Executive (EX) Committee

Excerpt from the Proceedings of the NAIC

Louisville, KY
August 16 – 19, 2014
The NAIC is the authoritative source for insurance industry information. Our expert solutions support the efforts of regulators, insurers and researchers by providing detailed and comprehensive insurance information. The NAIC offers a wide range of publications in the following categories:

**Accounting & Reporting**
Information about statutory accounting principles and the procedures necessary for filing financial annual statements and conducting risk-based capital calculations.

**Consumer Information**
Important answers to common questions about auto, home, health and life insurance — as well as buyer’s guides on annuities, long-term care insurance and Medicare supplement plans.

**Financial Regulation**
Useful handbooks, compliance guides and reports on financial analysis, company licensing, state audit requirements and receiverships.

**Legal**
Comprehensive collection of NAIC model laws, regulations and guidelines; state laws on insurance topics; and other regulatory guidance on antifraud and consumer privacy.

**Market Regulation**
Regulatory and industry guidance on market-related issues, including antifraud, product filing requirements, producer licensing and market analysis.

**NAIC Activities**
NAIC member directories, in-depth reporting of state regulatory activities and official historical records of NAIC national meetings and other activities.

**Special Studies**
Studies, reports, handbooks and regulatory research conducted by NAIC members on a variety of insurance-related topics.

**Statistical Reports**
Valuable and in-demand insurance industry-wide statistical data for various lines of business, including auto, home, health and life insurance.

**Supplementary Products**
Guidance manuals, handbooks, surveys and research on a wide variety of issues.

**Capital Markets & Investment Analysis**
Information regarding portfolio values and procedures for complying with NAIC reporting requirements.

**White Papers**
Relevant studies, guidance and NAIC policy positions on a variety of insurance topics.

For more information about NAIC publications, view our online catalog at: [http://store.naic.org](http://store.naic.org)
EXECUTIVE (EX) COMMITTEE

Executive (EX) Committee Aug. 17, 2014, Minutes ............................................................................ 4-2
Executive (EX) Committee Interim Meeting Report (Attachment One) .............................................................. 4-6
Report of Executive (EX) Committee Task Forces, Aug. 16, 2014 (Attachment Two) ........................................ 4-7
(Attachment Three) ...................................................................................................................................... 4-8
Request for Model Law Development, Amendments to the Health Insurance Reserves Model Regulation
(#10), Submitted by the Health Actuarial (B) Task Force (Attachment Four) ................................................ 4-15
Request for Model Law Development, Amendments to the Health Insurance Reserves Model Regulation
(#10), Submitted by the Long-Term Care Actuarial (B) Working Group (Attachment Five) ......................... 4-17
Status of Model Law Development Requests, Aug. 16, 2014 (Attachment Six) ................................................. 4-19
Executive (EX) Committee  
Louisville, Kentucky  
August 17, 2014

The Executive (EX) Committee met in Louisville, KY, Aug. 17, 2014. The following Committee members participated: Adam Hamm, Chair (ND); Monica J. Lindeen, Vice Chair (MT); Michael F. Consedine, Vice President (PA); Sharon P. Clark, Secretary-Treasurer (KY); James J. Donelon, Immediate Past President (LA); Kevin M. McCarty, Past President (FL); Sandy Praeger, Past President (KS); Roger A. Sevigny, Past President (NH); Jim L. Ridling (AL); Thomas B. Leonardi (CT); Gordon I. Ito (HI); Mike Rothman (MN); Wayne Goodwin (NC); Bruce R. Ramge (NE); Kenneth E. Kobylowski (NJ); Scott J. Kipper (NV); Julie Mix McPeak (TN); Ted Nickel (WI); and Tom C. Hirsig (WY). Also participating was: Robert Easton (NY).

1. **Adopted the Report of the Executive (EX) Committee and Internal Administration (EX1) Subcommittee Joint Meeting**

Commissioner Hamm reported that the Executive (EX) Committee and Internal Administration (EX1) Subcommittee met in joint session Aug. 16. The meeting was held in regulator-to-regulator session in accordance with paragraph 4 (internal or administrative matters of the NAIC) and paragraph 6 (consultations with NAIC staff members) of the NAIC Policy Statement on Open Meetings.

The Committee and Subcommittee took the following action: 1) adopted its March 29 minutes; 2) adopted the report of the Internal Administration (EX1) Subcommittee, including adoption of revisions to the long-term investment policy and to the defined benefit and defined contribution plan policies; 3) adopted the report of the Audit Committee, including an overview of the June 30 financial statements; a discussion of member grant funding; updates on the 2014 financial audit process and the SSAE 16 Service Organization Control (SOC) 1 report timeline; 4) reviewed a preview of the 2015 budget calendar; and 5) adopted the report on the NAIC’s long-term investment portfolio and the NAIC’s defined benefit plan portfolio through June 30.

The Committee and Subcommittee adopted the report of the Information Systems (EX1) Task Force, which took the following action: 1) received status reports on 2013 technology projects and 2014 member-approved technology projects; 2) received reports on SBS, SERFF and on the State-Producer Licensing (SPL) project; 3) received a presentation on the NAIC Regulator User Interface project; 4) received reports on the 2014 State Information Technology Survey; 5) discussed its 2015 proposed charges; and 6) received the Biannual NAIC Information Systems Division status report.

The Committee and Subcommittee also approved waiving NAIC training course registration fees for funded and unfunded consumer representatives and authorized NAIC management to proceed with negotiations to secure a contract for the 2016 Commissioners Conference.

Commissioner Lindeen made a motion, seconded by Commissioner Consedine, to adopt the report of the joint Executive (EX) Committee and Internal Administration (EX1) Subcommittee. The motion passed.

2. **Adopted its July 8 and June 2 Interim Meeting Report**

Commissioner Clark made a motion, seconded by Commissioner McCarty, to adopt the Committee’s July 8 and June 2 interim meeting report (Attachment One). The motion passed.

3. **Adopted the Reports of its Task Forces**

The Committee received written reports from its task forces: Financial Stability (EX) Task Force; Government Relations (EX) Leadership Council; Governance Review (EX) Task Force; International Insurance Relations (EX) Leadership Group; Producer Licensing (EX) Task Force; and Speed to Market (EX) Task Force.

Commissioner Lindeen made a motion, seconded by Commissioner Ito, to adopt the reports of the Committee’s task forces (Attachment Two). The motion passed.

Superintendent Torti reported the Principle-Based Reserving Implementation (EX) Task Force adopted the XXX/AXXX Reinsurance Framework in concept, along with various charges to technical groups and three model law development requests. The proposal includes two changes to be implemented by year-end 2014: 1) increased reporting and disclosure of XXX/AXXX reinsurance transactions in the annual financial statement; and 2) additional guidance for review of XXX and AXXX captive reinsurance transactions in the Financial Analysis Handbook.

Superintendent Torti explained the XXX/AXXX Reinsurance Framework would not change the statutory reserve requirements, but rather would change what types of assets or securities are needed to back those reserve liabilities. He explained it as a two-tier approach, with the first tier effectively a status quo; i.e., no change from what is currently allowed to be used to back up the reserves. For the second tier of reserves, the Actuarial Method is aimed at reaching the required reserve level after principle-based reserving (PBR) is implemented, otherwise known as the economic or realistic reserve plus some acceptable level of risk margin.

Where the statutory reserve is currently too conservative or too high, the amount greater than that calculated via the Actuarial Method could be backed by additional security types, to be defined by state insurance department financial regulators. These are the reserves in connection with the reserve financing transactions. The framework also requires the ceding company to hold a risk based capital (RBC) cushion if the assuming captive is not subject to the uniform RBC requirement for non-captive insurers.

The Framework is effectively codified through the Credit for Reinsurance Model Law (#785) and creation of a new model regulation to establish requirements regarding the reinsurance of XXX/AXXX policies. Also, a modification to the Actuarial Opinion and Memorandum Regulation (#822) would require the opining actuary for the ceding insurer to issue a qualified opinion if the XXX/AXXX Reinsurance Framework is not followed. With this method of codification, it is expected to take some time for adoption by all of the states, so an interim actuarial guideline will be introduced in the Accounting Practices and Procedures Manual.

It is expected that, once PBR is implemented, the reserving redundancies that have precipitated the use of captives for reserving purposes will be addressed and, therefore, the incentive to create these types of captives will be eliminated. Industry representatives have stated that if regulators can remove the excessively conservative reserves to get to the “right” reserve level, then financing transactions would no longer exist.

The Principle-Based Reserving Implementation (EX) Task Force requested adoption of the following items: 1) its report, including adoption of the XXX/AXXX Reinsurance Framework in concept; 2) the related charges for other NAIC groups; and 3) the three related model law development requests.

Commissioner Goodwin referenced two letters he had written concerning the June 4, 2014, Rector report recommendations, noting that North Carolina has issues with the modified report which is the genesis of the framework presented. He noted he felt additional regulation was unwarranted until a specific problem is identified; the recommendations appear to give a “double hit” to the RBC of certain ceding insurers due to the capital charge on other assets supporting non-economic reserves. He also stated that the target dates do not provide time for discussion, development and implementation; there are no materiality thresholds; the approach is cumbersome in process and he has outstanding issues related to the use of VM-20, Requirements for Principle-Based Reserves for Life Products. He encouraged a delay in voting, as he would like to discuss aspects of what is considered a confidential work product and this could done be done in the open meeting setting.

Superintendent Torti explained that this topic has been discussed for three years. A study of dozens of transactions showed there were problems with these transactions and this was discussed in the Captives and Special Purpose Vehicles white paper developed through the Captive and Special Purpose Vehicle (SPV) Use (E) Subgroup. This framework would set uniform reserving requirements. It sets certain standards for the transactions but imposes no moratorium on them until PBR is fully implemented. He stated there would be no “double hit” on RBC. The assets supporting the transaction would be evaluated to determine if more RBC is needed. There may be additional cushion needed for the RBC, but not a double hit. The Capital Adequacy (E) Task Force will look at this issue.
Regarding the use of VM-20 as a standard, he noted a modified net premium reserve may be used in PBR calculations in the future, but not enough that the reserves would be so different than under PBR. Comments have been received from many parties and the majority of the industry have said they are agreeable to the framework; they are now waiting for some action to establish uniformity.

Commissioner McPeak noted that the process and the Rector report have been fully vetted in several forums generating much discussion and opportunity for comment.

Mr. Easton noted that New York feels the Feb. 17, 2014, Rector report was “light years ahead of where we ended up.” He said the report has been “watered down and neutered, with no teeth to it.” He expressed three objections: 1) there is no provision for active cooperation or participation among members in order to understand what each state is doing; 2) the previous Rector report had real “teeth” for non-compliance, because a company would be assumed to be in hazardous financial condition if it did not follow the framework. In the modified report, this assumption was replaced with an actuary who works for the company certifying that a transaction is acceptable; 3) the timing in the earlier report was quick, anticipating implementation this year. Now the recommendation is to “farm out” tasks to various committees, which will take a while to accomplish. In the meantime, captives continue unabated while the issues work their way up through the committee process, where action may or may not be taken. He said this is just the “veneer of taking action, and not real action, on the captives problem.”

Mr. Easton said there is a philosophical difference, in that Mr. Rector had tried to get buy-in and build consensus, adding that “we need to do what is right.” He said the industry may be going along with it because there is no “bite.” The NAIC should set and administer relevant standards and not adopt watered-down standards. There should be established objectives and parameters to which the industry should be held.

Superintendent Torti said he agrees with New York on many issues related to captive transactions and has been reluctant to continue accepting captive transactions, but said the framework is not “toothless.” He said Mr. Rector got buy-in, while still accomplishing the regulatory goal. He responded that, under the framework, active cooperation and coordination is not gone. In addition, it is thought that a determination of hazardous financial condition may not be a correct assumption based upon only one transaction. A qualified actuarial opinion would be issued if the framework is not followed, and the auditor must disclose this.

He added that the timeline is still tight with some of this work, but completion of the actuarial guideline is expected within the next few months, and it will be effective immediately. Superintendent Torti concluded by stating, “It may take a few years to change the related models, but the framework will be out there.”

Director Ramge asked for clarification regarding whether the framework described in Exhibit 1 is applicable to only new or also existing transactions. Superintendent Torti responded it is applicable only to new transactions, with no requirement to unwind existing transactions.

Commissioner McPeak made a motion, seconded by Commissioner Donelon, to adopt the report of the Principle-Based Reserving Implementation (EX) Task Force and its action items (Attachment Three). The motion passed, with North Carolina voting against the motion.

5. **Adopted Model Law Development Requests from the Health Insurance and Managed Care (B) Committee**

Commissioner Praeger reported that the Health Actuarial (B) Task Force is seeking approval of two model law development requests to revise the Health Insurance Reserves Model Regulation (#10). The Task Force seeks to revise Appendix A in Model #10 to reference a new table for the valuation of individual long-term disability liabilities. The Task Force’s Long-Term Care Actuarial (B) Working Group seeks to revise Section 4 - Contract Reserves and Appendix A to reference new standards for the valuation of long-term care insurance liabilities.

Commissioner Praeger made a motion, seconded by Commissioner Lindeen, to adopt the model law development requests to amend the Health Insurance Reserves Model Regulation (Model #10) for individual long-term disability liabilities and for the valuation of long-term care insurance liabilities (Attachment Four and Attachment Five). The motion passed.
6. Received a Report of Model Law Development Efforts

Commissioner Hamm presented a written report on the progress of ongoing model law development efforts (Attachment Six).

7. Received the Report of the NIPR Board of Directors

Commissioner Sevigny reported that the NIPR Board of Directors met Aug. 15 and welcomed NIPR’s new Executive Director Karen Stakem Hornig, a former deputy commissioner for the Maryland Insurance Administration.

Commissioner McPeak, chair of the Board’s Audit Committee, reported that the NIPR is currently exceeding budget, largely due to the growth in licensing transactions and investment returns. The Board approved the Form 990 (Return of Organization Exempt from Income Tax) for filing with the Internal Revenue Service (IRS) and to accept the Audit Committee’s report. The Board also adopted two resolutions authorizing the new executive director to take certain actions related to banking and investments.

The Board also approved a staff recommendation to continue to reduce customer credit card expenses, mainly by making electronic transfer options more attractive to NIPR customers. The Board also discussed the NIPR’s ongoing strategic planning efforts that will focus on ensuring the stability and security of the NIPR’s current products and services, while strengthening the customer support it provides to the states and the industry. The Board will meet in October to confirm the NIPR’s strategic direction.

8. Received the Report of the IIPRC

Commissioner Sevigny reported that the IIPRC held a joint meeting Aug. 15 of its Management Committee and the compacting states. Arizona was welcomed as the IIPRC’s newest member and 44th compacting state. Arkansas State Senator Jason Rapert (R-Conway) was added to the Legislative Committee, as he was appointed by the National Conference of State Legislatures to serve a two-year term.

The IIPRC adopted a recommendation from the Regulatory Counsel Committee regarding the IIPRC’s response to Florida’s 2013 compact legislation, which became effective July 1. Florida’s legislation added several terms and conditions to the compact legislation and the IIPRC was asked by the Florida Office of Insurance Regulation to provide a response to convey to the Florida Legislature. The IIPRC agreed that Florida’s legislation was not the same acceptance of the compact that 43 other states and Puerto Rico had enacted, due to the significant and substantive changes in Florida’s legislation. The IIPRC also adopted clarifying amendments to 30 life uniform standards as a result of its five-year review process.

Having no further business, the Executive (EX) Committee adjourned.

W:\National Meetings\2014\Summer\Cmte\Ex\08-Exmin.docx
The Executive (EX) Committee met July 8 and June 2, 2014. The meetings were held in regulator-to-regulator session pursuant to paragraph 4 and paragraph 6 of the NAIC Policy Statement on Open Meetings (i.e., internal matters of the NAIC and consultations with NAIC staff). During these meetings, the Committee took the following action:

1. Approved retaining a consultant regarding the association’s operating reserve policy.

2. Approved funding for retaining consulting actuaries to review current actuarial reporting and recommend a new format to address redundancies, costs, efficiency concerns and the need for electronic data capture.

3. Approved a Regulatory Treatment Analysis Service (RTAS) pricing proposal for the assignment of an NAIC designation to securities developed by Freddie Mac and Fannie Mae.

4. Approved the Governance Review (EX) Task Force recommendation to retain a consultant to perform an independent review of the governance of the NAIC and adopted the related scope of work.

5. Approved the funding and September launch of “Protecting the Future,” the NAIC’s education outreach campaign.

6. Approved using the same selection process used in 2010 and 2012 to select an insurance commissioner representative to the Financial Stability Oversight Council (FSOC).

7. Approved filing an amicus brief at the request of Commissioner Michael F. Consedine (PA) in the case City of Sterling Heights General Employee’s Retirement System et al. v. Prudential Financial, Inc. et al. addressing the confidentiality of state market-conduct examination materials.

8. Adopted the recommendation of the NAIC’s independent investment advisor to liquidate the NAIC’s investments in a certain investment fund and reinvest those funds in a bond fund.

9. Adopted the NAIC Audit Committee’s recommendation for the allocation of the 2014 Needs-Based Grant funding.

10. Approved the allocation of existing NAIC resources to the Examination Tracking System Continuum Action Support Initiative, with the goal of improving the efficiency, consistency and coordination related to the market examination process by providing a streamlined platform promoting state collaboration and information-sharing.
REPORT OF EXECUTIVE (EX) COMMITTEE TASK FORCES


Government Relations (EX) Leadership Council—The Government Relations (EX) Leadership Council did not meet at the Summer National Meeting. The Council meets weekly to discuss federal legislative and regulatory developments impacting insurance regulation.

Governance Review (EX) Task Force—The Governance Review (EX) Task Force held an open call on June 27, 2014 and unanimously approved a recommendation to Executive (EX) Committee to retain a consultant and adopted a proposed scope of work. The Task Force is scheduled to meet on Aug. 18, 2014 and plans to adopt its minutes and receive an update on Executive (EX) Committee actions related to its recommendations.

International Insurance Relations (EX) Leadership Group—The International Insurance Relations (EX) Leadership Group did not meet at the Summer National Meeting. The Leadership Group meets weekly to discuss and keep members informed of international insurance relations activities.

Producer Licensing (EX) Task Force—The Producer Licensing (EX) Task Force met Aug. 1, 2014, and adopted Course Guidelines for Classroom Webinar/Webcast Delivery. The guidelines apply to producer licensing continuing education courses conducted through Webinars and provide guidance on how to ensure attendees in these Webinars fully participate in the Webinars and earn the appropriate continuing education credits. The Producer Licensing (EX) Task Force is scheduled to meet after the Executive (EX) Committee. During this meeting the Task Force plans to: adopt its Aug. 1, 2014 minutes, adopt the Producer Licensing (EX) Working Group report, adopt a recommendation that Washington and Texas be certified as reciprocal for purposes of Gramm-Leach-Bliley producer licensing reciprocity in accordance with the NAIC reciprocity standard, adopt a recommendation that states require a variable line of authority license for producers selling Contingent Deferred Annuities, hear an oral report from NIPR Board of Directors, discuss proposed 2015 charges and timeline for adoption, and hear an oral report on federal producer licensing activities.

Speed to Market (EX) Task Force—The Speed to Market (EX) Task Force is scheduled to meet after the Executive (EX) Committee. During the Aug. 18, 2014 meeting, the Task Force plans to consider adoption of its interim conference call minutes, the Commercial Lines (EX) Working Group and Operational Efficiencies (EX) Working Group reports and a third-party integration proposal. The Task Force will receive updates on general SERFF activity as well as the public access implementation initiative (SERFF Filing Access) and hear reports from the SERFF Advisory Board and the IIPRC. In addition, the Task Force will discuss a request to expand SERFF Filing Access functionality to include references to redacted information/data and plans to discuss state product filing retention schedules.
Report to Executive (EX) Committee


The Executive (EX) Committee is asked to adopt this Task Force report, including adoption of the XXX/AXXX Reinsurance Framework in concept (Exhibit 1), the charges for other NAIC groups (Exhibit 2) and three model law development requests (Exhibit 3).

XXX/AXXX Reinsurance Framework

- The XXX/AXXX Reinsurance Framework (Framework) seeks to address concerns regarding reserve financing transactions and to do so without encouraging them to move off-shore. The changes would be prospective and apply only to the XXX term life insurance business and AXXX universal life with secondary guarantees (ULSG) business. The Framework does not change the statutory reserve requirements applicable to a ceding insurer; rather, the Framework addresses the types of security that can back those reserves in connection with reserve financing transactions.

- The Framework would require the direct ceding company for reinsurance financing transactions, in most instances, to:
  - Collateralize a portion of the total statutory reserve approximately equal to the principle-based reserving (PBR) level with hard assets such as cash and securities listed with the Securities Valuation Office (SVO).
  - Collateralize the remainder of the statutory reserve with other assets and forms of security identified as acceptable by regulators.
  - Disclose the assets and securities used to support the reserves.
  - Hold an RBC cushion as required for other business.

- The Framework would be codified through the Credit for Reinsurance Model Law (#785) with the creation of a new model regulation to establish requirements regarding the reinsurance of XXX/AXXX policies. A modification to the Actuarial Opinion and Memorandum Regulation (#822) will require the opining actuary for the ceding insurer to issue a qualified opinion if the Framework is not followed. Prior to the regulation being modified and adopted by the states, an actuarial guideline would be drafted and adopted. As another enforcement tool, a note to the annual audited financial statement would require the ceding insurer, and its independent auditor, to indicate whether the Framework is being followed.

- Expectations are that once PBR is implemented, the perceived reserving redundancies that have precipitated the use of captives for reserving purposes will be addressed and, therefore, the incentive to create these types of captives will be almost, if not fully, eliminated. Industry representatives have stated that if regulators can remove the excessively conservative reserves to get to the “right” reserve level, then financing transactions would no longer exist.

The entire Rector report is available at this link: [http://naic.org/documents/committees_ex_pbr_implementation_tf_140604_rector_report.pdf](http://naic.org/documents/committees_ex_pbr_implementation_tf_140604_rector_report.pdf)
1. The Framework applies only to reinsurance involving certain types of XXX and AXXX policies (those required to be valued under Sections 6 or 7 of the NAIC Valuation of Life Insurance Policies Model Regulation).

2. The Framework does not materially change the ability of insurers to obtain credit for reinsurance ceded to professional “certified” reinsurers or to obtain credit for reinsurance ceded to “licensed” or “accredited” reinsurers that follow statutory accounting and RBC rules. (See “Exemptions” below).

3. As a practical matter, therefore, the new Framework requirements apply to reinsurance ceded to captive insurers, special purpose vehicles, reinsurers that are not eligible to become “certified” reinsurers, reinsurers that deviate from statutory accounting and/or RBC rules, etc. In those situations, the ceding insurer may receive credit for reinsurance if, but only if:

   - The ceding insurer establishes gross reserves, in full, using applicable reserving guidance (currently, the “formulaic” approach).

   - The ceding insurer satisfies the Primary Security Requirement (i.e., the ceding insurer receives as collateral Primary Security in at least the amount determined pursuant to the Actuarial Method).

   - Portions of the statutory reserve exceeding the Primary Security Requirement may be collateralized by Other Security.

   - At least one party to the financing transaction holds an appropriate RBC “cushion”.

   - The reinsurance arrangement is approved by the ceding insurer’s domestic regulator.

4. The Framework also includes provisions to police and enforce the new requirements, and to determine whether any “exemptions” relied upon are warranted, including:

   - An Actuarial Guideline adopted pursuant to the Actuarial Opinion Memorandum Regulation (AOMR) as an interim step, and subsequent amendment to the AOMR or other regulation, to require the opining actuary for the ceding insurer to issue a qualified opinion if the Framework is not followed (absent an exemption).

   - A Note to the annual audited statement requiring the ceding insurer, and its independent auditor, to indicate whether the Framework is being followed (absent an exemption).

***********
The following is a summary of each of the terms in bold above:

1. **Exemptions.** Other than certain limited disclosure provisions, the new requirements generally do not apply to reinsurance ceded to an assuming reinsurer meeting the definition of Section 2.A. (authorized insurers), 2.B. (accredited insurers), or 2.C (insurers domiciled in another state) of the Credit for Reinsurance Model Law, as revised pursuant to our modified recommendation, or to reinsurance ceded pursuant to Sections 2.D (reinsurers maintaining trust funds) or 2.E (certified reinsurers) of the Model Law.

2. **Primary Security Requirement.** The ceding insurer would need to receive as collateral (on a funds withheld, trust or modified co-insurance basis) Primary Security in at least the amount determined pursuant to the Actuarial Method.

3. **Actuarial Method.** We recommend that the Actuarial Method consist of VM-20¹, modified to incorporate changes to mortality tables as developed by the American Academy of Actuaries and any other modifications suggested by LATF. *An open question is whether to alter or eliminate the "net premium reserve" component.*

4. **Primary Security.** We recommend that the types of assets listed in the Credit for Reinsurance Model Law Sections 3.A. (cash) and 3.B. (SVO-listed securities meeting certain characteristics) be allowed as Primary Security. *An open question is to what extent (if any) clean, irrevocable, unconditional "evergreen" letters of credit should be allowed as Primary Security.*

5. **Other Security.** We recommend that, so long as the Primary Security Requirement is satisfied, the ceding insurer may receive as collateral for the remainder of the statutory reserve any other security as to which the NAIC has developed an RBC “asset charge.” (We have recommended that the Capital Adequacy Task Force determine RBC “asset charges” for anticipated categories of Other Security and an appropriate “catch-all” charge to apply to assets that are not specifically listed.)

6. **RBC "cushion".** This item is discussed further in our modified recommendations and in our February Report. We recommend that the details be worked out by the Capital Adequacy Task Force.

7. **AOMR.** This item is discussed in our modified recommendations. We recommend that the details be worked out by LATF.

8. **Note.** This item is discussed in our modified recommendations and in the February Report. We recommend that the details be worked out by the Statutory Accounting Principles Working Group.

---

¹ NAIC Valuation Manual, VM-20, Requirements for Principle-Based Reserves for Life Products.
Life Actuarial (A) Task Force

- Develop the actuarial method for the Principle-Based Reserving Implementation (EX) Task Force’s review and consideration in adopting items such as the XXX/AXXX Reinsurance Model Regulation and possible changes to the *Actuarial Opinion and Memorandum Regulation* (#822). The actuarial method should consist of the *Valuation Manual*, VM-20, Requirements for Principle-Based Reserves for Life Products, modified to incorporate changes to mortality tables as developed by the American Academy of Actuaries and any other appropriate modifications determined by the Life Actuarial (A) Task Force, and should explicitly keep (in current or modified form) or eliminate the “net premium reserve” component of the current VM-20.—*Essential*

Blanks (E) Working Group

- Adopt an XXX/AXXX reinsurance supplement to be filed by insurers ceding XXX/AXXX business beginning with the 2014 data year. The Principle-Based Reserving Implementation (EX) Task Force’s XXX/AXXX Reinsurance Framework Exhibit 5 should be considered for this supplemental filing requirement, modified as appropriate by the Working Group.—*Essential*

Financial Analysis Handbook (E) Working Group

- Develop for year-end 2014 a new section for the *Financial Analysis Handbook* that specifies procedures for domestic/lead/captive states’ review of XXX/AXXX reinsurance transactions with captives/special purpose vehicles to be performed initially and on an ongoing basis, consistent with recommendations from the Financial Analysis (E) Working Group. These procedures should be modified in the future as the detailed proposals from other work streams for the XXX/AXXX Reinsurance Framework are adopted by the NAIC.—*Essential*
Exhibit 2 (Cont’d.)

XXX/AXXX Reinsurance Framework Charges

Life Actuarial (A) Task Force

- Develop an actuarial guideline to provide interim guidance for the Actuarial Opinion and Memorandum Regulation (#822) as it relates to XXX/AXXX reinsurance transactions. The actuarial guideline should specify that, in order to comply with Model #822, the opining actuary must issue a qualified opinion as to the ceding insurer’s reserves if the ceding insurer or any insurer in its holding company system has engaged in a XXX/AXXX reserve financing transaction that does not adhere to the actuarial method and primary security forms adopted by the NAIC. The Principle-Based Reserving Implementation (EX) Task Force’s XXX/AXXX Reinsurance Framework Exhibit 3 should be considered for this actuarial guideline, modified as appropriate by the Task Force.—Essential

- Request permission from the Executive (EX) Committee to amend Model #822 and draft those amendments to specify that, in order to comply with Model #822, the opining actuary must issue a qualified opinion as to the ceding insurer’s reserves if the ceding insurer or any insurer in its holding company system has engaged in a reserve financing transaction that does not adhere to the XXX/AXXX Reinsurance Model Regulation and other aspects of the XXX/AXXX Reinsurance Framework, as adopted by the Task Force.—Essential

Capital Adequacy (E) Task Force

- Develop an appropriate “RBC cushion” for an insurer ceding XXX/AXXX policies when the assuming reinsurer does not file an RBC report using the NAIC RBC formula and instructions.—Essential

- Develop appropriate asset charges for the forms of “other security” used by insurers under the XXX/AXXX Reinsurance Model Regulation. These charges should then be considered for incorporation into the RBC cushion developed in accordance with the previous charge.—Essential

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

Reinsurance (E) Task Force

- Request permission from the Executive (EX) Committee to create a new model regulation to establish requirements regarding the reinsurance of XXX/AXXX policies. The Principle-Based Reserving Implementation (EX) Task Force’s XXX/AXXX Reinsurance Framework Exhibit 4 should be considered for this model regulation, modified as deemed appropriate by the Task Force.—Essential

- Request permission from the Executive (EX) Committee to amend the Credit for Reinsurance Model Law (#785) and draft the amendments to reference the new model regulation drafted in accordance with the previous charge.—Essential

Statutory Accounting Principles (E) Working Group

- Develop the proposed definition for “primary security” for use in the Principle-Based Reserving Implementation (EX) Task Force’s future consideration of a proposed XXX/AXXX Reinsurance Model Regulation.—Essential

- Develop a note to the annual audited financial statement regarding compliance with the XXX/AXXX Reinsurance Model Regulation.—Essential
Exhibit 2 (Cont’d.)

XXX/AXXX Reinsurance Framework Charges

Financial Condition (E) Committee

- Evaluate the risk-transfer rules applicable to XXX/AXXX reserve financing transactions to make sure they appropriately apply to situations such as those where parental/affiliate guarantees are used, resulting in the risk effectively being kept within the holding company system even though the reinsurance arrangement involves an unrelated third party.—Essential

Financial Regulation Standards and Accreditation (F) Committee

- As the various work products are adopted by the Principle-Based Reserving Implementation (EX) Task Force, the Executive (EX) Committee and Plenary, consider them for inclusion in the Part A and Part B standards of the NAIC Financial Regulation Standards and Accreditation Program.—Essential
XXX/AXXX Reinsurance Framework – Requests for Model Law Development

The Executive (EX) Committee is asked to approve model law development requests as detailed below. Once the various technical groups complete their draft models, hopefully before the end of 2014, the Principle-Based Reserving Implementation (EX) Task Force will combine them with other regulatory work as a final proposed XXX/AXXX Reinsurance Framework to be considered for adoption.

1. **New Model Regulation – XXX/AXXX Reinsurance**

The Reinsurance (E) Task Force is charged with establishing the requirements regarding the reinsurance of XXX/AXXX policies, using the Principle-Based Reserving Implementation (EX) Task Force’s XXX/AXXX Reinsurance Framework Exhibit 4 as the starting point.

2. **Amendments to the Credit for Reinsurance Model Law (#785)**

The Reinsurance (E) Task Force is charged with drafting amendments to Model #785 to reference the XXX/AXXX Reinsurance Model Regulation.

3. **Amendment to the Actuarial Opinion and Memorandum Regulation (#822)**

The Life Actuarial (A) Task Force is charged with drafting amendments to Model #822 to specify that, in order to comply with Model #822, the opining actuary must issue a qualified opinion as to the ceding insurer’s reserves if the ceding insurer or any insurer in its holding company system has engaged in a reserve financing transaction that does not adhere to the XXX/AXXX Reinsurance Model Regulation and other aspects of the XXX/AXXX Reinsurance Framework.
REQUEST FOR MODEL LAW DEVELOPMENT

This form is intended to gather information to support the development of a new model law or amendment to an existing model law. Prior to development of a new or amended model law, approval of the respective Parent Committee and the NAIC’s Executive Committee is required. The NAIC’s Executive Committee will consider whether the request fits the criteria for model law development. Please complete all questions and provide as much detail as necessary to help in this determination.

Please check whether this is: □ New Model Law or □ Amendment to Existing Model

1. Name of group to be responsible for drafting the model:
   Health Actuarial (B) Task Force

2. NAIC staff support contact information:
   Eric King  
   eking@naic.org  
   816-783-8234

3. Please provide a description and proposed title of the new model law. If an existing law, please provide the title, attach a current version to this form and reference the section(s) proposed to be amended.
   Health Insurance Reserves Model Regulation (#010). Appendix A needs to be revised to reference a new table for the valuation of Individual Long-Term Disability liabilities.

4. Does the model law meet the Model Law Criteria? □ Yes or □ No (Check one)
   (If answering no to any of these questions, please reevaluate charge and proceed accordingly to address issues).
   a. Does the subject of the model law necessitate a national standard and require uniformity amongst all states? □ Yes or □ No (Check one)
      If yes, please explain why
      Current valuation standards are uniform and national.
   b. Does Committee believe NAIC members should devote significant regulator and Association resources to educate, communicate and support this model law? □ Yes or □ No (Check one)

5. What is the likelihood that your Committee will be able to draft and adopt the model law within one year from the date of Executive Committee approval?
   □ 1  □ 2  □ 3  □ 4  □ 5 (Check one)
   High Likelihood  Low Likelihood
   Explanation, if necessary:
6. What is the likelihood that a minimum two-thirds majority of NAIC members would ultimately vote to adopt the proposed model law?

☐ 1  ☐ 2  ☐ 3  ☐ 4  ☐ 5  (Check one)

High Likelihood  Low Likelihood

Explanation, if necessary:

7. What is the likelihood that state legislature will adopt the model law in a uniform manner within three years of adoption by the NAIC?

☐ 1  ☐ 2  ☐ 3  ☐ 4  ☐ 5  (Check one)

High Likelihood  Low Likelihood

Explanation, if necessary:

8. Is this model law referenced in the Accreditation Standards? If so, does the standard require the model law to be adopted in a substantially similar manner?

No

9. Is this model law in response to or impacted by federal laws or regulations? If yes, please explain.

No
REQUEST FOR MODEL LAW DEVELOPMENT

This form is intended to gather information to support the development of a new model law or amendment to an existing model law. Prior to development of a new or amended model law, approval of the respective Parent Committee and the NAIC’s Executive Committee is required. The NAIC’s Executive Committee will consider whether the request fits the criteria for model law development. Please complete all questions and provide as much detail as necessary to help in this determination.

Please check whether this is:  □ New Model Law or  ☑ Amendment to Existing Model

1. Name of group to be responsible for drafting the model:

   Long-Term Care Actuarial (B) Working Group

2. NAIC staff support contact information:

   Eric King  
   eking@naic.org  
   816-783-8234

3. Please provide a description and proposed title of the new model law. If an existing law, please provide the title, attach a current version to this form and reference the section(s) proposed to be amended.

   Health Insurance Reserves Model Regulation (#010). Section 4. and Appendix A need to be revised to reference new standards for the valuation of long-term care insurance liabilities.

4. Does the model law meet the Model Law Criteria?  ☑ Yes or  □ No (Check one)

   (If answering no to any of these questions, please reevaluate charge and proceed accordingly to address issues).

   a. Does the subject of the model law necessitate a national standard and require uniformity amongst all states?  ☑ Yes or  □ No (Check one)

      If yes, please explain why

      Current valuation standards are uniform and national.

   b. Does Committee believe NAIC members should devote significant regulator and Association resources to educate, communicate and support this model law?

      ☑ Yes or  □ No (Check one)

5. What is the likelihood that your Committee will be able to draft and adopt the model law within one year from the date of Executive Committee approval?

   ☐ 1 □ 2 ☑ 3 □ 4 □ 5 (Check one)

   High Likelihood  ☑ Low Likelihood

   Explanation, if necessary:
6. What is the likelihood that a minimum two-thirds majority of NAIC members would ultimately vote to adopt the proposed model law?

☒ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 (Check one)

High Likelihood Low Likelihood

Explanation, if necessary:

7. What is the likelihood that state legislature will adopt the model law in a uniform manner within three years of adoption by the NAIC?

☒ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 (Check one)

High Likelihood Low Likelihood

Explanation, if necessary:

8. Is this model law referenced in the Accreditation Standards? If so, does the standard require the model law to be adopted in a substantially similar manner?

No

9. Is this model law in response to or impacted by federal laws or regulations? If yes, please explain.

No
Status of Model Law Development Requests
Adopted by the Executive (EX) Committee

Amendments to the Annuity Disclosure Model Regulation (#245)—At the 2014 Spring National Meeting, the Contingent Deferred Annuity (A) Working Group exposed draft revisions for a public comment period ending April 21. The Working Group met via conference call Aug. 5 to discuss the comments that had been received. At the 2014 Summer National Meeting, the Working Group discussed the comments further and decided to extend the comment period until Sept. 5.

Amendments to the Suitability in Annuity Transactions Model Regulation (#275)—At the 2014 Spring National Meeting, the Contingent Deferred Annuity (A) Working Group exposed draft revisions for a public comment period ending April 21. The Working Group met via conference call Aug. 5 to discuss the comments that had been received. At the 2014 Summer National Meeting, the Working Group discussed the comments further and decided to extend the comment period until Sept. 5.

Amendments to the Advertisements of Life Insurance and Annuities Model Regulation (#570)—At the 2014 Spring National Meeting, the Contingent Deferred Annuity (A) Working Group exposed draft revisions for a public comment period ending April 21. The Working Group met via conference call Aug. 5 to discuss the comments that had been received. At the 2014 Summer National Meeting the Working Group discussed the comments further and decided to extend the comment period until Sept. 5.

Amendments to the Life Insurance and Annuities Replacement Model Regulation (#613)—At the 2014 Spring National Meeting, the Contingent Deferred Annuity (A) Working Group exposed draft revisions for a public comment period ending April 21. The Working Group met via conference call Aug. 5 to discuss the comments that had been received. At the 2014 Summer National Meeting, the Working Group discussed the comments further and decided to extend the comment period until Sept. 5.

Amendments to the Insurance Holding Company System Regulatory Act (#440) and Amendments to the Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450)—This Model Law Development Request was approved at the 2014 Spring National Meeting and, shortly after that meeting, the Group Solvency Issues (E) Working Group and the Receivership and Insolvency (E) Task Force were given direction on specific issues that should be considered. Since that date, the Group Solvency Issues (E) Working Group met via conference call four times to discuss potential changes to Model #440 and Model #441, but significant further discussion is expected, including discussion at the 2014 Summer National Meeting on the topic of authority to act as the group-wide supervisor. During the same time period, the Receivership and Insolvency (E) Task Force met via conference call two times and they are expected to provide a recommendation to the Financial Condition (E) Committee at the 2014 Summer National Meeting relative to the charge they were given.

Individual Market Health Insurance Coverage Model Regulation—At the 2014 Spring National Meeting, the Regulatory Framework (B) Task Force reviewed and discussed comments received on a revised draft of the proposed model regulation. The Task Force requested comments on this draft by May 14. The Task Force plans to discuss a revised draft based on the comments received and final regulations promulgated by the federal agencies charged with implementing the federal Affordable Care Act (ACA). It is anticipated that following the review of the revised draft, the Task Force will request comments on the draft and NAIC staff will prepare a revised draft based on the comments received. The Task Force will most likely discuss, and possibly adopt, this revised draft during a conference call prior to the 2014 Fall National Meeting.

Small Group Market Health Insurance Coverage Model Regulation—At the 2014 Spring National Meeting, the Regulatory Framework (B) Task Force reviewed and discussed comments received on a revised draft of the proposed model regulation. The Task Force requested comments on this draft by May 14. The Task Force plans to discuss a revised draft based on the comments received and final regulations promulgated by the federal agencies charged with implementing the federal Affordable Care Act (ACA). It is anticipated that following the review of the revised draft, the Task Force will request comments on the draft and NAIC staff will prepare a revised draft based on the comments received. The Task Force will most likely discuss, and possibly adopt, this revised draft during a conference call prior to the 2014 Fall National Meeting.
Amendments to the Long-Term Care Insurance Model Act (#640) and the Long-Term Care Insurance Model Regulation (#641)—The Health Insurance and Managed Care (B) Committee adopted improvements to the rate stability standards contained in Model #641 during its June 10, 2014, conference call. These revisions will be considered by the Executive (EX) Committee and Plenary Aug. 19 during the Summer National Meeting. No revisions are needed to Model #640 at this time.

Amendments to the Creditor-Placed Insurance Model Act (#375)—The Executive (EX) Committee approved the Model Law Development Request to amend Model #375 at the 2013 Spring National Meeting. Initial work revising the model is under way by the Property and Casualty Insurance (C) Committee.

Amendments to the Property and Casualty Actuarial Opinion Model Law (#745)—The Executive (EX) Committee approved the Model Law Development Request to amend Model #745 at the 2012 Fall National Meeting. On Aug. 18, 2014, the Casualty Actuarial and Statistical (C) Task Force requested to withdraw the Model Law Development Request regarding Model #745 without making any modifications at this time.

Amendments to the Actuarial Opinion and Memorandum Regulation (#822)—The Blanks (E) Working Group adopted the revisions to the life/health and fraternal actuarial opinion instructions recommended by the Life Actuarial (A) Task Force.

Amendments to the Mortgage Guaranty Insurance Model Act (#630)—The Executive (EX) Committee approved the Model Law Development Request to amend Model #630 on July 26, 2013. Subsequent to this date, the Mortgage Guaranty Insurance (E) Working Group developed substantial changes to the model and exposed them for comment in November 2013. The Working Group subsequently received comments and has recently developed a significantly revised model in an attempt to address the comments. Substantial discussion on the recently developed changes will occur during the 2014 Summer National Meeting.

Amendments to the Synthetic Guaranteed Investment Contracts Model Regulation (#695)—The Model Law Development Request focuses on the need to consider amendments to Model #695 that modify the valuation methodology for in-force synthetic guaranteed investment contracts by setting the discount rate to be the lesser of the spot rate supported by the segregated portfolio and a 50/50 blend of the U.S. Treasury rate and a corporate bond index. Other amendments to Model #695 are being considered, including raising the low RBC requirement currently in the model for companies with such business from a company action RBC level to higher level. The Annuity Reserve Work Group (ARWG) of the American Academy of Actuaries will mark-up Model #695 to incorporate the proposed revision. Additionally, the ARWG is collecting industry experience on pooled funds and has agreed to provide the Life Actuarial (A) Task Force with a demonstration of the impact of the proposed changes using illustrative assumptions.

Amendments to the Annual Financial Reporting Model Regulation (#205)—The Executive (EX) Committee approved the Model Law Development Request to amend Model #205 on July 26, 2013. Subsequent to this date, the Corporate Governance (E) Working Group developed proposed revisions to incorporate a requirement for large insurers to maintain an effective internal audit function into Model #205. Following two public comment periods, the proposed revisions were adopted by the Corporate Governance (E) Working Group and the Financial Condition (E) Committee during the 2014 Spring National Meeting. The proposed revisions will be considered for adoption by the Executive (EX) Committee and Plenary during the 2014 Summer National Meeting.

Corporate Governance Annual Disclosure Model Act (and Regulation)—The Executive (EX) Committee approved the Model Law Development Request to draft this new model on July 26, 2013. The Corporate Governance (E) Working Group is developing this model to facilitate the annual collection of confidential information on insurers’ corporate governance practices. Drafts have been released for multiple comment periods in 2013 and 2014. The Working Group has received comments and discussed the drafts during the 2014 Spring National Meeting and on multiple conference calls. During the 2014 Summer National Meeting, it is intended that each model will be considered for adoption by the Working Group and, if adopted, by the Financial Condition (E) Committee, as well.
The Financial Stability (EX) Task Force met in Louisville, KY, Aug. 16, 2014. The following Task Force members participated: Kenneth E. Kobylowski, Chair (NJ); Dave Jones (CA); Thomas B. Leonardi, (CT); Chester A. McPherson (DC); Kevin M. McCarty (FL); Ralph T. Hudgens (GA); James J. Donelon (LA); Joseph G. Murphy (MA); John M. Huff (MO); Michael F. Considine (PA); Joseph Torti III (RI); and Julia Rathgeber (TX). Also participating was: Robert Easton (NY).

1. **Heard Opening Remarks**

Commissioner Kobylowski noted that there are several fast moving issues and developments on both the national and international front that are of importance to the Task Force, including global systemically important insurers (G-SIIs) designations, the Non-Bank Non-Insurance (NBNI) firm designations, the work on group capital, and other aspects of group and direct supervision, as well as work on resolution and liquidity. Other NAIC committees and task forces are dealing with some of these issues in detail.

Commissioner Kobylowski said that these matters will require the Task Force to work together with its federal colleagues. He also welcomed former Connecticut Insurance Commissioner Tom Sullivan, who has taken on a new role at the Federal Reserve Board in Washington, DC.

2. **Heard an Update On and Discussed the Implications of the IAIS Financial Stability-Related Initiatives**

Commissioner Kobylowski provided a background and update on the International Association of Insurance Supervisors (IAIS) developments. He said the IAIS Financial Stability Committee (FSC) and Technical Committee (TC) are the two committees primarily responsible for carrying out much of the work relevant for the discussion. Commissioner Kobylowski noted that he continues to serve as a member of the FSC, and Elise Liebers (NAIC) is now serving as acting chair. Commissioner Kobylowski said that Mr. Sullivan will be representing the Federal Reserve on the FSC, and the other U.S. representative is Director Michael McRaith (Federal Insurance Office—FIO). State regulators are also represented on the TC, where Commissioner Julie Mix McPeak (TN) and Commissioner Kevin M. McCarty (FL) serve as members.

Commissioner Kobylowski noted that while the FSC discussion focuses on G-SIIs, it is likely that many of the principles that are currently being considered will filter down to ComFrame and possibly the IAIS Insurance Core Principles (ICPs). The implications of these standards may thus extend beyond just the subset of insurers that are identified as G-SIIs and possibly even beyond internationally active insurance groups (IAIGs), and they may have importance for how insurers are regulated.

Commissioner Kobylowski added that the Financial Stability Board (FSB), in consultation with the IAIS, identified nine insurers as G-SIIs last year, of which three are U.S. insurers. Currently, the IAIS is in the midst of doing a second assessment of insurers using 2013 data, in what is anticipated to be an annual exercise. This time around, it is also considering the systemic importance of reinsurers. It is expected that the FSB and national authorities will make a determination on the G-SII status of insurers and reinsurers in November.

Commissioner Kobylowski also reported on the FSB’s workstream on other shadow banking entities, known as Workstream 3 (WS3). This subcommittee, in which Steve Junior of the Wisconsin Office of the Commissioner of Insurance represents the IAIS, addresses the FSB’s NBNI designation work. It covers all financial institutions outside banking and insurance such as broker dealers, finance companies, hedge funds and asset managers. It also develops policy recommendations to strengthen regulation of shadow banking entities other than money market funds. This group issued a document for consultation on its Assessment Methodologies for Identifying NBNI GSIFIs for which consultation ended on April 7. Comments were extensive, and the challenge for the NBNI assessment methodology continues to be the diversity of financial entities and activities covered by the methodology. Since the Spring National Meeting, WS3 has had meetings in April and July, as well as three conference calls.

Commissioner Kobylowski provided an update on the ongoing IAIS work on the policy measures, of which development of a global group-wide capital standard is the priority. Development of capital standards is proceeding along two separate but
related fronts: 1) for G-SIIs, which is the basic capital Requirements (BCR); and 2) for IAIGs, referred to as the insurance capital standard (ICS).

Commissioner Kobylowski provided a review of developments related to the BCR, which is intended to serve as a comparable base capital upon which to add higher loss absorbency (HLA) capital requirements for G-SIIs. Several NAIC staff members are involved in this work.

Commissioner Kobylowski noted that the IAIS released its second consultation document on BCR on July 9, with the comment period ending on Aug. 8. In the second consultation document, the IAIS sought input on a specific proposal to facilitate the final design and calibration of the BCR before it is delivered to the G20 Summit in November. The IAIS is proposing that BCR-required capital will be calculated on a consolidated group-wide basis. To help craft the BCR, the IAIS received data in a field testing quantitative study from 33 volunteers from various jurisdictions, and refinements of the data are ongoing. The proposal is for the BCR to be constructed in three main components: 1) an insurance component; 2) a banking component; and 3) a component for other non-insurance, non-banking activities not currently subject to regulatory capital requirements. Each component is further broken down into several subcomponents that relate to both the assets and liabilities of the firm. These subcomponents or segmentation of risk define the general framework. For each subcomponent, the capital formula calls for an exposure measure multiplied by a risk factor. The segmentation selected for the BCR attempts to balance the objectives of avoiding unnecessary complexity in the BCR formula while remaining sufficiently granular to provide a robust and risk sensitive capital measure.

Commissioner Kobylowski added that extensive comments were received in respect to the second consultation document. For P&C companies, the main concerns are granularity of segmentation, as well as explicit diversification credit. For life companies, the main concerns are margins over current estimates and their treatment in available capital. Many firms also expressed concern with using a market-consistent balance sheet as the starting point for the BCR calculation. Almost all firms noted that there was not sufficient detail provided on the scalar factor and the interaction of the BCR with the HLA to provide comment on the overall calibration.

Commissioner Kobylowski noted that the data quality needs to be improved. The proposed BCR, with any modifications made as a result of the consultation process and further follow-up with companies on the data front, is expected to be approved by the IAIS and go to the FSB in the fall for its review. While the NAIC has advocated for further consultation, it is not known if time will permit additional formal consultation before delivery of the proposal, which the IAIS would like the G20 to endorse in November.

Commissioner Kobylowski said the BCR is intended to serve as the foundation for the HLA that will begin to apply to G-SIIs in 2019. The discussion on the HLA started last summer and is expected to ramp up this fall. The initial HLA consultation paper is expected to be released in December. A final HLA proposal is expected in the fall of 2015. The discussion so far has centered on the issue of whether HLA uplift will be based on the entire BCR or focused just on non-traditional, non-insurance activities measured in the BCR that are primary drivers of systemic risk. In addition, it is yet to be determined whether the IAIS will aim for an overall level for the BCR plus the HLA or will craft each component separately.

Commissioner Kobylowski ended his remarks on capital with an update on developments on the ICS, which the IAIS started developing earlier this year and which is expected to be included within ComFrame. On June 17, the IAIS held an observer hearing on the ICS in Quebec, and other opportunities to engage in discussions have been given to the industry volunteers, such as in the recent NAIC International Capital Standards Forum.

Commissioner Kobylowski expressed his concern with the short timeline for developing and testing the proposed ICS, with a target for initial development slated for year-end 2016 and, after further testing and refinement in 2017 and 2018, a final ICS proposal is targeted for year-end 2018. The IAIS is currently drafting its first public consultation document for the ICS that will provide more details, and this is also expected to be exposed in December.

Commissioner Kobylowski said the IAIS is also developing other policy measures for G-SIIs. He said one policy measure in particular relates to liquidity. The policy measures for G-SIIs that the IAIS released in July 2013 stated that group-wide supervisors should require G-SIIs to have adequate arrangements in place to manage liquidity risk for the whole group, and that G-SIIs should develop liquidity risk management plans. To that end, the FSC prepared principles-based Guidance on Liquidity Management and Planning to assist group-wide supervisors in the application of these liquidity policy measures to G-SIIs. This document was exposed to public consultation from June 26–Aug. 8.
3. **Heard an Update on the FSOC Process**

Director Huff noted that there are few public Financial Stability Oversight Council (FSOC) developments that he can report on since the last Task Force meeting at the Spring National Meeting. The FSOC continues its work on the non-bank designation process. Director Huff said that while the FSOC does not release the names of companies under consideration, we know from statements made by MetLife that it is in Stage 3 of the non-bank designations process.

Director Huff added that the FSOC hosted a public conference to discuss the asset management industry in May. That conference brought together representatives of the asset management industry, academics and representatives from the FSOC’s member agencies. Director Huff said that the FSOC’s work on asset management is worth following given that several insurers, particularly life insurers, are engaged in asset management either through their insurance operations or through asset manager affiliates.

Director Huff noted that the FSOC released its annual report in May, and he highlighted three issues relating to the insurance sector.

Director Huff said that the FSOC has identified captive reinsurance as an example of a practice that could be a potential emerging threat to the financial system of the U.S. While noting the progress that state insurance regulators are making to address the challenges surrounding the “regulatory arbitrage” of XXX/AXXX captive reinsurers, the FSOC raised concerns that the use of captive reinsurance can add complexity and reduce the transparency around the financial condition and the potential resolvability of certain insurance companies.

