NAIC Meeting Notes

Global Insurance Industry Group, Americas

NAIC 2010 Fall National Meeting

The National Association of Insurance Commissioners held its 2010 Fall National Meeting in Orlando October 18-21. This newsletter contains information on activities that occurred in some of the committees, task forces and working groups that met there. For questions or comments concerning any of the items reported, please feel free to contact us at the address given on the last page.

Executive summary

- The Commissioners adopted as final the PPACA Medical Loss Ratio Model Regulation, which has now been sent to HHS. The Commissioners also adopted as final amendments to SSAP 10R to extend the increased limitations until 2011 and many other significant new or revised NAIC models. They also held their annual election of officers. (page 2)

- Following the intense media attention surrounding this issue in August, the Retained Asset Account Working Group gathered data to assess the reasonableness of disclosures made by insurance companies that offer RAAs as a mechanism to settle life insurance death benefits and began discussion of a model bulletin. The Financial Condition Committee adopted extensive disclosures with regard to RAAs for the 2010 annual statement. (page 4)

- The Statutory Accounting Principles Working Group adopted guidance on related parties guarantees (SSAP 5R) and guarantee fund assessments (SSAP 35R). They also adopted controversial amendments to SSAP 43R on the definition of loan-backed securities. The working group also exposed for comment proposed changes on AVR/IMR bifurcation, lease termination accounting and collateral requirements for high deductible policies. The working group also noted that its subgroup re-released for comment Issue Paper 141 on transfers of assets (FAS 166). (page 5)

- The Capital Adequacy Task exposed for comment the AAA's final Deferred Tax Asset report, which recommends no RBC charge for DTAs if the current admitted asset limitations are maintained. The Life RBC Working Group continued progress on its long-term commercial mortgage and derivatives risk mitigation proposals. The Solvency Modernization Initiative RBC Subgroup continued work on its detailed work plan but did not finalize the plan as anticipated. The P/C RBC Working Group began its discussion of a new methodology for reinsurance reserve and premium charges. The Health RBC Working Group exposed for comment proposed revisions to make reporting of health care receivables more consistent. (page 8)

- The Solvency Modernization Initiative Task Force and its seven working groups continue to comprise a significant portion of the NAIC's National Meeting agenda. The Statutory Accounting and Financial Reporting Subgroup received a comment letter cautioning it against any premature conclusions about the "future of statutory accounting." The Solvency Modernization Initiatives Task Force began its discussion of the IAIS Common Framework for internationally active groups. The Group Solvency Issues Working Group discussed group capital assessment options and exposed for comment a Holding Company Best Practices document. The Corporate Governance Working Group continues its work identifying corporate governance best practices. The International Solvency Working Group reviewed comment letters on its Consultation Paper on Own Risk and Solvency Assessment (ORSA). (page 11)

- The International Accounting Standards Working Group held a joint meeting with the SAP Working Group to continue its review of the IASB's Insurance Contracts Exposure Draft and the FASB's Discussion Paper on Insurance Contracts. (page 12)

- The Valuation of Securities Task Force held an educational session on the intrinsic value modeling of RMBS and CMBS. The task force is expected to adopt final assumptions, scenarios and probability weightings to be used in the models shortly. The task force also considered several proposals, including three of which would provide filing exemptions under various circumstances. (page 14)

- The Blanks Working Group adopted four blanks proposals as final and exposed two new proposals for comment. (page 16)

- The NAIC/AICPA Working Group continues to discuss Model Audit Rule implementation issues and guidance. (page 17)

- A major emphasis of the two day LHATF meeting was again continuing work on the Principles-Based Reserves initiative and Valuation Manual, including an update on the VM-20 impact study and conceptual discussion of a PBR Feedback Loop. A vendor has been selected to conduct the VM-20 field testing and the company selection process is underway.

The project has an aggressive deadline of March 31, 2011. Other meeting highlights included an update on the Variable Annuity Statutory Framework Review. (page 17)

- The Life Insurance and Annuities Committee continued work on a draft bulletin on Stranger Originated/Owned Annuities. (page 20)
- The Annuity Disclosures Working Group held many interim conference calls and finalized its Annuity Disclosures Model Regulation in Orlando. (page 20)
- The Separate Account Risk Charge Working Group heard a presentation on the effects of the Harkin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act. (page 21)
- The Reinsurance Task Force revised and then adopted collateral reduction recommendations for the Accreditation Committee to consider. (page 21)

Executive Committee and Plenary

<u>Election of Officers</u>

The NAIC held its annual election of officers. The officers for 2011 are as follows: Commissioner Susan Voss of Iowa was elected President, Commissioner Kevin McCarty of Florida was chosen as President-Elect, Kim Holland, Oklahoma Insurance Commissioner was chosen as Vice President and James Donelon of Louisiana was elected Secretary-Treasurer.

Throughout the meetings in Orlando, references were made to the 39 U.S gubernatorial elections that will be held next month, which could have a significant effect on the composition of commissioners that return for the 2011 Spring National Meeting in March.

<u>Adoption of New or Revised Models</u>

As discussed further below, the Commissioners gave final approval of the *Regulation for Uniform Definitions and Standardized Methodologies for Calculation of the Medical Loss Ratio for Plan Years 2011, 2012 and 2013 Per Section 2718 (b) of the Public Health Service Act*, with minor technical amendments proposed by the chair of the Health Insurance and Managed Care Committee.

The model regulation, also known as the PPACA MLR Model Regulation, contains the definitions and methodologies for calculating medical loss ratios as required by the Patient Protection and Affordable Care Act. The model was delivered to HHS on October 27 for certification by the Secretary of HHS.

The Commissioners approved Amendments to Actuarial Guidelines XXV and XXXVIII:

- Guideline XXV provides guidance for the minimum nonforfeiture requirements for products containing a death benefit provision that increases based on an index such as the CPI. The amendments recommend that the threshold be increased to reflect inflation from 1991 and that an automatic adjustment also be included in AG 25 that will adjust the threshold each year based on changes to the CPI.

- For Guideline XXXVIII, paragraph 8B was modified to be applicable to policies and certificates issued on or after January 1, 2014, rather than January 1, 2011, in addition to those issued on or after July 1, 2005 and on or prior to December 31, 2006. Paragraph 8C was modified to extend the end date of applicability to December 13, 2013, rather than December 31, 2010. These revisions extend the sunset provision of AG 38 from year-end 2010 to year-end 2013 and provide for the application of lapse rates in the valuation of UL policies issued between 1/1/2007 and 12/31/2013.

The Commissioners also took the following additional actions on significant proposals:

- Adopted a one year extension of SSAP 10R, Income Taxes, from year-end 2010 to year-end 2011 (discussed further below)
- Adopted new disclosures for the 2010 annual statement related to retained asset accounts (discussed further below)

- Deleted the Twenty-Four Hour Coverage Pilot Project Model Act, which had been adopted by no states
- Adopted a new model bulletin regarding Gramm-Leach-Bliley Act privacy notices, which encourages insurers to use the simplified Federal Model Privacy Form
- Approved exposure of amendments to the Standard Valuation Law as possible updates to the Accreditation Standards.
- Adopted the International Insurance Relations Guiding Principles.

The Executive Committee approved model law development requests for Model Risk Retention Act, the Credit for Reinsurance Model Law, and the Credit for Reinsurance Model Regulation. Amendments to the Model Risk Retention Act would incorporate issues of accreditation and corporate governance into the model. Amendments to the Credit for Reinsurance Model Law would allow the commissioner with principal regulatory oversight of the trust the discretion to reduce the minimum trusted surplus requirement for a multiple-beneficiary trust fund maintained by an assuming insurer in run-off. The Reinsurance Task Force will also begin discussions on amending this model to incorporate key elements of the Reinsurance Regulatory Modernization Framework Proposal, which was adopted by the NAIC at the 2008 Winter National Meeting.

Health Care Reform

<u>Adoption of PPACA MLR Model Regulation</u>
At the Summer National Meeting, the NAIC adopted the Supplemental Health Care Exhibit, which will be used for reporting the medical loss ratio for 2010. Since that meeting, various subgroups, task forces and committees held many conference calls in a frenzied effort to revise and finalize the proposed enabling regulation for states to adopt the MLR and related rebate calculation. As discussed above, the PPACA MLR Model Regulation was adopted by the Commissioners at Executive/Plenary. Of the 78 issues identified by the NAIC's PPACA Subgroup, resolution of several of the most significant is a follows:

- Aggregation of medical loss information at the state level is required. Many insurers had asked that aggregation at the national level be permitted.

- The confidence level for the credibility adjustment to the medical loss ratio is set at 50%. Many insurers supported an increase to 80% to be phased back to 50% over time, but that change was not adopted.

- The definition of "contract reserves" is to be consistent with statutory reserves reported in the annual statement. AHIP had proposed that the rebate calculation allow for contract reserves based on a net level approach consistent with pricing. There was debate over the potential for gaming if there is no requirement that reserves in the rebate calculation be consistent with statutory reserves.

In connection with the adoption of the PPACA MLR Model Regulation, the NAIC sent letters to HHS on October 13 and October 27 describing concerns that they believe need HHS' attention, as these issues were outside the purview of the NAIC's responsibilities. These include the following (both letters are posted to the NAIC's website):

- Recognition that the MLR and rebate program "have the potential to destabilize the marketplace and significantly limit consumer choices"
- Phase-in of the medical loss ratio limits in some state markets when needed for transitional relief
- The related issue of the ability of insurance agents and brokers to continue assisting health insurance consumers given the 80%/85% limitation on the medical loss ratio and the exclusion of brokers' commissions from the medical loss definition.
- Exemption of the MLR from expatriate policies
- Issues related to the payment of rebates to insureds, e.g. to whom paid, extent of efforts to find insureds, etc.

