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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 on 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 username and password to access it. If you experience any difficulty logging into the Members section, please contact **sofe@sofe.org**.

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CRE Reading Program Questions

All quizzes MUST be taken online.

Questions will be ***available online Monday, March 19.***

"How the Captive Insurance Market Saved One Insurance Professional"

True or False Questions — Submit Answers Online

1. The number of new captive formations is increasing, as is also the number of domiciles where captives can be formed.
   a. True
   b. False

2. Captive insurance companies utilize excess insurance or reinsurance to smooth earnings and performance.
   a. True
   b. False

3. Captive insurance companies understand that every claim is a learning experience in business, because that is, in fact, what it is: it is an opportunity for process improvement, increase in market share, and improvement in financial performance.
   a. True
   b. False

4. The captive movement has always been permeated by entrepreneurship.
   a. True
   b. False

5. Captives began as an industry by taking only what they needed from the commercial market and employing internal resources for the rest.
   a. True
   b. False

Financial Statement Impacts of Tax Reform for Insurance Companies

Multiple Choice/True or False Questions — Submit Answers Online

1. What will be the corporate tax rate for tax years starting after 12/31/17?
   a. 35%
   b. 34%
   c. 21%
   d. 20%

2. For which financial period will the tax deferred assets/liabilities have to be remeasured based on the new corporate tax rate?
   a. 12/31/2017
   b. 12/31/2018
   c. 12/31/2019
   d. 6/30/2017

3. How many years will Life and P&C insurers have to bring in the difference in the loss reserve calculation due to tax reform?
   a. 5 years
   b. 8 years
   c. 10 years
   d. 15 years

4. Property and Casualty Companies will no longer be allowed to carry back NOLs starting with tax years starting after 12/31/2017.
   a. True
   b. False

5. Life Companies will no longer be allowed to carry back NOLs starting with tax years starting after 12/31/2017.
   a. True
   b. False

NAIC Meeting Notes

True or False Questions — Submit Answers Online

1. As a result of the U.S. Treasury signing the Covered Agreement on September 22, the Reinsurance Task Force amended the Credit for Reinsurance Model Law to eliminate reinsurance collateral requirements for EU-based reinsurers.

   a. True
   b. False

2. The Financial Regulation Standards and Accreditation Committee adopted the Corporate Governance Annual Disclosure Model Act as a Part A accreditation standard effective January 1, 2020, meaning all states will be required to adopt this model law by that date.

   a. True
   b. False

3. The NAIC adopted revisions to the Life and Health Insurance Guaranty Association Model Act to include HMOs as members of state guaranty associations.

   a. True
   b. False

4. The Insurance Data Security Model Law received final approval as an accreditation requirement.

   a. True
   b. False

How the Captive Insurance Market Saved One Insurance Professional

By Michael Maglaras
Michael Maglaras & Company

A little less than a decade into my insurance career, I was, what at one time was called, "an up-and-comer." I had been promoted quickly. My boss seemed to like me. Somehow or other, he kept raising my salary without much effort on my part.

I was a newly-appointed Vice President of a major reinsurer. I spent my days taking care of treaty reinsurance clients. Lots of lunches...too many dinners... and all I can tell you is that I was on the cusp of leaving the insurance business, because I was bored out of my mind.

On a personal note, I don't handle boredom well, and I don't handle routine well either, and the treaty reinsurance business in the early 1980s was filled with both.

The firm I worked for had an explicit internal message: these new things called "captives" were to be considered the enemy. "Our company will never support these things," my boss would say over and over again. He felt that the role of captives was clearly to strip premium from the commercial marketplace and enable larger commercial insureds and groups of insureds to control insurance pricing and coverage availability (to the detriment of the commercial insurance market my firm supported as a treaty reinsurer). Captives were seen as enabling a process where insureds would truly begin to learn from the mistakes that liability claims with merit really are. The one thing my firm didn't want anyone to learn was that claims contain the seeds of process improvement...my boss felt that an overly-informed insured was just a dangerous insured. (The company I worked for is still, happily, in existence. It is also now, happily, one of the world's major supporters of captives. My boss has long ago retired and is happily playing golf in Florida with a bunch of former reinsurance executives who still think that captives are a Communist plot.)

I heard this sort of nonsense over and over again. The more I heard it, the less it made sense. More than thirty-five years later it still doesn't make sense, which is why, partially to save the time I'd invested in my career, and partially because I was bored out of my mind...I jumped ship and joined the captive movement.

Testing feasibility for the formation of captives, licensing captives, setting up their underwriting and claims management systems, and advising their boards, has taken up the bulk of my time for the last thirty years.
It was the best career move I ever made.

As we consider these things called "captives" in 2017, I think it may be profitable to look closely at why, particularly in the midst of the most prolonged soft market cycle in my memory, they continue to flourish. Indeed, the number of new formations is increasing, as is also the number of domiciles where captives can be formed.

The secret to the success of captives is in understanding a very basic fundamental truth: insureds can be taught the fundamentals of the insurance business.

Here's a summary of what I've learned about captives over more than three decades:

1. It really is all about claims. Insureds that form captives have gone through the trouble of figuring out where their "pain point" is. They've taken a look at their insurance portfolios and determined where they are either now trading or about to trade dollars with insurance companies. They've hired an actuary to simulate risk retention on an ultimate loss basis by line of coverage. They've gone ahead and formed a captive, and trade dollars now with the commercial market only where they need to, and, with the long haul of a minimum five-year pro forma projection in mind, they use excess insurance or reinsurance to smooth earnings and performance. They understand that every claim is a learning experience in business, because that is, in fact, what it is: it is an opportunity for process improvement, increase in market share, and improvement in financial performance. Simply put, once you get in the habit of adjusting your own losses, because you own a captive, you never go back to the commercial market and relinquish that control again.

2. Coverage terms and conditions responsive to business needs. In my firm, we spend a good part of our business day ripping apart old ISO forms and sewing them back together again with manuscripted wordings responsive to the needs of the captives we serve. We always do this with the input and concurrence of the excess market serving our captives, of course, but I want to be clear...the commercial insurance market has, for many decades, been sometimes slow to respond to needed coverage improvements. Anyone reading this who is old enough will remember the debate about "plain language" policy forms in the commercial market in the 1970s. One of the joys of operating a captive is that tailored coverage terms and conditions can be manuscripted to the specific needs of an industry, or even a particular member of an industry, all of it done quickly, effectively, and largely free of regulatory interference. Captives have led the charge in the modernization of coverage forms, and coverage terms and conditions. The commercial market has admittedly learned much in this regard from the dynamic and fluid nature of the captive industry.

3. Responsiveness to business needs. Some businesses grow, and grow substantially, and as they grow their proxies for exposure change, mutate, and become new sources of potential loss as well as potential sources of process improvement. Some businesses contract, lose market share, find that their business model is outdated or ineffective. No matter what the business issue or concern is, captives, particularly those in their maturity, are the ideal vehicles to manage increases in exposure to risk... or decreases. Our clients with significant capital and surplus, and a multiyear history of the management of risk, frequently take full or partial premium holidays, choosing to manage the income statements of their captives, keeping necessary cash at the parent level. Many of our captives engage in multiple-year loans back to their parents, on a demand note basis, carefully allocating excess surplus in captives to more immediate or productive use at the parent level. Prudent captive owners have learned to take the long view about captive cash flow, the confidence level of loss reserves, and the vital role that a fully-consolidated subsidiary writing insurance (which is what a captive is) plays in the management of their risk and the control of their expense.

4. Help in focusing the mind. All the great captives, in both the taxable and tax-exempt worlds, subscribe to one philosophy: warehouse as much reasonable insurance risk as you can in your captive. Many Fortune 1000 companies have captives that are mined on a regular basis for the data they reveal about both the successes and failures in the parent company's operations. In the tax exempt world of health care liability, it is captive-funded resources that are fueling the process whereby what happens to you or me when we walk into a hospital's emergency room is controlled, improved, and made more successful. Captives have become the place where risk is managed, and the great proof of this is the way in which Enterprise Risk Management programs, surveying laterally all aspects of risk throughout the organization, including non-insurance risk, are now many times funded by captives and supervised by captive boards of directors. Savvy executives now almost universally realize that the techniques they have employed for decades to account for and manage risk within their captives are transferrable to all aspects of the management of internal and external enterprise risk.

If you sense enthusiasm in what I've written...you're right. Learning about captives, forming them, serving them, and serving as a captive board member, kept me in the insurance business and continues to keep me on the edge of my seat each day, as the challenges of our global economy and the possibilities of global anarchy affect all businesses everywhere. The very good news here is that the most intelligent, the most thoughtful, and the most broadminded executives in the commercial insurance and reinsurance business have embraced the captive movement.

They have endorsed partnerships with the captive industry. They actively seek to sell underwriting capacity and services, not to mention data analytics, to the captive marketplace. This symbiosis is needed as we face challenges ahead. Captives began as an industry by taking only what they needed from the commercial market and employing internal resources for the rest. The needs are still there. It is unfortunate that too many insurance industry trade associations and others still subscribe to the view that captives are the enemy. To subscribe to this view is to say that American business is the enemy. A quick look at who owns captives will verify the truth of that last statement.

The captive movement has always been permeated by entrepreneurship. It's perfectly natural for the entrepreneurship of some of the best and brightest in the commercial industry to form new partnerships with the captive movement...partnerships of mutual advantage, profitability, and durability.

