2015 Spring National Meeting
Phoenix, Arizona

FINANCIAL CONDITION (E) COMMITTEE
Monday, March 30, 2015
1:00 – 2:00 p.m.
Sheraton Phoenix Downtown—Valley of the Sun D/E—2nd Floor

ROLL CALL

Joseph Torti III, Chair Rhode Island John M. Huff Missouri
Eric A. Cioppa, Vice Chair Maine Bruce R. Ramge Nebraska
Dave Jones California Kenneth E. Kobylowski New Jersey
Karen Weldin Stewart Delaware Wayne Goodwin North Carolina
Nick Gerhart Iowa David Mattax Texas
Ken Selzer Kansas Jacqueline K. Cunningham Virginia
Gary Anderson Massachusetts

AGENDA

1. Consider Adoption of its Dec. 12 and Dec. 4, 2014, Minutes
   —Superintendent Joseph Torti III (RI)  
   Attachment One

2. Discuss Process Regarding Appointment of Working Groups and Subgroups—NAIC Staff

3. Consider Adoption of the Reports of its Task Forces and Working Groups
   —Superintendent Joseph Torti III (RI)
   • Accounting Practices and Procedures (E) Task Force.................................................. Attachment Two
   • Capital Adequacy (E) Task Force .................................................................................. Attachment Three
   • Examination Oversight (E) Task Force .......................................................................... Attachment Four
   • Receivership and Insolvency (E) Task Force ................................................................. Attachment Five
   • Reinsurance (E) Task Force .......................................................................................... Attachment Six
   • Risk Retention Group (E) Task Force ............................................................................ Attachment Seven
   • Valuation of Securities (E) Task Force .......................................................................... Attachment Eight
   • Emerging Actuarial Issues (E) Working Group ............................................................. Attachment Nine
   • Group Solvency Issues (E) Working Group ................................................................. Attachment Ten
   • National Treatment and Coordination (E) Working Group .......................................... Attachment Eleven
   • Private Equity Issues (E) Working Group .................................................................... Attachment Twelve
   • Risk-Focused Surveillance (E) Working Group ............................................................ Attachment Thirteen

4. Consider Appointing the Variable Annuities Issues (E) Working Group to oversee the NAIC’s efforts to study and address, as appropriate, regulatory issues resulting in variable annuity captive reinsurance transactions.
   —Superintendent Joseph Torti III (RI)

5. Discuss how to address the dynamic of insurers asking for, and regulators approving, Captive Reinsurance Transactions without the regulatory incentive first being directed to the E Committee or one of its subsidiary policy-making groups. Additionally, discuss and determine why permitted accounting practices are not considered appropriate to address many of the “one off” issues behind some of these captive reinsurance transactions.
   —Superintendent Joseph Torti III (RI)

6. Discuss Any Other Matters Brought before the Committee
   —Superintendent Joseph Torti III (RI)

7. Adjournment
The Financial Condition (E) Committee met via conference call Dec. 12, 2014. The following Committee members participated: Joseph Torti III, Chair, and Paula Pallozzi (RI); Eric A. Cioppa, Vice Chair (ME); Dave Jones represented by Kim Hudson, Al Bottalico and Susan Bernard (CA); Thomas B. Leonard represented by Bill Arfanis (CT); Kevin M. McCarty represented by David Altmaier (FL); Nick Gerhart represented by Jim Armstrong (IA); John M. Huff represented by Leslie Nehring and Debbie Doggett (MO); Kenneth E. Kobykowski represented by Peter L. Hartt (NJ); Benjamin M. Lawsky represented by Stephen Wiest (NY); Mary Taylor represented by Dale Bruggeman and Jillian Froment (OH); Michael F. Consedine represented by Steve Johnson (PA); and Julia Rathgeber represented by Mike Boerner and Mike Arendall (TX).

1. **Adopted its Nov. 18 Minutes and the National Treatment and Coordination (E) Working Group’s Oct. 1 Minutes**

Superintendent Torti explained that the adoption of its Nov. 18 minutes was to accomplish the new process of ensuring a public vetting of the minutes from the national meeting, and the adoption of the Working Group’s Oct. 1 minutes was necessary because they were inadvertently omitted from its report to the Committee at the Fall National Meeting.