Although not discussed specifically in the letters to HHS from the NAIC, there has been significant discussion of whether federal income taxes should be subtracted from premium in the MLR calculation. There are interested parties on both sides of the issue, with some believing such taxes should be not deducted. Federal income taxes are currently excluded from premiums in the MLR calculation.

<u>American Health Benefit Exchange Model Act</u>
During the Fall National Meeting, the Exchanges Subgroup continued efforts consistent with its role of providing counsel of the Secretary of the HHS in connection with the issuance of regulations for the establishment and operation of healthcare exchanges. The subgroup discussed the current draft of the American Health Benefit Exchange

Model Act. At the Summer National Meeting, the subgroup concluded that the Model should provide the minimum requirements from PPACA related to establishing an exchange. A number of comments were received in Orlando from interested parties, including a request for the subgroup to clarify the definition of healthcare coverage to include dental and pediatric dental care as well as a request that the subgroup consider the implication of rate reviews which could potentially create delays on the exchange. The subgroup directed NAIC staff to revise the draft based on the comments received.

The subgroup plans to hold a conference call in a few weeks to consider the revised draft at which time, the subgroup could vote to adopt the draft and forward it to the Heath Insurance and Managed Care Committee for its consideration.

Retained Asset Accounts Working Group

Following the fervour surrounding this issue at Summer National Meeting, the working group developed an Action Plan and held several meetings, the primary objectives of which were to gather data to assess the reasonableness of disclosures made by insurance companies that offer retained asset accounts as mechanism to settle life insurance death benefits.

The working group's Action Plan calls for a survey to insurance companies to gather additional information related to the disclosure and claim forms used in the administration of retained asset assets. The survey distributed in September was followed by a conference call to discuss the preliminary survey findings, which were adopted as final by the Retained Asset working group and subsequently presented to the Life Insurance and Annuities Committee and the Market Regulation and Consumer Affairs Committee at the Fall National Meeting for acceptance.

The voluntary survey which was sent to the top 20 writers of life insurance, the top three fraternal insurers and a random sample of mid-and-small-size life insurance companies, requested submission of several items, including disclosure forms, claim forms, insurance policy language and supplemental contracts used for life insurance policies. At the time of the Fall National Meeting, a total of 30 responses had been received. Of these, 13 insurers stated that they did not use retained asset accounts. The preliminary findings identified by the working group were categorized into three categories: common themes and areas of appropriate practice, areas for potential improvement and other findings.

Disclosure Themes/Areas of Appropriate Practice
To assess the survey results, the working group compared the results to the best practices set forth in the NAIC's Retained Asset Accounts Bulletin. In general and consistent with the best practices prescribed by the Bulletin, the working group found that the companies surveyed disclose the following: that one check or draft can be written for the full amount of the process; that the beneficiary will be paid interest on the retained asset accounts; that the beneficiary may owe taxes on the interest owned; the nature and frequency of account statements; retained asset account fees, if applicable; the phone number and address where the beneficiary can obtain additional information and that a draft account (and not a checking account) is used to access the retained asset account.

Areas of Possible Improvement
Notwithstanding the areas of appropriate practice identified, the working group also identified areas of possible improvement. These include the portrayal of retained asset accounts as check books rather than draft accounts, which they believe contributes to possible confusion for consumers. In addition, based on the survey results, the working group noted that insurance companies do not always indicate where the proceeds are kept (i.e., either transferred to a bank or maintained in the insurance company's general account). Further, while the survey respondents disclose that interest will be earned, they generally do not disclose the interest rate to the earned in the initial disclosure forms. The working group also determined that companies do not always indicate whether the funds maintained in the retained asset account are FDIC insured. It was also noted that the companies do not reference the protection provided by guaranty fund coverage, when applicable. Lastly, the working group observed from the survey results that the disclosure forms vary widely in length from insurer to insurer and that additional disclosures may be needed for proceeds maintained in retained asset accounts which exceed FDIC and guaranty fund coverage.

Other Findings
In its report, the working group also presented a summary of less significant findings, which was followed by remarks from interested parties. Consumer groups advised the working group to consider the implications of the applicable unclaimed property/escheat regulations when assessing the appropriateness of the practices

applied by insurance companies in the administration of retained asset accounts. Interested parties also questioned the sampling technique applied in conducting the survey and cautioned the working group that the precision being sought may not be available. Interested parties, including the ALCI agreed with the working group that further clarification on the difference between a check and a draft was warranted given the perception that the general public does not understand the difference between the two. Consumer protection groups advised that a fair amount of information still needed to be gathered and cautioned the working group to gather additional information before making a final recommendation.

Taking the feedback into consideration, the working group approved the preliminary findings in connection with their pursuit of a path towards the adoption of a Model Bulletin, which is expected to be exposed for comment in the near future.

NAIC / Industry Liaison Committee

The committee received an update from Director John Huff (MO) on the first meeting of the Financial Stability Oversight Council (FSOC) in Washington, DC. Director Huff is the NAIC's representative on the FSOC. He noted that the Director position of Federal Insurance Office is still open, in addition to certain other voting members. Mr. Huff noted that he has been able to provide input into drafting of by-laws and the transparency policy. The Council meets quarterly and will likely meet again in December.

Financial Condition Committee

Approval of Extension of SSAP 10R

The committee held a conference call in September to consider adoption of a one year extension of SSAP 10R until December 31, 2011, with proposed additional disclosures related to tax planning strategies. The proposal was unanimously adopted by the committee, and was subsequently adopted by Executive and Plenary at the Fall National Meeting. During the meeting of the SAP Working Group, NAIC staff noted that its analysis of the deferred income tax data call is nearly complete. In addition, the staff also noted that they are working on new language for SSAP 10R that will include consideration of the guidance in FIN 48 on income tax contingencies.

Approval of Retained Asset Disclosures

Separate from the development of a model bulletin for RAAs discussed above, the Financial Condition Committee met via conference call in September to discuss and expose for comment proposed annual statement disclosures to increase transparency with respect to RAAs. The disclosures exposed for comment focused on total counts of insurance claims, total counts of claimants choosing or defaulting to the RAA option and interest earned by the insurer and interest paid to the beneficiary.

Per the comment letters, several interested parties noted that some of the information requested could be obtained from other areas of the annual statement such as the Exhibit of Life Insurance. Several days before the Fall National Meeting, the committee exposed a revised version of the proposed disclosures, which removed the disclosures of interest rates but added significant new "aging" disclosures. For example, the disclosure asks for the "number and balance of retained asset accounts in force at the end of the current year and prior year segregated within "aging categories" of "up to 12 months," "13 to 24 months," "25 to 36 months," " 37 to 48 months," "49 to 60 months," and "over 60 months."

The committee had some discussion of the revised proposal in Orlando, with the ACLI commenting that they have significant concerns about the revised disclosures, particularly the aging information which appears to be market conduct, not financial statement disclosure information. The committee voted to adopt the disclosures for 2010 annual statements; the Commissioners in their subsequent Executive and Plenary session affirmed this adoption.

Statutory Accounting Principles Working Group

Adoption of New Standards or Revisions to SSAPs

SSAP 5R Revisions to Adopt FIN 45: Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others - After more than two years of discussion, the working group adopted SSAP 5R, effective December 31, 2011. The working group made only minor revisions to the draft exposed at the Summer National Meeting, although interested parties again asked that a liability not be required to be recognized at the inception of a related party guarantee. The guidance does exempt from measurement guarantees made to or on behalf of wholly owned subsidiaries.

SSAP 35R, Guaranty Funds and Other Assessments - The working group adopted substantive revisions to SSAP 35 to incorporate the ASC 405-30/SOP 97-3 approach for guaranty fund liability recognition, effective January 1, 2011. Under this approach, accounting for guaranty fund assessments would be determined in accordance with the type of guaranty fund assessment imposed, and would incorporate the concept of an "obligating event" for prospective-based premiums assessments in determining whether a liability should be accrued. Another significant revision is allowing the anticipated recoverables from policy surcharges and premium tax offsets from accrued liability assessments to be an admitted asset.

SSAP 16R, Electronic Data Processing and Accounting for Software - In connection with adopting the guidance from ASU 2010-04, Certain Revenue Arrangements that Include Software Elements, the NAIC has significantly revised SSAP 16 to include all guidance on accounting for software. As a result, SSAP 16R would supersede SSAPs 79, 81 and 82. At its meeting in Orlando, the working group adopted the revised SSAP 16R, with the new guidance effective October 2010.

SSAP 43R, Definition of Loan-Backed Securities
At the Summer National Meeting, the working group exposed for comment revisions to the definition of loan-backed securities. The following sentence was proposed (among other changes): "Examples of loan-backed securities include, but are not limited to, pass-through securities, lease-back securities and equipment trust certificates." Although the working group considers the proposed revisions to the definition of loan-backed securities (LBS) to be nonsubstantive, the issue has become contentious as many interested parties believe the proposed changes are significant and will require the reclassification of hundreds or thousands of CUSIPs from SSAP 26 to SSAP43R accounting.

During the discussion in Orlando, interested parties commented that many insurers had previously considered the characteristics of equipment trust certificates and credit tenant loans and had concluded that the securities are more similar to a corporate bond than a LBS, especially since the ability to pay generally rests with a single party, unlike many LBS, which include hundreds of underlying assets.

The working group responded that SSAP 43R does not distinguish between single and multiple sources of cash flows and they continue to view the proposed changes as clarifications to the original intent. However, in light of the fact that some insurers may need time to implement software changes, the effective date was deferred from 2010 to January 1, 2011.