About the Author

Michael Maglaras is the Principal of Michael Maglaras & Company, an international health care liability insurance and risk management consulting firm specializing in providing insurance program consulting advice, including self-insurance and captive insurance company feasibility testing and other alternatives to traditional insurance programs for a variety of acute care health care providers, physician practices, and managed care organizations. Michael Maglaras has had more than thirty-five years of health care liability insurance and consulting experience. He has been involved in the formation of more than 145 captive insurance companies, including four of the original companies formed after the passage of the Federal Risk Retention Act of 1986. He is a frequent author and lecturer before groups as diverse as ASHRM, the London School of Underwriters, the German Risk Managers Forum, and the Swiss Re Centre for Global Dialogue.

Financial Statement Impacts of Tax Reform for Insurance Companies

By Brandy Vannoy, CPA, Partner
Allan Autry, CPA, Principal
Joanne Smith, CFE, MCM, Senior Manager
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Introduction

The Tax Cuts and Jobs Act ("Act") was signed into law on December 22, 2017. This Act has many widespread changes that will affect corporations across the country, including the insurance industry. Even though the majority of the changes are not effective until 2018, there will still be a 2017 financial statement impact due to the Act being signed into law prior to year-end. This article was written to bring awareness to some of the changes that should be considered in the 2017 annual statement. In addition, it will explain some of the corporate provisions that will affect both property and casualty (P&C) insurance companies, as well as life insurance companies.

This article will help familiarize financial examiners, financial analysts and other insurance department regulatory personnel with the key points of recent corporate tax reform changes, and in particular those pertaining to insurance companies. This knowledge will give examiners a deeper understanding of the potential financial reporting impacts faced by insurance companies and allow them to be better equipped to direct poignant and timely questions to the senior management of impacted insurers.

Insurance Company Financial Statement Impact for 2017

Decrease in Tax Rate

One of the most noted changes includes the decrease in the current tax rate of 34% or 35% to the flat rate of 21%. Because the rate was enacted before year-end and the deferred inventory is based on the benefit that the company will receive in the future, both Statutory and GAAP accounting require that the 2017 ending deferred inventory be calculated at the new flat corporate rate of 21%. Even though the deferred inventory will be adjusted to the new corporate rate, the tax rate change does not affect the 2017 current tax calculation since the change is not effective until January 1, 2018. Therefore, the 2017 current tax should be calculated using the same graduated rate scale that has been in place since 1986.

INT 18-01

On February 8th, the NAIC Statutory Accounting Principles Working Group voted to release INT 18-01. This Interpretation addressed three items. First, it provided a temporary, limited scope exception to SSAP No. 9 in order to not require recognition of changes in reasonable estimates due to tax reform. This allows companies to not have to report updated estimates that are identified after the filing of the Annual Statement, but prior to the issuance of audited financial statements. Secondly, the INT-18-01 gave companies clarity as to where the change in deferred tax should flow through the Annual Statements. The guidance states that reporting entities should continue to report the change in deferred taxes based on existing reporting instructions. Therefore, the change in deferreds due to the rate change will be included in the corresponding lines in surplus. For example, the change in tax differential on unrealized capital gains and losses, including the change resulting from

the new change in tax rate will go through net unrealized capital gains Finally, the INT-18-01 addressed that the amounts for the 12/31/2017 column on Note 9C should tie to the amounts reported on the balance sheet (i.e. adjusted to 21% rate) and required a narrative to disclose the approximate change in DTAs/DTLs that is a result of the tax rate change.

Admissibility under SSAP 101

As mentioned above, the net deferred tax position will be impacted by the reduced tax rates and at the flat 21% rate. This means that for insurers with net deferred tax assets (DTAs), surplus will also decrease. Furthermore, admissibility of the 2017 deferred tax position will be impacted by the reduced tax rates, which affects SSAP 101 testing under paragraphs 11.b. and 11.c. by way of reduced values of reversing amounts and overall deferred liabilities.

Corporate filers should also be aware that the alternative minimum tax (AMT) has been repealed starting in 2018, due to the repeal AMT credits at the end of 2017 can continue to be shown as a DTA or can be moved to a recoverable amount since these balances will be refundable over the next few years. Lastly, consideration should be given to valuation allowances. Specifically, the repeal of the AMT, the elimination of certain deductions, and the change to the net operating losses (NOL) rules should be considered.

Special Estimated Tax Payments

The Act repeals the ability to calculate taxes based on a special loss discount account. The entire balance in this account will be required to be included in income in the first taxable year after 2017. Any special estimated tax payments in excess of the amount included in income would be treated as estimated tax payments and would be included as a tax receivable.

Property and Casualty NOLs

P&C insurers will see no change to the NOL rules, which historically provide for a 2-year carryback, 20-year carryforward, and the ability to offset 100% of taxable income in the year of utilization. However, now that NOL rules diverge between P&C insurers and regular corporations, it raises the question of "What rules are applicable to consolidated groups with both insurance and non-insurance companies?" Until further guidance is provided, there is uncertainty as to how NOLs in mixed groups will be treated. The changes in these rules will change the way companies determine admissibility under SSAP 101. For P&C companies that are a part of a mixed group with a C Corporation parent, there could no longer be an opportunity to carry back losses under paragraph 11.a. The only benefit of reversals being carried back from previously filed tax years, will be capital DTA, which can only be offset by previous capital gains.

Property and Casualty Discount Loss Reserves

P&C Companies will also have to consider how their discounted loss reserves will be calculated. The changes are intended simply to calculate loss reserve discounting by using the IRS-prescribed factors to determine the loss discount. Going forward, the IRS will determine the discounts factors by using the interest rate based on the corporate bond yield curve instead of the Applicable Federal Rates (AFR) and extend

periods applicable under the loss payment pattern. This method is expected to generate higher discounts, which also means more taxable income. In addition, the Act repealed the company's use of their own historical payment pattern. The new rules require taxpayers to revalue their 2017 discount by using the "new" discount factors and amortize the difference into taxable income over the transitional 8-year period. However, it is important to note that companies are still allowed to use historical payment patterns in the 2017 tax year. In theory, this recalculation should be done and reflected in the 2017 financials as a grossed up DTA and offsetting DTL based on the income that will be brought into income starting in 2018. However, the IRS has not yet released these discount factors in order to determine the appropriate recalculation.

Life NOLs

Historically, for the purpose of admissibility, life insurance NOL rules allow a 3-year carryback and a 15-year carryforward. Starting in 2018, the carryback is repealed and any NOL generated after 2017 will only be able to offset 80% of taxable income in any given year. However, the newly generated operating losses will be able to be carried forward indefinitely.

Life Discount Loss Reserves

Currently, deductible reserves are determined as the greater of a) the net surrender value (NSV) or b) the reserves determined under Federally prescribed rules. The Federally prescribed method is generally understood to mean the tax reserves as determined by an actuary using applicable interest rates and mortality and morbidity tables. The Tax Cuts and Jobs Act have changed part b of this test to be 92.81% of the tax reserve method otherwise applicable to the contract. Under the new guidance, there will likely be greater taxable income. Similar to the transition rules for P&C insurers mentioned above, life insurers will be required to recalculate the 2017 reserve discount as if the 2018 tax reform rules had been in effect at that time, compare it to the actual 2017 reserve discount, and amortize the difference into taxable income over 8 years beginning in 2018. This will also result in a grossed up DTA and offset DTL for a net zero impact on gross deferreds as of 2017.

Life PSA

For any life company that still has a balance in a Policyholder Surplus Account (PSA), this balance will be required to be included in taxable income over the period of 8 years starting in 2018. As PSA accounts are excluded as a deferred tax item, this balance should be included in taxes payable.

Life Deferred Acquisition Costs Amortization

Policy acquisition expenses that were previously amortized over 120-month period will now be required to be amortized over 180-month period. The percentages required for amortization are also increased.

Insurance Company Financial Statement Impacts for 2018*General*

Corporate Highlights

Some of the most noted changes include:

- All corporate taxpayers will be subject to a flat rate of 21%.
- The corporate alternative minimum tax (AMT) will be repealed. Existing AMT credits can be utilized from 2018 to 2021 to the extent of a taxpayer's regular tax, thereafter; the remaining credits are refundable by applying 50% of any remaining credits in excess of the regular tax offset until all credits are refunded.
- Net operating losses (NOL) will only be allowed to be carried forward and will only be allowed to offset 80% of the taxable income.
- Dividend Received Deductions are reduced.
- Bonus depreciation increases to 100% for assets purchased and placed into service after September 27, 2017, and applicable to all assets, not just new ones.
- All business meals are now subject to the 50% limitation. No deduction is allowed for entertainment expenses, nor for qualified transportation fringe benefits.

Property and Casualty Insurance Observations

Some of the most noted changes relating to property and casualty insurance companies include:

- Taxpayers will be required to discount loss reserves based solely on IRS factors, and no longer able to elect to use historical payment patterns. The IRS factors will now be determined using a higher interest rate.
- The special estimated tax payment provisions are repealed.
- Proration is now indexed to the tax rate.
- Existing NOL carryback and carryover periods are retained, and P&C taxpayers can offset 100% of taxable income with existing NOLs.

Life Insurance Observations

Some of the most noted changes relating to life insurance companies include:

- The small life insurance company deduction (SLICD) is repealed.
- Changes in the basis for determining reserves will now be amortized over 4 years.
- Tax-deductible life reserves will be greater of Net Surrender Value (NSV) or 92.81% of the prescribed method.
- Any remaining balances in pre-1984 policyholder surplus accounts will be taxed 21% and the tax remitted over 8 years beginning in 2018.
- The company's share applied to tax-exempt income and dividend received deduction will be 70%, instead of a complicated formula.

