



CROSS-PRACTICE ISSUES

Alert No. 2019-CP-6

December 19, 2019

Academy Presents on Public Policy, Professionalism at NAIC Fall National Meeting

Academy volunteers and staff presented on public policy and professionalism matters at the meeting of the National Association of Insurance Commissioners (NAIC) December 5-10 in Austin, TX. Public policy issues addressed at the meeting included, among others: predictive analytics, life principle-based reserving, wildfire catastrophe risk, climate risk and long-term care insurance (LTCI).

Academy professionalism presentation included Council of Professionalism updates to the Life Actuarial (A) Task Force (LATF), the Health Actuarial (B) Task Force (HATF), and the Casualty Actuarial and Statistical (C) Task Force (CASTF) by Immediate Past President Shawna Ackerman, Actuarial Standards Board Chairperson Kathy Riley, and Actuarial Board for Counseling and Discipline member David Ogden. They, along with Academy President D. Joeff Williams and President-Elect Tom Campbell, presented at the Academy-hosted regulator only professionalism breakfast.

Presentations and reports made by Academy representatives at the meeting included:

Casualty

- Jeri Xu, member of the Academy's Extreme Events and Property Lines Committee, [gave a presentation](#) to NAIC's P/C RBC Catastrophe Risk Subgroup on the Academy's June 2019 monograph, *Wildfire: An Issue Paper—Lessons Learned from the 2017–2018 California Events*.
- Steve Jackson, the Academy's assistant director for research (public policy), presented to the same subgroup on the [Actuaries Climate Index and the Actuaries Climate Risk Index](#).
- Rich Gibson, senior property/casualty fellow, and Stephen Koca, member of the Academy's Committee on Property Liability Financial Reporting (COPLFR), presented to CASTF on an array of P/C topics.

Health

- Barbara Klever, chairperson of the Individual and Small Group Markets Committee and a member of the Health Practice Council, gave an update to HATF on the Academy's recent public policy work at the federal, state, and international levels, including recent meetings with various federal agencies and Congressional committees on the topics of long-term care (LTC), social determinants of health, Medigap, surprise billing, and health savings accounts.
- Warren Jones, chairperson of the LTC Combo Valuations Work Group, presented to the Long-Term Care Actuarial (B) Working Group on the recently finalized [Long-Term Care \(LTC\) Combination Product Valuation Practice Note](#), which was published to provide information to actuaries on current and emerging practices of which their peers are engaged with respect to the considerations in the statutory, Generally Accepted Accounting Principles (GAAP), and tax valuation of long-term care combination products. Jones also presented an update on the LTC Valuation Working Group's activities, including the proposed factors for the tables, mortality and lapse rates, as well as next steps.

Life

- **To LATF -**
 - Jason Kehrberg, chairperson of the YRT Field Test Project Oversight Work Group gave an [update](#) on the proposed yearly renewable term field test.
 - Ben Slutsker, and John Miller chairperson and vice-chairperson of the Annuity Reserves Work Group, provided an [update](#) on the proposed timeline and approach for the development of a PBR framework for non-variable annuities.
 - Chris Conrad, chairperson of the SVL Interest Rate Modernization Work Group, gave an [update](#) on non-Single Premium Immediate Annuity (SPIA) valuation interest rates.
 - Marianne Purushotham, from the Academy Life Experience Committee and SOA Preferred Mortality Project Oversight Group, led a [discussion](#) on considerations for changes to the Life Mortality Improvement Factor Process.
 - Donna Claire, chairperson of the PBR Governance Work Group, presented an [update](#) on Academy resources for PBR.
 - Mary Bahna-Nolan, chairperson of the Academy's Life Experience Committee and of the SOA Preferred Mortality Oversight Group, presented updates on its work to the Life Actuarial Task Force (LATF) regarding Valuation Basic Table (VBT) and Expiring Experience, and discussed comments received on APF 2019-56.
- **To the Life Risk-Based Capital (E) Working Group –**
 - Chris Trost, chairperson of the C-2 Work Group, provided an [update](#) on the C-2 Mortality Overall Approach.

Other highlights from the NAIC meeting:

Casualty

- At its Dec. 7 meeting, the NAIC’s Statutory Accounting Principles (E) Working Group (SAPWG) responded to the COPLFR letter on reporting on Loss Portfolio Transfer by formally adding this topic to their list of items to be addressed in 2020.
 - The working group accepted their staff’s findings that COPLFR had identified inconsistent reporting practices with regard to Retroactive Reinsurance and that some clarification or guidance may be beneficial. Consequently, SAPWG exposed the Academy’s [comment letter](#) and the NAIC staff’s findings, asking for public comment by Jan. 31, 2020, to provide input on how the working group should proceed to address the questions raised in the Academy’s letter.
 - Individual actuaries and/or companies may wish to file their own comments while the SAPWG is still in the early stages of their deliberations. To see the Working Group’s posting, go to SAPWG’s home page to find “exposure Drafts” where instructions are listed for [submitting comments](#).