SSAPs 51, 52 and 61 Revisions to Expand Disclosures of Withdrawal Characteristics - The working group adopted proposed changes to SSAP 51, Life Contracts, SSAP 52, Deposit-Type Contracts and SSAP 61, Life and A&H Reinsurance to expand the disclosures of withdrawal characteristics. The revisions require disclosure separately for the general account, separate account with guarantees and non-guaranteed separate accounts, effective January 1, 2011.

SSAP 86 Revision for the Guidance in ASU 2010-08, Technical Corrections to Various Topics - The working group adopted a proposed change to par. 21(e) of SSAP 86, Derivatives, to change the term "hedged items" to "related financial assets or liabilities."

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

Items exposed for comment have a comment deadline of February 5, 2011 (unless otherwise stated).

Superseding of SSAP 99 - The working group exposed for comment a NAIC staff recommendation to supersede SSAP 99, Accounting for Certain Securities Subsequent to an OTTI, by incorporating the SSAP 99 guidance into SSAPs 26, 32 and 34.

Revisions to various SSAPs for AVR and IMR Guidance - This issue resulted from a referral from the Rating Agency Working Group to consider whether changes in NAIC designations should be the sole factor to determine whether realized capital gains and losses are allocated to IMR and AVR for corporate bonds and debt instruments other than SSAP 43R securities. The working group exposed for comment proposed changes to SSAPs 26, 30, 32, 37, 86 and 91R that allow judgment in the allocation of AVR and IMR except when the NAIC designation changes by more than one rating during the holding period or if the security is rated NAIC 6 at any time. The guidance also removes "the perception of different treatment for realized gains and losses based on how losses are recognized," i.e. sale versus OTTI.

For example, for SSAP 26 bonds, a realized loss is to be allocated to IMR and AVR based on an analysis done at the date of the sale/impairment (unless it meets the exception discussed above). The current guidance requires the entire realized loss to be allocated to either AVR or IMR when an impairment is recognized. There is no effective date discussed in the Form A.

Accounting for Pensions and SSAP 92, Accounting for Postretirement Benefits Other than Pensions - The working group had exposed for comment revised SSAPs for pensions and OPEB with new transition guidance at the Summer National Meeting with an extended comment period through October 1. At its meeting in Orlando, the working group distributed copies of the new comment letters, noting they continue to receive requests to reconsider the requirement to establish a liability for OPEBs consistent with the GAAP guidance. Interested parties believe the nature of the OPEB liability is significantly different from that of a pension liability. The working group then directed NAIC staff to work with interested parties to address concerns raised in the comment letters.

SSAP 22 Guidance on Early Terminated Leases - With the adoption of the FASB Codification, EITF 88-10, which is adopted by SSAP 22 but not excerpted therein, is no longer available on the FASB's website. As a result, working group was asked to consider whether statutory accounting should adopt the current GAAP guidance on accounting for the early termination of an unexpired lease.

At its meeting in Orlando, the working group voted to expose for comment adoption of FAS 146/ASC 420 Exit or Disposal Activities guidance on lease terminations, which had been previously rejected by SAP. The proposed guidance requires a liability to be recognized, measured at fair value, for costs to terminate the lease at the time the entity terminates the contract.

Collateral Requirements for High Deductible Policies The working group exposed for comment a proposed amendment to SSAP 65 guidance on collateral for high deductible policies submitted by an interested party. The revisions would allow a single collateral deposit to satisfy collateral requirements for multiple high-deductible policies, subject to a "fair and equitable" allocation agreement.

SSAP 100 Fair Value Disclosure Revisions - The working group exposed for comment proposed revisions to clarify the fair value disclosures required by SSAP 100 in response to questions from many interested parties. For example, the Form A proposes elimination of the requirement to differentiate fair value measurements between “recurring” and “non-recurring" and other clarifications. The working group hopes to have the guidance effective for 2010 year-end annual and audited financial statements so the comment period has been shortened to November 18.

Issue Paper 141, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities - The FAS 166/167 Subgroup reported that it met in September and voted to re-expose its issue paper which considers the guidance in FAS 166. Revisions from the first draft do not appear to be significant but do incorporate some of interested parties' comments from the first exposure draft. The issue paper continues to propose adoption of most of FAS 166 guidance, including removal of the concept of qualifying special purpose entity, but would not require consolidation of SPEs. The issue paper does not include a proposed effective date but interested parties have expressed a view that industry will need an extended effective date due to the complexity of the guidance. Comments on Issue Paper 141 are due December 10.

During its September meeting, the subgroup briefly discussed its issue paper on variable interest entities, which addresses the guidance in FAS 167. The subgroup concluded that they will defer working on Issue Paper 142 until they make significant progress on Issue Paper 141 as some of the issues are interrelated.

FASB Financial Instruments Exposure Draft - The working group held an interim conference call and then issued a comment letter on the FASB's ED on financial instruments. The comment letter emphasized why the measurement change suggested by the exposure draft is critical to insurance regulators since SAP uses a framework established by U.S. GAAP and stated that the NAIC has not yet concluded whether fair value or amortized cost should be used for statutory accounting in its "future of statutory accounting" project.

The comment letter also lists pros and cons of the use of amortized cost and fair value and that IFRS 9, Financial Instruments, is much closer to current SAP. The NAIC also attended the Financial Instruments Roundtable discussion at the FASB.

Emerging Accounting Issues Working Group

INT 07-05T: EITF 06-10, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements - The working group had previously voted not to finalize its tentative interpretation on this issue, as they believe the guidance is not necessary since issues of control and ownership of such contracts are now included in SSAP 21, Other Admitted Assets. At its meeting in Orlando, the working group stated that although they believe the requirements of EITF 06-10 are addressed in SSAP 14 on postretirement benefits, they will refer Issue 1 of the EITF on the substantive agreement with the employee on collateral assignment split-dollar arrangements to the SAP Working Group. They will ask that the SAP Working Group consider the issue in its SSAP on accounting for pensions.

Capital Adequacy Task Force

Deferred Tax Asset Report

The task force met via conference call on October 6 to review the AAA Deferred Tax Asset Report. The task force had asked the Academy to recommend RBC charges for deferred tax assets. AAA's preliminary conclusions in its June report suggested that there is no need for an RBC charge on current DTAs for well capitalized companies, as the non-admission requirements already act as an implicit RBC charge. During the October call, a representative from the Academy stated that the "overall framework" discussed in the final conclusions is consistent with the preliminary report, but the Academy is suggesting some additional refinements. The final report recommendations are summarized as follows:

- If the current SSAP 10R limits are retained, no charge on the full admitted DTA for companies that are above the surplus requirements in SSAP 10R should be assessed.

- If the SSAP 10R limits are removed, a 1% charge would be assessed on "covered DTA" (DTA based on estimates of future taxable income) for companies with ex-DTA RBC ratios of 500% or more. (Ex-DTA RBC ratios are those RBC ratios without considering the effect of the DTA.) For companies with less than 200% RBC, they would get no credit for DTAs and be assessed no charge. For companies at 300% RBC, the charge would be 5% on the covered DTA. For companies between 300%-500%, the factor would be graded in linearly from 5% down to the 1% for companies above 500%. The Academy concluded no DTA is needed for the portion of the deferred tax asset represented by past taxes paid as they view those amounts as recoverable even in an insolvency.

The task force voted to expose the report for 30 days and will hold a conference call will be held to discuss comments received.

Joint Meeting of CATF and LHATF

The Capital Adequacy Task Force and the Life and Health Actuarial Task Force held a joint call September 30 to discuss common issues under each group's charge, particularly regarding principles-based reserves (PBR) and C-3 Phases 2 and 3. In prior years, joint calls between these to task forces were common but there have not been any recent meetings of the combined group. There is general agreement among regulators and industry that there needs to be close coordination between these two groups as PBR moves closer to completion, and that reserve and RBC work needs to move on parallel tracks.

There have been several sets of variable annuity recommendations before each task force to modify VACARVM (AG43) and the related RBC requirement known as C-3 Phase 2. Each group is also working on implementing versions of their respective guidance for life insurance products. The main purpose of this call was to coordinate their efforts.

It was agreed that LHATF would take the lead on issues that affect both task forces. Historically, LHATF has been allotted significantly more time at NAIC meetings and can more easily fit their coordination with CATF into their time schedule. Many regulators serve on both task forces, thus minimizing the need for a separate joint meeting. Two items on the joint task force's list of charges, one dealing with a proposed requirement for stress testing adverse scenarios for RBC determination and the other focusing on the calibration of capital based on confidence levels and time horizons, will be moved to the CATF's Solvency Modernization Initiative RBC Subgroup.

C-3 Phase 2

The C-3 Phase 2 Results Subgroup has received several highly technical proposals with suggestions for both reserves and capital. The subgroup is currently trying to gain an understanding of the proposals. Once that occurs, a recommendation will be sent to LHATF and the task force. The subgroup plans to hold several conference calls over the next few months.

Solvency Modernization Initiative Risk-Based Capital Subgroup

Bermuda Monetary Authority Presentation

In light of changes being considered to the US RBC formulae, representatives from the Bermuda Monetary Authority were invited to give a presentation on the Bermuda Solvency Capital Requirement (BSCR). The BSCR is currently solely P&C based but a long term (i.e. life) insurance model has been proposed for implementation as of year-end 2011. The BMA worked with PwC to formulate the framework for the long term insurance model with several goals in mind: to be relevant to the current environment, credible with regulators outside Bermuda, and straightforward to implement. The BSCR includes formulaic components, calibrated on a variety of measures, as well as subjective criteria. The proposed framework includes three solvency control limits ranging from a minimum requirement, which if breached leads to regulatory intervention, to a target level which reflects expectations. The subcommittee will consider the BSCR framework as they work on changes to the US RBC formulas.