Conclusion

In light of the recent tax reform changes, Insurance Department examiners, analysts and other regulatory personnel may consider posing questions to the senior management of insurance companies in regards to the impact to their financial statements as a results of recent tax reform. Some examples of questions that may be appropriate include:

- What is the financial impact to the 2017 tax reporting year as a result of tax reform?
- Was there any impact of tax reform that was not reported in the 2017 financials?
- What changes in operations is the Company anticipating in 2018 in response to tax reform?

Overall, tax reform has had a huge impact to insurers and their financials starting in the 2017 financial statements. Examiners, analysts and other regulatory personnel should insure they have an understanding of these changes and how they are impacting companies' financials.

The observations provided herein are preliminary and may variably apply to your situation. Not all provisions of the Tax Cuts and Jobs Act have been elaborated here.

Additional information on tax reform and the impact to insurers can be found on the Johnson Lambert LLP website at https://www.johnsonlambert.com/blog/.

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PwC NAIC Newsletter

January 2018

The National Association of Insurance Commissioners held its Fall National Meeting in Honolulu December 2-4. This newsletter focuses on key issues that various NAIC working groups, task forces and committees have discussed since the Summer National Meeting through the end of 2017. For questions or comments concerning any of the items reported, please feel free to contact us at the address given on the last page.

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Executive Summary

- The full NAIC adopted revisions to the Life and Health Insurance Guaranty Association Model Act (#520) to include HMOs as members of state guaranty associations and to allocate future assessments for long-term care insurer insolvencies equally between the life and health insurance industries.
- The Insurance Data Security Model Law received final approval by the NAIC, and some states are expected to introduce legislation in 2018 to implement the model.
- The Innovation and Technology Task Force discussed a proposal to consider creation of "regulatory sandboxes" to foster innovation in insurance.
- The Statutory Accounting Principles Working Group preliminarily concluded that statutory accounting should adopt, with modification, ASU 2016-13 on credit losses (CECL). The working group heard significant negative feedback on its proposed amendments related to reinsurance risk transfer and subsequently created informal drafting groups with industry members to consider any possible revisions.
- The Operational Risk Subgroup has selected a revised operational risk proposal to alleviate the "double counting" problem, which it plans to adopt for 2018 RBC filings. The Investment RBC Working Group announced it will delay implementation of revised invested asset RBC charges until 2019.
- After very significant effort, the Valuation of Securities Task Force finalized new policies to govern private letter ratings and filings, effective July 1, 2018.
- The Variable Annuities Issues Working Group completed its second Quantitative Impact Study and exposed for comment the consultant's report, which includes 28 recommendations.
- The Financial Stability Task Force exposed for comment extensive new liquidity disclosures for the annual statement, which it hopes to adopt for year-end 2018.
- The Reinsurance Task Force will hold a public hearing in New York City February 20 to discuss and hear comments as to how the credit for reinsurance models should be revised to reflect adoption of the U.S/EU covered agreement.
- The Group Solvency Issues Working Group exposed for comment significant revisions to the draft Form F Implementation Guide to make Form F filings more useful to regulators.

PwC NAIC Newsletter

January 2018

All documents referenced can be found on the NAIC website naic.org.

Executive Committee and Plenary

The NAIC elected the following officers for 2018: Commissioner Julie Mix McPeak (TN), President, Superintendent Eric Cioppa (ME), President-Elect, Director Raymond Farmer (SC), Vice-President, and Commissioner Gordon Ito (HI), Secretary-Treasurer.

Cybersecurity

Insurance Data Security Model Law adoption

After 18 months of development (and 643 pages of comment letters), the Executive Committee and Plenary adopted in October the final version (dated August 7) of the Insurance Data Security Model Law (#668). The model requires licensees to develop, implement and maintain an Information Security Program based on its risk assessment, notify the commissioner within 72 hours of a cybersecurity event, annually certify compliance with the model, and other related requirements.

In its October report on the insurance industry, the Treasury Department recommended "prompt" state adoption of Model #668, and that if adoption and implementation of the model does not result in uniform data security regulations within five years, Congress should act to pass legislation setting uniform requirements for insurer data security. South Carolina and Rhode Island are planning to introduce legislation in early 2018 to adopt the model; the NAIC expects additional states to adopt later in 2018 and 2019.

At the Fall National Meeting, the Cybersecurity Working Group voted to disband as it has completed its charges. Future cyber issues will be handled by the Innovation and Technology Task Force.

Big data

During the Fall National Meeting, the Big Data Working Group continued discussion of the current regulatory framework for the oversight of insurers' use of consumer data, noting that no comments had been received on two draft documents previously exposed for comment: 1) Background Information for Discussion of Regulatory Framework and 2) Background Information for Assessment of Regulatory Data Needs. To spur discussion, a cover page was added to the first document, which lists issues identified through prior discussions and comments submitted by interested parties. The working group re-exposed the documents for public comment until January 12. The working group also plans to survey the states to collect information on whether specific prohibitions exist regarding the use of certain data elements used in underwriting and rating private passenger automobile insurance and homeowners insurance.

The working group then discussed the principles and structure for a mechanism to assist state regulatory review of complex models. In response to significant concerns raised by industry during the last exposure period, the working group emphasized that with any such proposal state regulators will: 1) maintain their current rate regulatory authority, 2) work to share information that aids speed to market, 3) share expertise and discuss technical issues regarding complex predictive models, and 4) seek legal assistance to assure each state's confidentiality provisions apply.

The working group discussed its plans to seek the assistance of the Casualty Actuarial and Statistical Task Force to appoint a Predictive Analytics Working Group, which would have the proposed 2018 charges:

- draft potential changes to the Product Filing Examiners Handbook to address best practices for review of predictive analytics and models used by insurers to justify rates,
- recommend filing requirements for rate filings that are based on complex predictive models,
- facilitate discussion among regulators regarding rate filing issues of common interest across states (while ensuring state confidentiality protections apply),
- facilitate training and the sharing of expertise through predictive analytics webinars, and
- work with NAIC technical staff to identify software, databases, and other technology that could be purchased or developed to assist analysis of predictive models.

The proposed charges were not adopted by the working group in Honolulu since both industry and consumer group representatives commented that additional discussion is warranted. A trade association representative noted his hope that the working group can find the proper balance between

"encouraging innovation and maintaining the necessary consumer protections."

Innovation and Technology Task Force

Regulatory sandbox
The task force heard a presentation from the trade association AIA urging state insurance regulators to adopt legislation that would create "sandboxes" wherein certain regulatory requirements would be waived for insurers looking to develop innovative insurance products, services and technologies. Other regulators (UK, Australia and Singapore) have recently introduced such sandboxes. The presentation also included a proposed model law entitled Insurance Innovation Regulatory Variance or Waiver Act.

The task force seemed receptive to studying the issue further. Other commenters (a producer trade association and a consumer representative) expressed concerns that such waivers of regulatory requirements could create an uneven playing field and/or "deregulation for selected groups."

Statutory Accounting Principles Working Group

The working group met via conference calls in October and November; significant actions include the following below. (Appendix A to this Newsletter summarizes all actions taken by the working group since the Summer National Meeting.)

ASU 2016-13 - Credit Losses (agenda #2016-20)
The working group resumed discussion from early 2017 of the FASB guidance on impairments of loans and other financial instruments (referred to as CECL), which moves U.S. GAAP from an incurred loss model to an expected loss model. Over strong objections from industry, the working group agreed that NAIC staff should proceed with drafting a concepts paper and proposing revisions to statutory accounting to adopt, with modification, ASU 2016-13. Industry's view is that the GAAP framework is too incompatible with statutory to adopt the guidance, e.g. use of fair value for investments for GAAP and amortized cost for statutory, and that AVR and RBC already function similar to an expected loss model.

In response to a question, the working group stated they do not envision statutory adopting fair value for bonds. The chair stated that if the proposal is too difficult to adopt, the working group will reconsider its tentative conclusion. ASU 2016-03 will be effective for SEC filers January 1, 2020.

Reinsurance risk transfer for short duration contracts (#2017-28) – At the Summer National Meeting, the working group exposed for comment proposed revisions to life, health and property/casualty reinsurance guidance to address issues identified by regulators (which resulted from reviews of certain reinsurance agreements of short duration health contracts). The intent of the proposal was to provide non-substantive, clarifying guidance, but based on review of the four comment letters, industry appears to be very concerned that the proposed changes could have significant unintended consequences. As a result, the working group agreed to create informal life/health and P/C drafting groups to deliberate issues, which is expected to begin in January 2018.

Reconsideration of goodwill limitations (#2017-18)
The regulators had previously exposed for comment several possible alternatives to reduce the amount of statutory goodwill that could be admitted by insurers. After hearing convincing comments from industry as to why this is unnecessary, the working group agreed to consider additional disclosures for goodwill, which were exposed for comment. If adopted, insurance entities would disclosure original amount of goodwill, admitted goodwill at the reporting date and admitted goodwill as a percentage of the acquired entity's book adjusted carrying value.

Surplus note amortization and accretion (#2017-12)
No consensus has been reached between regulators and industry on accounting for surplus notes issued at discount or premium, after lengthy discussions in 2017. The working group's proposed revisions to SSAP 41R reflect the "fundamental principle" that the balance of a surplus note issued at a discount or zero coupon can never be greater than the amount of cash and liquid admitted assets received and surplus note principal amounts issued at a discount or zero coupon or in a surplus note exchange should not accrete the face value of the note in surplus.

Industry is "adamantly disagrees' with the proposed changes stating they "will produce results not grounded in fundamental accounting principles or economic substance and will not properly reflect the surplus available to satisfy policyholder liabilities" because it does not allow amortization of discount and suggests that a portion of the surplus note principal be classified as debt, rather than surplus. The working group agreed that industry raises some significant points; a small group of regulators will

coordinate with staff and industry to work through the issues and draft a revised exposure document in 2018.

