take effect for 2015 reporting.

## **Valuation of Securities Task Force**

The task force held five conference calls between May and August and met in Louisville, taking the following actions. (The next meeting of the task force is scheduled for September 11.)

#### Structured Notes

During the 2013 Fall National Meeting, the task force adopted a definition for the term "structured note" for inclusion in the SVO Purposes and Procedures Manual, and in 2014 a new disclosure for structured notes was adopted by the SAP and Blanks Working Groups (see those summaries for additional discussion). As a result of definitional questions raised by interested parties, the Invested Asset Working Group held a conference call on May 12 to clarify specific investment types that would meet the definition of structured notes. The working group noted that the three principle characteristics of a structured note are: 1) it lacks a trust; 2) it is linked to the issuer's credit and accounted for under SSAP 26; and 3) its cash flows are derived from something other than the issuer credit. An investment would not be considered a structured note if it is tied to a typical interest rate benchmark such as U.S. Treasury or LIBOR. The following examples were discussed as possible structured notes, depending on their specific structure: principal-protected notes, index-linked bonds, floating rate notes, inverse floaters, equity-linked notes, index-amortizing notes,

treasury-indexed protected securities, step-up coupons, and steepeners. The working group requested that NAIC staff draft an FAQ document which provides unofficial guidance to assist in the determination of which investments are structured notes. The document can be viewed at the Blanks Working Group webpage under Structured Notes FAQ.

Interested parties have recommended changes to the definition of structured notes to further clarify that it excludes convertible bonds and securities within the scope of SSAP 43R; however, the task force has deferred consideration of any changes until 2015, once the first year of disclosures have been evaluated by the Invested Asset Working Group.

#### 2014 RMBS & CMBS Modeling Timeline

SSG staff reported on the expected timeline for the 2014 financial modeling process. SSG staff met with PIMCO and BlackRock after the Summer National Meeting to develop recommended modeling assumptions. The recommendations will be discussed with the task force in a regulator-only session the week of September 8. Following this session, the recommendations would be exposed for a brief public comment with an open conference call September 17 to discuss technical comments from interested parties. The final task force approval is expected the week of September 29.

#### Referral from Reinsurance Task Force

The task force discussed a request from the Reinsurance Task Force to research the intent of the reference to "securities listed by the Securities Valuation Office" as investments which are acceptable forms of collateral for reinsurance obligations. See that discussion in the Reinsurance Task Force summary.

#### Adopted Amendments to P&P Manual

The task force has adopted the following amendments to the SVO P&P Manual since the Spring National Meeting.

#### *New Part Seven*

On its June 19 conference call, the task force adopted a previously exposed proposal to add a new Part Seven to the Purposes and Procedures Manual detailing the policies and procedures of the NAIC Structured Securities Group, which was formed in 2013. Part Seven defines the role of the SSG as "the NAIC Staff Function assigned to assess credit and other investment risks in securitizations and other complex financially engineered securities owned by state-regulated insurance companies," which includes RMBS and CMBS financial modeling. Much of the new Part Seven was formed by shifting



existing text from other parts of the Purposes and Procedures Manual to clearly delineate the responsibilities of the SSG within the NAIC's Investment Analysis Office. No comments were received on the proposal during the exposure period.

#### *Data Quality Requirements*

The Securitization Data Quality Working Group, which was formed by the task force at the Spring National Meeting, held four interim conference calls and reported to the task force on its progress at the Summer National Meeting. The working group completed its charge to develop documentation standards for the annual modeling of RMBS and CMBS and proposed amendments to the recently adopted Part Seven of the Purposes and Procedures Manual. The proposed amendments were exposed following the working groups' May 20 conference call, comments were discussed on July 23 and the final proposal was referred to the task force for consideration. The task force adopted the proposed amendments as final in Louisville. The working group expects to develop documentation standards for Re-REMICs prior to Fall National Meeting.

#### *Principal Protected Note Methodology*

On its May 9 conference call, the task force discussed and exposed for comment a proposed amendment to the instructions for Principal Protected Notes (PPNs) contained in the P&P Manual, which would require applying a weighted average methodology to the notes' underlying investment components. The proposed amendment was not adopted given the low volume of activity of PPNS. Instead, the SVO will look to the general instructions within the P&P Manual that authorize the SVO to use any reasonable methodology that would produce a reasonable NAIC designation.

#### *Morningstar Ratings*

A proposal to extend Morningstar Credit Ratings, LLC's status as an approved NAIC Credit Rating Provider from "CMBS only" to "All Structured Finance Securities" was adopted on the task force's June 19 conference call.

#### *Revisions to the InfoReq Process*

On June 19, the task force exposed a proposed revision to the InfoReq process, which would reduce the response period for SVO requests to insurers on their filings from 90 days to 45 days. In the event that documentation or other information is missing from a security filing, the SVO issues an InfoReq, an electronic alert that informs the filer that additional information is required. As most filings are submitted electronically, the SVO believes the 90-

day response period is no longer justifiable. The task force adopted the proposal as final at the Summer National Meeting.

#### Proposed Amendments to P&P Manual

The task force is considering the following proposed amendments to the Purposes and Procedures Manual.

#### *Comprehensive Revisions to the P&P Manual*

On its August 1 call, citing concerns raised by task force members from New York and Connecticut, the task force deferred consideration of a proposal exposed at the Spring National Meeting which would make substantial revisions to the P&P Manual. The proposed revisions include renaming the manual "Purposes and Procedures Manual of the NAIC Investment Analysis Office," to reflect the 2013 formation of the Structured Securities Group as a separate and distinct unit from the SVO. More importantly, the proposal would also change the administrative oversight of the SSG and SVO from the Valuation of Securities Task Force to the NAIC Chief Executive Officer. At the Spring National Meeting, the task force member from New York, as well as interested parties, expressed concerns regarding the proposed change in administrative oversight. There was no discussion of this issue in Louisville.

#### *Residual Tranches of Securitizations*

Consideration of a proposed amendment to the P&P Manual to clarify instructions for the filing of residual tranches of securitizations continues to be deferred, pending a referral to SAP Working Group. There has been some debate as to whether statutory accounting guidance requires residuals to be classified as debt or equity; and it has been acknowledged that a clearer definition of "residual interest" is needed. At the Summer National Meeting, SVO staff and NAIC staff supporting the SAP Working Group stated that this matter will be addressed as part of the SAP Working Group's broader Investment Classification Project.

#### *NAIC Bank List*

On May 9, task force members requested that the SVO research why the credit rating threshold for foreign banks (i.e., "double A" credit rating) on the Bank List contained in the P&P Manual differs from that for domestic banks (i.e., "triple B"). The Bank List represents the listing of NAIC approved letter of credit issuers for credit for reinsurance purposes. SVO staff reported to the task force in June, noting that the Bank List criteria were adopted by the task force in 1987, and the difference in the credit rating thresholds for domestic and foreign banks was

established at that time. The SVO was not able to locate any discussion as to the rationale for the different thresholds for foreign and domestic banks; however, it is possible that there were concerns that a state insurance commissioner might not be able to recover on letters of credit issued by foreign banks.

The SVO also noted that the Bank List criteria also require that both domestic and foreign banks be located in jurisdictions rated AAA; this requirement is explicitly stated for foreign banks, while it is implied for domestic banks given that, until recently, the U.S. was given an AAA credit rating by credit agencies. The task force agreed this requirement should be reconsidered given that S&P downgraded the U.S. to AA and other rating agencies have threatened similar action. Further, the SVO's research found that the *Credit for Reinsurance Model Law* referred to "qualified U.S. financial institutions" rather than banks, thus there is an inconsistency with the use of the term "bank" in the Bank List, which would likely have a narrower definition. The Model Law does not specify the technical or legal characteristics of a "financial institution," thus it is unclear whether it was intended to be broader than the term "bank."

On August 1, the task force discussed proposed amendments to the P&P Manual to lower the required sovereign rating from AAA to AA or better, and to set the bank credit rating threshold uniformly to BBB for both domestic and foreign banks. The task force referred the proposed changes to the Bank List criteria to the Reinsurance Task Force, as the list was established to facilitate reinsurance admissibility. The referral also asks the Reinsurance Task Force to consider whether the Bank List should be expanded to include financial institutions more broadly consistent with the terminology used in the Model Law.

#### *Private Rating Letters*

In Louisville, the task force discussed an SVO proposal that insurers file copies of private placement credit rating letters received from NAIC Credit Rating Providers (CRP) with the SVO when the security cannot be found in the NAIC's systems. The proposal noted that NAIC CRPs do not typically rate private placements; however, some private placement securities are subject to a "point in time" NAIC CRP credit rating letter. This "point in time" credit rating may or may not be annually reviewed and updated, may not specifically address the security purchased, or may have other caveats which limit its applicability. The SVO proposes to review the adequacy of the NAIC CRP credit rating letters used for filing exempt purposes and would update

NAIC systems to reflect the appropriate NAIC designation.

Several interested parties expressed significant concerns with the proposal and cited apparent inaccuracies in the SVO proposal. The task force directed the SVO to discuss the proposal with a group of interested parties to see if an agreement could be reached. The proposal was not formally exposed for public comment.

#### *Other Proposed Amendments*

Three additional proposed amendments to the P&P Manual were exposed in Louisville for a public comment period ending September 26. These proposals would: 1) subject catastrophe-linked bonds which have not been rated by an NAIC CRP, as well as those rated by a CRP using a non-stochastic methodology, to the "5\*/6\*" process; 2) better organize the CRP credit ratings characteristics under the filing exempt rule and the process for translating CRP credit ratings into NAIC designations; and 3) clarify that NAIC Designations are assigned to specific issuer obligations and reflect the credit risk associated with that specific issuer liability and its relative position and priority of payment in the issuer's capital structure.

#### Non-U.S. GAAP Considerations

In Louisville, the SVO provided an update on its study of Canada's Accounting Standards for Private Enterprises and of the national GAAP of France. (Canadian GAAP had been previously approved, but Canada subsequently adopted IFRS and developed ASPE.) The SVO has been working with ACLI representatives to study both sets of accounting standards; the objective of which is to determine whether those accounting bases can be used by the SVO to conduct credit analysis comparable to that performed using financial information presented on the basis of U.S. GAAP or IFRS. This would allow an insurer to file audited financial statements prepared on the relevant national GAAP basis with the SVO when it submits securities from issuers that do not prepare GAAP or IFRS financial statements for SVO consideration. No final conclusions were reached in Louisville. The SVO also plans study the national GAAP of the Netherlands.