Detailed Work Plan

The subgroup has been working on a detailed work plan to develop/propose changes to the U.S. RBC formulas. The work plan includes calibration of a variety of risk components, as well as improvements to the derivation of several balances and development of approaches to quantify risks that were not contemplated in the original formula. The subgroup appears to be struggling to address specifically what they hope to accomplish by 2012. When asked about the subgroup's objectives by a representative of the AAA, the chair responded that the subgroup hopes to have formulas that are reasonably calibrated to the satisfaction of the IAIS, i.e. international equivalency. Other subgroup members appear to have different ideas so debate continues. It was expected by several NAIC working groups that the work plan would be finalized in Orlando. However, the meeting concluded before any decisions were made on the work plan; therefore adoption has been postponed.

Life Risk Based Capital Working Group

Commercial Mortgage Loan Proposal

The ACLI provided a progress update on work related to its proposal for revising the RBC calculation for commercial mortgages. This revision is intended to replace the widely criticized Mortgage Experience Adjustment Factor methodology currently in place. A vendor has been selected to perform the modeling necessary for calibration of historical parameters to derive factors for use in the RBC formula. A number of issues have been raised relative to specific modeling parameters and application, and a subgroup has been working through these and providing regular updates to the working group. The chair expressed his view that there is a "very low likelihood" that this work will be completed for 2011 implementation.

Updated ACLI Derivatives Risk Mitigation Proposal

The ACLI proposal to provide a credit for hedging of C-1 asset risks for fixed income securities and common stocks not already considered in C-3 modeling was exposed for comment after the Summer National Meeting and no comments were received. The ACLI and NY Department of Insurance have been working to resolve an issue that NY has with the proposal, arising from derivative accounting mismatches. The issue relates to mismatches in reported values when a hedged bond is carried at amortized cost and the corresponding credit default swap is carried at fair value. NY proposed an adjustment to Total Adjusted Capital to address this situation. However, the ACLI is concerned that the proposed adjustment may have unintended consequences and recommends that the issue be referred to the Statutory Accounting Principles Work Group for resolution. The working group voted to re-expose the base proposal with the NY adjustment language for 30 days, and the ACLI will draft and submit a letter to the SAP Working Group. Interested parties are still optimistic that the proposal can be adopted by year-end 2010 for implementation in 2011 RBC.

<u>Non-US Affiliates Proposal</u>
At the Summer National Meeting the working group approved exposure of the New York Life Insurance Company proposal to exclude a foreign insurance affiliate's statutory carrying value from both the total adjusted capital and RBC components of the RBC ratio. Including the foreign insurance affiliate's statutory carrying value in the RBC ratio will decrease a company's ratio. The proposal is intended to achieve better parity between mutual companies and stock companies, where the foreign affiliates are typically owned by a non-insurance holding company, leaving the U.S. life insurance company's RBC unaffected. No comments were received on the proposal and the working group approved the proposal for 2011 implementation.

<u>Life RBC Trend Test</u>
The working group discussed a proposal to update the RBC Trend Test. Currently, life companies whose total adjusted capital is between 2.0 and 2.5 times their Authorized Control Level of Risk-Based Capital are subject to a trend test that determines whether a company action level event is triggered. The proposal recommends updating the capital level at which the trend test is performed to 2.50 to 3.0 times the Authorized Control Level of Risk-Based Capital.

The proposal does note that very few companies would be subject to the updated test, and that less than 1% of companies would have triggered a company action level event under the updated test. The working group did not have significant issues with the proposal but noted that it was something that did not warrant a change to the model law on its own, and would be more appropriate to consider the next time the model law is changed. Therefore, the working group did not recommend a change in the RBC model law at this time. However, at the meeting of the Capital Adequacy Task Force, the representative from Pennsylvania gave an impassioned request that the task force reconsider that decision. The task force agreed to release for comment a model law request form to change the RBC model act trend test trigger from 250% to 300%.

P/C Risk-Based Capital Working Group

The working group met via conference in September and discussed the following topics:

<u>Reserve and Premium Charges for Reinsurance</u>
For the past six months there has been significant discussion of industry concerns with the current methodology for calculating the reinsurance underwriting risk factors, which some believe results in "excessively" high capital requirements for reinsurers. At the Summer National Meeting, the Capital Adequacy Task Force asked the working group to review the methodology for allocating the underwriting risk reserve and premium factors for various lines of business. During this conference call, the working group began that discussion; a representative from the AAA noted that they have begun reviewing the methodology and that input from interested parties is welcomed.
Interested parties had specifically asked for greater transparency and the Academy has agreed to give status updates on the project as it progresses.

<u>Growth Charge</u>
The working group briefly discussed that the excess premium growth charge could be triggered by a company in run-off when it has significant audit premium. The working group suggested a solution that a state could exempt a run-off company from the charge since the additional premium is not due to an increase in exposure. The working group will discuss the issue again on a future call.

Health Risk-Based Capital Working Group

The working group held a conference call in September and discussed the following issues:

<u>Health Care Reform</u>
The working group continues to monitor progress of health care reform and the potential effects on health RBC results of companies. The working group noted that reviewing the insurance risk component of the formula would be a good starting point to assess the change in pricing and insurance models caused by health care reform.

Covariance Calculation

The working group had previously asked that the AAA review the covariance calculation in Health RBC, which noted that changing the covariance formula would not significantly affect the number of insurers that trigger an action level. The working group resumed their discussion of "fine tuning" the formula. Several regulators discussed methods to determine why such changes do not affect the outcome.

Health Care Receivables

The working group had asked the AAA to review the individual factors for each healthcare receivable line within the Credit Risk H3 component of the RBC formula. During this conference call, a representative from the Academy reported that there are "significant inconsistencies" in the way these receivables are reported in the RBC formula. For example, a significant number of insurers are reporting government-based insured plan premiums with other health care receivables instead of in premiums. To address these inconsistencies, the working group has drafted a proposal to clarify the annual statement instructions for line 24, Health Care and Other Amounts Receivable, effective for 2011. The working group then voted to expose the proposal for comment until October 18.

Solvency Modernization Initiatives Task Force

The work of the SMI Task Force and its seven working groups (discussed below) continue to dominate the National Meeting. In addition to hearing progress updates from its groups, the task force discussed the following projects. Note that the Principles-Based Reserves Working Group did not meet in Orlando or for an interim meeting.

ISIA ComFrame

The task force held a conference call September 24 to discuss the IAIS Common Framework project that focuses on establishing a common supervisory framework for "internationally active groups" with a final framework expected in 2013. The working group noted that significant questions exist with respect to jurisdictional issues such as the applicability of ComFrame in multiple jurisdictions. The chair noted her belief that the NAIC should develop a strategy to provide input into ComFrame. However, other regulators noted that the IAIS want "to build a Taj Mahal" when it is not needed and that a practical approach should focus on efficiency of international supervision.

In Orlando, the task force continued with its discussion of ComFrame focusing on what U.S. priorities should be. NAIC staff will present the U.S. input to certain members of the IAIS dealing with ComFrame to get their feedback.

FSAP Recommendations

The task force reviewed the NAIC's Implementation Plan for the 23 recommendations of U.S. Financial Sector Assessment Program (FSAP) provided by the IMF Team of the FSAP Financial System Stability Assessment. Many of the recommendations have been assigned to other working groups of the task force and are discussed below. The recommendations are posted to the task force's NAIC webpage along with the Fall National Meeting materials.

Statutory Accounting and Financial Reporting Subgroup

This subgroup formed earlier this year has been tasked with the broad project to consider the purpose of the regulatory accounting model and whether the NAIC should continue to maintain an entire codification of statutory accounting given the possible convergence of global accounting standards. At its Summer National Meeting, the subgroup held a public hearing to discuss comments on the range of options from maintaining the current system to adopting full IFRS for regulatory reporting. Several regulators commented that no change is necessary, while industry interested parties noted that they cannot meaningfully comment on a proposal to adopt IFRS because accounting for insurance contracts under IFRS has not yet been finalized and the SEC has not yet concluded whether U.S. public companies should report under IFRS.

The subgroup was scheduled to meet in Orlando but the meeting was cancelled due to commissioners' scheduling conflicts. However, the meeting materials were distributed and include comment letters from two large trade associations expressing concerns that 1) it is too early to make a tentative decision by March 2011 and a final decision by December 2011 given all the uncertainty about possible ISAB, FASB and SEC actions 2) many insurers do not prepare financial statements using U.S. GAAP and 3) the effect of any changes on the taxation of insurers must be closely studied due to the use of statutory reserves within the federal income tax code. It is not known whether the subgroup will hold an interim meeting prior to the Spring National Meeting.

International Accounting Standards Working Group

The working group held in Orlando a joint all-day meeting with the SAP Working Group to discuss both the IASB's Insurance Contracts exposure draft and the FASB's Discussion Paper on the same topic.

The meeting began with a presentation from Sam Gutterman of PwC on the status of the Society of Actuaries' project on the modeling of life, health and annuity contracts based on the IASB's Insurance Contracts ED, which was issued in July. PricewaterhouseCoopers is the researcher for this project, supported by about fifteen actuarial modeling teams consisting of Society of Actuaries' members. A report covering its findings is expected to be completed in the first half of November.

The presentation covered projections of liabilities and resulting income statements for the products modeled, including twenty year level term, single premium immediate annuities, universal life, participating whole life, long-term care and supplemental health insurance. Although focused on results under the ED in comparison with corresponding U.S. GAAP values, it also included illustrations of the effect of alternative measurement approaches that have been discussed and alternative experience results.