SSAP 86 - ASU 2017-12, Derivatives and Hedging (#2017-33) – The working group announced it would add this recently issued GAAP guidance to its agenda. One goal of this standard is to simplify hedge accounting including hedge effectiveness and hedge documentation. For insurance companies that prepare both GAAP and statutory financial statements, the full benefit of this simplification may not be realized until both bases of accounting implement the changes since current statutory and GAAP have the same requirements for hedge effectiveness and hedge documentation.

The working group also indicated that this project would also be a good time to review SSAP 86 more broadly to determine how U.S. GAAP accounting differs from statutory and whether those differences are intentional/should be continued.

SSAP 30-Investment Classification Project (#2017-32) – The working group added a new investment project to its agenda and intends to address three specific issues: 1) review the definition of "common stock" and whether to identify items in scope but not considered to be common stock, such as mutual funds and ETFs, 2) consider inclusion of closed-ended funds and unit investment trusts within the scope of SSAP 30, and 3) consider whether to recommend allowing NAIC designations for certain SSAP 30 investments which would provide look-through treatment for RBC purposes.

Blanks Working Group

During its November conference call, the Blanks Working Group adopted three items as follows.

Notification of whether a reporting entity is part of a publicly traded group (#2017-20BWG) – Effective January 1, 2018, the revision adds a question to the General Interrogatories to disclose the Central Index Key issued by the SEC, which is meant to simplify the identification of publicly traded company groups that are subject to SEC requirements.

Guidance document for health companies – The working group approved its Guidance on Who Should File the Life, Health and Annuity Guaranty Association Model Act Assessment Base Reconciliation Exhibit and the Adjustments to the Life, Health and Annuity Guaranty Association Model Act Assessment Base Reconciliation Exhibit to be posted as informal guidance to the Blanks Working Group webpage for 2017 filings. It states that only those companies which are members of state life, health and annuity guaranty associations should prepare the filings.

Guidance document to assist in the transition of MMMFs from Schedule D to Schedule E – This guidance, posted to the Blanks webpage, explains how to prepare various schedules as a result of the change in classification of MMMFs from short term investment to cash equivalent as of December 31, 2017.

Risk-based capital

The regulators made the following significant progress on RBC projects. (Appendix B summarizes other actions taken by the various RBC Working Groups since the Summer National Meeting.)

Operational risk (2017-13-O)
Following the Capital Adequacy Task Force's last minute decision in June to delay implementation of the operational risk charge, the Operational Risk Subgroup met to discuss options to address the "double counting issue" within the structure of the basic operational risk formula of life insurers. The subgroup discussed six proposals and selected the Academy proposal for exposure which will add lines in the 2018 RBC Blank to bring forward the C-4a RBC of life subsidiaries into the parent's RBC report as an offset to the basic operational risk.

The exposure also asks two questions: 1) whether there is additional operational risk exposure generated by operating insurance subsidiaries, and 2) whether the C-4a offset of a subsidiary should be capped in the parent insurer's basic operational risk calculation at the amount used to offset operational risk in that subsidiary's RBC filings. The subgroup discussed in December two comment letters received from industry, noting support for the Academy proposal. Both parties noted no additional operational risk exposure resulting from insurance subsidiaries and support the Academy's view that the C4a offset should not be capped. The subgroup plans to vote on the proposal to implement operational risk for 2018 RBC during its January 25 conference call.

Investment RBC
Bond factors - The Investment RBC Working Group exposed in October the AAA's revised report and recommendations which were updated to address comments heard at the Summer National Meeting, in particular that the proposed factors for investment grade bonds are still too high and that

the portfolio adjustment revision would have a material negative effect on RBC. The revisions include increasing the base factor up to the regulator-specified safety level of 96 percentile over a 10-year period and revising the portfolio adjustment to reflect diversification for an individual insurer's portfolio. The revised report applies to Life RBC only and does not include recommendations for P/C and health.

The chair provided an update on timing, noting that a 2019 implementation date would be more realistic given the complexity and technical nature of the project and recognizing that both insurers and the NAIC will be required to make systems changes. The intent of the working group is to adopt the revisions for all three formulas for year-end 2019.

Real estate proposal – The working group had previously discussed a comment letter from the AAA related to a revised ACLI real estate proposal for Life RBC. The proposal recommends a 10% charge for real estate, and the addition of a market value adjustment to reflect that market values of real estate can be significantly greater than the depreciated cost carrying value. The AAA believes a 12% charge is more appropriate and does not support the magnitude and methodology for the market value adjustment. The ACLI issued a response letter noting that a factor of 8.1% resulted from an updated analysis using data from 1961 through mid-year 2017, which supports the 10% factor. The comment letter also made counter arguments with respect to the AAA's objections to the market value adjustment. The working group plans to continue its discussion in 2018.

Life Risk-BBC
FHLB collateral RBC (2017-03-L) – The Life RBC Working Group re-exposed an updated ACLI proposal related to the RBC treatment of Federal Home Loan Bank collateral, after hearing results of the 2016 data study on FHLB advances. Several regulators still appear to have concerns if FHLB advances exceed 5% of an insurer's total net admitted assets, even with regulatory approval. The chair asked for additional information including whether it is possible to determine if the advances activity was related to spread-lending or liquidity issues. The ACLI hopes to finalize the proposal for 2018 RBC.

Property/Casualty RBC
Affiliated Bonds (2017-14-P) – The regulators exposed a proposal from the Affiliated Investments Ad Hoc Group to remove affiliated investments from PR003, regroup affiliated investments with the unaffiliated bonds in PR006 and subject affiliated investments to the same RBC charge as unaffiliated bonds to make them consistent with the life and health RBC formulas and their treatment of bonds.

Valuation of Securities Task Force

The task force held three conference calls this fall and made progress on the following projects.

FE enhancements project and private letter ratings
During its November conference call, and after two years of discussion, the task force finalized new policies to govern private letter ratings through adoption of changes to the P&P Manual. Beginning July 1, 2018, insurers will be required to provide the SVO with proof of private ratings for all private placement securities. This documentation can be accomplished either through the credit rating agencies providing the ratings directly to the SVO via electronic feed or insurers manually submitting copies of private rating letters to the SVO. The rating agencies and the SVO are working to implement the automatic data feeds by July 1, 2018. The task force also adopted a new SVO symbol for all privately rated securities, which will be designated as PL (private letter) beginning with the December 31, 2018 annual statement.

For PL securities issued on or after January 1, 2018, if no documentation is provided to the SVO (i.e., electronic feed or private letter rating submission), the private security will be rated 5*. For securities with private letter ratings assigned prior to January 1, 2018 (i.e. "grandfathered securities"), if the CRP rating is not included in the applicable CRP credit rating feed and the insurer cannot submit the private letter rating to the SVO because of confidentiality provisions, the security shall be designated "PLGI." Insurers shall report on all such securities through a General Interrogatory which will attest that these securities have an Eligible CRP rating and are reflected in the financial statements and RBC calculation commensurate with that rating. Industry estimates this population will be small by year-end 2018, i.e., only 5%-10% of privately-rated securities.

The revisions to the annual statement and instructions to implement the new designations and General Interrogatory will addressed by the Blanks Working Group in 2018 and are expected to be effective for year-end 2018. Discussion of other "reporting exceptions," including the possible use of an RE designation, which industry does not support, will continue in 2018. This is expected to include discussion of an informal process to resolve discrepancies identified by the IAO.

P&P Manual amendment adoptions
The task force adopted four amendments to the IAO P&P Manual, all of which were strongly supported by industry. These revisions accomplish the following:

- delete the IAO's authority to ignore the credit rating of NAIC CRPs (for purposes of translating CRP ratings into NAIC designations),
- remove the IAO's authority to require an insurer to file for evaluation a FE security rated by an NAIC CRP,
- clarify that certain bond-like Schedule BA private funds can qualify for designation by the SVO (and for lower RBC charges), and
- "retain and modernize" the Z rule and create a "carryover procedure" effective year-end 2018. The task force had originally concluded that the Z designation would no longer be necessary with the transition of the 5*/6* certification process to an Interrogatory, but have been convinced by industry that a "carryover" process is still necessary in certain circumstances. The current proposal is to create two new symbols (YE and IF) to address securities that require additional time to assign an NAIC designation. Work on the new process will continue in 2018.

SVO assessment of affiliated transactions
The task force continued to refine its proposed changes to the P&P Manual to address issues regarding the credit assessment and rating of insurance entity related party investments/debt transactions. The IAO and industry appear to have reached a consensus on all issues except those related to complex and/or customized SCA transactions and work will continue in 2018. The task force decided during its September conference call that designations previously assigned by the SVO should be used for year-end 2017 reporting as the parties work towards a permanent solution.

Group capital calculation

The working group is continuing progress on its project to construct a U.S. group capital calculation using an RBC aggregation methodology.

Captive insurers
The working group exposed an updated proposal on the treatment of captives in the group capital calculation, which attempts to overcome differences in opinion among states and find consensus. The revised proposal that looks through the transaction, i.e. unwinding the captive. This could include requiring the XXX/AXXX captives to report liabilities consistent with the valuation by the direct writer and the use of SAP for captive assets. Another alternative would be to require on-top adjustments to arrive at a similar net capital valuation of the XXX/AXXX business. Comments on this proposal were due December 29.