Director Huff added that FSOC continues to be concerned with the impact of the low interest rate environment on life insurance companies, and it recommended that state insurance regulators and the FIO continue to monitor and assess the risk resulting from a severe interest rate shock.

Director Huff said that another area identified in the annual report is the transfer of pension plan exposure to the insurance industry. While the Council noted such transfers can have benefits to pensioners and insurance companies, it also has the potential to expose insurance companies purchasing pension obligations to significant additional risk.

Director Huff noted that under the federal Dodd-Frank Wall Street Reform and Consumer Protection Act, the FSOC is required to annually evaluate and reconsider any non-bank designations. The FSOC has conducted annual reviews of GE Capital and AIG and, at the most recent meeting in July, decided not to rescind its designation of those two companies.

4. **Discussed Insurance Supervision and Collaboration with the Federal Reserve**

Mr. Sullivan began with a qualifier that his remarks are his personal views. He said that he wants to work collaboratively with state regulators and the FIO as a team, and he noted that key stakeholders have also underscored the importance for the agencies to collaborate to form a U.S. position on strengthening the U.S. regulatory regime and participation in standard setting. He said that the importance of the collective work demands that each organization be open to a true spirit of cooperation, and he requested that each organization look beyond a narrow prism of protecting one’s turf, while still respecting each organization’s codified authority. At the same time, he cautioned against a desire to expand or build on one’s relevance beyond those contained within one’s statutory mandate.

Mr. Sullivan summarized his responsibilities at the Federal Reserve: 1) lead and contribute to policy and supervision related to the regulation of insurance firms that are designated by the FSOC as systemically important and insurance firms that own or control a savings and loans holding company; 2) represent the Federal Reserve at the IAIS, and coordinate the Federal Reserve’s participation in related IAIS Committee work; 3) serve as a member of the LISCC, which is the Federal Reserve’s Large Institutions Supervisory Coordinating Committee; 4) serve as the main point of contact at the Federal Reserve for the NAIC, state insurance commissioners, the FIO and foreign insurance supervisory authorities; and 5) brief the chair, the board and other division directors inside the Federal Reserve.

Mr. Sullivan noted that the insurance firms that fall under the Federal Reserve as consolidated supervisor represent roughly one-third of the U.S. market on a written premiums basis. Building on the lessons learned from the recent 2008 financial crisis, keeping these financial institutions strong and resilient to adverse market developments through effective supervision should contribute to a more robust U.S. financial system and economy. The Federal Reserve supervisory approach tailored specifically to the business of insurance is under development. However, Mr. Sullivan pointed out that the Federal Reserve is
currently constrained by section 171 of the Dodd-Frank Act, known as the Collins Amendment. Thus, the Federal Reserve is obligated to impose counter-cyclical capital requirements developed under Basel III to non-bank financial institutions.

Mr. Sullivan said that the Federal Reserve’s regulatory emphasis is in two key areas: 1) enhancing the resiliency of the firm; and 2) reducing the impact of the firm’s failure. In terms of enhancing resiliency of the firm, the Federal Reserve focuses on capital and liquidity planning, corporate governance, recovery planning, and management of core lines of business. In terms of reducing the impact of the firm’s failure, the focus is on management of critical operations, resolution planning and macro-prudential supervisory approaches to address financial stability.

Commissioner Leonardi asked whether Mr. Sullivan could tell state regulators what can be done to improve coordination of both policyholder protection and financial stability with the Federal Reserve. Mr. Sullivan responded that the Federal Reserve would like to have a collaborative relationship with the NAIC to allow for coordination, while being mindful that the Federal Reserve will discharge its authority under its statute.

Commissioner Leonardi said that the work of the IAIS is going to affect all IAIGs, even those outside of the Federal Reserve statute. He asked whether Mr. Sullivan expects Federal Reserve input on those companies as well to avoid an uneven playing field between designated G-SIIs and non-designated insurers. Mr. Sullivan responded that any type of standard setting could affect companies that are not necessarily designated as G-SIIs. The Federal Reserve will staff and help develop a united U.S. position.

Director Huff said that most of the time, financial stability and consumer protection are aligned objectives, and he asked whether Mr. Sullivan could give his view on ensuring that policyholders’ protection is given a priority. Mr. Sullivan responded that financial stability and policyholder protection are not mutually exclusive, but there are opportunities for conflicts. The Federal Reserve has a charge to look at counterparties and other financial institutions, whereas the NAIC has a clear charge of consumer protection. He noted that any approach would have to be done quite carefully and deliberately.

Commissioner Consedine asked if the Federal Reserve will define policies such as group supervision and capital, or if other areas of the Federal Reserve will drive those policies and then tailor them to the insurance sector. Mr. Sullivan responded that the Federal Reserve has been vocal about tailoring policy and capital to be reflective of the insurance business model, but it is constrained by the Collins Amendment. Until Congress makes the necessary changes to the Collins Amendment, the Federal Reserve needs to be focused on discharging its authority consistent with the law.

Commissioner Kobylowski asked if international coordination of insurance regulation is needed. Mr. Sullivan responded that standard setting has to be international because there are many U.S. firms that desire to grow globally, and some are internationally active now. Imposing a myopic view of U.S. insurance regulation may harm a U.S. firm abroad that may be treated in an extra-territorial fashion. International standard setting is also important to prevent regulatory arbitrage. There are some voices that advocate saying “no” in terms of international participation, but instead the U.S. should be leading—not following—on this issue.

Commissioner McCarty asked if the IAIS were to use International Financial Reporting Standards (IFRS) in its capital development, would the Federal Reserve feel forced to use IFRS instead of U.S. GAAP for the non-bank FSOC-designated systemically important financial institutions (SIFIs). Mr. Sullivan responded that the Federal Reserve has relied on U.S. GAAP in its rulemaking, and the issue of using some alternative accounting would have to be carefully deliberated within the Federal Reserve. The Financial Accounting Standard Board (FASB) and the International Accounting Standards Board (IASB) were engaged in negotiation about valuation of insurance contracts, but they were unable to resolve this difficult issue.

Mr. Easton asked if the Federal Reserve will attend supervisory colleges for the SIFIs. Mr. Sullivan responded that not only should the Federal Reserve join the supervisory colleges, but also they should be at the head of the table in particular for FSOC-designated non-bank SIFIs along with the NAIC. Commissioner Leonardi and Commissioner Kobylowski agreed that the Federal Reserve should have a prominent role, but they indicated that the FIO should not be at supervisory colleges as they are not a supervisor, and it would violate existing confidentiality agreements.

Commissioner Kobylowski asked Mr. Sullivan what his view was on a group-wide capital standard. Mr. Sullivan responded that he had asked an audience of industry participants a month ago, if solo, legal entity supervision has any utility for an IAIG, and he received no answer. The Federal Reserve’s approach to supervision is comprehensive across the group, which can strengthen how firms are supervised. He noted that he shared many of his fellow commissioners’ views on where capital
fits into the broader supervisory mosaic. Having a capital standard that allows comparison of financial institutions across the globe strikes the right balance, but it is not the only supervisory tool available.

Commissioner Leonardi said supervisory colleges involving cooperation among various regulators will allow for a holistic review of a company. Mr. Sullivan responded that the NAIC has made great strides such as the Holding Company Act and the adoption of Own Risk and Solvency Assessment (ORSA). While the NAIC is directionally correct, the Federal Reserve has the advantage that it can issue regulations with the stroke of the pen in contrast to the NAIC, which needs to get approval from 56 members. The Federal Reserve can thus be more expedient in discharging its authority. The states are also more likely than the Federal Reserve to be challenged on discharging their authority because of the nature of how the different organizations are set up.

Doug Slape (NAIC) asked about any improvements the NAIC needs to think about to modernize. Mr. Sullivan responded that the NAIC is heading in the right direction. There is also careful deliberation at the NAIC, where there is plenty of opportunity for comment from a variety of stakeholders.

Having no further business, the Financial Stability (EX) Task Force adjourned.
<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance Review (EX) Task Force Aug. 18, 2014, Minutes</td>
<td>4-28</td>
</tr>
<tr>
<td>Governance Review (EX) Task Force June 27, 2014, Minutes (Attachment One)</td>
<td>4-31</td>
</tr>
<tr>
<td>Governance Review (EX) Task Force Draft Scope of Work, June 13, 2014 (Attachment One-A)</td>
<td>4-32</td>
</tr>
</tbody>
</table>
Governance Review (EX) Task Force
Louisville, Kentucky
August 18, 2014

The Governance Review (EX) Task Force met in Louisville, KY, Aug. 18, 2014. The following Task Force members participated: John M. Huff, Chair (MO); James J. Donelon, Vice Chair (LA); Thomas B. Leonardi (CT); Monica J. Lindeen (MT); Wayne Goodwin (NC); Scott J. Kipper (NV); Julie Mix McPeak (TN); Ted Nickel (WI); and Tom C. Hirsig (WY). Also participating were: Chester A. McPherson (DC); Andrew Boron (IL); John D. Doak (OK).

1. **Adopted its June 27 Minutes**

Commissioner Donelon made a motion, seconded by Commissioner Lindeen, to adopt the Task Force’s June 27 minutes (Attachment One). Commissioner Leonardi requested an amendment to the minutes to reflect his question as to whether the request for proposal (RFP) and selection process would be managed by the Task Force or a subcommittee. Commissioner Donelon and Commissioner Lindeen accepted the amendment as read, and the motion passed.

2. **Received an Update on Executive (EX) Committee Action Related to Task Force Recommendation**

Director Huff reported that the Executive (EX) Committee accepted the recommendation of the Task Force to retain a consultant to assist with the governance review and an RFP issued on July 21, with responses due on Aug. 15. The RFP indicates that the Executive (EX) Committee intends to make a selection by mid-September. A subcommittee of the Executive (EX) Committee will be performing the initial review of bidders and making a recommendation to the Executive (EX) Committee on a selection. Director Huff pointed out that any recommendations on the governance review would come first from the Task Force and then be submitted to Executive (EX) Committee and ultimately the entire membership.

Commissioner Donelon added that he believes it is important that the process be done right and expressed his appreciation to his colleagues in attendance for supporting the Task Force’s work. He also noted that under NAIC policy the names of bidders are kept confidential. Commissioner Donelon said it was important to have the Task Force meet in order to continue to hear from industry and consumer representatives on the work before the Task Force.

Commissioner Leonardi expressed his disappointment that the Executive (EX) Committee, without discussion with the Task Force or with the public, created a subcommittee to carry out the initial consultant selection. He stated that this lack of best practices and good governance is an example of the issues raised in his December letter. He feels that the Task Force should be making the selection and that it is inappropriate for the president to preordain current and former officers to participate in the consultant review because one of the issues to be reviewed is the role of the officers. Commissioner Leonardi added that four of the five people of the subcommittee voted against his motion in December and voted to call the question.

Director Boron stated that he echoed the comments of Commissioners Donelon and Leonardi and that the issues are transparency, accountability and governance. He stated that he believes in state-based regulation and the NAIC but that the vulnerabilities in both are being exploited at the federal and international levels. He believes that the NAIC members, as stewards of the organization, have a fiduciary and a moral obligation to defend it. The threat to consumers in the state of Illinois is that the NAIC would be irreparably harmed if even a few states left the organization. For that reason, all states must be treated equally and decisions made in a transparent fashion. He cited as examples of unequal treatment the initial cancellation of the Task Force meeting and the process of consultant selection. He demanded that the selection process be returned to the Task Force.

Director Huff responded that he initially cancelled the meeting because he did not want any perception of inappropriate or unfair discussions while the RFP process was ongoing. When concerns were raised about the cancellation, they were heard, and the meeting was put back on the schedule. The Executive (EX) Committee has named a subcommittee that will make a recommendation to the Executive (EX) Committee on a consultant. The consultant will then work with the Task Force as it proceeds with carrying out its charge.

Commissioner Donelon stated that he had asked for Director Huff to be added to the selection subcommittee and that he disagrees that membership should be limited to Executive (EX) Committee members.
Commissioner Doak stated that he agreed that the selection process should be returned to the Task Force. He also stated that all commissioners should be invited to any meetings between officers and NAIC staff as it is the membership who runs the NAIC. Commissioner Doak requested that he be added to the Task Force.

Commissioner Lindeen stated that all of the officers are looking forward to this process as they hold the organization in high regard and want it to be successful. Speaking as an officer in this organization and a former legislator who has led a caucus, Commissioner Lindeen recognized that it is difficult for everybody to be involved in every single meeting that occurs every single day. She committed to working on ways to improve NAIC processes and particularly to being better communicators.

Nathaniel S. Shapo (Katten Muchin Rosenman LLP) commented that the issue he wanted to bring forward is the exception in the NAIC Policy Statement on Open Meetings concerning consultations with NAIC staff. He feels that the exception is too broad as written and could allow for routinely closing meetings that are deliberative functions of a committee as a whole. Director Huff responded that the NAIC is now posting publicly all meetings and would be interested in hearing of instances where improvements could still be made. He stated that there is initial NAIC staff work done with chairs and vice chairs that he does not feel are part of a deliberative process. Mr. Shapo responded that his concern is with entire groups consulting with NAIC staff. He feels that meetings with NAIC staff to learn about a problem are part of the policy-making process that should be open. If the whole group is meeting, the presumption should be that the meeting is open.

Sonja Larkin-Thorne (NAIC Funded Consumer Representative) commented that as the NAIC is a critical entity in the fight to save state regulation, it is important that everyone try to get along and listen to each other. There are enough enemies outside of the organization trying to take over what the NAIC members do and do effectively.

James Schacht (The Schacht Group) commented that similar discussions about NAIC governance have taken place several times in the past, and what they all have in common is defining what the NAIC is. Until you know what you are, you cannot determine how you should behave.

Neil Allredge (National Association of Mutual Insurance Companies—NAMIC) stated that as one of the groups that has been the loudest in terms of criticism of the NAIC processes over the years, he thinks this process is the right one, and it will lead to a better NAIC. The NAIC is now part of the process of state regulation and has the burden to act with the same level of transparency as insurance departments do. NAMIC, as a supporter of state regulation, sees the NAIC as part of that regulation, and it has to be reformed to be maintained. Mr. Allredge also suggested that the Task Force should exercise oversight to determine if there are fewer regulator-to-regulator meetings occurring.

Commissioner Goodwin made a motion to request that the Executive (EX) Committee rescind its motion to create a new subcommittee and turn the process back to the Governance Review (EX) Task Force, which will then carry out the RFP and selection process to its completion. Commissioner Leonardi seconded.

Director Huff commented that he would be against the motion as it would slow the progress already being made. He does not feel it is necessary to second-guess his colleagues who are making that decision. The consultant is not going to drive the governance decisions; the NAIC members are.

Director Boron commented that Commissioner Hamm was quoted in an A.M. Best article in which he said that it is not about speed; it is about doing it right.

Commissioner McPeak asked who was on the subcommittee as she understood several members of it were also members of the Task Force. Ms. Noonan reported that the members of the subcommittee are: Louisiana, Montana, New Hampshire, Pennsylvania and Wisconsin.

Commissioner Leonardi stated he was in favor of the motion and agreed that doing the right thing is more important than speed. The RFP responses were just submitted, so no process is ongoing. The issue is not who is on the subcommittee; the issues are the process, best practices and good governance, and it is not a best practice for the president of the organization to surprise the Executive (EX) Committee with a motion that the Task Force has not discussed.

Acting Commissioner McPherson stated that although the selection process may not have been perfect or suitable for all the members, he questioned whether the concern is that the findings and the recommendations of the consultant selected will be influenced by the selection process. He stated he assumed that professionals would give objective recommendations. If
people believe that the ultimate outcomes will be a function of the process, then maybe it’s worthwhile reviewing the issue and returning the selection to Task Force.

Commissioner Donelon responded that Commissioner Consedine made the point that he thought the subcommittee was ill-advised because it was dominated by officers. This should be an organization governed from the bottom up, not the top down. For the selection committee, which will influence the consultant selected, to be selected by the incumbent officer core is to taint the process.

Director Boron commented that he disagrees with the provision in the existing NAIC bylaws that permits prior presidents of the NAIC to serve on the Executive (EX) Committee. To have a vendor who will evaluate that provision selected by people it is directly relevant to is not appropriate. There should be people that are not in senior roles providing their perspectives to the potential vendors.

Commissioner Goodwin stated that as a matter of best practices, the Executive (EX) Committee should allow the Task Force to handle the selection process.

Commissioner Doak agreed that it is necessary to stop and back up and that if he were in an officer’s capacity, he would recuse himself.

Commissioner Goodwin restated his motion. Director Huff inquired as to whether he intended the motion to include the Task Force designating a subgroup. Commissioner Goodwin responded that he disagreed that the Task Force is too large but that it should be up to the Task Force to determine how it would operate. Director Huff added that any recommendation would go back to the Executive (EX) Committee.

A roll call vote was taken on the main motion. Connecticut, Louisiana and North Carolina voted in support of the motion. Missouri, Montana, Nevada, Tennessee, Wisconsin and Wyoming voted in opposition to the motion. The motion failed.

Having no further business, the Government Review (EX) Task Force adjourned.
The Governance Review (EX) Task Force met via conference call, June 27, 2014. The following Task Force members participated: John M. Huff, Chair (MO); James J. Donelon, Vice Chair (LA); Thomas B. Leonardi (CT); Monica J. Lindeen (MT); Scott J. Kipper (NV); Julie Mix McPeak (TN); Ted Nickel (WI); and Tom C. Hirsig (WY). Also participating were: Kenneth E. Kobylowski (NJ); and John D. Doak (OK).

1. **Adopted a Recommendation to the Executive (EX) Committee on Engagement of a Consultant and Draft Scope of Work**

Director Huff reported that the only item on the agenda is the discussion of a recommendation to the Executive (EX) Committee concerning the engagement of a consultant to assist the NAIC with the governance review that the Task Force is charged with carrying out. He said the Task Force met in regulator-to-regulator session May 23 pursuant to paragraph 4 (internal or administrative matters of the NAIC or any NAIC member, including budget, personnel and contractual matters, and including consideration of internal administration of the NAIC, including, but not limited to, by the Internal Administration (EX1) Subcommittee or any subgroup appointed thereunder) of the NAIC Policy Statement on the Open Meetings. The purpose of this meeting was to consult with NAIC staff on the NAIC process for the retention of consultants and the draft Scope of Work (Attachment One-A) that NAIC staff had prepared. The draft is written broadly to encompass all of the issues that have been raised over the last several months and focuses on several specific issues where the Task Force may want to recommend some improvements to the NAIC governance process.

Commissioner Lindeen made a motion, seconded by Commissioner Nickel, that the Task Force recommend retaining a consultant and adopt the draft Scope of Work. Director Huff suggested the Task Force bifurcate the motion and consider the recommendation and Scope of Work separately. Commissioners Lindeen and Nickel agreed. The motion to recommend retaining a consultant passed unanimously.

Commissioner Leonardi said he believes the draft Scope of Work is comprehensive and meets what he had anticipated the work would include. Commissioner Leonardi made a motion, seconded by Commissioner Donelon to adopt the draft Scope of Work.

Commissioner Doak commented that he particularly endorsed the review of election of officers and committee assignments. Commissioner Kobylowski commented that it is important for good organizations such as the NAIC to constantly examine their processes. Director Huff noted that the draft Scope of Work includes an analysis of existing administrative procedures of the NAIC and recommendations for enhancements. The Task Force heard good feedback at the Spring National Meeting on this issue and this section is intended to bring that discussion into the proposed scope. After discussion, the motion passed.

Director Huff reported that the Task Force would have the opportunity to report its action to the Executive (EX) Committee at the Spring National Meeting to consider several internal administration matters. If the recommendation is adopted, he expects the NAIC will use its normal Request for Proposal (RFP) process to solicit bids and ultimately select an appropriate consultant.

Commissioner Leonardi asked whether the recommendation needed to be approved by the Plenary, and Kay Noonan (NAIC) responded that the Executive (EX) Committee approves consultant requests as part of its oversight of the budget so Plenary approval is not required. Commissioner Leonardi inquired as to how the selection of a consultant would proceed and whether it would be the entire Task Force or a subcommittee that would manage the RFP and selection process. Director Huff responded that it will be up to the Executive (EX) Committee to make that determination, although he expected a smaller group to be designated to make an initial recommendation. Ms. Noonan added that NAIC staff would work on a timeline for Executive (EX) Committee consideration.

Having no further business, the Governance Review (EX) Task Force adjourned.

W:\National Meetings\2014\Summer\TF\GRTF\01 6-27GRTFminTL revision.docx
NAIC will engage a consultant to perform a review of its governing documents, organizational structure, management and decision-making processes and recommend revisions or improvements to comply with best practices for non-profit corporations and standard-setting organizations and to enhance the NAIC’s ability to support and improve state regulation of insurance. The review will focus on the roles of the Executive Committee and the Internal Administration Subcommittee, the Officers, the CEO and management, the Standing Committees, and individual Members. Specific procedures to be performed by the Consultant will include:

1. **Review of organizational structure including:**
   a. Review of NAIC Certificate of Incorporation and Bylaws
   b. Analysis of the role and authority of the Executive Committee, NAIC Officers, NAIC CEO and management
   c. Analysis of the Officer election and committee assignment process
   d. Analysis of Zone assignment, elections and activities
   e. Analysis of the fiduciary duty owed by Executive Committee members

2. **Review of Standing Committee, Task Force and Working Group processes, including:**
   a. Analysis of Committee charges process and organizational priority-setting
   b. Analysis of the role of Committee chairs, vice-chairs, members, NAIC staff and interested parties
   c. Analysis of existing “administrative procedures” of the NAIC and recommendations for enhancements

3. **Review of NAIC External Engagements, including**
   a. Analysis of interactions with international bodies, including the IAIS, including how NAIC strategy and message are developed, how Members are appointed to various committees and the role of Officers, Executive Committee, IIRLG, G Committee, the NAIC CEO and staff related to international activities
   b. Analysis of interactions with federal bodies, including Congress, the Federal Reserve, the Department of Treasury (including FSOC and FIO), including how NAIC strategy and message are developed, how Members are selected to represent the NAIC and the role of Officers, Executive Committee, GRLC, the NAIC CEO and staff related to federal activities

4. **Benchmarking**
   The Consultant should compare NAIC’s organizational and governance model with best practices of associations, business or nonprofits that are comparable to NAIC, where practicable.

Consultants wishing to submit proposals for this project should have significant experience and expertise performing work for comparable entities specifically in the areas of legal analysis of corporate structure, nonprofit governance and best practices, and organizational and business strategy analysis.

This engagement is intended to begin in late August. Consultant shall present its final report and recommendations to NAIC’S Executive Committee by [ ].
GOVERNMENT RELATIONS (EX) LEADERSHIP COUNCIL

The Government Relations (EX) Leadership Council did not meet at the Summer National Meeting.
INTERNATIONAL INSURANCE RELATIONS (EX) LEADERSHIP GROUP

The International Insurance Relations (EX) Leadership Group did not meet at the Summer National Meeting.
PRINCIPLE-BASED RESERVING IMPLEMENTATION (EX) TASK FORCE

Principle-Based Reserving Implementation (EX) Task Force Aug. 18, 2014, Minutes .............................................................. 4-36
Principle-Based Reserving Implementation (EX) Task Force June 30, 2014, Minutes (Attachment One) ................................. 4-38
New York Life Letter, July 10, 2014 (Attachment One-B) ......................................................................................................... 4-83
Principle-Based Reserving Implementation (EX) Task Force June 12, 2014, Minutes (Attachment Two) ............................... 4-86
Rector & Associates, Inc., Comparison of June 4 and Feb. 17 Reports (Attachment Two-B) ...................................................... 4-113
Principle-Based Reserving Implementation (EX) Task Force April 14, 2014, Minutes (Attachment Three) ....................... 4-116
American Academy of Actuaries’ Letter Regarding Net Premium Reserve Floor, April 11, 2014 (Attachment Three-A) ...................................................................................................................................... 4-118
April 10, 2014, Memo from Texas and Ohio Regarding Feb. 17 Rector Report (Attachment Three-B) ................................................. 4-120
Various Comments Regarding Statistical Agent Framework (Attachment Four) .................................................................................. 4-121
PBR Review (EX) Working Group Aug. 15, 2014, Minutes (Attachment Five) ................................................................. 4-148
PBR Blanks Reporting (EX) Subgroup July 21, 2014, Minutes (Attachment Five-A) .............................................................. 4-151
The Principle-Based Reserving Implementation (EX) Task Force met in Louisville, KY, Aug. 18, 2014. The following Task Force members participated: Joseph Torti III, Co-Chair (RI); Julie Mix McPeak, Co-Chair, and Chlora Lindley-Myers (TN); Jim L. Ridling and Steve Ostlund (AL); Dave Jones represented by Al Bottalico and Kim Hudson (CA); Kevin M. McCarty represented by Eric Johnson (FL); Nick Gerhart represented by Jim Armstrong (IA); Sandy Praeger (KS); John M. Huff represented by Leslie Nehring (MO); Benjamin M. Lawsky represented by Robert Easton and Michael Maffei (NY); Mary Taylor represented by Dwight Radel (OH); Julia Rathgeber and Mike Boerner (TX); Todd E. Kiser (UT); Susan L. Donegan, Sandra Bigglestone, and David Provost (VT); and Jacqueline K. Cunningham represented by Doug Stolte (VA).

1. **Adopted its June 30, June 12 and April 14 Minutes**

Upon a motion by Mr. Armstrong, seconded by Mr. Stolte, the Task Force adopted its June 30 (Attachment One), June 12 (Attachment Two) and April 14 (Attachment Three) minutes.

2. **Heard an Update on the Status of the State Adoptions of PBR**

Commissioner McPeak said the *Valuation Manual* becomes operative soon after 42 states representing at least 75% of premium enact principle-based reserving (PBR) legislation. She said 18 states representing 28% of premium have enacted PBR legislation or are awaiting gubernatorial signature. Twelve states have or are expected to introduce legislation in 2014 or 2015, cumulatively totaling 30 states and representing 60% of premium. There are some additional states that plan to introduce legislation soon but do not yet know the exact timing.

Commissioner McPeak said the tallies are simple summations of states that have revised their Standard Valuation and Standard Nonforfeiture laws. However, she said the tallies need to include only those states whose laws are the same as the associated NAIC model law or have substantially similar terms and provisions. At the Fall National Meeting, the Task Force will discuss what would qualify as substantially similar.

Commissioner McPeak recommended using Jan. 1, 2017, as the earliest probable *Valuation Manual* operative date. She said there is a chance that the operative date could be in 2016, depending on large-state legislative activity, but she believes 2017 to be more realistic.

3. **Discussed the PBR Statistical Agent Framework**

Dan Schelp (NAIC) said comments were received on the PBR Statistical Agent Framework (Attachment Four). He said not everyone agreed with having a single statistical agent, warehousing or data-basing certain data information, and using three to five states to contract with the statistical agent. Confidentiality remains a concern and might need to extend beyond the statistical agent and also to the data research by outside parties; e.g., the Society of Actuaries (SOA). Comments regarding the allocation of costs contain numerous legal and logistical issues. Proposals include using the NAIC to contract with the statistical agent on behalf of the states. Commissioner McPeak asked NAIC staff to revise their recommendation and present it to the Task Force prior to the Fall National Meeting.


Upon a motion by Mr. Boerner, seconded by Mr. Bottalico, the Task Force adopted the report of the PBR Review (EX) Working Group (Attachment Five).

5. **Received a Report from the Life Actuarial (A) Task Force**

Mr. Boerner said the Life Actuarial (A) Task Force developed a list of 10 items that need to be completed prior to the *Valuation Manual* operative date. He said the governance section (VM-0) has been completed. The Task Force exposed the small company exemption proposal and the 2014 Valuation Basic Table (VBT) mortality table.
6. Discussed the Principle-Based Reserving (PBR) Implementation Plan

Commissioner McPeak suggested the Task Force update the Principle-Based Reserving (PBR) Implementation Plan, which was adopted in August 2013. Superintendent Torti said the document is a roadmap and needs to be kept current.

7. Discussed the Executive (EX) Committee’s Adoption of the XXX/AXXX Reinsurance Framework and Associated Actions

Superintendent Torti said the Executive (EX) Committee met and took three actions regarding the Task Force’s work: 1) adopted the report of the Principle-Based Reserving Implementation (EX) Task Force, including adoption of the XXX/AXXX Reinsurance Framework in concept; 2) adopted the charges; and 3) adopted the three model law development requests. He said the impact of these actions is that the technical groups will begin development and implementation of the projects for the XXX/AXXX Reinsurance Framework. He said the Task Force will stay engaged, will be prepared for consideration of any substantive deviations from the adopted way forward, and will receive frequent updates in order to move the project along swiftly.

8. Voted to Expose the Revised XXX/AXXX Blanks Proposal

Mr. Hudson said the Blanks (E) Working Group discussed the draft Supplemental XXX/AXXX Reinsurance Exhibit. He said that interested parties said the time frame to provide the information is too short and the actuarial guideline pertaining to the reserves is not yet formally adopted. Superintendent Torti asked Neil Rector (Rector & Associates, Inc.) to revise the proposed exhibit for 2014 reporting. Upon a motion by Mr. Bottalico, seconded by Mr. Stolte, the Task Force voted to expose the revised blanks proposal to add a new Supplemental XXX/AXXX Reinsurance Exhibit for a public comment period ending Sept. 2. The Task Force will then consider an exhibit to submit to the Blanks (E) Working Group by Sept. 16.

9. Received a Status Report Regarding the XXX/AXXX Charges from the Financial Analysis Handbook (E) Working Group

Superintendent Torti said the Financial Analysis Handbook (E) Working Group exposed until Sept. 2 a significant number of potential changes to the Financial Analysis Handbook for year-end 2014. Regarding the XXX/AXXX changes, revisions to the Handbook include procedures that are largely consistent with the best practices recommended by the Financial Analysis (E) Working Group earlier this year.

10. Received a Status Report Regarding the XXX/AXXX Charges from the Life Actuarial (A) Task Force

The Life Actuarial (A) Task Force exposed a draft Actuarial Guideline XLVIII (AG 48) to create the “Actuarial Method.” The draft AG 48 includes a percentage of the net premium reserve to arrive at the level expected when PBR and decreases in mortality tables are implemented.

Having no further business, the Principle-Based Reserving Implementation (EX) Task Force adjourned.
The Principle-Based Reserving Implementation (EX) Task Force met via conference call June 30, 2014. The following Task Force members participated: Joseph Torti III, Co-Chair (RI); Julie Mix McPeak, Co-Chair (TN); Jim L. Ridling represented by Charles Angell and Steve Ostlund (AL); Dave Jones represented by John Finston, Kim Hudson and Perry Kupferman (CA); Thomas B. Leonardi represented by Andrew J. Rarus (CT); Kevin M. McCarty represented by Eric Johnson and Kerry Krantz, (FL); Nick Gerhart represented by Jim Armstrong and Mike Yanacheak (IA); Sandy Praeger represented by Ken Abitz and Mark Birdsall (KS); John M. Huff and Frederick Heese, John Rehagen and Maria Sheffield (MO); Benjamin M. Lawsky represented by Robert Easton (NY); Mary Taylor represented by Dale Bruggeman and Jillian Froment (OH); Julia Rathgeber represented by Mike Boerner and Terrance To (TX); Todd E. Kiser represented by Tomasz Serbinowski (UT); Susan L. Donegan represented by Sandy Bigglestone and David Provost (VA). Also participating was: Kurt Regner (AZ).

1. Adopted the XXX/AXXX Reinsurance Framework in Concept and Exhibit 2 from the June 4 Rector Report

Superintendent Torti said several comment letters (Attachment One-A) were submitted on the June 4 Rector & Associates, Inc., Report (June 4 Rector Report). Neil Rector (Rector & Associates, Inc.) summarized the comments.

Mr. Provost said he remains concerned about using RBC as something other than the capital floor that it is meant to be.

Mr. Birdsall suggested a revision to the Life Actuarial (A) Task Force proposed charge. He also said the Life Risk-Based Capital (E) Working Group is currently studying stress testing of the statutory total asset requirement as part of the Principle-Based Reserving (PBR) Implementation Plan.

Mr. Easton, Mr. Regner, and Mr. Finston said their original comments submitted in March are still applicable. Mr. Easton said New York objects to the use of VM-20, Requirements for Principle-Based Reserves for Life Products, as a PBR standard. He said the proposed framework is complicated, and there is still no guaranty that the use of captives will cease or dramatically decrease. He said New York plans to vote against the framework. Superintendent Torti said that when PBR is implemented, use of these captives will cease. He said the framework is an interim solution. Mr. Regner said his March 20 comment letter still applies.

Mr. Rector said technical groups should aim for a reserve in this framework, with or without an adjusted net premium reserve (NPR), close to the final PBR reserve. Mr. Boerner said the NPR needs to be calibrated to the new updated mortality. He said the 2014 Commissioners Standard Ordinary (CSO) Mortality Table is needed. Mr. Birdsall said it is not yet clear when the table will be ready to use, so he believes there might need to be a phase-in for the NPR. Mr. Rector said the Life Actuarial (A) Task Force will need to debate this.

Mr. Bruggeman said the use of letters of credit (LOCs), even if evergreen LOCs, is still a concern. He said he has concerns with using LOCs as an admitted asset. Superintendent Torti said there will be discussions on this issue.

Paul S. Graham (American Council of Life Insurers—ACLI) said the ACLI supports the proposed framework but has a lot of technical comments to be addressed with the technical groups. He said it might be best for the Task Force to wait to adopt the recommendations for the model law and model regulation. However, he said that since the door is open to continue discussions on this, then the ACLI can work with that. He said it is important that the scope not include a professional reinsurance agreement. The ACLI proposed an alternate definition.

Joel Steinberg (New York Life) said the new proposal is watered down from the previous proposal. He said that if the NAIC does not adopt a uniform, reasonably conservative standard, then the NAIC will be affirming the status quo. If the new proposal is adopted in its entirety, then it does a reasonably good job. He said three critical actions must be taken: 1) the framework must be adopted in entirety; 2) the NPR must remain as part of the Actuarial Method; and 3) the NAIC should adopt the entire framework in 2014 and should specify the entire package and proposed amendment will apply to new captive arrangements to Jan. 1, 2015. Given that companies have been on notice for quite some time, he said there is no reason for
this packet not to be effective on that date. Superintendent Torti asked New York Life to submit these additional comments in writing (Attachment One-B).

Susan Callanan (Northwestern Mutual) said there are implications to the state-based system of the current bypassing of the NAIC’s reserving rules. She understands there are perceived obstacles to a stronger response on captive structures. She said Northwestern Mutual advocates a different approach: 1) do not let certain LOCs fall outside the framework; 2) the actuarial method should be identical to the Valuation Manual; and 3) it should account for affiliate guarantees. She said Northwestern Mutual supports New York Life’s proposal for a quick implementation.

Superintendent Torti presented the charges included in the June 4 Rector Report’s Exhibit 2. Mr. Birdsall said the charge to the Life Actuarial (A) Task Force allows consideration of additional issues. He said that the use of future mortality projection factors should be considered, given that mortality is well documented to improve over time. He said New York proposed mortality projection factors in its modifications to reserving for term insurance. He also suggested use of appropriate levels of margin, but believed this can only be done with objective measures of margins. Superintendent Torti said he did not want to change the charges because that might be perceived as an endorsement by the Task Force. He said it is appropriate for the ideas to be presented to the Life Actuarial (A) Task Force. Mr. Boerner said he agreed that the proposed charges are flexible enough to allow the Life Actuarial (A) Task Force to consider those items. Commissioner McPeak and Commissioner Ridling stated they are willing to consider proposals on these issues from the Life Actuarial (A) Task Force, but they did not want to change the charges.

Superintendent Torti said some have referred to the framework as guiding principles or a comprehensive action plan. He said that by adopting the framework in concept, each technical group can come back to the Task Force with suggested changes, deviating from the current proposal.

Mr. Rarus made a motion, seconded by Mr. Birdsall, to adopt the proposed framework in concept and Exhibit 2 from the June 4 Rector Report. The motion carried, with California and New York dissenting.

Superintendent Torti said the Task Force will ask the Executive (EX) Committee to consider adoption of the framework in concept, along with formal charges and model law development proposals. He said the Executive (EX) Committee will need to adopt these prior to technical groups working on actions No. 5 through No. 10 in the June 4 Rector Report’s Exhibit 2.

Having no further business, the Principle-Based Reserving Implementation (EX) Task Force adjourned.
June 25, 2014

Commissioner Julie Mix McPeak
Superintendent Joseph Torti III
Co-Chairs, National Association of Insurance Commissioners (NAIC)
Principle-based Reserving Implementation (EX) Task Force

Dear Commissioner McPeak and Superintendent Torti:

On behalf of the American Academy of Actuaries Life Practice Council (LPC) and the PBR Strategy Subgroup (PBRSS), we appreciate the opportunity to comment on the exposed June 4, 2014 Report of Rector & Associates, Inc. to the Principle-Based Reserving Implementation (EX) Task Force (June Report).

Following are some general comments on each of the modified recommendations.

1) Adopting the Framework Approach.

The LPC agrees that adopting a framework approach as the first step, followed by charges to the appropriate NAIC committees and working groups, is the most efficient way to approach this issue given the NAIC’s indicated urgency in implementing a new regulatory regime for captive arrangements. However, the LPC has some preliminary concerns with specific elements of the June Report described below and has not had sufficient opportunity to determine fully if other elements of the current framework as proposed in the June Report merit adoption without change or additional specification. We welcome the opportunity to hear further public comment and discussion on the many implementation details.

Among the items still being examined by the LPC, as noted in our comment letters of March 21, April 11, and April 23, we do not believe that the Net Premium Reserve (NPR) should be included in the VM-20 calculation used to determine the Primary Security Requirement. Please see our further comments on this issue below.

2) Actions to be taken by the (Life Actuarial) Task Force.

---

1 The American Academy of Actuaries is an 18,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
Charge 3 of Exhibit 2 - On Charge 3 to the Life Actuarial (A) Task Force (LATF), we agree that this is the right group to study these issues. In addition, as we said in our April 23 letter, we believe the Actuarial Method, including the mortality assumption, should be the current version of VM-20, as may be modified from time-to-time.

In Charge 3, it states, “The Actuarial Method should consist of the NAIC Valuation Manual, VM-20, Requirements for Principle-Based Reserves for Life Products, modified to incorporate changes to mortality tables as developed by the American Academy of Actuaries and any other appropriate modifications determined by LATF, and should explicitly keep (in current or modified form) or eliminate the “net premium reserve” component of the current VM-20.” We have the following comments:

- The charge to LATF (#3) refers to the mortality tables developed by the American Academy of Actuaries. To clarify, the mortality tables used in the valuation are the joint work product of the Academy and the Society of Actuaries. The SOA’s role is to gather basic mortality experience, while the Academy’s role is the development of valuation margins. As we stated in our March 21 comment letter, “Consistent with Section 9.C.3.g. of VM-20, a set of improvement factors has already been developed by the SOA and the Academy’s Life Experience Subcommittee and published on the SOA website (http://www.soa.org/Research/Experience-Study/Ind-Life/Valuation/Research-2014-mort-imp-rates.aspx) to be applied to the 2008 VBT table to true up that table to year end-end 2013.”

- Further, regarding “any other appropriate modifications determined by LATF,” as indicated in our March 21 comment letter, we do not believe it is in the best interests of implementing PBR to make ad hoc adjustments to any of the current requirements for the VM-20 modeled reserves for this purpose. These ad hoc changes to VM-20 identified in the Rector Report may not be made to VM-20.

- Also, as we said in our April 11 comment letter, we do not believe that the NPR should be included in the VM-20 calculation used to determine the Primary Security Level, since the purposes for including a formula-based NPR floor in the Valuation Manual do not apply to the aspects of captive arrangements covered in the June Report. Applying the NPR to captive reinsurance transactions, which generally involve more narrowly defined product blocks issued over a limited period of time, could result in a Primary Security Level that significantly misses the mark in either direction. This could result either in artificially increasing the Primary Security Level or causing significant calculation work and the devotion of resources to develop a reserve that is never used. For these reasons, the NPR component is not suitable and does not add value as a basis for the Primary Security Level.

- Furthermore, while the LPC was not involved in either its development or testing, we understand the NPR to be a formula-based reserve with fixed industry level
assumptions established at policy issue. The NPR was developed with an intention of being consistent with the existing U.S. Internal Revenue Code, (IRC) thereby potentially serving as a basis for the deductible tax reserve. The NPR uses assumptions that have been calibrated to the current Commissioners Standard Ordinary (CSO) mortality table; as such, it is our understanding that the NPR may need to be recalibrated once a new CSO mortality table becomes effective.

**Charge 5 of Exhibit 2** – See our comments on Recommendation #3.

**Charge 8 of Exhibit 2** – See our comments on Recommendation #7.

3) **Actuarial Opinion Memorandum Regulation (AOMR).**

The modified recommendation provides that the AOMR Actuarial Guideline should specify that “the opining actuary for a ceding insurer (1) must follow the methods and assumptions developed as individual components of the framework to determine whether the ceding insurer’s net reserves are appropriate, and (2) must issue a qualified actuarial opinion if the ceding insurer has entered into a reserve financing transaction that does not adhere to the framework.”

There appear to be three proposed additional requirements of the Appointed Actuary as part of the actuarial opinion requirements:

1) The requirement of a certification that the Primary Security Level was determined by following the Actuarial Method;

2) The requirement of a certification that either (i) the Primary Security Level is at least as great as the Primary Security Requirement, or (ii) a defined remedy was put in place by March 1 of the following year to address any shortfalls of the Primary Security Level related to the Primary Security Requirement.

3) The requirement that the Appointed Actuary issue a qualified opinion if any of the company’s affiliated reinsurers do not comply with (2) above.

While we do not have an objection to the first two requirements, we do not believe that they should be included in the AOMR. The AOMR is designed to ensure the overall adequacy of an insurer’s reserves based on asset adequacy analysis and is not designed or intended to implement reinsurance specific requirements. The Appointed Actuary’s Opinion is based on state insurance laws and regulations, Actuarial Standards of Practice, experience, analysis and professional judgment.

If a state implements requirements surrounding the Primary Security Requirement, not meeting this requirement would necessitate the inclusion of some consideration in the Actuarial Opinion, but may not result in a qualified opinion. Fundamentally, the Appointed Actuary’s Opinion is just that – a professional opinion; we are strongly
opposed to the notion that the Appointed Actuary be required to form a qualified Opinion for a specific circumstance.

If, after consideration of our comments, the Principle-Based Reserving Implementation (EX) Task Force decides to proceed with implementing the Rector recommendations in this regard, we offer the following specific comments on the Exhibit 3 draft Actuarial Guideline pertaining to the AOMR:

- Item III.B. states that the Appointed Actuary issue a qualified opinion if the reinsurance doesn’t conform to the requirements of the Rector Framework (i.e., the Actuarial Method.) However, Item II implies, but doesn’t specifically state, that the company can avoid issuing a qualified opinion if it complies with one of the required remedies. We recommend that Item III.B. be clarified to state that an unqualified opinion can be issued if one of the specified remedies is put into place.

- Item III.C. should be limited, at most, to the case where an affiliated reinsurer receives a qualified opinion under the scope of the guideline on business, some portion of which was ceded to it (either directly or through a chain of retrocessions) from the another affiliate. In such a case, one could consider cascading the qualified opinion back down to the original affiliated source, through the chain of retrocession, as reflecting risk to the original or intermediate cedants. However, we do not believe that automatically extending a qualified opinion from one affiliate to another by virtue of mere affiliation in the holding company system is justified.

4) Specific Provisions Relative to Reserve Financing Transactions Involving Licensed and Accredited Reinsurers and Reinsurers Domiciled in a State other than that of the Ceding Insurer.

No comment.


No comment.

6) Disclosure of Key Aspects of XXX/AXXX Reinsurance Arrangements.

We are generally in favor of additional disclosure and increased transparency, as long as it is not unnecessarily complicated.

7) Risk-Based Capital (RBC) Changes.
If, after consideration of our comments, the Principle-Based Reserving Implementation (EX) Task Force decides to require qualified opinions for non-adherence with the Primary Security requirement, we would not support increasing capital requirements as a consequence of such an Opinion. Currently, the additional C-3 RBC charge is associated with excessive interest rate risk. A company whose assets and liabilities exhibit disintermediation risk greater than the disintermediation risk assumed and which has received a qualified actuarial opinion is required to hold additional RBC. Simply put, if a company has excessive disintermediation risk, then additional RBC must be held.

Requiring additional capital because a company is not complying with the regulations associated with captives is not consistent with the intent of the RBC framework. Current RBC requirements are based on an insurer’s risk exposures and the minimum capital deemed necessary by regulators to avoid regulatory intervention. If a company is not complying with the regulations related to captive arrangements, then the appropriate remedy should be to bring the captive transaction into compliance, rather than to allow the transaction to remain out of compliance with an arbitrary amount of additional capital. In addition, we note that under current RBC rules, any increase in the C-3 RBC factor due to a qualified opinion would apply to the entire C-3 exposure of the company, including business that is not involved in a captive transaction.

If, after consideration of our comments, the Principle-Based Reserving Implementation (EX) Task Force decides to go ahead with their plans to require additional capital for qualified opinions under the captive framework outlined, we wanted the Task Force to be aware of the following:

1) The June Report states “As described in our February Report, we recommend (1) that the RBC instructions be amended to ensure that at least one party to the reserve financing transaction holds an appropriate RBC “cushion”….” The February Report states, “We recommend that full Risk-Based Capital ("RBC") calculations using traditional NAIC methodology be performed by at least one party to the financing transaction.” Although the term “RBC cushion” is used extensively in the June Report (Item 3 and definition #6 of Exhibit 1, and Charges 8.a. and 8.b. of Exhibit 2), neither the February Report nor the June Report specifically define the term.

2) With regard to the recommendation that the NAIC evaluate whether the current RBC “charge” relative to qualified opinions is appropriate (also discussed in Charge 8.c. of Exhibit 2, although the effective date in recommendation #7 in 12/31/14 and the effective date in Charge 8.a. it is 12/31/15), if the Principle-Based Reserving Implementation (EX) Task Force decides to require qualified opinions for non-compliance with the Primary Security Requirement, we do not approve of imposing an increased C-3 capital charge.

8) Evaluate risk-transfer rules.
No comment.


No comment.

10) Note to Audited Financial Statement.

No comment.

********************

We hope these comments are helpful. Please contact Bill Rapp, the Academy’s Assistant Director of Public Policy (rapp@actuary.org or 202-223-8196) if you have any questions.

Sincerely,

Mary Bahna-Nolan, FSA, MAAA,  
Vice-President, 
Life Practice Council  
American Academy of Actuaries

Cande Olsen, FSA, MAAA,  
Chair  
PBR Strategy Subgroup  
American Academy of Actuaries
June 25, 2014

The Honorable Julie Mix McPeak
Commissioner
State of Tennessee Department of Commerce and Insurance
Davy Crockett Tower
500 James Robertson Parkway
Nashville, TN  37243-1220

The Honorable Joseph Torti, III
Superintendent
State of Rhode Island Department of Business Regulation
1511 Pontiac Avenue, Building 69-2
Cranston, RI  02920-4407

RE: Exposure of Modified Recommendations of Rector & Associates dated 6/4/14 to the PBR Implementation Task Force

Dear Commissioner McPeak and Superintendent Torti:

The ACLI appreciates the opportunity to provide our comments on the Modified Recommendations of Rector & Associates dated 6/4/14 concerning the regulation of companies ceding business to captive reinsurers (“the Recommendations”).

The ACLI would like to thank the Task Force and Neil Rector for considering the concerns expressed in our previous letters in the development of the Recommendations. We feel that the proposed Framework has improved considerably from the prior version and we appreciate the effort required to bring it to this stage. We also believe this version of the Recommendations provides a path toward resolving the captives issue that obviates the need to amend the Accreditation Standards Preambles to include a definition of “multi-state reinsurer”. While we are in substantial support of many of the Recommendations, certain portions of the modified Framework, detailed below, trigger technical, legal and procedural concerns, which could benefit from further review and discussion. As requested by Mr. Rector, our comments focus on the Modified Recommendations and Exhibits 1 and 2. We have detailed our specific thoughts to the enumerated recommendations in Appendix 1 to this comment letter. Our comments on Exhibit 1 and Exhibit 2 as well as our recommendation for a two-phase approach on actions to be taken by the Task Force are shown in Appendices 2 and 3.

1 The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with approximately 300 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers’ products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Learn more at www.acli.com.

American Council of Life Insurers
101 Constitution Avenue, NW, Washington, DC  20001-2133
www.acli.com
**Introduction**

The Recommendations leave important details to be decided by technical groups. However, many of these details are critically important to the overall efficacy of the Framework and to the companies which shall be subject to that Framework. While ACLI recognizes that the technical details are not the responsibility of the Task Force, the Task Force should provide sufficient guidance to the technical groups to address the goals of the Task Force. To make the best use of the short timeframe within which the NAIC is working, we request an interim meeting following the June 30th conference call or extended meeting time at the Summer NAIC national meeting to delve into agreed upon technical and legal issues raised by the Framework. It is essential to the success of this initiative that regulators and interested parties discuss, develop, and document the high level guidance for the technical groups in a way that develops a cohesive, workable, and legally defensible Framework.

ACLI’s goals for the Framework are as follows:

1. The Framework must not be in conflict with other laws or regulations. A solution that requires no law change would be ideal, but any required changes to law must be made in accordance with due process;
2. The Framework must only apply to Regulation XXX/AXXX-type captive arrangements and be prospective only. XXX/AXXX captive structures in existence before a specified date, such as 1/1/2015, should not be impacted by the Framework, including when re-financed;
3. The Framework must allow future Regulation XXX/AXXX-type captive arrangements to be permitted under the laws and regulations of the states;
4. The Framework must allow future Regulation XXX/AXXX-type captive arrangements with third-party financing providers to continue to be viable;
5. The Framework must increase uniformity and transparency of future Regulation XXX/AXXX-type captive arrangements;
6. The Framework must not capture traditional reinsurers; and
7. The Framework must not derail efforts to perfect and implement PBR on its current timeline.

**Executive Summary**

ACLI recognizes that in order to accomplish all of Mr. Rector's recommendations, amendments to the Credit for Reinsurance Model Law and Regulation likely will be needed. However, as described below, we believe significant strides toward the NAIC’s goals of captives regulation can be made without such measures being addressed immediately. We are also sensitive to concerns about the time required to go through all regulatory processes and believe that the NAIC would be able to accomplish comparable regulatory goals in a shortened timeframe as follows:

1. As stated in the Recommendations, ACLI agrees that the NAIC could use the authority granted in the Actuarial Opinion and Memorandum Regulation (AOMR) to promulgate an Actuarial Guideline that acts as the vehicle for specifying the Primary Security Requirement, based on a modified VM-20, for future Regulation XXX/AXXX-type captive reinsurance arrangements. This Actuarial Guideline would set forth definitions used in the Framework, define the scope of applicability, provide remedies available for companies failing to meet the Primary Security Requirement, and stipulate conditions for issuing a qualified actuarial opinion. The Actuarial Guideline would provide uniformity in the states and allow for the Actuarial Method to be kept up-to-date as future changes to VM-20 are made. This is the heart of the Rector Recommendations and while not a perfect solution, could go a long way toward resolving the issues that the regulators have identified.
Section 3 of the AOMR gives authority for a commissioner to specify specific methods of actuarial analysis and actuarial assumptions when deemed necessary. We believe it grants the commissioner authority to require appointed actuaries to partly base their Actuarial Opinion on whether future Regulation XXX/AXXX-type captive arrangements meet a prescribed test. Actuarial Guidelines are in the Accounting Practices and Procedures Manual, which is adopted under the laws of every state, and as such, are part of the Financial Accreditation requirements. In this context, it would provide a uniform approach to the actuarial analysis of XXX/AXXX captive transactions. Any material permitted practices with respect to the Accounting Practices and Procedures Manual must be fully disclosed, along with the financial impact of the permitted practice. Therefore, modifying the AOMR to implement the Primary Security Requirement while additional required changes are identified and incorporated where needed could be a viable and uniform way to quickly implement this requirement.

As a follow-up to the step above, guidance should be made more permanent by amending the AOMR. An Actuarial Guideline would still be needed to ensure nationwide uniformity of the Primary Security Requirement and to allow future changes in the Actuarial Method as changes are made to VM-20.

2. As stated in the Recommendations, ACLI agrees that the NAIC should develop disclosure requirements pertaining to Regulation XXX/AXXX-type captive transactions that can be effective as of 12/31/2014 to ensure consistent disclosure by ceding companies in all states. ACLI has previously submitted disclosure recommendations.