#### NAIC Designation Recalibration

As the Investment RBC Working Group continues to study whether NAIC designations should be expanded for RBC and AVR purposes (referred to as Recalibration), NAIC staff continues to consider the impact that such a change would have on NAIC operations and procedures. NAIC staff has also noted a lack of uniformity in terminology and the



existence of errors in certain state insurance investment-related laws. On August 1, the task force exposed a proposed referral to the Financial Regulation Standards and Accreditation Committee. The intent of the referral is to solicit input from the committee as to how best to promote uniformity in NAIC designation category terminology across the states. The task force believes that the impact of recalibration on state laws would be minimized if states had an opportunity to align references to NAIC designations in state investment laws to the NAIC's current and anticipated usage before the recalibration project is finalized.

#### SEC Changes to Money Market Fund Rules

The SVO staff reported to the task force that the U.S. SEC recently adopted changes to money market fund rules, among them, a rule prohibiting institutional prime funds from using stable net asset value of \$1.00 a share. A stable NAV is a requirement for the bond classification of money market funds. The task force requested that the SVO further study the impacts of the SEC rule changes and report to the task force at the Fall National Meeting.

#### Derivative Instrument Model Regulation

The task force received a request from the Financial Condition Committee to review *the Derivative Instruments Model Regulation* against the NAIC's Model Law criteria and consider whether the model should be retained, amended, converted to a guideline or archived. SVO staff will consider the request and report to the task force at the Fall National Meeting.

## Corporate Governance Working Group

The working group met in June and July and again in Louisville with the primary goal of final adoption of its proposed corporate governance standards.

#### Corporate Governance Models

After more than a year of discussion, the *Corporate Governance Annual Disclosure Model Act* and the *Corporate Governance Annual Filing Model Regulation* were adopted at the Summer National Meeting by the working group and its parent Financial Condition Committee. The working group had spirited discussion this summer with respect to a request from Florida to include alternative confidentiality guidance in the model act, which was viewed by interested parties as not providing enough protection to companies. NAIC legal staff also recommended uniform confidentiality language as is used in several existing NAIC models. As a result, the working group voted against including alternative

language. Adoption of the model act and regulation had the support of many interested parties.

#### Duplication Report

During the July conference call, the working group again discussed concerns raised by interested parties regarding the potential redundancies created by the Model Act and Regulation and existing reporting requirements, which have now been included in a 39 page Duplication Report. NAIC staff grouped these concerns into three broad categories: the first relates to information requested by the annual corporate governance disclosure that other regulatory findings may already provide or address. The second relates to guidance provided for regulatory use in assessing the corporate governance practices of insurers. The third relates to existing information requests in the NAIC's Financial Annual Statement General Interrogatories and the Financial Condition Examiners Handbook.

During the Summer National Meeting, interested parties continued to express their concern over redundant requests of insurance commissioners in multiple states for the same information, as well as the potential redundancies created through the adoption of the Model Act and Regulation. As a result of this discussion, the chair agreed to submit the interested parties' duplication report to the Blanks Working Group and the Financial Examiners Handbook Technical Group. This issue of redundancy was also discussed at length at the subsequent meeting of the Financial Condition Committee, which agreed to develop a specific charge to address this issue.

## ORSA Subgroup

The Own Risk and Solvency Assessment Subgroup met by conference call on May 2 and July 14 to discuss comments on its previously exposed revised ORSA Guidance Manual. Revisions relate to the foundation of the report, filings of U.S.-only ORSA Summary Reports by international groups and prospective risk assessment. The working group discussed comments from five comment letters. Through collaborative efforts by industry representatives, the subgroup approved changes to the foundation of the report which notes that "when developing an ORSA Summary Report, the content should be consistent with the ERM information that is reported to senior management and/or the Board of Directors or appropriate committee. While some of the format, structure and content of the ORSA Summary Report may be tailored for the regulator, the content should be based on the insurer's internal reporting of ERM information. The ORSA Summary Report itself does not need to be the medium of

reporting ERM to the Board of Directors or appropriate committee, and the report to the Board of Directors or appropriate committee may not be at the same level of detail as the ORSA Summary Report.” After agreeing to changes to the proposed revisions, the subgroup adopted the revised Guidance Manual.

## Group Solvency Issues Working Group

The working group met via conference call four times April through July and at the Summer National Meeting. The working group’s focus is review of the *Insurance Holding Company System Regulatory Act (#440)* and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450)* to address issues that have arisen subsequent to the adoption of the revised models by the NAIC in 2010.

During its June 5 call, the working group discussed comments received on a proposal, exposed during the April meeting, which would require the filing of consolidated or consolidating financial statements for the holding company group in order to perform additional holding company analysis. It also proposed that certain large insurers provide audited consolidated or consolidating financial information. These proposals are a result of specific recommendation from the most recent Financial Sector Assessment Program review. Comments were nearly unanimous that the working group is trying to address a problem that is not clearly defined. Further, there was concern regarding the level of detail of the holding company financial statement information to be provided to regulators, the cost of compiling the information and confidentiality issues.

During the July 22 call, the chair made opening comments that while he believes that regulators have the authority to require the filing of consolidating information under the holding company models and that the regulators made a commitment after the financial crisis to increase group supervision, the working group will table the current proposal for now. Instead the working group will develop procedures for the Financial Analysis Handbook on holding company analysis and group-wide supervision. The working group will respond to the FSAP that there is commissioner discretion to require consolidated information as opposed to requiring consolidated information on a regular basis.

During the Summer National Meeting, an attorney from the NAIC’s Legal Division presented an analysis comparing different regulatory regimes’

group-wide supervision. In this analysis, he compared the NAIC Insurance Holding Company System Regulatory Act, group-wide supervision legislation in Pennsylvania and California, Nebraska’s financial conglomerate law, Solvency II, Bermuda insurance rules and Switzerland’s Financial Markets Supervision Act. The working group reviewed eleven areas of group-wide supervision and scope, e.g. powers related to reporting for, and relationships within, the insurance group, powers related to capital, powers to enforce compliance and impose sanctions, and powers with respect to group-wide supervision.

Following this comparison, the working group discussed next steps, and whether there is an appetite to address its charge of further refining of “group-wide supervisor” in the Holding Company Act. Steve Johnson of Pennsylvania expressed his view that the rest of the world is waiting for the NAIC to deliver on this, and it should be the subgroup’s top priority to accomplish this charge in 2014. He continued that the NAIC is under international, FIO and Federal Reserve microscopes, and this working group needs to finalize guidance.

Interested parties expressed their views that if there is an International Capital Standard developed, international regulators will look to the U.S. to see if they have the appropriate authority to supervise holding company groups. Others also noted that when Solvency II goes into effect, U.S. companies may have trouble in the EU meeting their equivalency process. The working group member from Delaware also noted that Delaware has been questioned internationally regarding its authority as group-wide supervisor.

As a result of this discussion, the working group agreed to proceed with this project. In an effort to accomplish this goal by year-end 2014, an interim call will be scheduled this fall to develop language for the Financial Condition Committee to consider adoption at the Fall National Meeting. The chair agreed that Pennsylvania’s group supervisor legislation will be the starting point for the working group, but amendments could be made to it based on the concerns raised by Iowa, Florida and others during the meeting. Interested parties also noted that the Pennsylvania wording has guidance with respect to the state of domicile of the holding company as the group supervisor, rather than the lead insurer as the group supervisor, and this should be considered for amendment by the working group prior to adopting.

## Private Equity Issues Working Group

The working group met via conference call on June 11 and discussed data on private equity insurers' invested assets; it was noted that the data is not a full representation of the market, but was meant to give a sense of the comparison between private equity insurers and life insurers. Questions arose as to the invested asset mix, mainly why private equity-owned insurers seem to hold more cash than other life insurers, and it was agreed that the NAIC staff would investigate by the Summer National Meeting. The group also discussed New York's proposed changes to its holding company regulation, which are intended to prevent proposed transactions from prejudicing policyholders. The chair requested the group consider whether similar revisions should be made to the Insurance Holding Company System Regulatory Act.

At the Summer National Meeting, the working group heard a presentation from A.M. Best which benchmarked private equity ownership against other forms of ownership of life insurers. The speaker noted that private equity firms generally look to invest for 5-7 years but often stay invested in life insurers for longer periods than that.

The working group also discussed comments from Athene Holding Ltd. and Indiana on proposed changes to the Financial Analysis Handbook, which suggest best practices for regulators to consider in their review of potential acquisitions of life insurers by private equity companies and hedge fund managers. The chair noted that Athene made some valid observations in its comments, and the working group will consider them further.

The task force has invited the SEC to speak at the Fall National Meeting on the topic of recent audits by the SEC's Office of Compliance Inspections and Examinations including the issue of private equity advisors' collection of fees and allocation of expenses. The chair also reiterated his interest for other private equity firms active in insurance to present to the working group.

The working group plans to hold an interim conference call this fall to discuss "transactions between favored investors of private equity and insurance companies."

## International Insurance Relations Committee

The committee met on three occasions via conference calls between the Spring and Summer National Meetings to discuss draft IAIS papers that had been exposed for consultation. During those meetings, the committee discussed then adopted comment letters to be sent to the IAIS on the following papers:

- Approaches to Group Corporate Governance – Impact on Control Functions
- Draft Application Paper on Supervisory Colleges
- Application Paper on Approaches to Conduct of Business Supervision
- Issues Paper on Anti-Bribery and Corruption
- Guidance on Liquidity Management and Planning
- Basic Capital Requirements Consultation Paper

During the Summer National Meeting, there was a considerable amount of discussion (at this meeting and several others) regarding the IAIS' lack of meeting transparency; interested parties and consumer representatives expressed their concern regarding the IAIS' intent to keep meetings private, which, in their eyes, will diminish the IAIS' credibility. Many expressed the view that without the insight of hearing the discussions, thoughtful responses to exposure drafts will be difficult. The NAIC plans to send comments objecting to this change in protocol to the IAIS over the next few weeks, and several insurance commissioners encouraged industry groups to do the same.