Non-regulated entities
The working group had originally suggested that a flat 22.5% charge be assessed for non-regulated entities. Industry countered with an approach that would exclude non-regulated entities that do not present demonstrable recourse to the group, which several regulators thought was inconsistent with holding company analysis. During its October meeting, the working exposed an alternative that would require separate identification of financially regulated entities and entities that pose material risks to the group, and would allow certain non-regulated entities to be grouped together with similar entities and reported in total for the calculation. Comments are due January 15.

Surplus Notes and Senior Debt
The working group exposed an NAIC staff memorandum that covers surplus notes, senior debt, quality of capital and whether limitations on surplus notes and debt should exist. The memo was created to memorialize positions that state insurance regulators and the U.S. industry have taken at international meetings where a fair amount of discussion on surplus notes have taken place. Comments are due January 15.

Permitted and state prescribed practices
The working group noted that there is general consensus that the group capital calculation should address permitted and prescribed accounting practices; however differing opinions exist on how these practices would be treated in the calculation. NAIC staff performed a study of Note 1 of 2016 annual statements, noting that although permitted and prescribed practices are generally immaterial to the industry as a whole, there may be individual insurers that have material permitted or prescribed accounting practices. NAIC staff was directed to review the data further to identify the relative materiality of these practices on individual insurer groups.

Baseline exercise
NAIC staff has been working on the baseline exercise, which involves data submission by volunteer groups and their preferred alternatives on scalars, permitted practice adjustments and

treatment of non-insurance and non-U.S. insurance affiliates. Round one of the baseline exercise was completed in the fall, and updated guidance from the data analyses was incorporated into the second round of the exercise.

The working group has recently not discussed its timeline; the original goal was to have an initial filing to regulators using 2019 annual data.

Principles-based reserving

Valuation Manual Amendment Proposals
Since the Summer National Meeting LATF adopted several Amendment Proposal Forms (APF) with non-substantive changes and also adopted other clarifications and revisions following exposure. At the meeting in Honolulu LATF discussed and exposed several more clarifying amendments, and re-exposed an amendment proposing to clarify the treatment of riders for the model reserve and the treatment of term riders when valued separately from the base policy; these APFs were exposed for comment until January 15.

The most substantive APF discussed in Honolulu relates to changes in the grading of company experience mortality to the industry mortality table. The proposed change eliminates "cliffs" (large differences in grading criteria between successive credibility ratios) in the current grading table and is anticipated to provide for more stable results as companies move along the grading scale. This change is considered substantive and as such the proposed effective date is January 1, 2020 with an option to implement sooner. This APF has been exposed for comment until January 30.

LATF also heard an update from the Academy's Role of the Actuary Subgroup regarding use of the term "qualified actuary" in the Valuation Manual. The current definition of "qualified actuary" in VM-01 may be interpreted to include only actuaries qualified to sign the annual statement opinion on reserves – a requirement not necessary for many qualified actuary functions. The subgroup noted that the Academy's General Qualification Standard defines actuarial opinions more broadly. The LATF chair stated that he is leaning towards changing the definition of actuarial opinion in the Valuation Manual to align with the Academy definition corresponding to the general qualification standards. No action was taken at the meeting but the matter will be discussed on a future conference call.

VM-20 Spread Tables
LATF recently adopted the VM-20 investment spread tables updated as of June 30, 2017 and September 30, 2017. Beginning January 1, 2018 the current spread tables will be updated monthly by the 5th business day of the following month, and long-term spreads will be updated quarterly by the 5th business day following the end of each quarter.

VM-22 Fixed Annuity PBR
LATF heard an update from the VM-22 Subgroup on activity related to questions following adoption at the Spring National Meeting of VM-22 Maximum Valuation Interest Rates for Income Annuities, to be effective January 1, 2018. Under the adopted methodology, valuation rates for income annuities will be adjusted quarterly or daily depending on contract size, will be based on treasury rates plus a spread less default costs and expenses, and will be established based on the expected duration of the payout period.

Interested parties have raised questions about the applicability of VM-22 in specific situations, and the subgroup has developed a Q&A document to address the questions, but is also considering a re-drafting of VM-22 to clarify these items and better capture the intent of the regulation. The Q&A document was exposed for comment until December 11.

Interested parties have also raised questions about the publication of the weights used in developing the VM-22 valuation rates. Currently the NAIC does not plan to publish the weights used to develop the VM-22 valuation rates, since the actual valuation rates will be published on the NAIC website and users are not expected to calculate the valuation rates independently. Interested parties noted that pricing actuaries and other interested parties may have a need for the weights even if valuation actuaries do not, and urged LATF to reconsider publication of the underlying weights.

Development of maximum valuation interest rates for other fixed income annuity (i.e. non-VA/non-SPIA) contracts is still in progress as is the valuation methodology. The subgroup awaits changes to VM-21 (Variable Annuities) with the goal of making consistent changes in VM-22; however such convergence may be more challenging now that potential changes to the VM-21 standard scenario are based on separate account considerations, which would not apply to fixed income annuities.

Mortality Experience Aggregation
LATF heard an update from the Academy Life Reserve Work Group on considerations around the level of aggregation permitted for determining credibility of the underlying mortality experience. While companies may determine assumptions for distinct groups of policies that may have different mortality experience, often these policies are issued through a common marketing and underwriting process used to assign all policies to groups for purposes of determining mortality rates, supporting some level of aggregation in determining credibility. The level of credibility directly impacts the size of the prescribed margin and speed at which company experience grades to industry experience. Current language in VM-20 is unclear regarding the degree of aggregation permitted, and the Academy Work Group plans to submit an APF with suggested wording to clarify the guidance and promote greater consistency and uniformity in approach across companies.

PBR Implementation Task Force
As of October 31, 2017, 47 states representing 86% of premium have enacted PBR legislation, and the NAIC has adopted revised accreditation standards for PBR to become effective January 1, 2020. At the Fall National Meeting the task force, the PBR Review Working Group and the PBR Review Procedures Subgroup were disbanded, having completed their charges.

Variable annuities framework

VA reserve and capital reform/QIS II
The working group met at the Fall National Meeting to hear Oliver Wyman present its updated recommendations for changes to the reserving (AG43) and capital (C3 Phase II) framework for variable annuities. The proposed changes resulted from the second Quantitative Impact Study (QIS II) comprising 15 insurance industry participants that began early in 2017, which included three testing cycles addressing various components of the reserving and capital framework.

The working group had provided additional guidance for QIS II, which included the following:

1) Market-sensitivity in funding requirements should be driven by equity performance and interest rate levels, but not equity or interest rate volatility given the long-term nature of liabilities.

2) Equity scenarios with greater volatility and that are calibrated using longer U.S. history, including data before and during the Great Depression, should be analyzed.

3) Prescribed actuarial assumptions should be calibrated to "Prudent Estimate Tolerances" (defined as the average industry experience with a prudence margin).

OW's updated recommendations were developed with a view to enhancing the "robustness" of total balance sheet funding requirements, incentivizing risk management and promoting comparability amongst insurers whilst preserving the existing statutory construct and minimizing implementation complexity.

Key recommendations are summarized in Appendix C. The proposals also include enhanced disclosure requirements on the risk profile of VA subaccounts, VA hedge program performance, in connection with clearly-defined hedging strategies (CDHS), and liability fair values. Lastly, the recommendations endorse hedge accounting treatment for VA interest-rate risk hedges, increases in asset admissibility limits for VA hedges and VA deferred tax assets, and seriatim allocation of aggregate reserves to individual contracts based on the lowest present value of accumulated product cash flow.

OW and the working group view the proposals as largely effective at meeting the objectives of the reform work. The American Academy of Actuaries Life Committee proposed an extensive comment period in part as a remedy to what they see as an "opaque" process for developing the recommendations. NY expressed conceptual reservations about the standard scenario recommendation. Questions were also raised about the rationale for proposing a recalibration of the CTE scenario parameters. One regulator commented on the absence of estimated financial effect of the proposals. OW was asked to help provide estimated impacts in order to help interested parties provide input.

The working group exposed the consultant's recommendation report, proposed revisions to AG 43, and proposed revisions to RBC page LR027 until March 2. Beginning January 24, the working group will be holding weekly joint conference calls with the C-3 Phase II/AG 43 (E/A) Subgroup to discuss the list of issues developed by regulators related to potential changes to AG43/C3 Phase II. Although a proposed effective date was not discussed, January 1, 2019 appears to be the earliest date the revised guidance could be implemented.

Proposed derivative accounting for hedging VAs
The SAP Working Group has not discussed since August its project to develop guidance for certain derivative contracts hedging variable annuities that otherwise would not meet hedge effectiveness requirements of SSAP 86. Work on this project will resume in 2018 and is expected to consider the hedging recommendations of the VA Issues Working Group's discussed above.

Life Actuarial Task Force

In addition to progress on PBR initiatives, the task force continued work on the following projects this fall.

Accelerated Underwriting Mortality
In Honolulu, the Joint Academy/SOA Preferred Mortality Project Oversight Group (POG, or Joint Committee) provided an update on valuation considerations and recommendations relative to use of accelerated underwriting (AUW) mortality in VM-20 reserving. Feedback had been solicited from companies relative to their ability to provide specified AUW data elements, the timeline required to have data elements available for submission if the data is not readily available, and additional data elements believed to be useful for studying mortality across the spectrum of underwriting approaches. The comment period closed November 7.

The VM-20 Reserving Subgroup of the SI/AUW Work Group recommended a two-step approach: in the short term LATF would adopt a Q&A approach to clarify and provide reference in the calculation of VM-20 modeled reserves for AUW business. Over the longer term a Delphi Study would be done to inform and support recommendations for a framework that clarifies the categorization of different underwriting practices and benchmarks adjustments to base mortality tables for different practices. The Delphi Method is a structured communication technique relying on a panel of experts, in this case primarily comprised of actuaries and underwriters in insurance companies, consulting companies and reinsurers, who answer questionnaires in two or more rounds. A consulting firm has been selected as the researcher and the first round of the study is complete. Responses from Round 1 are being gathered, questions for Round 2 are being formulated, and the study is targeted for completion by May 15, 2018.