3. As stated in the Recommendations, ACLI acknowledges Mr. Rector’s suggestion that at least one party to the reserve financing transaction hold an RBC “cushion” via a required RBC capital calculation with attendant regulatory consequences if available capital is insufficient. We also observe that Mr. Rector is recommending a review of RBC charges related to qualified actuarial opinions, with an implication that such charges may need to be increased.

Mr. Rector’s proposed requirement for an RBC “cushion” raises several challenging issues. If the captive performs an RBC calculation, we acknowledge the need for new risk charges to be developed for “Other Security”. Great care must be taken when developing these factors, as excessive RBC charges will simply cause excessive capital requirements to replace excessively conservative reserve requirements. If, on the other hand, the ceding company performs the calculation, it is not completely clear how the calculation would work mechanically or what the meaning of the resulting calculation would be.

With respect to risk charges related to qualified actuarial opinions, we believe that Mr. Rector may be misinterpreting certain technical details of the existing RBC risk framework, and we cannot support the introduction of a new risk charge for qualified actuarial opinions.

4. As stated in the Recommendations, ACLI agrees that the NAIC should prepare a new section of the Financial Analysis Handbook to set out procedures and provide guidance to regulators as they evaluate future Regulation XXX/AXXX-type captive transactions. ACLI has previously submitted such a set of uniform guidelines that would form a good basis to review captives.

ACLI believes that introduction of the Framework through the above steps would provide uniform guidance for new requirements as well as promote uniformity of regulatory review, transparency, and public disclosure. This approach provides regulators with tools they need now to ensure that policyholders’ interests are adequately protected when ceding companies reinsure XXX/AXXX business with captives. This approach would also help identify unintended consequences that may be a result of
the Framework and give regulators an opportunity to determine whether other proposed changes, such as changes to the Credit for Reinsurance Model Law, are necessary.

**Items of Critical Concern to ACLI**

In order to meet the ACLI’s goals listed above, we note the following items of critical concern in regards to the Recommendations:

1. We continue to believe that the scope of application is defined in a way that would inappropriately sweep in traditional reinsurance arrangements between regularly licensed, public blue-book filing, traditional insurers and reinsurers—example, a traditional reinsurer assuming XXX/AXXX business from an unrelated party, or a direct writer assuming XXX/AXXX business from another (affiliated or unaffiliated) direct writer. This is because the current framework assumes, incorrectly, that licensed and accredited insurers and reinsurers can be divided between “regular companies” and “captives” on the basis of whether the insurer and reinsurer has any permitted practices. As you know, many traditional insurers and reinsurers have been granted one or more permitted practices (fully disclosed in accordance with the APPM) unrelated to “reserve financing” or “captives use.” The allowance for commissioner approval of such permitted practices for traditional insurers and reinsurers is long-standing and far from nefarious. To ensure that traditional insurance and reinsurance transactions are not swept in, we recommend the following concept be used:

   Entities to which the Primary Security Requirement applies are those entities that reinsure life insurance policies subject to Section 6 (with the same exclusions set forth in subsections 6.E., 6.F., and 6.G.) and/or Section 7 of the Valuation of Life Insurance Policies Model Regulation and:

   A. Are both
      i. Prohibited from directly issuing policies to consumers; and
      ii. Prohibited from assuming third-party reinsurance;
   
   Or,

   B. Are chartered under captive insurer law, special purpose insurer law or other similar law separate from those applicable to traditional insurers and/or reinsurers in the state or non-U.S. jurisdiction where domiciled.

2. In order for the AOMR to provide a robust regulatory solution, some clarifications and/or changes will be necessary.
   a. Recognizing that certain reinsurance transactions do not require collateral, it should be clarified that the Primary Security Requirement can be met in two ways in the AOMR. For captive arrangements in which collateral is required by the Credit for Reinsurance Model Law, the Primary Security Requirement should be compared to the collateral held by the ceding company. However, for those arrangements in which collateral is not required, the Primary Security Requirement should be compared to the assets of the captive reinsurer, less the assets held as the required capital of the captive.
   b. We have previously noted that there is a fundamental mismatch that occurs if VM-20 is used to measure assets held at market value. It is important that regardless of whether the collateral is funds withheld or assets held in trust, that the Primary Security Requirement be applied to the book value of the collateral. We ask that LATF be charged with investigating this issue and developing a solution.
   c. ACLI believes that LATF should also be charged specifically with investigating whether changes could be made to VM-20 to reduce the volatility of the calculation from year to year. It is very difficult to arrange for a third party to enter a transaction where volatility
of financing requirements is expected. LATF is looking into this issue in regards to PBR, and we believe it is even more important if VM-20 is used in this context. ACLI will work with LATF to quickly identify some potential fixes.

d. In the event the Actuarial Guideline or subsequent AOMR changes would indicate a qualified opinion would be warranted because of a non-compliant captive transaction, that opinion should be limited to the entity in question and should not necessarily trigger a qualified opinion at any other affiliate within the holding company system of which it is part. This should depend on the facts and circumstances of the relationship between the ceding company and the affiliated company.

3. The Net Premium Reserve (NPR) should be removed from the Actuarial Method specifying the Primary Security Requirement. For the following reasons, ACLI is very concerned about the use of the Net Premium Reserve (NPR) in the calculation of the Primary Security Requirement:
   a. The current NPR uses the 2001 CSO Mortality Table, and is calibrated to approximate a reasonable floor for deterministic reserves calculated based on the 2008 VBT. As Mr. Rector has proposed, the Actuarial Method is expected to use industry experience mortality tables currently under development by the American Academy of Actuaries (completion expected in early 2015). There is an expectation that this will reduce the deterministic and stochastic reserves, possibly significantly. This will leave the NPR poorly calibrated to the resulting modeled reserves, and the NPR will almost always dominate the modeled reserves. We believe this is an inappropriate outcome of the Actuarial Method, and this outcome is not expected once PBR is implemented. LATF will likely need to re-calibrate the NPR prior to the effective date of PBR, once the new CSO mortality table is also completed.
   b. As Mr. Rector previously noted, unlike the stochastic and deterministic reserve calculations, NPR assumptions are locked in at issue, and do not take into account changes in experience data or economic environment. This can cause NRPs to become significantly different from the modeled reserve calculations over time, and the impact can be exacerbated when used on a closed block of business reinsured by a captive.
   c. The NPR was designed to be an aggregate floor used over large open blocks of business. However, in many cases, it does not track the deterministic or stochastic calculations very well by duration, and therefore will tend to break down when used in isolation on closed blocks of business.
   d. It is not a trivial exercise to calibrate the NPR for use within the Primary Security Requirement. The initial calibration of the NPR took close to two years to calibrate for the current versions of mortality tables. ACLI does not believe that re-calibration could be completed in a timely manner.
   e. The NPR is incomplete. There is not an NPR calculation specified in VM-20 for stand-alone riders, such as a secondary guarantee rider, or for some forms of reinsurance transactions, such as YRT. In absence of a specified calculation, the Valuation Manual currently states that the NPR defaults to current reserve requirements. This would result in disparate effects from company to company of applying the NPR, depending upon the exact form of the reinsurance.

Because of all these difficult to resolve issues, ACLI proposes that the NPR be added to the Actuarial Method no sooner than the date PBR becomes effective. Presumably, most of the remaining issues will be worked out by then by LATF. A possible way to implement such a solution would be to incorporate a “sunrise” of the NPR, where the NPR becomes part of the Actuarial Method after PBR becomes effective (and, presumably, the NPR has been re-calibrated as part of the PBR work being done).
4. RBC charges for “Other Security” should be reasonably related to default risk. Excessive charges
will simply cause excessive capital requirements to replace excessively conservative reserve
requirements. ACLI suggests that the Task Force give specific guidance to the Capital Adequacy
Task Force in regards to the development of these RBC charges.

5. Clean, unconditional LOCs should be allowed without limit for meeting that Primary Security
Requirement for captives that must provide collateral as they are explicitly allowed by the Credit
for Reinsurance Model Law. We note that the recommendations are silent on the clean,
unconditional LOCs for “Other Security”. It should be clarified that they can be used without
limit.

We appreciate the opportunity to provide comments and look forward to discussing these matters with
the Task Force.

Sincerely,

Paul S. Graham, III, FSA, MAAA

cc: Members, NAIC PBR Implementation Task Force
    Neil Rector, Rector & Associates
Appendix I
Specific Comments on Enumerated Recommendations

Recommendation 1. Adopting the Framework Approach – ACLI understands the NAIC’s desire to adopt a conceptual Framework as soon as practicable. However, we believe that the issues detailed in this comment letter need to be addressed before adoption of the entire Framework occurs. Therefore, we suggest that the portions of the Framework listed in our Executive summary be adopted as soon as possible. This will allow charges to be given to the technical groups in a timely manner. We request that the remainder of the Framework only be adopted after more review and discussion between regulators and industry. We note that adopting the Framework prior to the determination of the “Primary Security Requirement” or the RBC charges for “Other Security” is unlikely to result in greater uniformity, as it is impossible to “voluntarily comply” with the Framework without these critical components.

Recommendation 2. Actions to be Taken by the Task Force - We agree that charges can be developed for the Blanks (E) Working Group, Financial Analysis Handbook (E) Working Group, and the Life Actuarial Task Force prior to complete adoption of the Framework. However, based on our suggestions detailed in the Executive Summary, we believe that the following three charges are needed:

A. Blanks (E) Working Group - “Adopt a XXX/AXXX Reinsurance Supplement to be filed by insurers ceding XXX/AXXX business beginning with the 2014 data year. The Principle-Based Reserving Implementation (EX) Task Force’s XXX/AXXX Reinsurance Framework Exhibit 5 should be considered for this supplemental filing requirement, modified as appropriate by the Working Group.” – Essential

NOTE: The goal of the supplemental filing is for the ceding insurer to provide transparency regarding the assets and reserves pertaining to reinsurance of XXX/AXXX policies, especially when the assuming reinsurer is not subject to public disclosure requirements for these data points.

• Tables 2 and 3 reference terms that are defined in Actuarial Guideline AOMR.

B. Financial Analysis Handbook (E) Working Group – “Develop for year-end 2014, a new section for the Financial Analysis Handbook that specifies procedures for domestic/lead/captive states’ review of XXX/AXXX reinsurance transactions with captives/SPVs to be performed initially and on an on-going basis, consistent with recommendations from the Financial Analysis (E) Working Group (FAWG). These procedures should be modified in the future as the detailed proposals from other work streams for the XXX/AXXX Reinsurance Framework are adopted by the NAIC.” – Essential


C. Life Actuarial Task Force - “Develop an Actuarial Guideline that incorporates the Primary Security Requirement into the appointed actuary’s analysis when developing the annual Actuarial Opinion. The Actuarial Guideline shall specify that the Actuarial Method to determine the Primary Security Requirement is based upon the NAIC Valuation Manual, VM-20, Requirements for Principle-Based Reserves for Life Products, modified to incorporate anticipated changes to mortality tables as developed by the American Academy of Actuaries and any other appropriate modifications as determined by LATF. LATF should explicitly consider eliminating the “Net Premium Reserve” component of the current VM-20 in the
Actuarial Method based on the stated goals of the PBR Implementation Task Force, or at least significantly recalibrating the “Net Premium Reserve” if it determines that component should remain. LATF should investigate whether changes could be proposed to reduce the volatility of the VM-20 calculation. LATF should also investigate whether the method described in VM-20 is appropriate for use with assets valued at market value and report back to the PBR Implementation Task Force on its findings and recommendations regarding such. The Actuarial Guideline should also set forth definitions used in the Framework, define the scope of applicability, describe remedies for failure to meet the Primary Security Requirement in order to avoid a qualified or adverse opinion, and describe additional requirements for the actuarial opinion and memorandum for companies that must test their reinsurance agreements pursuant to the Actuarial Guideline. This Actuarial Method should be applicable irrespective of whether the captive reinsurer is licensed, accredited, or unauthorized. Upon adoption of the Actuarial Guideline, develop recommended changes to the Actuarial Opinion and Memorandum Regulation (AOMR) that place the new requirements directly into the AOMR, although the part of the requirements that define the Actuarial Method should remain in an Actuarial Guideline to maintain uniformity across the states and to allow for the Actuarial Method to be kept up to date as future changes to VM-20 are made.” - Essential

NOTE: This should be completed as soon as possible and sent back to the Principle-Based Reserving Implementation (EX) Task Force for adoption. This Actuarial Method should be included in the Financial Analysis procedures referenced in item 2 above as an appropriate and consistent method for determining whether (1) the ceding insurer has received sufficient collateral to support its policy obligations; or (2) the captive reinsurer has sufficient assets to meet its obligations to the ceding company.

Recommendation 3. Actuarial Opinion and Memorandum Regulation - We note that the Framework, as drafted, would ultimately require all captives to provide collateral, and will scope in certain non-affiliated licensed or accredited reinsurers (those reinsurers with permitted practices). We note that the AOMR cannot be used to add these new requirements, thus attempting to override existing law. However, if the changes that we have recommended in regards to scope of application and collateral requirements are adopted as part of the Framework, it may reveal alternatives to making changes to the Credit for Reinsurance Model Law and Regulation.

The effective dates need to be explicitly identified and should allow for a short period of time for which new policies can be ceded to existing captive arrangements. Therefore, we recommend that the Primary Security Requirement should be effective for new captives established on or after 1/1/2015 and for any new business ceded into existing arrangements issued on or after 1/1/2016. To encourage quick state adoption of AOMR changes, we further recommend that any interim Actuarial Guideline developed before the changes are made to the AOMR be effective until the earlier of: (a) the date the requisite changes are incorporated into the AOMR, and (b) a specified date, such as 1/1/2017.

Recommendation 4. Specific Provisions Relative to Reserve Financing Transactions Involving Licensed and Accredited Reinsurers and Reinsurers Domiciled in a State other than that of the Ceding Insurer - While we believe it may be necessary to open the Credit for Reinsurance Model Law to effect changes, we question the need to add collateral requirements to captive arrangements utilizing licensed or accredited reinsurers if the ceding insurer meets the Primary Security Requirement. The Model does not require licensed or accredited reinsurers to provide collateral. No reason has been articulated to treat licensed or accredited captives any differently than other licensed or accredited reinsurers in regards to the need for collateral. Captives have to meet the same requirements to become licensed or accredited as other types of reinsurers, and hence should receive the same treatment as other types of reinsurers.
Recommendation 5. Specific Provisions Relative to Reinsurance Financing Transactions Involving Unauthorized Reinsurers – While there could be a need for an amendment to the Credit for Reinsurance Model Regulation, it may be possible to shape modifications to the AOMR and accompanying Actuarial Guideline to include applicability, definitions of Actuarial Method, Primary Security, and Primary Security Level, thus avoiding the need to revise the Model. The other sections of the Model Regulation in Exhibit 4 are unnecessary if all future Regulation XXX/AXXX-type captive arrangements are subject to the Primary Security Requirement promulgated by the AOMR.

Recommendation 6. Disclosure of Key Aspects of XXX/AXXX Reinsurance Arrangements – ACLI has consistently supported additional disclosure of XXX/AXXX reinsurance transactions and has provided our recommendations to the NAIC. We note that the specific elements shown in Table 2 of Exhibit 5 cannot be calculated until 12/31/2015 because the Actuarial Method will not be in place until 1/1/2015 (at the earliest). In addition, specific elements of Table 2 and all of Table 3 should not apply to captives established prior to the effective date. We also note that the recommended disclosure requiring funds withheld and modco reserves to be reported at market value rather than statutory book value is problematic.

Recommendation 7. RBC Changes - As stated in the Executive Summary, the proposal to require one of the parties to the financing transaction to hold an RBC "cushion" via a required RBC calculation raises several issues, as does the proposed risk charge related to the qualified actuarial opinions.

First, the use of the new term "RBC cushion" has caused confusion. We note that the purpose of RBC is, technically, to identify weakly capitalized legal entities for purposes of regulatory action, not to specify an additional "cushion", although holding a capital "cushion" is generally the practical effect of an RBC calculation. We also note that the existence of “Other Security” already provides a "cushion" that is unique to financing transactions. Pending additional clarification of what the framework intends, at this time we cannot definitively support or oppose the RBC portion of the framework.

Second, with respect to a required RBC calculation, a major issue of concern would be the specification of RBC charges for LOCs or "Other Security". Such charges must be determined fairly, with due process, and be reasonably related to the true risk of default of the securities. If not, a new problem (excessively conservative capital requirements) will simply replace the remediated problem (excessively conservative reserve requirements).

In addition, if the ceding company were to perform the RBC calculation, it is not clear how the calculation would be done mechanically or what the meaning of the result would be. Mr. Rector could be envisioning a hypothetical calculation assuming the unwinding of the financing transaction, or a combined cedent-plus-captive RBC calculation, or an increase to the current C-1 risk charge applied to ceded reserves, or something else.

Third, with respect to the proposed review of risk charges related to qualified actuarial opinions, we believe that Mr. Rector may be misinterpreting certain technical details of the existing RBC framework. Mr. Rector has correctly observed that the type of actuarial opinion, qualified versus not, impacts the risk charges related to asset-liability mismatch risk (the "C3 RBC" charges). A discounted C3 RBC risk charge is allowed if an opinion that is not qualified is provided. However, the reason for the current discount for an opinion that not qualified is tied tightly to the matter of asset/liability mismatch risk, which is the target of the C-3 risk charge and also a central consideration, some would say "the" central consideration, in asset adequacy testing. An unqualified actuarial opinion on reserves suggests that asset-liability interest rate mismatch risk has been assessed and is not at extreme levels, so an unqualified opinion merits a reduced mismatch risk charge. Removing the C3 RBC discount on account of an opinion qualified on grounds other than asset/liability mismatch would impose an RBC penalty of a
size and amount completely unrelated to the reserve financing concern triggering the qualified opinion. Accordingly, the NAIC should make changes to the RBC instructions so that a qualified opinion based solely on the failure to meet the Primary Security Requirement does not preclude the ceding company from using the discount allowed for companies with otherwise unqualified opinions in the determination of C-3 risk charges.

Finally, the existing RBC framework assigns no explicit, across-the-board risk charge for unqualified actuarial opinions. We believe this is appropriate. The actuarial opinion relates to reserves, not risk-based capital. The remedy for a qualified opinion has historically been addressed through the reserves themselves or through strengthening processes underlying their testing. Experience has shown that the additional regulatory scrutiny resulting from a qualified actuarial opinion has provided a powerful incentive to avoid such opinions, and we envision that incentive will only increase under Mr. Rector's proposed framework. We do not perceive a need for a new risk charge related to qualified actuarial opinions.

Recommendation 8. Evaluate Risk Transfer Rules – ACLI does not believe that Risk Transfer Rules need to be evaluated. The rules are designed to protect policyholders of the ceding company. They focus on risk being transferred from the ceding company at the legal entity basis. As long as the ceding company does not retain the risk, risk transferred to a captive or holding company has no more impact on the policyholders than that ceded to any unaffiliated reinsurer.

Recommendation 9. Financial Analysis Handbook – As stated in our recommended Framework, we agree with this recommendation. ACLI has previously submitted such a set of guidelines that would form a good basis to review captives. It is important to note that these guidelines should be only for Regulation XXX/AXXX-type captive arrangements entered into on or after 1/1/2015.

Recommendation 10. Note to Audited Financial Statement - We do not believe that a new note to the Audited Financial Statement is necessary. The Actuarial Opinion is a public document, and the Appointed Actuary must determine compliance or non-compliance with the Primary Security Requirement. Additionally, the calculations will need to be documented in the Actuarial Memorandum, which is available to every regulator in which the ceding company does business upon request. We believe that adding a note to the Audited Financial Statement will be a very expensive “check the box” exercise with little, if any, added value.
ACLI believes that Exhibit 1 should be re-drafted after decisions are made on ACLI’s concerns identified above regarding the Framework.

ACLI recommends a two-phase approach:

**Phase 1:**

ACLI recommends that charges to Blanks (E) Working Group, Financial Analysis Handbook (E) Working Group, Life Actuarial Task Force, and Statutory Accounting Practices Working Group should be acted upon at this time (Steps 1, 2, 3, 5, and 7.a). Charges for the Blanks (E) Working Group, Financial Analysis Handbook (E) Working Group, and Life Actuarial Task Force should be amended as specified in Appendix 1. The charge in Step number 7.a to the Statutory Accounting Principles Working Group should be amended to read:

"Develop the proposed definition for “Primary Security” for use in the Principle-Based Reserving Implementation (EX) Task Force’s future consideration of a proposed NAIC XXX/AXXX Reinsurance Model Regulation Actuarial Guideline AOMR and any future changes to the AOMR."

- Essential

ACLI believes that step number 4 (Adoption of the XXX/AXXX Reinsurance Framework and Exhibits 1 and 2), should be split into two parts. As part of Phase 1, step number 4.a, that portion of the Framework outlined in our Executive Summary, could be adopted in the near-term.

ACLI also believes that Step numbers 8.b and 8.c (with changes) can be included in this Phase 1 approach:

The charge in Step number 8.b (Develop appropriate asset charges for the forms of Other Security) should be changed to read:

"Develop appropriate asset RBC charges for the risk of default for the forms of “Other Security” used by insurers under the NAIC XXX/AXXX Reinsurance Model Regulation in satisfying the Primary Security Requirement as described in the Actuarial Guideline AOMR. These charges should be considered for incorporation into the RBC Cushion developed per the previous charge."

- Essential

The charge in Step number 8.c should be changed to read:

"Determine whether the current RBC C-3 treatment of qualified actuarial opinions is adequate for the purposes of the risks of XXX/AXXX reinsurance transactions that receive qualified actuarial opinions should be extended to qualified opinions made solely due to failure to meet the Primary Security Requirement for Regulation XXX/AXXX-type captive transactions."

- Essential

**Phase 2:**

ACLI believes step number 4.b, adoption of the remainder of the Framework, should be completed after further discussion and experience begins emerging under the adoption of Step 4.a. The suggested
further discussion should be the focus of a special interim meeting or an extended meeting at the Summer National Meeting. We believe that the Task Force should further discuss the desirability and need to open up the Credit for Reinsurance Model Law and Regulation.

Consistent with our comments on Step 4, the charges in Step 6 to the Reinsurance (E) Task Force should not be adopted in the near-term. However, this Step should be included on the list of Phase 2 items that need future discussion and focus.

Consistent with our comments in Appendix 1, charges in Step numbers 7.b (Develop a note to the Audited Financial Statements), 8(a) (Develop an Appropriate RBC Cushion), and 9 (Evaluate Risk Transfer Rules) should not be adopted.

We have no suggested changes to Step 10 (Charges to the Financial Accreditation Standards and Accreditation (F) Committee).
Appendix 3
Summary of ACLI’s Proposed Regulation XXX/AXXX-type Captive Reinsurance Framework

Phase I
1. Implementing the Primary Security Requirement - Using the authority granted in the Actuarial Opinion and Memorandum Regulation (AOMR), promulgate an Actuarial Guideline that acts as the vehicle for specifying the Actuarial Method for determining the Primary Security Requirement, based on a modified VM-20, for future Regulation XXX/AXXX-type captive reinsurance arrangements. This Actuarial Guideline should also set forth definitions used in the Framework, define the scope of applicability, provide remedies available for companies failing to meet the Primary Security Requirement, and stipulate conditions for issuing a qualified actuarial opinion. The Actuarial Guideline should also indicate documentation requirements for inclusion in the Actuarial Memorandum. This Actuarial Method should be applicable irrespective of whether the captive reinsurer is licensed, accredited, or unauthorized. Incorporate the Actuarial Guideline into the NAIC Accounting Practices and Procedures Manual. This should be an interim step to placing the new requirements directly into the AOMR, although the part of the requirements that define the Actuarial Method should remain in an Actuarial Guideline to maintain uniformity across the states and to allow for the Actuarial Method to be kept up to date as future changes to VM-20 are made.

2. Providing Transparency - Develop disclosure requirements pertaining to Regulation XXX/AXXX-type captive transactions. The specific elements of disclosure pertaining to the Primary Security Requirement and other Framework components. These requirements should only apply to future Regulation XXX/AXXX-type captive reinsurance transactions. They should also avoid inclusion of traditional reinsurance with professional reinsurers. Determine whether some disclosure requirements should be in a regulator-only supplemental filing.

3. Ensuring Appropriate Capital - Develop RBC charges for “Other Security”. The RBC charge should be a function of the default risk of the “Other Security” being provided. These requirements should only apply to future Regulation XXX/AXXX-type captive reinsurance transactions. Make changes to the RBC instructions so that a qualified opinion solely based on failure to meet the Primary Security Requirement does not preclude the ceding company from using the discount allowed for companies with unqualified opinions in the calculation of C-3 risk charge.

4. Developing Regulator Guidance - Prepare a new section of the Financial Analysis Handbook to set out procedures and provide guidance to regulators as they evaluate future Regulation XXX/AXXX-type captive transactions.

Decisions to be made to implement Phase 1
1. Determine the appropriate scope of applicability of the Framework in regards to the types of reinsurers that trigger the necessity for the ceding company to include an analysis of their captive reinsurance arrangements in their AOMR. ACLI requests using our wording for scope of application.

2. Determine to what extent, if any, clean, irrevocable, unconditional “evergreen” letters of credit should be allowed as Primary Security in meeting the Primary Security Requirements consistent with the Credit for Reinsurance Model Law and Regulation. ACLI believes that all amounts of
clean, irrevocable, "evergreen" letters of credit should be allowed, as specifically defined by the Credit for Reinsurance Model Law.

3. Determine the need for a "capital cushion" for captive reinsurance transactions. ACLI believes that no "capital cushion" is necessary once the Primary Security Requirement is in effect.

4. Determine the need for the Net Premium Reserve to be included in the Actuarial Method.

5. Make technical decisions regarding the Actuarial Method and the application of the AOMR.

Phase 2
1. Based on decisions made on scope of application, collateral, and risk-transfer (see below), investigate the need for opening up the Credit for Reinsurance Model Law and Regulation.

2. Add a requirement for a Note to the Annual Audited Financial Statements, if needed based on decisions of the Task Force.

Decisions to be made to implement Phase 2
1. Determine the necessity of having collateral requirements for all Regulation XXX/AXXX-type captive reinsurance transactions. The Credit for Reinsurance Model Law does not include collateral requirements in connection with reinsurance ceded to "licensed" or "accredited" reinsurers. ACLI questions the need for collateral for captives that are licensed or accredited. Those captives should be treated no differently than other licensed or accredited reinsurers meeting the requirements of the Credit for Reinsurance Model Law for those statuses.

2. Determine whether Section 2.C. of the Credit for Reinsurance Model Law is applicable if the captive reinsurer is not subject its domestic state’s standards regarding credit for reinsurance, regardless of whether those standards are substantially similar to the standards of the domicile of the ceding company. If applicable, determine whether collateral requirements are needed for such companies. ACLI does not believe that captives fall under the scope of Section 2.C. of the Credit for Reinsurance Model Law.

3. Determine the necessity of evaluating risk-transfer rules in regards to future Regulation XXX/AXXX-type captive reinsurance transactions. ACLI does not believe that the risk-transfer rules are lacking in regards to captive transactions.

4. Determine the necessity of adding a Note to the Annual Audited Financial Statement requiring the ceding company and its independent auditor to indicate whether the Framework is being followed. ACLI does not think a Note in the Audited Financial Statements will add to the regulatory tools already being developed as a function of this Framework.
June 25, 2014

The Honorable Julie Mix McPeak
Commissioner, Tennessee Department of Commerce and Insurance
Co-Chair, Principle Based Reserving Implementation Task Force

The Honorable Joseph Torti III
Superintendent of Insurance, Rhode Island Department of Business Regulation
Co-Chair, Principle Based Reserving Implementation Task Force

Re: Comments to June 14, 2014 Rector & Associates Modified Recommendations

Commissioner McPeak and Superintendent Torti:

Thank you for the opportunity to share our comments on the June 4, 2014 Modified Recommendations to the February 17, 2014 Report of Rector & Associates to the Principle-Based Reserving Implementation (EX) Task Force (the Modified Rector Report, or Report). As requested we are limiting our comments to The Framework Approach (Exhibit 1) and Actions to be Taken by the Task Force (Exhibit 2).

We continue to appreciate the significant amount of work that members of the Task Force and Rector & Associates have expended on this project. Rector and Associates are to be commended for their methodical approach to outlining the numerous and in many instances highly technical issues that will need to be addressed to achieve the NAIC’s stated goal of developing regulatory standards for reinsurance specific to XXX and AXXX reserves. We also want to acknowledge the consideration that was given to comments from various groups to the February 17, 2014 Report regarding the timetable for the project, its scope, as well as expressions of concern about the so-called hazardous financial condition presumption.

Overall we find this description of the Framework to be an improvement over the prior version. While a number of highly technical details remain to be resolved there is much in the Framework with which we can agree. We have had the opportunity to review the comments submitted by the ACLI and generally find ourselves in agreement with their statements of support and recommendations. While in the interest of brevity we’ll not repeat all of those here there are a few particularly important points that we’d like to emphasize for the Task Force:
1. As described in the Framework, this project will be a complex task that will involve considerable time, effort and coordination amongst a number of standing NAIC technical committees. While delegation of the technical work to those groups would be entirely appropriate, it will be vital for the Task Force to provide clear guidance and ongoing direction to those committees. To assist the Task Force we recommend that it establish a project management function responsible to ensure proper communication and coordination amongst the various technical groups and with the Task Force, and to ensure that the entire project remains focused and on track.

2. While we acknowledge having some reservations supporting a Framework before the technical details have been identified, the Task Force should quickly establish a process by which those issues can be identified and the Task Force can provide the necessary guidance to the technical committees before they begin work.

3. The Framework should not delay or otherwise disrupt the ongoing work being done on PBR.

4. The Framework must be consistent with existing state laws and must not interfere with existing regulatory discretion provided by the laws in each state.

5. The Framework should be limited to XXX/AXXX captives, should ensure that future XXX/AXXX captives will be permitted, and should be applied prospectively only to captive arrangements formed after the implementation date.

6. The net premium reserve should not be included as a component of the Actuarial Method.

Thank you for the opportunity to submit our comments. We look forward to working with the Task Force and technical working groups on this important project.

Respectfully Submitted,

Scott R. Harrison
Executive Director
June 25, 2014

Superintendent Joseph Torti, Co-Chair
Commissioner Julie M. McPeak, Co-Chair
Principle-Based Reserving Implementation Task Force
NAIC Central Office
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Comment on the Rector & Associates, Inc. Exposure Draft

Dear Co-Chairs Torti and McPeak:

I am writing to note my support of the Framework recommended in the Rector & Associates, Inc. Exposure Draft dated June 4th (the “Draft”). I am one of the members of the NAIC consumer funded liaison program and the Director of the Center for Insurance Research. The Center for Insurance Research (CIR) is a nonprofit, public policy and advocacy organization founded in 1991 that represents consumers on insurance matters nationally.

In particular, I strongly support the recommendation to require disclosure of XXX/AXXX Reinsurance transactions in a format similar to that provided in Exhibit 5 of the Draft. As stated in my last comment letter (dated March 21, 2014), I remain concerned about the lack of disclosure regarding captive reinsurance transactions and captives in general. As a consumer advocate, I do not believe that captive entities and should be accorded “top-secret” status and recommend the Task Force should further whether it is appropriate to allow captive insurers to avoid public financial disclosure requirements.¹

Thank you for the consideration of my comments on this important matter.

Sincerely,

/s/
Brendan Bridgeland
Director

¹ As noted in my prior comment, CIR believes that disclosure requirements should apply to all parties and that obstacles concerns due to confidentiality laws in some captive jurisdictions are less important than assuring consumers that their insurance benefits are secure.
June 25, 2014

Kris DeFrain
Director, Research and Actuarial
NAIC Central Office
1100 Walnut St., Suite 1500
Kansas City, MO 64106-2197


Dear Kris:

Connecticut would like to offer additional comments, supplementing those we provided on the February 2014 report, regarding the recent June 4, 2014 Rector & Associates Report to the PBR (EX) Task Force. Many of our comments are simply to reaffirm our support for the recommendations that have been previously proposed. Connecticut feels that this report and the proposed “Framework” provide a sound foundation for regulating reinsurance financing transactions.

Our comments are as follows:

- We support that idea of a “Framework,” even as this continues to be finalized. We encourage regulators to look at the big picture and to not get mired in the minutiae at this critical juncture.
- We feel that this should not be limited to just AXXX/XXX captive transactions. There are many aspects of the Framework that could and should apply to all captive transactions. Most of the recommendations that the report makes (beginning on page 1 of the latest report) can apply to any transactions. One example is the rules for “Other” assets/securities that back the non-economic reserves, which should apply to all captive transactions.
- An example of one feature that does not apply across all captive transactions is the use of a modified VM-20 as the “actuarial method.” That said, we encourage sweeping in a similar actuarial method for captives involving AG-43 (which is already a form of PBR), and ultimately, VM-22 once adopted. For captives related to reserves other than VM-20 or AG-43, it should be up to the commissioner’s
discretion until such time there is an actuarial method in the Valuation Manual for that product.

- In Exhibit 1, #3, the third bullet point states “Portions of the statutory reserve exceeding the Primary Security Requirement may be collateralized by Other Security.” We want to receive clarification on whether these non-economic reserves must truly be collateralized by (i.e. held in trust) or simply “backed” by other securities.
- With respect to using letters of credit as “Primary Assets” on a limited basis, we still do not support using these “non-traditional” assets as primary assets.
- In Exhibit 3, III.C, the report states the following: The Appointed Actuary may not issue a non-qualified actuarial opinion if one of the company’s affiliated reinsurers issues a qualified actuarial opinion. We feel there needs to be more guidance on this section and should be reworded.

For example, is it the intention of the report to force one of a companies’ appointed actuaries (e.g. ABC Life and Annuity) to file a qualified opinion if an affiliate company (e.g. ABC Life and Accident company) has issued a qualified opinion just because ABC Life and Annuity is an affiliate company even if the captive transaction in question doesn’t involve both companies? We do not believe this was the intention.

Also, if the qualified opinion is on a small block of policies which is immaterial to a company higher up the holding company chain, does that higher company really have to issue a qualified opinion if the size of the liabilities at the lower company are small? We suggest that rules to account for materiality should be included in this instance.

The Connecticut Insurance Department continues to offer its support in refining and shaping this regulatory framework. Please let us know if you have any questions.

Sincerely,

John C. Thomson
Manager, Captive Insurance Programs

Andrew J. Rarus
Life & Health Actuary

cc: Thomas B. Leonard, Commissioner of Insurance
    Anne Melissa Dowling, Deputy Commissioner of Insurance
    Kathryn Belfi, Director, Financial Regulation
    James Jakielo, Life & Health Actuary
    www.ct.gov/cid
    P.O. Box 816 Hartford, CT 06142-0816
    An Equal Opportunity Employer
On behalf of Commissioner Stewart, I present the following in regard to the revised Rector Report.

1. For the second time, the Rector Report fails to address the impact of the proposed changes for the consumer? Despite the fact that Commissioner Stewart has repeatedly called upon the PBR Task Force and the authors of the Rector Report to consider the impact on the consumer, this important question has been repeatedly ignored. Once again, the Rector Report fails to address the effect on consumers if the Report’s recommendations are adopted.

A very germane policy consideration for every insurance commissioner is whether they are willing to adopt the Report’s recommendations while at the same time ignore the fact that a vote in favor of adopting the recommendations is also a vote to make life insurance more costly and less affordable for the policyholder.

Commissioner Stewart is very concerned that the recommendations once implemented will make certain forms of life insurance more costly and less affordable. The recommendation will result in insurers facing much greater significant capital demands. A result can be that insurers will be forced to raise premiums charged to consumers to meet market return on equity expectations and surplus requirements. For a short period of time, some insurers will absorb the extra cost of capital. However, the long-term consequences are that insurers will have to contribute more capital depending upon the insurer’s determination of appropriate company
action level capitalization ratios. If the recommendations are adopted, premium rates could soon rise by an amount the regulatory community has yet to identify. Because the regulatory community does not know or understand the impact on consumers, the PBR Task Force must address the consequences of the recommendations before adopting a proposed framework.

2. There is no evidence that life reinsurance captive insurers create a systemic risk or there is a particular risk related to a specific captive insurer. To date, no one has identified an actual risk related to captives on either a systemic or specific basis. A systemic risk is an issue inherent in the concept of using captive reinsurers, while a specific basis is when a particular captive presents a risk of failure. Are insurance commissioners ready to cast a vote that will make certain life insurance products more costly and less affordable in the absence of either a systemic or specific risk?

3. The question of whether the regulators will prohibit the use of captive insurers after the implementation of Principle-Based Reserving is a major policy decision that deserves open and transparent debate. The revised Report continues to rely upon a directive from the PBR Task Force that the use of captives should be prohibited after PBR’s implementation. Unfortunately, the directive to prohibit captives was neither voted upon nor debated. To illustrate, on page 5 of the original report, the authors write that they received direction from the PBR Task Force that captive reinsurance financing transactions should continue only until Principle-Based Reserving is effective, but not thereafter. Unfortunately, the PBR Task Force never publicly debated and voted on adopting such a policy. At a time when the NAIC is under criticism for being less transparent, important decisions regarding the use of captive insurers must be matters of open debate and not behind the scenes directives from the PBR Task Force. It is ironic that some regulators on one hand complain that captive transactions require more disclosure because they are not transparent, yet on the other make a significant policy decision that impacts consumers in a non-transparent process.

4. The Actuarial Method recommended by the Report should eliminate the Net Premium Reserve (NPR). The revised report does address the NPR. If a modified form of VM-20 becomes the Actuarial Method then the following must be recognized:

i. VM-20 is designed to be highly conservative in the early years.
ii. There are still unresolved issues with VM-20.
iii. The Net Premium Reserve (NPR) must be removed from the calculation.

Removal of the NPR is particularly noteworthy. Unlike the Deterministic and Stochastic reserves, the NPR does use standard assumptions. The Report did not recommend that the NPR “floor” be eliminated. However, it did recommend that Life Actuarial Task Force be charged to consider whether adjustments should be made to the NPR assumptions and, if so, to develop such
adjustments for use in connection with the Actuarial Method. At least the Report recognizes that there are issues with the NPR, which is why the use of the NPR should be eliminated if the Report’s recommendations are adopted.

5. **Transfer the captive insurance discussion to the Captives (EX) Working Group.**

Last summer the members of the NAIC voted to adopt the Principles-Based Reserving Implementation Plan. This plan created the Captives (EX) Working Group. Page 12 of the PBR Implementation Plan reads,

> The NAIC needs to further assess the solvency implications of life insurer-owned captive insurers and other alternative mechanisms in the context of PBR. The solution for captives and SPVs within the context of PBR will be largely based on Captives and Special Purpose Vehicle (SPV) Use (E) Subgroup’s report as adopted by the Financial Condition (E) Committee and referred to the PBR Implementation (EX) Task Force. The Task Force will create a Working Group to concentrate on this issue and propose the way forward.

Via the captive white paper and PBR Implementation Plan, the NAIC has created a road map for addressing life insurer-owned captives. Unfortunately, the NAIC is not following the map it created. Instead of one centralized working group to address captives, there are three separate approaches. First, the Financial Analysis Working Group (FAWG) conducted a survey of life-insurer owned captive insurers. Second, the F Committee has taken comments whether life-insurer owned captive insurers should be subject to the accreditation standards. Third, the PBR Task Force is continuing to consider the Rector Report. Instead of this fragmented approach, Commissioner Stewart believes that a working group whose single focus is captive insurance should “concentrate on the captive insurance issue and propose a way forward.” As a result, the members of the Captives (EX) Working Group should be appointed as soon as possible primarily with regulators knowledgeable and familiar with captive insurance transactions and regulators whose domestic ceding companies transfer risk to captives.

Thank you for considering these recommendations and I look forward to addressing the Task Force during the August meeting.
From: Mark Birdsall [mailto:MBirdsall@ksinsurance.org]  
Sent: Wednesday, June 25, 2014 4:10 PM  
To: DeFrain, Kris  
Cc: Fleming, Dave; Abitz, Kenneth  
Subject: Kansas comments on updated captives framework  

Kris,

Hi! The following represents comments from the Kansas Insurance Department regarding the revised Rector Report recommendations:

With respect to the issue raised on a recent PBR ITF call regarding the current impact of a qualified actuarial opinion on RBC, our research has shown that the current charge for a qualified opinion is located on lines (10) and (26) of LR027 and is equal to (0.0231-0.01564) times the respective Exhibit 5 reserves for single premium life, non-variable annuities and miscellaneous reserves, which includes substandard, deficiency reserve, IPC, and additional actuarial reserves due to asset adequacy analysis. Therefore, lines (10) and (26) of LR027 would likely need to be modified to properly address the following recommendation from the updated Rector Report: "We also recommend that the NAIC evaluate whether the current RBC “charge” relative to qualified actuarial opinions is appropriate."

Please note also that the RBC factors on LR027 are decreased by one-third if the company submits an unqualified actuarial opinion based on asset adequacy testing. Thus, the treatment of a qualified opinion is to assign a non-reduced factor. The charge to CATF may need to be revised to be more consistent with this approach in the RBC Instructions.

The 12/2014 date on page 4 in the body of the report is inconsistent with the 12/2015 date under number 8 in Exhibit 2. Clarification of this is needed with the understanding that 12/2014 would be problematic.

We have questions regarding how the RBC calculation requirements would be applied to an entity not subject to RBC requirements. If inputs would need to be provided by such an entity that do not conform with statutory inputs currently required for RBC calculations, there are comparability and auditability issues.

With respect to the CATF charge to develop RBC factors for the “Other Assets” contemplated in the captives framework, we note that CATF would have until June 30, 2015, to meet this charge for these new factors to be effective at year-end 2015. We believe this is an adequate time-frame to accomplish the required work.

We support the use of a modified version of VM-20 as the basis for calculation of the amount of Primary Assets in the Rector Report recommendations. We believe it is very important to recognize that to achieve the stated goal of reducing or eliminating the need for captives being used to finance redundant statutory reserves, the material implicit margins currently in VM-20 would need to be removed. One of the largest of these implicit margins is in the mortality assumption. Updating the mortality table to 2014 VBT/CSO will certainly help, but unless the projection of mortality improvement is permitted in the Primary Asset calculations, the captives framework may not achieve its stated goal. Both the recent New
York estimate and the estimate from the PBR Impact Study indicate that projected mortality improvement has a material impact on reserves. Therefore, as one of the modifications of VM-20 for the purposes of the captives framework, we strongly urge consideration of projections of mortality improvement. We note that reliable estimates of mortality improvement could be derived from the current analysis underlying the development of the 2014 VBT/CSO mortality tables. A process for updating these estimates of mortality improvement from time to time should also be established.

In the same vein, we believe it would be most appropriate to consider the calculation of a Current Estimate Reserve as a modification to VM-20 for use in the Primary Asset calculations. The Current Estimate Reserve would include no implicit margins, but would be loaded with explicit margins calculated either using the individual assumption margin approach from VM-20 or the aggregate margin approach developed for VM-22. In either case, the size of the total margins should be explicitly calculated in order to determine whether the reserves are at an appropriate level of conservatism for the calculation of Primary Asset amounts. Such an evaluation would be very difficult if there are material implicit margins in the calculation of the Primary Asset amount.

To properly calculate the Current Estimate Reserve, the risk profile of the particular products under review must be adequately reflected. For both term insurance and UL with secondary guarantees, risks other than interest rate risk are likely to be significant. Ideally, actuaries would like to calculate reserves using stochastic modeling of all the material risks associated with a product group. However, these calculations would be challenging to audit and time-consuming to make using current computer software and hardware. A practical alternative would be the Representative Scenarios Method developed by the American Academy of Actuaries Annuity Reserve Work Group for use with VM-22. Currently, Kansas is sponsoring a field test of these calculations that should be completed by early September. The basic idea is to select a relatively small number of representative scenarios at specified probability levels that will approximate the results from full stochastic modeling.

One of the revised recommendations from the updated Rector Report is to develop a new Actuarial Guideline with respect to the Actuarial Opinion and Memorandum Regulation. As noted on a recent PBR ITF call, LATF also had discussed creating an AG for the AOMR. The purposes for such a Guideline would include improving consistency of company actuarial practice in asset adequacy analysis and strengthening asset adequacy analysis to reflect the more complex multi-risk products and emergence of PBR. While it is clear that these purposes must not delay the implementation of the captives framework, we ask that consideration of these additional objectives be incorporated into the AOMR AG development as far as possible.

Respectfully submitted,

Mark Birdsall, FSA, MAAA, MBA
Chief Actuary
Kansas Insurance Department
785-296-1056
June 24, 2014    Via E-mail and U.S. Postal Service

The Honorable Julie Mix McPeak, Commissioner
The Honorable Joseph Torti III, Superintendent
Co-Chairs, Principle-Based Reserving Implementation (EX) Task Force
c/o Kris DeFrain
Director, Research and Actuarial Department
NAIC Center for Insurance Policy and Research
National Association of Insurance Commissioners


Dear Commissioner McPeak and Superintendent Torti:


The North Carolina Department of Insurance (“NCDOI”) is pleased to see that the modified recommendations continue to address the PBR issues through regulation of the direct/ceding insurers. In the NCDOI’s attached letter dated April 10, 2014, to the Honorable John M. Huff, Chair of the Financial Regulation Standards and Accreditation (F) Committee, the NCDOI expressed its agreement with the Rector and Associates, Inc. statements in the February 17, 2014 report about the importance of focusing on the regulation of the direct/ceding insurers with regards to these PBR issues. However, the NCDOI does have concerns with the modified recommendations presented by Rector & Associates, Inc. for the following reasons:

- The “problem” that Rector & Associates, Inc. was directed to address has not been clearly identified with any degree of specificity. Therefore, additional regulation is unwarranted until a specific problem is identified. Item 2 of the NCDOI’s April 10, 2014, letter to Director Huff provides additional comments regarding this issue.
- The recommendations include a double hit to the RBC of certain ceding insurers due to the capital charge on “Other Assets” supporting noneconomic reserves and the RBC charge due to an insurer ceding to a reinsurer that is not subject to RBC. The NCDOI does not agree that both RBC charges are necessary.
Certain target dates included in the recommendations do not provide enough time for discussion, development, and implementation. Given the number of loose-ends that must be addressed, it appears more time will be necessary.

- The proposal does not contain materiality thresholds.
- The approach appears to be cumbersome, requiring action on numerous issues by various working groups, task forces and committees.
- There are still outstanding issues relating to the reserves developed through the use of VM-20.

Commissioner Karen Weldin Stewart of Delaware, in her May 16, 2014, memorandum to Director John Huff, Chair of the NAIC F Committee, recommended the use of one centralized working group, the Captive (EX) Working Group, to address all captive issues. As Commissioner Stewart explained in her memorandum, this working group was created by the Principles-Based Reserving Implementation Plan, but no state has been appointed to the working group. The NCDOI agrees with this approach and believes the working group should be populated.

The NCDOI appreciates the consideration of the above comments by the Principle-Based Reserving Implementation (EX) Task Force.

Sincerely,

Wayne Goodwin
North Carolina Commissioner of Insurance

cc: Principle-Based Reserving Implementation (EX) Task Force
    Steve Kinion, Director, Bureau of Captive and Financial Insurance Products
June 25, 2014

The Honorable Julie Mix McPeak
Commissioner
State of Tennessee Department of Commerce and Insurance
Davy Crockett Tower
500 James Robertson Parkway
Nashville, TN 37243-1220

The Honorable Joseph Torti, III
Superintendent
State of Rhode Island Department of Business Regulation
1511 Pontiac Avenue, Building 69-2
Cranston, RI 02920-4407

Re: Rector & Associates, Inc. XXX/AXXX Reinsurance Framework, Modified
Recommendations – June 4, 2014 (the "Modified Rector Recommendations")

Dear Commissioner McPeak and Superintendent Torti:

The Northwestern Mutual Life Insurance Company appreciates this opportunity to
comment on the XXX/AXXX Reinsurance Framework (the "Framework") proposed by the
Modified Rector Recommendations. We continue to advocate for a Framework that upholds
principles of uniformity, transparency and effective risk transfer in order to preserve and
strengthen the state-based system of insurance regulation. We appreciate the diligent effort by
Rector & Associates, state regulators and others to develop the Framework in the face of the
many obstacles that have been raised.

This exposure of the Modified Rector Recommendations presents an opportunity for a
fresh assessment. If the proposed Framework is implemented, will the regulation of insurer use
of captives meet the principles of uniformity, transparency and effective risk transfer? Or will
gaps remain that leave the state system of insurance regulation open for criticism? We
encourage policymakers to consider the following observations and make policy decisions to
strengthen the Framework:

- Uniformity and effective risk transfer are not achieved unless all XXX and AXXX
captives transactions are backed by appropriate assets. While the credit for reinsurance
models allow for certain types of letters of credit or other contingent assets to secure a
reinsurance obligation, a captive is not a traditional reinsurer. The proper focus should
be on the assets available to meet policyholder obligations. (For this reason, we prefer

David R. Remstad, FSA
Senior Vice President & Chief Actuary
720 East Wisconsin Avenue
Milwaukee, WI 53202-4797
414 665 2568 office
daveremstad@northwesternmutual.com

© 2014 National Association of Insurance Commissioners
the term "primary assets" to "primary security"). The ceding insurer must have access to traditional assets up to what the Framework now describes as the "Primary Security Requirement". Transactions that use letters of credit should not be left outside the Framework. Instead, such transactions should be subject to the Framework and letters of credit should not count towards the Primary Security Requirement.

If the Framework is implemented without these changes, have policymakers assessed whether transactions will migrate to letters of credit, and so sidestep the "Primary Security Requirement"?

- Effective risk transfer is unlikely to occur when a guarantee by a non-insurance affiliate of the ceding insurer keeps the risk within the group. This is so whether the guarantee is direct (the captive is capitalized with a guarantee) or indirect (the affiliate guarantee backs a letter of credit or "asset" issued by a third party). The NAIC should stipulate in the Framework that an "asset" backed by an affiliate guarantee does not count towards the Primary Security Requirement.

If the Framework continues not to account for risk being retained by non-insurance affiliates, are policymakers comfortable that effective risk transfer will be achieved?

- The ultimate goal of the Framework must be to restore uniformity to the capital and reserving rules insurance companies follow, whether they use captives or not. The NAIC has concluded that Principles-Based Reserving (PBR) is the ultimate solution. In order to remain true to that conclusion, the NAIC needs to make the Framework's Actuarial Method identical to the reserves under PBR, including the net premium reserve (NPR). Modeled reserves can be extremely sensitive to assumptions. The NPR provides assurance that minimum standards will be maintained. Proponents of the status quo with respect to captives have argued that some parts of PBR are flawed. If true, the response should be to modify PBR, which can be accomplished through changes to the valuation manual. The response shouldn't be to perpetuate a second, lower reserve standard.

If the NPR is not included in the Framework, have policymakers considered the possibility that support for PBR will wane, thereby jeopardizing eight years' worth of work?

- RBC is the state regulators' primary metric for determining whether an insurer is adequately capitalized. RBC has proven itself an effective tool. If that metric is going to retain its value in ensuring solvency, the ceding insurer should be required to maintain the "RBC cushion" described in the Modified Rector Recommendations, and that cushion should be applied universally.

- We support the increased disclosures and the proposed note to the ceding insurer's audited financial statements, recognizing that these will improve transparency. We believe that the Framework should go further. Consistent with the treatment of permitted practices, there should be disclosure of the effect on surplus of using assets not admitted under uniform NAIC rules to support reserves. This disclosure should apply to both new and existing captives. Proponents of captives state that there is no weakening of solvency standards. The NAIC should require disclosure which allows all stakeholders to verify this claim.
In order to preserve state-based insurance solvency regulation, there is no substitute for regulators making difficult decisions in order to achieve a strong framework for regulating XXX and AXXX captives. We encourage the NAIC to do this expeditiously and to move on to addressing other uses of captives that were not contemplated by current regulation.

Sincerely,

David R. Remstad, FSA, MAAA
Senior Vice President & Chief Actuary
June 25, 2014

Via Electronic Delivery

The Honorable Julie Mix McPeak
Commissioner
State of Tennessee Department of Commerce and Insurance
Davy Crockett Tower
500 James Robertson Parkway
Nashville, TN 37243-1220

The Honorable Joseph Torti, III
Superintendent
State of Rhode Island Department of Business Regulation
1511 Pontiac Avenue, Building 69-2
Cranston, RI 02920-4407

Re: Rector & Associates, Inc. Modified Recommendations concerning the regulation of XXX/AXXX reserve financing structures

Dear Commissioner McPeak and Superintendent Torti:

We have reviewed the Modified Recommendations issued by Rector & Associates, Inc. ("Rector & Associates") dated June 4, 2014 (the "Modified Recommendations") that have been exposed for comment by the National Association of Insurance Commissioners’ (the "NAIC") Principle-Based Reserving Implementation Task Force.