## ComFrame Development and Analysis Working Group

### ComFrame

The working group received an update on the field testing process of the IAIS' ComFrame process. Largely, the update reiterated the timeline discussed at the Spring National Meeting. Module 1 quantitative testing is underway, and subsequent iterations of field testing will be conducted in the second quarter of 2015 through 2018. Module 2, qualitative field testing, is expected to begin in late 2014, and Module 3 will focus on supervisory processes over IAIG, including the role of supervisory colleges.

The chair provided an update on the basic capital requirements and the higher loss absorbency capital requirement for G-SIIs. BCR is a main priority of the IAIS, and in late June, the IAIS received its second

round of input. Discussion included the possibility that the BCR calculation would be performed on a group-wide basis, including non-insurance companies. He expects the BCR to be presented to the G20 in November. He also noted that the HLA requirements would be in addition to the BCR for any G-SIIs subject to this capital requirement.

#### International Capital Standard and Forum

The working group heard an update on the IAIS's proposed international capital standard (ICS), which is on a very compressed timeline. The IAIS hopes to release an initial public consultation by the end of 2014, and complete development by the end of 2016 with implementation in 2019.

The working group discussed that the NAIC held an International Capital Standards Forum in Louisville which was attended by more than 200 state and federal regulators and legislators, and consumer and industry representatives. The Forum focused on the following three questions:

- Goals and benefits/costs/consequences of developing a global ICS – theoretically, what could be potential benefits/costs of a global ICS; what are the unintended consequences to be avoided?
- Realities of developing a global ICS – what hurdles need addressing in order to develop a global ICS? Can such hurdles be overcome?
- Approaches for developing a global ICS – given the above, are there feasible/practical/valuable versions of a global ICS that would complement the national system of state-based insurance regulation in the U.S.?

Commissioner McCarty of Florida summarized comments made at the Forum including 1) there is a need for greater clarity on the objectives of a global ICS; 2) considerations where group capital should be located; 3) valuation is a key consideration, and forcing one approach over another could affect the ability to offer certain products and contribute to systemic risk; 4) the use of internal models has its place, but a one-size-fits-all approach would not allow insurers to reflect their own unique risks; and 5) U.S. regulators and interested parties need to look at potential approaches for developing a group capital standard that is appropriate for the U.S. market and regulatory system.

Both regulators and interested parties expressed concern about the IAIS' proposed timeline for the ICS, and Commissioner McCarty noted the NAIC has questioned the speed at which the IAIS was proposing these requirements, to the point of even

being considered reckless, but the IAIS has not altered its timeline.

Several insurers noted that they have been working on their own drafts of an ICS, and they were asked to submit those drafts to NAIC staff for review. Those insurers are Aegon, CNO, Liberty Mutual, Northwestern Mutual, MetLife and Swiss Re.

## **Financial Stability Task Force**

The chair opened the meeting with an update of the current developments of the IAIS. To date, there are eight global insurers designated as G-SIIs, including three in the U.S. This assessment of insurers and reinsurers occurs annually, and the IAIS' next assessment will be performed in November.

The task force received an update on the Financial Stability Oversight Council Process. He discussed three areas of concern to FSOC, including the use of captives (mainly cessions of XXX/AXXX reserves), the low interest rate environment on life insurers, and the transfer of pension plan exposure to the insurance industry.

Next, the floor was given to Tom Sullivan, former Connecticut Insurance Commissioner, to discuss his role as the senior advisor for insurance to the Board of Governors of the Federal Reserve System, which he recently joined in June. Mr. Sullivan will also be representing the Federal Reserve Board on the IAIS's Financial Stability Committee. He spoke primarily about creating a unified voice when speaking internationally, which was welcomed by both regulators and interested parties alike. He coined this voice "Team USA," and is looking to bring the NAIC, the Federal Reserve, FIO, and FSOC together to present a position of collective agreement. Mr. Sullivan also noted that during the International Capital Standards Forum held in Louisville (discussed above), this message from interested parties was clearly heard. He described his role and goals at the Federal Reserve, and regulators were supportive of his leading this endeavour. Commissioner Leonardi noted that state regulation is being minimized by the IAIS, and believes Sullivan's leadership will assist in this area.



## Reinsurance Task Force

The task force met twice via conference call in June and July and in person at the Summer National Meeting to discuss the following topics.

### Reinsurance Modernization Implementation

The task force received an update on the adoption of the revised credit for reinsurance models by the states, noting that five new states (CO, HI, OH, PR, and VT) have adopted the models since the Spring National Meeting, bringing the total to 23 states, which represents more than 60% of U.S. direct premium. Five additional states have confirmed that they plan to adopt the models in 2014 or 2015, which would bring the total to 80% of U.S. premiums. With respect to the certification of reinsurers, the chair reported that 30 reinsurers have now been certified by eight states to hold reduced collateral, and additional reinsurers are being currently reviewed. The task force is considering compiling a list of certified reinsurers from all states for posting to the task force's webpage.

### Securities Listed by the SVO

The XXX/AXXX Reinsurance Framework includes the concept of "primary security," which definition includes "securities listed by the Securities Valuation Office of the NAIC"; this phrase was derived directly from the credit for reinsurance models. As a result, the task force has been asked to determine the original intent of this phrase and sought input from NAIC Investment Analysis Office; the issue was discussed at length during joint conference call with the VOS Task Force in July. Per senior counsel of the Investment Analysis Office, the core objective of "securities listed by the Securities Valuation Office" with respect to credit for reinsurance is to secure a reinsurer's obligation, whereby upon default, the collateral could be liquidated. Although the parameters for such collateral seem broad, senior counsel noted that not all securities listed by the SVO meet these characteristics. As a result of this research, the task force reviewed and exposed for comment an NAIC staff discussion document listing possible assets to add to the list that are currently not included, such as money market mutual funds, and items to exclude, such as Schedule BA assets. The document has been exposed through September 5.

### Information-sharing and Confidentiality

With respect to qualified jurisdictions and certified reinsurers, the Qualified Jurisdiction Working Group and the Reinsurance Financial Analysis Working Group have reached the conclusion that jurisdictions strongly prefer the IAIS Multilateral

Memorandum of Understanding as the method for information exchange between insurance supervisors, as opposed to individual MOUs with multiple NAIC jurisdictions. As a result, the task force proposed changes to the Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions document, which was exposed for comment at the July conference call and adopted in Louisville.

### Report of Qualified Jurisdiction Working Group

The working group reported that they are performing seven full reviews of supervisory authorities (Bermuda, Germany, Switzerland, the UK, France, Ireland and Japan). Regulator-to-regulator calls will occur during the first two weeks of September and they expect to have their reviews completed by the Fall National Meeting.

The working group also discussed the results of their proposed amendments to the Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions, exposed for comment during the July call. The exposure received six comments that were broadly supportive and non-substantive edits were made to the proposed amendments based on this feedback. The Reinsurance Task Force approved the revisions presented during the meeting.

### Report of Reinsurance FAWG

The Reinsurance Financial Analysis Working Group met for four regulator-to-regulator calls between National meetings to complete peer reviews of certified reinsurers and discuss developments in the reinsurance market, including continued growth in the alternative risk transfer market and newly formed hedge-fund-backed reinsurers. Its remaining 2014 priorities include working through the remainder of its peer reviews, consideration of establishing a de minimus level for reinsurance balances that would otherwise hinder a reinsurer from being certified, and continued work on the Uniform Application Checklist for Certified Reinsurers. The checklist was not adopted in Louisville as the working group wants to consider further the comments received from interested parties.

### NAIC Reinsurance Collateral Amount Survey

As part of the NAIC's commitment to re-examine the collateral amounts required by the *Credit for Reinsurance Model Law and Model Regulation*, the task force reviewed the results of a survey to regulators and interested parties related to required collateral and other aspects of the Models. Seventy-five responses were received in areas such as whether collateral amounts are reasonable, the use of financial strength ratings, and if the six-tier rating

system is appropriate. Based on the broad and varied backgrounds of survey participants, feedback was generally mixed. The only area of feedback that was unanimous related to non-U.S. reinsurance companies and regulators, which believe no collateral should be required. The task force did not indicate what, if anything, it would do with the survey results.

#### Reinsurance and captives

The task force will schedule an interim conference call to discuss its charges as a result of the XXX/AXXX Reinsurance Framework being adopted in Louisville by Executive Committee which includes the following direction: “create a new model regulation to establish requirements regarding the reinsurance of XXX/AXXX policies. The PBR Task Force’s XXX/AXXX Reinsurance Framework Exhibit 4 should be considered for this model regulation, modified as deemed appropriate by the Task Force.”

#### Foreign Bank Credit Rating Standard

The VOS Task Force has asked the Reinsurance Task Force for comments related to its proposed amendment to the SVO P&P Manual to eliminate different credit rating requirements for foreign banks, as compared to domestic banks. This proposed revision could affect the credit for reinsurance’s requirements for the use of a “qualified US financial institution.” See the VOS Task Force summary for additional discussion.

## **NAIC/AICPA Working Group**

#### Schedule P Testing

In 2013, the AICPA had asked the working group to consider removing duplicative testing of Schedule P, which is in addition to testing the “significant data elements” of loss data as part of the annual CPA audit. The working group referred the issue to the Casualty Actuarial and Statistical Task Force, which concluded that the regulators were uncomfortable removing the testing requirement for Schedule P, Part 1 data. As a result, the working group concluded it would not recommend any revisions to the requirements. However, interested parties were asked to work with the Casualty Actuarial and Statistical Task Force to find a compromise to reduce the amount of testing required while still providing limited assurance regarding the accuracy and completeness of information reported in Schedule P, Part 1.

#### CPA Audit Workpapers

The working group had a brief discussion of the format of workpapers provided by CPA firms to insurance department examiners, i.e. whether copies of workpapers can be provided to insurance

departments in .pdf format or in native file format, such as Microsoft Excel or Word. AICPA representatives reported they are working on a best practices document that they plan to share with the working group later this year.