Cross-Practice

- The Big Data (EX) Working Group:
 - Heard [two presentations](#) from ISO (Verisk) and a presentation from National Insurance Crime Bureau (NICB), and discussed the Working Group members’ views on whether state insurance regulators have the appropriate regulatory authority under existing unfair trade laws and unfair claims settlement regulations to address marketplace practices.
 - Received an update on NAIC technical and non-technical rate review trainings. In addition to the CASTF “book club” calls, the NAIC is developing technical and non-technical training. The technical training will be conducted by the NAIC’s consultant, Dorothy Andrews (Actuarial & Analytics Consortium, LLC), and will focus on training actuaries and statisticians. The non-technical training will target rate filing reviewers and market conduct examiners. This training will focus on evaluating rate classes for unfair discriminations and understanding when additional actuarial assistance is needed.
 - Received a [presentation](#) (see Attachment B) from Birny Birnbaum (Center for Economic Justice—CEJ) on the role of advisory organizations and his views on the need to create the accountability and regulatory oversight of new vendors of big data algorithms as contemplated in antitrust laws and advisory organization statutes.
- The Group Solvency Issues (E) Working Group discussed the state insurance regulatory approach to ComFrame implementation, including considerations for the Working Group in fulfilling its 2020 proposed charges in this area. Interested parties encouraged state insurance regulators to only implement ComFrame elements that are appropriate for the

U.S. system of state-based insurance regulation and do not create an uneven playing field for various insurers.

- The Financial Regulation Standards and Accreditation (F) Committee:
 - Adopted revisions to the Review Team Guidelines for troubled companies effective Jan. 1, 2020. The revisions incorporate updated guidance on timely and effective communication of a troubled or potentially troubled company between the domiciliary and non-domiciliary states.
 - Adopted the 2019 revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) as revisions to the Reinsurance Ceded accreditation standard. These revisions address the reinsurance collateral requirements necessary for U.S. ceding companies to take credit for certain reinsurance transactions. The adoption includes a waiver of procedure to expeditiously adopt the accreditation standard. The adopted effective date is Sept. 1, 2022.
 - Adopted the Term and Universal Life Insurance Reserve Financing Model Regulation (#787) as a new accreditation standard effective Sept. 1, 2022. This model establishes uniform, national standards governing reserve financing arrangements pertaining to term life and universal life insurance policies with secondary guarantees.
- The International Insurance Relations (G) Committee:
 - Heard an [update](#) on key 2019 projects of the IAIS, including revised Insurance Core Principles (ICPs) and ComFrame, the holistic framework for systemic risk in the insurance sector, and the insurance capital standard (ICS) and monitoring period
 - Heard an update on international activities, focusing on regional supervisory cooperation and the Organization for Economic Co-operation and Development (OECD). Regional supervisory cooperation activities include ongoing engagement with regulators in Europe, the Asia-Pacific region and Latin America, as well as the NAIC International Fellows Program.
 - Heard an update on the FSAP. The 2019–2020 International Monetary Fund (IMF) FSAP of the U.S. financial regulatory system is currently underway. The FSAP is comprised of Mission 1 and Mission 2, with much of the work for the FSAP exercise for insurance concentrated in Mission 1, which took place this fall. Mission 2 will take place in early 2020, with meetings both with the NAIC and several states. The IMF is expected to publish a technical note on insurance by the summer of 2020.
- Reinsurance (E) Task Force:
 - [Exposed](#) (Attachment 11, pg. 45) a Blanks Proposal that incorporates the 2019 revisions from the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) into the Annual Reporting Blanks and Instructions.
 - Discussed the Term and Universal Life Insurance Reserve Financing Model Regulation (#787) as an accreditation standard.

- The IAIS Secretariat held a Q&A for interested parties regarding the updated strategic plan
- The Executive (EX) Committee:
 - [Received a status report](#) on model law development efforts for amendments to the: Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act (#171); Annuity Disclosure Model Regulation (#245); Suitability in Annuity Transactions Model Regulation (#275); Health Maintenance Organization Model Act (#430); Life Insurance Disclosure Model Regulation (#580); Mortgage Guaranty Insurance Model Act (#630); and the following new models: the Real Property Lender-Placed Insurance Model Act; the Pet Insurance Model Law; and the Pharmacy Benefit Manager (PBM) Model Law.
 - Heard reports from the National Insurance Producer Registry (NIPR) and the Interstate Insurance Product Regulation Commission (Compact).
- The Financial Stability (EX) Task Force:
 - Jointly exposed the [Proposed 2019 Liquidity Stress Test](#) (Attachment 3, pg. 6) with the Liquidity Assessment (EX) Subgroup for 60 days
 - Heard an [update on CLO stress tests](#) from Eric Kolchinsky, NAIC Director of Structured Securities and Capital Markets
- The Innovation and Technology (EX) Task Force:
 - Heard a report from Denise Matthews (NAIC) on the activity of the Innovation and Technology State Contacts group from the meeting it held at the Fall National Meeting.
 - Heard an update on a request from Birny Birnbaum (CEJ) regarding development of a document that would outline the difference between insurance products and banking and other consumer products for the benefit of startups and other companies new to the insurance industry. The Task Force agreed this should not be a charge to the Task Force but rather discussed other avenues available to get this information communicated and made available through the Center for Insurance Policy and Research (CIPR) materials, as well as the NAIC's professional designation program.