Various issues were discussed, including (1) the relatively large size of the residual margin for some of the products illustrated in comparison with the risk adjustment and (2) income volatility due to the use of current discount rates.

The working group also spent a significant amount of time reviewing the current draft of the IAIS' comment letter on the IASB's exposure draft. The NAIC still intends to comment on the ED through the IAIS.

Group Solvency Issues Working Group

Group Capital Assessment Options

On September 15, the working group exposed for comment "group capital assessment options" as a result of its discussion of the IAIS Insurance Core Principles approaches to group capital assessment. Per the working group's summary, the IAIS recognizes several approaches, ranging from group level focus as if the group functions as a single integrated entity to legal entity focus with group risks assessed.

The working group's group capital assessment paper asked for comments on three possible options:

- Legal Entity RBC Adjustments - This option would require the legal entity RBC to account for the risks of being part of a group. To do this analysis, the NAIC would need financial data from the group.

- Group Capital Analysis through ORSA - As discussed below, the International Solvency Working Group is developing an Own Risk and Solvency Assessment (ORSA) tool. This tool could include an analysis of a group's financial condition and risks.

- Group Capital Calculation - This option envisions that a group capital calculation and analysis be created.

At its meeting in Orlando, the working group had extensive discussion of the thirteen comment letters received from trade associations and insurance departments. Many responses expressed the belief that the group capital calculation is not feasible or achievable in the short term for many reasons including insurance regulators not having jurisdiction over many members in a holding company group. The working group tentatively concluded that the ORSA tool could include an analysis of the group's financial condition and target capital. NAIC staff was asked to provide a first draft for the working group to review.

Holding Company Best Practices

The working group voted to expose its best practices document for comment for 45 days. The document includes best practices for regulators to use in their oversight of insurance companies within a holding company group. Once finalized the document could be incorporated into the Financial Analysis Handbook. The document includes sections on cross-border and other financial sector coordination, information from federal agencies, uniform practices for mergers and acquisitions of control. There is also a section on best practices for participating in international supervisory colleges.

Revisions to Insurance Company Models

The working group exposed for comment for 60 days a draft proposal to the Financial Regulation Standards and Accreditation Committee on Laws and Regulations Substantially Similar Elements for

Revised Insurance Holding Company System Act. The draft shows the new language from the just-revised Holding Company Act that would need to be adopted by the states for their model to be considered "substantially similar" to the NAIC model. The draft notes that it does not include the "centralization of data" with the NAIC language, as that guidance was to be considered by Executive and Plenary. As that guidance was adopted at the Fall National Meeting, this draft is likely to change.

<u>Presentation on Group Supervision</u>
The working group heard a presentation from the Bermuda Monetary Authority on how they achieve group supervision. The presentation focused on the group reporting and valuation, group solvency rules and group capital requirements.

Corporate Governance Working Group

<u>Executive Compensation and Risk Management Disclosures</u>
The working group heard a brief presentation from the chair of the NAIC/AICPA Working Group, which had exposed for comment earlier this year a proposal to adopt for statutory disclosures the SEC Rule 33-9089 on executive compensation and board of director structure. The NAIC/AICPA Working Group did not adopt those disclosures but is instead referring the issue to this working group.

The chair of the Corporate Governance Working Group noted that these issues are directly within its charge and agreed to add the referral to their work plan to develop corporate governance principles for use in U.S. regulation. It does not appear this specific proposal will be expedited, but instead will be part of the working group's overall project to develop corporate governance best practices.

In response to a question from the working group, it was noted that the interested party suggestions to include additional review steps in the Financial Examiners' Handbook, Exhibit M, Understanding the Corporate Governance Structure to address concerns of some regulators has already been approved by the Financial Examiners Handbook Working Group. These revisions will expand guidance on the general design philosophy of compensation programs and incentive plans, background and qualification of directors and nominees, board leadership structure and role, and the use of compensation consultants.

<u>International Corporate Governance Standards and FSAP Recommendations</u>
The working group heard a presentation from NAIC staff on a comparison of international corporate governance and risk management standards (using the most current drafts of the IAIS International Core Principles (ICPs) to those in use in Australia, Canada, Switzerland and the U.K. to determine to what extent non-U.S. jurisdictions are in line with the draft IAIS draft standards. The analysis concludes that the four countries reviewed "generally have requirements and/or standards in place to meet those required for compliance with the draft ICPs." The staff summary notes that the U.S. system was not included in this analysis; however the United States was recently reviewed for compliance with the Financial Sector Assessment Program which was based on the 2003 ICPs (which are being revised significantly). Based on staff's memo, the U.S "largely observed each of the ICPs related to corporate governance and risk management" but seven recommendations were made by the FSAP to "achieve stricter compliance with existing ICPs."

The working group has been asked by the SMI Task Force to specifically address these seven FSAP corporate governance and risk management related recommendations. The recommendations include the following: establishing proper criteria for key persons and requiring companies to notify regulators of ongoing suitability of persons, requiring insurers to have an internal audit function, adopting legislation to authorize regulators to fine individual directors and senior managers of insurers and bar them from acting in responsible capacities in the future and requiring insurers to have in place strategic underwriting and pricing policies reviewed and approved by the board of directors.

After this discussion, there was spirited discussion among members of the working group. One regulator commented that the recommendations are just a different way to regulate insurance, which are necessarily better than the U.S regime. The chair of the SMI Task Force responded that U.S. insurance regulators are going to be judged by the IAIS on FSAP compliance so that the regulators need to broaden their perspectives. A conference call will be scheduled to continue work on developing corporate governance principles for use in the U.S.

International Solvency Working Group

Consultation Paper on the Own Risk and Solvency Assessment (ORSA)

At the Summer National Meeting, the working group released its Consultation Paper on ORSA for comment. This paper includes topics of what Bermuda, Canada, the European Union, and Switzerland are implementing, and the possible requirements that should be included in a U.S. tool. Solvency II has defined ORSA as an assessment that the insurer makes about the adequacy of the insurer's risk management and the current and future solvency position. The Consultation Paper asked interested parties to comment on ten detailed questions about a possible tool for the U.S. including content of the risk management assessment, at what level the assessment (group or level entity) should be made, whether there should be a minimum standard and confidentiality issues.

At its meeting in Orlando, the working group reviewed the seven comment letters received from trade associations and an insurance department. There was significant variation among the comment letters. Some support the use of an ORSA-like tool if certain issues were addressed and completion of an assessment would enhance the efficiency of risk-focused exams. Others commented that the requirement for use a tool as not been adequately demonstrated. One common theme was that risk management and other information included in such assessments is highly sensitive and confidentiality of information filed with the regulators must be maintained. After review of the comment letters the working group concluded that they move forward with developing an U.S. ORSA tool.

Valuation of Securities Task Force

Educational Session on Commercial Mortgage-Backed Securities

In one of the most widely attended meetings of the Fall National Meeting, the task force opened its National meeting with an educational session from SVO staff on the residential mortgage backed securities and commercial mortgage backed securities modeling process. Reflecting on the last year, the SVO staff acknowledged some of the shortcomings of the "rating agencies approach" originally applied to RMBS. In connection with the new process to determine "intrinsic value," the SVO staff noted that over 21,000 securities with a cumulative par value of $177 billion were modelled by PIMCO, resulting in a cumulative RBC reduction of $7.3billion.

At the end of 2009, holdings in RMBS and CMBS securities by insurance companies totaled approximately $370 billion and represented approximately 75% of insurers' holdings in structured securities. The SVO staff observed that while the economy has been somewhat stable over the last year, as evidenced by the stabilization of both home prices and the unemployment rate, uncertainties still remain within the market and as a consequence, new modeling challenges have continued to emerge. Consequently, in March 2010, the task force agreed to extend the intrinsic value approach to CMBS, which faces challenges similar to RMBS.

The SVO staff observed that while RMBS and CMBS securities may be subject to the same macro-economic forces, the underlying structure of these securities is different. For example, RMBS tend to be backed by relatively homogenous collateral in the form of mortgages that are secured by single family homes; CMBS tend to be supported by more heterogeneous collateral, where the mortgages may be secured by a variety of property types including office, retail, industrial and hospitality. A typical residential mortgage securitization contains thousands of mortgages, while a typical CMBS may contain between 15 to 300 mortgages. For RMBS, a single mortgage default does not tend to materially impact deal performance; conversely for CMBS the default of a single mortgage can significantly impact CMBS tranches.

As a result, these differences require different modeling approaches. Specifically, the modeling for RMBS is typically based on the "law of large numbers," and applies a probabilistic approach to projecting performance outcomes; while for CMBS, statistical modeling is less applicable due to the unique aspects of each commercial property and mortgage. After giving careful consideration to these differences, the SVO staff recommended that a vendor with specific expertise in CMBS modeling should be selected. Ultimately, the task force selected BlackRock Solutions to perform the CMBS modeling as of December 31, 2010.

After the educational session, the task force held its National Meeting and discussed the following issues:

RMBS/CMBS Modeling Assumptions

Following the vendor selection process, the SVO staff considered various macroeconomic assumptions, modeling scenarios and probability weightings which may be used in the RMBS and CMBS modeling. Staff recommendations were presented to the task force on October 25 during a "regulator to regulator" conference call. The recommendations are summarized below.

- RMBS Model - The model uses a loan level analysis of U.S. RMBS using PIMCO's proprietary non-agency mortgage model. The analytical process will consist of four steps, a macroeconomic model, a mortgage loan credit model, a capital structure model (often referred to as a waterfall model) and a final valuation. The final valuation is used to map securities to the NAIC rating designations.