## **Blanks Working Group**

The working group held a conference call on June 17 and July 22, adopting sixteen blanks proposals as final. The more significant proposals, effective for 2014 annual statement reporting unless otherwise indicated, include:

- Adding additional lines for commercial mortgage loans to the AVR Default Component and Equity and Other Invested Assets Component blanks pages (2013-27BWG). The proposal was deferred at the Spring National meeting as numerous changes were needed to line item references.
- Amending the Schedule P instructions, effective for first quarter 2015, to clarify when restatement of historical data is needed as a result of a change in pooling percentage (2014-01BWG).
- Adding a column and instructions to Schedule S, Part 3 for Type of Business Ceded (2014-03BWG) to obtain more information as to how insurers use reinsurance to manage risk, especially with respect to affiliate reinsurance or captive reinsurance. A question was also added to the General Interrogatories, Part 2 to capture information about captive affiliates reported as authorized reinsurers.
- Adding a new disclosure to Note 5, Investments, for Structured Notes in accordance with changes to SSAP 26. The illustration for the new note will be data captured (2014-06BWG).
- Modifying instructions and illustrations for disclosures related to the Affordable Care Act (2014-07BWG) and (2014-12BWG).
- Updating the definition of contingent deferred annuities in the instructions to the Exhibit 5 Interrogatories (2014-09BWG).
- Modifying the instructions and illustration for Note 12 to reflect new SAP 102 disclosures related to multiemployer plans (2014-10BWG).
- Adding postal code and property type information for Schedules A, B and BA, and



maturity date for Schedules B and BA (2014-11BWG). The state column was also changed to permit a three-character country code. These changes are intended to provide regulators with additional information to better assess potential concentration risk by property type and geography.

On the June conference call, interested parties requested that the changes specific to Schedule BA be delayed until 2015 annual reporting, noting that detailed information for partnerships, joint ventures, and limited liability corporations reported on Schedule BA is not available in a timely manner for annual statement reporting. Interested parties further noted that existing partnership agreements may not require access to postal code information, thus agreements would need to be amended. An additional challenge is that investment vehicles may own numerous properties, thus the reporting of a single postal code would not be appropriate.

The working group did not support the interested parties' request for deferral; however, the proposal as adopted in June did provide that property, health and title annual statement filers may leave the postal code, property type and maturity date fields blank, if it is not available for 2014 reporting.

An amendment proposed by interested parties to permit life annual statement filers to leave the postal code field blank in Schedule BA for unaffiliated real estate and unaffiliated and affiliated mortgage loans only for 2014 reporting if it is not available was exposed in July and adopted in Louisville. For 2014, this should eliminate a potential issue related to an earlier proposal to reclassify Schedule BA mortgage loans and real estate to the "other" category (with a higher RBC charge) when the postal code is not provided; however, the language remains in the Schedule BA instructions.

- Changing the Actuarial Opinion instructions for the Life and Fraternal annual statements to stipulate that the appointed actuary report to the Board of Directors or Audit Committee (2014-13BWG). This makes the Life/Fraternal guidance consistent with the P/C and Health requirements for appointed actuaries.
- Adding a requirement to the General Interrogatories to disclose direct premiums written, incurred claims and the number of covered lives for ordinary life insurance for U.S. business only (2014-16BWG). This proposal will

allow regulators to identify insurers that are responsible for the production of 80% of life insurance premiums for a given calendar year. These insurers will be included in the mandatory life experience study, pursuant to VM-50, Experience Reporting Requirements required under PBR. Interested parties expressed concerns with the accelerated exposure and approval process, as well as the 2014 implementation, given that PBR will not be fully implemented until 2016. However, the working group did adopt the proposal based on comments from the chair of the PBR Implementation Task Force who indicated that regulators needed to start gathering the data beginning in 2014.

The working group deferred consideration, on its June conference call, of a proposal that would add a new supplement with details of reinsurers aggregated on Schedule F. A new disclosure Note 23J would also be added (2014-15BWG). This proposed change reflects a compromise adopted by the SAP Working Group that will allow companies to aggregate asbestos and pollution reinsurers on Schedule F, Part 3 if certain criteria identified in SSAP 62R are met, while still allowing regulators access to the underlying detail through the addition of a new supplement. The proposal was subsequently withdrawn at the Summer National Meeting as the SAP Working Group has exposed revisions to the asbestos and pollution disclosure requirements of SSAP62R. A new blanks proposal is expected to be submitted once changes to the disclosure requirements are finalized.

In Louisville, the working group adopted a proposal to add two footnote lines to Schedule DB, Part D, Section 1 to report the amount of offset and the net amount after offset consistent with SSAP 64, Offsetting and Netting of Assets and Liabilities (2013-17BWG). The proposal was previously exposed on the working group's June conference call.

The working group also discussed a proposal, previously exposed on its July conference call, to add a new Supplemental XXX/AXXX Reinsurance Exhibit to the Life/Fraternal annual statement blank (2013-18BWG). An ACLI representative cited concerns with the 2014 effective date given that the disclosure may need to change based on an actuarial guideline that is currently exposed for comment and the calculation of the economic reserve would be difficult at this stage. The working group agreed to extend the exposure for the proposal until September 16 and requested that ACLI work with the PBR Implementation Task Force to agree on a

compromise disclosure for 2014 year-end reporting. At its meeting in Louisville, the Financial Condition Committee exposed revisions to the proposal which would reduce some of the reporting requirements for 2014. The PBR Implementation Task Force adopted a revised proposal during its September 4 conference call. See that summary for further discussion. Guidance for the reporting of Medicare Advantage and Medicare Part D stand-alone business, subject to the ACA medical loss ratio requirement, in the Supplemental Health Care Exhibit was also exposed for public comment until September 16.

#### Investment Reporting Subgroup

The subgroup has held four conference calls following the Spring National Meeting, focusing principally on the review of Schedule BA to determine whether the number of categories can be reduced. The initial proposal was to reduce thirty-plus categories to 7 or 8. Interested parties strongly cautioned the subgroup that changes to schedule BA will impact the automated data pulled into the AVR and RBC calculations which have been developed by software vendors. The subgroup also discussed whether collateral loans should be reported on Schedule BA; during its August 6 conference call the subgroup agreed to table that proposal pending discussion during the SAP Working Group's investment classification project.

## Unclaimed Life Insurance Benefits Working Group

The working group met in Louisville to continue work on its charge from the Life and Annuities Committee to “undertake a study to determine if recommendations should be made to address unclaimed death benefits.” The working group heard extensive and diverse comments during its Spring National Meeting especially with respect to the “asymmetric use” of the death master file.

At the Summer National Meeting, the working group received a presentation from ACLI on its study related to unclaimed life insurance benefits and the death master file, which was accompanied by its 30-page report *Life Insurance, Unclaimed Property and the Death Master File - Toward a Uniform National Framework*. An ACLI representative commented that the “NAIC needs to reclaim this issue from rogue states.” Another speaker remarked that the issue relates to unfair claims practices not unclaimed property. The chair reminded the audience that the working group's recommendation to its parent committee will be only whether an NAIC model law on

unclaimed benefits should be developed; what should be included in that model is not up for discussion by the working group. A regulator suggested that they take a few weeks to digest the information they have received. A conference call has been scheduled for September 17 to continue the discussions and discuss possible recommendations to the Life Insurance and Annuities Committee for its consideration.

## Life Actuarial Task Force

During the day and a half dedicated to the meeting, task force representatives focused on issues related to the Principle-Based Reserves Valuation Manual. In addition, the task force received reports and updates from other NAIC subgroups, industry groups or task force members on a variety of other topics. Highlights of these sessions are summarized below.

#### **PBR Valuation Manual and Related Issues** Valuation Manual Amendments

During interim conference calls, LATF voted to expose and then subsequently adopted amendments that clarify the treatment of due premiums in expected future cash flows when calculating deterministic and stochastic reserves, and also clarified that the net premium reserve only applies to basic reserves and not deficiency reserves. During these calls, LATF also discussed a proposed amendment related to a change in the way the pre-tax interest maintenance reserve is reflected in the deterministic reserve, and inconsistencies with how the IMR is treated in AG 38 Section 8D reserves. LATF is considering a modification to address this inconsistency.

During interim calls, LATF also discussed and adopted the December 31, 2013 VM-20 current and long term spread tables that had been previously exposed. The tables include separate spreads for investment costs and default costs. Historically, the AAA has developed the tables, but the NAIC has contracted with data vendors to provide the data directly to the NAIC for use by staff in developing the tables. Default costs will be updated annually while investment spread costs will be updated quarterly. This transition has been underway for some time now and the NAIC anticipates producing rates independently, starting in 3<sup>rd</sup> quarter 2014.

A significant portion of the discussion on Valuation Manual amendments focused on ACLI amendment proposals related to small company considerations and exemption from stochastic testing for companies

where the only business is “non-material ULSG” business. The concept of a non-material secondary guarantee on UL business is intended to minimize the need to calculate stochastic and deterministic reserves for products expected to operate primarily on the base guarantee. These proposed amendments include a definition of a small company as measured by ordinary life premium volume, RBC ratio and the absence of universal life products with secondary guarantees that do not meet the definition of a non-material secondary guarantee.

The goal of the small company exemption is to reduce the amount of work small companies must do, assuming the types of products sold by most small companies would not be expected to develop a deterministic or stochastic reserve in excess of the net premium reserve. Much of the debate centered on the definition of a small company and whether or not the exemption should have a sunset date. After a lengthy discussion, LATF voted to expose two proposals for comment. First, they exposed the proposed small company exemption amendment described above with language noting that LATF would consider removing the exemption five years after adoption. LATF then voted to expose the “non-material ULSG” amendment which effectively allows a company to certify exemption from stochastic testing and also not automatically fail the deterministic exclusion test if the only business is non-material ULSG business. The exposure period is 21 days.

#### PBR Implementation Task Force Charges

Following the adoption of the XXX/AXXX Reinsurance Framework proposal discussed above, the PBR Implementation Task Force charged LATF with 1) developing the “Actuarial Method” referenced in the proposal, which will establish the level of reserves that must be supported by “Primary Security” assets; 2) developing an Actuarial Guideline to provide interim guidance for the Actuarial Opinion Memorandum Regulation (AOMR) as it relates to XXX/AXXX reinsurance transactions; and 3) drafting necessary amendments to the AOMR. In response to the second charge LATF drafted proposed AG 48, *AOMR 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*.