With no questions or comments from regulators or interested parties, Mr. Armstrong made a motion, seconded by Mr. Hudson, to adopt the Committee’s Nov. 18 minutes and the National Treatment and Coordination (E) Working Group’s Oct. 1 minutes (Attachment One-A). The motion passed unanimously.

2. **Adopted Issue Paper No. 149 and SSAP No. 40R**

Superintendent Torti recognized that discussion and consideration of Issue Paper No. 149—Wholly-Owned Single Real Estate Property in an LLC and Statement of Statutory Accounting Principles (SSAP) No. 40—Real Estate Investments – Revised occurred during the joint meeting of the Statutory Accounting Principles (E) Working Group and the Accounting Practices and Procedures (E) Task Force that occurred immediately preceding the Committee’s conference call meeting.

Since all present Committee members were also present for the previous Working Group and Task Force discussions, Superintendent Torti skipped the explanation of these items and simply asked for any questions.

With no questions or comments from regulators or interested parties, Mr. Johnson made a motion, seconded by Superintendent Cioppa, to adopt Issue Paper No. 149 and SSAP No. 40R (Attachment One-B). The motion passed unanimously.

3. **Adopted SSAP No. 107**

Superintendent Torti recognized that discussion and consideration of SSAP No. 107—Accounting for the Risk-Sharing Provisions of the Affordable Care Act occurred during the joint meeting of the Statutory Accounting Principles (E) Working Group and the Accounting Practices and Procedures (E) Task Force that occurred immediately preceding the Committee’s conference call meeting.

Since all present Committee members were also present for the previous Working Group and Task Force discussions, Superintendent Torti skipped the explanation of these items and asked for any questions.

With no questions or comments from regulators or interested parties, Mr. Johnson made a motion, seconded by Mr. Hudson, to adopt SSAP No. 107 (Attachment One-C). The motion passed unanimously. Superintendent Torti indicated that this item would be considered as a separate agenda item during the joint meeting of the Executive (EX) Committee and Plenary since it relates to the federal Affordable Care Act (ACA).

4. **Adopted a New Risk-Limiting Contracts (E) Working and its Charge**

Superintendent Torti read the proposed new charge:
To develop regulatory guidance on how to evaluate risk transfer as it pertains to reinsurance contracts with risk limiting features and also to evaluate how current actuarial/accounting practices used to monitor a company’s financial strength need to be enhanced due to distortions from these contracts.

If the Committee agrees with the charge, Superintendent Torti indicated the need for a separate working group made up of P/C actuaries and other solvency regulators to address it.

With no questions or comments from regulators or interested parties, Mr. Johnson made a motion, seconded by Mr. Boerner, to adopt the new charge and the creation of a new Risk Limiting Contracts (E) Working Group. The motion passed unanimously.

5. **Discussed the Examiners Suggested Salary Memo**

Superintendent Torti said he pulled the proposed revised memo in response to questions and concerns with the usage of the memo by various states. He explained that the recommended increase of 2.25% based upon the Consumer Price Index (CPI) was included in the Technical Changes Report from the Committee actions during the Fall National Meeting, so states relying upon that increase will still be able to refer to the NAIC’s action of adopting the suggested increase. Superintendent Torti indicated he is having NAIC staff conduct more research on the different uses and practices with regard to salaries and compensation of examiners to gain a better sense of direction for a revised memo. Hearing no questions or concerns from regulators or interested parties, Superintendent Torti said he would bring the issue back before the Committee at a future date.

6. **Adopted a Data Collection Template as an Appendix to the NAIC Disaster Reporting Framework**

Superintendent Torti highlighted the Data Collection Template as a referral from the Property and Casualty Insurance (C) Committee, intended to be appended to the NAIC Disaster Reporting Framework as an option for states to use. The purpose of the template is to gather important data for policymakers and regulators after a catastrophic event. Superintendent Torti shared that states are free to modify the template if additional data is needed, but the Property and Casualty Insurance (C) Committee hopes most states will be able to use it as presented.

With no questions or comments from regulators or interested parties, Mr. Johnson made a motion, seconded by Mr. Hudson, to adopt the Data Collection Template as an appendix to the NAIC Disaster Reporting Framework (Attachment One-D). The motion passed unanimously.