Health

- The ERISA (B) Working Group discussed association health plans (AHPs), including state legislative and regulatory activity addressing multiple employer welfare arrangements (MEWAs).
- The Senior Issues (B) Task Force heard about a legislative [proposal \(pg. 17\)](#) by U.S. Senator Pat Toomey (PA), which is based upon one of the long-term care (LTC) policy option recommendations adopted by the Task Force that would allow for retirement account dollars to be used to buy long-term care insurance (LTCI)
- The Health Innovations (B) Working Group held a number of discussions, focusing on how to contain the cost of care. Specifically, North Dakota talked about 10 hospitals in their state that will participate in a health care costs study, trying to find a clearer picture of how the costs break down.

- The NAIC/Consumer Liaison Committee, among other presentations, had concerns raised about wellness programs. With the recent announcement of a federal opportunity for states to expand wellness programs to the individual market, this presentation highlighted the latest data on wellness programs, recent legal challenges, consumer concerns, and recommendations for state regulators.
- The Regulatory Framework (B) Task Force heard an [update](#) from the Center on Health Insurance Reforms' (CHIR) work related to federal Affordable Care Act (ACA) implementation including the upcoming report on reinsurance due out in spring 2020.
- The Long-Term Care Insurance (EX) Task Force received a [progress report](#) on its activities. The task force is charged with developing a consistent national approach for reviewing long-term care insurance rates that result in actuarially appropriate increases being granted by the states in a timely manner, and in ensuring that consumers are offered meaningful options to reduce their benefits when premiums are no longer affordable. The task force suggested they would be open to more feedback from stakeholders in the next few months, but would not be open to meetings until then. The task force continues to monitor six workstreams that should be explored further:
 - The Multi-State Rate Review Practices workstream is refining a set of selection principles and criteria for guiding the development of a recommended rate review methodology.
 - The Restructuring Techniques workstream is developing its strategic plan.
 - The Reduced Benefit Options and Consumer Notices workstream conducted a state survey to gather information about states practices in reviewing and approving reduced benefit options and the associated consumer notices. The workstream plans to research further and gather more information.
 - The Valuation of Long-Term Care Insurance (LTCI) Reserves workstream continues to focus on work performed at the NAIC on the actuarial review of insurers' actuarial filings and solvency monitoring.
 - The Non-Actuarial Variance Among States workstream conducted a limited state survey to identify factors affecting rate approvals, which are not of an actuarial basis. The workstream plans to gather additional information and begin drafting best practices.
 - The Data Call Design and Oversight workstream issued a request for a proposal to select a consultant to conduct a data call of LTCI insurers in order to accumulate, analyze, and describe to the NAIC members the current level of rate inequity among the states' policyholders.
- The Health Insurance and Managed Care (B) Committee:
 - Heard an [update](#) from the federal Center for Consumer Information and Insurance Oversight (CCIIO) on recent regulatory activities. The CCIIO provided the Committee with a snapshot of current open enrollment, including data on the number of applications submitted and enrollment by subsidized and unsubsidized individuals. The CCIIO also discussed its efforts to provide price transparency in the health care marketplace.

Life

- Life Actuarial (A) Task Force:

- Exposed amendment proposal [2019-33](#), which applies as appropriate PBR requirements for group insurance contracts with individual risk selection issued under insurance certificates.
- Exposed amendment proposal [2019-62](#), which emphasizes the requirement for recognizing additional mortality risks arising from conversions.
- Exposed amendment proposal [2019-60](#), which revises the applicability of credibility methods to a company's business subject to VM-20.
- Exposed amendment proposal [2019-61](#), which clarifies that policies with a rider s for universal life with secondary guarantee (ULSG) are excluded from the Life PBR Exemption when the secondary guarantee is material.
- Adopted the minutes of the IUL Illustration (A) Subgroup, and the subgroup report, which included directing the IUL Illustration (A) Subgroup to revise AG 49 to subject cap buy-ups and index return enhancements to constraints reasonably similar to the constraints to be applied to multipliers.
- Life Risk-Based Capital (E) Working Group:
 - Exposed the Longevity Risk (A/E) Subgroup's [recommendation](#) for a longevity risk charge along with the [Academy's alternative](#) that includes covariance for a 60-day public comment period. The Working Group also agreed to scope out longevity reinsurance transactions for now with direction to the Subgroup to continue to work on this aspect.
- Life Insurance and Annuities (A) Committee:
 - Discussed comments received on the draft Suitability in Annuity Transactions Model Regulation (#275) and approved [the draft](#) (pg. 7) as revised during this meeting, with the exception of the draft templates, which were referred back to the Annuity Suitability (A) Working Group for discussion during a conference call to be scheduled before the new year.

The NAIC will hold its Spring 2020 National Meeting March 21-24 in Phoenix, AZ.

If you have any questions regarding this **Academy Alert**, please contact Devin Boerm, deputy director of public policy (boerm@actuary.org; 202-785-6929).

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