AG 48 specifies the “Actuarial Method” as the greater of the VM-20 deterministic reserve, stochastic reserve (if applicable) or 85% of the Net Premium Reserve as defined in VM-20. The 85% factor was selected to calibrate the current definition

of the NPR to the anticipated definition upon adoption of PBR, at which time it is anticipated AG 48 will be amended to use 100% of the recalibrated NPR for this purpose. The proposed AG 48 also specifies requirements necessary for the appointed actuary to render a non-qualified opinion when reinsurance is involved. The expectation of the PBR Implementation Task Force is that the Actuarial Guideline will be effective as soon as it can be included in the NAIC Accounting Practices and Procedures Manual, and earlier than the revised AOMR will become effective. The Actuarial Guideline would then be modified, as needed, once other work products of the XXX/AXXX Reinsurance Framework are adopted by the NAIC.

During the discussion, some LATF members expressed concern over the tone of the guideline, noting it sounded more like regulation than interpretive guidance. Interested parties expressed concern about the use of the formula-based NPR rather than a risk-based approach and inconsistencies that would be introduced between the basis for financing arrangements and the required reserves. LATF voted to expose AG 48 until September 16.

#### Actuarial Certification/Education for PBR

LATF received a report from the AAA that is assisting LATF in addressing continuing education and certification requirements for actuaries, with a particular interest on actuaries who will certify PBR reserves. A representative of the AAA discussed a qualification standards attestation form for members to use in certifying their qualifications for issuing any Statement of Actuarial Opinion. The draft form is the same for life, health and property/casualty opinions. The AAA will develop a database that members may voluntarily populate with the completed form and supporting documents. The form allows members to identify how each element of the relevant qualification standards was met, and will help members understand and comply with the requirements, and will also increase public knowledge of the U.S. Qualification Standards. Regulators could access this database to check an actuary’s qualifications. Work on this item will continue during the interim period.

#### **Actuarial Guideline XXXIII (AG 33)**

LATF heard a presentation from the AAA’s AG 33 Non-Elective Task Force on proposed changes to AG 33 to address potential understatements in reserves for non-elective non-mortality benefits that can be more valuable than the contract’s accumulation value. Proposed changes were exposed and discussed during the interim period, and at this meeting

additional changes were recommended based on comments received. The proposed changes clarify the definitions of elective and non-elective benefits that are mortality-based and other than mortality-based, as well as clarify assumptions that are expected to underlie the incidence rates for non-elective benefits other than mortality-based benefits. LATF exposed the proposed changes until September 16.

### **VM-22 Fixed Annuity PBR**

LATF received a report from the Academy Annuity Reserve Work Group tasked with drafting VM-22, the PBR methodology for non-variable annuities, and from the VM-22 Subgroup on the Kansas Insurance Department Field Test of the proposed methodology. The work group is currently reviewing a draft of the proposed VM-22 which will be delivered to the VM-22 Subgroup this fall. Once the draft is available, the subgroup will hold open calls to discuss the draft and make any changes necessary before presenting to LATF at the Fall National Meeting.

The proposed methodology sets the reserve equal to the greater of a "Floor Reserve" and a "Modeled Reserve," where the floor reserve is expected to generate results comparable to current CARVM requirements while the modeled reserve is scenario-based. Floor reserves would be defined as the greater of the cash value, reserves excluding "listed benefits" (e.g. guaranteed living income benefits and annuitizations) and reserves assuming 100% utilization of listed benefits. The modeled reserve reflects the risks inherent in different product designs and includes a best estimate reserve plus an aggregate margin. The modeled reserve uses "representative scenarios methodology" to generate scenarios for each key risk and assign probability weights to each scenario.

The objectives of the Kansas field test are to help establish parameters for the calculations, compare the resulting reserves with account values, CARVM and AG 43 Standard Scenario reserves, test the practicality of the modeled reserve and ultimately provide sufficient information to support consensus on the appropriate level of "right-sized" reserves for non-variable annuities. The Kansas field test considers the impact of the proposed VM-22 on one set of products, and the VM-22 Subgroup acknowledges that there is a broad spectrum of annuity products with benefit options that need to be more thoughtfully valued and for which current reserves are probably inadequate.

During the interim period, work progressed on the development of the Floor Reserves, including development of the utilization function and introduction of "in-the-money" triggers for utilization. Programming of the Modeled Reserve calculations was completed and results for the two companies tested are being compiled. Next steps in the field test include completion of modeled reserve calculations and comparison to results using alternative scenario generation techniques. The Kansas field test has been valuable in illustrating some of the difficulties with PBR and calibration of reserves to the proper level, and these issues and others will require careful consideration in finalizing VM-22. Updates on the field test results and progress on VM-22 will be provided in future conference calls.

### **Valuation Mortality Tables**

LATF received a report from the Society of Actuaries & Academy Joint Project Oversight Group on the status of work related to development of a 2014 Valuation Basic Table. The 2014 VBT gender distinct and smoker status tables were developed based on experience data from 2002-2009. The underlying data was adjusted to remove post level term anti-selective mortality, recognize differences in experience from different underwriting eras, and to reflect mortality improvement from the experience period to the start of the table (2014). The Relative Risk tables, a Composite Smoking table and written report are targeted for completion by spring 2015. Following the report presentation, LATF voted to expose the completed tables and related presentation (in lieu of a written report) for comment until October 15.

Work on the 2014 Commissioners Standard Ordinary valuation table has begun and once the 2014 VBT and Relative Risk tables are completed, the 2014 CSO table can be finalized and PBR margins can also be established. NAIC adoption of the 2014 VBT and CSO tables is targeted for summer 2015.

### **Generally Recognized Expense Table**

The SOA Committee on Life Insurance Company Expenses presented analysis to assist LATF in considering for adoption the recommended 2015 GRET factors. Some 367 companies were included in the base data for the analysis. The proposed factors vary by distribution channel, and five distribution channels were used in the current study. Another change in the current analysis is the use of a single set of unit expense seeds across all distribution channels, reflecting the current level and structure of



unit expenses in the marketplace; the prior seed factors varied by distribution channel and were based on 1997 LOMA data. These changes and others had been previously discussed and agreed with LATF.

Across all distribution channels, per policy acquisition and maintenance expenses are dramatically higher than in the prior year, while per face amount and per premium factors are generally lower. It was not clear from the presentation whether total expenses generated by the proposed factors would be higher or lower than the current factors produce; the impact will likely vary based on company circumstances. LATF voted to expose the 2015 GRET factors for a period until September 16. Typically GRET exposures get few if any comments, and according to a CLICE survey only 32% of responding companies use the GRET. However the significant changes in the factors may prompt more comments from interested parties.

### **Nonforfeiture Modernization**

LATF received an update from the Academy Nonforfeiture Modernization Working Group on activities related to the working group's proposed approach to nonforfeiture reform. The Gross Premium Nonforfeiture Method framework was outlined in a previously released report and at this meeting the working group discussed application of the proposed approach to universal life policies with secondary guarantees, otherwise referred to as no-lapse guarantees (NLGs).

The concept underlying the proposed approach is that nonforfeiture value should be based on risks contained in the contracts and the extent of pre-funding in the contracts. The working group evaluated nonforfeiture values for two NLG designs: shadow account and premium fund designs. For shadow account NLG designs, the working group proposes definition of the nonforfeiture value based on consideration of the shadow account guarantees, while for premium fund test NLG designs, the working group suggests that the assumptions inherent in the required premiums be used to define a nominal account value similar to that which emerges under the shadow account design. Using this approach, premium fund designs would effectively become shadow account designs for nonforfeiture purposes. LATF will schedule a conference call to discuss the latest report further.

### **Indexed UL Illustration Guidance**

A representative of the ACLI presented revisions to the draft actuarial guideline for application of the

*Life Insurance Illustrations Model Regulation* to indexed universal life (IUL) contract illustrations. The draft had been exposed comment following the Spring National Meeting and the updates reflect comments received and also changes based on ACLI discussions that identified a need to provide clarification and more consumer information and education about IUL products.

The draft guideline establishes a cap on the illustrated crediting rate based on the lesser of the average index performance over a twenty-five year look-back period or 10% annually. The guideline also proposes that the illustration include a table showing the rate that would be credited in each of the past twenty years based on that index, and the revisions suggest additional disclosures of the credited rates between the rates in the illustrated scale (as defined in the guideline) and the guaranteed rates. The proposed effective date is July 1, 2015.

The ACLI representative noted that the proposal had not received unanimous support among its members and those opposed to the guideline voiced their concerns that the permitted illustration rates are too high and will result in consumer disappointment and complaints. Following passionate discussion from LATF members, ACLI and other company representatives, LATF opted not to expose the revised guideline but will instead review an alternative proposal from opposing ACLI members and will determine next steps.

### **Indexed-Linked Variable Annuity Subgroup**

This subgroup is charged with providing recommendations to LATF regarding the applicability of the NAIC variable annuity regulatory framework to separate account index-linked products filed as variable annuities (ILVAs). During the interim period, the subgroup held one closed call and two open calls to discuss this matter, but no update was provided at this meeting. The open calls focused on clarification of product features, and applicability of regulatory guidance (i.e. actuarial guidelines). At the last open conference call, the subgroup agreed to focus discussions on issues related to nonforfeiture standards for ILVAs. A short term approach will consider classification of ILVAs into an existing product category (e.g. fixed or variable), while the long term approach may entail developing new standards for ILVA products. Work on this matter will continue.

### **Contingent Deferred Annuity Subgroup**

See the summary of the CDA Working Group for discussion of this subgroup's deliberations on CDAs.

### **C3 Phase II/AG 43 (E/A) Subgroup**

See discussion of this subgroup's actions in Life RBC Working Group's summary.

## **Emerging Actuarial Issues Working Group**

The working group was formed by the NAIC to address implementation issues resulting from the revision to AG 38 for universal life products with secondary guarantees. At the Summer National Meeting, the working group discussed comments on an exposed interpretation confirming the basis for determining the gross deterministic reserve and reinsurance reserve credit and voted to adopt the exposed interpretation. The interpretation confirms that reserves established pursuant to AG 38 Section 8D should be reported on a gross basis prior to any adjustment for reinsurance, and YRT reinsurance reserve should be based on current statutory requirements rather than VM-20 guidance. The ACLI and other interested parties opposed the interpretation; however, despite this opposition, the working group adopted the interpretation as exposed. In light of this disagreement, the working group agreed to make the interpretation applied prospectively, not retroactively, effective December 31, 2014.

