

Financial Condition (E) Committee Technical Changes

Background Information. At the 2009 Fall National Meeting, the National Association of Insurance Commissioners (NAIC) membership approved a new process for the final adoption of technical matters coming from the Financial Condition (E) Committee. The new process was enacted to provide these technical changes to the industry and affected parties as quickly as possible, in an effort to allow them more time to modify their systems and processes for such changes.

Details of Process Adopted

1. A list of technical items (shown on the page(s) that follow) will be provided from the Financial Condition (E) Committee to the Executive (EX) Committee and Plenary within one week of the completion of the national meeting.
2. The list contains only what the Financial Condition (E) Committee considers technical and routine, and does not include items that are significant by NAIC standards (e.g., it would not include proposed model laws, model regulations or guidelines) or items considered controversial.
3. Members of the Executive (EX) Committee and Plenary have 10 days to review the attached list and voice any objection with respect to a specific item.
4. If no objections are raised on a particular item, or any of the items, each and all items will be considered adopted by the Executive (EX) Committee and Plenary, similar to the consent agenda process.
5. If there is an objection on any one or multiple items, a joint conference call of the Executive (EX) Committee and Plenary will be scheduled to address the particular item(s).
6. Items receiving no objection will be considered adopted and thus inserted into the appropriate publication and/or made available to the industry and other parties for implementation.

Request for Approval. Under the above process, the Executive (EX) Committee and Plenary members are hereby requested to review the attached list and voice any objections to a specific item(s) by **May 4, 2017**. Any item(s) receiving an objection will be pulled from this automatic consideration, and a conference call will be scheduled to address the issue.

Action Taken During 2017 Spring National Meeting

Date Released to Executive (EX) Committee and Plenary Members:

April 24, 2017

Objections Due from Executive (EX) Committee and Plenary Members:

May 4, 2017

The following technical items were adopted by the Financial Condition (E) Committee at the 2017 Spring National Meeting:

1. Accounting Practices and Procedures Manual (AP&P Manual) Changes and Related Items

- Adopted the following substantive revisions to statutory accounting:
 - *Statement of Statutory Accounting Principles (SSAP) No. 35R—Guaranty Fund and Other Assessments*: Revisions, effective Jan. 1, 2017, permit discounting of guaranty fund assessments from insolvencies of insurers that wrote long-term care (LTC) contracts. (Ref #2017-01)
 - *SSAP No. 26R—Bonds and Issue Paper No. 156—Bonds*: Revisions, effective Dec. 31, 2017, removes Securities Valuation Office (SVO)-identified instruments from the definition of a bond and provides separate statutory accounting guidance for these instruments. These revisions also incorporate the definition of a “security” within the definition of a bond, and incorporate definitions for non-bond, fixed-income instruments.
- Adopted the following nonsubstantive revisions to statutory accounting:
 - *SSAP No. 30—Unaffiliated Common Stock, SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Method of Accounting and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Revisions adopt with modification ASU 2016-07 – *Simplifying the Transition to the Equity Method of Accounting*. This ASU eliminates the requirement to make retroactive adjustments when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. (Ref #2016-47)
 - *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses and SSAP No. 65—Property and Casualty Contracts*: Revisions reject ASU 2015-09: *Insurance – Disclosures about Short-Duration Contracts* but incorporates disclosures from the ASU not currently captured in statutory accounting. (Ref #2015-37)
 - *SSAP No. 69—Statement of Cash Flow*: Revisions adopt ASU 2016-15 – *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, including the effective date and transition. (Ref #2016-46)
 - *INT 01-25—Accounting for U.S. Treasury Inflation-Indexed Securities*: Revisions clarify that guidance in INT 01-25 is limited to direct obligations of the U.S. government. (Ref # 2016-43)
 - *Appendix A-791*: Revisions incorporate additional language from the *Life and Health Reinsurance Agreements Model Regulation (#791)* to note that the reinsurance agreement shall constitute the entire agreement and amendments are required to be signed by all parties to be effective. (Ref #2016-44)
 - *Appendix F—Policy Statements*: Revisions incorporate a new policy statement on coordination with the *Valuation Manual*. (Ref #2010-08)

2. Financial Condition Examiners Handbook Changes, Other Examination Tools and Related Items

- Adopted revisions to the credit and operational branded risks categories based on a referral from the Risk-Focused Surveillance (E) Working Group.

3. Financial Analysis Handbook Changes and Related Items

- Adopted risk-focused analysis framework and nine branded risk repositories effective in the 2017 edition of the Handbook.
- Adopted definition changes for “operational risk” and “credit risk” for inclusion in the 2017 edition of the Handbook.

4. Implementation Guide for the Annual Financial Reporting Model Regulation (#205) Changes and Related Items

- None.