7. **Adopted a Uniform Application Checklist for Certified Reinsurers**

Superintendent Torti presented the Uniform Application Checklist for Certified Reinsurers, developed by the Reinsurance Financial Analysis (E) Working Group, as a checklist meant to be used uniformly by all states to ensure consistency and completeness in the application for certification, based on the requirements of the Credit for Reinsurance models. The checklist is also intended to clarify the process of “passporting” both for reinsurers already certified in an NAIC-accredited state (the “Lead State”) as well as those yet to go through the certification process. Mr. Johnson, as chair of the Working Group, indicated there are still some differences of opinion with interested parties regarding the capital component in Section 3. However, the Working Group committed to continue to look at the language in Section 3 in 2015.

With no other questions or comments from regulators or interested parties, Mr. Johnson made a motion, seconded by Mr. Altmaier, to adopt the Uniform Application Checklist for Certified Reinsurers (Attachment One-E). The motion passed unanimously.

8. **Adopted Recommendations for the Form A Database Regulator-Only Tool**

Superintendent Torti referenced a regulator-only listing of recommended enhancements to the regulator-only Form A Database application.

With no questions or comments from regulators or interested parties, Mr. Hudson made a motion, seconded by Mr. Johnson, to adopt the recommendations for the Form A Database regulator-only tool. The motion passed unanimously.

9. **Adopted an Additional Interpretation from the Emerging Actuarial Issues (E) Working Group**

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Superintendent Torti summarized the proposed interpretation from the Emerging Actuarial Issues (E) Working Group as answering two questions posed by Carl M. Harris (Insurance Strategies Consulting LLC): 1) do the requirements of Actuarial Guideline XXXVIII (AG 38), Section 8D apply to applicable reinsurance assumed; and 2) is it appropriate to use hypothetical portfolios for testing. The proposed interpretation includes the Working Group’s answers to these questions.

With no questions or comments from regulators or interested parties, Mr. Boerner made a motion, seconded by Mr. Johnson, to adopt the response from the Emerging Actuarial Issues (E) Working Group to the Hypothetical Portfolio Exposure and reinsurance assumed questions submitted by Mr. Harris (Attachment F). The motion passed unanimously.

Having no further business, the Financial Condition (E) Committee adjourned.
Financial Condition (E) Committee
Conference Call
December 4, 2014

The Financial Condition (E) Committee met via conference call Dec. 4, 2014. The following Committee members participated: Joseph Torti III, Chair (RI); Eric A. Cioppa, Vice Chair (ME); Dave Jones represented by Kim Hudson and Susan Bernard (CA); Thomas B. Leonardi represented by Kathy Belfi (CT); Kevin M. McCarty represented by David Altmaier (FL); Nick Gerhart represented by Jim Armstrong (IA); John M. Huff represented by Leslie Nehring (MO); Kenneth E. Kobylowski represented by Peter Hartt (NJ); Benjamin M. Lawsky represented by Rolf Kaumann and Stephen Wiest (NY); Mary Taylor and Dale Bruggeman (OH); Michael F. Consedine represented by Kimberly Rankin (PA); Julia Rathgeber, Danny Saenz and Doug Slape (TX); and Jacqueline K. Cunningham represented by Doug Stolte (VA).

1. Adopted the Revised Model #440

Superintendent Torti provided background information regarding the revised Insurance Holding Company System Regulatory Act (#440), including:

- The 2013 Fall National Meeting adoption of a charge to “review the Model Insurance Holding Company Act (#440) and Regulation (#450) (HCA Model Act) and consider amendments to address issues that have arisen subsequent to the adoption of the Act and Regulation by the NAIC in 2010.”
- The Executive (EX) Committee's approval of a model law development request at the 2014 Spring National Meeting.
- Shortly after the 2014 Spring National Meeting, Superintendent Torti’s direction to the Group Solvency Issues (E) Working Group and Receivership and Insolvency (E) Task Force to consider four specific areas in the review of potential changes to these models.

After consideration by the Group Solvency Issues (E) Working Group and Receivership and Insolvency (E) Task Force, the need for clear legal authority for the state insurance regulator to act as the group-wide supervisor was the only recommended change. Subsequent to the 2014 Summer National Meeting, the Working Group exposed draft language based upon language in Pennsylvania statute and held several conference calls to address industry comments on the exposed language. At the 2014 Fall National Meeting, additional comments were received and discussed to narrow the list of outstanding issues. On its Dec. 3 conference call, the Working Group reached final decisions on the four outstanding issues. Mr. Saenz, chair of the Working Group, summarized the four issues as: using a tiering approach or a lead state approach, the ability for another state to be acknowledged as the group-wide supervisor, a catch-all provision, and ensuring only one lead state is designated for an internationally active insurance group (IAIG).