The working group also voted to expose until September 16 interpretations for other issues including the basis for ceding company reserves under 100% coinsurance arrangements, the basis for establishing the starting asset portfolio rate for purposes of calculating the gross premium reserve, delinking of liability cash flows and asset net investment returns in calculating the gross premium reserve, and the use of hypothetical portfolios for testing the gross reserves.

## **PBR Review Working Group**

The working group was established to coordinate financial analysis, examination, and actuarial review procedures as outlined in the PBR Implementation Plan. The working group established two subgroups to focus on specific areas: the PBR Review Procedures Subgroup will focus on developing review procedures, recommending tools for obtaining and testing data, and identifying other data and reporting needs and the PBR Blanks Reporting Subgroup will focus on potential changes to the annual statement blanks as a result of PBR implementation. During the Summer National

Meeting, the working group provided an update on its progress.

Emphasis has been on the development of recommended changes to the annual statement blanks. The working group received a report from the PBR Blanks Reporting Subgroup, including sample pages showing the proposed changes as well as instructions for completing the new sections of the life blank. Proposed changes were presented at the Spring National Meeting and during the interim period, the subgroup held an open conference call to discuss comments received on the proposed changes and to identify any revisions necessary.

The proposed changes to the general account blanks include additional lines in Exhibit 5 Aggregate Reserve for Life Contracts, the Analysis of Increase in Reserves (including in the Interest Sensitive Life Insurance Products Report supplement), the Five Year Historical Data section, and a new section referred to as the PBR VM-20 Supplement. This supplement has five parts, and includes reporting of reserves and related information by product and reserve basis within VM-20 (i.e. Net Premium Reserve, Deterministic Reserve, or Stochastic Reserve), exemption information, smoothing information and PBR interrogatories. Similar changes are also proposed for the Life Separate Accounts blank Exhibit 3 Aggregate Reserve for Life, Annuity and Accident and Health Contracts and the Analysis of Increase in reserves. The working group voted to expose the proposed changes until September 29.

The PBR Review Procedures Subgroup held twelve closed conference calls during the interim period to "brainstorm" on potential review procedures and development of tools for analysis and examination of PBR. These tools for analysis would be described in the Valuation Manual under VM-31 Reporting and Documentation Requirements for PBR. Drafts of the VM-31 supplemental exhibits were shared at this meeting, but more discussion is needed before the drafts are exposed for comment. The subgroup is proposing standardization of the data elements in VM-31 to be reported by all companies including actual-to-modeled results and assumptions for mortality, lapses and expenses split by underwriting class, gender and issue age. Additional conference calls will be held to continue progress on this work; it was not clear whether any of these calls would be open to the public as it depends on the sensitive nature of the items being discussed.



The working group also heard from a member of the PBR Implementation Task Force about activities related to company outreach. The task force worked jointly with the SOA to conduct a survey to ascertain companies' preparedness for PBR and to give them ideas of what they should be thinking about. The SOA is compiling responses and a report is expected shortly. Other activities are focused on a proposal for a fiscal impact pilot study targeted for 2016, and development of educational material.

## Health Actuarial Task Force

### Long-Term Care

The Long-Term Care Pricing Subgroup reported on discussions regarding an optional rate increase review proposal. The Kansas Insurance Department has used such a framework for domiciliary companies and proposed that the approach become part of the *NAIC Guidance Manual for Rating Aspects of the Long-Term Care Insurance Model Regulation* (LTC Manual). The approach is based on a requirement that the cost of rate increases be shared between insurers and policyholders, and provides for a minimum loss ratio and minimum company share of the experience deviations. The proposal was exposed during the interim period and was met with opposition. Those opposed to the optional process cited the minimum cost sharing requirement and prospective loss ratio as punitive. Following some lengthy discussion of reservations by both regulators and industry, Kansas withdrew the proposal and no further activity is expected on this topic.

The LTC Actuarial Working Group received a status report from the Academy's State LTC Principle-Based Work Group. The work group is developing and testing a model to examine the impact of stochastic analysis under a principles-based approach to LTC reserve valuation. Deterministic and stochastic models have been developed, assumptions have been set and data has been collected for two companies. Modeling and sensitivity testing have been completed for one company and is in progress for the other. Initial work indicates that deterministic and stochastic reserve levels are similar, providing some comfort on the adequacy of current reserves. Testing is targeted for completion by the end of September and a draft report is scheduled for the end of the year.

The Academy Long-Term Care Terminations Work Group reported on its progress towards providing an analysis of LTC termination, voluntary lapse and

mortality experience. Recent focus has been on analysis of mortality experience for nine companies providing experience between 1984 and 2007, although only years 1993-2006 were used because of data quality issues. Results suggest that the current 2012 Individual Annuity Mortality table is a better fit to experience than the 1994 Group Annuity Mortality table. The work group anticipates setting mortality based on a current annuity mortality table and backing into the lapse component. A report is expected by the end of 2014.

## Contingent Deferred Annuity Working Group

The CDA Working Group met via conference call on August 5 and at the Summer National Meeting to continue its consideration of several projects with respect to the regulation of contingent deferred annuities. On its August call, the working group discussed a draft guideline for the financial solvency and market conduct regulation of insurers who offer CDAs. The guidance document, which is intended to serve as a reference for states interested in modifying their annuity laws to clarify their applicability to CDAs, was exposed for a public comment until September 5. In Louisville, the working group discussed preliminary comments on the guidance document, noting that the comment period was still open.

At the Summer National Meeting, the working group heard a presentation from the Center for Economic Justice, which cited a number of consumer-related concerns with CDAs, including: (1) unfair and deceptive policy provisions; (2) benefits are unreasonable in relation to premiums charged; (3) absence of nonforfeiture benefit or provisions; (4) filing as a group contract, not an individual contract; (5) inadequate regulatory review; (6) systemic risk of product; (7) potential lack of guaranty fund coverage; (8) CDA specific suitability and agent/broker training; (9) appropriate reserving requirements; and (10) absence of data on sales and benefits. These concerns have been voiced by the CEJ in numerous other meetings on CDAs.

In response to these concerns, the working group discussed whether some form of nonforfeiture benefit should be applicable to CDAs and the unique challenges with developing a nonforfeiture standard for CDAs. To assist the working group in its considerations, interested parties were asked to provide comments by September 30 on the following: 1) whether a nonforfeiture or similar benefit should apply to CDAs; 2) what this benefit

should look like or how it could be calculated; and 3) the appropriate role for the working group with respect to this issue.

The working group also discussed comments received on previously exposed revisions to the *Annuity Disclosure Model Regulation*, the *Suitability in Annuity Transactions Model Regulation*, the *Advertisements of Life Insurance and Annuities Model Regulation*, and the *Life Insurance and Annuities Replacement Model Regulation*. In response to comments made by interested parties, including ACLI, the Insured Retirement Institute, and CEJ, the working group agreed that further consideration of the revisions is necessary. The comment period on these model regulations was extended to September 5. The working group hopes to finalize its recommended revisions to the model regulations prior to the Fall National Meeting, where they are expected to be considered for adoption by the Life and Annuities Committee.

The CDA Working Group also serves as the coordinating body for the all technical groups with CDA-related projects and the working group heard updates in Louisville. While each NAIC group had been expected to complete their work by the Summer National Meeting, some are experiencing delays.

Life Actuarial Task Force – The task force formed a CDA Subgroup, which is evaluating Actuarial Guideline 43 to determine whether the reserve guidance as it applies for variable annuity guarantees is deficient or inappropriate when applied to CDAs. At the Spring National Meeting LATF exposed proposed revisions to the *Standard Nonforfeiture Law for Individual Deferred Annuities* to specifically exclude CDAs from the scope of the model. Since the CDA Working Group is still considering whether there should be nonforfeiture values for CDAs, no further action has been taken.

Life Risk Based Capital Working Group – At the Spring National Meeting, the working group exposed proposed instructions, for inclusion in the proposed NAIC CDA guidelines, for states as to how current RBC requirements, including C-3 Phase II, should be applied to CDAs. In Louisville, the working group discussed a comment letter received from the AAA which expressed caution in making any changes prior to a “comprehensive consideration” by the C-3 Phase II/AG 43 Subgroup.

Receivership and Insolvency Task Force – The task force is reviewing the proposed revised definition of CDA and considering whether amendments to the

*Life and Health Insurance Guaranty Association Model Act* are needed and warranted in light of the revised definition. The task exposed a proposal for a two-week public comment period its conclusion that CDAs fall within the definition of annuity in the model act and would be subject to the same provisions for coverage, group and individual, and subject to the same limitations and exclusions as other annuities. A conference call will be scheduled to discuss any comments received.

## Separate Account Risk Working Group

The working group met by conference call on May 7 and July 1 and continued to refine its proposed Separate Accounts Recommendations memo regarding the need to modify existing regulatory guidance related to separate accounts, which the working group adopted during its July 1 call. Those recommendations are:

- 1) incorporate the five suggested principles for insulating separate account assets for non-variable products
- 2) review and consider updating SSAP 56, *Separate Accounts*, and the *Modified Guaranty Annuity Model Regulation* related to the transfer of assets from the separate account to the general account as non-insulated assets, and
- 3) review and consider updating revisions to *Separate Accounts Funding: Guaranteed Minimum Benefits for Group Contracts Model Regulation*.

The Financial Condition Committee discussed the Recommendations Memo in Louisville and the need for the committee to work with NAIC staff and legal counsel to determine the best way to move forward to address the recommendations. The chair noted one difficulty is that revisions are proposed to model laws that have not been widely adopted by the states, so it is not certain whether enough states would commit to adopting the changes, which is required under the model law development procedures.

## Financial Regulation Standards and Accreditation Committee

The committee met in Louisville and took the following actions.

### Definition of Multi-State Insurer

During the Spring National Meeting, the committee exposed its controversial proposed definition for

multi-state insurer. Under the proposed definition, a multi-state reinsurer is an insurer assuming business that is directly written in more than one state and/or in any state other than its state of domicile. Captive insurers owned by non-insurance entities for the management of their own risk will continue to be exempted. All other captive insurers, special purpose vehicles and other entities assuming business in states other than their state of domicile would be subject to the accreditation standards. Thirty six comment letters were received with a majority of respondents opposing. In Louisville, the chair sought comments from those who had not submitted comment letters and there were none. The committee did not hear oral testimony from those who had submitted comment letters. No action was taken by the committee and the committee plans to discuss this matter at the Fall National Meeting.