We appreciate the effort by the NAIC and Rector & Associates to develop the Modified Recommendations. From the outset of the NAIC’s work on the captives issue, beginning with the development of the NAIC’s white paper, New York Life has consistently stated that any regulatory reform should include a uniform and appropriately conservative framework to govern the use of captive structures to finance life insurance reserves. Unfortunately, the Modified Recommendations fall short of meeting that goal.

Unlike the original recommendations included in the report issued by Rector & Associates, dated February 17, 2014 (the "Original Report"), the most effective enforcement mechanism included in the Modified Recommendations will take years to implement, allowing the very transactions the NAIC is trying to eliminate to continue unabated in the meantime. In effect, if the NAIC adopts the Modified Recommendations, it would be endorsing the status quo.
Unpersuasive Legal Arguments

In comments on the Original Report, some representatives of the life insurance industry questioned the legality of the enforcement mechanisms proposed. We disagree with the arguments advanced by these critics. It is difficult to imagine that when enacting the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank") in the aftermath of the financial crisis, Congress intended to protect captive life reinsurance structures designed to circumvent uniform national reserving and solvency requirements for life insurers. In reality, Dodd Frank’s preemption of extraterritorial regulation of credit for reinsurance and reinsurance agreements was intended to facilitate transactions with third party reinsurers. By interpreting Dodd Frank in a way that does not allow implementation of the recommendations in the Original Report in a timely manner, the NAIC is allowing Dodd Frank to be used to perpetuate structures that undermine strong solvency regulation and therefore diminish consumer protections – outcomes directly contrary to the goals of Dodd Frank.

Legitimizing the Status Quo

If the NAIC adopts the Modified Recommendations, it would allow unpersuasive legal arguments that have not been tested in the courts to forestall an effective regulatory solution to a pressing solvency issue. Ironically, by preserving the status quo, the NAIC would jeopardize the implementation of its self-proclaimed long-term solution to the captives issue – principles-based reserving ("PBR").

In our view, adopting the Modified Recommendations would actually be worse than doing nothing at all. By adopting an inadequate framework, the NAIC would legitimize questionable financing structures that undermine important solvency protections. Without effective and uniform regulation of captive structures, PBR, even if it becomes effective, will be rendered meaningless. Individual companies and regulators can and will continue to set reserves on an ad hoc basis via captive structures. The added modeling work and complexity associated with PBR will be a wasted effort.

Others argue that captive structures increase availability and lower prices on insurance products and therefore benefit consumers. However, lowering prices at the expense of effective solvency regulation actually harms, rather than helps, policyholders. As evidenced by the strength of the state-based insurance regulatory system over many years, strong uniform reserving and solvency regulation is the best consumer protection.

The NAIC Should Simply Fix the Reserving Requirements

As we have stated in previous comment letters, we believe that statutory reserving requirements should be set at appropriately conservative levels and that any demonstrated reserve redundancies should be addressed directly and uniformly through the underlying valuation requirements. This fundamental principle should guide any regulatory solution.
to the problem of captives. As currently contemplated, the Modified Recommendations do not support this goal.

Rather than adopt the approach set forth in the Modified Recommendations, we respectfully urge the NAIC to instead focus its attention on immediately reforming the underlying formulaic reserving requirements on an interim basis until PBR is implemented nationwide. While it may be difficult, if not impossible, to achieve a “perfect” formulaic solution, it is certainly possible to implement an interim solution that would provide meaningful relief in a reasonably short timeframe. The recent proposal by the New York State Department of Financial Services to reform the term reserving formula could serve as a useful starting point for this effort. By right-sizing reserve requirements directly, and eliminating the use of captive structures to finance life insurer reserves, state regulators can both address a serious solvency issue in a rigorous and uniform way and increase the likelihood that PBR will become effective as quickly as possible.

**Action is Urgently Needed**

Captive structures have been subject to discussion and debate by state regulators for over two years, and the NAIC issued its white paper on this topic over a year ago. A multitude of third parties, ranging from the Federal Insurance Office, Financial Stability Oversight Council and international regulators to rating agencies and academics, have weighed in on the use of captives by life insurers and expressed significant concerns. This is a critical solvency issue – perhaps the most critical solvency issue facing state insurance regulators today. Given the importance of the issue, and the significant time and resources devoted to it, we respectfully urge the NAIC to immediately begin developing revised formulaic reserving standards, to be effective for business written on and after January 1, 2015. In the interim, state insurance regulators should strongly consider implementing an immediate national moratorium on life reinsurance captive transactions by denying reinsurance reserve credit for any future cessions to such captives (regardless of when the captive was formed or when the underlying policies were written).

While we expect captive using companies and captive domicile jurisdictions to oppose such action, it should be noted that all have been on notice since at least June 6, 2013, the date of the final NAIC Captives and Special Purpose Vehicles White Paper, that state regulators are seriously considering fundamental changes to the regulation of life insurer captives. The fact that questionable structures have continued to be used since that date should not be allowed to impede the ability of regulators to address the issues raised in the white paper in a timely manner. Quite simply, companies will not be incented to fully support the development of interim revisions to the formulaic reserving requirements unless a moratorium is in place.

**Specific Concerns with the Modified Recommendations**

Turning to the specifics of the Modified Recommendations, we want to highlight two high-level concerns with the current proposals:
1. Unlike the presumption of Hazardous Financial Condition included in the Original Report, the “interim” approach using the Actuarial Opinion and Memorandum Regulation (the “AOMR”) is an inadequate deterrent to non-compliance and therefore will jeopardize support for the longer term revisions suggested in the Modified Recommendations, and potentially PBR.

While we appreciate that the AOMR approach can be implemented relatively quickly, we are skeptical that this approach will meaningfully change the practices of insurers and state regulators. Simply put, there is no effective enforcement mechanism – if there are no meaningful adverse consequences from a qualified opinion, insurers will not be incented to comply. As noted in the Modified Recommendations, there is an increased risk-based capital charge if an insurer’s actuarial opinion is qualified. However, unless a significantly higher charge is imposed, we do not believe this will serve as an effective deterrent for many companies given the risk-based capital benefits presented by many captive transactions. In addition, some have suggested that a qualified opinion will come with a stigma that companies will want to avoid. We doubt that this will be the case, particularly given that the ceding insurer’s domestic regulator would have approved the non-compliant captive structure.

We believe proponents of the AOMR approach find it to be attractive precisely because non-compliance will bring no meaningful consequences. Conveniently, this feature also allows the approach to sidestep the legal arguments that critics have raised in an effort to thwart the quick implementation of the more powerful enforcement mechanisms proposed in the Original Report. At their core, these legal arguments are premised on the idea that any meaningful adverse consequence for non-compliance with the framework is effectively a denial of reinsurance reserve credit. If that denial is not enforced by the domestic state, then the critics argue that it violates Dodd Frank’s preemption of extraterritorial regulation of credit for reinsurance and reinsurance agreements. If the denial is not expressly authorized by state credit for reinsurance law, then the critics assert that it violates the legal principle that a regulation (such as the AOMR) cannot override a statute. If a qualified opinion came with real consequences, it too would amount to an effective denial of reinsurance reserve credit in accordance with the critics’ own view of the legal analysis.

The longer term recommendations in the Modified Recommendations, including the proposed revisions to the Model Credit for Reinsurance Law, have the potential to meaningfully reform the use and regulation of life insurer captives. If the NAIC chooses to pursue implementation of the Modified Recommendations, the revisions to the model law form an integral part of the proposal that should be adopted. However, implementing these recommendations will take considerable time, in large part because individual state legislative action is required. If insurers are able to effectively maintain the status quo in the interim because the interim measures lack a viable enforcement mechanism, they may stall, delay, weaken and perhaps ultimately fight any long term solution.
2. **Even the full package of recommendations fails to provide a uniform floor for the Primary Security Requirement, and leaves many questionable structures unregulated.**

We continue to believe that it is critical that the net premium reserve (the “NPR”) be included in the Primary Security Requirement. Quite simply, no NPR means no uniformity across the states or even within the same state. We acknowledge that the current NPR is imperfect. However, an appropriate formulaic floor is a critical component of both PBR and the captives framework. Moreover, the current NPR was developed largely by industry, through the American Council of Life Insurers, and therefore reflects considerable input and analysis from both industry and regulators.

Much of the discretion and judgment permitted in the modeled reserve components of PBR is acceptable due to the existence of the formulaic NPR. Without this formulaic floor, there would be an overwhelming reliance on models and assumption setting and increased pressure on actuaries to take aggressive approaches. The only way that PBR could result in consistent, appropriately conservative reserves without a formulaic floor would be to add a great deal of additional prescription and oversight to the modeled reserve components (much like the approach taken in other jurisdictions that use a principles-based system, where company models are often reviewed and approved in advance by regulators). As currently contemplated, the deterministic reserve simply does not have this level of prescription.

In addition, if the NPR is removed from the Primary Security Requirement, but is retained in PBR, industry may lose its incentive to push for adoption of PBR, since under PBR the NPR will serve as a floor on company discretion. As alluded to above, removing the NPR from PBR itself is likely to be a non-starter for many regulators and companies. For the same reasons that the NPR is included within PBR, a formulaic floor should be retained in the Primary Security Requirement and regulatory actuaries should be given a strict time frame to make the NPR workable.

Finally, the Modified Recommendations leave open the question of whether unconditional letters of credit should be allowed as “primary security.” We see no reason that letters of credit should be exempted, particularly where affiliate guarantees and letter of credit reimbursement obligations defeat risk transfer.

* * *

Again, we appreciate the efforts of Rector & Associates and the NAIC to move toward a swift and effective solution to address the issues surrounding captives. We also appreciate your consideration of this comment letter. We believe the appropriate regulation of life insurers’ use of XXX/AXXX reserve financing structures is crucial to protect insurer solvency. As we have stated previously, we see this issue as a major threat to the future of the state-based insurance regulatory system. Unfortunately, because the Modified Recommendations substantially weaken the proposals in the Original Report, we do not believe that they mitigate this threat. Please let us know if you would like to discuss this letter with us or require any additional information.
Sincerely,

George Nichols III
SVP in Charge of the Office of Government Affairs

Joel M. Steinberg
SVP, Chief Risk Officer & Chief Actuary
Via Email directed to Kris DeFrain (kdefrain@naic.org)

June 25, 2014

The Honorable Julie Mix McPeak
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1220

The Honorable Joseph Torti, III
Superintendent
Rhode Island Department of Business Regulation, Insurance Division
1511 Pontiac Avenue
Cranston, RI 02920-4407

Re: USAA’s Comments Regarding the Modified Recommendations of Rector & Associates, Inc. to the Principle-based Reserving Implementation (EX) Task Force, June 4th, 2014 (the “Recommendations”)

Dear Commissioner McPeak and Superintendent Torti:

In the interest of our members - the men and women of the U.S. military and their families - we are pleased to offer our comments on the Recommendations, which act as a roadmap for implementing the framework that Rector & Associates had proposed in its report dated February 17, 2014. We continue to support the general direction of Rector’s proposed framework and Recommendations.

We believe that the implementation of these Recommendations should promote adoption of Principle-based Reserves (PBR) and enhance regulatory consistency between companies that use XXX/AXXX captives and those that do not. We therefore offer the following comments on Exhibit 1 of the Recommendations:

Actuarial Method: We agree that the Actuarial Method should consist of VM-20, modified to incorporate changes to mortality tables as developed by the American Academy of Actuaries and any other modifications suggested by LATF. We are not in favor of altering or eliminating the “net premium reserve” component of VM-20. The net premium reserve facilitates the adoption of PBR by the states as it provides a minimum regulatory reserving standard which is the same across all companies. As noted by Neil Rector in these Recommendations, the net premium reserve helps ensure consistency between transactions and would help prevent the Primary Security Requirement from deviating substantially from what the reserve would be under PBR. Any alterations to the net premium reserve should only be made in the context of the Valuation Manual, so that the same PBR applies to companies that have captive arrangements in place and to those who do not.
The Honorable Julie Mix McPeak
Commissioner
Tennessee Department of Commerce
and Insurance
June 25, 2014

Primary Security: We are not in favor of allowing letters of credit as Primary Securities within the framework envisaged in these Recommendations. As we stated in our earlier comment letter dated March 21, 2014, traditional insurance accounting rules have never allowed LOCs to be treated as admitted assets and allowing LOCs to be used as a “primary asset,” even in a limited fashion, could make life captive arrangements more economically attractive than PBR - a result that would be counter to the express direction of the Task Force.

We appreciate the opportunity to comment and please let one of us know if we can answer questions or provide further assistance.

Sincerely yours,

Steven Alan Bennett
Executive Vice President
General Counsel & Corporate Secretary

William H. McCartney
Senior Vice President
Assistant to the General Counsel
For Special Projects
July 10, 2014

The Honorable Julie Mix McPeak
Commissioner
State of Tennessee Department of Commerce and Insurance
Davy Crockett Tower
500 James Robertson Parkway
Nashville, TN 37243-1220

The Honorable Joseph Torti, III
Superintendent
State of Rhode Island Department of Business Regulation
1511 Pontiac Avenue, Building 69-2
Cranston, RI 02920-4407

Re: Rector & Associates, Inc. Modified Recommendations concerning the regulation of XXX/AXXX reserve financing structures

Dear Commissioner McPeak and Superintendent Torti:

As requested by Superintendent Torti on the June 30th PBR Implementation Task Force call, New York Life is offering the following as a supplement to our June 25th comment letter.

At the outset, we want to thank you for the opportunity to further explain the comments we shared on last week’s call. As we stated, New York Life can support the Modified Recommendations proposed by Rector & Associates, if the following three features are included – (1) the entire framework is adopted as a package by the end of 2014; (2) the framework promotes uniformity through the inclusion of a net premium reserve; and (3) the entire framework, as adopted, applies to (a) new business written on or after January 1, 2015, whether placed in an existing or new captive structure, and (b) new captive structures established on or after January 1, 2015.

From the outset of the NAIC’s examination of life insurers’ use of captives structures to finance life insurance reserves, we have consistently stated that the lack of a uniform standard for the review of such captive structures poses a potentially serious solvency risk.

Our June 25th comment letter was critical of the Modified Recommendations’ failure to address these concerns, specifically that it weakened the “teeth” of the proposed framework contained in the Rector and Associates’ Final Report. We made it clear that we were concerned that if the NAIC were to adopt a framework that does not quickly achieve a uniform, reasonably conservative standard, it would simply legitimize the status quo. New York Life cannot support such an outcome.

We remain concerned that the exposed framework could fall short, and are skeptical that the AOMR modifications will be effective even as a short term measure. However, we
believe that the Modified Recommendations would be a meaningful step in the right direction if they are implemented quickly and in their entirety. Specifically, we believe that if the framework includes the following three critical features, it would move in the direction of strong and uniform regulation of XXX/AXXX reserve financing structures; and thus we could offer our support.

1) Adoption of the Framework as a Package by the End of 2014

The Rector & Associates proposal is designed as a package and, in order for it to be effective, it must be adopted and implemented as a package. This includes the proposal’s most meaningful provisions – the proposed amendments to the model credit for reinsurance law and regulation. Moreover, the NAIC has spent more than two years exploring this issue and the time is now for the NAIC to adopt the amendments to model laws and regulations and NAIC instructions and manuals that are necessary to implement the framework – any further delays would send a message that the NAIC is not serious about addressing a critically important solvency issue.

2) Inclusion of the Net Premium Reserve (NPR)

Our June 25th letter detailed the reasons why the net premium reserve must remain part of the required actuarial method. In summary, we feel inclusion of the NPR is necessary to ensure a uniform and consistent minimum standard across companies and states – and even between companies in the same state.

We also believe that removing the NPR will incent many companies to pull their support for the country-wide adoption of PBR. This is a concern to us, because ultimately New York Life wants to see reserve reform replace the need to use captives.

3) Effective Date of January 1, 2015

As stated above, we respectfully urge the NAIC to adopt all of the elements of the proposed framework this year, including the proposed amendments to the model credit for reinsurance law and regulation. Adoption in 2014 would allow the framework to apply to (1) new business written beginning January 1, 2015 and (2) new captive structures established on or after January 1, 2015.

The framework is careful to avoid onerous consequences for the existing reserve financing structures that some life insurers have created during the last decade. We understand the rationale for exempting structures that already exist. We do not believe, however, that this rationale should be extended to business that is written or structures that are created in the future. The effective date of the framework should therefore be January 1, 2015, and that effective date should be part of all of the elements of the framework that are brought into force during the coming years.

We understand that it will take time for states to enact the amended legislation and promulgate the amended regulations needed to bring new credit for reinsurance requirements into force. The time required for enactment and promulgation, however, does not necessitate a delay in the effective date of these requirements past January 1, 2015. Instead, life insurers should expect that once laws and regulations are in force, they
will apply to any business that has been written or captive structures that have been established on and after that date.

This type of approach would not amount somehow to an attempt to apply new requirements “retroactively” since it would only apply to business that is “in-force” as of the date the requirements become effective. In the history of insurance regulation, there are many examples of important regulations that were designed to apply to both in-force and future business. We see no valid reason to delay implementation of the key component of the NAIC’s solution to a potentially serious solvency issue. Nevertheless, even though the requirements could be made to apply to all in-force business as of the date the requirements are effective, as indicated above we do understand the arguments in favor of exempting business already ceded to existing reserve financing structures. Accordingly, we believe applying the regulations as described above would be an appropriate compromise position since it would exempt any business written and ceded to existing structures prior to January 1, 2015.

* * *

New York Life appreciates your consideration of our June 25th comment letter as well as this supplemental information. We have been consistent with our concerns about the use of captives by life insurers to finance reserves. We do believe that the framework being proposed by Rector & Associates would represent meaningful reform if it includes the features we outline above. Please let us know if you would like to discuss this letter with us or require any additional information.

Sincerely,

George Nichols III
SVP in Charge of the Office of Government Affairs

Joel M. Steinberg
SVP, Chief Risk Officer & Chief Actuary
The Principle-Based Reserving Implementation (EX) Task Force met via conference call June 12, 2014. The following Task Force members participated: Joseph Torti III, Co-Chair (RI); Julie Mix McPeak, Co-Chair (TN); Jim L. Ridling represented by Steve Ostlund (AL); Dave Jones represented by Al Bottalico, Kim Hudson and Perry Kupferman (CA); Thomas B. Leonardi represented by Andrew Rarus and John Thomson (CT); Kevin M. McCarty (FL); Nick Gerhart and Jim Armstrong (IA); Sandy Praeger represented by Mark Birdsall (KS); John M. Huff represented by Fred Heese, William Leung, Laurie Pleus, John Rehagen and Maria Sheffield (MO); Benjamin M. Lawsky represented by Robert Easton (NY); Mary Taylor, Dale Bruggeman and Pete Weber (OH); Julia Rathgeber represented by Mike Boerner and Ignatius Wheeler (TX); Todd E. Kiser represented by Tomasz Serbinowski (UT); Susan L. Donegan, David Provost and Jonathan Spencer (VT); and Jacqueline K. Cunningham represented by Craig Chupp, Ern Johnson, David Smith and Doug Stolte (VA).

1. **Voted to Expose the June 4 Rector Report**


Mr. Rector said the substance of the recommendations has changed slightly and the way the recommendations would be implemented or codified is significantly different. He said the requirements would not apply, in most instances, to traditional reinsurance arrangements with well-capitalized unaffiliated reinsurers. Reinsurance ceded to certified reinsurers and licensed and accredited reinsurers that comply with statutory accounting and RBC would be outside the scope of the new requirements. The key core provisions are the same: 1) all companies should use the same basic actuarial methodology to calculate the economic reserve; 2) the actuarial methodology should be a modified version of VM-20, Requirements for Principle-Based Reserves for Life Products; 3) there should be an appropriate RBC cushion; and 4) basic elements of the transaction should be disclosed.

Mr. Rector said the codification methodology was revised. He said some comment letters said that some implementation aspects could possibly be in conflict with the federal Dodd-Frank Wall Street Reform and Consumer Protection Act. While the NAIC disagrees, Mr. Rector said this was found to be a distraction and, therefore, revised the codification methodology. He said the difficulty with codification is timing, because changing state laws takes time. Regulators want quicker action and, therefore, the approach is a two-pronged approach. He said the long-term methodology to adopt laws and regulations is proposed, but some short-term quick fixes are also provided. A revision to the *Actuarial Opinion and Memorandum Regulation* (#822) has both near term-term and long-term application. The commissioner would specify different methods, which could be used on an interim basis to adopt an actuarial guideline. This would essentially require the opining actuary for the ceding company to issue a qualified opinion if that company engages in transactions that are not exempt from the requirements and do not comply with the requirements. The long-term aspect would be to use the actuarial guideline to amend Model #822 or to draft another regulation. He said there are limitations to use of an actuarial guideline, so he said this would not be a panacea. An amendment to the *Credit for Reinsurance Model Law* (#785) would be another long-term solution. He said a requirement would be added for these companies to avoid collateral requirements if, in addition to meeting current requirements in the regulation, they also follow statutory accounting and RBC in a material way. The long-term solution for unauthorized reinsurers would involve a regulation change and new accreditation requirement. Lastly, he recommended new public disclosure, changes to RBC, and uniform evaluation of risk transfer rules and financial analysis.

Mr. Rector recommended that the Task Force adopt the proposed framework in concept and charges to other groups (including charges to complete the detailed work of the framework) and, therefore, concentrate on Exhibit 1 and Exhibit 2 of his proposal. He said Exhibit 3, Exhibit 4 and Exhibit 5 are starting points for other NAIC groups and will be debated and modified later by the technical groups.
Upon a motion by Commissioner Gerhart, seconded by Commissioner McCarty, the Task Force voted to expose the June 4 Rector Report for a public comment period ending June 25. Superintendent Torti said the Task Force will discuss the written comments on a June 30 conference call. He said that, depending on the comments received, the Task Force might consider adoption of the framework in concept and the charges in Exhibit 1 and Exhibit 2 of the June 4 Rector Report. The other exhibits would be offered to the appropriate NAIC groups as starting points for their discussions.

Having no further business, the Principle-Based Reserving Implementation (EX) Task Force adjourned.
Modified Recommendations—June 4, 2014

The NAIC received approximately 20 comment letters pertaining to the Report of Rector & Associates, Inc. to the Principle-Based Reserving Implementation (EX) Task Force, dated February 17, 2014 ("the February Report"). We found the letters, and the testimony before the Task Force, to be extremely helpful, and we thank those who took the time to read the February Report carefully and to provide such thoughtful comments.

Based on the comments received, and on further reflection and discussion, we have made some modifications to the recommendations set out in the February Report. Although the conceptual underpinnings of the proposed XXX/AXXX Reinsurance Framework (the “Framework”) are relatively straightforward, the actions needed to “codify” the Framework and to prevent attempts to avoid it are more complex. Our modified recommendations (below) consist of a number of individual items that are designed to work together to implement the Framework. It is important that all of the items be adopted; the list below is not a menu from which we ask the Task Force to pick and choose.

As noted below, some of the items will necessitate changes to laws and/or regulations, and it may take several years for those items to become effective in all states. Other items are designed to encourage adherence to the Framework even while states are in the process of adopting the recommended changes to laws and regulations.

It is also important to point out that the attached Exhibits should be viewed merely as “starting points” for the various task forces and working groups. We ask readers of this document to hold for now any detailed comments regarding the Exhibits and to focus, instead, on the general approach underlying our modified recommendations. Readers will have the opportunity to provide detailed comments later regarding the Exhibits and other items as they are further developed by the various task forces and working groups.

The following are our modified recommendations:

1. Adopting the Framework Approach. We recommend that the Task Force adopt the Framework approach, in concept, as soon as practicable, even before all of the details are finalized. Although adoption of the Framework in concept would not in and of itself have any legal effect, it would operate to promote greater uniformity and consistency by generally describing the “right way” to engage in reserve financing transactions. As

---

1 In general, capitalized terms used here have the same meaning as they did in the February Report. However, in many cases, specific details regarding those defined terms remain to be worked out by various technical groups of the NAIC pursuant to charges from the Task Force, as described. Further, the word “Security” has replaced the word “Asset” in several of the defined terms.
such, states could begin to use certain of the concepts that are part of the Framework, as their laws allow, even before all of the items below are finalized.

Key elements of the Framework are described in Exhibit 1. As noted, the most significant items still to be determined are: (a) whether clean, irrevocable, unconditional, “evergreen” letters of credit should be allowed as Primary Security and (b) whether the “net premium reserve” component of current VM-20 should be included as part of the Actuarial Method (either in current or in modified form). We recommend that the Task Force hold an interim meeting, in-person or telephonically, to facilitate adoption of the Framework.

2. Actions to be taken by the Task Force. As described in Exhibit 2, we recommend that the Task Force take certain actions to move toward implementation of the Framework, including adopting charges to various NAIC task forces and working groups.

3. Actuarial Opinion Memorandum Regulation (AOMR). Section 3 of the AOMR provides, in part:

[T]he commissioner shall have the authority to specify specific methods of actuarial analysis and actuarial assumptions when, in the commissioner’s judgment, these specifications are necessary for an acceptable opinion to be rendered relative to the adequacy of reserves and related items.

We recommend that the NAIC rely on this language as an interim step to adopt an Actuarial Guideline that specifies that the opining actuary for a ceding insurer (1) must follow the methods and assumptions developed as individual components of the Framework to determine whether the ceding insurer’s net reserves are appropriate, and (2) must issue a qualified actuarial opinion if the ceding insurer has entered into a reserve financing transaction that does not adhere to the Framework. The draft Actuarial Guideline attached hereto as Exhibit 3 could be a starting point for further work. We also recommend that the NAIC evaluate whether the current RBC “charge” relative to qualified actuarial opinions is appropriate.

The AOMR is required pursuant to the Accreditation Program. Accordingly, the recommended Actuarial Guideline—providing guidance relative to the AOMR—could be made to be effective in most states on a very timely basis, with the specific timing to be determined by the Task Force after work on the Guideline is complete. As such, we believe this is an important step to encourage and monitor compliance with the Framework in the near-term, as well as in the long-term.

---

2 Our current thoughts regarding the use of letters of credit as Primary Security are set out in Exhibit 4, Section 4.B.(3).

3 We believe an appropriately-calibrated “net premium reserve” (NPR) would help ensure consistency between transactions and would help prevent the Primary Security Requirement from deviating substantially from what the reserve would be under principle-based reserving (PBR), which has an NPR component. However, we would like to receive input from the Life Actuarial (A) Task Force (LATF), including how to properly calibrate the NPR if one were used, before making our final recommendations to the Task Force on the matter.
As noted above, we recommend adoption of the Actuarial Guideline as an interim step. To further lock-in the proposed approach, we recommend that the NAIC add the same provisions to a regulation (either as an amendment to the AOMR or an addition to the draft regulation attached as Exhibit 4), and that such regulation become an Accreditation Standard.

4. Specific Provisions Relative to Reserve Financing Transactions Involving Licensed and Accredited Reinsurers and Reinsurers Domiciled in a State other than that of the Ceding Insurer. The Credit for Reinsurance Model Law does not include collateral requirements in connection with reinsurance ceded to “licensed” or “accredited” reinsurers or those “domiciled in ... a state that employs standards regarding credit for reinsurance substantially similar” to those applicable in the state where the ceding insurer is domiciled. Accordingly, a change to the Model Law would be needed to apply the Framework collateral requirements in instances where one of those types of reinsurers does not follow statutory accounting or comply with RBC. We recommend such a change to the Model Law. In order not to risk opening up the Model Law to unrelated changes—which could complicate and delay adoption—we recommend that the change to the Model Law itself be specific and narrow. In essence, we recommend that Sections 2.A., 2.B. and 2.C. of the Credit for Reinsurance Model Law be amended to allow the commissioner to specify, by regulation, any other requirements a reinsurer involved with reserve financing transactions must meet in order for it to qualify as a reinsurer within the meaning of those three sections of the Model Law. We then recommend that a regulation be drafted, containing provisions similar to section 5 of the attached Exhibit 4, that specifies that an assuming reinsurer cannot be considered to be one of the types of reinsurers referenced by those sections of the Model Law unless it complies with NAIC RBC requirements and prepares its financial statements in material conformity with NAIC statutory accounting practices and procedures. We recommend that the changes to the Model Law and the new Model Regulation be required pursuant to the Accreditation Program. We anticipate that it would take several years before these changes become effective in all states.

5. Specific Provisions Relative to Reinsurance Financing Transactions Involving Unauthorized Reinsurers. Under the Credit for Reinsurance Model Law, commissioner approval is needed before any asset other than cash, SVO-listed securities and certain types of letters of credit can be used to collateralize reinsurance ceded to unauthorized reinsurers. Accordingly, commissioners have the authority to deny the use of Other Security as collateral in connection with unauthorized reinsurers unless the Primary Security Requirement has been met. We recommend that the NAIC adopt a model regulation, containing provisions similar to those in sections 6 and 7 of the attached Exhibit 4, to incorporate this concept. We recommend that the regulation be required pursuant to the Accreditation Program. We anticipate that it would take several years before this regulation becomes effective in all states.

---

4 Those that are clean, irrevocable, unconditional and “evergreen” and that meet the other requirements of the Model Credit for Reinsurance Regulation, Section 10.A.(3).
6. **Disclosure of Key Aspects of XXX/AXXX Reinsurance Arrangements.** As described in our February Report, we recommend that the NAIC require public disclosure of key information pertaining to reserve financing transactions. Our understanding is that the NAIC is working on disclosure requirements separate from our work relative to the Framework, and we encourage those efforts. Although our work in this area (outlined on Exhibit 5) may help the NAIC’s Blanks (E) Working Group in its work relative to appropriate disclosure, we do not intend to imply that we believe the NAIC should be limited to the types of disclosures outlined on Exhibit 5 if it determines that broader disclosure would be helpful. We recommend that the supplemental filing provisions be made effective for filings as of December 31, 2014.

7. **Risk-Based Capital (RBC) Changes.** As described in our February Report, we recommend (1) that the RBC instructions be amended to ensure that at least one party to the reserve financing transaction holds an appropriate RBC “cushion,” and (2) that the Capital Adequacy Task Force determine appropriate RBC “asset charges” relative to Other Assets. We continue to recommend that these items be made effective as of December 31, 2015.

Further, as described above, we recommend that the NAIC evaluate whether the current RBC “charge” relative to qualified actuarial opinions is appropriate. We recommend that this item be made effective as of December 31, 2014.

8. **Evaluate risk-transfer rules.** We recommend that the NAIC evaluate the risk-transfer rules applicable to reserve financing transactions pertaining to XXX/AXXX business to make sure they appropriately apply to situations such as those where parental/affiliate guarantees are used to keep insurance risk within the holding company system even if the reinsurance arrangement involves an unrelated third party.

9. **Financial Analysis Handbook.** We recommend that the NAIC prepare a new section of the Financial Analysis Handbook to set out procedures and provide guidance to insurance regulators as they evaluate reserve financing transactions. We recommend that this new section be available effective as of December 31, 2014.

10. **Note to Audited Financial Statement.** As described in our February Report, we recommend that a note to the ceding insurer’s annual audited financial statement be adopted to indicate whether reserve financing transactions entered into by a ceding insurer adhere to the Framework.
Exhibit 1—XXX/AXXX Reinsurance Framework

1. The Framework applies only to reinsurance involving certain types of XXX and AXXX policies (those required to be valued under Sections 6 or 7 of the NAIC Valuation of Life Insurance Policies Model Regulation).

2. The Framework does not materially change the ability of insurers to obtain credit for reinsurance ceded to professional “certified” reinsurers or to obtain credit for reinsurance ceded to “licensed” or “accredited” reinsurers that follow statutory accounting and RBC rules. (See “Exemptions” below).

3. As a practical matter, therefore, the new Framework requirements apply to reinsurance ceded to captive insurers, special purpose vehicles, reinsurers that are not eligible to become “certified” reinsurers, reinsurers that deviate from statutory accounting and/or RBC rules, etc. In those situations, the ceding insurer may receive credit for reinsurance if, but only if:

   - The ceding insurer establishes gross reserves, in full, using applicable reserving guidance (currently, the “formulaic” approach).
   - The ceding insurer satisfies the Primary Security Requirement (i.e., the ceding insurer receives as collateral Primary Security in at least the amount determined pursuant to the Actuarial Method).
   - Portions of the statutory reserve exceeding the Primary Security Requirement may be collateralized by Other Security.
   - At least one party to the financing transaction holds an appropriate RBC “cushion”.
   - The reinsurance arrangement is approved by the ceding insurer’s domestic regulator.

4. The Framework also includes provisions to police and enforce the new requirements, and to determine whether any “exemptions” relied upon are warranted, including:

   - An Actuarial Guideline adopted pursuant to the Actuarial Opinion Memorandum Regulation (AOMR) as an interim step, and subsequent amendment to the AOMR or other regulation, to require the opining actuary for the ceding insurer to issue a qualified opinion if the Framework is not followed (absent an exemption).
   - A Note to the annual audited statement requiring the ceding insurer, and its independent auditor, to indicate whether the Framework is being followed (absent an exemption).
The following is a summary of each of the terms in bold above:

1. **Exemptions.** Other than certain limited disclosure provisions, the new requirements generally do not apply to reinsurance ceded to an assuming reinsurer meeting the definition of Section 2.A. (authorized insurers), 2.B. (accredited insurers), or 2.C (insurers domiciled in another state) of the Credit for Reinsurance Model Law, as revised pursuant to our modified recommendation, or to reinsurance ceded pursuant to Sections 2.D (reinsurers maintaining trust funds) or 2.E (certified reinsurers) of the Model Law.

2. **Primary Security Requirement.** The ceding insurer would need to receive as collateral (on a funds withheld, trust or modified co-insurance basis) Primary Security in at least the amount determined pursuant to the Actuarial Method.

3. **Actuarial Method.** We recommend that the Actuarial Method consist of VM-20\(^1\), modified to incorporate changes to mortality tables as developed by the American Academy of Actuaries and any other modifications suggested by LATF. An open question is whether to alter or eliminate the “net premium reserve” component.

4. **Primary Security.** We recommend that the types of assets listed in the Credit for Reinsurance Model Law Sections 3.A. (cash) and 3.B. (SVO-listed securities meeting certain characteristics) be allowed as Primary Security. An open question is to what extent (if any) clean, irrevocable, unconditional “evergreen” letters of credit should be allowed as Primary Security.

5. **Other Security.** We recommend that, so long as the Primary Security Requirement is satisfied, the ceding insurer may receive as collateral for the remainder of the statutory reserve any other security as to which the NAIC has developed an RBC “asset charge.” (We have recommended that the Capital Adequacy Task Force determine RBC “asset charges” for anticipated categories of Other Security and an appropriate “catch-all” charge to apply to assets that are not specifically listed.)

6. **RBC “cushion.”** This item is discussed further in our modified recommendations and in our February Report. We recommend that the details be worked out by the Capital Adequacy Task Force.

7. **AOMR.** This item is discussed in our modified recommendations. We recommend that the details be worked out by LATF.

8. **Note.** This item is discussed in our modified recommendations and in the February Report. We recommend that the details be worked out by the Statutory Accounting Principles Working Group.

---

\(^1\) NAIC Valuation Manual, VM-20, Requirements for Principle-Based Reserves for Life Products.
Exhibit 2—Summary of Actions to be taken by the Task Force Relative to the XXX/AXXX Reinsurance Framework

**Pre-Framework Actions:** Immediate action needed, even before the Task Force adopts the Framework

1. Adopt the following charge to the Blanks (E) Working Group:

   “Adopt a XXX/AXXX Reinsurance Supplement to be filed by insurers ceding XXX/AXXX business beginning with the 2014 data year. The Principle-Based Reserving Implementation (EX) Task Force’s XXX/AXXX Reinsurance Framework Exhibit 5 should be considered for this supplemental filing requirement, modified as appropriate by the Working Group.”—Essential

   **NOTE:** The goal of the supplemental filing is for the ceding insurer to provide transparency regarding the assets and reserves pertaining to reinsurance of XXX/AXXX policies, especially when the assuming reinsurer is not subject to public disclosure requirements for these data points.

   - Tables 2 and 3 reference terms that will not be authoritative until the adoption of the NAIC XXX/AXXX Reinsurance Model Regulation. If the model is not adopted as anticipated during 2014, the Blanks (E) Working Group will need to consider using other terms or issuing guidance to companies as to how to complete the Supplement until the Model Regulation is adopted.

2. Adopt the following charge to the Financial Analysis Handbook (E) Working Group:

   “Develop for year-end 2014, a new section for the Financial Analysis Handbook that specifies procedures for domestic/lead/captive states’ review of XXX/AXXX reinsurance transactions with captives/SPVs to be performed initially and on an ongoing basis, consistent with recommendations from the Financial Analysis (E) Working Group (FAWG). These procedures should be modified in the future as the detailed proposals from other work streams for the XXX/AXXX Reinsurance Framework are adopted by the NAIC.”—Essential

   **NOTE:** The Financial Analysis Handbook (E) Working Group should consider developing a recommendation to the Financial Regulation Standards and Accreditation (F) Committee regarding Part B standards related to the above procedures.

3. Adopt the following charge to the Life Actuarial (A) Task Force (LATF):

   “Develop the Actuarial Method for the Principle-Based Reserving Implementation (EX) Task Force’s review and consideration in adopting items such as the XXX/AXXX Reinsurance Model Regulation and possible changes to the Actuarial Opinion Memorandum Regulation (AOMR). The Actuarial Method should consist of the NAIC Valuation Manual, VM-20, Requirements for Principle-Based Reserves for Life Products, modified to incorporate changes to mortality tables as developed by the American Academy of Actuaries and any other appropriate modifications determined by LATF, and should explicitly keep (in current or modified form) or eliminate the “net premium reserve” component of the current VM-20.” —Essential
NOTE: This should be completed as soon as possible and sent back to the Principle-Based Reserving Implementation (EX) Task Force for adoption. In the event the NAIC XXX/AXXX Reinsurance Model Regulation is not completed as planned in 2014, this Actuarial Method may be used by states on a voluntary basis in the interim period. Even before the Model Regulation is implemented, this Actuarial Method proposal may be considered for inclusion in the Financial Analysis procedures referenced in item 2 above as an appropriate and consistent method for determining whether the ceding insurer has received sufficient collateral to support its policy obligations.

Next step: Action to take on the Framework

4. Adopt the XXX/AXXX Reinsurance Framework and Summary of Actions (Exhibits 1 and 2), in concept, and submit them to the NAIC Executive Committee for approval.

NOTE: At this stage, the Framework would be adopted in concept to propose an overall plan to address concerns with XXX/AXXX reinsurance transactions and to provide direction to the various work streams regarding the details that are to be finalized. As the detailed solution for a particular work stream is completed and the results sent back to the Task Force, consideration for final adoption will be made at that time by the Task Force, the Executive Committee and Plenary.

Framework Actions: Other charges to be considered for adoption as part of the XXX/AXXX Reinsurance Framework

5. Adopt the following charges to LATF:

   a. “Develop an Actuarial Guideline (AG) to provide interim guidance for the Actuarial Opinion Memorandum Regulation (AOMR) as it relates to XXX/AXXX reinsurance transactions. The AG should specify that, in order to comply with the AOMR, the opining actuary must issue a qualified opinion as to the ceding insurer’s reserves if the ceding insurer or any insurer in its holding company system has engaged in a XXX/AXXX reserve financing transaction that does not adhere to the Actuarial Method and Primary Security forms adopted by the NAIC. The Principle-Based Reserving Implementation (EX) Task Force’s XXX/AXXX Reinsurance Framework Exhibit 3 should be considered for this AG, modified as appropriate by the Task Force.”—Essential

   NOTE: The AG will be able to be effective on an interim basis through inclusion in the NAIC Accounting Practices and Procedures Manual and thus will have an earlier effective date of implementation than the following change to the actual AOMR. As new work products of the XXX/AXXX Reinsurance Framework are adopted by the NAIC, the provisions should be considered for inclusion in the Actuarial Guideline.

   b. “Request permission from Executive Committee to amend the AOMR and draft those amendments to specify that, in order to comply with the AOMR, the opining actuary
must issue a qualified opinion as to the ceding insurer’s reserves if the ceding insurer or any insurer in its holding company system has engaged in a reserve financing transaction that does not adhere to the NAIC XXX/AXXX Reinsurance Model Regulation and other aspects of the XXX/AXXX Framework, as adopted by the Task Force.”—Essential

6. Adopt the following charge to the Reinsurance (E) Task Force:

   a. “Request permission from Executive Committee to create a new Model Regulation to establish requirements regarding the reinsurance of XXX/AXXX policies. The Principle-Based Reserving Implementation (EX) Task Force’s XXX/AXXX Reinsurance Framework Exhibit 4 should be considered for this model regulation, modified as deemed appropriate by the Task Force.”—Essential

   b. “Request permission from Executive Committee to amend the Credit for Reinsurance Model Law and draft the amendment to reference this new regulation.”—Essential

7. Adopt the following charges to the Statutory Accounting Principles (E) Working Group:


   NOTE: Based on comments received to the initial draft Framework, the Working Group should explicitly consider the appropriateness of the extent to which, if any, a letter of credit (LOC) may be included as “Primary Security.”

   b. “Develop a Note to the Audited Financial Statements regarding compliance with the NAIC XXX/AXXX Reinsurance Model Regulation.”—Essential

   NOTE: Based on comments received to the initial draft Framework, the Working Group should consider the appropriate audit procedures for this note.

8. Adopt the following charges to the Capital Adequacy (E) Task Force:

   a. “Develop an appropriate ‘RBC Cushion’ for an insurer ceding XXX/AXXX policies when the assuming reinsurer does not file an RBC report using the NAIC RBC formula and instructions.”—Essential

   NOTE: The proposed XXX/AXXX Reinsurance Framework anticipates this as a 2015 year end filing requirement for RBC reports to be submitted March 1, 2016.

   b. “Develop appropriate asset charges for the forms of ‘Other Security’ used by insurers under the NAIC XXX/AXXX Reinsurance Model Regulation. These charges should then be considered for incorporation into the ‘RBC Cushion’ developed per the previous charge.”—Essential
NOTE: This should be accomplished in the same timeframe as the “RBC Cushion.”

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

NOTE: This should be accomplished no later than effective December 31, 2015.

9. Adopt the following charge to the Financial Condition (E) Committee:

“Evaluate the risk-transfer rules applicable to XXX/AXXX reserve financing transactions to make sure they appropriately apply to situations such as those where parental/affiliate guarantees are used, resulting in the risk effectively being kept within the holding company system even though the reinsurance arrangement involves an unrelated third party.”—Essential

NOTE: The Financial Condition (E) Committee should determine the appropriate group(s) to work on this charge as well as the appropriate timing; it may be appropriate to delay this work until other work products of the XXX/AXXX Reinsurance Framework are completed and adopted.

10. Adopt the following charge to the Financial Accreditation Standards and Accreditation (F) Committee:

“As the various work products are adopted by the Principle-Based Reserving (EX) Task Force, Executive Committee, and Plenary, consider them for inclusion in the Part A and Part B Accreditation Standards.”—Essential
Exhibit 3—Actuarial Guideline AOMR

Treatment of Reinsurance for Policies required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation in the Actuarial Opinion

Pursuant to Section 3 of the Actuarial Opinion and Memorandum Regulation (AOMR), the commissioner has the authority to specify specific methods of actuarial analysis and actuarial assumptions when, in the commissioner's judgment, such specifications are necessary for an acceptable opinion to be rendered relative to the adequacy of reserves and related items. The purpose of this Actuarial Guideline is to specify a specific method of actuarial analysis and actuarial assumptions that must be used when the Appointed Actuary is rendering an Actuarial Opinion for a company that cedes certain policies that are required to be valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (Regulation XXX, Model 830).

In addition to the requirements of Section 5, Paragraph D, Standards for Asset Adequacy Analysis, and except as provided below, the asset adequacy analysis required by this regulation shall include an analysis of reinsurance ceded on or after [insert effective date] to entities that reinsure life insurance policies required to be valued under Section 6 of the NAIC Valuation of Life Insurance Policies Regulation (#830), commonly referred to as Regulation XXX, or ULSG policies required to be valued under Section of Regulation XXX as further clarified by the NAIC Actuarial Guideline XXXVIII-The Application of the Valuation of Life Insurance Policies Model Regulation (AG 38), commonly referred to as AXXX. Such analysis shall be based on the standards specified in the remainder of this Actuarial Guideline.

The additional analysis described in this Actuarial Guideline is not required relative to:

A. Policies eligible for exemption under Sections 6.E, 6.F, or 6.G. of Regulation XXX (Model 830); or

B. Policies issued to an assuming insurer that meets the applicable requirements of [[insert provisions of state laws equivalent to Sections 2.D. or 2.E. of the NAIC Credit for Reinsurance Model Law]]; or

C. Policies issued to an assuming insurer that meets the applicable requirements of [[insert provisions of state law equivalent to Sections 2.A., 2.B., or 2.C. of the NAIC Credit for Reinsurance Model Law]], and that, in addition:

1. prepares its statutory financial statements in compliance with the NAIC Accounting Practices and Procedures Manual, without any departures from NAIC statutory accounting practices and procedures that are material enough that they would need to be disclosed in the financial statement of the assuming insurer pursuant to Statement
of Statutory Accounting Principles No. 1 ("SSAP 1"), paragraph 7, if the assuming insurer were required to comply with SSAP 1; and

2. is not in a Company Action Level Event, Regulatory Action Level Event, Authorized Control Level Event, or Mandatory Level Control Event as those terms are defined in [insert provision of state law equivalent to the NAIC Risk-Based Capital (RBC) for Insurers Model Act] when its RBC is calculated in accordance with the NAIC Life Risk-Based Capital Report including Overview and Instructions for Companies, as the same may be amended by the NAIC from time to time, without deviation.

I. DESCRIBE ACTUARIAL METHOD FOR PRIMARY SECURITY REQUIREMENT

Define Primary Security Requirement based on modified version of VM-20, to be developed by LATF.

II. DESCRIBE REMEDIES FOR FAILURE TO MEET PRIMARY SECURITY REQUIREMENT IN ORDER TO AVOID QUALIFIED OR ADVERSE OPINION

A. Add additional security on or before March 1 of the year in which the Actuarial Opinion is being filed in an amount that would have caused the Primary Security Requirement to be met on the valuation date.

B. Reduce the reserve credit for reinsurance ceded by the difference between the Primary Securities and the Primary Security Requirement.

III. DESCRIBE ADDITIONAL REQUIREMENTS FOR ACTUARIAL OPINION AND MEMORANDUM FOR COMPANIES THAT MUST TEST THEIR REINSURANCE AGREEMENTS PURSUANT TO THIS ACTUARIAL GUIDELINE

A. In statement of Actuarial Opinion, the Appointed Actuary must state whether the appointed actuary has performed an analysis of the types of reinsurance transactions specified above and whether the reinsurance conformed to the requirements of the Actuarial Method for the Primary Security Requirement.

B. If the reinsurance does not conform to the requirements of the Actuarial Method, the Actuary must issue a qualified or adverse opinion as described in Section 6.D. of the AOMR.

C. The Appointed Actuary may not issue a non-qualified actuarial opinion if one of the company’s affiliated reinsurers issues a qualified actuarial opinion.
**Exhibit 4—Licensed, Accredited, Unauthorized and Other Reinsurers**

**Section 1. Authority.**

This regulation is adopted and promulgated by [title of supervisory authority] pursuant to Section [applicable section] of the [name of state] Insurance Code.

**Section 2. Preamble.**

A. Sections [insert provision of state law equivalent to Section 2.A., 2.B., and 2.C of the Credit for Reinsurance Model Law] provide that credit for reinsurance shall be allowed a domestic ceding insurer as either an asset or a reduction from liability on account of reinsurance ceded to assuming insurers meeting the requirements set out in those sections.

B. Sections [insert provision of state law equivalent to Section __ of the Credit for Reinsurance Model Law (providing that the commissioner may specify, by regulation, requirements other than those listed in Sections 2.A., 2.B., and 2.C)].

C. Section [insert provision of state law equivalent to Section 3.D of the Credit for Reinsurance Model Law] provides that reinsurance ceded pursuant thereto may be collateralized by “any other form of security acceptable to the commissioner.”

D. Certain reinsurance arrangements pertaining to term life insurance and universal life insurance with secondary guarantees (ULSG) have given rise to significant regulatory concern.

E. The Commissioner recognizes that reinsurance arrangements referenced above should be structured such that they appropriately protect the ceding company’s policyholders and the citizens of this state.

**Section 3. Applicability.**

This regulation shall apply to any life insurance company domiciled in this state with respect to cessions of those life insurance policies required to be valued under the Section 6 of the NAIC Valuation of Life Insurance Policies Model Regulation (#830), commonly referred to as Regulation XXX, or to ULSG policies required to be valued under Section 7 of Regulation XXX as further clarified by the NAIC Actuarial Guideline XXXVIII-The Application of the Valuation of Life Insurance Policies Model Regulation (A.G. 38), commonly referred to as AXXX.

[Drafting Note: In Regulation XXX, Section 3.B.(1), it is stated that “… the minimum valuation standard for policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits (other than universal life policies), or both, shall be in accordance with the provisions of Section 6.” And in Regulation XXX, Section 3.B.(2), it is stated that “… the minimum valuation standard for flexible premium and fixed premium universal life insurance policies, that contain provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period shall be in accordance with the provisions of Section 7.” Companies ceding these two classes of policies are the companies to which this regulation is intended to apply.]

**Section 4. Definitions.**
A. “Actuarial Method” shall mean a calculation made pursuant to Actuarial Guideline __, as the same shall be amended from time to time. [Note: this AG has not yet been adopted].

B. “Primary Security” shall mean the following:

(1) Cash;

(2) Securities listed by the Securities Valuation Office of the NAIC, including those deemed exempt from filing as defined by the Purposes and Procedures Manual of the Securities Valuation Office, and qualifying as admitted assets; and

(3) Clean, irrevocable, unconditional and “evergreen” letters of credit meeting the requirements of [insert provision of state law equivalent to Section 10.A.(3) of the Credit for Reinsurance Model Regulation]; provided, however, that (i) such letters of credit may not constitute Primary Security until at least one year after the reinsurance arrangement it relates to was entered into, and provided further that (ii) such letters of credit shall in no event constitute more than 10% of the Primary Security Level as of any calendar year end.

C. “Primary Security Level” shall mean the dollar amount resulting from applying the Actuarial Method to reserves for insurance business within the scope of Section 3 of this regulation.

Section 5. Additional Requirements Pertaining to Reinsurance Ceded to Certain Assuming Insurers.

No credit for reinsurance shall be allowed pursuant to [insert provisions of state law equivalent to Sections 2.A., 2.B., or 2.C. of the NAIC Credit for Reinsurance Model Law], unless the assuming insurer, in addition to meeting the applicable requirements of those Sections, also:

1. prepares its statutory financial statements in compliance with the NAIC Accounting Practices and Procedures Manual, without any departures from NAIC statutory accounting practices and procedures that are material enough that they would need to be disclosed in the financial statement of the assuming insurer pursuant to Statement of Statutory Accounting Principles No. 1 (“SSAP 1”), paragraph 7, if the assuming insurer were required to comply with SSAP 1; and

2. is not in a Company Action Level Event, Regulatory Action Level Event, Authorized Control Level Event, or Mandatory Level Control Event as those terms are defined in [insert provision of state law equivalent to the NAIC Risk-Based Capital (RBC) for Insurers Model Act] when its RBC is calculated in accordance with the NAIC Life Risk-Based Capital Report including Overview and Instructions for Companies, as the same may be amended by the NAIC from time to time, without deviation.

[Drafting Note: This section pertains only to whether the ceding insurer can get credit for reinsurance pursuant to Sections 2.A., 2.B., or 2.C. of the NAIC Credit for Reinsurance Model Law. Even if credit cannot be obtained pursuant to those Sections—for example, if the assuming insurer has a material permitted practice—it is possible that credit for reinsurance ceded to that same assuming insurer could be obtained pursuant to other provisions. For example, credit for reinsurance could be allowed pursuant to Sections 6 and 7 of this Regulation, pursuant to Section 3 of the Model Law if the]
reinsurance is fully collateralized by assets described in Sections 3.A., 3.B, and/or 3.C. of the Model Law, etc.]

Section 6. Other Forms of Security Acceptable if the Ceding Insurer Receives Primary Security at the Primary Security Level.