- CMBS Model - Similar to the RMBS model, a loan level analysis is performed of U.S. CMBS using BlackRock's proprietary commercial real estate valuation model. The process will consist of five steps: sourcing and maintenance of a proprietary property and loan database, loan-level reviews, assumption setting, loan outcome projection and bond cash flow projection. The projected cash flows will be used to determine the valuations required for RBC calculations. A final valuation under this model results from the probability weighting of multiple scenarios and is used to map securities to the current RBC process.

- Baseline Scenario Assumptions - PIMCO and BlackRock will adjust their models to reflect the same underlying macroeconomic baseline assumptions. Some of the parameters of the baseline scenario include unemployment rate (9.7% for Q2 2010 and a forecast of 7.6% for Q4 2012) and the consumer price index (217.2 for Q2 2010 and a forecast of 229.3 for Q4 2012).

- Other Scenarios - In addition to the baseline scenario, the securities will be modeled under a specified set of "upside" and "downside" scenarios.

- Quality Assurance - The SVO will conduct its own quality control checks of the valuation process.

The "regulator to regulator" conference call was followed by a public hearing via conference call on October 28, during which interested parties were provided an opportunity to present their comments. The task force is expected to hold another conference call in the very near future to adopt final assumptions, modeling scenarios and probability weightings.

Structured Transactions

The proposed amendment to the *Purposes and Procedures Manual* pertaining to SVO structured transactions processes was originally released for a 30-day comment period during the Summer National Meeting. As no comments were received from interested parties, a motion was made in Orlando to adopt the proposed amendment as final. Ultimately, however, following a task force member proposal to delete the definitions provided by the SVO staff as part of the revisions, the task forced decided to release the document for another 30-day comment period.

Invested Asset Working Group

The Risk Other than Credit Technical Resources Subgroup of the Invested Assets Working Group is developing a comprehensive security-level risk assessment process. This includes linking securities data from various sources into a unified database. The database would enable regulators to create tools which will provide for more comprehensive assessment and risk focused analysis of investment risks.

Modified Filing Exempt Rule for Loan Backed and Structured Securities

The task force received a report from the SVO staff regarding the potential impact of implementing the modified exempt filing rule for loan-backed and structured securities for the 2010 year end. The task force discussed proposed instructions which explain how insurers should determine the applicable NAIC designation for loan-backed and structured securities that are not modeled. Stressing the importance of the instructions being clear and consistent, the task force accepted the proposed instructions and agreed to release them for a 30-day comment period.

Eliminating Conflict in Classifying Investments

The task force considered a proposal recommending the deletion of the classification of securities methodology from the *Purposes and Procedures Manual* of the NAIC Securities Valuation Office as the SVO is required to follow the security classification definitions contained in the relevant statutory accounting principles (SSAPs). The proposal also would require that as the SVO conducts annual updates, securities must be reclassified, as necessary, in accordance with SSAPs. The task force released the proposal for a 45-day comment period. Additionally, the task force noted that the chair of the Financial Condition Committee has requested that the task force prepare a report describing the pros and cons of the proposal.

SVO Monitoring of Compliance with Filing Requirements

A subgroup of the task force continues its consideration of a proposal to expand the duties of the SVO to include monitoring insurance company compliance with filing requirements. The scope of SVO activities would extend to all aspects of reporting compliance, including whether securities reported as filing exempt are actually rated and whether securities reported with a "Z" are over the permitted 120-day filing period.

Interim Instructions for Commercial Mortgage-Backed Securities

The task force briefly discussed the interim instructions for modeled securities (RMBS and CMBS) for the 2010 year-end to replace the reference to the filing exemption rule in the *Purposes and Procedures Manual* and serve as the instructions referred to by SSAP No. 43R - *Loan Backed and Structured Securities - Revised*. The proposed instructions were released for a 30-day comment period.

FDIC Guaranteed Securities Filing Exemption

Continuing discussions initiated during the Summer National Meeting, the task force considered three proposed filing exempt amendments to the *Purposes and Procedures Manual* for securities backed by the Federal Deposit Insurance Corporation. Two of the proposals relate to certificate of deposits with more than one year to maturity. While the SVO staff supports the proposed exemption for CDs issued by banks rated by an NAIC ARO, the staff is aware that the decision of whether to grant such an exemption for CDs issued by banks that are not ARO-rated is a policy issue, as the exemptions would be based on the FDIC deposit insurance program, which does not represent a financial guaranty of payment.

The third proposal supports securitizations created by the FDIC in its role as a receiver of failed banks, where the payment of principle and interest is guaranteed by the FDIC. The concern is that while the governing statues indicate that the FDIC can bind the full faith and credit of the U.S. government, the authority is limited as to amount, creating questions of whether any specific guaranty is provided by the regulation. The task force decided to release the documents for an additional 30-day comment period to provide the task force members time to decide if they want to rely on the FDIC processes as the basis for a filing exemption.

Blanks Working Group

The working group reviewed memorandums from the SAP Working Group of required changes to the 2010 financial statement filing instructions related to disclosure requirements of SSAP 100, Fair Value Measurements, and SSAP 10R, Income Taxes. The working group noted that since the SAP Working Group had adopted these changes there was no further work necessary for 2010 but that the new footnotes will be integrated in the annual statement disclosure instructions for 2011.

The working group then adopted the following proposals, which were exposed during the Summer National Meeting with 2011 effective dates:

- Add a new question to the General Interrogatories Part 1 regarding letters of credit with a NAIC rating of 3 or below that are unrelated to reinsurance. Responses, aggregated by bank, would capture the American Bankers Association (ABA) routing number, issuing or confirming banks' name and the circumstances where the letter of credit might be triggered. (Agenda item 2010-14BWG)

- Modify the definition of "All Other Governments" in the Investment General Instructions to include bonds issued by corporate entities that are fully guaranteed by non-U.S. governments. This change is to establish consistency due to diversity in practice (2010-17BWG)

- Add instructions from the Schedule P, Parts 2, 3 and 4 to the Schedule P, Parts 2, 3 and 4 instructions of the Workers' Compensation Carve-Out Supplement (2010-18BWG)

- Add new code "B" to the Foreign Code matrix in the Investment General Instructions to cover Canadian securities issued in a foreign country but denominated in U.S. dollars. (2010-19BWG)

Two proposals were exposed for comment with deadline of February 24, 2011:

- Modify the instructions and matrix for the NAIC Designation Column for Bonds for three new suffixes (AM, FM and SM). For loan-backed and structured securities, where the NAIC designation is modified by each insurer's carrying value for a security, more suffixes are needed, in addition to FE (Filing Exempt), in order for enabling regulators to track whether a security derives its final designation from a SVO assigned designation (SM), ARO rating (AM), or financial modeling (FM). (2010-20BWG)

- Modify the instruction and illustration for Note 32 A through E, analysis of annuity actuarial reserves and deposit-type liabilities by withdrawal characteristics, to disclose the general account and separate account amounts, as well as the total. (2010-15BWG)

The working group deferred action on add a new interrogatory to the General Interrogatories Part 1 for modified duration categories using five different interest rate scenarios (2010-16BWG) due to comments received from interested parties.

NAIC/AICPA Working Group

The working group met via conference call October 6 in lieu of meeting in Orlando. They discussed the following issues:

<u>MAR Implementation Guide Revisions</u>

The working group adopted proposed changes to the MAR Implementation Guide's sample management attestation reports to include additional sample wording for insurers where there were significant control processes not tested for SOX purposes due to group materiality considerations.

The working group discussed providing guidance to non-accelerated filers (public companies with less than $75 million in public debt) who are now permanently exempt under Dodd-Frank from filing an external audit report on the effectiveness of internal accounting controls. Under the MAR, SOX-compliant entities file their 404 reports with state insurance departments. The working group asked NAIC staff to draft revisions to the Implementation Guide for discussion at a conference call on December 2.

<u>Cut-off Date for Internal Control Testing</u>

The working group briefly discussed a question raised by industry as to whether controls testing should extend past the filing of the annual statement. For example, if management finds a financial statement error after the filing of the annual statement but before the filing of the audited financial statements, does that indicate an internal control deficiency? The chair stated his belief that all control testing should be completed by the time the annual statement is filed. He also noted that he wants additional time for the working group to consider this issue. Therefore, the issue will be discussed during the December 2 call.

Life and Health Actuarial Task Force (LHATF)

A major emphasis of the two day LHATF meeting was continuing work on the Principles-Based Reserves initiative and Valuation Manual (VM), including an update on the VM-20 impact study and conceptual discussion of a PBR Feedback Loop. Towers Watson has been selected to conduct the VM-20 field testing and the company selection process is underway. The project has an aggressive deadline of March 31, 2011.

<u>PBR Life (VM-20)</u>

The LHATF Impact Study Subgroup presented an update on testing progress, noting that the company and product selection process is underway. Letters and surveys were sent to companies in mid-October, and twenty-five companies are to be selected by the end of October. Thus far several companies have declined to participate due to lack of time and resources. Educational sessions will be held in the coming weeks for actuarial teams performing the testing. The Academy released a new practice note in September, "Scenario and Cell Model Reduction" (available at http://www.actuary.org/pdf/risk/Scenario%20and%20Cell%20Model%20Reduction%20PN%20Final%20092210.pdf), that may be referenced in the testing as well as other actuarial applications. The consultants are developing internal models to perform testing for companies that are unable to participate, generating the 10,000 stochastic return scenarios as of December 31, 2009, and are developing project plans and deliverables.