Guaranteed Issue Mortality
LATF received an update from the Joint Committee on the development of Guaranteed Issue (GI), mortality tables, including discussion of the previously exposed APF on this matter. The APF includes a definition of GI and specific references to the relevant GI tables. Work continues to evaluate the impact on reserves of using the 1980 CSO Ultimate tables rather than the proposed GI CSO table, and to develop credibility formulae and prescribed mortality margins for GI business for purposes of calculating modeled reserves.

Simplified Issue Mortality
The Joint Committee gave LATF an update on the Simplified Issue (SI) mortality definition, table and report exposure which closed to comments September 21. Comments noted a need for greater clarity in definitions of simplified issue and simplified underwriting, concern about gaps in applicable tables considering the rapidly changing marketplace and blurring of definitions between traditional and advanced forms of issue and underwriting, and whether the 2017 Loaded SI Tables are appropriate for non-forfeiture.

Long-term care issues

Revised Guaranty Association Model Law adoption
The Receivership Model Working Group held 14 meetings this fall to draft amendments to the Life and Health Insurance Guaranty Association Model Act (#520) to address guaranty fund assessment and coverage issues of LTC insolvencies, culminating in final adoption by Executive Committee and Plenary on December 21. The intent of the revisions per the NAIC are to accomplish the following:

- expand the assessment base for LTC insurer insolvencies by adding life and annuity accounts to the health account as a source of funding
- "more equitably allocate" the assessments for LTC insurer insolvencies; the revised allocation will split 50%/50% any future insolvencies between life and annuity insurers and the health insurers, and
- Add HMOs as members of guaranty fund associations to provide coverage for HMO insolvencies consistent with other health entities.

The revisions were supported by the majority of trade associations representing health insurers and HMOs but was strongly opposed by one large health plan group because the assessments are "not tied in any way to market share of LTC sales." The state of Washington also opposed adoption, commenting that the process was too rushed. There is currently

no proposal to make the revised model law an accreditation standard.

Joint Long-Term Care Insurance Task Force
During the fall the task force received presentations from regulators on LTC pricing, reserving and solvency of the industry. These discussion will continue in 2018 and are expected to include presentations from the LTC industry.

LTC Reserving and rate reviews
During the interim period, the Health Reserves Subgroup of the Health Actuarial Task Force held calls to address topics of mortality in the Health Insurance Reserves Model Regulation (Model 10), and the inclusion of Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG-51) in VM-25. The subgroup proposed amending Model 10 to clarify that mortality for health reserves does *not* include selection factors. The subgroup will also draft an amendment to VM-25 to include AG-51 and will submit to the Health Actuarial Task Force for its consideration.

Since the Spring National Meeting, the LTC Pricing Subgroup addressed the issue of Non-Duplication of Benefits Provision (NDBP) in the Long-Term Care Insurance Model Regulation (#641). The Pricing Subgroup has concluded that NDBP is permitted, but there are actuarial considerations that must be addressed. Possible issues may include, but are not limited to, the impact on consumer behavior and insurer sales practices, lifetime limits relative to the expected claim continuance, relationship between the cost of the LTC services or LTC facility and the maximum benefits available under the policy form, and inflation protection level, if any, and its impact on the probability that the LTC benefits exceed the cost of care under the policy form. The subgroup's recommendation on NDBP was forwarded to the Senior Issues Task Force for their consideration and was subsequently adopted by the task force in Honolulu.

The Academy's LTC Valuation Work Group reported progress in developing recommendations for mortality and lapse minimum valuation standards. A draft report is planned for completion by the end of 2018. The Academy's LTC Combination Product Valuation Practice Note Work Group conducted a survey of companies' valuation practices with respect to LTC combination products. Companies completing Form 4 of the 2016 LTC Experience Exhibit were surveyed. The results of the survey will be included in the Practice Note being developed.

Financial Stability Task Force

Proposed liquidity disclosures
The task force's Liquidity Assessment Subgroup exposed for comment this fall significant new liquidity disclosures for the annual statement with a proposed effective date of year-end 2018. The first "baseline blanks" proposal was 70 pages and would require detailed disclosures on operations and reserves by product by state, which industry believes would be costly and burdensome to prepare.

At the Fall National Meeting the task force re-exposed a revised package which includes the following:

- A revised baseline proposal which adds columns to the Life and Fraternal Analysis of Operations and Analysis of Reserves for types of life insurance, separated into individual life, group life, individual annuities and deposit-type contracts, and group annuities and deposit-type contracts, but removes the requirement to disclose the information by state.

- Adds a new line to Note 32, Analysis of Annuity Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics that identifies surrender charges over 5% in the current year that will be less than 5% in the subsequent year.

- Adds a new Note 33, Analysis of Life Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics, which requires similar information to that required by Note 32 for 13 life insurance products.

The comment period end January 16.

Liquidity stress testing
The Liquidity Assessment Subgroup held regulator only meetings this fall to hear presentations from four large U.S. life insurers regarding their proprietary processes for liquidity risk assessment, management and governance. Observations gleaned from these meetings included the following:

- There is generally limited use in doing group-wide liquidity stress testing because of state restrictions on the ability to transfer assets between entities in a group.

- Material entities are usually reviewed quarterly with additional work done annually.

- Two common stress scenarios used are the high interest rate environment of the 1980s and the 2008 financial crisis.

- Each company expressed concern with a possible requirement to complete prescribed regulatory stress scenarios.

The subgroup will compare these results to the stress testing done by rating agencies and other jurisdictions and then begin deliberating a baseline proposal for a liquidity stress testing framework for large life insurers.

Referral to Receivership Task Force
The task force approved a referral letter to Receivership and Insolvency Task Force asking them to undertake an evaluation of current recovery and resolution laws, guidance, and tools to evaluate whether best practices are incorporated with respect to financial stability, what information should be required by large cross-border U.S. groups, and whether there are any current “misalignments” between federal and state laws that could be an obstacle to achieving effective and orderly recovery and resolutions for U.S. insurance groups.

Reinsurance Task Force

Covered Agreement
As a result of the U.S. Treasury/USTR signing the Covered Agreement on September 22, the Reinsurance Task Force quickly began preliminary discussions on how to proceed with reinsurance collateral reform, given that U.S. ceding companies will no longer be able to require collateral from EU-domiciled reinsurers on new and renewal business once the covered agreement is implemented. (States have 60 months to adopt reinsurance reforms.)

The task force has scheduled a public hearing in New York City on February 20 to hear comments from regulators and interested parties. The task force has requested specific comments on the following potential approaches:

- Amend the Credit for Reinsurance Model Law (#785) and Model Regulation (#786) to eliminate reinsurance collateral requirements for EU-based reinsurers meeting the conditions of the Covered Agreement.

- Extend similar treatment to reinsurers from other jurisdictions covered by potential future covered agreements that might be negotiated pursuant to Dodd-Frank.

- Provide reinsurers domiciled in NAIC Qualified Jurisdictions with similar reinsurance collateral requirements. (From comments made at the Fall National Meeting, there appears to be some consensus for this approach.)

- Consider changes to the criteria for evaluating whether a jurisdiction should be a Qualified Jurisdiction.

- Consider additional “guardrails” relative to U.S. ceding companies, such as changes to the RBC formula or new regulatory approaches to help address the increased financial solvency risks caused by the elimination of reinsurance collateral.

- Any other considerations to weigh as part of the states’ implementation of the Covered Agreement.

Reinsurance Investment Security Subgroup
The charge of this subgroup is to assess a “regulatory transaction” investment security and whether these assets would qualify as acceptable collateral for reinsurance or as primary securities in XXX/AXXX agreements. The subgroup reached a “majority position” (5 of the 8 subgroup members) that recommended against specifically identifying new investment products that would qualify as reinsurance collateral beyond those already defined in the credit for reinsurance model. Instead, the subgroup believes such assets should be evaluated by the domiciliary commissioner on a case-by-case basis. The majority position also recommends that a security should not be considered a primary security when the “receipt of cash flows from the issuer of the investment is affected by the financial condition, actions, assets or obligations of the investment’s holder, the holder’s affiliates or the holder’s overall holding company group, or creates a right of recourse or reimbursement against any such person or its property.”

These recommendations were adopted by the task force which includes a memorandum that can be used by the task force to evaluate future requests to review new investment products.

NRSROs for certified reinsurer purposes
The task force voted to approve the Kroll Bond Rating Agency as an acceptable NRSRO for certified reinsurer purposes. As part of the deliberation of this proposal, the task force also adopted changes to the Uniform Application Checklist for Certified Reinsurers to clarify that NRSROs must be

"recognized by the SEC to provide financial strength ratings on insurance companies."

ORSA and enterprise risk (Form F) filings

The Group Solvency Issues Working Group also exposed a Form F/ORSA Comparison Chart and proposed revisions to the Form F Implementation Guide. Although both the Form F and ORSA Summary Report provide information on risk exposures, regulators have found the ORSA report to be more effective and useful, primarily due to the level of detailed information provided. However, one clear drawback of the ORSA report is the scope of entities covered is limited to groups with premium in excess of $500 million. The ORSA report is commonly filed at an intermediate insurance group level, with little to no discussion of exposures outside of the defined insurance group while the Form F is generally filed at the ultimate controlling company, or full group level, albeit with limited detail on non-insurance entity exposures.