Any [[asset as to which the NAIC has developed an RBC “asset charge”]] is a form of security acceptable to the Commissioner for the purposes of [insert provision corresponding to Section 3.D of the Credit for Reinsurance Model Act] with respect to reinsurance arrangements within the scope of Section 3 if, and only if, the following conditions are satisfied:

A. The ceding insurer’s statutory policy reserves with respect to such life insurance are established in full in accordance with the applicable requirements of [insert provisions of state law equivalent to the NAIC Standard Valuation Law and related regulations and actuarial guidelines];

B. The ceding insurer determines the Primary Security Level with respect to such reserves and provides support for its calculation as determined to be acceptable to the commissioner;

C. The ceding insurer receives collateral on a funds withheld, trust, or modified coinsurance basis consisting of Primary Security in not less than an amount equal to the Primary Security Level, such value to be determined in a manner consistent with valuation requirements applicable to reinsurance collateral under the NAIC Accounting Practices and Procedures Manual; and

D. The reinsurance arrangement has been approved by the commissioner.

[Drafting Note: This Section pertains only to whether certain forms of security are acceptable to the commissioner within the meaning of Section 3.D. of the NAIC Credit for Reinsurance Model Law. As such, this Section does not apply to reinsurance arrangements that only use as collateral forms of security described in Sections 3.A., 3.B. and/or 3.C. of the NAIC Credit for Reinsurance Model Law.]  

[Note: Although RBC asset charges have not yet been developed as to assets likely to be used pursuant to this section, they should be developed by the time this Regulation is effective. It is anticipated that the NAIC Capital Adequacy Task Force will list categories of such assets and the RBC asset charge relative to them, and will then also include a “catch-all” category—and corresponding RBC asset charge—for assets that do not fit within one of the listed categories.]

Section 7. Other Forms of Security Acceptable if the Ceding Insurer Does Not Receive Primary Security at the Primary Security Level.

Except as provided in Section 6, no other forms of security are acceptable to the Commissioner for the purposes of [insert provision corresponding to Section 3.D of the Credit for Reinsurance Model Act] with respect to reinsurance arrangements within the scope of Section 3.

Section 8. Severability.

If any provision of this regulation is held invalid, the remainder shall not be affected.
Section 9. Transactions Affected.

A. This regulation shall apply to all cessions with respect to any life insurance within the scope of Section 3 written by the ceding insurer on or after _____, regardless of when the reinsurance arrangement was entered into.

B. This regulation shall apply to all cessions with respect to any life insurance within the scope of Section 3, regardless of when written, under any reinsurance arrangement that is entered into on or after _____.

Section 10. Prohibition against Avoidance.

No insurer shall take any action or series of actions, or enter into any transaction or arrangement or series of transactions or arrangements, involving reserves within the scope of Section 3, if the purpose of such action, transaction or arrangement or series thereof is to avoid the requirements of this Regulation.

Section 11. Effective Date

This regulation shall become effective [insert date].
**EXHIBIT 5**

**SUPPLEMENT FOR THE YEAR OF THE**

**SUPPLEMENTAL XXX/AXXX REINSURANCE EXHIBIT**

For the Year Ended December 31, [XXXX]
(To be filed by April 1)

OF THE ..........................................................

NAIC GROUP CODE .......................... NAIC COMPANY CODE ..........................................................

### TABLE 1 – ALL XXX AND AXXX CESSIONS

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
<th>J</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of Company</td>
<td>Related Party Captive/SPV</td>
<td>Inception Date</td>
<td>Statutory Reserve</td>
<td>XXX statutory policy reserves ceded</td>
<td>AXXX statutory policy reserves ceded</td>
<td>Authorized Reinsurer</td>
<td>Accredited Reinsurer</td>
<td>Certified Reinsurer</td>
<td>Reinsurer Domiciled in Another State</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 1 INSTRUCTIONS**

Table 1 applies to all cessions of those certain life insurance policies required to be valued under the Section 6 of the NAIC Valuation of Life Insurance Policies Model Regulation (#830), commonly referred to as Regulation XXX, or to ULSG policies required to be valued under Section 7 of Regulation XXX as further clarified by the NAIC Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation (A.G. 38), commonly referred to as AXXX, by the reporting entity. As to each cession:

*Column A* – Provide the name and NAIC code of the assuming insurer.
<table>
<thead>
<tr>
<th>Column</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Check box if the assuming insurer identified in Column A is a related party captive or special purpose vehicle</td>
</tr>
<tr>
<td>C</td>
<td>Provide the inception date of the reinsurance ceding arrangement</td>
</tr>
<tr>
<td>D</td>
<td>Provide the dollar amount of the full statutory reserve amount for all products included in the ceded reinsurance contract (not just the XXX/AXXX products)</td>
</tr>
<tr>
<td>E</td>
<td>Provide the dollar amount of XXX statutory policy reserves ceded</td>
</tr>
<tr>
<td>F</td>
<td>Provide the dollar amount of AXXX statutory policy reserves ceded</td>
</tr>
<tr>
<td>G</td>
<td>Check box if the reinsurance was ceded to an assuming insurer licensed to transact insurance or reinsurance in the reporting entity’s state of domicile within the meaning of Section 2.A. of the NAIC Credit for Reinsurance Model Law (Model 785), as adopted in the reporting entity’s state of domicile.</td>
</tr>
<tr>
<td>H</td>
<td>Check box if the reinsurance was ceded to an assuming insurer that is accredited by the commissioner of the reporting entity’s state of domicile within the meaning of Section 2.B. of the NAIC Credit for Reinsurance Model Law (Model 785), as adopted in the reporting entity’s state of domicile.</td>
</tr>
<tr>
<td>I</td>
<td>Check box if the reinsurance was ceded to an assuming insurer that has been certified by the commissioner as a reinsurer in this state within the meaning of Section 2.C. of the NAIC Credit for Reinsurance Model Law (Model 785), as adopted in the reporting entity’s state of domicile.</td>
</tr>
<tr>
<td>J</td>
<td>Check box if the reinsurance was ceded to an assuming insurer that is domiciled in another state within the meaning of Section 2.C. of the NAIC Credit for Reinsurance Model Law (Model 785), as adopted in the reporting entity’s state of domicile.</td>
</tr>
</tbody>
</table>
# TABLE 2 – RELATED PARTY CAPTIVE/SPV TRANSACTIONS SUBJECT TO TABLE 2 DISCLOSURE

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Inception Date or Prior Year's Annual Statement Date</th>
<th>Reserve Credit Taken</th>
<th>Primary Security Level</th>
<th>Primary Security - trust</th>
<th>Other Security - funds withheld</th>
<th>Reserve Credit Taken</th>
<th>Primary Security Level</th>
<th>Primary Security Adjustment</th>
<th>Primary Security - trust</th>
<th>Other Security - funds withheld</th>
<th>Other Security</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## TABLE 2 INSTRUCTIONS

Table 2 applies to all cessions to related party captives/SPVs in Table 1. The terms “Primary Security Level”, “Primary Security” and “Other Security” shall have the meaning given to them in the NAIC XXX/AXXX Reinsurance Model Regulation as adopted in the reporting entity’s state of domicile (prior to that adoption, the Blanks (E) Working Group guidance should be used). As to each cession:

- **Column A** – Provide the name and NAIC code of the assuming insurer
- **Column B** – Provide the latter of (a) the inception date of the cession or (b) the annual statement date immediately preceding the current annual statement date
- **Column C** – State the dollar amount of the reserve credit taken by the reporting entity as of the date reported in Column B
- **Column D** – State the Primary Security Level applied to the statutory policy reserves as of date reported in Column B
- **Column E** – State the fair value as of the date reported in Column B of the Primary Security forms received by the reporting entity as collateral
- **Column F** – State the fair value as of the date reported in Column B of any part of the collateral reported in Column E that is held in trust for the benefit of the reporting entity
- **Column G** – State the fair value as of the date reported in Column B of any part of the collateral reported in Column E that is held by the reporting entity on a funds withheld basis or on a modified coinsurance basis
- **Column H** – State the fair value as of the date reported in Column B of all collateral that is not reported in Column E
Column I—State the dollar amount of the reserve credit taken by the reporting entity as of the current annual statement date.

Column J—State the Primary Security Level applied to the statutory policy reserves as of the current annual statement date.

Column K—State the fair value as of the current annual statement date of the Primary Security forms received by the reporting entity as collateral.

Column L—If Column J is greater than Column K, state the fair value as of the current annual statement date of any additional Primary Assets received by the reporting entity as collateral to cover the difference.

Column M—State the fair value as of the current annual statement date of any part of the collateral reported in Column K or Column L that is held in trust for the benefit of the reporting entity.

Column N—State the fair value as of the current annual statement date of any part of the collateral reported in Column K or Column L that is held by the reporting entity on a funds withheld basis or on a modified coinsurance basis.

Column O—State the fair value as of the current annual statement date of all collateral with respect to the transaction that is not reported in Columns K or L.
<table>
<thead>
<tr>
<th>Entity ID</th>
<th>A Name of Company</th>
<th>B Inception Date or Prior Year Annual Statement Date</th>
<th>C Category</th>
<th>D Assets</th>
<th>E Affiliate or Parental Guarantee</th>
<th>F Category</th>
<th>G Assets</th>
<th>H Affiliate or Parental Guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td>Cash held as Primary Security</td>
<td>Cash held as Primary Security</td>
<td>NAIC 1 SVO-listed securities held as Primary Security</td>
<td>NAIC 1 SVO-listed securities held as Primary Security</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>NAIC 2 SVO-listed securities held as Primary Security</td>
<td>NAIC 2 SVO-listed securities held as Primary Security</td>
<td>NAIC 3 SVO-listed securities held as Primary Security</td>
<td>NAIC 3 SVO-listed securities held as Primary Security</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>NAIC 4 SVO-listed securities held as Primary Security</td>
<td>NAIC 4 SVO-listed securities held as Primary Security</td>
<td>NAIC 5 SVO-listed securities held as Primary Security</td>
<td>NAIC 5 SVO-listed securities held as Primary Security</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>NAIC 6 SVO-listed securities held as Primary Security</td>
<td>NAIC 6 SVO-listed securities held as Primary Security</td>
<td>Evergreen, Unconditional LOCs held as Primary Security</td>
<td>Evergreen, Unconditional LOCs held as Primary Security</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other Security—Cash</td>
<td>Other Security—Cash</td>
<td>Other Security—NAIC 1 SVO-listed securities</td>
<td>Other Security—NAIC 1 SVO-listed securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other Security—NAIC 2 SVO-listed securities</td>
<td>Other Security—NAIC 2 SVO-listed securities</td>
<td>Other Security—NAIC 3 SVO-listed securities</td>
<td>Other Security—NAIC 3 SVO-listed securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other Security—NAIC 4 SVO-listed securities</td>
<td>Other Security—NAIC 4 SVO-listed securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Security— NAIC 5 SVO-listed securities</td>
<td>Other Security— NAIC 5 SVO-listed securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>---------------------------------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Security— NAIC 6 SVO-listed securities</td>
<td>Other Security— NAIC 6 SVO-listed securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Security— Other Investments Admissible per the NAIC AP&amp;P Manual</td>
<td>Other Security— Other Investments Admissible per the NAIC AP&amp;P Manual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Security— Other LOCs</td>
<td>Other Security— Other LOCs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Security— All other assets</td>
<td>Other Security— All other assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>Totals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### DRAFT OF 06/04/2014

<table>
<thead>
<tr>
<th>2.</th>
<th>Cash held as Primary Security</th>
<th>Cash held as Primary Security</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NAIC 1 SVO-listed securities held as Primary Security</td>
<td>NAIC 1 SVO-listed securities held as Primary Security</td>
</tr>
<tr>
<td></td>
<td>NAIC 2 SVO-listed securities held as Primary Security</td>
<td>NAIC 2 SVO-listed securities held as Primary Security</td>
</tr>
<tr>
<td></td>
<td>NAIC 3 SVO-listed securities held as Primary Security</td>
<td>NAIC 3 SVO-listed securities held as Primary Security</td>
</tr>
<tr>
<td></td>
<td>NAIC 4 SVO-listed securities held as Primary Security</td>
<td>NAIC 4 SVO-listed securities held as Primary Security</td>
</tr>
<tr>
<td></td>
<td>NAIC 5 SVO-listed securities held as Primary Security</td>
<td>NAIC 5 SVO-listed securities held as Primary Security</td>
</tr>
<tr>
<td></td>
<td>NAIC 6 SVO-listed securities held as Primary Security</td>
<td>NAIC 6 SVO-listed securities held as Primary Security</td>
</tr>
<tr>
<td></td>
<td>Evergreen, Unconditional LOCs held as Primary Security</td>
<td>Evergreen, Unconditional LOCs held as Primary Security</td>
</tr>
<tr>
<td></td>
<td>Other Security—Cash</td>
<td>Other Security—Cash</td>
</tr>
<tr>
<td></td>
<td>Other Security—NAIC 1 SVO-listed securities</td>
<td>Other Security—NAIC 1 SVO-listed securities</td>
</tr>
<tr>
<td></td>
<td>Other Security—NAIC 2 SVO-listed securities</td>
<td>Other Security—NAIC 2 SVO-listed securities</td>
</tr>
<tr>
<td></td>
<td>Other Security—NAIC 3 SVO-listed securities</td>
<td>Other Security—NAIC 3 SVO-listed securities</td>
</tr>
<tr>
<td></td>
<td>Other Security—NAIC 4 SVO-listed securities</td>
<td>Other Security—NAIC 4 SVO-listed securities</td>
</tr>
<tr>
<td></td>
<td>Other Security—NAIC 5 SVO-listed securities</td>
<td>Other Security—NAIC 5 SVO-listed securities</td>
</tr>
<tr>
<td></td>
<td>Other Security—NAIC 6 SVO-listed securities</td>
<td>Other Security—NAIC 6 SVO-listed securities</td>
</tr>
<tr>
<td></td>
<td>Other Security—Other Investments Admissible per the NAIC AP&amp;P Manual</td>
<td>Other Security—Other Investments Admissible per the NAIC AP&amp;P Manual</td>
</tr>
<tr>
<td></td>
<td>Other Security—Other LOCs</td>
<td>Other Security—Other LOCs</td>
</tr>
<tr>
<td></td>
<td>Other Security—All other assets</td>
<td>Other Security—All other assets</td>
</tr>
<tr>
<td>Totals</td>
<td>Totals</td>
<td>Totals</td>
</tr>
<tr>
<td>Cash held as Primary Security</td>
<td>Cash held as Primary Security</td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>------------------------------</td>
<td></td>
</tr>
<tr>
<td>NAIC 1 SVO-listed securities held as Primary Security</td>
<td>NAIC 1 SVO-listed securities held as Primary Security</td>
<td></td>
</tr>
<tr>
<td>NAIC 2 SVO-listed securities held as Primary Security</td>
<td>NAIC 2 SVO-listed securities held as Primary Security</td>
<td></td>
</tr>
<tr>
<td>NAIC 3 SVO-listed securities held as Primary Security</td>
<td>NAIC 3 SVO-listed securities held as Primary Security</td>
<td></td>
</tr>
<tr>
<td>NAIC 4 SVO-listed securities held as Primary Security</td>
<td>NAIC 4 SVO-listed securities held as Primary Security</td>
<td></td>
</tr>
<tr>
<td>NAIC 5 SVO-listed securities held as Primary Security</td>
<td>NAIC 5 SVO-listed securities held as Primary Security</td>
<td></td>
</tr>
<tr>
<td>NAIC 6 SVO-listed securities held as Primary Security</td>
<td>NAIC 6 SVO-listed securities held as Primary Security</td>
<td></td>
</tr>
<tr>
<td>Evergreen, Unconditional LOCs held as Primary Security</td>
<td>Evergreen, Unconditional LOCs held as Primary Security</td>
<td></td>
</tr>
<tr>
<td>Other Security—Cash</td>
<td>Other Security—Cash</td>
<td></td>
</tr>
<tr>
<td>Other Security—NAIC 1 SVO-listed securities</td>
<td>Other Security—NAIC 1 SVO-listed securities</td>
<td></td>
</tr>
<tr>
<td>Other Security—NAIC 2 SVO-listed securities</td>
<td>Other Security—NAIC 2 SVO-listed securities</td>
<td></td>
</tr>
<tr>
<td>Other Security—NAIC 3 SVO-listed securities</td>
<td>Other Security—NAIC 3 SVO-listed securities</td>
<td></td>
</tr>
<tr>
<td>Other Security—NAIC 4 SVO-listed securities</td>
<td>Other Security—NAIC 4 SVO-listed securities</td>
<td></td>
</tr>
<tr>
<td>Other Security—NAIC 5 SVO-listed securities</td>
<td>Other Security—NAIC 5 SVO-listed securities</td>
<td></td>
</tr>
<tr>
<td>Other Security—NAIC 6 SVO-listed securities</td>
<td>Other Security—NAIC 6 SVO-listed securities</td>
<td></td>
</tr>
<tr>
<td>Other Security—Other Investments Admissible per the NAIC AP&amp;P Manual</td>
<td>Other Security—Other Investments Admissible per the NAIC AP&amp;P Manual</td>
<td></td>
</tr>
<tr>
<td>Other Security—Other LOCs</td>
<td>Other Security—Other LOCs</td>
<td></td>
</tr>
<tr>
<td>Other Security—All other assets</td>
<td>Other Security—All other assets</td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>Totals</strong></td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 3 INSTRUCTIONS**

Table 3 applies to all cessions of XXX/AXXX reinsurance with captives and SPVs as identified in Table 1. As to each cession:

*Column A* – Provide the name and NAIC code of the assuming insurer
Column B—Provide the later of (a) the inception date of the cession or (b) the prior year's annual statement date immediately preceding the current annual statement date.

Column C—Column C identifies categories of assets in which collateral supporting the cession may be held [[Note: the instructions will need to define or cross reference to definitions for each category of assets]].

Column D—State the fair value as of the date reported in Column B for collateral held in each category identified in Column C. Report cash, SVO securities, and evergreen, unconditional LOCs held as Primary Assets separately from cash, SVO securities and evergreen, unconditional LOCs held as Primary Assets.

Column E—Check box as to any asset identified in Column D as to which an affiliate of the reporting entity has issued a guarantee.

Column F—Column F identifies categories of assets in which collateral supporting the cession may be held [[Note: the instructions will need to define or cross reference to definitions for each category of assets]].

Column G—State the fair value as of the date reported in Column E for collateral held in each category identified in Column F.

Column H—Check box as to any asset identified in Column G as to which an affiliate of the reporting entity has issued a guarantee.
Update to February Report Executive Summary—June 13, 2014

During the telephonic meeting of the Principle-Based Reserving Implementation (EX) Task Force on June 12, 2014, we were asked to provide a document that describes how our Modified Recommendations—June 4, 2014 compare to the Executive Summary of our February Report (Section I, F of the February Report).

The standard font of the following is the Executive Summary from the February Report. The bolded and italicized font beneath each item is a brief description of how that item is dealt with in our Modified Recommendations.

1. In substance, we recommend that the direct/ceding insurer only get credit for reinsurance if it retains (on a funds withheld or trust basis) “Primary Assets” in an amount approximately equal to what the statutory reserve would be under PBR.

   For transactions subject to the requirements, the substance of this item is the same in our Modified Recommendations. This concept is described in Exhibit 1 of the Modified Recommendations, item 3, 2nd bullet.

2. The remainder of the credit for reinsurance may be supported by any assets approved by the regulators for both the direct/ceding insurer and the assuming insurer, subject to certain regulatory protections and oversight.

   For transactions subject to the requirements, the substance of this item is the same in our Modified Recommendations, with two modest alterations:

   • First, the Modified Recommendations only require that transactions be approved by the direct/ceding insurer’s regulator rather than by regulators for both the direct/ceding insurer and the assuming insurer. (See, Exhibit 1, item 3, 5th bullet). We made this change to assure compliance with Dodd-Frank. We recognize that the regulator for the assuming insurer will also be involved in most instances, and we encourage that involvement, but we wanted to limit the formal requirement to the direct/ceding insurer’s regulator since the approval is a condition to the ability of the direct/ceding insurer to obtain credit for reinsurance.

   • Second, the formulation of “Other Security” under our Modified Recommendations is that it should consist of “any other security as to which the NAIC has developed an RBC ‘asset charge’.” (See, Exhibit 1, summary of terms,

---

3. We recommend that full Risk-Based Capital (“RBC”) calculations using traditional NAIC methodology be performed by at least one party to the financing transaction.

For transactions subject to the requirements, the substance of this item is the same in our Modified Recommendations. This concept is described in Exhibit 1 of the Modified Recommendations, item 3, 4th bullet.

4. We recommend that key information about the use of financing transactions and assets supporting such transactions be publicly disclosed.

The substance of this item is the same in our Modified Recommendations. This concept is described in our Modified Recommendation 6 (Disclosure of Key Aspects of XXX/AXXX Reinsurance Arrangements).

5. We recommend that direct/ceding insurers and their auditors annually determine compliance with the requirements.

The substance of this item is the same in our Modified Recommendations. This concept is described in Exhibit 1 of the Modified Recommendations, item 4, 2nd bullet.

6. All reinsurance involving XXX/AXXX reserves is within the initial scope; however, exemptions are provided for most traditional reinsurance arrangements, including for arrangements with reinsurers that follow NAIC accounting and RBC rules.

The substance of this item is the same in our Modified Recommendations. (See Exhibit 1, item 2). The substance as to the new requirement that certain insurers need to “follow NAIC accounting and RBC rules” in order to be exempt from the requirements is described more fully in Modified Recommendation 4 (Specific Provisions Relative to Reserve Financing Transactions Involving Licensed and Accredited Reinsurers and Reinsurers Domiciled in a State other than that of the Ceding Insurer).

7. The concept of “financing” the reserves at the direct insurer level (without the use of reinsurance) is theoretically viable, but more work remains before recommendations can be made as to how to implement the concept.

The Modified Recommendations document is silent relative to this item. However, we continue to feel about it as we did in February: the concept is theoretically viable, but it
does not make sense to perform further work relative to it without first identifying several insurers that might wish to use it.

8. The proposed effective dates for the new requirements are:
   - 7/1/14 for newly created financing structures
     Although the February Report could perhaps have been clearer on the point, this 7/1/14 date was always intended to consist of a “voluntary” application of all or portions of the Framework approach by states that were asked to approve new financing structures on and after 7/1/14. That “voluntary application” concept continues to be a part of the Modified Recommendations, although without a specific date attached. See Modified Recommendation 1 (Adopting the Framework Approach).
   - 12/31/14 for the new “Disclosure Requirements”
     This effective date is the same in our Modified Recommendations. See Modified Recommendations 6 (Disclosure of Key Aspects of XXX/AXXX Reinsurance Arrangements).
   - 1/1/15 for business ceded to existing financing structures
     The Modified Recommendations are silent as to this effective date. We anticipate that the date of 1/1/15 that we recommended in the February Report will still be appropriate, but we wanted to hold off making a formal recommendation regarding the date until more of the technical implementation work is completed.
   - 12/31/15 for the new RBC rules
     This effective date is the same in our Modified Recommendations. See Modified Recommendations 7 (Risk-Based Capital (RBC) Changes), first paragraph.

9. We recommend a new “XXX and AXXX Model Reinsurance Regulation” as an NAIC Accreditation Standard to “codify” the new requirements; however, the concepts can be implemented for most financing transactions without any change to law or statute.

   In response to the comments received, the approach used to “codify” the new requirements is significantly different in our Modified Recommendations than it was in our February Report. The approach recommended now is described in Modified Recommendations 3 (Actuarial Opinion Memorandum Regulation (AOMR)), 4 (Specific Provisions Relative to Reserve Financing Transactions Involving Licensed and Accredited Reinsurers and Reinsurers Domiciled in a State other than that of the Ceding Insurer) and 5 (Specific Provisions Relative to Reserve Financing Transactions Involving Unauthorized Reinsurers).
The Principle-Based Reserving Implementation (EX) Task Force met via conference call April 14, 2014. The following Task Force members participated: Joseph Torti III, Co-Chair (RI); Julie Mix McPeak, Co-Chair (TN); Jim L. Ridling represented by Steve Oslund (AL); Dave Jones represented by Al Bottalico and John Finston (CA); Thomas B. Leonardi represented by Kathy Belfi, James Jakielo and Joan Nakano (CT); Kevin M. McCarty represented by Eric Johnson and Kerry Krantz, Carolyn Morgan and Valerie Reglat (FL); Nick Gerhart represented by James Mumford and Doug Ommen (IA); Sandy Praeger represented by Mark Birdsall (KS); John M. Huff represented by Fred Heese, John Rehagen and William Leung (MO); Benjamin M. Lawsky represented by Robert Easton (NY); Mary Taylor represented by Dale Bruggeman and Pete Weber (OH); Julia Rathgeber represented by Mike Boerner (TX); Todd E. Kiser represented by Jake Garn and Tomasz Serbinowski (UT); Susan L. Donegan represented by Sandy Bigglestone, David Provost and Crosby Sherman (VT); and Jacqueline K. Cunningham represented by Doug Stolte (VA). Also participating was: Kurt Regner (AZ).


Superintendent Torti explained that the purpose of the call was to continue discussions on this topic from the Spring National Meeting and to hear additional comments.

Scott Harrison (Affordable Life Insurance Alliance—ALIA) said that, if regulators can remove the excessively conservative reserves to get to the “right” reserve level, then financing transactions would no longer exist. He said that, if the transactions are prohibited without getting to the right reserve level, then consumers would be negatively impacted through higher costs or limited access to desired products. Superintendent Torti said he agrees that regulators want to end up with appropriate reserves so that these transactions would end. He said that, now, a uniform standard would seem preferable and that VM-20, Requirements for Principle-based Reserves for Life Products, should be used as it develops and evolves. That way, there would be some uniformity in these transactions. Mr. Harrison said the ALIA has no objection, in principle, to uniformity and standardization in these transactions. He added that the concern is not with the interim standard, but with what happens after PBR is implemented. He said the current VM-20 standard would require too high of reserves.

Cande Olsen (American Academy of Actuaries—AAA) reiterated the point made in the AAA’s original comment letter about not needing the net premium reserve floor for this purpose (Attachment Three-A).

Mr. Boerner addressed some of the comments made at the Spring National Meeting regarding the use of an aggregate margin approach and a more auditable approach (Attachment Three-B). He said the aggregate margin approach is worthy of consideration, but would not be ready in time for implementation in the near term and likely not even by the time PBR is initially implemented. He said the use of a more auditable approach is a one-size-fits-all methodology and does not achieve a “right-sizing” of reserves, given that companies’ products and experiences are significantly different. He said the Life Actuarial (A) Task Force would be willing to make modifications to VM-20 as needed. Mr. Regner said the insurance laws and provisions are already in place to address the concerns. He said Arizona does not currently use the discretionary option to use unconventional securities or those largely credited as admissible assets. He said the current reserving standard should be used until PBR is established by state law.

Paul Graham (American Council of Life Insurers—ACLI) said the Actuarial Opinion and Memorandum Regulation (#822) should be utilized rather than the Model Regulation to Define Standards and Commissioner’s Authority for Companies Deemed to Be in Hazardous Financial Condition (#385). He said any actuarial method could be applied, and the actuary could test each captive by comparing primary assets against the actuarial method assets. Then, if more assets are not put into the captive or if the reinsurance credit is not reduced, then the actuary would need to issue a qualified opinion. He said that, just as is done today, regulatory follow-up occurs after receipt of the qualified opinion and the regulator has powers, up to and including putting the company in hazardous financial condition. He said the company would be deemed in hazardous financial condition only when the issue is material. He said that, because the actuarial opinion is a public document, companies would be inclined to take action because they do not want to have a qualified opinion.
Mr. Birdsall expressed support for the use of Model #822 in the short term. He summarized the ACLI’s proposed approach as using a cash flow testing framework with some assumption-setting methodologies from VM-20 (e.g., mortality). Neil Rector (Rector & Associates, Inc.) said comments have made it clear that a provision is needed for human evaluation and judgment prior to a determination of hazardous financial condition. He said that, under the hazardous financial condition approach, after evaluation of materiality or the importance of the deviation, he said the hazardous financial condition would then be automatic. Mr. Rector said this contrasts with the approach of using Model #822, where no action would be automatic and the regulator would have to take an affirmative step to take further action.

Mr. Graham said the scope to apply the framework is too broad. He said all reinsurers could potentially be considered to be a captive arrangement, with a few instances carved out, and the scope would end up being broader than intended. He said the business covered by the Valuation of Life Insurance Policies Model Regulation (#830) (commonly referred to as “XXX”) and Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation (AG 38) (commonly referred to as “AXXX”) applies to all life insurance, and not just the term and universal life with secondary guarantee products. He said captives should be defined for the purpose of this framework. Superintendent Torti said that defining captives would be problematic. Mr. Rector said the ACLI’s proposed definition of “captive” would seem to be too narrow. He said that, to avoid companies trying to skirt any new requirements, the proposal says all cessions of XXX and AXXX are covered unless specifically exempted. He said the carve-outs could be adjusted if they are not broad enough. He said that ceding companies would need to know about permitted practice(s), so he said that a notification requirement could be added to the contract.

Superintendent Torti said several people have suggested holding an interim meeting to further discuss this issue. He asked supporters to submit specific suggestions regarding the issues to be addressed and/or a potential agenda.

Based on the comments submitted to the Task Force, Mr. Rector said he will revise the proposed regulation and work plan.

Having no further business, the Principle-Based Reserving Implementation (EX) Task Force adjourned.
April 11, 2014

Commissioner Julie Mix McPeak and Superintendent Joseph Torti III
Co-Chairs, NAIC Principle-based Reserving Implementation (EX) Task Force
National Association of Insurance Commissioners

Dear Commissioner McPeak and Superintendent Torti:


Since our previous comments, we have received several questions and are therefore clarifying our suggestion to eliminate the net premium reserve (NPR) component of VM-20. In the Report, adjustments to the NPR calculation were suggested as part of the Report’s recommendation to use a slightly modified version of VM-20 for purposes of determining the Primary Asset Level. Our specific comment was, “We suggest eliminating the net premium reserve entirely for this purpose, since the purposes for including a formula-based net premium reserve floor in the Valuation Manual do not apply to the aspects of captive arrangements covered in the Report.”

While the Academy was not involved in either its development or testing, we understand that the NPR is a formula-based reserve with fixed industry level assumptions established at policy issue that was developed with the intention of being consistent with the existing U.S. Internal Revenue Code, thereby potentially serving as a basis for the deductible tax reserve. It is also the expectation that the NPR would reasonably approximate the aggregate deterministic reserve for a diverse book of business issued over many years, although with NPR assumptions established at issue and deterministic reserves potentially updated at each valuation it is not assured that this will occur in all circumstances. Since the initial development of the NPR, we understand that it may also be perceived as a floor in certain situations. For instance, we realize that for the early durations of some products, the NPR might exceed the deterministic reserve, but at those durations the reserves are of such low amounts that the difference would be insignificant. In a number of important ways the NPR is not principle-based, including that 1) it does not reflect specific company experience; 2) it is not sensitive to the specific product risks ceded through customized captive reinsurance arrangements; and 3) some of the reserve assumptions

1 The American Academy of Actuaries is an 18,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
are locked-in and are not adjusted as experience and economic conditions change. Applying the NPR to captive reinsurance transactions, which generally involve more narrowly defined product blocks issued over a limited period of time, could result in a Primary Asset Level that significantly misses the mark in either direction. This could result either in artificially increasing the Primary Asset Level required or causing significant calculation work and the devotion of resources to develop the reserve that is never used. For these reasons, the NPR component is not suitable and does not add value as a basis for the Primary Asset Level.

We believe that, in order to accomplish the purpose envisioned by the Report of backing the Primary Asset Level by hard assets, the Primary Asset Level should be an appropriately-determined risk-based reserve without the need for a prescriptive, formulaic floor. To that end, we recommend that, along with elimination of the NPR, the deterministic exclusion test also be eliminated, which will result in the deterministic reserve serving as the floor reserve. We also recommend that, at the current time, the Primary Asset Level be determined utilizing the current VM-20 reserve framework. As that framework is revised through the appropriate amendment process, it should continue to remain appropriate for the purposes intended by the Report.

We hope these additional comments are helpful. Please contact John Meetz, the Academy’s life policy analyst (meetz@actuary.org; 202-223-8196) if you have any questions.

Sincerely,

Cande Olsen, FSA, MAAA
Chairperson
Principle-Based Reserves Strategy Subgroup
American Academy of Actuaries
To: Commissioner McPeak & Superintendent Torti  
Co-chairs: Principle-Based Reserving Implementation (EX) Task Force  

From: Mike Boerner, Texas Department of Insurance, Representing Commissioner Julia Rathgeber,  
Texas Department of Insurance, Chair Life Actuarial (A) Task Force (LATF)  
Pete Weber, Ohio Department of Insurance, Vice-Chair Life Actuarial (A) Task Force (LATF)  

Date: April 10, 2014  

We would like to address some comments made at the 2014 Spring National Meeting regarding the use of VM-20 as the actuarial method in the Rector Report’s proposed framework (Feb. 17, 2014). Please note our input below represents our views and has not been vetted with LATF.

One issue was whether it is more appropriate to use one aggregate margin versus the individual margins by risk. For many years regulators have employed the methodology of applying individual margins assumption by assumption. Said another way, each key assumption (e.g. mortality factors, etc.) is made a bit more conservative than otherwise indicated. This same methodology was used for principle-based reserves (PBR) when VM-20 was developed. While we are interested in the theory of using an aggregate margin, we do not believe that we will be ready to revise VM-20 to use an aggregate margin in the timeframe needed for the actuarial method. But VM-20 can be used in the short-term and for initial implementation for PBR. Just as we do for all other parts of our financial regulatory regime, we can make improvements over time.

A second issue is that a simpler, more auditable approach could be used rather than VM-20. One idea is to lower the key assumption of mortality for level premium term insurance and to develop a similar alternative for universal life with secondary guarantees. While this would lower reserves it would tend to be a one-size-fits all approach and would, therefore, not achieve a better “right-sizing” of reserves given the products and experience company by company are significantly different. VM-20 would get closer to being right-sized and the aim of the reserve level being an economic reserve plus a margin(s).

Lastly, the NAIC will need to decide whether adjustments should be made to VM-20. We believe that some changes can be made to VM-20 for use in this framework which will minimize the differences between what would be implemented in this framework and what eventually may be implemented for initial PBR. We are not saying that VM-20 is perfect, even with consideration of certain adjustments, but the Towers Watson Study, industry and professional comments regarding PBR seem to support that VM-20 is a major step in the right direction for right-sizing reserves.

We hope these comments are useful in the Task Force’s efforts to address their charge regarding these types of captives and we would be glad to answer any questions or provide additional information as needed.
May 15, 2014

The Honorable Julie Mix McPeak
Commissioner
Co-Chair, NAIC Principle-Based Reserving Implementation (EX) Task Force
National Association of Insurance Commissioners
Davy Crockett Tower
500 James Robertson Parkway
Nashville, TN  37243-1220

The Honorable Joseph Torti III
Superintendent
Co-Chair, NAIC Principle-Based Reserving Implementation (EX) Task Force
National Association of Insurance Commissioners
1511 Pontiac Avenue, Building 69-2
Cranston, RI  02920-4407

Re: NAIC Draft Statistical Agent Framework Memo

Dear Commissioner McPeak and Superintendent Torti:

These comments are submitted on behalf of the American Council of Life Insurers (ACLI)\(^1\) in response to the Statistical Agent Framework Memo (Memo) exposed at the March 31 Task Force meeting. We thank NAIC staff for developing a proposal for discussion. We would like to provide comments on four aspects of this proposed framework: the purpose of the experience date collection, the process and a revised framework for collecting industry experience data, the use of PBR Actuarial Memoranda, and the importance of appropriate confidentiality safeguards.

Purpose of Data Collection

The most important purpose for the experience data will be to develop industry experience tables that can be used to establish assumptions for certain risk factors for companies that lack credible company experience. It will therefore be important to focus on items, such as mortality, for which experience and

---

\(^1\) The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI advocates in federal, state and international forums. Its members represent more than 90 percent of the assets and premiums of the U.S. life insurance and annuity industry. In addition to life insurance, annuities and other workplace and individual retirement plans, ACLI members offer long-term care and disability income insurance, and reinsurance. Its public website can be accessed at www.acli.com.
data is relatively homogenous across companies. It would be unproductive and wasteful to collect data on items, such as expenses, for which homogeneity is lacking.

There is an underlying presumption in the Memo that the states will need access to individual company data in order to validate company assumptions. We believe that this is an incorrect premise. This process will not provide useful information to efficiently check assumptions and in fact may potentially be misleading. In addition, such analysis will be resource intensive for all parties. For validation of assumptions, the Valuation Manual (VM) requires a company to document its assumptions—not only what the assumptions are, but the basis upon which those assumptions were developed. Since companies have different products, different distribution systems, different customer bases, etc., experience will vary by company. The most effective tool for assessing assumptions will be an analysis of actual experience relative to assumptions, an analysis that is most efficiently and effectively developed by the company itself.

We do recognize that one of the analyses that may be performed by the statistical agent would be comparison of each company’s experience to a standard benchmark. This would allow publication of a non-company specific range of experience variation. This could also allow regulators, and the NAIC on behalf of a specific regulator, to see on request the relative experience for a specific company as part of a reserve review.

Process And Revised Framework For Experience Data Collection

We have several comments regarding the process for experience data collection. Below we outline an alternative framework for retaining a statistical agent and collecting the necessary data, consistent with the design of the SVL.

First, we agree that the current pilot should remain in place until the PBR process is ready. However, we also believe that the current pilot should not be expanded further as it is an inefficient process.

We find the proposed involvement of a handful of states in the process to be unnecessary and inconsistent with the SVL. The SVL and VM were designed so that no individual state would need to get involved in the process of requesting data or contracting with a statistical agent. We believe that the NAIC should contract with the statistical agent, and that the SVL and VM provide the authority for the data to be requested and submitted to the statistical agent. The NAIC would need to have a contractual arrangement whereby it would be acting on behalf of the individual commissioners. The statistical agent would then collect data as directed by the requirements of the VM.

We also support the establishment of one or more NAIC groups to oversee the statistical agent work. Two functions need to be addressed. In the short term, there is a need to establish criteria for statistical agent, contract with statistical agent, and establish an overall budget. We also recommend the establishment of a process and time period for the role of statistical agent to be periodically subject to a public RFP. We believe that re-bidding the position of statistical agent every five years would be a sound practice. The longer term focus, which is described in the Valuation Manual, is the oversight of the development of any new studies and the monitoring of the effectiveness of existing studies. The short-term vs. long-term focus may necessitate two separate groups.

Finally, while the proposed process contemplates cost control by encouraging a competitive process, it does not currently provide for overall cost control. We suggest that the NAIC investigate the authority to assess companies to create a dedicated fund for statistical agent work. Such an assessment might be a percent of the fees currently collected for the annual statement filings. Having such a fixed budget would
help ensure that only studies with a favorable cost-benefit return would be performed and it would allow companies to budget for the costs.

**Use of PBR Actuarial Memoranda**

As we read the Memo, it appears to contemplate establishment of a database of information drawn from the PBR Actuarial Memoranda. We are opposed to any proposal to create a database using data from PBR Actuarial Memoranda. These Memoranda are designed and intended as confidential documents for the Commissioners used in reviewing a specific company.

Where the NAIC is supporting a state by helping to evaluate a company’s reserves, it may be appropriate for the staff to have access to the Actuarial Report for that review purpose. We would expect the NAIC to have a contractual arrangement with the state outlining the NAIC’s role and responsibilities, as discussed further below. In these cases, the reports should be requested from the company as needed in the same way a commissioner would request the Memoranda as outlined in the VM.

If it is established that a database is needed, we would have some fundamental confidentiality questions about the intended process for collection, maintenance, and provision of access to information, particularly with respect to any company specific or identifiable information. Will the NAIC have agreements to act on behalf of the states and to protect the confidentiality of confidential company information obtained from the states? To whom will the data be available to and how will access be controlled? Will a regulator or other party who does not have authority to request data directly from a company be able to get the data indirectly through the NAIC?

**Confidentiality Framework**

To the extent any of the analyses and reports result in the NAIC having access to information defined by the SVL to be confidential, an appropriate confidentiality framework for company information is necessary. The confidentiality provisions in Section 14 of the Model Standard Valuation Law (SVL) apply to any collection, maintenance, or provision of access to experience data and also apply to the PBR Actuarial Memorandum. We are pleased that the memo recognizes that experience data and PBR Actuarial Memoranda are confidential information under SVL Section 14.A. (5) and are required to be protected as required under Section 14.

The memo correctly states that SVL Section 14 permits a Commissioner to share confidential information. However, Section 14.B.(3) conditions such sharing on the recipient, the NAIC, another state regulator, or any other person, specifically agreeing, and having the legal authority to agree, to maintain the information in the same manner and to the same extent as the Commissioner. Under Section 14.B.(1), a company’s confidential information must be protected as confidential by law and remain privileged, among other things, which limits any re-disclosure or provision of access to such confidential information.

The NAIC recently addressed similar confidentiality issues in connection with a different project – development of the Own Risk and Solvency Assessment (ORSA) Model Act. We encourage consideration of the ORSA confidentiality provisions as appropriate when establishing the confidentiality framework for this reserve information, particularly the following provisions:

1) ORSA Section 8. C. (3) requires a commissioner to only share confidential information with the NAIC if there is a contract in place with the NAIC that governs the sharing and use of information provided to the NAIC. This contract must specify procedures and protocols for sharing confidential information with other state regulators.
2) ORSA Section 8.C.(3)(iii) prohibits the NAIC from storing confidential information in a permanent database after the underlying analysis is completed.

3) ORSA Section 8.F. provides that information in the possession or control of the NAIC shall be confidential and privileged and shall not be subject to open records laws, subpoena, or discovery or admissible in evidence.

We appreciate the opportunity to provide comments to the Task Force, and are willing to answer any questions that you may have. We are very willing to work with NAIC staff to further refine the implementation plans.

cc Kris DeFrain, NAIC
Larry Bruning, NAIC
Dan Schelp, NAIC
May 15, 2014

Kris DeFrais, FCAS, MAAA, CPCU
Director, Research and Actuarial
National Association of Insurance Commissioners

Re: Principle-Based Reserving Implementation (EX) Task Force | Exposure: Statistical Agent Framework Memo

Thank you for allowing comments on the above exposure draft. I am generally in agreement with the exposure draft, but would like to suggest something for your consideration.

Before I do, let me provide you with a brief background so you understand the points I will be making. I was hired in late 2009 to conduct industry experience studies on behalf of Milliman. We have successfully completed four studies to date and are working on a fifth one. While I help clients with a number of other things, experience studies take up a large portion of my time as well as that of several others at Milliman and we have developed substantial expertise in this area.

What I would like to suggest is for you to consider one more of the following with respect to the Statistical Agent:

- Require a periodic RFP process (maybe every 3-5 years) to make sure the Statistical Agent(s) are satisfactorily completing their work and possibly also improving upon what they are doing.

- Have an independent auditor review the work done by the Statistical Agent(s) rather than a team which could include an individual reviewing a competitor’s data. This could accidentally happen, even if unintentional. An independent auditor would eliminate this possibility.

- Have more than one Statistical Agent at a time. Work could be split by region, specific companies, specific states, etc.
  
  o This could also allow for the shifting of work if one Statistical Agent was over-burdened at a particular point in time.

  o It could also potentially serve as an audit if more than one Statistical Agent reviewed the same data, but this process would need to be worked out so as not to put an extra burden on any company.

 Offices in Principal Cities Worldwide
2

- Grouping the overall results would also need to be done in some manner, but there could be a designated Statistical Agent that would do this on behalf of the others.

I would also like to suggest that while it not be a requirement, that some data also be collected from smaller companies that can provide it. Experience can be very different between larger and smaller companies and the smaller company experience is also needed for valuation purposes.

I would be happy to answer any questions you have on this or further discuss my ideas.

Al Klein, FSA, MAAA
Consulting Actuary
Milliman
(312) 499-5731
ai.klein@milliman.com
August 7, 2014

TO: PBR (EX) Implementation Working Group

MIB Solutions is pleased to submit this comment letter to Larry Bruning’s and Dan Schelp’s memo dated March 14, 2014 regarding the PBR Statistical Agent process. As a wholly-owned subsidiary of MIB Group, which was founded by the industry in 1902 to fight underwriting fraud and support efficient life insurance company operations, MIB Solutions has a long history of providing support to the actuarial profession. Furthermore, MIB Solutions is uniquely qualified to comment on Mr. Bruning’s and Mr. Schelp’s document, as our organization has served as the statistical agent for life insurance experience reporting since the inaugural pilot data call in 2011.

Overall, we believe the procedures of establishing a permanent experience reporting framework is one of the key priorities for a successful implementation of the PBR Standard Valuation Law and PBR Standard Valuation Manual. The main content of these comment letters are intended to provide specific recommendations on the approach to develop statistical experience reporting. These letters are as follows:

- **PBR Experience Reporting - National Statistical Agent, Procurement and Governance.** This document details the pro’s and con’s MIB believes would occur in implementing any of the three most commonly discussed approaches for establishing a national statistical data reporting process.
- **Role of Life Statistical Agent -** This document details the role of the Life Statistical Agent and reconciles the duties of the LSA to the required provisions of the SVL and VM. MIB also discussed the statutory requirements for the statistical data agent and regulators to keep the data confidential.
- **Proposal to Allocate Experience Reporting Costs -** This document is a proposal to Allocate statistical data cost incurred to companies that are required to submit data as well as non-submitting companies.

MIB Solutions management is prepared to discuss these documents and address any questions the PBR (EX) Implementation Working Group or Interested Parties may have relative to these documents, or this subject in general. Thanks you for the opportunity to comment on this issue.

Sincerely,

[Signature]

Tom Rhodes, FSA, MAAA, FCA
AVP and Actuarial Director
MIB Solutions

50 BRAINTREE HILL PARK • SUITE 400 • BRAINTREE, MA 02184-8734 • TEL 781.751.6000 • FAX 781.751.6060 • WWW.MIBGROUP.COM
Three Options for PBR Experience Reporting: 
Pros, Cons and Summary for National Life Statistical Agent, 
Procurement and Governance

The adoption of the Standard Valuation Law (SVL) by the required threshold number of states will commence implementation of the principles-based reserving (PBR) process to the life insurance industry. The Valuation Manual (VM) which accompanies the SVL explicitly states that a statistical agent should collect the industry’s experience data for the purpose of providing timely benchmarks and feedback to regulators who are concerned about the reserve adequacy of insurers underwriting products under the PBR regime.

VM-50 satisfies the need for uniform statistical plans that meet the requirements pursuant to Section 13 of the SVL for the submission and analysis of insurer data.

However, the process of procurement and governance (“P&G”) of a national Life Statistical Agent (LSA) is not defined within the VM. Given the discussions of the LSA among insurance regulators to date, there are three options for regulators to designate a firm to serve as the LSA, and to exercise appropriate oversight over the procurement and governance of the services provided by the LSA:

1) Continue with the ad-hoc state P&G method in place since 2010
2) Amend the SVL to include provisions to formalize the ad-hoc method to a multi-state P&G method to accommodate additional states.
3) Develop an NAIC or national P&G method

The balance of this document will analyze the issues related to the three proposed P&G methods, and make specific recommendations for a P&G method that most closely addresses the interest of all stakeholders.

Option 1: Continue the ad-hoc state P&G method in place since 2010

Background:
In 2008, the New York Department of Financial Services (“NYDFS,” then known as the New York State Insurance Department) agreed to develop a pilot program to address the issues in the mandatory experience reporting that were being raised in discussions and early drafts regarding the SVL and VM for PBR. A Request for Proposal was drafted and circulated, generating numerous bids from for-profit and not-for-profit entities to serve as the statistical agent for the NYDFS pilot.

On the basis of its proposal, MIB Solutions, a subsidiary of MIB Group, a not-for-profit non-stock Delaware corporation well-known to insurers for its analytical and anti-fraud services, was designated the statistical agent for the term of the pilot period.
Beginning in 2011, NYDFS mandated annual submissions of life insurance experience data conforming to the specifications in VM-51. The statistical agent invoiced the companies, collected the data, and ensured that high standards of data quality, processing and confidentiality were observed.

Pro’s:
1) NYDFS has statutory authority to require insurance companies to comply with the requirements of mandatory experience reporting. 
2) NYDFS actuaries collaborate closely with the relevant NAIC Task Forces (e.g., LATF) and Working Groups (such as PBR (EX) WG, and others) to align experience reporting data requirements with approved changes to the VM.  
3) Pursuant to New York examination statutes, companies have the assurance that the data they submit will be treated as working papers received in the course of an examination and therefore would be considered confidential and privileged documentation.

Con’s:
1) Insurance companies that are not licensed in the state of New York are beyond the regulatory authority of the NYDFS. Therefore, this one-state model has inherent limitations in achieving the 80% target of life insurance in-force defined in VM-50 section 2.B.1. This has been ameliorated to an extent by the Kansas Insurance Department joining the ad-hoc reporting effort in 2013, but difficulties remain. 
2) This method lacks an ability to spread costs among companies that are not subject to experience reporting. A major concern has arisen from companies subject to experience reporting that they are bearing all the direct (statistical agent fees) and indirect (internal resource allocation to collect and verify experience information). NYDFS and KID do not have the regulatory authority under their examination statutes to levy a cost on companies that are otherwise excluded from the experience reporting data submission process. However, these companies stand to benefit from the experience reporting that may lead to the implementation of lower reserves, and the publishing of industry experience benchmarks. 
3) There is no framework for insurance industry, NAIC Committee, or insurance regulator group providing guidance or feedback to NYDFS or KID in controlling the scope of the data required to be submitted, fees to be charged, companies to exempt, and other aspects of this process. For example, operating under its own examination statute and procurement laws, the NY authority is not necessarily required to operate in accordance with VM-50 and VM-51. Companies have voiced concern over this shortcoming. 
4) The states of New York and Kansas did not adopt in its entirety the NAIC Model Law on Examinations section on Privilege for and Confidentiality of Ancillary Information. This section would permit insurance companies to share examination work papers and reports with other insurance regulatory agencies where the insurance company is licensed and keep this documentation privileged and confidential. Without the state’s adoption of the Privilege for and Confidentiality of Ancillary Information Section, sharing of experience data and reports provided to the New York or Kansas insurance regulators with other jurisdictions is a
difficult process. A streamlined system of making sharing information with all relevant regulators while maintaining confidentiality is a clear requirement of PBR experience reporting, and this capability is somewhat lacking in the current ad-hoc model.

Summary:

Procurement: This method uses a single-state RFP and designation process following state procurement statutes and regulations to achieve the procurement of the statistical agent. The NYDFS Chief Ethics Officer was closely involved in drafting the terms under which the statistical agent might operate, and the terms of the 3-way contract (the parties of which are: a given company, NYDFS, and the statistical agent) under which the method operates.

Governance: Close collaboration between all parties (companies’ interests are represented through LICONY and ACLI, as well as companies communicating with NYDFS on their own behalf) has made this pilot a success. Concerns about statistical agent charges or information handling practices can be articulated with the regulator, who retains the right to perform audits or exercise other controls (including vetoing proposed fee increases) over the statistical agent.

Option 2: Formalize the ad-hoc method to a multi-state P&G method to accommodate additional states.

Background:
By instituting measures articulated in VM-50 around coordination and collaboration, and by recruiting and retaining multiple states to serve as the key steering group which may conduct the experience data collection process under their respective examination statutes, several shortcomings of the ad-hoc P&G method discussed above might be ameliorated.

Pro’s:
1. A more-inclusive number of states (3-5 states have been mentioned as an optimal range) encourages greater transparency than the pilot model permits.
2. Retains the ability to deploy states’ examination or other statutes to ensure privilege of and confidentiality of experience data.
3. Introduces a proactive administration and coordination role for NAIC staff and leadership, given a larger number of states seeking consensus and efficiencies through common practices.
4. Achieving the 80% coverage threshold sought by VM-50 is simplified with a greater number of states participating.

Con’s:
1. Inability to spread costs of collecting experience data to licensed companies if they did not submit experience data to the statistical agent.
2. Management of separate contracts for 100+ companies corresponding to 3-5 state examination requirements becomes burdensome.

3. Should a state in the group choose to withdraw, continuity of company participation becomes problematic, creating potential confusion with industry benchmarks.

Summary:
Procurement: This method might combine the use a single-state RFP and designation process cited in the prior method, with the other states using “unique specialty” exemptions in their procurement statutes to permit the LSA to operate as the sole statistical agent in multiple jurisdictions. Experience from the pilot program can ensure that terms and conditions are drafted and enforced for the LSA to perform its role properly.