#### Revisions to the Examiners Handbook

During the Spring National Meeting, the committee exposed for comment two significant revisions made to the Financial Condition Examiners Handbook relating to the concept of critical risk categories and IT general controls review. One comment letter was received from Washington supporting the revisions. The committee adopted the revisions effective January 1, 2015.

#### Model Risk Retention Act (#705)

During the Spring National Meeting, the committee discussed the *Risk Retention Model Act* as a possible accreditation standard for risk retention groups and the California comment letter supporting accreditation. In Louisville, the committee adopted the Act as a Part A accreditation standard effective January 1, 2017. States that charter domestic RRGs will be required to adopt the corporate governance standards included in Section 3D of Model #705 or something substantially similar.

#### Revisions to RBC for Insurers Model Act (#312)

During the Spring National meeting, the committee discussed the 2011 revisions to the RBC Model Act related to the trend test for life insurers and noted that no comment letters were received during the one-year exposure period. In Louisville, the committee adopted the revisions effective January 1, 2017. The 2011 revisions revise the trend test trigger point from 2.5 times the authorized control level RBC amount to 3.0 times the ACL amount.

#### Referral on Part A Corrective Action Standard

During the Spring National Meeting, the committee exposed an updated referral from the Corporate Governance Working Group for revisions to Section 4B(10) of the *Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in a Hazardous Financial Condition*, to be added to the list of critical elements required to

be adopted as part of the NAIC Accreditation Standard for Corrective Action. The committee received a comment letter from Washington supporting the revisions. The committee adopted the revisions effective January 1, 2017 which require an insurer to correct corporate governance deficiencies.

#### Referral on Reinsurance Guidelines for Risk Retention Groups Licensed as Captive Insurers

During the Spring National Meeting, the committee exposed a referral from the Risk Retention Group Task Force requesting revisions to the Reinsurance Guidelines for RRGs Licensed as Captive Insurers to clarify the grandfathering provision that may apply for certain RRGs. Two comment letters were received from a trade organization and Washington in favor of the revisions. The committee adopted the revisions effective January 1, 2015. The revisions clarify that the effective date provisions in the guidelines are intended to apply to reinsurers as opposed to reinsurance contracts.

#### Accredited States

The chair announced that the committee held a regulator-only meeting in Louisville and voted to re-accredit the Delaware, Louisiana, Massachusetts and Rhode Island departments. Accredited departments undergo a comprehensive, independent review every five years to ensure they continue to meet baseline financial solvency oversight standards.

## **SEC Consideration Subgroup**

The subgroup met by conference call on July 9 to discuss comments received on its previously exposed guidance for handling separate accounts and SEC registered products in receivership. The new guidance, which will be incorporated into the Receivers' Handbook for Insurance Company Insolvencies, is intended to help regulators spot issues and provide direction for a receiver's initial considerations with regard to these products. Two comment letters were received for which the subgroup heard comments and agreed to requested changes. The subgroup discussed placement of the guidance and agreed to include it under Chapter 9: Legal Considerations. Following the discussion, the subgroup conducted an e-vote on August 6 to advance the guidance to the Receivership Separate Accounts Working Group which adopted the guidance on August 11.

## Receivership Reinsurance Recoverables Working Group

The working group adopted its previously exposed *Model Guideline for Payment of Interest on Overdue Reinsurance Recoverables*. The guideline is intended to be used by states to permit a receiver to collect interest on overdue reinsurance recoverables on valid claims, thus adding a financial cost for reinsurers that elect to “slowpay” without a valid business reason. The guideline was also adopted in Louisville by the Financial Condition Committee meeting.

## Casualty Actuarial and Statistical Task Force

The task force met by conference call in June and July, and at the Summer National Meeting and discussed the following issues.

### ORSA Changes to the Financial Handbooks

In connection with an exposure by the Risk-Focused Surveillance Working Group to incorporate an ORSA review into the Financial Condition Examiners Handbook and Financial Analysis Handbook, the task force submitted a comment letter with general and specific comments noting it is comfortable with the direction taken in these documents, especially in the context of the underlying regulator philosophy on enterprise risk management conveyed in these documents (i.e., two-way learning through frequent dialog including in-person meetings, non-prescriptive approach, emphasis on ownership, etc.). The task force’s comment letter also includes specific recommendations by the Actuarial ORSA Subgroup with respect to the actuary’s role in the ORSA review process.

### Actuarial IRIS 11-13

The task force discussed a referral from the Financial Analysis R&D Working Group for proposed changes to the formulas and explanations of the P/C IRIS 11, 12 and 13 loss reserve development ratios. The main proposal is the addition of adjusting and other (A&O) development into the ratios which is in line with the title of these ratios. The task force created the Actuarial IRIS 11-13 Subgroup in the fall to review the proposed changes and after several discussions, the subgroup concluded that the proposed formulas are accurate given the accompanying proposed description of the formulas and that it supports the revised formulas. During the exposure period, Illinois, submitted a comment letter opposing the proposed changes noting the cost (resources and time) outweighs the benefit of adding A&O to the ratios. This was supported by research

which showed that upon making this change, the ratios for a majority of the companies are impacted minimally (2.5% or less). The AAA made similar points in its comment letter. As a result, the task force concluded that the IRIS ratios should not be revised and adopted a comment letter to be submitted to Financial Analysis R&D Working Group.

### Actuarial Education Survey

The task force discussed its charge from the Property and Casualty Insurance Committee regarding Society of Actuaries’ new general insurance educational track. The charge is to: “Make a recommendation by July 1, 2015, regarding the ability of SOA members who obtain the SOA fellowship in general insurance and meet U.S. qualification standards to sign actuarial opinions for NAIC property/casualty annual statements. If appropriate, follow the recommendation with a blanks proposal to allow SOA members who obtain the SOA fellowship in general insurance and meet U.S. qualification standards to sign P/C Statements of Actuarial Opinion.” The chair discussed a survey he conducted to gather regulator opinions on what information is necessary to assess the SOA educational requirements. The task force discussed the survey results and an action plan drafted by the chair and exposed the plan until September 15.

### Regulatory Guidance

The task force discussed and exposed proposed revisions to the annual Regulatory Guidance on the Statement of Actuarial Opinion noting that the revisions are to reflect changes made to the 2014 annual statement instructions. The instructions were modified in 2014 as follows:

- The CASTF has outlined additional requirements for actuaries writing opinions that fall into the Deficient/Inadequate, Redundant/Excessive or Qualified Opinion categories. Regulators have defined these types of opinions to address the unique situations when an actuary determines reserves do not make a reasonable provision. In the Deficient/Inadequate situation, the actuary should disclose the minimum amount that the actuary believes is reasonable. Similarly, the actuary should disclose the maximum amount the actuary believes is reasonable for a Redundant/Excessive provision. Finally, additional information is required about Qualified Opinions, related to the item(s) to which the qualification relates, the reason(s) for qualification, and amounts, if disclosed by the company.



- The Pooled Companies section was modified to apply to all companies that operate in an intercompany pooling agreement. The instructions are no longer restricted only to the 100% lead insurer and 0% pooling member situations.

The exposure period ended on September 1.

#### Joint Qualified Actuary Subgroup

At the Spring National Meeting, the Joint Qualified Actuary Subgroup delivered to LATF, HATF and the CASTF a report containing specific definitions for a “qualified actuary” for each of the practice areas. The AAA will now develop recommendations for the verification process, as mentioned in the proposed definition, and the task force will coordinate with LATF and HATF to determine the next steps.

#### Model Law Development Request for Model #745

Given the shift in focus on the definition of “qualified actuary” and the work with the AAA to improve the Actuarial Board for Counseling and Discipline process, the task force adopted a request to withdraw the model law development request pertaining to Model #745, *Property and Casualty Actuarial Opinion Model Law*, without any modifications to the model law at this time.

## **Risk-Focused Surveillance Working Group**

The working group met via conference call four times which included one regulator-only session and discussed the following issues.

#### ORSA Guidance for Exams and Analysis

Prior to the Spring National Meeting, the working group exposed ORSA guidance for inclusion in both the Financial Analysis Handbook and Financial Condition Examiners Handbook. During the conference calls, the working group re-exposed the guidance and comments were discussed, which primarily focused on consistency between the guidance for analysts and examiners as well as consistency with the ORSA Guidance Manual. Following the discussion, the working group agreed to refer the ORSA guidance to the Financial Analysis Handbook Working Group and Financial Examiners Handbook Technical Group for consideration with the expectation of continued coordination to ensure consistency of the guidance for each handbook.

#### Insurer Profile Summary Template

The working group discussed revisions to the Insurer Profile Summary template incorporating common language elements for communication of solvency risks across solvency monitoring functions and departments. The purpose of the IPS is to provide a

high-level overview of the current and prospective solvency of the insurer as well as the ongoing regulatory plan to ensure effective supervision. The IPS is developed by the domestic state for each domestic insurer. Updates are made to the IPS each year through the annual statement analysis process, after the conclusion of onsite examination activities at the insurer (full-scope or limited scope) and as significant information impacting the solvency position of the insurer is identified throughout the year.

The working group reviewed two templates, one for an insurance company and another one for a holding company. An insurance company IPS comprises a business summary, impact of the holding company on an insurer, optional financial data, branded risk classification heat map that addresses credit, legal, liquidity, market, operational, pricing/underwriting, reputation, reserving and strategic risks, overall conclusion and supervisory plan. A holding company IPS is similar to an insurance company IPS with the exception that the business summary and impact of holding company on insurer sections are replaced with a holding company system summary, corporate governance summary, and enterprise risk management summary. After confirming that the revised IPS will be included in both the Financial Analysis Handbook and Financial Condition Examiners Handbook, the working group exposed the IPS revisions until August 15.