He indicated the most recent draft distributed to the Financial Condition (E) Committee members, interested regulators and interested parties includes a suggested addition to item 7.1.C. (With the proposed addition underlined, the applicable sentence now reads: “The acknowledgment of the group-wide supervisor shall be made after consideration of the factors listed in paragraphs (1) through (5) above, and shall be made in cooperation with and subject to the acknowledgment of other regulatory officials involved with supervision of members of the internationally active insurance group, and in consultation with the internationally active insurance group.”) Mr. Saenz made a motion, seconded by Ms. Belfi, to adopt this proposed additional language. The motion was unanimously adopted.

With no further discussion forthcoming, Ms. Belfi made a motion, seconded by Ms. Rankin, to adopt the revised Model #440 (See NAIC Proceedings – Spring 2015, Executive (EX) Committee and Plenary, March 31, 2014, minutes and its attachments). The motion was unanimously adopted.

Having no further business, the Financial Condition (E) Committee adjourned.

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National Treatment and Coordination (E) Working Group
Conference Call
March 11, 2015

The National Treatment and Coordination (E) Working Group of the Financial Condition (E) Committee met via conference call March 11, 2015. The following Working Group members participated: Jill Jacobi, Co-Chair, and Kim Hudson (CA); Cindy Donovan, Co-Chair, and Annette Gunter (IN); Cindy Hathaway (CO); Maura Welch (CT); Dave Lonchar (DE); Mary Mostoller (FL); Stewart Guerin (LA); Debbie Doggett (MO); Anne Morgan (NC); Matt Fischer (ND); Loretta Trujillo (NM); Joel Sander (OK); Russell Latham (OR); Cressinda Bybee (PA); Eric Showgren (UT); James Ware (VA); Gayle Pasero (WA); Kristin Forsberg (WI); and Linda Johnson (WY). Also participating was: Kathy Lamb (NV).

1. Adopted its Feb. 11 and March 5 Minutes

Ms. Jacobi noted two typos; 1) to remove an apostrophe from the word requirements in item 4; and 2) to remove a semicolon after included in item 6 of the Feb. 11 minutes. Ms. Pasero made a motion, seconded by Mr. Latham, to adopt the Working Group’s Feb. 11 minutes with edits (Attachment Four-A) and to adopt the Working Group’s March 5 minutes (Attachment Four-B). The motion passed. Ms. Jacobi added that the minutes reflect that the Uniform Certificate of Authority Application (UCAA) Manual will no longer be available in printed format. Going forward, the instructions and definitions from this manual will be made available for download in PDF file format on the NAIC website.

2. Adopted the Biographical Third-Party Review (E) Subgroup’s Feb. 12 and Mar. 3 Minutes

Ms. Pasero summarized the Subgroup’s work, which is a recommendation to add an additional section to question 15 of the biographical affidavit. The Subgroup also discussed the configuration of board members, which led to a review of a 2014 survey that was sent regarding the domiciliary state’s requirements for a biographical affidavit and background investigation report. The Subgroup will consider adding this information to the existing Fingerprint and Biographical Affidavit Requirements chart. She added that the Subgroup will continue to identify red flags in the biographical affidavit and will discuss this further during the E-Reg Conference. Mr. Showgren made a motion, seconded by Mr. Latham, to adopt the Biographical Third-Party Review (E) Subgroup’s Feb. 12 (Attachment Four-C) and March 3 (Attachment Four-D) minutes. The motion passed.

3. Adopted the Company Licensing Transaction (E) Subgroup’s Feb. 23 Minutes

Ms. Donovan summarized the Subgroup’s Feb. 23 minutes (Attachment Four-E) which included discussion on the change of address requirements and Form 14 notifications. The Subgroup compared the electronic process and hardcopy submission for differences and will discuss how to address those differences before the Subgroup recommends a proposal for the Working Group’s consideration. Ms. Donovan noted that over a five-year period, 320 Form 14 applications were filed electronically and 94 corporate amendment electronic applications were submitted for a change of city within the state of domicile. The Subgroup will next meet on April 8 to continue their discussions. Ms. Doggett made a motion, seconded by Ms. Pasero, to adopt the Company Licensing Transaction (E) Subgroup’s Feb. 23 minutes. The motion passed.