Governance: Requiring states that participate in the multi-state P&G method to use procedures consistent with those promulgated by existing NAIC Task Forces and Working Groups provides for uniform oversight of the LSA that may technically be under the supervision of multiple states. The VM contemplates such a technique in determining the scope of data calls, the use of reports, and the costs to companies, and the inclusion/exclusion of companies subject mandatory experience reporting. This may be a means of advancing beyond the ad-hoc method mentioned above, and provides the means to mature this process into a more NAIC-centric method.

Option 3: Develop a Life Statistical Agent (LSA) under NAIC Procurement and Governance (P&G)

Background:
The NAIC has a number of operational activities it performs on behalf of its members that introduce efficiencies to the 50-plus jurisdictions’ regulation of the insurance industry. States have enacted statutes that provide the NAIC with the ability to assess insurance companies’ fees for certain services. In some cases, the NAIC may contract with service providers, make information and reports available to regulators, and assure confidentiality. Introducing a NAIC based P&G method can address several concerns outlined with the use of the other LSA P&G methods mentioned in this document. Other issues may be raised by this method, however.

Pro’s:
1) Centralizing the interactions with the LSA eliminates the need for resource-strapped states to manage this requirement. Clear and transparent communications and analysis are strengths of the NAIC structure.
2) Centralizing the access to technical actuarial expertise has been stated as a priority for regulators without access to such resources in their own departments. The NAIC’s staff of experienced actuaries is well-positioned to add value to any analysis and reporting process where the NAIC performs a pivotal role.
3) Maintenance of the entire database of annual financial statements and other supplemental filings and exhibits gives the NAIC the means to identify companies that may be subject to mandatory experience reporting, and confirming the circumstances of those companies that wish to claim an exemption. With the NAIC responsible for determining experience data filing eligibility, there is regulatory convergence, where a company may appeal to the working group of regulators to request an exemption.

4) Governance by means of the NAIC Task Forces and Working Groups can be administered efficiently.

**Con's:**

1) Companies are suspicious to varying degrees of any effort by the NAIC to be responsible for providing additional services with the ability to assess companies for the cost of these services. Whereas companies may feel more comfortable communicating with its domestic regulator over issues such as LSA fees and exemptions from mandatory experience reporting, there is concern among some companies that the NAIC may have an expansive view of both fees and reporting requirements. An explicit arm’s-length relationship between the NAIC and the LSA with a NAIC working group of regulators providing oversight might remediate some of this risk.

2) It is unclear whether the NAIC can act as the procurement agent of the LSA on behalf of its members without having additional provisions added to the VM.

3) Issues of confidentiality of company data must be addressed in the SVL or VM. Without the explicit protections as detailed in the NAIC Law on Examinations statutes adopted by states, amendments to the VM may address any open issues whether the NAIC can assure the confidentiality of companies’ experience data.

**Summary:**

Procurement: The NAIC may have authority to designate a single LSA and enforce that choice. There are obvious efficiencies and benefits to a single entity reviewing the qualifications of potential LSA’s. Without question the NAIC can enter contracts on its own behalf for a third party to perform statistical agent services. However, the NAIC must have authority in the SVL or VM granting the authority for collecting experience data and providing experience reports.

Governance: The NAIC PBR Implementation WG should have a charge to develop specific measures or roles to facilitate the governance requirements of national statistical reporting. The scope of data calls, the fees charged, the use and availability of the various reports generated, and adjudicating requests for ad hoc or specialized data calls or reports all require specialized ability to organize numerous stakeholders. The NAIC has a staff of technical and policy specialists in place that can assist with the development of a governance structure, so incorporating this governance task may not pose an insurmountable obstacle.
Discussion and Next Steps:
The key regulatory and administrative stakeholders with responsibility to develop and implement a framework for mandatory experience reporting as required by VM-50 may regard the foregoing analysis as a means of assessing the three most apparent methods of achieving that objective. Since time is of the essence, little time should be wasted in moving forward with consideration of one or more approaches.

Short-Term:
An appropriate next step is to evaluate a possible short-term solution (until the SVL trigger is reached), where a number of state DOI’s (say between three and five) collaborate to provide the framework for confidentiality of data through application of state examination laws. NAIC can serve as a de-facto administrator of the process, providing oversight of the performance of the designated LSA. The relevant states might expressly delegate that role to the NAIC staff, and rely on an entity such as a Working Group whose primary focus is the execution of mandatory experience reporting under the SVL. For convenience, this will be referred to as the Life Statistical Agent Working Group (“LSAWG”) whose charter is to coordinate the operation of the mandatory experience reporting annually, as well as be the venue where changes to the scope of administering statistical agent activities might be introduced, discussed, and agreed.

An example of several specific next steps might be the following:  
1) Constitute LSAWG with regulators from states willing to serve as the “backbone” of the experience reporting requirement.  
   a. Charge the LSAWG with developing the designation method for identifying the LSA for an effective date of the annual reporting cycle after the SVL becomes operational (currently estimated as 2016)  
   b. Ensure that all states participating as LSAWG members can support essential confidentiality of company experience data within the context of their respective examination or other statutes  
   c. All states participating as LSAWG members would likewise coordinate their data call requirements to avoid overlap among companies (similar to the NY/KS pilot model)  
2) Complete an analysis of the steps necessary for the states represented on the LSAWG to delegate operational responsibility reporting to the NAIC  
   a. Such an implementation should at a minimum charge the NAIC with administration of:  
      i. Fee setting,  
      ii. Granting company reporting exemptions,  
      iii. Invoking companies for experience reporting  
      iv. Procuring the services of a LSA  
      v. Establishing a common contract form for companies submitting experience data

---

1 The broad framework for this implementation is adapted from Bruning’s and Schelp’s “Statistical Agent Framework Memo” found at http://www.naic.org/documents/committees_ex_pbr_implementation_tf_exposure_stat_agent_framework_memo.pdf

© 2014 National Association of Insurance Commissioners
vi. Distributing experience reports produced by the LSA

vii. Providing oversight of the LSA’s operations

3) Develop a roadmap to achieve the delegation cited in 2 above
   a. Based on legal counsel, such a roadmap may require specific agreements between the LSAWG states and the NAIC to perform these actions

Long-Term:
The method described in the section entitled “Option 3: Develop a Life Statistical Agent (LSA) under NAIC Procurement and Governance (P&G) method” serves as the basis for a viable long-term solution, effective upon the triggering of the SVL. Several amendments to the VM may be required to enable this method to address all requirements, and these may be evaluated and analyzed by the LSAWG. However, an itemized description and analysis of the specific amendments required is outside the scope of this document.
Attachment: Implementation of Option 3

Proposal to Allocate Experience Reporting Costs to Companies

Representatives of the life insurance industry have advised the NAIC it would be beneficial to the industry if they could develop a process to spread the costs of the experience reporting data collection process to all licensed life insurance companies subject to the data call, both submitting and non-submitting companies. In the proposed amended language of VM-50 Section 3B3, the Life Statistical Agent (EX) Working Group for each particular data call on a national basis will determine 1) the amount to be allocated and 2) process used to allocate those costs to companies subject to the data call.

This attachment presents a proposal to allocate experience reporting costs based on the approach similar to the New York/Kansas Pilot Project and consistent with VM-50 Section 3B3. The proposal assumes that the Life Statistical Agent (EX) Working Group will determine that:

1. All companies subject to a data call will be charged for that data call
2. Only a portion of companies subject to a data call will actually submit data (Submitting Companies),
3. Submitting Companies will be allocated lower charges than the charges allocated to Non-Submitting Companies

Proposal to Allocate Experience Reporting Costs to Companies

In the NY and Kansas data calls, the total cost incurred by the statistical agent related to a particular data call was the sum of the charges allocated to submitting companies. The cost allocated to companies was proportionate to the amount of the company’s direct US premium and affiliate status.

Under the proposed new structure for conducting national data calls, all companies subject to the mandatory data call will be charged proportionate to the amount of the company’s direct US premium and affiliate status. Companies who are required to submit data in the current year will receive a credit on the subsequent year's data call based on the amount collected from non-submitting companies. For example, if charges to non-submitting companies account for 25% of the total charges for the data call, each submitting company will be credited that amount on the subsequent year's data call. As appropriate, the credit will reflect an interest component that will be added to the credit balance. The interest component will be developed by the Life Statistical Agent (EX) Working Group in conjunction with the Life Statistical Agent.

The process to determine the cost structure of the data call is:

1. Determine the number of companies subject to the data call as well as how many of those companies will be required to submit data.
2. Determine the overall cost of the data call.
3. Determine preliminary cost allocation to submitting companies. This is done by allocating the overall cost of the data call only to submitting companies (taking into account variations based on amount of the company’s direct US premium and affiliate status).
4. Determine the final cost allocation to non-submitting companies. This is done by applying to non-submitting companies’ step 3’s preliminary cost allocation by amount of the company’s direct US premium/affiliate status. The sum is the final charges to non-submitting companies for the current year.
5. Determine the final cost allocation to submitting companies. This is done by multiplying the preliminary cost allocation to submitting companies plus applying the aggregated credit. The credit is determined by adding to the numerator of the fraction the sum of the final charges to non-submitting companies from the prior year and the denominator of the fraction is the overall cost of the data call.

Example:

In this example, we are using the charges based on the NYDFS Request for Proposal that differentiated amount of the company’s direct US premium into the classes of Large, Medium and Small and used a 50% reduction for company affiliates in the data call. For illustration purposes, we used 21 submitting companies and assumed that there were 9 non-submitting companies.

Please note that this is an illustrative example and in actual data calls, the charges and number of companies will be different.

The process to determine the cost structure of the data call is:

1. Determine the number of companies subject to the data call as well as how many of those are data submitting companies. As mentioned above, this illustrative example assumes 30 total companies subject to the data call with 21 submitting companies.

2. Determine the overall cost of the data call. This illustrative example assumes $1,000,000.

3. Determine preliminary cost allocation to submitting companies. This is done by allocating the overall cost of the data call only to submitting companies taking into account variations based on amount of the company’s direct US premium and affiliate status. The illustrative example has variations in cost by amount of the company’s direct US premium and affiliation based on the NYDFS Request for Proposal. The results are shown in Table A – Preliminary Cost for Submitting Companies.

4. Determine the final cost allocation to non-submitting companies. This is done by applying step 3’s preliminary cost allocation by amount of the company’s direct US premium/affiliate status. The sum is the final charges to non-submitting companies for the current year. The illustrative example’s results are shown in Table B – Final Cost for Non-Submitting Companies.

5. Determine the final cost allocation to submitting companies. This is done by multiplying the preliminary cost allocation to submitting companies plus applying the aggregated credit. The credit is determined by adding to the numerator of the fraction the sum of the final charges to non-submitting companies for the prior year and the denominator of the fraction is the overall cost of the data call. The illustrative example shows the derivation of the fraction and the final charges to submitting companies in Table C – Final Cost for Submitting Companies.
Table A – Example Preliminary Cost for Submitting Companies from prior year

<table>
<thead>
<tr>
<th>DC Participation</th>
<th>Size Category</th>
<th>Number of Companies</th>
<th>Initial Charge*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submitting</td>
<td>Large</td>
<td>7</td>
<td>$80,000</td>
<td>$560,000</td>
</tr>
<tr>
<td></td>
<td>Large Affiliate</td>
<td>3</td>
<td>$40,000</td>
<td>$120,000</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>4</td>
<td>$48,000</td>
<td>$192,000</td>
</tr>
<tr>
<td></td>
<td>Medium Affiliate</td>
<td>4</td>
<td>$24,000</td>
<td>$96,000</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>1</td>
<td>$16,000</td>
<td>$16,000</td>
</tr>
<tr>
<td></td>
<td>Small Affiliate</td>
<td>2</td>
<td>$8,000</td>
<td>$16,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$1,000,000</strong></td>
</tr>
</tbody>
</table>

*Note that Initial Charge is before the price reduction for submitting companies

Table B – Example Final Cost for Non-Submitting Companies from prior year

<table>
<thead>
<tr>
<th>DC Participation</th>
<th>Size Category</th>
<th>Number of Companies</th>
<th>Charge</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>NonSubmitting</td>
<td>Large</td>
<td>0</td>
<td>$80,000</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Large Affiliate</td>
<td>0</td>
<td>$40,000</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>2</td>
<td>$48,000</td>
<td>$96,000</td>
</tr>
<tr>
<td></td>
<td>Medium Affiliate</td>
<td>2</td>
<td>$24,000</td>
<td>$48,000</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>2</td>
<td>$16,000</td>
<td>$32,000</td>
</tr>
<tr>
<td></td>
<td>Small Affiliate</td>
<td>3</td>
<td>$8,000</td>
<td>$24,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$200,000</strong></td>
</tr>
</tbody>
</table>

For this example, we see that $1,000,000 is the total cost required for the data call, and $200,000 is the total cost provided by non-submitting companies. For this example, we will assume that the final cost for non-submitting companies for the prior year is equal to the final cost for non-submitting companies for the current year. We can divide the amount provided by non-submitting companies by the total amount required to get the credit factor (which all submitting companies will receive):

\[
\text{Credit Factor} = \frac{\text{Total costs from non-submitting companies for prior year}}{\text{Total initial costs from submitting companies for subsequent year}} = \frac{200,000}{1,000,000} = 20\%
\]
For this example, we apply the example’s credit factor to each initial charge on submitting companies to get the price reduction and the actual charge for submitting companies, as shown in Table C:

<table>
<thead>
<tr>
<th>DC Participation</th>
<th>Size</th>
<th># of Co.</th>
<th>Initial Charge</th>
<th>Credit Factor</th>
<th>Credit</th>
<th>Actual Charge</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submitting</td>
<td>Large</td>
<td>7</td>
<td>$80,000</td>
<td>20%</td>
<td>$16,000</td>
<td>$64,000</td>
<td>$448,000</td>
</tr>
<tr>
<td></td>
<td>Large Affiliate</td>
<td>3</td>
<td>$40,000</td>
<td>20%</td>
<td>$8,000</td>
<td>$32,000</td>
<td>$96,000</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>4</td>
<td>$48,000</td>
<td>20%</td>
<td>$9,600</td>
<td>$38,400</td>
<td>$153,600</td>
</tr>
<tr>
<td></td>
<td>Medium Affiliate</td>
<td>4</td>
<td>$24,000</td>
<td>20%</td>
<td>$4,800</td>
<td>$19,200</td>
<td>$76,800</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>1</td>
<td>$16,000</td>
<td>20%</td>
<td>$3,200</td>
<td>$12,800</td>
<td>$12,800</td>
</tr>
<tr>
<td></td>
<td>Small Affiliate</td>
<td>2</td>
<td>$8,000</td>
<td>20%</td>
<td>$1,600</td>
<td>$6,400</td>
<td>$12,800</td>
</tr>
<tr>
<td>Submitting Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$800,000</td>
</tr>
<tr>
<td>Non-Submitting Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$200,000</td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>

For this example, the largest submitting companies receive a $16,000 credit and a small submitting affiliate company receives a $1,600 credit. For this example, the total charges of $1,000,000 still amounts to the overall cost of this example’s data call.
Pathway to Implementation of Option 3: Develop a Life Statistical Agent (LSA) under NAIC Procurement and Governance (P&G):
Role of LSA, Life Statistical Agent (EX) Working Group, Charges and Selection of LSA, and Confidentiality

The Standard Valuation Law requires states to collect life insurance experience data from insurance companies licensed in their state, as prescribed in the Valuation Manual (VM). Experience data is needed in order to develop industry experience data tables, which will be used by insurance companies that do not have credible experience data themselves. This experience data will also be needed by regulators to determine industry experience benchmarks, and will be used to validate insurance company model experience assumptions.

It is essential that the states and the NAIC develop a consistent process to collect insurance company experience data due to confidentiality, uniformity, and efficiency considerations. The VM contemplates designating Life Statistical Agent(s) (LSA) to collect this data on behalf of the states. Amendments to VM-50 are included in the material below.

Role of Life Statistical Agent
The NAIC has determined the role of statistical agent through existing provisions in the Valuation Law, the Valuation Manual and Regulation.

Valuation Law and Valuation Manual

Valuation Law
The Valuation Law requires statistically credible experience and margins for reserves in Section 12. Additionally, Section 13 provides that:

“A company shall submit mortality, morbidity, policyholder behavior, or expense experience and other data as prescribed in the valuation manual.”
Valuation Manual

The NAIC accomplishes defining the Life Statistical Agent(s) role in the Valuation Manual. In particular:

- VM-50 Section 3A, covers the Roles and Responsibilities of the statistical agent.
  - VM-50 Section 3A1 states: “Unless there is a compelling reason otherwise, a particular data call will utilize a single statistical agent on a national basis.”
  - VM-50 Section 3A4 covers the statistical agent in implementing the regulatory requirements and working with companies submitting data.
  - VM-50 Section 3A5 covers the statistical agent providing industry aggregate databases.

- VM-50 Section 4A Data Quality emphasizes the statistical agent’s role in data quality and their work with insurers. In subsection D, there are 15 data quality standards and requirements.

- VM-50 Section 5 has five parts that cover reports available from the statistical agent.
- VM-50 Section 6 covers the special case of reports from the statistical agent to the Professional Actuarial Associations.

Model Regulation 815

Model Regulation 815 defines statistical agent in Section 3 C:

“Statistical agent” means an entity with proven systems for protecting the confidentiality of individual insured and insurer information; demonstrated resources for and history of ongoing electronic communications and data transfer ensuring data integrity with insurers, which are its members or subscribers; and a history of and means for aggregation of data and accurate promulgation of the experience modifications in a timely manner.

Conclusion on Role of Life Statistical Agent

The role of statistical agent has been determined by existing provisions in the Valuation Law, the Valuation Manual and Model Regulation 815.
Governance of the statistical agent and experience reporting is to be done by the Life Statistical Agent (EX) Working Group. This is covered in the next section.

**Life Statistical Agent (EX) Working Group**

The Valuation Manual defines the process of submitting data set forth in Section 13 of the Standard Valuation Law. In the initial version of the Valuation Manual, VM-50 Experience Reporting Requirements and VM-51 Experience Reporting Formats address experience reporting. The proposed Life Statistical Agent (EX) Working Group fulfills the function specified by the Working Group identified in VM-50’s Section 3B. Through the NAIC committee process, the Life Statistical Agent (EX) Working Group will include at least 3 to 5 state regulators.

It is proposed to put the Life Statistical Agent (EX) Working Group into the Valuation Manual by replacing VM-50 Section 3B Role and Responsibility of NAIC Task Force or Working Group with the following:

“B. Role and Responsibility of the Life Statistical Agent (EX) Working Group

1. The NAIC will create the Life Statistical Agent (EX) Working Group that will include at least 3 to 5 state regulators as members. The Working Group members will be selected based on several criteria, including: 1) the number of licensed life companies in the state; 2) sufficient statutory provisions and agreements with the NAIC to keep experience data received from insurance companies privileged and confidential; and 3) specifics of state procurement rules. The Life Statistical Agent (EX) Working Group is responsible for the content and maintenance of the experience reporting requirements. The Life Statistical Agent (EX) Working Group will monitor the data definitions, quality standards, appendices and reports described in the Experience Reporting Requirements to assure that they incorporate the latest changes in technology and comply with new regulatory standards.

2. To ensure that the experience reporting requirements will continue to be useful, the Life Statistical Agent (EX) Working Group will seek to review each study at least every five years. The Life Statistical Agent (EX) Working Group should have regular dialogue, feedback and discussion with an advisory group. Such advisory group should include a broad range of data users, including regulators, members of professional actuarial organizations, large and small insurers, and insurance trade organizations.”
Charges for Experience Reporting and Selection of Life Statistical Agent

Through changes to VM-50, the NAIC will set forth the procedure for determining charges for experience reporting, selecting a statistical agent and setting the authority to bill and collect the charges.

The proposed amendments to VM-50 below set forth the procedures and authority to assess insurance companies for the cost of statistical agent process. Such procedures are needed to implement the data submission specified in the Valuation Law’s Section 13, VM-50 Experience Reporting Requirements and VM-51 Experience Reporting Formats.

VM-50 is to be amended to add Section 3B3 and Section 3B4 that read:

“3. The Life Statistical Agent (EX) Working Group for each particular data call on a national basis will:

a) Determine the amount required to cover the statistical agent’s expenses in completing the work specified in VM-50,

b) Determine the allocation of costs to companies subject to the data call,

c) select the statistical agent based on:

i. Best value that optimizes quality, cost and efficiency, but is not equivalent to lowest price. Best value embodies price and includes the costs associated with utilizing the services and the impact of the services on regulator’s programs and operations.

ii. An entity that meets the following four criteria*:

1. Demonstrate their experience in the areas of data handling practices including maintaining confidentiality of individual insured information and company information;

2. Have an Information Technology infrastructure to process and permanently store hundreds of millions of submitted records per data call as well have documented disaster recovery and business continuity plans;

3. Demonstrated proficiency to manage a data call with insurers; produce syntax, validation and reasonability reports for insurers to self-analyze data; perform actuarial analysis and review of submitted data; and communicate with companies on final company reports and aggregated report to be given to regulators ; and
4. Demonstrated capability to work with regulators, industry, professional actuarial societies and industry trade groups in developing data call materials such as those in VM-51.

d) At least every five years, the statistical agent will be reviewed based on the above criteria.

*Drafting Note:* The four criteria are based on the Definition of statistical agent from NAIC Model Regulation 815.

4. The NAIC has the authority to assess and collect from companies the costs allocated to them for each particular data call on a national basis. The NAIC may delegate this authority to the Life Statistical Agent for that data call.

Proposed Assessment Process

Under the New York/Kansas Pilot Program companies submitting data paid a fee based on the amount of the company’s direct US premiums and affiliate status, as specified in a Request for Proposal. Representatives of the life insurance industry have advised the NAIC they would like to spread the costs of the experience reporting process to both submitting and non-submitting companies.

For each data call, the Life Statistical Agent (EX) Working Group determines the cost of that data call and allocates that cost to companies. A proposed assessment process that charges submitting companies less than non-submitting companies is in the Implementation of Option 3 Attachment.

Confidentiality for Experience Data, Experience Reports and PBR Reports

The sharing of experience data, experience reports and PBR reports among regulators needs to be done confidentially. The confidentiality provisions of the Valuation Law and Valuation Manual are to be supplemented by the adding to VM-50 Section 4F Treatment of Confidential Information subsection 3:

“3. The Life Statistical Agent (EX) Working Group will establish confidentiality procedures for experience data, experience reports and PBR reports consistent with Valuation Law Section 14b3. Confidentiality is maintained through information sharing...”
that is verified through confidentiality agreements between the NAIC and the State Commissioners.”

With the execution of a confidentiality agreement between the state and the NAIC, regulators from states with executed agreements can have access to the NAIC experience data, experience reports and PBR reports. These state insurance regulators can also have access to individual experience data submitted by insurance companies licensed in their state.
May 12, 2014

Commissioner Julie Mix McPeak
Tennessee Department of Commerce and Insurance

Superintendent Joseph Torti III
Rhode Island Department of Business Regulation, Division of Insurance

Co-Chairs, Principle-Based Reserving Implementation (EX) Task Force
National Association of Insurance Commissioners
Kansas City, MO

RE: Response to March 14th, 2014 Statistical Agent Framework Memorandum

The Society of Actuaries (“SOA”) appreciates the opportunity to review and provide comments on the March 14th, 2014 Memorandum from NAIC staff members Larry Bruning and Daniel Schelp to the members of the Principle-Based Reserving Implementation (EX) Task Force. The proposed framework contained in the Memorandum is helpful to better understand the initial ideas for establishing a process to collect, manage, study and access data that will support principle-based reserving (“PBR”). The SOA intends to continue to review this document and offers the following comments to serve as our initial response to the proposed framework. As the Task Force continues its work the SOA will provide additional comments on these matters.

As background, the SOA is the world’s largest professional society serving the actuarial profession. We are an educational, research and professional organization of more than 24,000 actuaries, dedicated to serving our members, students, the profession and the public. The SOA conducts a wide range of research to provide technical information resources for the profession, to advance the capabilities of the profession, to inform public policy development, and to promote public understanding and the public interest. This research includes many studies of historical experience and techniques for projections into the future. Experience studies have been at the core of SOA research activities since its formation in 1949, and were additionally a main activity of our predecessor organizations for many decades prior to that date.

The SOA is now, and has been for many years, the leading provider of historical experience studies to the profession, industry, and regulatory community, providing objective, scientific information to use by all of these parties. Currently, the SOA has over 20 different experience study projects in progress, reviewing contingencies across all major lines of business written by U.S. life insurance companies. These studies are routinely relied upon by the actuarial profession, insurers, and regulators to provide critical benchmarking and to provide the credibility needed to support competition and wise underwriting by insurers. These studies are conducted by SOA member volunteers and staff, frequently in collaboration with other organizations, both within the actuarial profession and outside of it. Of particular recent note is the partnership we announced in March with MIB, Inc., the first statistical agent appointed...
under the evolving PBR framework. This step demonstrates our commitment to supporting and enhancing this evolving regulatory approach.

Given this history, we feel it is important for the evolving framework to describe the relationship and intended integration of the SOA experience study process within the PBR structure. We believe the SOA has an important, objective role to play in the evolving structure and would like to see it reflected in the memorandum and in the Task Force’s continuing work. We note the memorandum references creating experience tables in Section I, where it states “experience data will be needed in order to develop industry experience data tables,” and in Section III.5 where “[t]he statistical agent(s) also sends the data to the Society of Actuaries for analysis.” We support these approaches and stand ready to work with the Task Force to develop and define these processes to best and most efficiently support the PBR approach. Through such discussion, we believe the NAIC can provide increasing clarification on how best to integrate the SOA experience study analysis with the process of collecting experience data and in working with any statistical agent(s) designated under this system.

Three main ideas in particular warrant continuing discussion as the framework evolves:

- The SOA recognizes the strong need to keep insurance company data confidential. We have a long history of recognizing and managing this issue; indeed, one reason for the SOA’s long and successful involvement in providing experience studies is our ability to serve as an objective, confidential third-party to collect and analyze confidential information from industry and other data suppliers. The framework should extend these conversations beyond the data collection by a statistical agent(s), and ensure it formally continues through to the SOA experience study process. We commit to working with the NAIC to develop the necessary procedures to accomplish this task.

- The Implementation Task Force plans to hear recommendations on an allocation formula across the life insurance industry for the payment of statistical agent expenses, as noted in Section II.4. As those discussions take place, it would also be beneficial to focus on determining the most efficient and consistent expense allocation methods for SOA experience studies that make use of the data collected by the statistical agent. The SOA has long funded its experience study work by assessing insurers and data providers for the costs of conducting its experience studies. As a non-profit and objective professional society, we do so very efficiently. With the advent of PBR, the creation of the new statistical agent model, and the anticipated need for more and different types of studies, it may be most efficient to address these costs through other approaches. These approaches should be cost-effective and not duplicative of costs already incurred by insurers, but should also recognize the costs involved in producing these objective studies.

- The memorandum indicates in Section I.6 that “the NAIC would plan to warehouse industry experience data tables and formulate industry experience benchmarks…” It would be helpful for the SOA and NAIC to work together to clarify the process for access and ownership if these tables or reports contained experience study analysis created by the SOA. The SOA currently makes its experiences studies available to the public free of
charge via its website and intends to continue to do so in the future. At the same time, we understand the NAIC’s role in providing information access to the regulatory community. We desire to engage in discussions of how these combined objectives can best be accommodated and commit to working with the Task Force to address these issues.

We are excited about the possibilities inherent for regulators, the industry, and the actuarial profession in the developing PBR framework. We are committed to continuing to work with the NAIC to explore the implications and opportunities inherent in statistical data analysis under PBR. We look forward to working as a resource to the NAIC and to regulators on this evolving framework.

Sincerely,

R. Dale Hall, FSA, MAAA, CERA
Managing Director of Research
Society of Actuaries
The PBR Review (EX) Working Group of the Principle-Based Reserving Implementation (EX) Task Force met in Louisville, KY, Aug. 15, 2014. The following Working Group members participated: Mike Boerner, Chair (TX); Perry Kupferman (CA); Eric Johnson (FL); Mike Yanacheak (IA); Mark Birdsall (KS); William Leung (MO); William Carmello (NY); Dwight Radel and Pete Weber (OH). Also participating were: Andrew Rarus (CT); and Tomasz Serbinowski (UT).

1. **Adopted the Report of the PBR Blanks Reporting (EX) Subgroup**

Larry Bruning (NAIC) reported that the PBR Blanks Reporting (EX) Subgroup drafted a proposed set of changes to the annual financial statement blanks for life insurance companies, as well as a proposed set of changes to the annual financial statement blanks instructions that will incorporate valuations done under principle-based reserving (PBR). The proposed set of changes include changes to existing blanks pages and exhibits, as well a proposed new PBR VM-20 Supplement and associated instructions for completing the supplement.

The Subgroup received initial comments from interested parties on the proposed set of blanks changes and met July 21 to discuss those comments. The Subgroup made a few drafting changes based on those comments and believes that the revised proposed draft set of blanks changes and instructions are in a form that is ready for a formal exposure. To that end, the Subgroup recommends that the PBR Review (EX) Working Group consider exposing the revised proposed draft set of blanks changes and instructions for a public comment period of at least 45 days.

The process the Subgroup intends to follow is that, once a final draft set of changes to the annual financial statement blanks and instructions are developed, the Subgroup will recommend the PBR Review (EX) Working Group consider a formal referral to the Blanks (E) Working Group for implementation of the blanks changes.

Mr. Birdsall made a motion, seconded by Mr. Yanacheak, to expose the draft PBR blanks changes, supplements and instructions for a 45-day public comment period. The motion passed.

2. **Voted to Expose Draft PBR Blanks Changes, Supplements and Instructions**

Mr. Boerner gave a high-level summary of the revised proposed draft set of blanks changes and instructions, including the new PBR VM-20 Supplement and associated instructions. Mr. Boerner said that, in developing the draft blanks changes, preliminary comments from the American Council of Life Insurers (ACLI) and other interested parties were taken into account. Mr. Birdsall made a motion, seconded by Mr. Yanacheak, to expose the draft PBR blanks changes, supplements and instructions for a 45-day public comment period. The motion passed.

3. **Adopted the Report of the PBR Review Procedures (EX) Subgroup**

Mr. Weber reported that, in the time since the Spring National Meeting, the PBR Review Procedures (EX) Subgroup met about 12 times via conference call to discuss and develop regulatory tools for the analysis and examination of PBR. The conference calls were held in regulator-to-regulator session pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance, including, but not limited to, annual and quarterly statement blanks and instructions, the Accounting Practices and Procedures Manual, and similar materials) of the NAIC Policy Statement on Open Meetings.

Mr. Kupferman made a motion, seconded by Mr. Carmello, to adopt the report of the PBR Review Procedures (EX) Subgroup. The motion passed.
4. Discussed Supplemental Data for VM-31

Larry Bruning (NAIC) provided an overview of a proposed data template that would be a supplement to VM-31. Mr. Bruning stated that the data supplement was developed by NAIC staff at the request of the PBR Review Procedures (EX) Subgroup. Mr. Bruning presented the five sections of data to be reported in the template. Section A would list products subject to PBR modeling and contain a product description, a model identifier, total policy count, total gross premium, total face amount and total cash value. Section B would contain in-force information on products subject to PBR modeling, broken down by gender and issue-age to show actual data versus model data for policy counts, face amounts, gross premiums and cash values. Section C would contain information on mortality experience, broken down by underwriting class for specified issue ages. Section D would contain information on base lapse rate experience, broken down by specified issue ages and underwriting class and policy duration. Section E would contain information on company expense experience, broken down by acquisition expenses, commission expenses and non-acquisition expenses for key issue ages and underwriting classes.

Mr. Birdsall stated that this template is still a work in progress, but that the data required could amount to hundreds of pages of data. He asked whether any thought was given to having companies provide a high-level summary of the data, rather than drilling down to the detail, or having them provide more focus on key data assumptions that drive more of the reserve calculation. Mr. Boerner stated that higher-level information might make more sense in the context of the risk-focused examination, but there may be a need to drill down into the detail data and the template would contain that detail data. Mr. Weber stated that the higher-level summary information would be required in the executive summary level of the VM-31 reporting.

5. Discussed NAIC Support for PBR Reviews and State Insurance Department Staffing

Mr. Boerner referred to a one-page draft discussion document titled “NAIC Support for PBR Reviews and State Insurance Department Staffing with three sections: “NAIC Reviews of PBR Reports,” “State Insurance Department Staffing for PBR,” and “VAWG.” He said the Working Group would meet twice via conference call prior to the Fall National Meeting to discuss these items further. He indicated that staffing of state insurance departments will depend on the level of support provided by NAIC staff on PBR and the PBR Valuation Analysis (E) Working Group process. He indicated that the asset adequacy analysis should be reviewed in concert with the review of PBR. He indicated that the scope of the reviews would be on an annual basis. He reviewed the process and procedures of the PBR Valuation Analysis (E) Working Group. He said the role of PBR Valuation Analysis (E) Working Group could be to provide input to the Life Actuarial (A) Task Force on changes needed to the Valuation Manual.

Mr. Birdsall asked if one of the roles of PBR Valuation Analysis (E) Working Group is to provide responses to companies asking questions on valuation issues of a newly designed product or hybrid product that does not neatly fall into existing product categories. Mr. Boerner responded that it could be a role of the PBR Valuation Analysis (E) Working Group and that he could add a bullet-point item to make that clear. Mr. Birdsall said it might make sense for the PBR Valuation Analysis (E) Working Group to report to the Principle-Based Reserving Implementation (EX) Task Force, because that Task Force is co-chaired by the current chairs of the Life Insurance and Annuities (A) Committee and the Financial Condition (E) Committee. Mr. Bruning stated that another role of the PBR Valuation Analysis (E) Working Group is to provide feedback to the Life Actuarial (A) Task Force on what is, and is not, working well with PBR and recommend changes to the Valuation Manual to address items that are not working well. Mr. Bruning indicated that, in the interim, the PBR Valuation Analysis (E) Working Group could possibly report to the Principle-Based Reserving Implementation (EX) Task Force, but said that Task Force is not a permanent task force and may be eliminated once PBR is implemented.

Mr. Boerner asked Larry Bruning (NAIC) to explain the report on state insurance department staff resources. Mr. Bruning indicated that one of the charges of the Working Group is to evaluate the resources needed by the states. Each year, the NAIC compiles and publishes the Insurance Department Resources Report, where the states self-report on state-specific activities such as financial exams conducted and insurance department staff resources, which is where this information was extracted from. Mr. Bruning provided an overview of the report, noting that “A” means the commissioner is appointed and that “E” means the commissioner is elected. Mr. Kupferman then asked about column 3, “L/H Actuaries,” and asked whether that was referring to certified (credentialled) actuaries. Mr. Bruning responded that he did not know, as that category is not broken out between certified and non-certified actuaries. Mr. Kupferman suggested that the survey be changed to collect data on
actuaries that are certified and work on financial exams and/or solvency, Mr. Boerner also stated that the Working Group needs to know the number of certified actuaries working in the states’ examination and financial solvency areas. Mr. Kupferman and Mr. Serbinowski then asked questions about the premium volume number that was reported. Mr. Boerner asked NAIC staff to research the answers to the questions raised.

6. Received Status Report on the PBR Statistical Agent Framework

Mr. Bruning stated that, at the Spring National Meeting, the Principle-Based Reserving Implementation (EX) Task Force exposed a memorandum on the PBR Statistical Agent Framework for a public comment period ending May 15. The PBR Statistical Agent Framework includes five components. First, the states would collectively (through the NAIC committee process) designate three to five states to collect this data on behalf of all NAIC members. Second, the designated states would contract with a single statistical agent to collect industry experience data for a particular data set on a national basis. Third, the current New York/Kansas pilot statistical agent program would be continued on an interim basis until the NAIC process is implemented. Fourth, the NAIC would appoint a new Life Statistical Agent Working Group to establish governance over the statistical collection process and create an allocation formula across the entire life insurance industry for the payment of statistical agent expenses. Fifth, the NAIC would warehouse industry experience data tables and PBR actuarial reports to formulate industry experience benchmarks. Comment letters on all five components of the framework were received from the ACLI, Milliman, the Society of Actuaries (SOA) and MIB Solutions. The Principle-Based Reserving Implementation (EX) Task Force will be reviewing the comments, and NAIC staff will recommend that the framework be redrafted to incorporate comments from the interested parties. Mr. Birdsall suggested a working group be formed to get started on addressing some of the issues. Mr. Bruning stated that the formation of a working group would be decided by the Principle-Based Reserving Implementation (EX) Task Force.

7. Received the Report of the PBR Company Outreach Group

Mr. Rarus reported that the PBR Company Outreach Group has been working on three primary initiatives. The first initiative is a PBR company outreach survey, developed jointly with the SOA. Survey responses were compiled and sent to the SOA to respond back to the companies to resolve any inconsistencies in the responses. By the end of August, the SOA will submit a final report to its legal team to make sure that confidentiality is maintained. Results of the survey are anticipated to be completed by the end of the year. The second initiative is work on a fiscal impact document to be drafted by the first quarter of 2015 to fund a pilot study that would begin in 2016. Mr. Rarus asked whether 2016 would be too late to conduct the pilot study. Mr. Boerner commented that the 2016 date may not be too late, as it is his understanding that the Principle-Based Reserving Implementation (EX) Task Force is going to announce that the most likely operative date of PBR is now Jan. 1, 2017. The third initiative is to develop durable education components (DECs). These would be educational components on implementation of PBR modeled after the Kahn Academy. The plan is to meet with the SOA in early October to develop a trial module. Mr. Boerner indicated that the word “durable” is key, in that if the components of PBR change, these modules would be adjusted so that they would always be reflecting the current state of PBR.

Having no further business, the PBR Review (EX) Working Group adjourned.
Date: 9/10/14

PBR Blanks Reporting (EX) Subgroup
Conference Call
July 21, 2014

The PBR Blanks Reporting (EX) Subgroup of the PBR Review (EX) Working Group of the Principle-Based Reserving Implementation (EX) Task met via conference call July 21, 2014. The following Subgroup members participated: Kaj Samsom, Chair (VT); Kim Hudson and Perry Kapferman (CA); Kerry Krantz and Toma Wilkerson (FL); Fred Andersen (MN); Dwight Radel and Pete Weber (OH); Mike Boerner (TX); Jake Garn (UT); and Ern Johnson (VA).

1. Discussed Informal Comments Received from the ACLI

Mr. Boerner said the Subgroup had provided draft proposals for financial annual statement blanks at the Spring National Meeting regarding the principle-based reserving (PBR) changes, and only verbal comments had been received. There was a suggestion to consider variable annuities in the draft, but that is on hold. The draft proposal’s focus was to address life insurance products subject to VM-20, Requirements for Principle-Based Reserves for Life Products.

John Bruins (American Council of Life Insurers—ACLI) submitted informal comments regarding the drafted changes, but the comments were received only on the blanks changes initially seen at the Spring National Meeting. Mr. Bruins said the comments did not include the blanks instructions changes or the VM-20 supplement changes. He said that, in several areas, there were references to “PBR reserves” and “subject to PBR”; he said there should be a clear definition of what each term means. Mr. Bruins suggested “PBR reserves” be defined as “the excess of any stochastic or deterministic reserve over the net premium reserve (NPR).” This would make it clearer on how to report the different pieces. Additionally, he suggested that “subject to PBR” be defined as “a business that did not qualify for exclusion from both stochastic and deterministic reserve computations.” As long as one of the reserves (stochastic or deterministic) was computed, then the company would qualify for PBR. Exclusions can come from various sources; e.g., testing or certification, exemptions under VM-00 or by meeting the requirements of the small business exemption.

Mr. Krantz said that, on Exhibit 5, there is a line titled “total gross non-PBR,” and another line titled “total gross PBR.” The PBR reserve would be available in the total gross PBR line, and, in the financial statement, it was clear that should be the total reserve and not the excess of the stochastic or deterministic reserve.

Mr. Boerner added that the ACLI was looking at a prior document similar in what was done in the instructions and the VM-20 supplement, and there is a greater definition of what is being reported. Mr. Boerner said that clarifying language could be added to the reporting documents. Whatever goes into VM-20 that requires a calculation and reporting, then it would be the entire reserve, which is what was intended and clarified in the instructions.

Mr. Bruins said the ACLI’s approach is that the excess of deterministic or stochastic over the NPR would go to the miscellaneous section of Exhibit 5, and other items such as the NPR would be reported as a formula reserve in Exhibit 5, which would allow the entire reserve to show up in Exhibit 5. Mr. Boerner suggested that the exhibit remain unchanged until its formal exposure at the Summer National Meeting to allow for regulators and interested parties to comment.

Mr. Krantz said that the history of the analysis of increase in reserves when it was originally drafted did not anticipate interest-sensitive products or PBR. He said the Subgroup needs to figure out how to keep the analysis of PBR reserve and non-PBR reserve as simple as possible. Mr. Samsom said that, from an analysis and examination perspective, it seems relevant as far as the existing blanks where the Subgroup is summarizing changes in reserve based on its understanding of inherent relativity to PBR compared to the old reserve methods. This is one section where the Subgroup can go to see the PBR and non-PBR portion.

Mr. Bruins agreed that it needs to stay simple and have a high-level overview, but the life insurance product would still be reported in section one as life insurance reserve, and only a small piece of the deterministic or stochastic would go through the miscellaneous section. The net premium portion would still be in the analysis of change in the reserves section of the annual financial statement to allow for more detail. Mr. Bruins said the ACLI suggests the excess of stochastic over deterministic reserve portion should be recorded in the miscellaneous reserves section and that there be no change to the life or annuities section or the subcontract section. Mr. Krantz said the line could be added to the life insurance section in Exhibit 5 in place of the “total gross non-PBR” line. Mr. Bruins said that in the five-year historical exhibit, the numbers would be too small for significance and do not need to be incorporated at this time.
Mr. Krantz said it would still be important to report the numbers in order for regulators to be able to conduct statistical analysis and see how the numbers have grown over the years. Mr. Boerner suggested that Mr. Krantz work with NAIC staff to create modifications to the miscellaneous section in Exhibit 5. Mr. Bruins said the ACLI would like to see the PBR changes as part of the April 1 filing package and not as part of the March 1 annual financial statement filings. Mr. Bruins said there are two lines in the supplemental exhibit, one labeled “calculated” and one labeled “reported,” that need clarification. Mr. Boerner said the gross calculated and gross reported labels have been updated, and now “calculated” is only in column one. All other columns will indicate to users whether they need to calculate reserves together or whether they need to calculate the remaining items and use the larger number, which is why there are three sections. Mr. Sanssom said that, for now, the Subgroup will leave the March 1 filing date and, when the document is exposed, the Subgroup will receive comments regarding an April 1 filing.

2. Discussed Potential Changes to PBR Drafts

Mr. Sanssom said that Subgroup members and NAIC staff will work together to incorporate some of these changes. Mr. Boerner said that a potential exposure could be done at the Summer National Meeting by the PBR Review (EX) Working Group.

Having no further business, the PBR Blanks Reporting (EX) Subgroup adjourned.
PRODUCER LICENSING (EX) TASK FORCE

Producer Licensing (EX) Task Force Aug. 17, 2014, Minutes..............................................................4-154
Producer Licensing (EX) Task Force Aug. 1, 2014, Minutes (Attachment One).....................................4-156
Course Guidelines for Classroom Webinar/Webcast Delivery (Attachment One-A).................................4-158
Producer Licensing (EX) Working Group Aug. 17, 2014, Minutes (Attachment Two).............................4-160
Producer Licensing (EX) Working Group April 27, 2014, Minutes (Attachment Two-A).........................4-163
Continuing Education (EX) Subgroup Aug. 12, 2014, Minutes (Attachment Two-B)..............................4-165
Continuing Education (EX) Subgroup April 27, 2014, Minutes (Attachment Two-C)..............................4-166
Adjuster Licensing (EX) Subgroup April 27, 2014, Minutes (Attachment Two-D).................................4-167
Supplemental Recommendation of States Meeting Reciprocity Requirements of the
Gramm-Leach-Bliley Act (Attachment Three).........................................................................................4-168
The Producer Licensing (EX) Task Force met in Louisville, KY, Aug. 17, 2014. The following Task Force members participated: Todd E. Kiser, Chair (UT); Roger A. Sevigny, Vice Chair, represented by Barbara Richardson (NH); Lori K. Wing-Heier represented by Linda Brunette (AK); Dave Jones represented by Keith Kuzmich (CA); William W. Deal (ID); Sharon P. Clark represented by Lee Webb (KY); Mike Rothman represented by Emily Johnson Piper (MN); Scott J. Kipper represented by Adam Plain (NV); Wayne Goodwin represented by Rebecca Shigley (NC); Julie Mix McPeak represented by Michael Humphreys (TN); and Jacqueline K. Cunningham represented by Brian Gaudiose (VA). Also participating was: Sara Waitt (TX).

1. **Adopted its Aug. 1 Minutes**

Ms. Richardson made a motion, seconded by Ms. Shigley, to adopt the Task Force’s Aug. 1 minutes (Attachment One). The Task Force unanimously adopted the minutes.

2. **Adopted the Report of the Producer Licensing (EX) Working Group**

Mr. Gaudiose said the Working Group adopted the April 27 minutes of the Adjuster Licensing (EX) Subgroup, and the Aug. 12 and April 27 minutes of the Continuing Education (EX) Subgroup. The Working Group received a report from the Continuing Education (EX) Subgroup, which is working on Continuing Education Recommended Course Guidelines and Best Practices to be included in the continuing education chapter of the *State Licensing Handbook*. Mr. Gaudiose said the Working Group discussed surplus lines uniformity and reciprocity and will distribute a survey to states to determine how each state licenses surplus lines producers. The Working Group received a report from the Adjuster Licensing (EX) Subgroup, which is assisting the states with implementation of the *Independent Adjuster Licensing Guideline (#1224)* and corresponding best practices, along with drafting emergency independent adjuster guidelines. Mr. Gaudiose said the Working Group will finalize its biennial review of the *State Licensing Handbook* prior to the Fall National Meeting. Mr. Gaudiose said the Working Group heard an update from NAIC staff on the regulator user interface (RUI) project and the revised definition for the National Producer Number (NPN), which will reflect the current practices of states. Mr. Gaudiose made a motion, seconded by Ms. Brunette, to adopt the report of the Producer Licensing (EX) Working Group. The Task Force unanimously adopted the report (Attachment Two).

3. **Adopted a Recommendation on Licensure Requirements to Sell CDAs**

Commissioner Kiser said the Contingent Deferred Annuity (A) Working Group found that contingent deferred annuities (CDAs) do not easily fit into the category of fixed or variable annuities and asked the Task Force to “review the types of producer licenses, including appropriate provisions in the *Producer Licensing Model Act* (#218), required to sell CDAs to determine if those licenses are consistent with the licenses required to sell variable annuities and recommend any necessary changes and/or revisions.

Commissioner Kiser said the feedback received from regulators appears to be that CDAs are not permitted in some states but that states would generally require both a securities license and variable lines license to sell CDAs. Commissioner Kiser also recognized that Birny Birnbaum (Center for Economic Justice—CEJ) suggested states should require specific training and educational requirements for individuals selling CDAs. Commissioner Kiser said he agrees agents have a responsibility to be knowledgeable about the products they are selling and companies have a responsibility to train the agents selling their products. Commissioner Kiser said he thinks the responsibility for training lies more with agents and companies rather than the NAIC.

Because the charge of the Task Force is to finalize its recommendation on what license should be required to sell CDAs at this meeting, Commissioner Kiser suggested producers selling CDAs should be required to obtain a securities and variable lines license. Director Deal made a motion that for producer licensing purposes, individuals selling CDAs should be required to obtain a variable line authority. Ms. Shigley seconded the motion, and the motion was adopted.
4. Received Supplemental Recommendation of States Meeting GLBA Reciprocity Requirements

John Bauer (NAIC) presented the Task Force with a report (Attachment Three), which recommends that Texas and Washington be certified as meeting the producer licensing reciprocity requirements of the federal Gramm-Leach-Bliley Act (GLBA). Mr. Bauer said the NAIC strengthened the reciprocity standards in 2009 and, in 2011, the Executive (EX) Committee and Plenary adopted the recommendation of this Task Force that 40 jurisdictions be certified as meeting the requirements for non-resident producer licensing reciprocity included in the GLBA.

For the most recent review, Mr. Bauer said four jurisdictions submitted reciprocity checklists for review. These checklists were posted for comment on the Task Force’s Web page on the NAIC website, and no comments were received. Subsequent to the solicitation of comments, Mr. Bauer said the NAIC Legal Division reviewed the checklists and is recommending Texas and Washington meet the reciprocity standards established in 2009. Commissioner Kiser said he would like to take comments on the recommendation for the next 30 days and said the Task Force will have a call in September to decide whether Texas and Washington meet the NAIC reciprocity standards established in 2009.

5. Heard a Report from the NIPR Board of Directors

Karen Stakem Hornig (NIPR) said the NIPR is currently exceeding its budgeted income due to the growth in licensing transactions and investment returns. Total revenues are 9.4% above budget for the first six months of the year. The NIPR’s net assets have increased by slightly more than $1.9 million during the year, which is more than $1.4 million over budget. As of June 30, the NIPR had total net assets of more than $34.3 million. Ms. Hornig said John Fielding (Council of Insurance Agents and Brokers—CIAB) reported that there are two Terrorism Risk Insurance Act (TRIA) bills pending in the U.S. Congress, one in the U.S. Senate and one in the U.S. House of Representatives. Both bills contain an amendment that would establish a National Association of Registered Agents and Brokers (NARAB) to streamline non-resident licensing for insurance agents and brokers while ensuring they remain subject to state market conduct and producer enforcement authority. It is anticipated the bills will be acted upon before December 2014. Ms. Hornig said the NIPR Board of Directors approved the NIPR staff’s recommendation to continue to reduce credit card expenses, mainly by making electronic transfer options more attractive to NIPR customers. Ms. Hornig said the NIPR Board of Directors discussed the NIPR’s ongoing strategic planning efforts, which focus on ensuring the stability and security of the NIPR’s current products and services while strengthening the customer support it provides to both the states and industry. The NIPR Board of Directors is meeting at the beginning of October to confirm the NIPR’s strategic direction and will be prepared to report on the strategic plan at the Fall National Meeting.

6. Discussed 2015 Proposed Charges and Timeline for Adoption

Commissioner Kiser said the Task Force is required to consider the adoption of its 2015 Proposed Charges by Sept. 18. NAIC staff will circulate draft charges for comment by the end of August, and a conference call will be scheduled in early September to consider adoption of the proposed charges. Ms. Bruentte suggested adding a charge to review the NAIC’s uniform producer licensing applications, because this review is completed on a biennial basis and was not completed in 2014.

Having no further business, the Producer Licensing (EX) Task Force adjourned.
Draft: 8/12/14

Producer Licensing (EX) Task Force
Conference Call
August 1, 2014

The Producer Licensing (EX) Task Force met via conference call Aug. 1, 2014. The following Task Force members participated: Todd E. Kiser, Chair (UT); Roger A. Sevigny, Vice Chair, represented by Barbara Richardson (NH); Dave Jones represented by Keith Kuzmich (CA); William W. Deal represented by Lisa Tordjman (ID); Sharon P. Clark represented by Kendra Thompson and Lee Webb (KY); Scott J. Kipper represented by Joy Miller (NV); Wayne Goodwin represented by Rebecca Shigley (NC); Julie Mix McPeak represented by Mike Humphreys (TN); and Jacqueline K. Cunningham represented by Brian Gaudiose (VA). Also participating were: Jean Boven (MI); and Karen Vourvopoulos (OH).

1. **Adopted Course Guidelines for Classroom Webinar/Webcast Delivery**

Mr. Gaudiose said Michigan and the Independent Insurance Agents and Brokers of America (IIABA) submitted comments on the guidelines after the Working Group adopted the guidelines. In response to Michigan’s concerns about permitting the use of verification codes to track participant attendance in a webinar, Mr. Gaudiose said the Working Group decided to allow the use of verification codes as an acceptable method because this is a standard the NAIC uses for state regulators attending NAIC trainings. In response to Michigan’s suggestion that all states should require providers to retain chat history and polling questions of webinars, Mr. Gaudiose said the Working Group decided to allow each state to determine if it will impose this requirement upon providers.

Mr. Gaudiose said the IIABA would like to include the following language as a drafting note to the document: “Once a webinar program is recorded or archived for future presentation, it will continue to be considered a webinar program only where a live subject-matter expert facilitates the recorded presentation in real time. Recorded presentations should be scheduled with a specific start and end time and satisfy the other applicable attendance guidelines.”