The proposed revisions to the Form F Implementation Guide are extensive and were developed with the following goals in mind:
1) reduce redundancy in the reporting requirements for ORSA filers, particularly in relation to insurance risk exposures; 2) clarify that the purpose of the Form F Implementation Guide is to outline best practice recommendations for reducing potential follow-up questions and the scope of additional analysis and exam activities; and 3) provide more guidance regarding the regulator's interest in information on risk management practices for those insurance groups not subject to ORSA reporting requirements. Comments are due by January 12.

The working group also adopted proposed changes to the ORSA Guidance Manual to incorporate a formal process for adopting future revisions to the document.

Financial Regulation Standards and Accreditation Committee

Corporate Governance Models
The committee adopted the Corporate Governance Annual Disclosure Model Act (#305) and Model Regulation (#306) and Part A accreditation standards effective January 1, 2020, with Texas and Michigan dissenting.

Consideration deferred
The committee agreed to defer consideration as an accreditation standard the Term and Universal Life Insurance Reserve Financing Model Regulation (#787) because of changes that might be necessary to the credit for reinsurance models due to the U.S./EU covered agreement (see the Reinsurance Task Force discussion above). The committee also deferred consideration (for a short time) of the 2014 revisions to Insurance Holding Company System Regulatory Act (#440) as NAIC legal staff prepares guidance for determining whether a state is in compliance given that some states may not have any Internationally Active Insurance Groups that would be subject to the model revisions.

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The next National Meeting of the NAIC will be held in Milwaukee March 24-27.

We welcome your comments regarding issues raised in this newsletter. Please provide your comments or email address changes to your PwC LLP engagement team, or directly to the NAIC Meeting Notes editor at jean.connolly@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 meeting materials to industry observers at the meetings, it can be 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.

Appendix A

This table summarizes actions taken by the SAP Working Group since the Summer National Meeting on all open agenda items. Items exposed for comment are due January 19, 2018. For full proposals exposed and other documents see the SAP Working Group webpage.

Issue/ Reference #	Status	Action Taken/Discussion	Proposed Effective Date
Quarterly Reporting of Investment Schedules (#2015-27)	Referred	The Financial Condition Committee is still considering various proposals for the NAIC to receive quarterly investment data (in lieu of the proposal for industry to file data electronically with the NAIC every June 30). During its November conference call, the committee asked for a comparison of the cost to purchase the data from A.M. Best or modify NAIC systems to generate the data in-house.	June 30, 2019
SSAP 22 - ASU 2016-02 - Leases (#2016-02)	Reviewing industry comments	A "full re-write" of SSAP 22 was exposed for comment at Summer National Meeting, which proposes adoption of ASU 2016-02 with significant modifications to continue the current approach for statutory accounting in all areas, including operating leases, sale/leaseback and leveraged leases. The exposure draft also proposed adoption of a footnote that would require disclosure of the right-of-use lease asset and corresponding liability which interested parties believe would result in significant effort to prepare. During its November conference call the working group seemed sympathetic to this position and asked staff to work with industry to determine further revisions.	Years ending December 31, 2019 with early adoption permitted
SSAP 86 - Special Accounting Treatment for Limited Derivatives (#2016-03)	Further analysis of ACLI comments needed*	NAIC staff continues to work with the ACLI on issues identified and discussed earlier this year. A revised issue paper is expected for exposure in 2018.	TBD
Policy Statement on Coordination with P&P Manual, SVO and VOSTF (#2016-13)	Adopted	The working group adopted a new policy statement for the AP&P Manual to detail the coordination and collaboration between the VOS Task Force, the Securities Valuation Office and SAPWG and related staff.	November 16, 2017
ASU 2016-13 - Credit Losses (#2016-20)	Directed staff to draft revisions	The working group agreed that NAIC staff should proceed with drafting a concepts paper and proposed revisions to statutory accounting to adopt, with modification, ASU 2016-13. Additional discussion of this topic is included in the SAPWG summary above.	TBD
Appendix C Introduction (#2016-42)	Deferred*	The working group had previously exposed revisions to Appendix C – Actuarial Guidelines in the AP&P Manual to promote consistent application of the Actuarial Guidelines which highlights that insurers which depart from actuarial guidelines should disclose those differences. In comments from interested parties, they suggest that disclosure not be required when insurers hold reserves in excess of the required minimums. The working group asked NAIC staff to work with interested parties to refine the wording of the proposed guidance. Renewed discussion is expected in 2018.	TBD

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SSAP 86 – Derivatives with Future Settled Premiums (#2016-48)	Adopted and re-exposed	The working group adopted revised proposed disclosures to capture the following aggregate information on financing premiums in derivative contracts: premiums due, reported derivative fair value and derivative fair value excluding the financed premiums. The working group also re-exposed revisions to SSAP 86 for extensive individual contract disclosures for derivatives with financing premiums and proposed electronic-only changes to Schedule DB, both for year-end 2018.	Year-end 2017 for the new disclosures in narrative format.
SSAP 86 – Settlement of Variation Margin (#2017-04)	Adopted	The working group adopted proposed revisions to SSAP 86 that require changes to variation margin to be recognized as unrealized gains/losses until the derivative contract has matured, been terminated or expires. This revision would apply to both over-the-counter derivatives and exchange traded futures, regardless of whether the counterparty/exchange considers the variation margin payment to be collateral or a legal settlement.	January 1, 2018, on a prospective basis, for entities that previously classified these amounts as realized gain/loss.
SSAP 104R & SSAP 12 – ASU 2016-09: Improvements to Employee Share-Based Payment Accounting (#2017-05)	Adopted	This ASU is part of the FASB simplification project and revises share-based payment accounting in six areas including income taxes and cash flows. The working group adopted proposed revisions to SSAP 104R suggested by interested parties along with revisions to SSAP 12 related to income tax accounting for ESOPs. Early adoption is being permitted to allow GAAP filers who are already classifying these items as equity (instead of a liability) as a result of the minimum statutory tax withholding change.	December 31, 2017 with early adoption permitted.
SSAP 97 – Extension of SCA Filing Deadlines (#2017-08)	Adopted	The working group adopted a proposal amending SSAP 97 Exhibit A to revise the deadlines for Sub 1 filings (from 30 days to 90 days from acquisition/formation) and Sub 2 filings (from June 30 to August 31). For companies that receive SCA audited financial statements after August 31, the deadline is one month after the audit date of the financial statements.	January 1, 2018
SSAP 26 – Bank Loans (#2017-10)	Adopted	SAPWG adopted a revised definition provided by industry for bank loans: fixed income instruments “issued directly by a reporting entity or acquired through a participation, syndication or assignment.” The working group also recommendation that bank loans be added as a separate new sub-category in Schedules D, DA, DL and E, which was exposed for comment by the Blanks Working Group with a proposed 2018 effective date (#2017-24BWG).	October 12, 2017
SSAP 65 – High Deductible Policies (#2017-11)	Adopted	In connection with the working group’s adoption of expanded disclosures for high deductible polices, the regulators adopted an instructional clarification memo to address implementation questions staff has received related to the new disclosures, including guidance that “gross loss reserves” only include direct business, (excluding reinsurance), unless amounts under the high deductible layer are not retained by the ceding insurer.	December 31, 2017
SSAP 41 – Surplus Note Amortization and Accretion (#2017-12)	Re-exposure expected in 2018	After significant debate this summer and fall, the working group directed NAIC staff to work with industry to review their comments, which will be considered before a revised document is exposed for comment. See further discussion on page 3.	TBD

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SSAP 92 & 102 - ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (#2017-14)	Adopted	SAPWG rejected this ASU because SSAP 92 and SSAP 102 already require disaggregation of pension and OPEB costs for disclosure purposes; therefore separate disclosure within the income statement as required by the ASU was not considered necessary.	October 12, 2017
SSAP 30 & 97 - ASU 2013-08, Financial Services – Investment Companies (#2017-15)	Adopted	The working group proposed rejection of this ASU as not applicable to statutory accounting, as the guidance is specific to investments held by investment companies.	October 12, 2017
SSAP 104R - ASU 2017-09, Stock Compensation – (#2017-16)	Adopted	The working group approved amendments to SSAP 104R to adopt this ASU, which provides guidance on what type of revisions to the terms and conditions of share-based payment plans trigger modification accounting. The guidance will be applied prospectively to share-based payment plan modifications.	January 1, 2018, with early adopted permitted
SSAP 22 - ASU 2017-10, Determining the Customer of the Operation Services (#2017-17)	Adopted	An amendment to SSAP 22 was approved to adopt ASU 2017-10 (with modification) to clarify who is the customer in service concession arrangements. The revision does not adopt the guidance related to revenue recognition of the service concession contracts.	October 12, 2017
SSAP 68 & 97 – Goodwill Limitation (#2017-18)	Re-exposed	After initially considering possible additional limitations on statutory goodwill, the working group exposed proposed new disclosures without new limitations on admitted goodwill; see the SAPWG summary for additional detail.	TBD
SSAP 68 & 90 - Intangible ASUs (#2017-19)	Adopted	The working group rejected five ASUs on goodwill: ASUs 2010-28, 2011-08, 2012-02, 2014-02 and 2017-04. The revisions also incorporate the impairment guidance for long-lived assets included in SSAP 90 into SSAP 68 for goodwill impairment assessment.	October 12, 2017
SSAP 97 – Foreign Entity Clarification (#2017-20)	Adopted	The working group adopted a nonsubstantive amendment to SSAP 97 to clarify that the paragraph 9 limited GAAP to SAP adjustments apply to both audited GAAP basis and audited foreign GAAP basis financial statements.	October 12, 2017
SSAPs 41R and 97– Double Counting of Surplus Notes (#2017-21)	Re-exposed	The working group re-exposed proposed SSAP 41R and 97 revisions to prohibit "double counting" of all surplus notes, either directly or indirectly acquired by a parent insurer and regardless of how acquired.	TBD
SSAP 43R – Removal of Implementation Guidance (#2017-22)	Adopted	The working group adopted extensive revisions to remove transition guidance from the SSAP43R implementation guide and delete issues which have been subsequently addressed or revised in the SSAP.	October 12, 2017