4. Exposed Question 15d of the Biographical Affidavit, Proposal 2015-02

Ms. Pasero summarized an additional question added to the biographical affidavit to include any agreement that the company entered into in lieu of litigation and made a payment to a regulatory body. Ms. Jacobi asked whether “in lieu of litigation” is necessary and could limit the response. Ms. Donovan suggested using the wording from question 15c to include “in any civil, criminal, administrative, regulatory, or disciplinary action.” A discussion ensured, with many Working Group members believing the phrase “civil action” would include “litigation” and, therefore, be less limiting.

Ms. Trujillo made a motion, seconded by Mr. Showgren, to expose this proposal, including the suggested edits, for a 30-day public comment period ending April 10 (Attachment Four-F). The motion passed unanimously. Jan Shemanske (W.R. Berkley/Nautilus) stated that many individuals do not know of regulatory actions that are entered into by the current or former company. Ms. Jacobi reminded the interested parties that the question states “to your knowledge.”
5. **Discussed Incorporating an Electronic Process for a Consolidated Hearing Request**

Ms. Jacobi reported that the Group Solvency Issues (E) Working Group met via conference call Feb. 13 to discuss procedures for a request for a consolidated Form A hearing. The Group Solvency Issues (E) Working Group asked the National Treatment and Coordination (E) Working Group if this request could be somehow included in the UCAA electronic process. This Working Group will need to decide which application type this could fall under; i.e., primary or corporate amendment. Ms. Donovan said the corporate amendment process may be the easiest way to incorporate a Form A hearing request. Ms. Doggett asked if this would be a way for a company to submit a Form A filing. Ms. Jacobi said the Insurance Holding Company System Regulatory Act (#440) specifically states “file,” but in context means “lodge.” Ms. Trujillo asked if this should be incorporated into the Form A database. Ms. Jacobi reminded the Working Group that the Form A database is a regulatory tool and this submission request would be a company request. Ms. Donovan said that this would be an opportune time to develop instructions on this process and to place this on the UCAA website. Jane Barr (NAIC) said this process would not be difficult to incorporate as a stand-alone electronic application with an ability to upload a PDF file of the Form A filing. She added that a separate tab specifically for Form A hearing requests can be added to the UCAA website. Ms. Doggett said the notifications for this type of application would need to go to a specific contact person at the state insurance department, which may not be a company licensing contact. Ms. Barr said that a specific role could be created for this specific application. Ms. Donovan concurred that a separate application with separate roles would be best. Ms. Jacobi added that outside counsel may also be involved. Ms. Jacobi said that a specific group should be created for this task. Ms. Trujillo said the Form A database group should work on this project. Ms. Barr reminded the group that the Form A database is a regulator-only tool and this discussion should involve interested parties. Ms. Jacobi suggested calling this a Form A consolidated hearing group and to invite the Group Solvency Issues (E) Working Group members to participate. Ms. Jacobi suggested contacting Ms. Barr with an interest to participate in the Form A consolidated hearing drafting group. An informal subgroup will be formed to create a consolidated hearing electronic request form.

6. **Discussed Other Matters**

Ms. Jacobi said the Form A database group met Feb. 23 to discuss technical issues with NAIC staff regarding the functionality of the database.

Ms. Barr said the company licensing agenda for the E-Reg Conference was revised and is posted on the NAIC website. Ms. Jacobi said registration is open and the Working Group will meet at the conclusion of the company licensing session.

Ms. Barr said there is a slight difference in the wording between the website and what is currently written in the *Uniform Certificate of Authority Application (UCAA) Manual*. The website focuses on electronic submission and the manual leans more toward hardcopy submissions, so, in the future, the Working Group may want to revisit the instructions.

Ms. Barr reminded the Working Group that the electronic application has a 10-year retention period and asked that the group consider when to remove these applications; i.e., as they mature or at year-end. Ms. Donovan said that the year-end time frame would be consistent with the annual financial statement retention process. Ms. Barr clarified that the 10-year time frame is the submission date, not the last access date of the application.

The Working Group will next meet April 29 in Kansas City, MO, and via conference call.

Having no further business, the National Treatment and Coordination (E) Working Group adjourned.