Mr. Gaudiose said he supports the additional language from the IIABA and made a motion to adopt the guidelines with the additional language from the IIABA included as a drafting note. Ms. Shigley seconded the motion. Ms. Boven said she understands the perspective of the Mr. Gaudiose but suggested the suggestions of Michigan should also be incorporated. Ms. Vourvopoulos questioned if the language of the IIABA contradicts the first bullet point of the guidelines. Mr. Gaudiose said he thinks the language of the IIABA complements the first bullet point, because it addresses the recording of real-time webinars that are later delivered with a live subject-matter expert to facilitate the recorded presentation. Birny Birnbaum (Center for Economic Justice—CEJ) suggested the document should be titled to reflect that these are course guidelines for producer licensing continuing education requirements. Having no further discussion, the guidelines were unanimously adopted (Attachment One-A).

2. **Discussed Licensure Requirements to Sell Contingent Deferred Annuities**

As discussed during the Spring National Meeting, Commissioner Kiser said the Contingent Deferred Annuity (A) Working Group found that this product does not easily fit into the category of fixed or variable annuities and asked the Task Force to “review the types of producer licenses, including appropriate provisions in the *Producer Licensing Model Act* (#218), required to sell contingent deferred annuities (CDAs) to determine if those licenses are consistent with the licenses required to sell variable annuities and recommend any necessary changes and/or revisions.” NAIC staff conducted an informal survey of the states about existing state licensing requirements to sell CDAs, but did not receive any feedback to help guide the discussion during this call.

Commissioner Kiser said he is not aware of CDAs being sold in Utah, but that both a securities license and variable lines license would be required to sell CDAs in Utah. Mr. Birnbaum said he agrees that CDAs are securities and suggested the states should require specific training and educational requirements for individuals selling CDAs because CDAs are different than variable insurance products. Dave Leifer (American Council of Life Insurers—ACLI) said additional education and training requirements should not be required because the Financial Industry Regulatory Authority (FINRA) also requires licensure, and producers already need to meet high standards for a securities license and a variable products license. Jason Berkowitz (Insured Retirement Institute—IRI) said the *Suitability in Annuity Transactions Model Regulation* (#275) already requires specific suitability training for annuity products.
3. Discussed Producer and Consumer Signature Requirements on Insurance Applications

Ms. Richardson said New Hampshire has started seeing a greater use of electronic signatures and companies concerned with the retention of electronic signatures. Ms. Richardson said New Hampshire is eliminating some record-retention requirements and wants to obtain feedback from other states on whether producer and consumer signatures are required on insurance applications. It was the general understanding of the Task Force that, while most states do not require an application for property/casualty insurance to be signed either by the insurance producer or the applicant, most insurers require these signatures to confirm that the information on the application was submitted by the applicant. This is particularly true for life insurance applications because material misrepresentations can be the basis for the cancellation of a policy or denial of a claim.

4. Received an Update on Status of the Reciprocity Certification of Additional Jurisdictions

John Bauer (NAIC) said four states submitted reciprocity checklists for review, and he is still working with one state to obtain additional information to finalize the reciprocity reviews. Mr. Bauer said he will provide additional information to the Task Force at the Summer National Meeting and anticipates that the reviews will be completed by then. Mr. Bauer said one or two jurisdictions may meet the reciprocity standards established by the NAIC in 2011.

Having no further business, the Producer Licensing (EX) Task Force adjourned.
Course Guidelines for Classroom Webinar/Webcast Delivery

*Adopted by the Producer Licensing (EX) Task Force Aug. 1, 2014*

- These guidelines are intended to apply to courses conducted and viewed in real time (live) in all locations and are not intended to apply when courses have been recorded and are viewed at a later time or to other online courses.

- Each student will be required to log in to the webinar using a distinct user name, password and/or email. Students that view webinars in group settings, which is two or more individuals, should alternatively verify their participation in the form of sign-in and sign-out sheets submitted by a monitor with an attestation or verification code.

- The provider will verify the identity and license number, or National Producer Number (NPN), of all students.

- A provider representative, using computer-based attendance-monitoring technology, must monitor attendance throughout the course.

- The provider must have a process to determine when a participant is inactive or not fully participating, such as when the screen is minimized, or the participant does not answer the polling questions and/or verification codes.

- For webinars not given in a group setting, no less than two polling questions and/or attendance verification codes must be asked, with appropriate responses provided, at unannounced intervals during each one-hour webinar session to determine participant attentiveness.

- The provider will maintain an electronic roster to include records for each participant’s log-in/log-out times. If required by the jurisdiction, chat history and polling responses should be captured as part of the electronic records.

- When a student is deemed inactive, or not fully participating in the course by the course monitor for failure to enter appropriate polling question responses or verification codes, continuing education (CE) credit is denied.

- All students and the instructor do not need to be in the same location.

- Students in all locations must be able to interact in real time with the instructor. Students should be able to submit questions and/or comments at any point during the webinar session.

- The course pace must be set by the instructor and must not allow for independent completion.

- Instruction time is considered the amount of time devoted to the actual course instruction and does not include breaks, lunch, dinner or introductions of speakers.

- One credit will be awarded for each 50 minutes of webinar/webcast instruction, and the minimum number of credits that will be awarded for a webinar/webcast course is one credit.
• The provider must have a procedure that informs each student in advance of course participation requirements and consequences for failing to actively participate in the course.

• A comprehensive final examination is not required.

**Note:** Once a webinar program is recorded or archived for future presentation, it will continue to be considered a webinar program only where a live subject-matter expert facilitates the recorded presentation in real time. Recorded presentations should be scheduled with a specific start and end time and satisfy the other applicable attendance guidelines.
The Producer Licensing (EX) Working Group met in Louisville, KY, Aug. 17, 2014. The following Working Group members participated: Brian Gaudiose, Chair (VA); Linda Brunette, Vice Chair (AK); Keith Kuzmich (CA); Thomas Whalen (KS); Barry Ward (LA); Sandra Castagna (MD); Jean Boven (MI); Carrie Couch (MO); Barbara Richardson (NH); Martin Swanson (NE); Rebecca Shigley (NC); Michelle Rafeld (OH); Randy Overstreet (UT); Jeff Baughman (WA); Nitza Pfaff (WI); and Greg Elam (WV).

1. **Adopted its April 27 Minutes**

Ms. Brunette made a motion, seconded by Mr. Whalen, to adopt the Working Group’s April 27 (Attachment Two-A) minutes. The minutes were unanimously adopted.

2. **Adopted its Subgroups’ Minutes**

Ms. Brunette made a motion, seconded by Mr. Whalen, to adopt the Continuing Education (EX) Subgroup’s Aug. 12 (Attachment Two-B) and April 27 (Attachment Two-C) minutes, and the Adjuster Licensing (EX) Subgroup’s April 27 (Attachment Two-D) minutes. The minutes were unanimously adopted.

3. **Received the Report of the Continuing Education (EX) Subgroup**

Ms. Shigley said the Continuing Education (EX) Subgroup met Aug. 12 and April 27 to discuss the Working Group’s charges related to continuing education (CE). Ms. Shigley said the Subgroup discussed a “Recommended Guidelines for Online Courses” document and a “Continuing Education Online Course Content Checklist” document, both submitted to the Subgroup and created by the Securities Insurance Licensing Association (SILA). Ms. Shigley said the goal of the Subgroup is to discuss the documents and consider the information, along with additional language from other regulators and industry groups, to create an “NAIC Recommended Guidelines for Online Courses and an Online Course Content Checklist.” Ms. Shigley said the Subgroup will meet via conference call as needed to complete this draft before presenting it to the Working Group by the Fall National Meeting.

Ms. Shigley said the Subgroup will continue its work on the remaining CE charges, which will include reviewing and updating the NAIC Uniform Continuing Education Reciprocity Course Filing Form that was last updated in 2009. In addition, the Subgroup will further review the reciprocity guidelines to aid with the ongoing efforts to reach uniformity.

Mr. Shigley said the Subgroup will be creating a CE survey to distribute to the states concerning online course guidelines for compliance training. Ms. Shigley said the Subgroup will use this information, in addition to other suggestions, to create an NAIC CE survey that will be discussed at the Fall National Meeting.

4. **Discussed Surplus Lines Uniformity**

Mr. Gaudiose said the Working Group has received a request from the Washington State Office of the Insurance Commissioner to discuss surplus lines uniformity. Mr. Gaudiose said Washington has compiled some feedback they received from licensed surplus lines brokers and their representatives concerning the proposed rulemaking relating to “courtesy filler.”

Mr. Baughman said Washington is asking the Working Group to review the surplus lines language found in the Producer Licensing Model Act (#218) and the State Licensing Handbook to create more uniform licensing standards for surplus lines producers.
The Working Group discussed whether there is a need for further discussion and new language to verify surplus lines requirements. The Working Group decided that a surplus lines survey would be created and distributed to all jurisdictions for a more detailed look at how the jurisdictions are handling surplus lines licensure issues.

5. Received a Report from the Adjuster Licensing (EX) Subgroup

Ms. Brunette said that, in 2013, the Working Group appointed the Adjuster Licensing (EX) Subgroup to address the adjuster licensing uniformity concerns among the states and the industry. Ms. Brunette said the Subgroup was reappointed during the Spring National Meeting and consists of Alaska, Florida, Louisiana, Montana, New Hampshire, Oklahoma, Rhode Island, Texas, Utah and Washington. She said the Independent Insurance Agents and Brokers of America (IIABA) and the National Association of Insurance and Financial Advisors (NAIFA) have requested to stay involved with the Subgroup.

Ms. Brunette said the Subgroup met April 27 and decided to initiate an Adjuster Uniformity Outreach Program for 2014 in order to verify the current adjuster reciprocity and uniformity compliance states/jurisdictions have become. Ms. Brunette said the 2014 review was completed by July 2014, with 47 jurisdictions responding.

Ms. Brunette said the compliant and non-compliant areas seem to be similar to the issues faced in the uniform licensing standards. The Working Group discussed the results. Ms. Brunette said the Subgroup will continue to move forward to work with and educate the states on the importance of being more uniform.

Ms. Brunette said that, within the Adjuster Uniformity Outreach Program, several questions were raised concerning the emergency adjuster section within the Independent Adjustor Licensing Guideline (#1224) and the lack of uniformity across the states. Ms. Brunette said the Subgroup has included in the meeting packet a draft titled “Emergency Independent Adjuster Guidelines.” Ms. Brunette said she would like the Working Group to review the draft and provide any comments or feedback. Ms. Brunette said that, after the review of Adjuster Uniformity Outreach Program this year, including a review of any comments received, it may be determined that neither the emergency adjuster section of Model #1224 does not need to be rewritten, nor do new guidelines need to be drafted. It may only be necessary to insert the language into the State Licensing Handbook. Ms. Brunette said the Subgroup will meet in September to further review the outreach details and discuss next steps to achieving reciprocity and uniformity.

6. Discussed the State Licensing Handbook

Mr. Gaudiose said that, during the Working Group April 27 meeting, the Working Group discussed the technical changes that would be applied to the State Licensing Handbook, as well as some new language for Chapter 14—Continuing Education and Chapter 19—Adjuster Licensing. Mr. Gaudiose said Chapter 14 would not be rewritten as discussed, but only revised. Mr. Gaudiose said the revised handbook would remain available for review and then considered for adoption via conference call prior to the Fall National Meeting.

Mr. Gaudiose said that, due to the changes with the federal Affordable Care Act (ACA), the new process for navigators, non-navigator assistance personal and certified assistance counselors was inserted into a new section that was created for the new Chapter 31—State-Based Health Benefit Exchanges. This new section was distributed to the Working Group July 7 for a comment period ending July 25. Mr. Gaudiose said one comment from Washington was received and taken into consideration. Mr. Gaudiose said the Working Group will meet via conference call prior to the Fall National Meeting to discuss this section further.

Timothy S. Jost (Washington and Lee University School of Law) said the consumer representatives were not aware that a new Chapter 31 was created and exposed for comment. Mr. Jost said the consumer representatives would like an opportunity to review the chapter and submit comments. Marty Mitchell (America’s Health Insurance Plans—AHIP) said he was also unaware and would like the opportunity to submit comments on Chapter 31. Mr. Jost said new navigator guidelines were released this week, which will likely cause some confusion or require further revision. Mr. Gaudiose said the Working Group would accept comments before consideration of adoption.
Mr. Gaudiose said the Working Group will be meeting via conference call in September to discuss the State Licensing Handbook and consider adoption of the suggested revisions, with a goal of presenting the revisions to the Producer Licensing (EX) Task Force at the Fall National Meeting.

7. Received a Status Report on the RUI Project

Ginny Ewing (NAIC) said that NAIC staff have completed a preliminary analysis of the current regulator user interfaces (RUIs), which are I-SITE, My NAIC and StateNet. Ms. Ewing said that, as a part of the RUI project, NAIC staff surveyed some of the users and interviewed internal business partners. The consensus was that the RUIs are in need of a facelift. One of the objectives of this project is to redesign and consolidate the three RUIs to create a new one that is user-friendly, compliant with current standards and supported by multiple devices, such as smartphones and tablets. Ms. Ewing said the project will be kicking off shortly after NAIC staff return from the Summer National Meeting. During the pre-analysis period, the RUI project team drafted some early design ideas, reviewed them with other internal business partners and received some good ideas. Ms. Ewing said the NAIC will hold webinars Sept. 3 and Sept. 8 to discuss this topic further. Ms. Ewing said the NAIC is looking for regulator feedback on this new process. Ms. Ewing said that any state willing to volunteer as a tester to contact NAIC staff.

8. Received an Update from the NIPR

Laurie Wolf (NIPR) introduced the new NIPR Executive Director Karen Stakem Hornig. Ms. Wolf said Ms. Hornig previously served as deputy commissioner for the Maryland Insurance Administration (MIA). In that role, Ms. Hornig was actively involved in many regulatory matters, including assisting in the development of the agency’s legislative package and the implementation of health care-related statutes and regulations. Ms. Wolf said that Ms. Hornig also oversaw the implementation of SBS for the MIA and worked closely with the producer licensing staff.

9. Discussed Other Matters

Mr. Gaudiose said that he and Commissioner Kiser received a letter from the American Council of Life Insurers (ACLI) concerning the ongoing review and work toward licensing and exam uniformity. Mr. Gaudiose said the Working Group continues to work toward uniformity and advised that the Working Group is working with the testing vendors to once again gather the state exam pass rates, as was done for 2013. Mr. Gaudiose said it is important for the testing vendors to work with the NAIC to get this information collected.

Greg Welker (NAIC) said that, based on internal discussions among NAIC and NIPR staffs, inconsistencies were identified regarding the definition of “National Producer Number.” To ensure the definition reflects the practices of the states, the definition of NPN to be posted on the NAIC and NIPR websites will be the following: “The National Producer Number is a unique NAIC identifier assigned through the licensing application process or the NAIC reporting systems to individuals and business entities (including, but not limited to producers, adjusters, and navigators) engaged in insurance related activities regulated by a state insurance department. The NPN is used to track those individuals and business entities on a national basis.”

Having no further business, the Producer Licensing (EX) Working Group adjourned.
The Producer Licensing (EX) Working Group of the Producer Licensing (EX) Task Force met in Kansas City, MO, April 27, 2014. The following Working Group members participated: Brian Gaudiose, Chair (VA); Linda Brunette, Vice Chair (AK); Keith Kuzmich (CA); Matthew Guy (FL); Thomas Whalen (KS); Diane Silverman Black (MA); Valeria Williams (MD); Jill A. Huiskens (MI); Barbara Richardson (NH); Jason McCartney (NE); Rebecca Shigley (NC); Karen Vourvopoulos (OH); Jamie Walker (TX); Randy Overstreet (UT); Jeff Baughman (WA); and Nitza Pfaff (WI).

1. Discussed Updates to the State Licensing Handbook

Mr. Gaudiose said the State Licensing Handbook (Handbook) was exposed for a public comment period ending April 18. Ms. Brunette expressed concern regarding some technical edits. Mr. Gaudiose advised that the technical edits would be completed and added to the final document prior to adoption. The Working Group agreed that NAIC staff, along with the chair and vice chair, would complete the technical edits for final version.

Suzanne Loomis (Primerica Financial Services) said the company had made suggested comments to Chapter 8—Testing Programs. She said Primerica is aware of many states that have exam review committees in place and that they are successful. Ms. Loomis said Primerica wants to take some of the exam practices that states are already using and input that information into the exam review portion of the Handbook as a standard practice. The Working Group continued to discuss recommended considerations for examinations practice. Mr. Gaudiose, along with the discussion of testing and examination, said that he would work with NAIC staff to collect any comments suggesting new versions and that the new draft would be presented to the Working Group before consideration of adoption.

Mr. Gaudiose said that, in 2012 and 2013, the NAIC requested and collected pass rate information from the major vendors on all states. The data was applied to a final document and distributed to the regulators. Mr. Gaudiose said there has been a request to compile this information again for 2014. Mr. Gaudiose said that he would work with NAIC staff to make sure this information is compiled and a report created for reference.

2. Received a Report from the Adjuster Licensing (EX) Subgroup

Ms. Brunette said the Subgroup was reappointed during the Spring National Meeting. She said the Subgroup would consist of Alaska, Florida, Louisiana, Montana, New Hampshire, Oklahoma, Rhode Island, Texas, Utah and Washington. She said that the Independent Insurance Agents & Brokers of America (IIABA) and the National Association of Insurance and Financial Advisors (NAIFA) have requested to stay involved with the Subgroup. Ms. Brunette said the Subgroup will work on collecting updated information to identify the burdens, obstacles, and challenges states have to become reciprocal. She also said the Subgroup is continuing its work tracking the adjuster reciprocity and focusing on adjuster designated home state (ADHS). Additionally, she said the Subgroup will work on educational efforts and search for any regulatory changes among the states.

3. Adopted Course Guidelines for Classroom Webinar/Webcast Delivery

Mr. Gaudiose said that Ms. Shigley will chair the newly created Continuing Education (EX) Subgroup, which will address the outstanding continuing education (CE) items that need to be updated for 2014. He said the first item of business is to address the Course Guidelines for Classroom Webinar/Webcast Delivery. Mr. Gaudiose said the document was originally completed and adopted by the Producer Licensing (EX) Working Group during the 2013 Fall National Meeting. Mr. Gaudiose said that, as the document approached the Producer Licensing (EX) Task Force for consideration of adoption, there were some concerns expressed from industry stakeholders. He said the guidelines were sent back from the Task Force to the Working Group to review the concerns and create a revised document.

Ms. Shigley said the Subgroup reviewed the originally adopted document and met with regulators and industry to finalize any concerns to create a document better suited for all parties involved. Ms. Shigley said the IIABA, along with NAIFA, submitted some suggested changes to the document. Wes Bissett (IIABA) said the suggested revisions were only minor issues and commended the Working Group on a successful document. Mr. Bissett said the proposed revisions were wording changes to
further clarify some of the guidelines. He said one of the significant suggested revisions was to address the language requiring that the chat history and polling responses be captured as part of the electronic records. Mr. Bissett expressed concern that those companies having multiple producers watching a webinar in a group setting would not allow producers the ability to signify they were present for the webinar. He said that polling the responses was also listed and suggested deleting the language stating courses must be at least one hour in length for credit. He suggested clarifying the language by stating that one credit will be awarded for each 50 minutes of webinar/webcast instruction, and the minimum number of credits that will be awarded for webinar/webcast courses is one credit.

Ms. Shigley said the Working Group suggested revisions to eight bullet-point items in the document. The first bullet-point item currently reads: “Course will be conducted in real time in all locations.” The suggested revision is: “These guidelines are intended to apply to courses conducted and viewed in real time (live) in all locations and are not intended to apply when courses have been recorded and are viewed at a later time or to other online courses. The second bullet-point item currently reads: “Course title must clearly state the course is Web based.” This language would be deleted. The third bullet-point item currently reads: “Each student will be required to log in to the webinar using a distinct username, password and/or mail.” The seventh bullet-point item currently reads: “No less than three polling questions and/or attendance verification codes must be asked, at unannounced intervals during each one-hour webinar session, to determine participant attentiveness.” The Working Group suggested adding “For webinars not given in a group setting,” to the beginning of the current language and adds “with appropriate response provided” after “codes must be asked.” For the eighth bullet-point item, the Working Group suggests adding “If required by states” to the beginning of the request to capture the chat history and polling responses. For the ninth bullet-point item, following “When a student is deemed inactive, or not fully participating in the course,” the Working Group suggested adding “by the course monitor of failure to enter appropriate polling question response or verification codes.” The tenth bullet-point item currently reads: “At least two students and an instructor must be involved in each presentation of the course; however, all students and the instructor do not need to be in the same location.” The Working Group suggested changing it to: “Course must be at least one hour length for credit.” The Working suggested changing it to: “One credit will be awarded for each 50 minutes of webinar/webcast instruction, and the minimum number of credits that will be awarded for webinar/webcast courses is one credit.”

Ms. Vourvopoulos made a motion, seconded by Ms. Richardson, to accept the changes as listed by Ms. Shigley. The revised Course Guidelines for Classroom Webinar/Webcast Delivery was unanimously adopted.

Ms. Shigley said the Continuing Education (EX) Subgroup will continue working on the continuing education documents for 2014, which include the Uniform Continuing Education Reciprocity Course Filing Form and the reciprocity agreement. Ms. Shigley said the Subgroup will have discussions with regulators and the industry to achieve the best revisions. She said the Subgroup would also be working with members from the Securities and Insurance Licensing Association (SILA) to address the changes.

4. Discussed NIPR Electronic Updates

Mr. Gaudiose said he received a letter from SILA regarding the discontinued use of Social Security numbers (SSNs) for appointment forms. Mr. Gaudiose said the discussions have to do with state business rules, and NIPR has agreed to continue working with the states to change their language appropriately. Laurie Wolf (NIPR) said the NIPR staff have contacted the states and have been working with various states to change their business rules so that they are able to remove the requirement of providing SSNs. Ms. Wolf said NIPR will continue working with the states to remove this requirement from the appointment form.

Having no further business, the Producer Licensing (EX) Working Group adjourned.
Continuing Education (EX) Subgroup
Conference Call
August 12, 2014

The Continuing Education (EX) Subgroup of the Producer Licensing (EX) Task Force met via conference call Aug. 12, 2014. The following Working Group members participated: Rebecca Shigley, Chair (NC); Linda Brunette (AK); Barbara Richardson (NH); Jeff Baughman (WA); and Nitza Pfaff (WI).

1. Discussed its 2014 Charges

Ms. Shigley said the Subgroup was formed by the Producer Licensing (EX) Working Group to assist with the Working Group’s 2014 charges concerning continuing education (CE). Ms. Shigley said one of those charges states that the Working Group will “provide updated reciprocity guidelines and ongoing maintenance and review of the uniform application forms for continuing education providers and the state review and approval of courses.”

Ms. Shigley said that, with the assistance of this new Subgroup, the Working Group recently adopted a revised Course Guidelines for Classroom Webinar/Webcast Delivery. Ms. Shigley said the Working Group discussed and made revisions to the document prior to adopting it during an April 27 meeting. The Working Group presented the document to the Producer Licensing (EX) Task Force, which subsequently adopted it on an Aug. 1 conference call. Ms. Shigley said the guidelines will be presented to the Executive (EX) Committee and Plenary during their joint session at the Summer National Meeting.

Ms. Shigley said the Subgroup will continue its work on the remaining charges, which includes reviewing and updating the NAIC Uniform Continuing Education Reciprocity Course Filing Form (which was last updated in 2009) and the reciprocity guidelines.

2. Discussed the “Recommended Guidelines for Online Courses”

Ms. Shigley said a “Recommended Guidelines for Online Courses,” created by Securities Insurance Licensing Association (SILA), was distributed prior to this conference call. Ms. Shigley said the Subgroup will discuss the document and consider possible suggested changes. Ms. Shigley said the goal moving forward will be for the Subgroup to take the information gathered and create a guideline that would encompass the document submitted by SILA. The draft guideline will then be presented to the Producer Licensing (EX) Working Group for consideration.

Ms. Shigley said there have been a few comments received on this document and that it will remain open for additional comment following the Summer National Meeting. The Subgroup continued to discuss the document and comments submitted. The Subgroup decided the document would be reviewed, along with comments and other submissions, to create an NAIC document which would be submitted to the Producer Licensing (EX) Working Group for consideration.

3. Discussed the “Continuing Education Online Course Content Checklist for Calculating Credit Hours”

Ms. Shigley said that a document titled, “Continuing Education Online Course Content Checklist for Calculating Credit Hours” was also submitted. The Subgroup discussed the checklist and agreed that further review is necessary to create an NAIC document that could be presented to the Working Group for consideration.

Ms. Shigley said that, as a point of reference, the Subgroup was also presented with a document titled, “Cross-Discipline Survey: Online Course Guidelines for Compliance Training.” Ms. Shigley said the Subgroup will use this document, in addition to other suggestions, to create an NAIC CE survey that will be distributed to the Working Group for completion.

Ms. Shigley said the comments and discussions from this conference call will be used to make appropriate changes. The Subgroup will provide the Working Group with an update at the Summer National Meeting, and then follow up with a conference call in September to finalize and consider adoption of the documents discussed during this call.

Having no further business, the Continuing Education (EX) Subgroup adjourned.
Continuing Education (EX) Subgroup
Kansas City, MO
April 27, 2014

The Continuing Education (EX) Subgroup of the Producer Licensing (EX) Task Force met in Kansas City, MO, April 27, 2014. The following Subgroup members participated: Rebecca Shigley, Chair (NC); Linda Brunette, (AK); Barbara Richardson (NH); Jeff Baughman (WA); and Nitza Pfaff (WI).

1. Discussed its Charges

Ms. Shigley said this Subgroup was created to address several outstanding areas of continuing education, including the Course Guidelines for Classroom Webinar/Webcast Delivery, the Uniform Continuing Education Reciprocity Course Filing Form (CER Form), the continuing education (CE) reciprocity agreement and any the other CE items that may come up throughout the year.

Ms. Shigley said the Subgroup will assist the Producer Licensing (EX) Working Group with the completion of its 2014 charges, which state the Working Group will: 1) monitor the implementation of the Uniform Licensing Standards for best practices in examination development and delivery of education materials for pre-licensing education to ensure the timely review and updates of exam materials to test the qualifications for an entry-level position as a producer; and 2) coordinate with NAIC parent committees and working groups to review and provide recommendations on any new producer training requirements or continuing education requirements that are included in NAIC model acts, regulations and/or standards.

Ms. Shigley said the Subgroup will discuss the CE items starting with the CER Form. She said the Securities & Insurance Licensing Association (SILA), which is made up of industry trades and regulators, has always worked with the NAIC’s Producer Licensing (EX) Working Group and presented comments or suggestions on many other documents that have been exposed for review. Ms. Shigley said the Subgroup will keep in communication with the SILA Continuing Education Subgroup, which will be submitting suggested revisions on the CER Form and ongoing CE-related documents.

Ms. Shigley advised that the Subgroup will meet via conference call to continue working on its charges throughout 2014 and will schedule calls as needed.

Having no further business, the Continuing Education (EX) Subgroup adjourned.
The Adjuster Licensing (EX) Subgroup of the Producer Licensing (EX) Task Force met in Kansas City, MO, April 27, 2014. The following Subgroup members participated: Linda Brunette, Chair (AK); Matthew Guy (FL); Jeannie Keller (MT); Barbara Richardson (NH); Courtney Phipps (OK); Jamie Walker (TX); Randy Overstreet (UT); and Jeff Baughman (WA).

1. Discussed its Goals

Ms. Brunette said the Subgroup was reappointed during the Spring National Meeting. She said the Subgroup would consist of Alaska, Florida, Louisiana, Montana, New Hampshire, Oklahoma, Utah, Rhode Island, Texas and Washington. Ms. Brunette said the Independent Insurance Agents & Brokers of America, Inc. (IIABA) and the National Association of Insurance and Financial Advisors (NAIFA) have specifically requested to stay involved with the Subgroup by representing the trade associations. Ms. Brunette said the Subgroup will work on collecting updated information to recognize the burdens, obstacles and challenges for the states to become reciprocal.

Ms. Brunette said that the Subgroup’s goal will be to get the states focused on adjuster licensing. She said the Subgroup has been compliant with an ongoing outreach effort with the states to verify the implementation status of the NAIC Independent Adjuster Reciprocity Best Practices and Guidelines. Ms. Brunette said it has been more than a year since the outreach effort has been completed, and it is time to contact the states again to get an update on implementation of the best practices and guidelines.

Ms. Brunette said the Subgroup will check on any regulatory changes that may have occurred at the state levels, as well as any possible business practices that have changed or could be changed, which would help achieve adjuster reciprocity. Ms. Brunette said issues surrounding the adjuster “designated home state” are challenging.

Ms. Brunette said the first step for this Subgroup is to complete a new outreach to the states using the NAIC Adjuster Licensing Uniformity Chart. Ms. Brunette said to complete this process as efficiently as possible, the outreach will be broken out by zone. The Western Zone will be reviewed by Montana, Utah and Washington; the Southeast Zone will be reviewed by Florida and Louisiana; the Northeast Zone will be reviewed by New Hampshire and Rhode Island; and the Midwest Zone will be reviewed by Oklahoma and Texas. Ms. Brunette said the goal should be for the Subgroup members to have their review completed by June 20. The information will be compiled and then sent to Subgroup members for a call in late July or early August.

Having no further business, the Adjuster Licensing (EX) Subgroup adjourned.
REPORT OF THE PRODUCER LICENSING (EX) TASK FORCE

SUPPLEMENTAL RECOMMENDATION OF STATES MEETING RECIPROCITY REQUIREMENTS OF THE GRAMM-LEACH-BLILEY ACT

In 2011, the NAIC Executive (EX) Committee and Plenary adopted the recommendation of this Task Force and its NARAB (EX) Working Group that 40 jurisdictions¹ be certified as meeting the requirements for non-resident producer licensing reciprocity included in the Gramm-Leach-Bliley Act, 15 U.S.C. § 6751 et seq. The certification of those jurisdictions completed a process whereby the NAIC adopted a strengthened Reciprocity Standard in 2009 and subsequently determined whether individual jurisdictions complied with that standard through a review process utilizing a Reciprocity Checklist. Earlier this year, this Task Force invited additional jurisdictions to submit a Reciprocity Checklist in order to determine whether such jurisdictions may be added to the list of those certified previously as reciprocal.

This supplemental report incorporates by reference the 2009 “Report of the NARAB Working Group: Continuing Compliance with Reciprocity Requirements of the Gramm-Leach-Bliley Act” and 2011 “Report of the NARAB Working Group: Recommendation of States Continuing to Meet Reciprocity Requirements of the Gramm-Leach-Bliley Act.” Applying the standard outlined in the 2009 report and the review process discussed in the 2011 report, this Task Force recommends that Texas and Washington also be certified as reciprocal for purposes of Gramm-Leach-Bliley Act producer licensing reciprocity in accordance with the NAIC Reciprocity Standard. Any potential issues arising in the course of reviewing Texas and Washington are explained in the sections that follow.

Texas

Texas submitted Reciprocity Checklists in 2010 and 2014. On both Checklists, Texas responded “yes” to Question A2, which asked if there are any requirements or submissions imposed upon a non-resident business entity seeking licensure beyond the four requirements included in the NAIC Producer Licensing Model Act (PLMA). Texas’s recent Checklist indicated that organizational documents were required for business entities. In subsequent communication, Texas confirmed that no requirements will be imposed on non-resident business entities seeking licensure other than those stated in the PLMA. As a result, Texas’s practice is consistent with the NAIC Reciprocity Standard.

Texas responded “no” to Question E4a, which asked if non-resident surplus lines applicants or producers are required to obtain an underlying general lines or P&C license as a condition to surplus lines licensure, but its 2014 Checklist included the note that such exemption applies as long as such applicants or producers “qualify for the exemption as outlined in” the federal Nonadmitted and Reinsurance Reform Act. In the course of clarifying the circumstances under which an underlying license may be required, Texas confirmed it will waive any underlying license requirements for non-resident surplus lines applicants or producers who do not perform the diligent search of the admitted market. This practice is consistent with the NAIC Reciprocity Standard.

Texas responded “yes” to Question E5 on its 2014 Checklist, which asked if there are any training, education, prior experience or minimum age requirements for non-resident producers or applicants. Texas stated there is a requirement that a producer be 18 years old. This requirement is consistent with the NAIC Reciprocity Standard.

Texas responded “yes” to Question E6 on its 2014 Checklist, which asked if there are any provisions allowing only resident producers to sell or solicit insurance or bonds for state business, special funds or entities or state funded projects. In subsequent communication, Texas stated this response was incorrect and its answer should be changed to “no.” As a result, Texas’s practice is consistent with the NAIC Reciprocity Standard.

As a result of the changes and clarifications concerning the above items on its Reciprocity Checklists and following the review of other relevant aspects of Texas’s non-resident producer licensing laws, regulations and practices, the Producer Licensing Task Force believes Texas meets the NAIC Reciprocity Standard.

Washington

Washington submitted Reciprocity Checklists in 2009 and 2014. Washington’s 2014 responses to the Reciprocity Checklist raised no issues requiring specific follow-up. The 2014 responses were compared with the 2009 responses, which indicated several issues at that time.

In 2009, Washington responded “yes” to Question A1, which asked if there are any requirements or submissions imposed upon a non-resident individual or business entity applicant or producer seeking licensure beyond the four requirements included in the PLMA. Washington cited a non-resident fingerprint requirement, which since has been eliminated. As a result, Washington’s practice is consistent with the NAIC Reciprocity Standard.

Washington previously responded “yes” to Question E2, which asked if there are any bond, E&O, deposit, tax clearance or trust account requirements for non-resident applicants or producers, and “yes” to Question E3, which asked if non-resident surplus lines applicants or producers are required to post a bond. In both cases, Washington cited bond requirements that since have been eliminated. As a result, Washington’s practice is consistent with the NAIC Reciprocity Standard.

Washington previously responded “yes” to Question E4a, which asked if non-resident surplus lines applicants or producers are required to obtain an underlying general lines or P&C license as a condition to surplus lines licensure. Washington further responded that it had a diligent search requirement and that the surplus lines producer was required to perform the diligent search of the admitted market. Washington recently eliminated the underlying license requirement for non-resident surplus lines applicants and producers. As a result, Washington’s practice in this area is consistent with the NAIC Reciprocity Standard.

As a result of the changes and clarifications concerning the above items on its Reciprocity Checklists and following the review of other relevant aspects of Washington’s non-resident producer licensing laws, regulations and practices, the Producer Licensing Task Force believes Washington meets the NAIC Reciprocity Standard.
SPEED TO MARKET (EX) TASK FORCE

Speed to Market (EX) Task Force Aug. 18, 2014, Minutes................................................................. 4-171
Speed to Market (EX) Task Force July 28, 2014, Minutes (Attachment One).............................. 4-175
Speed to Market (EX) Task Force June 20, 2014, Minutes (Attachment Two)......................... 4-176
Speed to Market (EX) Task Force May 5, 2014, Minutes (Attachment Three)............................ 4-178
Commercial Lines (EX) Working Group Aug. 15, 2014, Minutes (Attachment Four)............. 4-179
  Commercial Lines (EX) Working Group July 15, 2014, Minutes (Attachment Four-A)............. 4-181
  Commercial Lines (EX) Working Group June 5, 2014, Minutes (Attachment Four-B)............. 4-183
  Commercial Lines (EX) Working Group May 13, 2014, Minutes (Attachment Four-C)........... 4-186
  Commercial Lines (EX) Working Group April 29, 2014, Minutes (Attachment Four-D)......... 4-188
Operational Efficiencies (EX) Working Group July 24, 2014, Minutes (Attachment Five).......... 4-190
Operational Efficiencies (EX) Working Group June 17, 2014, Minutes (Attachment Six).......... 4-191
The Speed to Market (EX) Task Force met in Louisville, KY, Aug. 18, 2014. The following Task Force members participated: Scott J. Kipper, Chair (NV); Andrew Boron, Vice Chair, represented by Jim Stephens (IL); Lori K. Wing-Heier represented by Marty Hester (AK); Jay Bradford represented by Bill Lacy (AR); Dave Jones represented by Joel Laucher (CA); Thomas B. Leonard represented by George Bradner (CT); Sandy Praeger represented by Jim Newins (KS); Sharon P. Clark represented by Ray Perry (KY); John M. Huff represented by Angela Nelson and Joan Dutill (MO); Monica J. Lindeen represented by Christina Goe (MT); Wayne Goodwin represented by Ted Hamby (NC); Mary Taylor represented by Tom Botsko (OH); Laura N. Cali represented by Gayle Woods (OR); Julia Rathgeber represented by Mark Worman (TX); Todd E. Kiser represented by Nancy Askerlund and Tanji Northrup (UT); Jacqueline K. Cunningham represented by Don Beatty (VA); and Mike Kreidler represented by Lee Barclay (WA).

1. Adopted its July 28, June 20 and May 5 Minutes

Ms. Nelson made a motion, seconded by Mr. Hester, to adopt the Task Force’s July 28 (Attachment One), June 20 (Attachment Two) and May 5 (Attachment Three) minutes. The minutes were unanimously adopted.


Mr. Barclay said the Commercial Lines (EX) Working Group met Aug. 15 (Attachment Four), July 15 (Attachment Four-A), June 5 (Attachment Four-B), May 13 (Attachment Four-C) and April 29 (Attachment Four-D) to discuss data generated from SERFF illustrating turnaround times for commercial product filings. During its Aug. 15 meeting, the Working Group agreed upon a report format to be used in presenting recommendations to the Task Force. The Working Group has completed related work for one of 10 lines of business and is compiling recommendations.

Commissioner Kipper asked if the Working Group has a timeline for completion of their work and whether the Working Group anticipates any development impact on SERFF. Mr. Barclay said the initial work plan anticipated conclusion of work by year-end 2014, but, based on current progress, the work is expected to continue into early 2015. Mr. Barclay said he did not know if there would be a development impact on SERFF.

Mr. Barclay made a motion, seconded by Mr. Laucher, to adopt the report of the Commercial Lines (EX) Working Group report. The report was unanimously adopted.

3. Adopted the Report of the Operational Efficiencies (EX) Working Group

Mr. Botsko said the Operational Efficiencies (EX) Working Group met July 24 (Attachment Five) and June 17 (Attachment Six) to review recommended changes to the Uniform Product Coding Matrices (PCMs). After discussion, the Working Group determined no code changes were necessary. However, the Working Group did agree to modify a column on the Uniform Property & Casualty Product Coding Matrix referencing a specific NAIC annual statement line to match the NAIC annual statement line changes as adopted by the Blanks (E) Working Group. For sub-type of insurance (sub-TOI) 02.1000, NAIC annual statement line reference will be 02.2000 or 02.4000. For sub-TOI 2.1001, the NAIC annual statement line column will be changed to 02.4000. Consistent with the product description change adopted by the Blanks (E) Working Group, it is also recommended that the description in the Uniform Property & Casualty Product Coding Matrix for sub-TOI 2.1001 be modified to better describe the products that are included. The same language that is being proposed by the Blanks (E) Working Group is recommended: “Private market coverage for crop insurance and agricultural-related protection, such as hail and fire, and is not reinsured by the Federal Crop Insurance Corporation (FCIC).”

The Working Group has also been developing uniform filing metrics to demonstrate the effectiveness of speed-to-market initiatives. The Working Group reviewed a sample report prepared by NAIC staff on its June 17 conference call and discussed the topic in more detail on the July 24 conference call. Additional modifications to the report were made, as well as an addition to the state assessment tool to better clarify the percentage of filings that are below, meet or exceed the turnaround goal. NAIC staff were asked to modify the draft filing turnaround report to identify and eliminate days spent waiting for an industry response from the overall turnaround time. Comparisons between existing turnaround metrics and
those now being considered to assess how the changes will impact turnaround numbers will be reviewed. The Working Group will use this comparison to finalize any recommended changes in metrics.

Commissioner Kipper asked if the Working Group has a timeline for completion of their work and whether the Working Group anticipates any development impact on SERFF. Mr. Botsko said most Working Group activity is ongoing, but work related to filing turnaround could be expected to result in potential SERFF development work in 2015.

Tom Botsko made a motion, which was seconded to adopt the report of the Operational Efficiencies (EX) Working Group, conditioned upon adoption of related changes to the annual financial statement blank by the Blanks (E) Working Group. The motion passed unanimously.

4. **Received an Update on SERFF Implementation Projects/Activity**

Julie Fritz (NAIC) provided a report of SERFF activity since the Spring National Meeting. There were four releases of SERFF (March 13, April 17, May 27 and July 31) containing various upgrades and enhancements such as iText (a tool used in SERFF PDF Pipeline), Plan Management enhancements to add and remove component IDs from draft filings, as well as additional Plan Management binder search fields, a new notifications feature enabling messages to SERFF Alerts, a Quick Export feature for Plan Management binders and IIPRC enhancements to allow the association of filings.

NAIC staff are also working on application server upgrades using JBoss, which should complete in fourth quarter of 2014, as well as a migration to NetIQ, the NAIC’s new security infrastructure. NetIQ in SERFF should deploy in early 2016.

Usage and revenue are 7% over budget through June. The 2014 budget anticipated qualified health plan (QHP) filings related to health care reform being submitted beginning in February. Those filings, which did not start coming in until May, have now exceeded budget for both revenue and transactions. There were 18,000 plan submissions budgeted and, through June 30, 24,565 have been submitted. There were 34,942 plans submitted in 2013.

The SERFF implementation team has worked with the states on the updated and new state submission requirements for health plan submissions. These modifications included ease of use, Plan Management validate and transform and plan transfer features, all designed to improve accuracy and consistency. SERFF staff also assisted the states with exchange model changes, financial management data transfers and the new Plan ID Crosswalk Template. These efforts were completed in time for 2015 plan year submissions and plan transfer processes via SERFF. The team also hosted the product filing track of the NAIC/NIPR E-Reg Conference in late April.

Joy Morrison (NAIC) provided an update on SERFF Filing Access, the new public access features enabling users to search, view and download product filings determined by states as publicly accessible—for states that have chosen to leverage this new functionality. To date, seven states (Idaho, Illinois, Missouri, New Hampshire, Nevada, Oregon and Utah) have implemented the new service. Additional states are involved in implementation processes.

Ms. Goe said that Montana has chosen to implement, but does not believe the filing data available is useful to the average consumer and will be supplementing with additional information posted on their Website, such as the Summary of Benefits and Coverages (SBC). She acknowledged this is more a reflection of the filings themselves rather than SERFF Filing Access, as the system is very simple to use. Ms. Nelson said that Missouri implemented the functionality and believes it to be a huge benefit to the insurance department and to users interested in product filing information. Mr. Laucher indicated the California may be interested in using SERFF Filing Access. Commissioner Kipper said Nevada’s regulatory staff is pleased with their implementation of SERFF Filing Access.

5. **Discussed SERFF Third-Party Integration Proposal**

Commissioner Kipper said that, subsequent to the Task Force’s July 28 conference call, he talked with the NAIC staff to learn more about competing priorities for NAIC resources in order to evaluate ability to engage in the third-party integration initiative. The impetus for contacting NAIC staff was driven by comments during the July 28 conference call, including regulator comments about SERFF performance issues, being aware that the SERFF Filing Access implementation is ongoing with at least two more functionality releases in 2014; knowing that both the Commercial Lines (EX) Working Group and the Operational Efficiencies (EX) Working Group have initiatives that may result in SERFF enhancements to address efficiency and/or reporting needs; and anticipating changes related to the federal Affordable Care Act (ACA) for Plan Year 3 in 2015, needs to expand the state services to include plan management filings and IIPRC-related needs that are under discussion.
Given these projects, Commissioner Kipper expressed concern about the timing of this initiative. He acknowledged the industry’s interest in the proposed services, but said the Task Force has heard little directly from the industry.

Commissioner Kipper said there are two basic components of this project: 1) the ability to pull filings and filing data out of SERFF; and 2) the ability to push data into SERFF as an alternative filing submission mechanism. The “push” component is significantly more complex than the “pull” component. He said it appears that more companies and third parties may be interested in the “pull” features.

Commissioner Kipper suggested revising Task Force consideration of this proposal. He described three potential variations, each of which would have a different impact on current and upcoming projects, as follows:

1) Adopt the proposal with all phases, beginning in early 2015. The consequences may be that either this project or possibly others are deferred, if working group initiatives, public access, ACA-related and/or IIPRC projects surface.
2) Defer the proposal for 2016 consideration, effectively tabling the proposal in order to complete initiatives currently under way and anticipated.
3) Consider a middle-of-the-road approach; i.e., support the “pull” portion of this initiative and defer the “push” portion, with a late 2015 start date for this project.

Following some discussion of the states’ record-retention policies and project priorities, further consideration was deferred to a conference call slated for early September.

6. Discussed Request for Expanded Public Access Functionality

This item was deferred to a future meeting of the Task Force.

7. Discussed the States’ Record Retention Limits

Mr. Lacy said Arkansas product filing record-retention requirements are three years. Mr. Barclay said Washington record-retention requirements are a minimum of eight years, but some life products could be as many as 100 years. Ms. Goe said Montana requirements are five years, in general, but should be longer. Ms. Nelson said Missouri requirements are generally five years from the date of filing, with the exception of workers’ compensation, which is 10 years from the date of filing. Mr. Botsko said Ohio requirements are 10 years, but currently 12 years of product filings are retained. Mr. Perry said that Kentucky requirements vary, ranging from 10 years to 50 years, depending on the filing type. Ms. Northrup said that Utah requirements are 50 years for domestic companies and seven years for foreign companies and reports. Ms. Woods said that Oregon retention for hardcopy filings is 30 days, while electronic submissions are kept indefinitely. Mr. Bradner said Connecticut keeps hardcopy filings for five years from the effective date and electronic filings are kept indefinitely.

Miriam Krol (American Council of Life Insurers—ACLI) said the ACLI has met with a number of insurance regulators to discuss record-retention requirements. She said that when the states destroy filing records, it results in companies having to refile complete portfolios, even if the requested change is only to a single component of a filing. In addition, this often results in a de novo review of a component that has already been approved, which causes the insurer and its policyholders complications. The ACLI recommends that all filing data be archived and accessible for future use so as not to cause unintentional problems in the filing and review process. Mr. Lacy and Ms. Nelson said that the filing data has not been purged. Ms. Northrup said Utah requires filings to be purged after five years.

Commissioner Kipper recommended further discussion on a subsequent meeting of the Task Force.

8. Heard an Update from the IIPRC

Karen Schutter (IIPRC) reported that there are now 44 compacting states, following the recent implementation of Arizona. The IIPRC is undergoing a required five-year review of standards and has completed review of 30 life standards. The IIPRC will be implementing SERFF Filing Access in November.
9. **Discussed Timeline for 2015 Proposed Charges**

Commissioner Kipper reported that the Task Force should consider any changes to its charges by mid-September. An interim conference call will include this agenda item.

Having no further business, the Speed to Market (EX) Task Force adjourned.
The Speed to Market (EX) Task Force met via conference call July 28, 2014. The following Task Force members participated: Scott J. Kipper, Chair (NV); Andrew Boron, Vice Chair, represented by Cindy Colonius (IL); Dave Jones represented by Kayte Fisher (CA); Thomas B. Leonardi represented by Moira Herbert (CT); Sandy Praeger represented by Jim Newins (KS); Sharon P. Clark represented by Malinda Shepherd (KY); John M. Huff represented by Mary Mealer (MO); Mike Rothman represented by Tammy Lohmann (MN); Monica J. Lindeen represented by Rosann Grandy (MT); Wayne Goodwin represented by Ted Hamby and Tim Johnson (NC); Mary Taylor represented by Maureen Motter (OH); John D. Doak represented by Cuc Nguyen (OK); Todd E. Kiser represented by Tanji Northrup (UT); Jacqueline K. Cunningham represented by Rebecca Nichols (VA); and Mike Kreidler represented by Alan Hudina (WA).

1. Discussed Third-Party Integration Request

Commissioner Kipper said the issue before the Task Force is to consider expansion of existing SERFF integration services that are currently used by a single third-party vendor. The expansion will include modification of the services to handle larger volumes and incorporate IIPRC and the federal Affordable Care Act (ACA) qualified health plan filings. Industry interest has been explored and NAIC staff will report results to the Task Force. Commissioner Kipper said NAIC staff have also developed a proposed fee structure to cover costs, as recommended by the SERFF Advisory Board. He reminded participants that incorporating this functionality will increase SERFF complexity and would likely impact future projects.

Julie Fritz (NAIC) said NAIC staff held a July 14 conference call with industry representatives potentially interested in the expanded integration services. Of those attending, 11 followed up with NAIC staff, 10 of which expressed interest in the integration services enabling filings and data to be pulled from SERFF and seven expressed interest in the services enabling filings and data to be pushed into SERFF. None of the 10 respondents is the existing vendor user or the requester of these expanded services.

Ms. Fritz also indicated that the cost proposal had been revised to approximately $203,000 in consulting services and an estimated expense for ongoing annual support of $83,000 for the NAIC staff dedicated to licensed user support. Revenues are currently configured based upon anticipated usage volume. Pull services would be $5,000 annually and combined push and pull services would be $15,000 annually. Over three years, the revenues would cover the implementation and ongoing costs.

Commissioner Kipper asked if this project would compromise any other SERFF initiatives. Ms. Fritz said that there is a potential to impact other projects, such as SERFF filing access, ACA-related features and Operational Efficiencies (EX) Working Group metrics analysis. Ms. Herbert asked if the new functionality would further degrade SERFF performance, as that has been an issue. She also asked if there had been any discussion regarding a replacement system for SERFF. Ms. Fritz responded that NAIC staff have been working on performance issues and that one objective of the project would be to avoid any performance impact; no formal discussions regarding a new SERFF system have taken place. Ms. Shepherd asked if retention schedules and the size of the SERFF database were factors impacting performance. She said Kentucky will be reducing its retention schedules to 10 years and asked if other states are planning to do something similar. Mr. Hudina said that, if the project moves forward, Washington would like assurances that the initiative would not further exacerbate performance issues.

Commissioner Kipper said the retention issue merits further discussion, and he requested this item be placed on the agenda for the Summer National Meeting and that a charge for the Task Force on this issue be considered for 2015.

Having no further business, the Speed to Market (EX) Task Force adjourned.
The Speed to Market (EX) Task Force met via conference call June 20, 2014. The following Task Force members participated: Scott J. Kipper, Chair (NV); Andrew Boron, Vice Chair, represented by Cindy Colonius, John Gatlin and Michele Oshman (IL); Dave Jones represented by Kayte Fisher (CA); Sandy Praeger represented by Jim Newins (KS); Sharon P. Clark represented by Susan Hicks (KY); Mike Rothman represented by Tim Vande Hey (MN); John M. Huff represented by Mary Mealer and Angela Nelson (MO); Monica J. Lindeen represented by Rosann Grandy (MT); Wayne Goodwin represented by Ted Hamby and Tim Johnson (NC); Mary Taylor represented by Maureen Motter (OH); John D. Doak represented by Cuc Nguyen (OK); Jacqueline K. Cunningham represented by Rebecca Nichols (VA); and Mike Kreidler represented by Gail Jones (WA).

1. Discussed Third-Party Integration Request

Commissioner Kipper said the issue before the Task Force is to consider expansion of existing SERFF integration services that are currently used by a single third-party vendor. The proposal has an element of complexity as it requires modification of the services to handle a larger volume of users and serve all product filing types, including IIPRC and the federal Affordable Care Act (ACA) qualified health plan filings. The SERFF Advisory Board recommended the issue to the Task Force with two caveats: 1) NAIC staff should research and confirm company and third-party interest in the expanded services before project commencement; and 2) expenses associated with the project be underwritten by the entities using the services. This initiative may have an impact on other SERFF project priorities. If the Task Force opts not to move forward with the initiative, some consideration should be given to terminating existing integration services currently used by one vendor.

Julie Fritz (NAIC) said there are two components of the proposal: one for extraction of data from SERFF after filing disposition, and one related to the submission of a filing and the communication between a state and the filer during the review process. The first component can be completed without completing the second component. In order to deliver the expected result, NAIC staff would have to refactor portions of the existing Web services tools to support multiple users, create documentation for the services to facilitate third-party use of the services, and provide dedicated implementation and ongoing support staff for the expanded services. Benefits of the initiative include the elimination of data entry and expanded reporting capabilities through automation of processes, as well as streamlined product creation for users of the submission component. The benefits accrue largely to the industry filers. For state insurance regulators, there will be little impact or benefit. Execution of this initiative will result in more complex modifications to SERFF in the future, as both the user interface and the Web services would have to be modified in many situations. This could result in longer project durations. In addition, expanding these services may result in a reduction in use of existing remote hosting services.

Ms. Fritz indicated the Web public access initiative is expected to be complete by year end 2014. For ACA-related SERFF initiatives, it is expected there will be 2015 changes, but they are unknown at this time. The Operational Efficiencies (EX) Working Group is working on metrics and may have requests to enhance SERFF in 2015. Barring competing priorities, the estimated project start date is Jan. 1, 2015.