5. Annual Statement Instructions Changes and Related Items

- Adopted the following changes to the financial annual statement blanks and/or instructions:
 - 2016-23BWG – Adds a new supplement for reporting VM-20 reserves. Adds lines to the Analysis of Increase in Reserves During the Year and Five-Year Historical page related to VM20 reserves. Modifies the instructions for Exhibit 5 – Aggregates Reserves for Life Contracts to reflect valuation under VM-20.
 - 2016-27BWG – Deletes the General Interrogatory, Part 2 questions 9.1 and 9.2 (Life) and 24.1 and 24.2 (Fraternal) regarding variable annuities with guarantees and incorporates a variable annuities supplement. Removes line 2.2 from the Separate Accounts General Interrogatories.
 - 2016-28BWG – Adds a new interrogatory question to the annual and quarterly general interrogatories regarding self-designated 5*GI securities.
 - 2016-29BWG – Adds instructions for the Life Insurance Policy Locator Service contact to the electronic Jurat page.
 - 2016-30BWG – Adds instructions for the Long-Term Care Insurance Experience Reporting Form 5 to indicate that a grand total page should be filed. Adds additional crosschecks to Form 2, Part 2.
 - 2016-31BWG – For Schedule D, Part 1, reduces the number of collateral type categories from 21 to 10 and adds additional explanations and examples to the categories.
 - 2016-32BWG – Splits the Cybersecurity and Identity Theft Insurance Coverage Supplement blank into three parts (interrogatories, stand-alone policies and packaged policies). Adds interrogatories questioning whether policies written are stand-alone policies, part of a package policy and/or claims-made policies. Adds information on claims open, claims closed with payment and claims closed without payment.
 - 2016-33BWG – Modifies the appropriate instructions and blank pages to reflect the movement of money market mutual funds (MMMFs) from Schedule DA, Part 1 to Schedule E, Part 2, including a title change to Schedule E Verification to include “Part 2.” Adds a column to the annual verification for MMMFs.
 - 2016-34BWG – Modifies the illustration for Note 12A(3) – Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans (Defined Benefit Plan) clarifying the funded status for pensions and other postemployment benefits (OPEB) financial statement components.
 - 2016-35BWG – Combines the current Schedule F, Part 3, Part 4, Part 5, Part 6, Part 7 and Part 8 into a single new Schedule F, Part 3 – Ceded Reinsurance. Modifies the crosschecks. Changes Schedule F, Part 1 to eliminate the under \$100,000 aggregation for consistency with the changes to Schedule F, Part 3. Makes consistent changes to the health property supplement and the life workers’ compensation carve-out supplement.
 - Editorial changes/non-substantive corrections including to Note 5H(4) to add “cash equivalents and short-term investments”; column/line corrections to asset valuation reserve (AVR); and adding a “NAT” code to the country code list for Native American tribes.

6. Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) and Related Items

- Adopted amendment to delete the valuation instructions for subsidiary, controlled and affiliated (SCA) entities.
- Adopted amendment to identify the current nationally recognized statistical rating organization (NRSRO) status of NAIC credit rating providers (CRPs).
- Adopted amendment to replace information about the Integrated Securities Information System (ISIS) platform with information on the new VISION platform.

7. NAIC Risk-Based Capital (RBC) Formula Changes and Related Items

- Adopted catastrophe risk charge implemented from an informational-only page in the calculation in the property/casualty (P/C) formula.
- Adopted new line to show the authorized control level (ACL) RBC ratio in the life RBC formula.
- Adopted a capital add-on approach for operational risk to all RBC formulas.
- Adopted the Stop Loss proposal incorporating a tiered factor approach, applying a 35% factor to the first \$25 million and a 25% factor to the remaining premium in excess of \$25 million.
- Adopted the Medicare Part D proposal to change the reference from “premiums” to “claims incurred” and increase the factor to 50% for all lines of business.
- Adopted the MMMF proposal to report MMMF as a separate line item under cash equivalents to receive no RBC charge.

8. *Uniform Certificate of Authority Application (UCAA) and Company Licensing Best Practices Handbook* and Related Items

- Adopted revisions to Form 14 to add a toll-free or in-state phone number requirement for claims information contact, consumer complaint contact and policyholder information contact.
- Adopted an update to Form 6, Certificate of Deposit, to clarify the signature line on the form.
- Adopted revisions to the *Company Licensing Best Practices Handbook* on Best Practices for the Plan of Operation.
- Adopted optional letters of good standing for states that receive international requests.
- Adopted an update to Form 2C, to relocate questions that pertain to a specific change type.

9. *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual* and Related Items

- None.

10. *Receivers Handbook for Insurance Company Insolvencies* and Related Items

- None.

11. *Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions* and Related Items

- None.

12. *Process for Developing and Maintaining the NAIC List of Certified Reinsurers* and Related Items

- None.