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SSAP 103R –Wash Sales Involving Money Market Mutual Funds (#2017-23)	Adopted	The working group adopted proposed amendments to SSAP 103R to clarify that acquisitions and disposals of shares in money market mutual funds are not subject to wash sale disclosures.	October 12, 2017
SSAP 100 - Use of Net Asset Value versus Fair Value (#2017-24)	Adopted	With significant speed from initial exposure in August to final adoption in November, the working group approved substantive amendments to SSAP 100R to allow the use of net asset value as a practical expedient for fair value when 1) specifically allowed in an SSAP (such as MMMFs valued at NAV) or 2) when specific conditions exist. The revisions adopt both ASU 2009-12 and ASU 2015-07 related to investments that calculate NAV per share. For early adopters the corresponding blanks changes won't be in effect until 2018.	January 1, 2018 with early adoption permitted for year-end 2017
SSAP 26R - Wholly-Owned Ultra-short Bond Portfolio in an LLC Series (#2017-25)	Referred	The working group rejected a request from an investment management firm to allow "look-through" accounting to SSAP 26R for an LLC investment, but the regulators agreed to refer the issue to the VOS and Capital Adequacy Task Forces and the Blanks Working Group. The goal of the proposal is to achieve for health and P/C entities look-through treatment for Schedule BA investments for RBC purposes. This RBC treatment is already permitted for life and health insurers.	TBD
SSAP 107 - High-Cost Risk Pooling in ACA Risk Adjustment (#2017-26)	Adopted	The working group adopted proposed changes to SSAP 107 to provide guidance on implementation of the December 2016 HHS regulation that revises how the ACA risk adjustment will function starting in 2018. Risk pool claim reimbursements will be recorded as premium (i.e. "option 2, which was supported by industry). There will also be new disclosures.	January 1, 2018
Issue Paper 143 – Long Term Care Assessments (#2017-27)	Adopted	SAPWG adopted revisions to Issue Paper 143R, Guaranty Fund Assessments, which documents the basis for conclusion for revisions related to long-term care guaranty fund assessments.	N/A
SSAP 61R – Reinsurance Risk Transfer for Short Duration (#2017-28)	Informal drafting groups to be formed	The working group received significant comments on its Form A discussion paper proposing revisions to SSAP 61R, SSAP 62R and Appendix A-791. As a result the regulators decided to create informal drafting groups to discuss revisions to the proposed guidance for the working group's consideration. See additional discussion in the SAPWG summary.	TBD
SSAP 6/INT 2017-01 – Extension of the 90-day Rule (#2017-29)	Adopted	The working group adopted an **optional, temporary** extension of the 90-day non-admission of premiums due from agents and policyholders in geographic areas directly affected by Hurricanes Harvey, Irma and Maria. Premiums must be collected by February 15, 2018 after which time the guidance expires.	

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SSAP 92 & SSAP 102 - Plan Asset Disclosures (#2017-30)	Exposed	The working proposed has proposed revisions to remove the Level 3 reconciliation disclosure for plan assets as this disclosure is viewed as unnecessary since the plan assets are not recorded in the statutory balance sheet.	TBD
SSAP 103R – Wash Sale Disclosures (#2017-31)	Exposed	Consistent with issue # 2017-23 to reduce disclosure for items with little wash sale risk, revisions were exposed to eliminate cash equivalents, all derivative instruments and short-term investments with credit assessments equivalent to an NAIC 1 or NAIC 2 designation from the wash sale disclosure. The working group also asked for input as to whether common stock investments should also be excluded since they are valued at fair value.	TBD
SSAP 30 – Investment Classification Project (#2017-32)	Exposed	The working group exposed for comment proposed substantive changes to address three new common stock issues. See detail in the SAPWG summary above.	TBD
SSAP 86 - ASU 2017-12, Derivatives and Hedging (#2017-33)	Exposed	The regulators added this recently issued ASU to its agenda for detailed study. See the SAPWG summary above for additional discussion.	TBD
APP Manual Appendix D – FASB Codification References (#2017-34)	Exposed	The working group is considering whether they should undertake a comprehensive project to "better identify the FASB Codification references for U.S. GAAP reflected in statutory accounting." NAIC staff noted that it has become increasingly difficult to track GAAP guidance adopted in the SSAPs as the FASB revises pre-Codification guidance and earlier issued ASUs.	TBD
SSAPs 49 & 56 – Policy Loans (#2017-35)	Exposed	NAIC staff raised concerns that guidance with respect to policy loans, especially policy loans held in separate accounts, is not clear and suggested issues to review further. Preliminary comments from interested parties disagree that the guidance is not clear and that separate accounts holding policy loans is rare and therefore immaterial.	TBD
INT 02-22 & INT 09-08 Updates (#2017-36 and #2016-19)	Exposed	INT 02-22, Accounting for the U.S. Terrorism Risk Insurance Program is proposed to be updated to clarify that the Interpretation will be effective as long as the TRIA program is in existence. INT 09-08 will be nullified as there are no longer any loans outstanding under the Federal Reserve's Term Asset-Backed Securities Loan Facility (TALF) program.	
SSAP 47 – Uninsured Plans (#2017-37)	Exposed	The working group proposed rejecting all FASB revenue recognition recently issued: ASUs 2014-09, 2015-14, 2016-08, 2016-10 and 2016-12.	
*No additional action was taken on this topic/issue since the 2017 Summer National Meeting.			

Appendix B

This chart summarizes action on other proposals of the RBC Working Groups since the Summer National Meeting, i.e. those not discussed on pages 3-4 this Newsletter. The detail of all proposals adopted for 2017 RBC are posted to the Capital Adequacy Task Force's webpage (under Related Documents).

RBC Formula	Action taken/discussion	Effective Date/ Proposed Effective Date
P/C RBC		
Catastrophe Event List	The Capital Adequacy Task Force adopted the Catastrophe Event List which lists U.S. and non-U.S. catastrophe events that should be excluded from the R5 calculation to prevent double-counting of catastrophe losses in the RBC formula.	2017
Revised Schedule F	The P/C RBC Working Group referred editorial revisions to the new 2018 Schedule F, Part 3 to the Blanks Working Group. The changes include a new special code "4" to indicate that the incurred but not reported amounts, subject to pre-1984 contracts but not subsequently renewed, are exempt from the unauthorized reinsurance penalty.	2018
Health RBC		
Risk Adjustment and Risk Corridor Sensitivity Test (2017-09-CA)	The Health RBC Working Group referred a proposal to remove the risk corridor portion from the sensitivity test to the Capital Adequacy Task Force for all formulas and the task force later exposed the proposal.	2018
Federal ACA Reinsurance (2017-10-H)	The Health RBC Working Group adopted a proposal to remove the Affordable Care Act lines 4, 5, 10, and 11 from the Credit Risk page XR019.	2017
Medicaid Pass-Through Payments (2017-08-H)	The Capital Adequacy Working Group exposed a proposal to apply a 2% factor to Medicaid pass-through payments that are reported as premium.	2018

Appendix C

This chart summarizes the Oliver Wyman recommendations by category compared to earlier proposals. For the full report and recommendations see this link.

	Variable Annuity QIS II Proposal by Category		
Category	**QIS I**	**Modified QIS I**	**New**
Stochastic Conditional Tail Expectation ("CTE") Amount	1. Remove the Working Reserve when calculating the scenario of Greatest Present Value of Accumulated Deficiencies 2. Follow VM-20 guidance on general account asset projections, with additional constraint on borrowing cost 3. Permit immediate liquidation of currently-held hedges and non-reflection of mark-to-market hedge gains and losses 4. Reduce the minimum allowable CDHS "error factor," but require back-testing disclosure to support chosen "error factor"	1. Discount deficiencies at the Net Asset Earned Rate on Additional Assets 2. Use VM-20 scenario generator for interest rate scenarios 3. Allow companies to use proprietary scenario generators if – and only if – they do not reduce Total Asset Requirement	1. Use the VM-20 scenario generator for separate account returns, but recalibrate based on data from 1926 to 2016 2. Introduce principles to govern implied volatility scenario generation, with a "safe harbor" approach provided 3. Differentiate treatment of non-guaranteed revenue sharing income by affiliated funds vs. non-affiliated funds
Standard Scenario	1. Align AG43 Standard Scenario calculations with CTE ("adjusted") 2. Remove the C3 Phase II Standard Scenario	1. Project Standard Scenario on an aggregated basis, but with disclosure of aggregation benefit observed. 2. Refresh prescribed policyholder behavior assumptions to align with industry experience.	1. Use the Standard Scenario construct to govern model choices and actuarial assumptions only, via a reserve "add-on" 2. Calculate Standard Scenario based on company-specific market paths (selected from a panel of standardized paths) 3. Allow the Standard Scenario Amount to be calculated as a CTE Amount with prescribed assumptions.
RBC C3 Charge		• Calculate C3 as the difference between total statutory reserve and CTE 95 on same distribution.	• Permit smoothing to be conducted on the C3 charge, but not on the Total Asset Requirement.

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