Ms. Jones said the third-party vendor using the existing services does not update its software with all SERFF updates. This often causes challenges for the states when reviewing filings. She asked if this would be a continuing issue if the services are expanded to other users of the Web services. Ms. Fritz explained that this is a by-product of the vendor’s client-server implementation that may result in two potential obstacles: 1) the third-party vendor chooses not to leverage SERFF upgrades; or 2) the company elects not to implement the upgraded third-party software. As a result, this could happen in the future. There are several potential solutions to this problem. Users may be required to comply with upgrades as a condition of using the services, or users of the services may be forced to resort to the SERFF user interface rather than the Web services if they do not upgrade in a timely manner.

Commissioner Kipper said the services would be a benefit to industry with little impact to regulators. He asked when a decision would need to be made on this project. Ms. Fritz said the Task Force may want to make a decision by the Summer National Meeting in order to include the project in the normal NAIC budget process for 2015. Commissioner Kipper suggested Task Force members consider the issue for the next few weeks. Ms. Fritz said the NAIC staff was attempting to ascertain industry interest and willingness to cover the cost of the services to ensure a level of interest justifies the initiative.
This information is expected to be available by late July and would be made available to the Task Force prior to further consideration. Commissioner Kipper said this initiative should not delay any other more important SERFF-related initiatives, including Web public access, if undertaken.

Commissioner Kipper said the Task Force would reconvene in late July to further consider this issue.

Having no further business, the Speed to Market (EX) Task Force adjourned.
The Speed to Market (EX) Task Force met via conference call May 5, 2014. The following Task Force members participated:
Scott J. Kipper, Chair (NV); Andrew Boron, Vice Chair, represented by Jim Stevens and John Gatlin (IL); Jay Bradford represented by Bill Lacy (AR); Dave Jones represented by Kayte Fisher (CA); Thomas B. Leonardi represented by George Bradner, Moira Herbert and Peter Galasyn (CT); Sandy Praeger represented by Jim Newins (KS); Sharon P. Clark represented by Jeff Lamb (KY); Mike Rothman represented by Tammy Lohmann (MN); John M. Huff represented by Mary Mealer (MO); Monica J. Lindeen represented by Rosann Grandy (MT); Wayne Goodwin represented by Ted Hamby and Jean Holliday (NC); Mary Taylor represented by Maureen Motter (OH); John D. Doak represented by Cuc Nguyen (OK); Laura N. Cali (OR); Angela Weyne represented by Rebecca Matthews and Elizabeth Roman (PR); Julia Rathgeber represented by Jan Graeber (TX); Todd E. Kiser represented by Tracy Klausmeier and Tanji Northrup (UT); Jacqueline K. Cunningham represented by Mary Bannister (VA); and Mike Kreidler represented by Lee Barclay (WA). Also participating was: Kate Kixmiller (IN).

1. **Discussed Third-Party Integration Request**

The Task Force further discussed a request for product demonstration and integration with SERFF as originally presented during the Spring National Meeting. Commissioner Kipper said that following the Spring National Meeting, the SERFF Advisory Board met to consider the same request. Members of the SERFF Advisory Board ultimately opted not to pursue a demonstration of the Adsensa product as there were significant concerns associated with any potential integration. He said the SERFF Advisory Board echoed previous state-procurement concerns, the financial impact to the industry, the difficulty in codifying and applying the business rules, and the continued need to review the entire filing to assess things that cannot be defined in a business rule. In addition, there was significant unease in selecting a single, commercial vendor that would result in a long-term commitment and tie to the NAIC’s SERFF product.

Mr. Gatlin asked how the Adsensa and SERFF products would work together; Julie Fritz (NAIC) provided a brief overview of the request, describing how the Adsensa product could be used in conjunction with SERFF. Mr. Bradner asked if the business rules would be in tables or hard-coded. Ms. Fritz responded that this is unknown, but that her understanding was that it would require a software engineer to incorporate the specific state rules into the product. Mr. Barclay said he agreed with the SERFF Advisory Board’s concerns, specifically noting the integration would require state resources and a financial investment, yet state analysts would still need to review filings. He said he was not in favor of integration. Mr. Hamby said that selecting a single vendor to provide integrated software that results in additional costs for industry and the states may result in future issues if other vendors also want to integrate products with SERFF. Mr. Bradner agreed. Ms. Kixmiller stated that without time and cost estimates, Indiana would not be interested. Mr. Lamb, Ms. Mealer, Mr. Stevens, Mr. Hamby and Mr. Lacy all indicated they are not in favor of pursuing any integration. No Task Force member stated an interest in any further discussion or integration with Adsensa products.

2. **Discussed Other Matters**

Birny Birnbaum (Center for Economic Justice) said that he appreciated an explanation and demonstration of the proposed public access file structure, as a Zip file as opposed to the existing portable data format (PDF) file format, for the upcoming web public access expansion within SERFF. He expressed support for the format, indicating he thought it would be easy to use. He said that the proposed functionality would display only the publically available portions of a filing, and he requested that the Task Force direct NAIC staff to expand functionality to include a reference to portions of filings that the state agreed to keep confidential. He was asking only for a reference to the existence of the protected items. The Task Force deferred discussion until the Summer National Meeting.

Having no further business, the Speed to Market (EX) Task Force adjourned.
The Commercial Lines (EX) Working Group of the Speed to Market (EX) Task Force met in Louisville, KY, Aug. 15, 2014. The following Working Group members participated: Lee Barclay, Chair (WA); Sarah McNair-Grove (AK); Joel Laucher (CA); George Bradner (CT); Jim Newins (KS); Joel Sander (OK); Paula Pallozzi (RI); and Mark Worman (TX).

1. **Adopted its July 15, June 5, May 13 and April 29 Minutes**

   Upon a motion by Ms. Pallozzi and seconded by Mr. Laucher, the Working Group adopted its July 15 (Attachment Four-A), June 5 (Attachment Four-B), May 13 (Attachment Four-C) and April 29 (Attachment Four-D) minutes.

2. **Reviewed SERFF Approval Time Data Reports**

   Mr. Barclay said after discussing the sample reports during the July 15 conference call, changes were made to the reports to try to fulfill as many requests as possible. In the sample, only data for the commercial property type of insurance (TOI) was used, and there will be a total of 10 groups of TOIs used in the final report. The time frame was reduced from five years of data to three years of data, using a disposition date as of July 1, 2011, through June 30, 2014. Using a disposition date should remove pending filings. There are some requests, such as data by each year, which could not be fulfilled due to space and time constraints or are outside the scope of the Working Group’s charges. There were three tables dealing with the number of filings, with breakouts of total, positive and negative disposition types. Another three tables showed the average number of days from filing submission to disposition, again with breakouts of total, positive and negative disposition types. Additionally, there were three tables with the average number of objection letters per 100 filings, with breakouts of total, positive and negative disposition types. Sara Juliff (NAIC) sent out a survey to states for clarification on filing types and dispositions. Some states said they did not use a reported disposition type, yet it was found in the data; so existing data points were not removed. One jurisdiction said “deemed approved” was not considered a positive disposition. However, from an insurer’s point of view, “deemed approved” is a positive disposition, so it was kept as a positive disposition. Further, sample graphs for Washington and Missouri were supplied to show the distribution of approval times for each TOI group. Mr. Barclay said one request from the Working Group entailed listing state laws on each line of the filing data tables, but he said it would be too difficult to summarize the laws for each type of filing and TOI group. He said an updated compendium already exists and will be provided in the Working Group report along with the approval time data.

   Mr. Bradner said there may need to be definitions provided for what denotes a “positive” versus a “negative” disposition. Mr. Barclay said there is a chart in the Working Group materials for this meeting that includes a breakout by state detailing the dispositions included in the “positive” and “negative” categories. He said a negative disposition included results such as withdrawn, rejected and disapproved. There were some states that did not respond to the survey, and once the other nine TOI groups are run, additional disposition types may need to be added. Mr. Bradner said Connecticut has created dispositions called “recorded effective,” “recorded effective as amended” and “recorded effective as submitted.” These types are able to convey whether an examiner was needed to review and ask a company for corrections. Mr. Barclay said those types would be considered positive dispositions. Ms. Pallozzi said examiner action should be captured in the count of objection letters and said she thought the suggested sample format was appropriate.

   Dave Snyder (Property Casualty Insurers Association of America—PCI) said he is currently working on pulling together a comparison across states of filing approval times for the same, or similar, commercial submissions. He said he will be providing the results to the Working Group for use with the SERFF approval time data and acknowledged both companies and regulators can affect final approval times. Ms. Pallozzi requested that Mr. Snyder include in his analysis whether states have in-house consultants or outside consultants, as it may likely affect the turnaround time.

   Mr. Barclay said the next step will be to request the remaining nine data sets by TOI group from SERFF staff and to present similar data reports to the Working Group.
Mr. Bradner suggested including the compendium in SERFF to mitigate annual industry requests for updates to state laws.

3. Discussed Recommendations for a Report to the Speed to Market (EX) Task Force

Mr. Barclay said so far, the Working Group has received comments and suggestions from the PCI and Birny Birnbaum (Center for Economic Justice—CEJ). He asked what the Working Group would like to see in terms of emphasis and recommendations to the Speed to Market (EX) Task Force and the process for drafting the report.

Mr. Laucher said he reviewed the interested party comments and suggested a possible checklist or guidance document the Working Group could draft for some items, such as “me too” filings and manuscript filings. Mr. Barclay said the Working Group needs to consider how detailed the recommendations should be, inasmuch as should the recommendations include general ideas or a fleshed out plan on how to implement the ideas. He suggested high-level items, such as what the Working Group thinks are important to do or follow up on, and not necessarily detail out a guidance plan.

Mr. Barclay asked if the Working Group should make a recommendation that the NAIC consider an interstate compact for commercial lines insurance. Mr. Laucher said California is not a current IIPRC member. Mr. Bradner said Connecticut is also not a current IIPRC member and would have some concerns with such a recommendation. Ms. Pallozzi said Rhode Island is a current IIPRC member, and the recommendation could be explored, although Rhode Island lacks staff and expertise in this area and it would be a serious undertaking. It may still be worth considering, and it would be beneficial to hear the pros and cons of the approach. Mr. Barclay said it is unclear if the current IIPRC would be amended to include commercial lines or if a new interstate compact would be created. He said the idea has been suggested by a few different sources, including consumer representatives and the Federal Insurance Office (FIO), so the idea should probably not be discarded. Considering the complexity and differences of some state laws, it would be difficult to achieve uniformity through the legislative process in each state. Mr. Barclay said multistate policies should also be suggested in the report recommendations.

Mr. Snyder said the Working Group needs to address the FIO recommendation, regardless of whether the recommendation is endorsed. He agreed it would be an undertaking with many questions. He suggested some legislative changes, such as a definition of “exempt commercial policyholder,” perhaps with the assistance of the National Conference of Insurance Legislators (NCOIL). He also suggested a best practices document for the most efficient states to operate within their existing systems (e.g., file-and-use system, prior-approval system, etc.). Mr. Snyder read through some of his submitted comments: highlight large commercial risk exemption; uniform information filing requirements in prior approval exemptions; filing requirements for manuscript forms; and national policies. He said the state-provided checklists are good and suggested dividing recommendations between: 1) responding to the FIO; 2) suggesting changes where there is a lack of uniformity in legislation; 3) how to make existing systems work better; and 4) areas of cooperation in the case of filing national filings. He said some perspective needs to be provided in the recommendations on how to improve. He suggested including a recommendation that states and commissioners review their authority available versus authority used. Mr. Barclay said quite a few states give commissioners authority to exempt most any line of business from filing, although a recommendation for the states to use all authority available to make it easier for the industry will likely not be considered. The definition of “exempt commercial policyholder” is handled differently among the states, as some would handle such a change via legislation and others would handle it by rule. He said more uniformity could be achieved, but legislation is only one place where the definition is handled. Mr. Bradner said commissioners are sometimes hesitant to use their exemption authority. Mr. Snyder said he is not suggesting the states use full authority, but he suggested a recommendation where the states periodically review their authority, perhaps open to interested parties.

Mr. Laucher suggested writing a draft or piecing out sections to multiple authors. Mr. Barclay said the Working Group probably should not start with a complete draft. He offered to put together an outline and a draft a recommendation to see where the Working Group would like to go with the report. Mr. Barclay welcomed any comments during the drafting period.

Having no further business, the Commercial Lines (EX) Working Group adjourned.
The Commercial Lines (EX) Working Group of the Speed to Market (EX) Task Force met via conference call July 15, 2014. The following Working Group members participated: Lee Barclay, Chair, and Manabu Mizushima (WA); Michael Ricker (AK); Joel Laucher (CA); Moira Herbert and Peter Galasyn (CT); Jim Newins (KS); Joan Dutill (MO); Debra Stone and Denise Lamy (NH); Cuc Nguyen (OK); Paula Pallozzi (RI); Mark Worman (TX); and Mary Bannister and Rebecca Nichols (VA). Also participating were: Tracy Klausmeier (UT); and Donna Stewart (WY).

1. Discussed Presentation of SERFF Approval Time Data

Mr. Barclay said he, together with Mr. Mizushima, created a mockup format for the SERFF approval time data, with open filings excluded. The data are displayed on three pages, with one for average approval times by type of filing, a page for number of objection letters per 100 filings by type of filing and a summary page for each state with graphs of the distribution of approval times for each type of insurance (TOI). He said the Working Group must find a way to display the SERFF approval time data in a way that is easy to understand. Ms. Pallozzi said she liked the format of the example, but would like to see the total number of filings per state and suggested having more recent filing information, such as three years instead of five years. She also pointed out a possible issue with Arkansas’s negative approval time. Mr. Barclay said the issue with Arkansas is due to paper, versus electronic, filings and submitted dates not being updated correctly. When the data is rerun, this error should be excluded.

Ms. Stone said New Hampshire does not allow for combined filings, but combined filing types show in the aggregated data. She suggested incorporating state approval methods into the data report. Mr. Barclay said the compendium will accompany the SERFF approval time data, with open filings excluded. The Working Group must find a way to display the SERFF approval time data in a way that is easy to understand. Ms. Pallozzi said she liked the format of the example, but would like to see the total number of filings per state and suggested having more recent filing information, such as three years instead of five years. She also pointed out a possible issue with Arkansas’s negative approval time. Mr. Barclay said the issue with Arkansas is due to paper, versus electronic, filings and submitted dates not being updated correctly. When the data is rerun, this error should be excluded.

Ms. Stone suggested excluding disapproved and withdrawn filings or possibly having a separate exhibit with disapproved and withdrawn filings. Mr. Laucher said California’s disapproved or withdrawn counts would be negligible, as those filings would go to hearings. Ms. Pallozzi said Rhode Island’s disapproved or withdrawn numbers would also be insignificant. Ms. Nichols said if the purpose of the data is to evaluate resources, then all disposition types should be used. Ms. Pallozzi, Ms. Nguyen and Mr. Worman agreed. Ms. Stone said she would prefer only positive dispositions or, if negative dispositions are used, they should be broken out into a separate exhibit, even if the number does not make up a large count. Ms. Dutill said regardless of the disposition type, resources are expended and should be included, regardless of whether the negative disposition types are separated. She said the data are useful and suggested using a landscape format to include all resources and results. Ms. Pallozzi agreed looking at all of the filings and resources would be helpful.

Mr. Barclay said adding state approval methods for each state could potentially add two or more rows per state, due to different approval methods across rates/rules/forms and lines of business. He said there could be issues regarding what constitutes “staff,” because the NAIC’s Insurance Department Resources Report (IDRR) does not include a breakdown for analysts based on the line of business. It is hard to determine which staff work on reviews and how much time is spent. Ms. Dutill said some states use actuaries for review, but Missouri only uses actuaries on rare occasions for that purpose. She suggested using a general number of people involved in the review process, and ignore titles. Mr. Laucher said California has staff dedicated to property/casualty filings that look at all filings, not just commercial lines, and said looking at staffing levels would be complex unless it was lumped into a general bucket. Ms. Dutill said many staff have a variety of responsibilities, and looking at it from a holistic picture may be easier. Ms. Pallozzi said Rhode Island contracts with actuarial consultants for review and questioned how contractors would be taken into consideration. Mr. Barclay said there are limits to what the Working Group can do and, while the extensiveness of all the potential information would be interesting, it would add
considerable time to the work plan. He said the data should focus on the Working Group’s charges. NAIC staff will see what can be done in reasonable time.

Ms. Nichols said if the purpose of the data collection is just to see the larger picture, then the approval time is what it is, and additional information is not really required. Mr. Barclay said the charge does not require the Working Group to provide individual state analysis or solutions. The objective is to provide for what was asked for in the charges and write recommendations. Birny Birnbaum (Center for Economic Justice—CEJ) said the charge for collecting approval times may not be just for regulator use, but also for the industry and consumers. The information on disapproved and withdrawn filings is useful, because a percentage of the filings received and that are disapproved or withdrawn are later resubmitted and approved, and it would be a disservice to remove the negative disposition filings. He suggested adding a percentage of total filings that were withdrawn or disapproved. He endorsed including columns to compare the states based on approval method and said the staffing information, due to its complexity, is not necessary, but an appendix could be included with more complex information. Mr. Barclay said NAIC staff will take the ideas and suggestions generated and see what is possible by the Summer National Meeting.

2. Discussed Report Recommendations and Process

Stephen Clarke (Insurance Services Office—ISO) said ISO is compiling the state policy exception information on nonrenewal and cancellation, but provided a chart on advance policyholder notifications on renewal in the interim. He said the chart shows straightforward policyholder notifications, but, across the states, notices can vary in the type of notice and its content. When the ISO looked into the standard fire policy (SFP), there were many variations across the states. There are currently 29 states that use the SFP and the majority does not require the SFP to be attached so long as the underlying policy is just as broad. Six states still require the SFP to be attached, although the states’ requirements vary in regard to when it has to be attached. Thirteen different states have exemptions regarding inland marine policies and a number of states have adopted exemptions regarding terrorism. Some of the states use the federal Terrorism Risk Insurance Act (TRIA) definition of “terrorism,” while one state has its own definition of “terrorism.”

Dave Snyder (Property Casualty Insurers Association of America—PCI) said PCI had agreed to pull results of similar filings across all states, and they are still working on the request. He said the initial data is already showing significant differences across the states on approval times for the same filing. He said the PCI’s “Suggestions for Commercial Lines Modernization Report Recommendations” document, which was submitted in advance of this conference call, is an effort to encapsulate the concerns and suggestions mentioned throughout the Working Group’s time together, and he acknowledged that some of the suggestions may require statutory changes. He read through the PCI’s 11 suggestions: make the large commercial risk exemption/exempt commercial policyholder a uniformly high standard; make the prior approval exemptions/information filing requirements more uniform; ensure the states use all of the regulatory flexibility they are permitted under existing law; eliminate all but informational filing mandates for manuscript forms; allow for interline filings; allow for “me too” filings among affiliate companies; allow for form/rate/rule combinations in all states; seek more common use of checklists and other proven tools to smooth the review process; continue to create opportunities for company and regulator filing officials to communicate and prevent issues before they occur; urge the states to periodically review their commercial lines filing laws, regulations and practices to determine if they can be improved; continue to consider the recommendations of the Federal Insurance Office (FIO).

Mr. Birnbaum said the CEJ is ready to endorse suggestions #1, #2, and #10 as submitted by the PCI, with the potential to endorse more of them with more information, noting that the CEJ does not oppose any of the PCI’s suggestions at this time. He said the Working Group needs to define what constitutes a commercial lines product, as recommendations would be easier to endorse if a common definition is adopted that excludes consumer products, like lender-placed insurance (LPI). Ms. Pallozzi said there seems to be a lack of consistency with how LPI products are filed across the states and companies. Mr. Birnbaum said he is aware of some LPI products being filed in commercial property.

Angela Gleason (American Insurance Association—AIA) suggesting adding a recommendation for an interstate periodic review of commercial policies regarding laws making it more challenging for multi-state writers and policies. Mr. Barclay said the best forum for interstate communication is likely the NAIC.

Having no further business, the Commercial Lines (EX) Working Group adjourned.
The Commercial Lines (EX) Working Group of the Speed to Market (EX) Task Force met via conference call June 5, 2014. The following Working Group members participated: Lee Barclay, Chair (WA); Michael Ricker (AK); George Bradner and Moira Herbert (CT); Jim Newins (KS); Angela Nelson and Joan Dutilt (MO); Debra Stone (NI); Cuc Nguyen (OK); Paula Pallozzi (RI); Mark Worman (TX); and Rebecca Nichols (VA). Also participating were: Tracy Klausmeier (UT); and Donna Stewart (WY).

1. Discussed Results for Questions 10 and 11 of the State Survey on Commercial Lines Regulation

Mr. Barclay said Washington had made a comment in question eight of the survey, regarding the Insurance Services Office (ISO) Rule 19 of the Commercial Lines Manual, Division 5 Fire. The rule says the insurer does not have to use the rules and forms for multistate policies, but it does have to use Washington rates. The insurer may use the rules and forms of the state in which the insured’s largest valued location or headquarters is located or the state in which the insurance is negotiated. He said Washington commented if regulators and rating organizations could agree on some way to broaden this type of rule so that it applies to lines other than property or applies to rates as well as forms and rules, they think the approach is worthy of consideration. The Working Group had requested Steve Clarke (ISO) to investigate Rule 19 and attempt to generalize it to see how it could apply to other lines or rates and rules.

Mr. Clarke said Rule 19 is a multi-state rule, and he looked back through the history to determine why it developed only in commercial fire and why it was created. He tracked the rule back to February 1963, and essentially the rule recognized the existence of various independent state and regional property rating bureaus around the country, prior to the creation of the ISO. The rule came out of the multiple location rating plan, where an insurer was able to designate a sponsoring rating bureau with respect to rating of the policy for interstate accounts. The bureau could be selected based on the state in which the greatest values are located, the insured’s domicile or principal place of business is situated, or the insurance is being negotiated. In application, it allowed for development of interstate average rates by starting with individual state rates, based on the known locations at policy inception, and to the extent locations are added, changed or deleted throughout the course of the policy term, the interstate average rates can be used. The concept is similar to blanket average rating used in the commercial lines manual today. He said in researching other lines of business, some of the same issues would not apply. For example, boiler machinery, and some of the inland marine classes, is already rated on a countrywide basis,

Mr. Barclay said the research was helpful, and the rule says the forms can be used. However, even if a state’s cancellation and non-renewal provisions are used, other states may still require their laws and provisions. Mr. Clarke said some states have exceptions to Rule 19 and say insurers must use filed and approved forms, but there is a question for all remaining states on whether their state’s statutory guidelines apply regardless. He said it may be an area worth more research. Ms. Dutilt said this research would be worth mentioning in the Working Group’s report.

Mr. Barclay read question 10 of the state survey: “Based on your state’s experience, please identify any challenges—for insurers or regulators, specific to commercial lines—that cause commercial lines rate and form filings to take longer to be resolved.” Ms. Dutilt said the responses were interesting, and many states mentioned experiencing the same issues consistently with filings with some insurers and sometimes in multiple states. There may be an objection on one filing for one insurer, which is corrected for the current filing, but the same error exists in subsequent filings. Mr. Barclay said there is a theme relating to what the insurance industry can do. Especially with commercial lines, which are more lightly regulated,
many states do not do a thorough review, or they exempt filings from review entirely. He said it is a lot easier for insurers to throw out the same filing to all states, which results in a temptation to not customize filings to each state’s requirements.

Mr. Barclay said New Hampshire’s response reported there can be issues with timing differences when rate and form filings are supposed to be filed together. He said this can be a challenge when rates are approved, but forms are not. Where there are rate changes, the effective dates of the rates and forms need to be coordinated. Ms. Stone said different people review rates and forms. There are cases where rate changes may have been implemented months after the perceived effective date. She said New Hampshire does its best to coordinate, but it is not a perfect system. Mr. Barclay says Washington encourages communication from the company in all correspondence if the company is waiting or postponing an effective date.

Birny Birnbaum (Center for Economic Justice—CEJ) said he saw a few comments from states in the survey responses that indicated because commercial lines is subject to less oversight than personal lines, some products that should be filed as personal lines are filed as commercial lines. He said given the different requirements for personal versus commercial lines, there may be an incentive to file as commercial lines when the product may be more appropriately filed as personal lines. Lender-placed insurance is one example.

Mr. Barclay read question 11: “How can regulators, policyholders, consumer representatives, and the insurance industry best work together to address the issues that have been raised by the industry with respect to commercial lines regulation? From the list of concerns identified by the industry, which do you feel are significant problems for all or most commercial lines insurers that do business in your state?” Ms. Pallozzi said Rhode Island is a commercial line deregulated state, and a lot of filings are relatively quiet. She said it seems like the biggest hurdle is multistate policies and lack of standardization. States have different approaches and regulatory authority over commercial lines, and those can be challenges as well. Mr. Barclay said California’s response was there could be more standardization among states in the way they use SERFF, and it may be worth noting in the recommendations.

Ms. Dutilt said an issue that may be worth looking at is the standardization for the definition of which commercial accounts could be exempted from review. Different states have different criteria for exempting large commercial risks, and it would be helpful to put together something, like a model law, for insurers and regulators to agree on for consistency. She said Missouri is partly deregulated, and it has a concern over how to define sophisticated commercial insureds. Mr. Barclay said the report will have to highlight those concerns in some way. He said there was an NAIC model that did have NAIC criteria regarding standardization, but states have implemented the model law in different ways.

Mr. Clarke said a common theme seems to be standardization on multistate policies and differing state requirements. He offered to look at topics such as cancellation and non-renewal, and at a couple of lines of business, such as commercial property and general liability, to identify exactly how many different provisions exist across the country. Sara Juliff (NAIC) said the NAIC legal compendium currently does not contain by-state breakout policy provisions. Ms. Nelson said she would be interested to see if states have standard fire policy provisions that apply to commercial property. Mr. Clarke said he can include fire provisions in his search. There are 30 states that have standard fire policy provisions, but states can vary on what can or cannot be omitted based on the base policy. Mr. Barclay asked ISO to research and report back to the Working Group on a future call. Mr. Clarke said he will research standard fire policy, as well as cancellation and non-renewal provisions.

2. Discussed SERFF Data on Approval Times

Mr. Barclay said the Working Group requested approval times from SERFF for 10 different types of insurance (TOIs). The data for commercial property was received, compiled into a sample report and circulated. He asked ideas on the most useful report format for the reports. The Working Group had previously discussed separating out the total number of days a filing is open into the number of days the filing is in the hands of the insurer versus the state insurance department. He said at this point, that data is unavailable, but the objection letter count and objection count was added to the report. He said in some cases, there are more objection letters than objections. In Washington, if an objection letter is submitted, at least one objection is added in SERFF. Ms. Dutilt said in Missouri, any communication is done through an objection letter. Therefore, it is possible for the state to communicate with a company regarding something about the filing, even if it’s just a clarifying question and not necessarily an objection, using an objection letter. Ms. Stone said New Hampshire also uses the objection letters as the primary means of communication to the insurers on filings. Mr. Barclay said there are variations between states in the way they use SERFF. He said perhaps more valuable information would be how states treat questions to the company rather than objection counts and objection letters. Ms. Nichols said in Virginia, if there is a simple filing, they may send an objection letter with a question with the requirement that was missed without attaching it to an objection. She said the objection letters are a good indicator as to whether or not there were issues in the filings. Ms. Dutilt said it is possible to have
a lot of objections and one objection letter. She said Missouri keeps track of the revisions made as a result of the objection, which gives them a perspective of the results of their objections. Any time an objection letter is sent out, it will cause a delay in the filing, and it would be valuable to keep track of the data in a report.

Ms. Pallozzi said she agreed with Ms. Dutill and suggested some type of report including post-submission updates. Mr. Barclay says Washington often sees post-submission updates before the filings are even reviewed. Those updates are used as an addendum if the insurer thinks of something previously left out.

Ms. Dutill reviewed the SERFF data to see how many states are able to get to a disposition within 20 days. She said a majority of states close their filings within 20 days, with some outliers. She said it would be interesting to see what the state totals are based on date ranges. Ms. Stone said it would make a difference with what type the individual filing is, as commercial lines rate filings can have a different approval method than forms. Ms. Dutill asked if it would make sense to create three reports, separated based on the type of filing of rate, rule and form, and what the aggregate of states are within the time windows to get an idea of where long delays are taking place. Mr. Barclay said the original idea was to have separate reports for rates and forms and combination rate and form filings. Ms. Nichols said that if that type of distribution is used in the report, it may be important to get the amount of time the filing is not in the hands of the regulators. She said total time may misrepresent the amount of time the state actually has the filing. Ms. Juliff said the ability to differentiate between the amounts of time a filing is with the state versus a company is currently unavailable in the SERFF system. Mr. Barclay said comments and a list of issues can be included in any data reports distributed.

Mr. Birnbaum said it would be interesting to show how long it takes each state to review the same filings from a particular company. He said it would be interesting to see what the diversity among the states would be and if those differences are related to the different regulatory environments. Mr. Barclay said he was unsure if there was a way to identify the same filing across states due to the way filings are submitted to states, but he said it could be a question for the SERFF team. Mr. Birnbaum suggested starting with a company ID number, a common TOI and product name. He said no data are perfect, but it would a way to compare across states. Mr. Bradner said it may be helpful to understand each state’s staffing level, such as the number of commercial line examiners compared to other states, and different state laws regarding complexity provisions versus states that may not have statutory regulatory authority. He said there can be a lot of variables that go into approval times, which should be considered. Mr. Barclay said to remember the data are being produced as a piece of one of the Working Group’s charges, and how far the group goes in explaining that information is something the group will need to decide. Ms. Juliff said the current data produced by the SERFF team would not be able to fill the request to look at individual filings by state, and a new query, with likely much manual effort, would need to be written to derive the data. She also suggested referencing the NAIC’s Insurance Department Resources Report (IDRR) to review staffing levels. Mr. Barclay said the IDRR may not be what the Working Group needs, but it could be reviewed.

Mr. Barclay requested for the next conference call, the Working Group consider what else is needed before a report can be started: suggestions for report format; what recommendations should be made by Working Group; and the process for getting a report written. Dave Snyder (Property Casualty Insurers Association of America—PCI) offered to provide suggestions of report recommendations for the next conference call.

Ms. Pallozzi agreed the process of reviewing specific filings across the states could be a very manual process, and she said that not all companies make the same filings in the same states at the same time. Mr. Birnbaum suggested taking a sample of a few companies and products and tracking those specific filings instead of tracking all companies and all products. Mr. Snyder offered to review information available from companies and provide his findings to the Working Group.

Having no further business, the Commercial Lines (EX) Working Group adjourned.
### Commercial Lines (EX) Working Group

#### Conference Call
May 13, 2014

The Commercial Lines (EX) Working Group of the Speed to Market (EX) Task Force met via conference call May 13, 2014. The following Working Group members participated: Lee Barclay, Chair (WA); Michael Ricker (AK); Joel Laucher (CA); George Bradner and Moira Herbert (CT); Jim Newins (KS); Joan Dutil (MO); Cuc Nguyen (OK); Paula Pallozzi (RI); Mark Worman (TX); and Mary Bannister and Rebecca Nichols (VA). Also participating were: Sally MacFadden (NH); Tracy Klausmeier (UT); and Donna Stewart (WY).

1. **Reviewed the Results of the State Survey on Commercial Lines Regulation**

Mr. Barclay said the meeting’s purpose is to have a conversation with the Federal Insurance Office (FIO) regarding some of its comments and recommendations in the *How to Modernize and Improve the System of Insurance Regulation in the United States* report. Elizabeth Sammis (FIO) said there was a comment period for the FIO report, and those comment letters are publicly available on the FIO’s website.

Mr. Barclay asked what the FIO meant by “state regulators pursue nationally the development of nationally standardized forms and terms, or some mechanism for interstate reciprocity.” He said “forms” could have many meanings, such as insurance policy forms, filing forms, etc. Ms. Sammis said the words could include anything, and the theme of the referenced commercial lines paragraph on page 51 is to make the speed by which products come to market as quick and efficient as possible. It was meant to start a conversation on how to increase the speed by which products come to market. She said there are no presumptions that every piece could be standardized, but there may be some things that regulators could agree could or could not be standardized. She suggested a standardized definition of “commercial lines,” because commercial lines currently run the gamut for coverages and include a diverse set of products. Mr. Barclay said industry may be concerned that standardization may not allow for innovation. Mr. Bradner said many industry leaders like to develop their own forms to create a competitive advantage. Ms. Sammis said the FIO report was not meant to curb innovation, but rather to get products into the marketplace. The standardization could be just part of the policy, or specific types of policies, but the suggestion was not meant that every policy should be standardized. Ms. Dutil asked if the FIO meant any implications of the term “modernization” and if it was expressing a desire to standardize delivery of products. Ms. Sammis said she didn’t know what is meant by “delivery,” but on page 50 of the FIO report, it says, “Nonetheless, commercial lines insurance regulation must continue to modernize. Inconsistent and sometimes lengthy product approval periods continue to limit the ability of insurers to meet the needs of national businesses with new products.” She said while product approval is a focus, modernization should not be limited to the approval process. Mr. Bradner said the Insurance Services Office (ISO) already produces standardized forms for industry to use, but while it is good to say there should be quicker turnaround time for approval, long forms, which are individual and proprietary, add to the approval and review time. He said Connecticut does have a commercial lines exemption, but the issue is not just with large commercial policyholders. Regulators are responsible to read the policies for clear and fair policy language.

Mr. Barclay said the report mentioned an “interstate compact” and asked if the FIO had a broader idea of what could be included in developing standardized forms and terms. Ms. Sammis said the IIPRC was a guide for the FIO recommendation. She said as an existing model, the IIPRC could possibly be replicated for some policies on the commercial lines side. She suggested regulators think collectively on whether or not there are common form filings that could benefit from developing an IIPRC to free up time in the department to devote to larger policies. She said she was not aware of any other reciprocity mechanism. Mr. Bradner said he is willing to develop streamlines and efficiencies. He suggested perhaps looking at cancellation and non-renewal provisions but said that type of initiative would require legislative and statutory changes. Life policies lend themselves to an IIPRC mechanism, but commercial lines are more complex. Mr. Laucher said it could be possible to start on minor provisions in a policy, such as cancellation or effective date language, or work on definitions, such as actual cash value. He said California has omnibus legislation in which technical changes to legislation are submitted to ease adoption and not to be controversial. He said organizations such as the American Association of Insurance Services (AAIS) and the ISO develop language, but companies make their own adaptations to the standard forms, which is where the time is spent reviewing rate impacts and clarity of policy language. He suggested creating a bulletin board-type of review process, where regulators could post questions on a national page with questions and answers by state. Mr. Barclay said standardization may be difficult because of differences in state laws. Ms. Bannister said there may be regulation changes along with law changes.
Mr. Barclay read a piece of the FIO report on page 51. “Given the importance of efficiency and consistency in the product approval process for many insurance products, FIO should continue to monitor state-based product approval processes. Federal action may become necessary if the current, and long-standing, shortcomings are not improved in the near term.” He asked how the FIO plans to “monitor state-based product approval processes.” Ms. Sammis said as part of its monitoring process, the FIO is going through the results of the Working Group’s state survey on commercial lines regulation to identify states with similarities and differences. She said the FIO plans to listen to some of the Working Group calls and possibly attend meetings during the NAIC national meetings. Mr. Barclay asked if the FIO has some way of measuring if enough improvement has taken place. Ms. Sammis said the FIO is currently in the beginning stages of measuring improvement.

Birny Birnbaum (Center for Economic Justice—CEJ) said there should be a distinction between the sophisticated policyholder and lender-placed insurance consumers and small business owners. He said the FIO report mentions delays and unintended consequences of products being moved to the surplus lines market. He said there is no evidence of the allegations and said in his experience as a state regulator in Texas, a product filing could come in after it had been approved in many other states, and there would be glaring issues with the products. There are states that do not review filings, either because the product is exempt or it receives only a cursory review, and the burden then falls to other states to examine products that have potentially harmful features to consumers. Mr. Birnbaum said the states left with substantive review are labeled as delaying the process. He said the FIO report, which implies that delays drive companies to surplus lines markets, suggests companies are trying to deliver a new product, of which there is no like-product in the admitted marketplace, and the absence of a quick review forces the company to go to surplus lines. He said it seems a company would always choose to use surplus lines because of the fewer regulations. Mr. Birnbaum said the 1998 NAIC White Paper on Regulatory Re-engineering of Commercial Lines Insurance rightfully notes states have been inconsistent in adopting a standard definition of commercial lines insurance. He said it is the industry’s responsibility for the inconsistency, because of industry going to state regulators and saying it can get better regulation under a state with no standard definitions. If industry were to push for NAIC recommendations to be adopted across all states, there would be more consistency for commercial policyholders. He said those results would provide more fruitful results for what the FIO says it is looking for, without the ambitious goal of creating another IIPRC. Mr. Bradner said when industry doesn’t like implementations that the NAIC pursues in model laws, it goes to the National Conference of Insurance Legislators (NCOIL) for a different law. Mr. Birnbaum said a lot of issues are driven by the industry seeking to pursue what it conceives to be better in any particular state. He said the danger with the IIPRC is the industry is allowed to use the IIPRC in states with more regulatory requirements and submit its own individual filings in states with fewer regulatory requirements. He said there is already a resource for standardized forms, like ISO, and the goal should be to get products to market that are helpful to consumers as efficiently as possible.

Dave Snyder (Property Casualty Insurers Association of America—PCI) said a 2002 Richard J. Butler study reported a loss of $18 billion to the commercial lines regulated market due to slow regulatory processes. He said the combined objective should be to get as many products as possible into the regulated market. The more efficient the process of regulation, the lower the price and the more businesses are able to employ people and compete globally. He said the FIO report and state survey responses provide a valid look to where some possible changes may be. Mr. Snyder said he hopes more can be created, such as standard definitions, uniform standards for information filing requirements, and less scrutiny for manuscript forms for highly complicated, specific businesses. He said things are not as good as they could be, and the industry plans to work with regulators to look for points of improvement in regulation or legislation. The industry is not afraid to hear about what it can do better. He said the recommendations that come out of the Working Group should include suggestions for all parties and should focus on applying laws as efficiently as possible.

Mr. Barclay asked the Working Group members to think about the state survey responses and the FIO recommendations, as well as figure out how to write the report due to the Speed to Market (EX) Task Force.

Having no further business, the Commercial Lines (EX) Working Group adjourned.
The Commercial Lines (EX) Working Group of the Speed to Market (EX) Task Force met via conference call April 29, 2014. The following Working Group members participated: Lee Barclay, Chair (WA); Michael Ricker (AK); George Bradner, Moira Herbert, and Peter Galasyn (CT); Jim Newins (KS); Angela Nelson and Joan Dutil (MO); Cuc Nguyen (OK); Mark Worman (TX); and Mary Bannister (VA). Also participating were: Charles Angell (AL); and Donna Stewart (WY).

1. Reviewed the Results of the State Survey on Commercial Lines Regulation

Mr. Barclay said the goal of reviewing the survey results is to draw out valuable ideas for the Working Group’s recommendations to the Speed to Market (EX) Task Force and that the Working Group’s report should not replace or duplicate the survey. He said he did not expect to get through the entire survey on the call, but he did plan to review as much as possible. He said question one and question two deal primarily with compendium changes. Question one is: “Accompanying this survey is an NAIC Compendium Chart Compilation pertaining to the states’ regulatory frameworks for commercial lines rates and for exemptions from rate and form filing requirements for commercial lines. Please review this document and provide appropriate updates or corrections, if there are any, for your state.” Question two is: “If different from the method(s) shown in the compendium for rates, what are the filing methods for commercial lines forms in your state?” Mr. Barclay read question three, “Has your state proposed or enacted any legislation and/or implemented regulatory measures to streamline or make other substantive changes to commercial lines regulation within the last five years? If so, please provide a copy of the proposal, legislation, regulation or bulletin. When did it take effect?” Ms. Nelson said the responses dealing with the states that have implemented some type of filing extension for commercial products were interesting for Missouri. Mr. Newins reported the reviews standards document mentioned in Kansas’ response to question three was created due to problems with Kansas Insurance Department examiners meeting the 40-day deadline. He said the document makes the examiners accountable for their reviews, and while it was created because of timeline concerns, it was also created to address other issues such as grossly inadequate filings and statutory issues. Mr. Barclay said there is a lesson to be learned in Washington’s response. He said Washington worked hard for improvement in commercial lines regulation, but because of a lack of industry lobbyist support, the proposal was not pursued in the legislature. He suggested the Working Group include the importance of industry participation and suggestions for their involvement in the recommendations to the Task Force. Ms. Herbert said Connecticut did not require industry support in their legislative changes, due to Commissioner discretion and authority in Connecticut laws.

Mr. Barclay read question four, “Have the measures implemented in your state resulted in identifiable benefits in the market (e.g., more market participants, more readily available products, improved filings by companies, fewer enforcement actions related to rates and forms, etc.)? If so, please identify and quantify the benefits.” Ms. Nelson said some of the state responses are subjective and lack quantitative data, and suggested pulling data from SERFF for the states that have implemented changes versus states that have not made changes. Ms. Herbert said Connecticut has seen an increase in filings but was unsure if the increase was due to filing exemptions or just an increase in business. Mr. Galasyn said the filing procedure in Connecticut remains the same, and the exemption is from review. He said normally they review about 20% of filings during an audit, so the company must still file and pay any applicable fees. Ms. Herbert reported 90% of filings pulled out for the full review were completely accurate with respect to laws and bulletins. Ms. Nguyen said in Oklahoma, medical malpractice was set up as prior approval, but it was repealed in November 2013 and now is use and file. She said it is too early for any measurement of success. Mr. Barclay said Washington switched from use and file to prior approval for medical malpractice about 10 years ago, due to the hard market that had just occurred.

Mr. Barclay read question five, “Have the measures implemented in your state resulted in any identifiable problems in the market (e.g., use of rates or forms that do not meet statutory requirements, market restrictions, complaints from policyholders, increased market conduct examination and enforcement activities, lawsuits, etc.)? If so, please identify and quantify the problems.” He said it appeared, from the responses, that there were no noted issues among the states.

Mr. Barclay read question six, “How have the measures implemented in your state affected the use of regulatory resources (e.g., fewer resources used for rate and form review, more resources used for enforcement activities, etc.)? Please explain how this has occurred and, if possible, quantify the effect.” He said, according to the state responses, states seem to be using fewer people and resources, but there is nothing specific to highlight.
Mr. Barclay read question seven, “Are there additional actions you are authorized under your state’s laws to take, but have not yet taken, to increase the efficiency or effectiveness of commercial lines regulation? Please identify any such actions that you are considering. If there are any obstacles that prevent you from taking these actions, please identify them.” Mr. Barclay said there did not appear to be too many items under consideration by states. Ms. Nelson said the theme of the state responses for question seven seems to be the ability to exempt by authority of the Commissioner, though it is not an option many states have exercised. She said their responses were interesting because Missouri’s Director does not have such authority. Mr. Galasyn asked if there was a way to find a list of all the states that mandate SERFF. Mr. Worman said Texas allows paper filings in addition to SERFF for some smaller companies, such as farm mutuals. Ms. Bannister said Virginia allows paper filings, but only in certain circumstances, such as for county mutual companies. Ms. Nelson said Missouri allows paper filings for farm mutuals. Ms. Nelson, Ms. Bannister and Mr. Worman agreed most of the paper filings are personal lines and have no relevance to the Working Group’s charges. Ms. Dutill said there is a time savings for Missouri staff when companies use SERFF, since they currently must scan in paper filings into SERFF.

Mr. Barclay read question eight, “What steps have you taken, or would you consider taking, to increase the efficiency or effectiveness of regulation of rates and forms for multi-state policies?” He noted California’s consideration of amending filing instructions to make requirements clearer and how data can be easier to review if it is in Excel. Connecticut mentioned allowing only SERFF filings and no paper for multi-state policies. Mr. Barclay said the industry has not provided too many examples of the specific issues experienced on multi-state policies. He noted Ohio does not push its laws on the non-Ohio jurisdictional issues that can require rates and rules beider taking, to increase the efficiency or effectiveness of commercial lines regulation in your state?” He said many responses suggested industry improvements. Mr. Galasyn said the “note to reviewer” feature of SERFF is a good tool for industry. He said many times regulators send out letters, and at the last minute, a company will ask for an extension even when the matters could be resolved more quickly.

Dave Snyder (Property/Casualty Insurers Association of America—PCI) said the survey, especially question 10 and question 11, provides interesting suggestions and ideas. He mentioned several industry concerns, specifically: a lack of uniformity among states for large commercial risk exemptions, prior approval exemptions, informational filing requirements, commercial exemption requirements for manuscript forms, multi-tier jurisdictional issues that can require rates and rules be filed separately, allowing for post-submission updates and interline filings, and a variety of state-specific issues. He said he will compile industry input for a final statement to the Task Force. Mr. Barclay said the recommendation to the Task Force will not be limited to the survey results but rather will pull highlights and ideas. He requested the industry not only identify problems, but also practical solutions that do not rely on complete deregulation.

Having no further business, the Commercial Lines (EX) Working Group adjourned.
The Operational Efficiencies (EX) Working Group of the Speed to Market (EX) Task Force met via conference call July 24, 2014. The following Working Group members participated: Maureen Motter, Chair (OH); William Lacy (AR); George Bradner (CT); Cindy Colonius (IL); Jim Newins (KS); Geoffrey Cabin (MD); Tammy Lohmann (MN); Joan Dutill and Mary Mealer (MO); Ted Hamby and Tim Johnson (NC); Connie Van Slyke (NE); Elena Ahrens (NV); Gerry Scattaglia and Alan Goren (NY); Cuc Nguyen (OK); Chris Herrick and Courtney King (TX); Betty Branam and Melinda Willis (VA); and Lee Barclay (WA).

1. Discussed Filing Metrics Reports

Ms. Motter reminded the Working Group members that they have been charged with proposing the metrics to establish filing turnaround goals. This recommendation will then be moved to the Speed to Market (EX) Task Force for consideration. While the work the NAIC staff are doing on the filing metrics report and dashboard is to support states in managing the workload to meet filing metrics standards, the Working Group is charged with recommending what those filing metrics standards should be. As was requested on the last call, NAIC staff provided statistics on a larger range of filing submissions—this time covering all of 2013. After reviewing the statistics and the latest revisions to the sample filing turnaround report that NAIC staff prepared, the Working Group made the following recommendations:

- Consider adding to the state assessment report a percentage breakdown of filing turnaround for several date ranges up to and including the goal date as it is on the proposed filing metrics report. This would demonstrate that, in most cases, a high percentage of filings are meeting the turnaround goal.
- Remove from the turnaround calculation the time the state reviewer is waiting on a response from the filer.
- For filings that are reopened, report inactive days but do not include those days in the turnaround calculation.
- Indicate filings that have been reopened on the filing metrics report or add the “inactive” measure so that analysts can easily determine if a filing has been reopened.
- States were divided as to whether the report needs to show the number of objections as well as responses, so NAIC staff will consider this in relation to the available space on the report and propose a solution for the Working Group to review.
- Sample several states’ statistics using the existing metrics for filing turnaround and these new metrics so the Working Group members can see how the new measures affect the statistics.

NAIC staff will modify the report and statistics and distribute new materials prior to the next call. Any states with questions or suggestions should contact Chris Bien at cbien@naic.org.

Having no further business, the Operational Efficiencies (EX) Working Group adjourned.
The Operational Efficiencies (EX) Working Group of the Speed to Market (EX) Task Force met via conference call June 17, 2014. The following Working Group members participated: Maureen Motter, Chair (OH); Donna Lambert (AR); Belinda Miller (FL); Cindy Colonius (IL); Jim Newins (KS); Tammy Lohmann (MN); Joan Dutill (MO); Ted Hamby (NC); Bev Anderson (NE); Elena Ahrens (NV); Gerry Scattaglia (NY); Sharalyn Hargrove-Taylor (TX); Rebecca Nichols (VA); and Lee Barclay (WA).

1. Discussed Suggested Changes to the Uniform Transmittal Document and Uniform Product Coding Matrix

There were five suggested changes to the speed to market tools: one to the Uniform Transmittal Document (UTD) and four to the Uniform Product Coding Matrix (PCM). Each request was evaluated and decided by the Working Group members.

**UTD Request:** Implement a “validation” function, which would prevent submission of a filing designated as a “rate” filing (or some combination of a rate/rule/form filing), if ALL of the “company rate information” fields have not been completed.

The Working Group members discussed that there are a number of scenarios where a filer might submit a filing and have a legitimate reason not to complete all of the company rate information fields, such as when filing a new product. Members also commented that this would create an unnecessary burden for the filers and might cause incorrect data to be input so that the filing can be submitted. The states said they create an objection letter and ask for the data if it was not completed upon submission. SERFF staff will work to educate the states on the use of post-submission updates to allow filers to make these changes after the filing has been submitted. Ms. Dutill made a motion to decline the request to require company rate data on all rate filings at this time. Mr. Barclay seconded the motion and it was approved unanimously.

**PCM Request:** Create new sub-type of insurance (TOI) codes for cyber liability and data breach coverage; under existing TOI such as 17.0, 17.1, 17.2, 05.1, 05.2, etc., to the property/casualty PCM.

This request was to help identify these products, which come in as stand-alone products or as endorsements on existing products. They do not require a separate set of submission requirements nor are they reported separately on the NAIC annual statement. The Working Group agreed that there a number of codes in the matrix under which these products are currently being filed. They suggested the states that want to identify these products should use the state TOI feature in SERFF. Ms. Ahrens made a motion to decline the request to add new codes for cyber liability and data breach coverage to the property/casualty PCM. Mr. Barclay seconded the motion and it was approved unanimously.

**PCM Request:** Update the column labeled “NAIC Annual Statement Line.” For sub-TOI 2.1000, change the NAIC annual statement line column to 02.2 or 02.4. For sub-TOI 2.1001, change the NAIC annual statement line column to 02.4. Update the description in the PCM for sub-TOI 2.1001 to better describe the products that are included in this; use the same language that is being proposed by the Blanks (E) Working Group: “Private market coverage for crop insurance and agricultural-related protection, such as hail and fire, and is not reinsured by the FCIC.”

This request only changes the description in the PCM to match the annual statement line changes as proposed by the Blanks (E) Working Group; it does not change any of the codes. Ms. Ahrens made a motion to update the annual statement line description of the PCM as detailed in the request, contingent upon the Blanks (E) Working Group making the same changes to the NAIC annual statement blank. Ms. Nichols seconded the motion and it carried.

**PCM Request:** Add a TOI for life insurance – long-term care and annuities – long-term care.

Ms. Motter said there have been two requests made in the past few years regarding this issue. The first was to add long-term care to all life and annuity TOIs and sub-TOIs, which essentially would triple the size of the PCM. The second request was to add long-term care as a sub-TOI under the life and annuity TOIs, but it was decided that this suggestion was too generic. At that time, the Working Group requested that the SERFF Product Steering Committee (PSC) add a feature to SERFF to allow issuers to indicate that an additional benefit was being added to the product filing. This feature was added to the application and is currently being used by six states and the IIPRC. It was suggested that this is an appropriate solution for any state accepting long-term care benefits under life or annuity products. Mr. Hamby made a motion to decline the request to add TOIs for life insurance – long-term care and annuities – long-term care. Ms. Lohmann seconded the motion and it carried.
PCM Request: Create TOI and sub-TOIs for limited health service organizations and voluntary health service organizations. These entities fall under the managed care (HMO) unit and should be place in the PCM under “Health Maintenance Organizations.”

The Working Group discussed how these organizations may differ from health maintenance organizations (HMOs), in that they are more limited in what they can offer. It was suggested that, rather than adding codes to the PCM, the states regulating these types of products could use the state TOI functionality in SERFF to identify these products. Ms. Lambert made a motion to decline the request to add TOIs and sub-TOIs for limited health service organizations and voluntary health service organizations. Ms. Nichols seconded the motion and it carried.

Ms. Motter requested that NAIC staff follow up with the states to ensure they are aware of SERFF features to assist in product identification and classification—such as the additional benefits flag, the state description field and the state TOI—for use where the PCM might not meet specific state needs.

2. Discussed Filing Metrics Reports

The Working Group reviewed a revised sample report prepared by NAIC staff. Additional work has been done to show the gap between when a state requests additional information or reports a problem with the filing and when the company responds. There were also changes made to the dashboard section of the report to consolidate information as requested. NAIC staff will provide statistics on a larger range of filing submissions at the next meeting of the Working Group. Any states with questions or suggestions were encouraged to contact Chris Bien (NAIC) at cbien@naic.org.

Having no further business, the Operational Efficiencies (EX) Working Group adjourned.