The American Academy of Actuaries Variable Universal Life Subgroup presented a proposal to modify the prescribed deterministic equity return scenario. The current draft prescribes equity returns based on the 10-year treasury rate path in Scenario 12 of the stochastic exclusion test scenario set. The Academy noted that this scenario creates an inconsistency between the deterministic reserve based on the level of interest rates and the stochastic reserve which is not. The Academy proposal replaces the working draft definition with one based directly on the returns in Scenario 12, with actual fund mapping consistent with funds that make up the scenario set. Regulators from New York opposed this recommendation in favor of a 3% minimum return. LHATF voted to include both options in the working draft and to expose the revised draft. Both options will be tested as part of the VM-20 field impact project.

Clarifying amendments to other sections of the Valuation Manual related to Process and Coordination (VM-00 and VM-01) and Reporting and Review (VM-30) were approved and LHATF voted to expose these working drafts for comment. Work continues on development of forms for Experience Reporting (VM-50 and VM-51). On a related note relative to Model Regulation 815, Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities, regulators are not ready to collect the experience information required in connection with use of the 2001 CSO Preferred Class Structure Table and voted to send a letter notifying insurers of a one-year exemption from reporting this mortality experience.

PBR Feedback Loop

The LHATF Chair led a discussion regarding establishment of a Feedback Loop under PBR. The objective of the Feedback Loop is to provide information relative to the effectiveness of the PBR valuation process: what parts are working well and what parts of the process should be improved. Stakeholders include regulator groups (e.g. LHATF, Capital Adequacy Task Force) and industry groups (e.g. actuaries, CFOs). Development of the Feedback Loop should consider such elements as what data is needed, which companies should provide data and a process for collection and analysis. Topics for study include company generated scenarios, cell and fund compression, revenue sharing, hedging, model validation, assumptions and sensitivity testing. A subgroup was formed and charged with developing a whitepaper on the Feedback Loop, to be tied in with VM-50 and VM-51.

Oliver Wyman Report - VASFRI Phase 2

Oliver Wyman presented a progress update on Phase 2 of their Variable Annuity Statutory Framework Review Initiative, under which the firm has been commissioned by twelve of the largest VA writers in North America to review "unintended consequences" of the VA statutory reporting framework under AG43 and C-3 Phase 2 RBC. Phase 2 of the project was further investigation of issues identified in Phase 1 and recommendation of potential solutions. Proposed refinements are currently being tested by the participating companies and include changes to the definitions of starting assets, the GPVAD (lowest negative surplus) and "working reserve," and a possible cap on the "standard scenario reserve." The refinements move the methodology toward a cash flow valuation and are intended to provide greater consistency with the RBC framework and better alignment with actual risk exposure, to generate more intuitive and predictable results. Testing results will be compiled and reviewed over the next 6-8 weeks, and conference calls will be scheduled to discuss the quantitative results.

IASB's Insurance Contracts Exposure Draft

The Group of North American Insurance Enterprises (GNAIE) presented its "Top Ten" issues with the IASB's Exposure Draft, citing issues and concerns with a single model for life and non-life products, reductions in transparency and comparability, and lack of clarity in application to certain products. The NAIC's Solvency Modernization Initiative Task Force closely monitors these developments, noting that if adopted there could be implications for statutory reporting relative to equivalency and the appropriateness of multiple standards, and there may be consumer impacts from the potential withdrawal of certain products from the market. The task force agreed to form a subgroup to address international issues.

Payout Annuity and Simplified Issue Mortality

The SOA and AAA Joint Project Oversight Group presented an update on the development of a new Payout Annuity Mortality table. The group developed a table based on experience data from 2000-2004 and is still working on refinements to the mortality at ages 95+ where anomalies were observed, as well as developing improvement and projection scales. The joint group plans to propose a table with improvement and projection scales as well as margins in early December. Adoption may be postponed until information from a more recent data call (2005-2008) with more contributors can be reviewed in early 2011.

The joint group also presented a progress update on the development of guaranteed issue and simplified

issue mortality tables. Based on discussion from the Summer National Meeting, two data calls were initiated: one for pre-need business and one for all other business. The Medical Information Bureau is the statistical agent helping to develop the data call consistent with the VM-51 format. The current project plan is to complete a first draft of the proposed tables by early 2012.
The joint group also commented on the development of a 2012 VBT/CSO table for the intended use with PBR when that becomes effective. Data for 2002-2007 has been collected and the joint group is working to collect more granular data at older attained ages. A project plan will be presented at the next LHATF meeting.

Nonforfeiture Improvement

The AAA Non-Forfeiture Improvement Work Group provided a progress update on its work to study the feasibility of a new nonforfeiture law for life insurance and annuities. The work group noted that reform issues are not limited to life insurance and annuities, or solely to actuarial matters; they extend to health insurance products and public policy issues. During this meeting the work group received an additional charge to coordinate its work with the Accident and Health Work Group and to prepare a list of actuarial issues for LHATF to review and begin consideration. A draft report is under review within the work group and anticipates delivery to the Academy's Life Practice Council before the end of the year, and to LHATF by March 2011.

Standard Nonforfeiture Law

The ACLI provided an update on the status of changes to the Standard Nonforfeiture Law to make it consistent with PBR requirements and the revised valuation manual. The work group will present draft language to LHATF in the next month or two. Consistency in this guidance will make regulatory approval easier.

IIPRC Report

The Interstate Insurance Product Regulation Commission provided a report of recent activities, including adoption of fee standards for Long Term Care products effective December 1, 2010, and amendments to standards for a variety of other product types. The group is also discussing potential standards for private placement VA and VUL products, and modifications to rate filing standards for LTC products. There was vigorous debate over issues raised with respect to the use of separate accounts, the definition of a "variable" product and potential unintended consequences stemming from the nonforfeiture exemption associated with "variable" products. The issues will be framed and distributed to LHATF for discussion before the next meeting in March.

Accident & Health Working Group

PPACA Subgroup

The subgroup held numerous meetings since August with the goal of completing the PPACA Medical Loss Ratio Model Regulation. Those discussions are included in the Health Care Reform section on page 3.

Medicare Supplement Refund Formula

There was an update from the Senior Issues Task Force charged with review of the Medicare Supplement Refund Formula. The group has begun to compile data, noting that this is a labor intensive project. Once the data is compiled it will be turned over to the Academy for review. No date was provided for the completed analysis, although it is anticipated sometime in 2011.

1985 NAIC Cancer Claims Cost Tables

The Academy subgroup charged with reviewing the appropriateness of the 1985 Cancer table in the current environment provided an update of its work. The SOA is facilitating a survey intended to gather information from companies on what cancer benefits are currently provided, how companies are using the 1985 table, and the level of reserves held vs. those based on the prescribed table. This survey is due back in mid-November and the information should yield greater insight into the current use and applicability of the 1985 table. Survey results will be presented to the working group by conference call or at the Spring National Meeting.

The subgroup has also provided a preliminary draft of a revised data call to the SOA for approval. The revised data call is significantly slimmed down from an earlier data call for which the response rate was low, likely due to the amount of information requested. The survey results may also influence the data call. The data call is expected to be finalized in 2011 and will be presented with the survey results.

Long-Term Care Insurance

Two workgroups are currently addressing LTC issues related to valuation and pricing. In light of recent LTC product rate-increases and lack of specific guidance relative to rate adequacy, the Long-Term Care Task Force asked the valuation subgroup to make a recommendation on the definition of "moderately adverse" in the model regulation. An objective in modifying the definition is to balance the need for rate increases with the resulting higher rates and potential increase in lapses. The group struggled with this charge but eventually agreed on a definition that requires both future expected and lifetime expected claims to exceed current pricing by more than 20% before a rate increase is needed. In other words, a 20% margin is recommended. The draft wording will be proposed to the LTC Task Force.

Actuarial Standard of Practice 28 (ASOP 28)

In the wake of the release of the Proposed Revision of ASOP 28 exposure draft in June 2010 and three health insurance Practice Notes since September 2009, the Academy's State Health Committee was asked to provide some insights on the applicability and use of this guidance from the regulators' perspective. The presentation addressed the binding nature of the ASOPs (developed by the Actuarial Standards Board), versus the non-binding guidance provided in the Practice Notes (developed by Academy workgroups), as well as the drafting process for each type of guidance. Currently many Practice Notes do not have a regulatory perspective and going forward more emphasis will be place on this aspect. A motion was passed to form a Health Actuary Opinion Subgroup to provide guidance to regulators related to review of actuarial opinions for health reserves, similar to guidance provided by the Casualty Actuarial Society on related topics. The Academy is also going to consider a recommendation that regulators be included in the call for volunteers to draft practice notes, and on the distribution of practice notes.

Life Insurance and Annuities Committee

Stranger Originated Annuity Transactions

Following the public hearing in May, the committee developed a draft Insurer Bulletin on Stanger-Originated Annuity transactions (STOA) which suggests approaches for insurance companies to guard against such transactions. Specifically, the draft Bulletin suggests that insurers do the following:

- Review chargeback policies to ensure agent commissions are adjusted if a policy is annuitized within the first year of the contract
- Establish methods to detect agents who may be involved in the facilitation of Stranger-Originated Annuity transactions
- Review annuity applications to assess whether specifics questions are posed with regard to the annuitant's health status and the manner in which the contract is funded
- Ensure the underwriting department has established criteria to identify questionable applications which would be subject to additional levels of review
- Report potential Stranger-Originated Annuity transactions to the appropriate Department of Insurance

During the Fall National Meeting, comments from interested parties were considered. Interested parties generally expressed support for the draft Bulletin but encouraged the committee to provide insurers with the flexibility to identify which of the safeguards should be implemented.

The Life Insurance and Annuities Committee agreed to establish a subgroup chaired by the commissioners from New Jersey and Iowa to synthesize the comments from interested parties in an expeditious manner.