#### Framework for Providing Flexibility in the Timing of Exam Procedures

The working group discussed a proposal to allow additional flexibility in the timing of exam work to keep up with the changing regulatory requirements and expectations. It was noted that there is an increasing interest by regulators to perform onsite examination procedures on a more frequent, but targeted basis, particularly for large insurers/groups subject to ORSA reporting requirements and coordinated supervision. The change in the risk-focused surveillance process with an emphasis on prospective risk and risk assessment processes and procedures within the company supports a more flexible approach. Given the above, NAIC staff drafted a proposed framework suggesting the development of modifications to general exam guidance and exam reporting requirements to allow limited-scope or interim exam procedures to be utilized to meet full-scope exam requirements. States could determine which companies are appropriate to be examined on a more ongoing basis based upon risk factors and coordination issues. The working group discussed that the proposal would be implemented on a voluntary basis. Following the discussion, the working group agreed to refer the proposed framework to the Financial Examiners



Handbook Technical Group for consideration and exposure.

## Climate Change and Global Warming Working Group

The working group heard a presentation from the Casualty Actuarial Society, the American Academy of Actuaries and the Society of Actuaries on the Actuarial Climate Index which is a collaborative research project focused on creating an index that assesses the impact of climate change. The hope is the ACI will function as a useful monitoring tool for actuaries, policy makers and others. The ACI supports scientific consensus that the frequency/intensity of extreme climate events have increased notably in recent decades. Since 2005, severe weather and climatological events have accounted for 85% to 90% of natural hazards resulting in claims or property damage or personal injury. Two main changes that are notable: 1) global mean surface temperature has risen by three-quarters of a degree Celsius over the last 100 years and 2) the sixteen warmest years on record occurred in the 17-year period from 1995 to 2011. The ACI measures change in frequency of extreme events and/or magnitude of recent change relative to natural climate variability. It utilizes quality-controlled observable data which includes temperature, precipitation, drought, wind, sea level and soil moisture. The ACI currently covers U.S. and Canada with the hope to gradually add other parts of the world where good data is available. The Actuarial Climate Index Committee is currently working on quantifying risk using results of the ACI by investigating the relationships between climate and socioeconomic factors. The working group asked to be kept apprised as progress is made.

The working group also heard a presentation from Standard and Poor's Ratings Services on whether insurers are prepared for the extreme weather climate change may bring. S&P analyzes insurers subject to natural catastrophe risk using five components:

1. Business risk profile (industry and country risk, competitive pressure)
2. Financial risk profile (capital and earnings, risk position, financial flexibility)
3. Management and governance
4. Enterprise risk management
5. Liquidity

In its study, the S&P researched loss events from 1980 through 2013 including storm frequency, coastal population, coastal property values, economic and insured losses. The study notes that

many insurers have considered the impact of climate change but do not explicitly take the results into account in pricing and modeling. Disregarding the possible impact of climate change may lead insurers to accept higher catastrophe losses which S&P considers in its rating of insurers.

## Mortgage Guaranty Insurance Working Group

The working group met August 5 and in Louisville to continue development of a comprehensively revised Mortgage Guaranty Insurers Model Law which would also include a two-tiered risk-sensitive capital model. Both meetings focused on reviewing comments on the second draft of the proposed revised model. The chair (WI) and his staff have taken the lead in drafting and revising the model. During the August 5 conference call, the chair's staff noted that the changes between the first and second drafts were "extensive." Sections on advertising and compensating balances have been eliminated as obsolete.

At the start of the Summer National Meeting, the chair's staff reviewed what they believe are the most significant open issues:

- Should geographic risk limitations (e.g. limitations by state) be included in the model
- Contingency reserve withdrawals
- Calculation of the premium deficiency reserve
- Investment restrictions
- Reinsurance
- Underwriting standards – should the detail be in the model or in a standards manual
- Role of the non-domiciliary regulator

With respect to investment restrictions, the working group concluded they will remove the prohibition on mortgage guaranty insurers investing in mortgage-backed securities. With respect to reinsurance, the chair's staff noted that the working group will need more detail on the proposed capital standard (when development is complete) to finish the reinsurance section. Wisconsin representatives will work to prepare a third draft of the model in response to comments received. No timeline was discussed for the next version.

At the meeting in Louisville, the working group also heard a detailed presentation from mortgage guaranty representatives on the status of the Oliver Wyman Capital Modeling Project. No expected completion date was discussed for the capital model.

## Terrorism Insurance Implementation Working Group

In Louisville, the working group discussed the status of federal efforts to extend the Terrorism Risk Insurance Act which is set to expire on December 31, 2014. While the Senate overwhelmingly passed a bill in July which would extend TRIA through 2021, the House of Representatives is considering a bill with a five year extension. NAIC legal staff informed the working group that the House bill cleared the Financial Services Committee with a party line vote; approval by the full House is also expected to be highly partisan and may not occur prior to the November elections. Both the House and Senate bills would change several provisions within the existing TRIA bill; however, there does not appear to be consistency between the two bills. The NAIC has not taken a formal position on either the House or the Senate bill, but continues to advocate for the extension of TRIA. The working group discussed the need to quickly revise a model bulletin on filing procedures, an expedited filing form, and policyholder disclosures if and when Congress reauthorizes TRIA.

## Title Insurance Task Force

In Louisville, the task force received an update on projects as follows.

Referral on Title Insurance Premium Classification  
See the SAP Working Group summary for discussion of this issue (2014-06).

### Title Guaranty Fund Model Guideline

The Title Insurance Guaranty Fund Working Group met by conference call on June 26 to continue its discussion of a model guideline to assist states considering a guaranty fund. The revised draft, which incorporates comments from a trade organization, includes drafting notes in areas where states are likely to have state laws that apply. The drafting notes were inserted to provide flexibility suggested during earlier comment periods and will allow states to insert their specific state statutes. The working group will continue discussing this matter in future meetings.

## Risk Retention Group Task Force

The task force met via conference call on July 19 to discuss a referral from the Financial Condition Committee to assist with a request from the Financial Regulation Standards and Accreditation

Committee to assess whether a captive manager has, or could be considered to have, control of a risk retention group under the *Insurance Holding Company System Regulatory Act* or the *Insurance Holding Company System Model Regulation*. At the Spring National Meeting, the task force exposed its proposed response to the referral. The proposed response indicates that while it appears that captive managers may not typically exercise control over RRGs, lack of control should not be presumed in all cases. A factual determination should be made by the domiciliary regulator based on a review of the captive manager contract and the board of directors' minutes. Further, states should adopt the corporate governance standards of the *Model Risk Retention Act*, which will eventually be required for accreditation; the standards require that service provider contracts must undergo a contract renewal at least every five years. If it is determined that a captive manager does control an RRG, the domiciliary regulator should ensure compliance with the Regulatory Act and Model Regulation.

\*\*\*

The next National Meeting of the NAIC will be held in Washington DC November 16-19. We welcome your comments regarding issues raised in this newsletter. Please provide your comments or email address changes to your PricewaterhouseCoopers LLP engagement team, or directly to the NAIC Meeting Notes editor at [jean.connolly@us.pwc.com](mailto:jean.connolly@us.pwc.com).

### Disclaimer

Since a variety of viewpoints and issues are discussed at task force and committee meetings taking place at the NAIC meetings, and because not all task forces and committees provide copies of agenda material to industry observers at the meetings, it is often difficult to characterize all of the conclusions reached. The items included in this Newsletter may differ from the formal task force or committee meeting minutes.

In addition, the NAIC operates through a hierarchy of subcommittees, task forces and committees. Decisions of a task force may be modified or overturned at a later meeting of the appropriate higher-level committee. Although we make every effort to accurately report the results of meetings we observe and to follow issues through to their conclusion at senior committee level, no assurance can be given that the items reported on in this Newsletter represent the ultimate decisions of the NAIC. Final actions of the NAIC are taken only by the entire membership of the NAIC meeting in Plenary session.

## ***Additional information***

If you would like additional information, please contact:

Jean Connolly  
Managing Director, National  
Professional Services Group  
Tel: 1 440 893 0010  
[jean.connolly@us.pwc.com](mailto:jean.connolly@us.pwc.com)

## **PwC's Insurance Practice Leaders**

Bob Sands  
Insurance Practice Leader  
Tel: 1 267 330 4480  
[robert.m.sands@us.pwc.com](mailto:robert.m.sands@us.pwc.com)

Paul McDonnell  
Insurance Advisory Co-leader  
Tel: 1 646 471 2072  
[paul.h.mcdonnell@us.pwc.com](mailto:paul.h.mcdonnell@us.pwc.com)

James Yoder  
Insurance Advisory Co-leader  
Tel: 1 312 298 3462  
[james.r.yoder@us.pwc.com](mailto:james.r.yoder@us.pwc.com)

David Schenck  
Insurance Tax Leader  
Tel: 1 202 346 5235  
[david.a.schenck@us.pwc.com](mailto:david.a.schenck@us.pwc.com)

[www.pwc.com/us/en/insurance](http://www.pwc.com/us/en/insurance)

© 2014 PwC. All rights reserved. "PwC" and "PwC US" refer to PricewaterhouseCoopers LLP, a Delaware limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity. This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.



## AUTHORS WANTED

The Publications Committee is looking for members to write articles for the quarterly Examiner magazine. Authors will receive six Continuing Regulatory Credits (CRE) for each technical article selected for publication.

Interested authors should contact the Publications Committee Chair, **Joseph Evans**, via [sofe@sofe.org](mailto:sofe@sofe.org).

## Mark Your Calendars | Upcoming SOFE Career Development Seminars



**2015**

**July 13–16** (*Mon. – Thurs.*)  
**San Diego, CA**

Town and Country Resort Hotel



**2016**

**July 31–August 3**  
**Indianapolis, IN**

Indianapolis Downtown Marriott



**2017**

**July 23–26**  
**Marco Island, FL**

JW Marriott Marco Island



**2018**

**July 15–18**  
**Indian Wells, CA**

Hyatt Regency Indian Wells Resort & Spa





We are a nation of symbols. For the Society of Financial Examiners®, the symbol is a simple check mark in a circle: a symbol of execution, a task is complete. The check mark in a circle identifies a group of professionals who are dedicated to the preservation of the public's trust in the field of financial examination. Our symbol will continue to represent nationwide the high ethical standards as well as the professional competence of the members of the **Society of Financial Examiners®**.



Society of Financial Examiners®  
12100 Sunset Hills Road | Suite 130  
Reston, Virginia 20190

703.234.4140  
800.787.SOFE (7633)  
Fax 703.435.4390