Annuity Disclosures Working Group

Since the Summer National Meeting, the working group has held a series of calls with interested parties to address the outstanding issues related to this project including the consideration of a safe harbor exemption for Financial Industry Regulatory Authority (FINRA) approved disclosures, the addition of a specific statement as to how a Market Value Adjustment affects withdrawals and the determination of whether annuity illustrations provided to consumers should be required or optional.

At the Fall National Meeting, the working group adopted a final draft of the proposed revisions to the *Annuity Disclosures Model Regulation* (#245) which was then submitted to the Life Insurance and Annuities Committee for acceptance. The committee adopted working group's proposed revisions to the Model Regulation. However, the committee decided to provide an additional 30-day comment period for interested parties to submit comments on issues not already considered by the working group.

A summary of the significant revisions are presented below.

- The revisions adopted by the working group broaden the scope of the Model Regulation to include variable annuities.

- The revised Model Regulation includes a safe harbor for FINRA approved disclosures. However, it should be noted that the safe harbor exclusion will not apply if the SEC and/or FINRA do not develop a shortened disclosure form for variable annuities by January 1, 2013. Furthermore, the safe harbor exclusion does not apply to the Buyer's Guide for the sale of variable annuity; accordingly, a Buyer's Guide must be delivered upon the sale of any kind of fixed deferred, indexed deferred or variable annuity.

- A new section entitled, "Standards for Annuity Illustrations," was added as a supplement to the disclosure document. This new section provides that the use of an illustration is not mandatory and may be used in the initial sale or in subsequent contacts with the owner. The approved revisions to the Model Regulation however indicate that if an annuity disclosure is used, it must be prepared by the carrier or by a third party authorized by the carrier prior to its use and subject to a system of internal control by the carrier over its use. This section also provides for certain limitations on the use of assumptions. Specifically with respect to illustration of non-guaranteed values, current conditions must be applied; the provider is prohibited from using assumed future conditions. Moreover, for illustrations of annuities that contain a MVA, the revised Model Regulation requires that a specific statement describing the impact of a withdrawal must be included.

- The revised Model Rule as approved by the working group does not include the Buyer's Guide in appendix as originally planned. The working group decided not to include the Buyer's Guide in order to provide greater flexibility and facilitate more frequent updates to the Buyer's Guide by the Life Insurance and Annuities Committee.

Separate Account Risk Charge Working Group

The working group held a conference call October 12 to hear a presentation from a law firm on the Harkin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act. Per the detailed presentation, the Harkin Amendment does not override state insurance laws. Its intent is to instruct the SEC that if provisions of the amendment are met, "any insurance or endowment policy or annuity contract or optional annuity contract" must be treated as an "exempt security" under Section 3(a)(8) of the 1933 Securities and Exchange Act. The presentation noted that the Harkin Amendment has three contractual requirements to meet the exemption: (1) the cash value of the contract does not vary according to the investment performance of the separate account; (2) the contract meets state nonforfeiture laws standards; and (3) the contract meets state suitability standards. There was an extended discussion of issues that could arise as a result of variation in state law when the federal requirements are based upon perceived uniformity of state laws such as the nonforfeiture and suitability requirements. For example, the same insurance product could be exempt from SEC requirements in one state but not another due to differences in their adopted NAIC models. It is not expected that any federal guidelines will be issued to clarify potential conflicts.

The working group noted they plan to hold a conference call later this fall to discuss its previously exposed discussion document that identifies issues, observations and possible recommendations of risks related to separate accounts.

Reinsurance Task Force

Collateral Reduction Recommendations

At the Summer National Meeting, the task force exposed for comment a draft paper entitled Reinsurance Collateral Reduction and Accreditation Recommendations, drafted in response to adoption of the Federal Nonadmitted and Reinsurance Reform Act. The paper notes that the NRRA prohibits a state from denying credit for reinsurance if the domiciliary state of the ceding insurer recognizes such credit or has financial solvency requirements substantially similar to NAIC accreditation requirements. The task force noted that NRRA's pre-emption of the extraterritorial application of state credit for reinsurance laws potentially creates an opportunity for individual states to reduce reinsurance collateral requirements, because the ceding insurer's domiciliary state determines credit for reinsurance.
Comments on the Recommendations Regarding Key Elements of the Reinsurance Framework for Accreditation Purposes were due September 16 and new version of the paper was released for comment on September 23. A significant change was the addition that a two year moratorium on applying the recommendation to life reinsurance contracts would be required for accreditation purposes.

At its meeting in Orlando, the task force heard comments from interested parties. The most significant discussion surrounded two issues: the addition of the moratorium language discussed above, with both regulators and industry on each side of the issue, and the requirement for eligible assuming insurers to file Schedule F or Schedule S with the domiciliary regulator. The task force ultimately voted to retain the moratorium in the Reinsurance Regulatory Modernization Framework but deleted it from the significant elements for accreditation.

With respect to the requirement to file reports in the form of Schedule F/Schedule S, the wording was modified so that filings that are "substantially similar" to these schedules "at the discretion of the commissioners. The non-U.S. reinsurers were looking for significantly more flexibility with respect to the required filings. At the conclusion of the discussion, the task force adopted the Recommendations paper, which will be forward to the Financial Regulation Standards and Accreditation Committee.

Credit for Reinsurance Models

The task force discussed the process on considering amendments to the Credit for Reinsurance Model Law and Model Regulation to make the models consistent with the Modernization Framework after the model law development is adopted by Executive Committee, which occurred subsequent to this meeting. The task force plans to hold an interim meeting later this fall to begin that process.

Climate Change and Global Warming Task Force

The task force discussed the status of the Climate Risk Disclosure Survey Summary Questionnaire that was sent to all states requesting feedback on states' intentions to participate in the Climate Risk Disclosure Survey (which was changed from mandatory to voluntary at the Spring National Meeting). A total of 21 states indicated that they were participating in the Climate Risk Disclosure Survey. To date, the NAIC has received Questionnaire responses from four states. The state summary of findings is currently underway. Two states (California and Pennsylvania) have asked the NAIC to post a link on the task force's webpage to the respective state's website where the responses are posted.

The task force heard expert testimony from a professor at Massachusetts Institute of Technology regarding the study, A Risk Assessment of Pay-As-You-Drive Auto Insurance, which is a disaggregated analysis of the risk-mileage relationship and the actuarial basis for pay-as-you-drive auto insurance. Overall, per the presentation, the risk analysis in the study confirms the statistical soundness of pay-as-you-drive auto insurance pricing. Also, the study indicates that if the per-mile charges are sufficiently timely and certain, then significant reductions in miles driven, green house gas emissions, and auto accident losses would likely result.

Casualty Actuarial and Statistical Task Force

The task force received an informational presentation from the Casualty Actuarial Society regarding the exposure draft of the CAS Foundational Statements, which are intended to express the essence of property/casualty actuarial work, and to characterize the environments in which that work is performed. Practitioners must follow Standards of Practice as disseminated by the responsible actuarial bodies as well as all applicable regulatory requirements. Accordingly, the Foundational Statements are not intended to be a list of practice standards or requirements. However, the Foundational Statements can be used as a reference for the development of future Standards of Practice. However, several regulator and industry actuaries expressed skepticism about the need for the Statements and the amount of revisions that the draft Statements would need before they would be workable.

The task force also received a report from the American Academy of Actuaries, which included a summary of a practice note under development related to the Model Audit Rule, specifically tailored for actuaries. Also, AAA is also developing a paper regarding rate losses and the role these losses play in insolvencies of P&C insurance companies. The paper is expected to argue that deficiencies in reserves are not the primary cause of insolvencies, and that other factors, included fraud and rapid changes in growth, contribute significantly.

The task force discussed the actuarial report requirements and the potential changes to the actuarial report instructions (specifically paragraph 7) in order to enhance quality.

Risk Retention Group Task Force

The task force discussed comment letters received regarding a referral from the Risk Retention Group Subgroup of the Financial Examiners Handbook Technical Group. This referral to the task force requested discussion regarding the potential for certain RRGs to be exempted from the accreditation standards surrounding the examination of an RRG in instances in which conducting a risk-focused examination would result in no additional measurable benefit. The task force discussed comment letters received on the proposed application of risk-focused examination procedures to RRGs. The consistent view expressed in the comments received was that full risk-focused exams would significantly increase the cost of examination to RRGs, and would provide limited to no additional benefit to regulators, due principally to the nature and size of RRGs. The task force decided to form a subgroup, to be chaired by District of Columbia, to consider this issue in greater depth.

Title Insurance Task Force

The task force heard an update from the American Land Title Association (ALTA) related to foreclosure documentation and marketability issues involving financial institutions not following proper procedures in completing paperwork for homes that have been foreclosed upon.

The task force also took the following actions:

- Appointed a Title Insurance Market Conduct and Mortgage Fraud Working Group to review and assist various regulatory bodies in combating fraudulent or unfair real estate settlement activities.

- Adopted a recommendation to the Casualty Actuarial and Statistical Task Force from the Title Annual Statement Instructions Subgroup. The changes broaden the scope of the title insurance actuarial reserve opinion to include both net and direct loss and loss adjustment expense reserves.

- Authorized the Title Annual Statement Instructions Subgroup to prepare and submit to the Blanks Working Group a proposal to adopt changes to the *2011 Quarterly and Annual Statement Blank – Title* consistent with the proposed changes that the task force exposed at the Summer National Meeting.

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The next National Meeting of the NAIC will be held in Austin, TX March 26-29. We welcome your comments regarding issues raised in this newsletter. Please give your comments or email address changes to your PricewaterhouseCoopers LLP engagement team, or directly to the NAIC Meeting Notes editor: Jean Connolly 440 893-0010 or jean.connolly@us.pwc.com.

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